State of Maryland

DEPARTMENT OF ASSESSMENTS AND TAXATION

Office of the Director

MARTIN O'MALLEY
Governor

ROBERT E. YOUNG
Director

December 15, 2014

The Honorable Martin O'Malley
Governor of Maryland
State House
100 State Circle
Annapolis, Maryland 21401

The Honorable Thomas V. Mike Miller, Jr
President of the Senate
State House
Annapolis, Maryland 21401

The Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21401

Dear Governor O'Malley, President Miller, and Speaker Busch:

Attached is the Report of the 2014 Maryland Assessment Work Group (AWG). The report includes this Letter of Transmittal, an Executive Summary, and a Summary of Findings and Recommendations. The Report describes the process and analysis relied upon to reach conclusions considered during AWG meetings held between June and December 2014.

As required by Senate Bill 172 - Budget Reconciliation and Financing Act (BRFA) of 2014, the Director of the State Department of Assessments and Taxation (SDAT) established the work group to examine issues related to the assessment process for real property, personal property, and property tax credits and exemptions. AWG included members of the public, state agencies, local governments, as well as participants from interested entities. Four subcommittees were formed with AWG members and non-members who are experts from local government on such matters as zoning, building permits, finance, property appraisal and housing.

AWG's charge was to:

"...examine issues related to the property assessment process for both real and personal property and the tax credit programs for which the Department is responsible for calculating property tax credits and exemptions.

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The work group shall examine the following issues:

(1) Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;

(2) The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties in the system of accounts;

(3) The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and

(4) The feasibility of, and any legal impediments to, contracting with a third-party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy."

Many of the report recommendations would allow for a more comprehensive property assessment process and ensure that changes to properties are accurately reflected on the tax roll, thus providing an equitable and uniform property tax system for all citizens.

Sincerely,

Robert E. Young

Robert E. Young, Esq.
Director, Maryland Department of Assessments and Taxation
Chairman, 2014 Maryland Assessment Work Group

REPORT

OF

THE 2014 MARYLAND

ASSESSMENT WORK GROUP

PREPARED FOR

THE GOVERNOR
AND
THE GENERAL ASSEMBLY
OF
MARYLAND

ROBERT E. YOUNG, Esq.
DIRECTOR
MARYLAND DEPARTMENT OF ASSESSMENTS AND TAXATION

300 West Preston Street
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December 15, 2014

Table of Contents

1.0 Executive Summary – Assessment Work Group

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

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;

2. The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;

3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and

4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

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

1. An analysis of the work that is required (referred to as CORE Processes) of real property assessors in the 24 Assessment Offices;

2. A statewide review of the means of transmitting building permits, vacant property, and other information to SDAT by the 24 local governments;

3. A special review and physical inspection of 1,554 randomly chosen real property accounts in 7 local jurisdictions to test the need for physical inspections;

4. A summary by jurisdiction of the 206,109 properties that were physically inspected and included in SDAT's administrative assessment valuation system (AAVS), and assessment information management system (AIMS) reports for the January 1, 2015 Reassessment Notices;

5. A summary of the 29,551 new construction accounts for a 2.5 year period added to the assessable base of the 24 jurisdictions;

6. A report containing the results of a special physical inspection and reexamination of all 3,424 real properties in Baltimore City that receive a charitable, educational, or religious exemption; and

7. At the time the BRFA language was adopted, SDAT had just begun the StateStat process. StateStat presented a summary of its findings and recommendations to AWG in November and upon review found many of them mirrored those identified by AWG. The StateStat report including SDAT responses has been included in the document in Appendix 6.4.

Potential Solutions /General Recommendations:

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

- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency;

- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and

- Staffing for the assessment, tax credit and exemption functions of SDAT remains a matter of importance but it must be considered in light of new technology and changes to business processes.

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

THE NEED FOR PHYSICAL INSPECTIONS

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

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

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

<u>Primary Recommendations for Physical Inspections</u>:

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

TIMELY PICKUP OF NEW PROPERTY

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

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

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

Primary Recommendations for Timely Pickup:

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

TAX CREDITS AND EXEMPTIONS

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

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

DLS also prepared a special report entitled Evaluation of the Enterprise Zone Tax Credit. A response at the initiative of SDAT and the Department of Business and Economic Development (DBED) will be provided to the Co-Chairmen of the Tax Credit Evaluation Committee in December 2014. Many of the DLS recommendations are supported by AWG, including ensuring proper data collection and transmission. AWG also recommends establishing new procedures to ensure that local governments receive their Enterprise Zone Credit reimbursements in a timely manner.

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

Primary Recommendations for Tax Credits and Exemptions:

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

- For the Homeowners' and Renters' Tax Credit Programs, SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits;

- For the Homestead Tax Credit Program, SDAT will perform additional automated audits and a special test project of homeowners receiving the largest homestead credits to verify their continued eligibility for this credit;

- For the Enterprise Zone Tax Credit Program, SDAT should utilize its AAVS system to regularly produce uniform and complete reports for local governments and DLS on the amounts of assessment on which this credit is being granted; and

- For charitable, educational, and religious exempt properties, SDAT should utilize in all 24 assessment offices a standardized questionnaire and its new rating or "scoring" system to reexamine the continued eligibility of a property for exemption for one-third of the eligible properties each year or more frequently when circumstances indicate.

THIRD PARTY AUDITS OF TAX CREDITS AND EXEMPTIONS

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

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

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

- The use of third party audits performed by business firms is not recommended for tax credits and exemptions; and

- The audits by OLA were deemed sufficient by AWG.

PERSONAL PROPERTY

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

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

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

Primary Recommendations for Personal Property Assessments:

- SDAT should expand its new online return filing system due for deployment on January 1, 2015 to allow in the next two subsequent filing years the inclusion of all types of business entities and the use of third party accounting software;

- SDAT should conduct a staffing analysis based on the efficiencies of the new technology in order to determine the number of employees needed to conduct account discovery and perform regular audits; and

- For local governments and municipalities, SDAT should utilize verification software to match property location addresses for all types of filings in order to provide accurate initial certifications.

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

1.1 Findings, Conclusions, and Recommendations

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

1.1 Issues Examined

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

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

Potential Solutions /General Recommendations

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

- SDAT should look at new business processes in an effort to realize additional efficiency within the assessment and other administrative processes and how technology can be utilized to maximize that efficiency;

- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and

- Staffing for the assessment, tax credit and exemption functions of SDAT remains a matter of importance but it must be considered in light of new technology and changes to business processes.

PHYSICAL INSPECTIONS

Findings:

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

Potential Solution/ Recommendations:

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

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

Technology to Assist with Assessments

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

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

Business Processes

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

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

Staffing

1. The pilot project being performed in Anne Arundel and Frederick Counties using oblique aerial photography should include a study of the appropriate staffing levels needed to complete either onsite or remote inspections for each reassessment cycle. The pilot project should yield performance measures that could be applied statewide. The pilot project should acknowledge and reflect distinct differences between rural, suburban, and urban areas where possible in order to make the most effective use of the technology;

2. Qualified personnel should be provided to implement the use of appropriate technology, redesign business processes, and provide mass appraisal statistical assistance. This can be accomplished by SDAT employees or outside sources; and

3. Appropriate staffing should include trained IT staff, geospatial staff, management staff, assessors and clerical personnel. Personnel should have appropriate training in technology and business software applications, including statistical software.

Property Sketches

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

TIMELY PICK UP - MAINTAINING PROPERTY CHANGES

Findings:

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

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

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

Potential Solutions/ Recommendations:

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

TAX CREDITS AND EXEMPTIONS

Findings:

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

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

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

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

Potential Solutions /Recommendations:

Homeowners' and Renters' Tax Credits

1. SDAT should utilize the two new employee positions it received in this program in the fiscal year 2015 Budget Appropriation to increase the timeliness of tax credit audits;

2. SDAT should electronically scan and index all tax credit applications and attachments to increase the timeliness of tax credit audits; and

[3] Office of Legislative Audits Report-Homestead Tax Credit.
http://www.dat.state.md.us/AWG/OLA_Homestead13.pdf
Office of Legislative Audits Report- Homeowners' and Renters'
http://www.dat.state.md.us/AWG/File02_TaxCreditsAudit_12_16_13.pdf

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

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

Homestead Tax Credits

1. SDAT should obtain in an automated format a monthly report from the Motor Vehicle Administration of all drivers' licenses where there is a change of address;

2. SDAT should make available for Homestead audit employees an individual "lookup" service of other financial information to be used in the audit of owner residency for Homestead accounts;

3. SDAT should do a test project with a vendor for an automated review of a meaningful sample of homeowners receiving the largest Homestead credits in each county to verify their continued eligibility; and
4. SDAT should continue its audit of duplicate Social Security numbers annually.

Enterprise Zone Tax Credit

1. SDAT should utilize the report writing feature of its AAVS assessment system to prepare three types of information reports (individual property, summary of all properties, and assessment reduction properties) on a quarterly and annual basis to ensure the accuracy of the amounts of assessments for which the Enterprise Zone Tax Credits are granted;

2. AAVS reports should be regularly provided and fully explained by SDAT to the local governments issuing the credits to enable them to perform their own review of the accuracy of the assessments used to grant all new and existing credits;

3. AAVS reports on Enterprise Zone Tax Credits should be uniformly prepared by SDAT for all jurisdictions in order to provide complete information to DLS for future reports on this program; and

4. SDAT should hire an administrative level employee to be assigned the full-time duties to oversee the administration of Enterprise Zone Tax Credits and other business tax credits.

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

Real Property Exemptions

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

THIRD PARTY TAX CREDIT AND EXEMPTION AUDITS

Findings:

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

[5] Exemption Application http://www.dat.state.md.us/sdatweb/church.pdf
Exemption Questionnaire http://www.dat.state.md.us/AWG/File03_ExemptQuestionnaire.pdf

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

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

Potential Solutions/ Recommendations:

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

PERSONAL PROPERTY

Findings:

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

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

Potential Solutions/ Recommendations:

Technology

1. Expand the online system, which is currently being developed for single locations business entities, to include all business entities by 1/1/17 if possible;

2. The expanded online system should provide a feature to allow the upload of data from accounting firms, or third party software packages, as well as the ability to retrieve previously submitted returns to update for subsequent years;

3. Consider incentivizing online filing by imposing a fee for paper filings after the expanded online system is fully implemented;

4. Automate the notification process to local jurisdictions of Utility Assessment and Franchise Tax Certification; and

5. Utilize verification tools and software to match property location addresses in order to provide accurate initial certifications to the correct county and municipality.

Outside Auditor

1. Determine the cost and the qualitative and quantitative benefit of a third party auditor to select and audit accounts;

2. Consider a pilot program;

3. Establish an acceptable fee structure for a third party auditor; and

4. Review the need for statutory changes to address confidentiality status of tax return information and responsibility for paying audit fees.

Staffing

1. Establish a review of Best Management Practices for operational efficiencies in assessing personal property to accompany development of new business processes associated with the online filing system;

2. Reevaluate the quantifiable workload for assessors in order to determine how many additional assessors would be needed to meet the December 1 goal for having 90% of the taxable accounts assessed;

3. Compare performance standards for assessors to the goal of timely assessment certifications to local jurisdictions;

4. Hire additional assessors as established by this workload review;

5. Create a dedicated audit unit that works full time on auditing accounts;

6. Create a dedicated position that works exclusively on “discovery” of new accounts; and

7. Hire additional clerical support staff for keypunching, document sorting, and scanning preparation.

2.0 Structure, Organization and Process

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

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

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

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

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

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

3.0 Assessment Work Group Requirements

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

AWG was charged with examining the following issues:

1. Whether a physical exterior inspection of each property is necessary to properly assess real property for tax purposes;

2. The Department's ability to timely and adequately maintain changes in property status that may occur throughout the year and incorporate new properties on the tax roll;

3. The extent of discrepancies in the calculation of certain tax credits and exemptions and approaches for improving accuracy; and

4. The feasibility of, and any legal impediments to, contracting with a third party vendor to perform periodic audits of the property tax credit and exemption programs for which the Department calculates the credit or exemption or of other functions for which an external evaluation may provide greater accuracy.

3.1 General Findings and Recommendations

RECOMMENDATIONS

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

- SDAT should look at new business processes in an effort to pursue additional efficiencies within the assessment and other administrative processes and determine how technology can be utilized to maximize that efficiency;

- Since local governments are major business partners with SDAT, we recommend that the legislature or Governor consider the creation of an Advisory Council. The Advisory Council would include representatives from SDAT, appropriate state agencies and local governments. In order to assure progress on the implementation of the AWG's recommendations concerning physical exterior inspection, timely pickup, and calculation of tax credits and exemptions, the Advisory Council would meet periodically to discuss issues of mutual interest and concern, including the development of new business processes, the leveraging of new technologies, and matters specifically raised by any partner; and

- Staffing for the assessment, tax credit and exemption functions of SDAT remain a matter of importance, but must be considered in light of new technology and changes to business processes.

4.0 Methodology and Background

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

Typical preliminary information gathered consisted of:

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

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

Selected key information gathered for AWG included:

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

4.1 Physical Inspections

- The first charge of the work group

4.1 Physical Inspections

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

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

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

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

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

[6] * Appendix Section - 6.1 Legal Requirements
* Maryland State Assessment Administration, http://www.dat.state.md.us/AWG/File04_MD_AssessmentAdmin.pdf
* Property Assessment Introduction http://www.dat.state.md.us/AWG/File05_AssessmentIntro.pdf
* Assessment Overview - Physical Inspection and Timely Pickup. http://www.dat.state.md.us/AWG/File01_Overview.pdf

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

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

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

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

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

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

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

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

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

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

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

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

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[8] IAAO Standard on Mass Appraisal of Real Property (Sections 3.3.4 and 3.3.5) - Assessment Overview- pages 188 to 197 http://www.dat.state.md.us/AWG/File01_Overview.pdf

[9] Assessment Overview pages 117 - 129 http://www.dat.state.md.us/AWG/File01_Overview.pdf

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

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

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

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

PHYSICAL INSPECTIONS

Findings:

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

Potential Solutions/ Recommendations:

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

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

Technology to Assist With Assessments

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

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

3. Considering the volume of data that is transferred to and from SDAT, a complete information technology business process analysis should be performed in partnership with appropriate state agencies and local governments; and

4. SDAT should periodically re-evaluate existing business processes and develop new business processes as necessary to achieve additional efficiencies.

Staffing

1. The pilot project being performed in Anne Arundel and Frederick Counties using oblique aerial photography should include a study of the appropriate staffing levels needed to complete either onsite or remote inspections for each reassessment cycle. The pilot project should yield performance measures that could be applied statewide. The pilot project should acknowledge and reflect distinct differences between rural, suburban, and urban areas, where possible in order to make the most effective use of the technology;

2. Qualified personnel should be provided to implement appropriate technology, redesign business processes, and provide mass appraisal statistical assistance. This can be accomplished by SDAT employees or outside sources; and

3. Staffing should include trained IT staff, geospatial staff, management, assessors and clerical personnel. Personnel should have appropriate training in technology and business software applications, including statistical software.

Property Sketches

SDAT needs to continue the conversion of paper sketches to digital sketches for the remaining improved residential properties[10]

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

4.2 Timely Pickup of New Property

- The second charge of the work group

4.2 Timely Pickup

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

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

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

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

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

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

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

The current level of assessor staffing requires SDAT to place emphasis on new property pickup rather than performing physical inspections of reassessment properties. This results in fewer properties being inspected for the triennial reassessment program, especially for properties that do not have building permits.

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

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

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

TIMELY PICK UP - MAINTAINING PROPERTY CHANGES

Findings:

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

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

Potential Solutions/ Recommendations:

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

4.3 Property Tax Credits and Exemptions

- The third charge of the work group

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

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

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

In terms of evaluating any discrepancies in these credits, AWG had available the performance audit on the Homeowners' and Renters' Tax Credit Programs[11] and a special audit on the Homestead Tax Credit Program [12] prepared by the Office of Legislative Audits (OLA). Also presented to AWG was a report by the Department of Legislative Services (DLS) on the Enterprise Zone Tax Credit. [13]

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

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

[11] Office of Legislative Audits Report – Homeowners' and Renter's Tax Credit.
http://www.dat.state.md.us/AWG/File02_TaxCreditsAudit_12_16_13.pdf

[12] Office of Legislative Audits Report - Homestead Tax Credit.
http://www.dat.state.md.us/AWG/OLA_Homestead13.pdf

[13] Department of Legislative Services – Evaluation of Enterprise Zone Tax Credit.
http://www.dat.state.md.us/AWG/DLS_EvaluationEnterpriseZone_Taxcredit.pdf

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

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

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

POTENTIAL SOLUTIONS /RECOMMENDATIONS:

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

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

OLA assigned two audit managers and six full-time auditors for a period of six months to conduct an extensive audit of this program at SDAT's central office and three County assessment offices. The Audit Report does not find any errors in the calculation of Homestead credits, but instead concentrated on certain additional automated audits that could be performed by SDAT to find significant numbers of homeowners not occupying the residential property as their principal residence. An important central finding of this OLA report is that these audits of residency are very labor intensive and that SDAT should make a formal request of the Executive Department and the General Assembly for additional employees to perform these audit functions. In Fiscal Year 2015, SDAT received six additional employees to perform audits for the Homestead Program. SDAT also formally responded to each of the findings in this audit report by submitting the Report to the Joint Chairman on Measures Taken to Ensure Verifiable Compliance within the Homestead Tax Credit Program, submitted on October 31, 2013. [14]

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

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[14] Report To The Joint Chairman On Measures Taken To Ensure Verifiable Compliance Within The Homestead Tax Credit Program http://www.dat.state.md.us/AWG/HomesteadRpt_JointChairmanfile06.pdf

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

Potential Solutions /Recommendations:

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

Enterprise Zone Tax Credits

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

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

Potential Solutions /Recommendations:

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

Tax Exemptions:

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

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

SDAT sent on May 2, 2014 an individual letter[16] with a specific questionnaire on the back to every owner of an exempt real property advising them that this review was being conducted

[15] Property Tax Exemption Overview http://www.dat.state.md.us/AWG/File07_Exemption_Overview_9_29_14.pdf

[16] Exemption Questionnaire http://www.dat.state.md.us/AWG/File03_ExemptQuestionnaire.pdf

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

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

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

The results of the special exemption review determined which of these properties will continue to be eligible for real property tax exemptions. Of the total of 3,424 properties inspected and reviewed, there were 292 (8.5%) properties that SDAT is removing a complete or partial exemption. It is important to note that these removals were due to changed circumstances in a subsequent year, such as no longer using the property, a lot not being actually incorporated into the larger exempt parcel, or the property is now being rented. These 292 properties had a total assessed value of $53.6 million which equates to $1.2 million in additional property tax revenue to the City. It is also significant to note that 10 properties (with very unique circumstances) had $25.5 million of that $53.6 million of increased taxable assessment for the City. The exemption review also identified one of the largest exempt property owners in the City, The Johns Hopkins Institutions, which owns $2.6 billion of the City's total $6.5 billion exempt charitable, educational, and religious base, as having only 17 properties with an assessable base of just $180,300 where the exemption is being removed. The exempt review also provided specific information on the 86 vacant land accounts included in the total 292 accounts that are being made taxable because these accounts primarily involved small "lots of record" that were not included in the larger exempt parcels. These 86 accounts have a combined assessed value of $1.39 million which equates to total new taxes of $31,247 for the City. Similarly, there are 63 improved properties that are now vacant and boarded that collectively add $2.6 million in assessable base for $59,682 in additional revenue for the City.

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

2014 Exemption Review Project - Baltimore City

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

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

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

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

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

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

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

Important Notes:

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

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

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

Potential Solutions /Recommendations:

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

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

- The fourth charge of the work group

THIRD PARTY AUDITS OF TAX CREDITS AND EXEMPTIONS:

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

> **4.4 Third Party Audits and Personal Property**
>
> - Tax Credits and Exemptions
> - Personal Property
> - Third Party Audits

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

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

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

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

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

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

2. The audits by OLA were deemed to be sufficient.

Personal Property

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

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

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

[17] Personal Property Overview http://www.dat.state.md.us/AWG/File08_Personal_Property_Overview_9_15_14.pdf

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

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

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

Additionally, the duties of assessors include:

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

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

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

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

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

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

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

This project will initially allow:

1. Real-time submission of personal property tax filings by businesses in Maryland;

2. Capturing , storing and transmitting business personal property filing submissions; and

3. Allow electronic payments.

The enhanced goals of this project are to:

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

2. Improve and enhance web services to SDAT customers through interactive web systems;

3. Eliminate rejected filings by automating error checking during the online filing process;

4. Improve business processes, operations, and customer service through the effective use of web technologies;

5. Improve the timeliness of the assessment certification process to counties and municipalities; and

6. Redirect staff resources to the discovery and audit programs.

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

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

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

PERSONAL PROPERTY

Findings:

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

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

Potential Solutions/ Recommendations:

Technology

1. Expand the online system, which is currently being developed for single locations business entities, to include all business entities by 1/1/17 if possible;

2. The expanded online system should provide a feature to allow the upload of data from accounting firms, or third party software packages, as well as the ability of filers to retrieve previously submitted returns in order to update returns for subsequent years;

3. Consider incentivizing online filing by imposing a fee for paper filings after the expanded online system is fully implemented;

4. Automate the notification process to local jurisdictions of Utility Assessments and Franchise Tax Certifications; and

5. Utilize verification software to match property location addresses with physical locations in order to provide initial certifications to the correct county and municipality.

Outside Auditor

1. Determine the cost and the qualitative and quantitative benefits of a third party auditor to select and audit accounts;

2. Consider a pilot program;

3. Establish an acceptable fee structure for a third party auditor; and

4. Review the need for statutory changes to address the confidentiality status of tax return information and the responsibility for paying audit fees.

Staffing

1. Establish a review of Best Management Practices for operational efficiencies in assessing personal property to accompany development of new business processes associated with the online filing system;

2. Reevaluate the quantifiable workload for assessors in order to determine how many additional assessors would be needed to meet the annual December 1 goal of having 90% of the taxable accounts assessed;

3. Compare performance standards for assessors to the goal of timely assessment certifications to local jurisdictions;

4. Hire additional assessors as established by this workload review;

5. Create a dedicated audit unit that works full time on auditing accounts; and

6. Create a dedicated position that works exclusively on “discovery” of new accounts; and hire additional clerical support staff for keypunching, document sorting, and scanning preparation.

5.0 Members and Meetings

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

5.0 Members and Meetings

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

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

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

5.1 Participants

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

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

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

5.2 Meetings

AWG and subcommittees met on the following dates:

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

6. 0 Appendix

6. 1 Legal Requirements

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

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

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

6. 2 CORE Processes

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

The CORE functions include:

1. maintaining the tax roll, timely entering all property classification information (use, tax credits and exemption), ownership and mailing addresses, and real property transfer information;

2. maintaining parcel map revisions (subdivisions, combinations) in cooperation with MDP and adding new accounts to the tax roll;

3. inspecting, picking up and adding to the tax roll new property improvements and demolitions for full year and half year levies for all counties, as well as quarterly levies for six counties (Baltimore City, Baltimore, Charles, Howard, Montgomery, and Prince George's Counties);

4. maintaining property record cards data and sketches;

5. conducting reassessment valuation analysis including inspecting properties that have sold, valuing properties, and conducting assessment performance analysis (ratio studies, edit and reviews) before the mailing of assessment notices; and

6. conducting assessment appeals at the Supervisor, Property Tax Assessment Appeals Boards, and Maryland Tax Court levels.

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

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

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

Assessors are mass appraisers and follow the mass appraisal process. For accurate property values, all relevant property characteristics must be considered. Because property owners make changes to property (renovations/additions/demolition), relevant characteristics change. To properly assess the property, these changes must be correctly listed on each property record. If not, properties would not be assessed accurately.
Having a property sketch is a key ingredient in identification of the property characteristics including its size, shape, sections and dimensions. It is a key factor used in field inspection or

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

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

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

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

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

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

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

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

6.3 Assessment Ratio Studies

Assessment Ratio Studies:

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

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

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

[18] Ratio Studies
http://www.dat.state.md.us/sdatweb/stats/index.html (See Ratio Survey Reports)

6.4 StateStat Report of Findings, Conclusions, and Recommendations

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

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

Property Inspection

StateStat Findings (Staffing):

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

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

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

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

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

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

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

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

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

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

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

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

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

StateStat Findings (Infrastructure):

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

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

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

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

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

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

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

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

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

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

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

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

StateStat Findings (Technology):

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

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

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

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

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

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

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

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

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

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

StateStat Findings (Pictometry):

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

Potential Solution/Recommendation:

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

StateStat Findings (Real Property Assessments Goals and Completion):

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

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

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

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

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

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

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

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

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

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

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

StateStat Findings (Property Sketches):

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

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

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

StateStat Findings (Permit Data):

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

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

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

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

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

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

Maryland Property Assessment Work Group - 2014

Assessment Overview

Physical Inspection Subcommittee

&

Property Pick-up Subcommittee

(additions/deletions)

OBJECTIVES – Why are we here?

- **Why are we here? --** To examine issues related to the property assessment process for both real and personal property and the tax credit programs
- **Questions have been raised regarding real and personal property assessment** being current, weather tax credits/ exemptions are accurate, and weather new property /renovations/demolitions are being timely picked up on the tax roll.
- **Is the tax roll maintained** so that the correct municipal, county and and state property taxes are levied.
- **There are 4 basic work group charges**

OBJECTIVES – The Charge

1. In the **physical inspection process** is the re-assessment of property being completed such that all property relevant characteristics are considered. Is a physical inspection of each property necessary to property assess real property? Can third party vendors be used in this process? And are property assessments accurate?
   (Physical Inspection Sub-committee)

2. Are **property tax credits and exemption** accurate and recorded properly on the tax roll in a timely fashion. To what extent are there discrepancies in tax credits and exemption. Should third party vendors audit tax credits and exemptions ?**(Tax Credits /Exemptions Sub Subcommittee)**

OBJECTIVES – The Charge

3. Is SDAT **timely and adequately maintaining changes in property status** that may occur throughout the year and to incorporate new properties on the tax roll.
(New Property Pick Up Sub committee)

4. Is **personal property assessment accurate and timely.** Should a third party vendors be used to audit personal property?
(Personnel Property /Vendor Sub committee)

OBJECTIVES - Considerations

To accomplish this, the work group must understand the full extent of assessment operations, legal requirements, practices and procedures, staffing, assessment budgets, workloads and a myriad of other information.

- **Each subcommittee will have to address**
  - Does there appear to be a problem with an issue?
  - If there is a problem, what are the alternative courses of action to solve the problem?
  - Are these courses or action - needs or wants? What happens if a course is not undertaken?
  - How should the solutions or recommendations be implemented (timing, where, etc.)?
  - What is the cost/benefit?
  - How is the recommendation going to be funded if it is needed**?**

The Organization of this Presentation

This presentation has three key points:

1. An **<u>Overview of the Entire Assessment Process</u>** –AWG members must understand legal requirements, the goal of the assessor, methods and procedures, work requirements of assessment offices, assessment office staffing, budgets, and workload levels, in order make informed contributions to the AWG and each of its sub-committees
2. An **<u>Overview of the physical review process</u>** including the who, what, when, where and why of the physical review process.
3. An **<u>Overview of the New Property /renovation /demolition process</u>** including information on building permits, the pick up assessment calendar, etc.

Presentation Organization

The presentation is organized to simplify the information.

The Organization of this Presentation

High level Explanation Slides - These slides explain at a high level, the concept/ process/ procedure. These slides will be color coded to identify the Real Property/Personal Property/ Tax Credit sub-committee to which the concept most pertains. These High level slides will references other slides (at the back of the presentation) which have more detailed information. These will promote detailed understanding or more information about the topic than the high level slide.

Detail Slides in the rear of document have more detailed information about the topic to promote detailed understanding. The information in these slides is supported by other data at the subcommittees disposal and this detail maybe expanded in the future as needed by each subcommittee

Presentation Organization

- **Todays presentation** will focus on objectives and a high level overview in the interest of time.
- **There is lot of information for anyone** especially if one is not acquainted with the concepts, requirements, methods or techniques
- **Information in the detail section** is for your reference at a future date or in your sub committee.
- **We will review topics in the detail section** to acquaint you with what is there.
- **Sub committees** will work each key topic in detail in later meetings

Key Concepts

- Goal of Assessment
- Assessment Process and Types of Property
- Appraisal Process – single property vs. mass appraisal
- Approaches to value
- Mass Appraisal Process
  - Maryland market calibrated cost approach (residential - C&I property)
  - Maryland Commercial and Industrial approaches and models
  - Field inspections – importance and steps
  - Ratio Studies
  - Trending and Indexing

Key Concepts

- Assessment Appeals
- Assessment Calendar
- Assessment Offices

  Organization – staffing, CORE processes, work loads, budgets,
- New Property/renovations/demolition Pick up
- Physical Review Alternatives
- Technology- Hardware and Software
- SDAT Website
- Sketching and Field Review

The Organization of this Presentation

High Level Slides will give members an understanding of the topic. A subcommittee will be dealing with these topics.

The following objects will identify if the material is Overview, Real Property, Personal Property, New Property Pickup, Tax Credit and exemption material. The oval object indicates the detail pages

OV	**Overview**	RPA/PI	**Real Property Assessment/ Physical Inspections Sub Committee**
PPA	**Personal Property Assessment and Subcommittee**	NPP	**New Property Pick-up**
TC/EX	**Tax Credit/Exemption**	Details	Pages

OBJECTIVES

- Know the **goal** of assessment and requirements
- Understand **assessment process**- real and personal property – to discover, list, and value
- Understand **types of property**- real, personal, and intangible
- Understand the **appraisal process**- single property and mass appraisal - Standards (IAAO and the Appraisal Foundation)
- Know steps in **mass appraisal process**- methods and techniques
- Understand the **approaches to value** - cost, sales comparison, income approaches
- Know the Maryland **market calibrated cost approach**(cost and sales comparison) (residential and C&I Property)
- Understand Maryland **commercial and industrial models**– Cost, Sales Comparison, and Income (C & I Property)

OBJECTIVES

- Understand **field review**
- Know how **valuation models** are developed and applied
  - Market analysis / Sale to Assessment Ratio Analysis
  - Model Specification
  - Model Calibration
  - Market/Geographic Stratification
  - Tables - Cost New, Depreciation, Land
  - Simple model formula MV = LV + IV
  - Expanded model formula MV = (QL x PL) + (QI x PI) + OC
  - Property record card
  - Sales Analysis/MVI's
  - Performance Analysis – final ratio study and edits

OBJECTIVES

- **U**nderstand Assessment Appeals
- Understand assessment history - SDAT staffing –
  - History and current status
  - Maryland and industry
  - Local Assessment Office organization
- Understand Assessment Calendar
- Understand CORE processes and days to field review
- Know new property/demolitions pick-up process (building permits and physical inspection)
- Understand property types and parcel counts
- Know Assessment office budgets

OBJECTIVES

- Understand physical review alternatives
  - ➢ IAAO mass appraisal standard
  - ➢ Staff only
  - ➢ Staff and technology
  - ➢ Assessment and review cycles

- Technology – hardware/software
  - ➢ GIS – Geographic Information System
  - ➢ Imagery – street view, ortho, oblique
  - ➢ Change detection – sketch overlay
  - ➢ SDAT sketch data
  - ➢ Linking technology alternatives with AAVS

Goal of the Assessor

OV

RPA/PI

- To appraise property at full cash value (market value) - **level of value** (measures of central tendency)
- To appraise like types of property alike for ad valorem purposes – **uniformity** (dispersion, PRD - regressive and progressive)
- Maryland Constitution – Article 15 – Declaration of Rights

"…General Assembly shall, by uniform rules, provide for the separate assessment, classification and sub-classification of land, improvements on land and personal property, as it may deem proper; and all taxes thereafter provided to be levied by the State for the support of the general State Government, and by the Counties and by the City of Baltimore for their respective purposes, shall be uniform within each class or sub-class of land, improvements on land and personal property which the respective taxing powers may have directed to be subjected to the tax levy;…"

Goal of the Assessor

OV

RPA/PI

- When we speak of **uniformity of assessment and assessment equalization** later we are talking about the requirements of law to assess like types of property alike
- In Maryland – The assessment models provide the method of assessing **like types of property alike**
- The Market Calibrated Cost Approach and Income Approach provide this uniform treatment

Types of Property

OV

Property subject to property tax in Maryland

- **Real Property –** tangible property – land and improvements to land

RPA/PI

- **Personnel Property –** business tangible property that is not real property– fixtures & equipment, business assets, computers, etc. is assessed and taxed.

PPA

- **Residential personal property –** is not subject to assessment or property tax

TC/EX

- **Property not subject to property tax –** exempt property, intangible property and property not deemed to be in the state

OV

The Assessment Process - Discovery

RPA/PI PPA

- **Assessment Process includes:**
  - Discovery, Listing, and Valuing
- **Discovery** – That all land is accounted for on the tax roll. This is done through the use of maps, aerial photos or by field inspection.
- **Discovery -** Insures an account is on the tax roll and on a tax map.
- **Discovery** – It is impossible to verify without tax maps. Maps are the basic tool a property tax system.
- **Discovery** of buildings and other improvements attached to the land requires the field inspection or use of aerial photography. Refinements most often require onsite inspection

The Assessment Process - Listing

- **Listing** – After discovery, the **<u>property is identified</u>** with a number identifier that differentiates it from other properties. It is a unique account number for each account
- **Listing** – includes **<u>identification</u>** of property location including a map reference, and a market area and neighborhood identifier
- **Listing** – includes **<u>description</u>** of property – It includes both quantitative data and qualitative data about land & improvements. In other words it is a full description of the physical characteristics of the land and improvement. It includes grade of construction, condition of property, relevant property characteristics, etc.
- **Listing** – includes detailed **<u>classification</u>** of the property
  - Tax status – taxable, non-taxable/exempt, possessory interest, etc.
  - Primary use – residential, commercial, industrial, agricultural, etc.
  - Property type - row house, detached home, motel, apartment, etc.

Classification of Property

OV

- Part of Classification of property is weather the property is taxable or exempt

- Exempt Property – Is the subject of another full AWG work group presentation. The Tax Credit and Exemption Subcommittee will meet after this full AWG presentation

TC/Ex

- **Exempt property includes:**
  - Government – Federal, State, County, and Municipal Real Property
  - Religious
  - Charitable and Benevolent
  - Educational

- Certain property tax exemptions can be mandatory, others categorical (applications), while others are local optional (applications) – Statutory exemptions are mandatory, Categorical Exemptions are administrative.

- Exempt Property must be <u>"owned by and used exclusively for the exempt purposes of the organization"</u>

The Assessment Process - Value

- **Value** – each property at <u>full cash value as of a given date</u> (date of finality in Maryland Law – January 1) insuring that like properties are assessed alike (level, uniformity/equalization)

- **Value** – ad valorem values are arrived at through the <u>appraisal process</u> that include <u>mass appraisal methods & techniques</u>

- **Value** – the assessor uses the <u>appropriate approaches to value for</u> each particular property type (cost, sales comparison, income approach)
- **Value** – the concern of the assessor is achieving market value and uniformity of assessment

The Assessment Process - Value

- **Value** – in ad valorem mass appraisal the assessor is concerned with the uniform valuation of properties in similar classes.

- While two similar properties may sell for slightly different prices (depending upon individual buyers and sellers), the assessor is attempting to value these properties in a similar manner. The assessor uses a variety of techniques including standard valuation models, assessment studies and sales/ assessment ratio studies to verify level and uniformity.

- **Value –** values constantly change – ideal assessment systems reflect value changes through frequent revaluations

The Assessment Process - Value

- **Value –** Is a opinion of the worth of something. It is an opinion which is not a fact and is different from a price or cost.
  - **Price is a fact** – list price, asking price, reduced price, sale price. Price is not value.
  - **Cost is a fact or an estimate of a fact -** it cost me $30,000 or would cost $125 per square foot to build. Cost is not value.
- **Value -** The Assessor is valuing property through models that with reasonable accuracy, represent the relationship between property value and supply and demand factors, to produce a creditable opinion of value.

<u>(We will reference assessing to exact sale price and issues with uniformity in mass appraisal vs. single property appraisal later)</u>

The Assessment Process
Personal Property

OV

PPA

- **Assessment process –** Discover, List, and Value
- Personal Property Assessment will be the subject of another full Assessment Work Group Meeting and Subcommittee
- **MD Corporations, LLC's, LP's, and Proprietorship's** are required to register annually to be legal and valid business (Form 1 - registration & report personal property)
- **Personal property reporting** is by property and original cost in year of acquisitions – (IRS dep. schedule/balance sheets/leasing company asset lists, etc.)
- **Business personal property in Maryland** is subject to property tax – <u>residential personal property is not subject to tax</u> and most all manufacturing equipment and inventory is exempt
- **Value** – Generally, original cost from year of acquisition less depreciation per year to 25% of cost.

The Assessment Process
Personal Property

OV

PPA

Details

Pages 145-149

- **Personal Property Assessment Calendar**
  - Personal Property is Assessed Annually
  - Form 1's due May 1st for the following July1 tax levy
  - Individual Corporate, LLC, or Sole Proprietor assessments begin to be certified July1 to each jurisdiction
  - Certification of Assessments occurs monthly and jurisdictions bill after certification
- Filing forms on SDAT Website

The Assessment Process
Personal Property

PPA

As of 6.30.2014:

- **495,170 – Active Entities – Corps, LLC's, etc.**
- **84,240 – Sole Proprietorships**

As of 6.30.2014:

For 2013

- **134,221 – certified Legal Entities = Co. Base $11,293,375,370**
- **12,845 - certified Sole Proprietorships = Co. Base $ 360,586,180**

For 2012

- **136,170 – certified Legal Entities = Co. Base $ 11,293,375,370**
- **13.805 - certified Sole Proprietorships = Co. Base $ 381,747,820**

For 2011

- **137,521 – certified Legal Entities = Co. Base $ 12,212,842,520**
- **14,054 - certified Sole Proprietorships = Co. Base $ 373,639,300**

The Assessment Process
Utility, Pipelines, and Railroad's

OV

PPA

- **Assessment process –** Discover, List, and Value
- MD is **a unitary state** for valuation of regulated utilities
- **Entity files** regulatory reports annually **– (FERC 1, etc.)**
- The **filings** include income and cost information
- The entire operating unit of the entity is **valued annually** (inside and outside the state) for assessment
- The operating unit value within MD is **allocated** to MD
- The MD portion of the operating unit value is then **distributed** to each taxing jurisdiction
- **Non-operating property** is assessed as real or personal property, as applicable

County Assessable Base FY 2014

OV

Historic – Base Charts on SDAT Website

The Estimated Taxable Assessable Base at the County Level

For the tax year beginning July 1, 2014

Base Estimate Date: March 31, 2014

(figures expressed in thousands)

Jurisdiction	Real Property Full Year	Real Property New Construction	Railroad Operating Real Property	**Total Assessable Base Subject to the Real Property County Tax Rate**	Loss Due to Homestead Tax Credit	County Homestead Tax Credit Percentage	**Net Assessable Base Subject to the Real Property County Tax Rate**	Railroad Operating Personal Property	Utility Operating Real Property	Utility Operating Personal Property	Business Personal Property	**Total Assessable Base Subject to the Personal Property / Utility County Tax Rates**	**Total Taxable County Assessable Base**
Allegany	3,532,782	750	15,272	**3,548,804**	7,574	7%	**3,541,230**	17,581	6,183	124,054	190,871	**338,689**	**3,887,493**
Anne Arundel	75,699,461	150,000	791	**75,850,252**	8,738,628	2%	**67,111,624**	1,231	37,612	839,834	1,600,763	**2,479,440**	**78,329,692**
Baltimore City	34,301,772	38,750	209,049	**34,549,571**	2,045,572	4%	**32,503,999**	31,471	131,287	819,880	1,008,280	**1,990,918**	**36,540,489**
Baltimore	75,258,080	140,000	14,162	**75,412,242**	1,637,112	4%	**73,775,130**	9,996	106,477	1,127,398	1,647,538	**2,891,409**	**78,303,651**
Calvert	11,306,334	20,000	0	**11,326,334**	1,411	10%	**11,324,923**	0	88,021	753,899	109,282	**951,202**	**12,277,536**
Caroline	2,501,157	1,000	0	**2,502,157**	18,691	5%	**2,483,466**	0	4,789	53,386	54,147	**112,322**	**2,614,479**
Carroll	17,893,720	30,000	5,581	**17,929,301**	21,146	5%	**17,908,155**	6,788	12,744	237,176	250,342	**507,050**	**18,436,351**
Cecil	9,268,763	10,000	6,100	**9,284,863**	11,653	8%	**9,273,210**	5,111	14,755	150,102	243,423	**413,391**	**9,698,254**
Charles	15,372,399	58,750	1,250	**15,432,399**	7,420	7%	**15,424,979**	2,703	17,598	308,547	597,570	**926,418**	**16,358,817**
Dorchester	2,813,112	1,000	0	**2,814,112**	30,720	5%	**2,783,392**	0	2,181	93,643	14,488	**110,312**	**2,924,424**
Frederick	25,835,966	60,000	10,693	**25,906,659**	44,370	5%	**25,862,289**	0	23,798	272,379	0	**296,177**	**26,202,836**
Garrett	4,259,420	4,025	962	**4,264,407**	36,128	5%	**4,228,279**	8,266	34,797	66,733	89,399	**199,195**	**4,463,602**
Harford	25,717,764	50,000	2,290	**25,770,054**	9,129	5%	**25,760,925**	2,405	32,427	462,762	572,701	**1,070,295**	**26,840,349**
Howard	43,710,691	125,000	15,849	**43,851,540**	638,716	5%	**43,212,824**	6,769	25,811	539,468	898,985	**1,471,033**	**45,322,573**
Kent	2,909,028	2,000	0	**2,911,028**	80,551	5%	**2,830,477**	0	1,837	34,945	0	**36,782**	**2,947,810**
Montgomery	165,210,222	425,000	10,837	**165,646,059**	90,920	10%	**165,555,139**	6,343	98,816	1,371,915	2,316,083	**3,793,157**	**169,439,216**
Prince Georg	74,020,302	225,000	7,425	**74,252,727**	2,081,945	2%	**72,170,782**	8,955	56,624	1,344,560	1,387,711	**2,797,850**	**77,050,577**
Queen Anne'	7,573,738	12,500	0	**7,586,238**	105,441	5%	**7,480,797**	0	3,971	59,192	0	**63,163**	**7,649,401**
St. Mary's	11,813,580	37,500	0	**11,851,080**	198,092	5%	**11,652,988**	0	4,349	98,425	166,325	**269,099**	**12,120,179**
Somerset	1,354,569	1,500	6,063	**1,362,132**	1,209	10%	**1,360,923**	4,995	1,039	31,413	32,212	**69,659**	**1,431,791**
Talbot	8,459,087	3,635	0	**8,462,722**	1,457,131	0%	**7,005,591**	0	3,165	52,346	0	**55,511**	**8,518,233**
Washington	11,811,251	12,500	31,970	**11,855,721**	19,416	5%	**11,836,305**	15,988	17,436	131,827	379,362	**544,613**	**12,400,334**
Wicomico	5,676,490	3,000	6,988	**5,686,478**	2,615	5%	**5,683,863**	4,774	11,339	123,085	236,242	**375,440**	**6,061,918**
Worcester	14,539,962	4,000	643	**14,544,605**	177,572	3%	**14,367,033**	236	4,491	110,614	205,867	**321,208**	**14,865,813**
TOTAL	**650,839,650**	**1,415,910**	**345,925**	**652,601,485**	**17,463,162**		**635,138,323**	**133,612**	**741,547**	**9,207,583**	**12,001,589**	**22,084,331**	**674,685,816**

Full year column includes new construction added for the full year (July 1). New construction is property added for partial year levy (Oct. 1, Jan 1, and Apr. 1).
Cecil County full year and busines personal property columns include the value of the Rock Springs Non-Utility Generator.
Garrett County is not levying a tax against business personal property. The figures in that column are for personal property of a non-utility generator used to g
electricity which is a separate class of property.

County Assessable Base FY 2014

Jurisdiction	Real Property Full Year	Real Property New Construction	Railroad Operating Real Property	Total Assessable Base Subject to the Real Property County Tax Rate
Allegany	3,532,782	750	15,272	**3,548,804**
Anne Arundel	75,699,461	150,000	791	**75,850,252**
Baltimore City	34,301,772	38,750	209,049	**34,549,571**
Baltimore	75,258,080	140,000	14,162	**75,412,242**
Calvert	11,306,334	20,000	0	**11,326,334**
Caroline	2,501,157	1,000	0	**2,502,157**
Carroll	17,893,720	30,000	5,581	**17,929,301**
Cecil	9,268,763	10,000	6,100	**9,284,863**
Charles	15,372,399	58,750	1,250	**15,432,399**
Dorchester	2,813,112	1,000	0	**2,814,112**
Frederick	25,835,966	60,000	10,693	**25,906,659**
Garrett	4,259,420	4,025	962	**4,264,407**
Harford	25,717,764	50,000	2,290	**25,770,054**
Howard	43,710,691	125,000	15,849	**43,851,540**
Kent	2,909,028	2,000	0	**2,911,028**
Montgomery	165,210,222	425,000	10,837	**165,646,059**
Prince Georg	74,020,302	225,000	7,425	**74,252,727**
Queen Anne':	7,573,738	12,500	0	**7,586,238**
St. Mary's	11,813,580	37,500	0	**11,851,080**
Somerset	1,354,569	1,500	6,063	**1,362,132**
Talbot	8,459,087	3,635	0	**8,462,722**
Washington	11,811,251	12,500	31,970	**11,855,721**
Wicomico	5,676,490	3,000	6,988	**5,686,478**
Worcester	14,539,962	4,000	643	**14,544,605**
TOTAL	**650,839,650**	**1,415,910**	**345,925**	**652,601,485**

County Assessable Base FY 2014

(figures expre

Jurisdiction	Total Assessable Base Subject to the Real Property County Tax Rate	Loss Due to Homestead Tax Credit	County Homestead Tax Credit Percentage	Net Assessable Base Subject to the Real Property County Tax Rate
Allegany	**3,548,804**	7,574	7%	**3,541,230**
Anne Arunde	**75,850,252**	8,738,628	2%	**67,111,624**
Baltimore City	**34,549,571**	2,045,572	4%	**32,503,999**
Baltimore	**75,412,242**	1,637,112	4%	**73,775,130**
Calvert	**11,326,334**	1,411	10%	**11,324,923**
Caroline	**2,502,157**	18,691	5%	**2,483,466**
Carroll	**17,929,301**	21,146	5%	**17,908,155**
Cecil	**9,284,863**	11,653	8%	**9,273,210**
Charles	**15,432,399**	7,420	7%	**15,424,979**
Dorchester	**2,814,112**	30,720	5%	**2,783,392**
Frederick	**25,906,659**	44,370	5%	**25,862,289**
Garrett	**4,264,407**	36,128	5%	**4,228,279**
Harford	**25,770,054**	9,129	5%	**25,760,925**
Howard	**43,851,540**	638,716	5%	**43,212,824**
Kent	**2,911,028**	80,551	5%	**2,830,477**
Montgomery	**165,646,059**	90,920	10%	**165,555,139**
Prince Georg	**74,252,727**	2,081,945	2%	**72,170,782**
Queen Anne'	**7,586,238**	105,441	5%	**7,480,797**
St. Mary's	**11,851,080**	198,092	5%	**11,652,988**
Somerset	**1,362,132**	1,209	10%	**1,360,923**
Talbot	**8,462,722**	1,457,131	0%	**7,005,591**
Washington	**11,855,721**	19,416	5%	**11,836,305**
Wicomico	**5,686,478**	2,615	5%	**5,683,863**
Worcester	**14,544,605**	177,572	3%	**14,367,033**
TOTAL	**652,601,485**	**17,463,162**		**635,138,323**

County Assessable Base FY 2014

Jurisdiction	Railroad Operating Personal Property	Utility Operating Real Property	Utility Operating Personal Property	Business Personal Property	Total Assessable Base Subject to the Personal Property / Utility County Tax Rates	Total Taxable County Assessable Base
Allegany	17,581	6,183	124,054	190,871	**338,689**	**3,887,493**
Anne Arundel	1,231	37,612	839,834	1,600,763	**2,479,440**	**78,329,692**
Baltimore City	31,471	131,287	819,880	1,008,280	**1,990,918**	**36,540,489**
Baltimore	9,996	106,477	1,127,398	1,647,538	**2,891,409**	**78,303,651**
Calvert	0	88,021	753,899	109,282	**951,202**	**12,277,536**
Caroline	0	4,789	53,386	54,147	**112,322**	**2,614,479**
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Cecil	5,111	14,755	150,102	243,423	**413,391**	**9,698,254**
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Frederick	0	23,798	272,379	0	**296,177**	**26,202,836**
Garrett	8,266	34,797	66,733	89,399	**199,195**	**4,463,602**
Harford	2,405	32,427	462,762	572,701	**1,070,295**	**26,840,349**
Howard	6,769	25,811	539,468	898,985	**1,471,033**	**45,322,573**
Kent	0	1,837	34,945	0	**36,782**	**2,947,810**
Montgomery	6,343	98,816	1,371,915	2,316,083	**3,793,157**	**169,439,216**
Prince George	8,955	56,624	1,344,560	1,387,711	**2,797,850**	**77,050,577**
Queen Anne's	0	3,971	59,192	0	**63,163**	**7,649,401**
St. Mary's	0	4,349	98,425	166,325	**269,099**	**12,120,179**
Somerset	4,995	1,039	31,413	32,212	**69,659**	**1,431,791**
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Washington	15,988	17,436	131,827	379,362	**544,613**	**12,400,334**
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Worcester	236	4,491	110,614	205,867	**321,208**	**14,865,813**
TOTAL	**133,612**	**741,547**	**9,207,583**	**12,001,589**	**22,084,331**	**674,685,816**

The Appraisal Process

OV

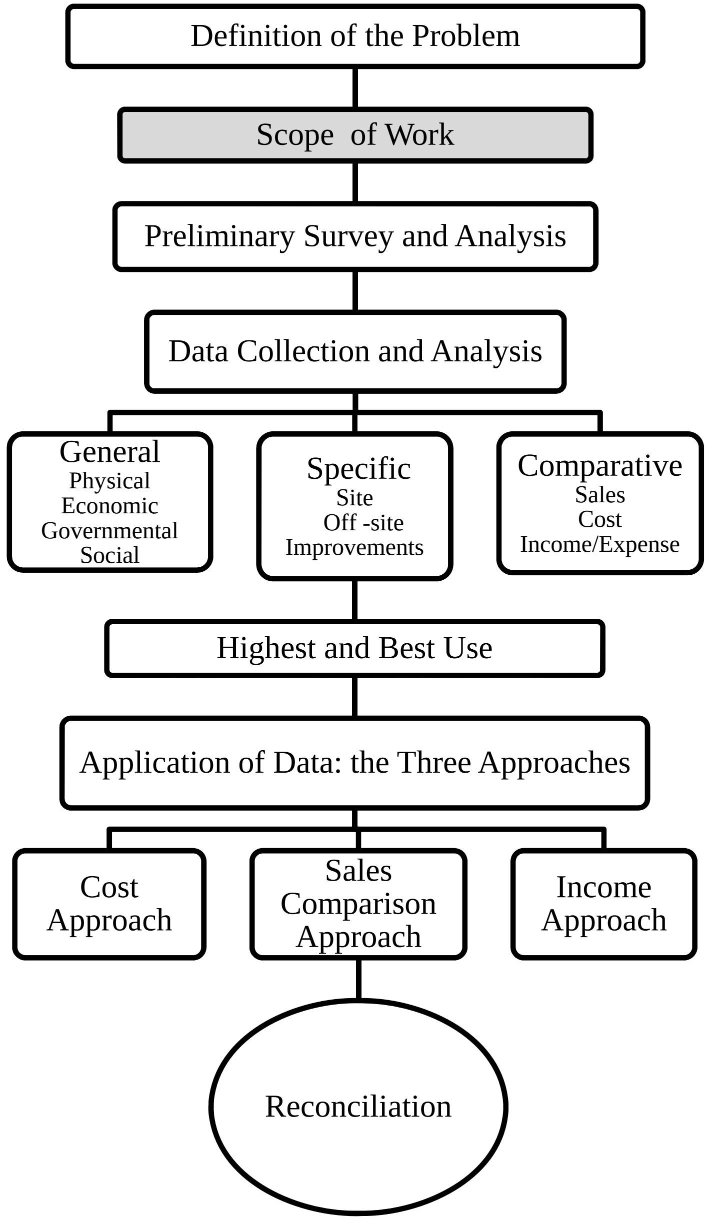
RPA/PI

- **Appraisers/assessors** follow the **Appraisal Process** when valuing property
- **The Appraisal Process** is a problem solving process
- **Fee appraisers** use single property appraisal methods
- **Ad Valorem appraisers (assessors)** use mass appraisal methods and techniques
- **The appraisal process** is a systematic set of procedures an appraiser follows it to provide answers to a client's questions about real property value
- **In appraisal, the appraiser may study a property** from three different viewpoints, which are referred to as the three approaches to value

Appraisal Process

Details

Pages 150



The Appraisal Process

- **Research begins after** the appraisal problem has been defined and the scope of work has been identified
- **Market analysis and research provides the data from which** the appraiser can develop quantitative information and other evidence of market trends
- **Ultimate goal of the Appraisal Process is** a well **supported value conclusion** that reflects all of the pertinent factors that influence the market value of the properties being appraised
- **Traditionally, specific appraisal techniques are applied** to derive indications of property value

The Appraisal Process

- **One or more of the approaches may be used** depending upon their applicability to the assignment, the nature of the property and the availability of data
- **The three approaches are interrelated**
- **Each approach requires the gathering and analysis of certain data** that pertains to the property being appraised**.**
- **Market Analysis** may require the assessor to gather and analyze market data locally within the jurisdiction, statewide, regionally, nationally or internationally depending upon the type of property.
- **General data and specific data** are analyzed in market analysis and may include market analysis publications regarding specific property types. This is especially true with income producing properties

Single Property vs. Mass Appraisal

Details

Pages 151-153

- **USPAP Standards 1 & 2**

(single property) and **Standard 6** (mass appraisal)

- **SINGLE PROPERTY APPRAISAL INVOLVES APPRAISAL OF A SINGLE PROPERTY**
- **MASS APPRAISAL INVOLVES APPRAISAL OF MANY PROPERTIES**
- **SIMILARITIES**
  - BOTH USE THREE BASIC APPROACHES TO VALUE
  - BOTH REQUIRE MARKET RESEARCH
- **DIFFERENCES**
  - SCALE OF MASS APPRAISAL IS MUCH LARGER
  - MASS APPRAISAL EMPHASIZES STANDARDIZATION
  - MASS APPRAISAL EMPLOYS STATISTICAL TESTING AND QUALITY CONTROL

Single Property Appraisal vs. Mass Appraisal

- **Single Property Appraisers –** appraising residential properties for collateral loan purposes might be able on average 2 typical average residential properties per day including field inspections
- **Mass Appraisers (Maryland field assessors)** given current total parcels and field assessors each assessor must appraise **5,163 parcels annually** (2,303,277 tot. par. / 3 = 790,083 / 153 assessors = 5,163).

➢ **Assessor's appraise all real property** types (res. com. ind, etc**.)**

➢ If assessors were only doing appraisal and no other functions with 205 days per year available - they would have value **<u>25 properties</u> per day**. However after CORE Day responsibilities including new property pick up and appeals, the average appraisals per day increases to in **<u>excess of 70 per day.</u>**

Approaches to Value

Cost Approach **-** " a set of procedures through which a value indication is derived for a fee simple interest of a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure …deducting depreciation for the total cost, and adding the estimated land value…" *

* The Appraisal of Real Estate 13th Edition, Appraisal Institute

Approaches to Value

Sales Comparison Approach - “ a set of procedures through which a value indication is derived for a property being appraised to similar properties that have sold recently, applying appropriate units of comparison, and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value, improved properties, vacant land, or land being appraised as though vacant …” *

* The Appraisal of Real Estate 13th Edition, Appraisal Institute

Approaches to Value

Income Capitalization Approach - " a set of procedures through which a value indication is derived for an income producing property by converting anticipated benefits (cash flow and reversion) into property value. The conversion can be accomplished in two ways.

- One year's (stabilized) income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects the specified income pattern, return on the investment, and the change in the value of the investment.**(Direct Capitalization**) or …
- The annual cash flows for the holding period and the reversion can be discounted at a specified yield rate **(Yield Capitalization)** …" *

* The Appraisal of Real Estate 13th Edition, AI

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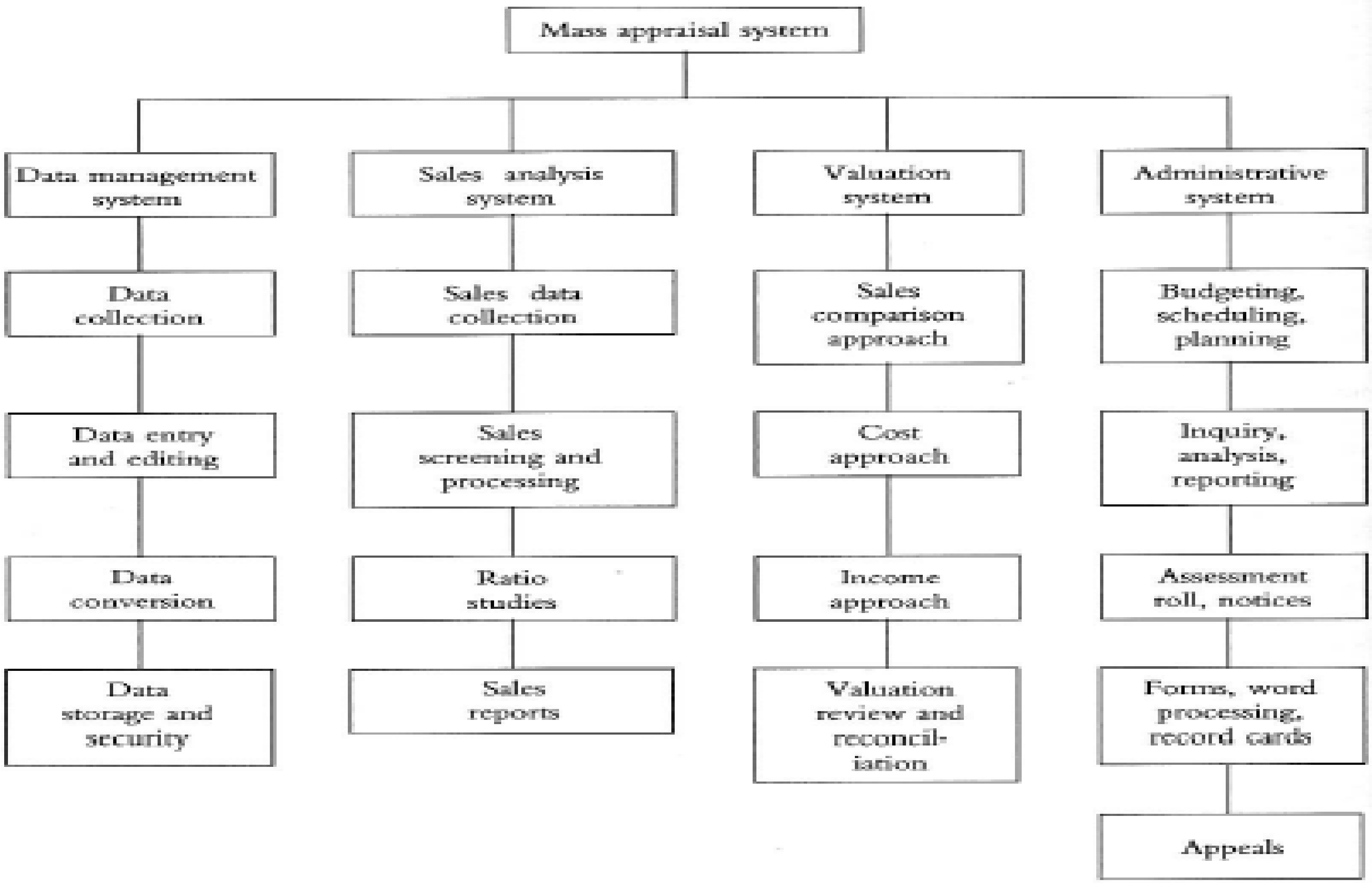
Mass Appraisal System

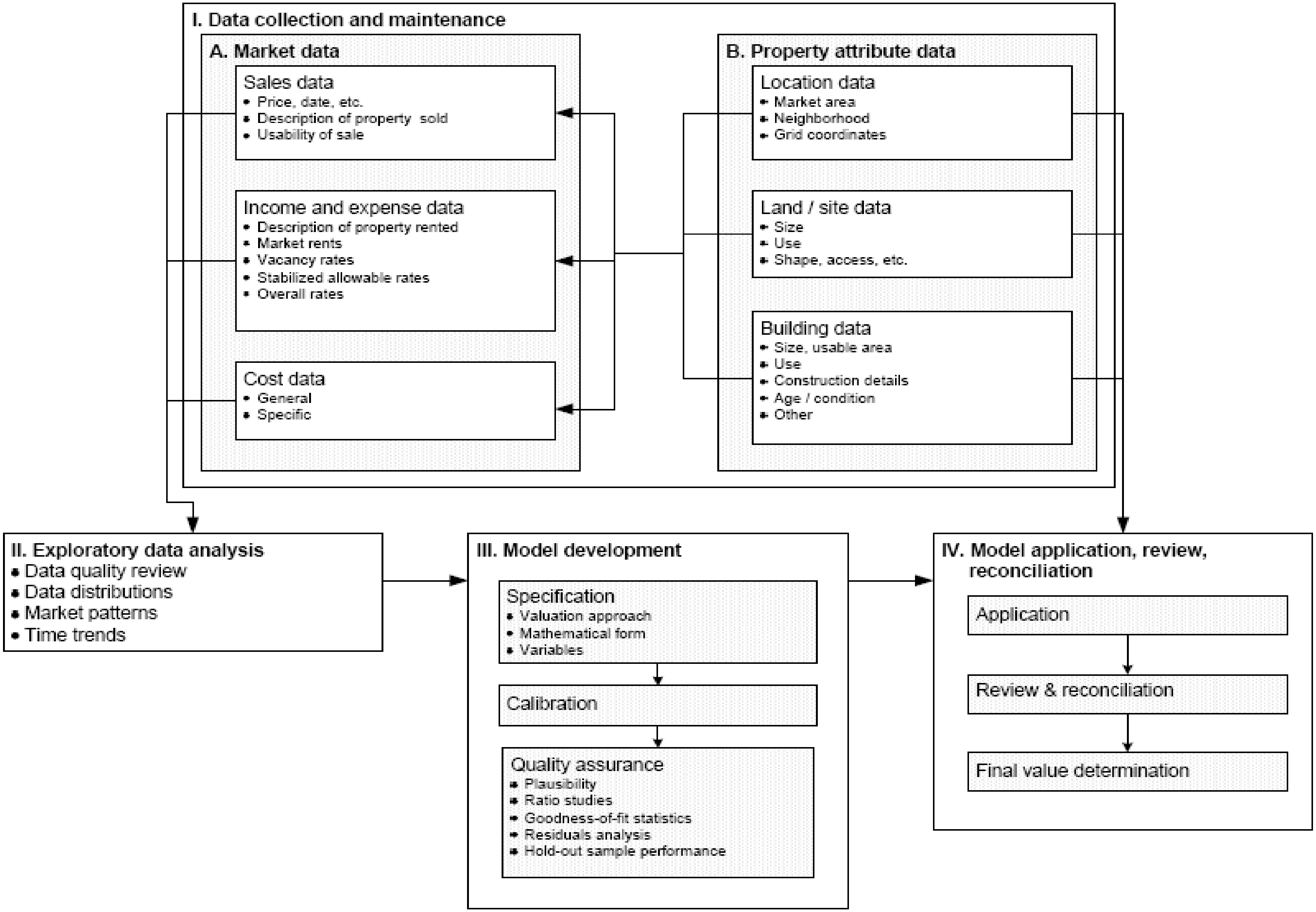
RPA/PI

PPA

Figure 1. Components of a Mass Appraisal System



Mass Appraisal System



Mass Appraisal

- **MASS APPRAISAL:** the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing. (USPAP Definitions)

- **MASS APPRAISAL MODEL:** a mathematical expression of how supply and demand factors interact in a market. (USPAP Definitions)

Mass Appraisal

<u>Model Specification</u> (USPAP/STD 6)

- Mass appraisers develop **<u>mathematical models</u>** that, with reasonable accuracy, represent the relationship between property value and supply and demand factors, as represented by <u>quantitative and qualitative property characteristics.</u>
- Models **<u>may be specified by the cost, sales comparison, or income approaches</u>** to value.
- Specification format may be **<u>tabular</u>,** mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics.
- **Appropriate approaches** to value must be used to value a class of properties.

Mass Appraisal

Details

Pages 154-155

Model Calibration (USPAP/STD 6)

- After a model is specified, model calibration occurs.
- Calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model.
- Simply it is the development of rates or coefficients for use in the model. These include such things building rates, land rates, depreciation rates and adjustments and other items.

Market Calibrated Cost Model

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RPA/PI

Details

Pages 156-178

- **Simple Cost Model**

  MV = RCN - D + LV

  - **MV = Market Value**
  - **RCN = Replacement Cost New**
  - **D = Depreciation**
  - **LV = Land Value**

- **Prior to model calibration, market analysis occurs and an a prior assessment to sale price ratio is performed on arms length property sales**

  - $\frac{\text{Prior Assessment}}{\text{Current Sale}} = \frac{300{,}000}{360{,}000} = .833$

  This tests the level of existing assessments to current market sales prices.

Market Calibrated Cost Model

STEPS IN THE COST APPROACH TO VALUE

1. Estimate the land (site) value as if vacant and available for development to its highest and best use.

2. Estimate the total cost new of the improvements.

3. Estimate the total amount of depreciation from all causes.

4. Subtract the total dollar amount of depreciation from the total cost new of the primary improvements.

5. Estimate the total cost new of any accessory improvements and site improvements.

6. Add site value to the depreciated cost of the primary improvements, accessory improvements, and site improvements, to arrive at a value indication by the cost approach.

Market Calibrated Cost Model

- **Through market analysis in the calibration process**, rates are developed for construction cost, depreciation and land
- **In market analysis**, property sales are analyzed.
- **Properties are grouped by geographic areas** – Market Areas and Neighborhoods
- **The developed rates are applied to each property** <u>to</u> value the land and building.
- **Within each Market Area and Neighborhood** <u>comparable sale properties are valued by the cost model</u>.
- **An New Assessment to Sale Price ratio is then calculated for each comparable sale** that is valued by the cost model.

Market Calibrated Cost Model

- The target would be 100 %
  - New Assessment = 349,000 = .967
    Current Sale 360,000
- If acceptable ratio statistics are produced, the model is applied to all non sale properties to complete the valuation
- Sales analysis, ratio reports are produced and assessment and data edits are performed before assessment notices are mailed

Market Calibrated Cost Model

- It is through the application of this model, that the uniformity/equalization of assessment occurs (treating like properties alike) similar properties have similar starting point with a similar cost new. similar condition properties have similar depreciation, and similar land value
- In order to have accurate values property data must be correct.

OV

Assessment Ratio Study

- Ratio studies may be performed for various reasons including appraisal accuracy and assessment equity studies, to judge the need for management of a reappraisal, to identify problems with appraisal procedures, to assist in market analysis, and to adjust appraised values.

Assessment Ratio Study

IAAO's Ratio Study Performance Standards

Type of property—General	Type of property—Specific	COD Range**
Single-family residential (including residential condominiums)	Newer or more homogeneous areas	5.0 to 10.0
Single-family residential	Older or more heterogeneous areas	5.0 to 15.0
Other residential	Rural, seasonal, recreational, manufactured housing, 2–4 unit family housing	5.0 to 20.0
Income-producing properties	Larger areas represented by large samples	5.0 to 15.0
Income-producing properties	Smaller areas represented by smaller samples	5.0 to 20.0
Vacant land		5.0 to 25.0
Other real and personal property		Varies with local conditions

These types of property are provided for guidance only and may not represent jurisdictional requirements.
** Appraisal level for each type of property shown should be between 0.90 and 1.10, unless stricter local standards are required.*
PRD's for each type of property should be between 0.98 and 1.03 to demonstrate vertical equity.
PRD standards are not absolute and may be less meaningful when samples are small or when wide variation in prices exist. In such cases, statistical tests of vertical equity hypotheses should be substituted (see table 1-2).
*** CODs lower than 5.0 may indicate sales chasing or non-representative samples.*

Source: <u>Standard on Ratio Studies</u>; International Association of Assessing Officers; Kansas City, Mo; January, 2010; pp.18, 19.

Trending or Indexing Assessments

OV

- Some have indicated that trending or indexing of prior assessments would be a method for re-assessing properties.
- While this could be done as an updating technique when detailed assessment to sale ratio analysis is conducted, one has to be extremely careful that like types of property are stratified by neighborhood and model type and analyzed in that manner. Index's developed across large geographic areas or many property types, can cause uniformity problems.
- To apply an index or trend factor in a geographic area where there is wide assessment dispersion will magnify or increase the dispersion.

Trending or Indexing Assessments

- The application indexes such as the Case Schiller Home price index is technically fraught with problems and could never be used for updating assessments.
- The information in this index is general data and not specific to each market area within each county.
- It may be indicative of generally what is happening across a broad market area – it is considering changes in sales prices and rents over time.
- It does not consider the level of prior assessment to current sales price. The base to be indexed is the prior assessment and the common level of value with various neighborhood may be different – to apply one common index for a general area to a different base increases dispersion and increases non-uniform assessment

Accurate Data/Accurate Values

OV

- **Properties should be regularly re-inspected** to ensure existing data is accurate and current – Maryland is to physically inspect once every three years as required by law.
- **IAAO standards** call for routine property inspections **at least every six years**. Many states are more frequent
- **Often Building permits, and technology -** aerial/oblique photography, street view images and the linking of this data with the assessors valuation system (CAMA or AAVS) **allows for a timely and efficient review of property record characteristics**.
- SDAT does not have aerial oblique photography, or street view images which should be linked to the valuation system.

Property Record Card – Inspection and Cost Model

OV

Account # 2208065013______

STATE OF MARYLAND DEPARTMENT OF ASSESSMENTS AND TAXATION
PROPERTY RECORD CARD - REASSESSMENT YEAR 2012

PRINTED 12/09/2011

Owner	JOHN Q. DOE	**Property Use**	Residential	**Map/Gr/Par/Sec/Bl/Lt**	220000 /0023 /0260 / / /A	**Legal Description**	
Mail Addr	12345 ANYWHERE DR	**Occupancy**	Owner Occupied	**Field Sequence Number**	01234-022-00-00	4.13 ACRES PAR A	
	ANYPLACE, MD 21111-1111	**Valued By**		**Neighborhood**	3010077.22	12345 ANYWHERE DR	
		Value Method	MD Value	**BPRUC**		MARYLAND ACRES	

VALUE SUMMARY — FULL CASH VALUE

	Prior	Current
Total Land	116,300	96,300
Total Improvements	348,600	253,300
Total Value	464,900	349,600
Preferential Land	0	0
Curtilage	464,900	349,600

SALES DATA

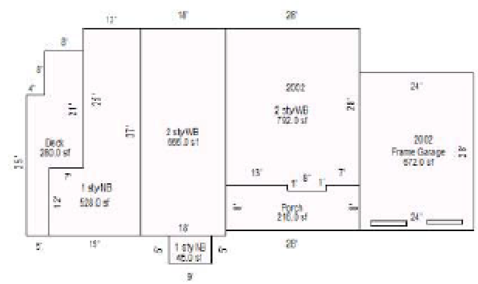
Sale Date	Sale Price
08/01/1980	49500

BUILDING NOTES

DWELLING DATA

Dwelling No.	1	Year Built	1982
Type	Standard Unit	Model No.	024
Quality	Above Average	Curtilage	No

SECTION NAME	AREA	HEATED AREA
2 Story With Basement	1,458	2,916
1 Story No Basement	573	573
Deck	280	0
Frame Attached Garage	672	0
1 Story Open Porch	216	0
Total Heated Area		3,489



SITE ADDRESS: 12345 ANYWHERE DR, ANYPLACE 21111-1111

DWELLING CHARACTERISTICS

CATEGORY	TYPE	%
ROOF COVER RES	COMPOSITION	100
HEATING TYPE RES	ELECTRIC	100
PHYSICAL CONDITION	AVERAGE	100
AIR CONDITIONING	A/C: SEPARATE	100
EXTERIOR WALL	FRAME	75
EXTERIOR WALL	BRICK	25

CATEGORY	UNITS
BATHS	3.00
HALF BATHS	1.00

OUTBUILDING DATA

DESCRIPTION	BLD	YR BLT	LENGTH	WIDTH	UNITS	QUALITY	CURTILAGE	PRICE/UNIT	%COND	VALUE	OVR. VALUE	NOTES
Vinyl Pool			0	0	544.00	Average	No	23.70	50	6,511		

DEPRECIATION & ADJUSTMENTS

DEPRECIATION TYPE	ADJUSTMENT
Functional Obsolescence	0.0500
Total Depreciation	0.2500

PRICE INDEX TYPE	ADJUSTMENT
Neighborhood Adj.	0.7000
County Multiplier	1.0100
Quality Factor	1.1700
Structure Adjustment	1.0325

DWELLING VALUE	$246,822
VALUE PER SQ. FT. OF HEATED AREA	70.74

LAND DATA

DESCRIPTION	FRONT FEET	DEPTH	UNITS	UNIT TYPE	INFLUENCE	ADJUSTMENT	CURTILAGE	VALUE	OVR. VALUE	LAND NOTE
Primary Improved 1	0.00	0.00	1.00	AC		1.00	Yes	65,000		
Secondary 1	0.00	0.00	3.13	AC		1.00	Yes	31,300		

PARCEL NOTES

Cedar siding. 97 RA - Remove greenhouse NC. 2000RA add pool & deck.
2009 RA - Refinished bank barn - added back to assessment.
03RA 2WB addition, bath, demolish garage & construct new garage, porch $88,000; send NC notice.

PROPERTY CHARACTERISTICS

CATEGORY	CHARACTERISTIC
Sewer System	Septic

Property Record Card

OV

1. **Administrative data:** Reassessment Year - Owner, Address, Property Use and Location, Field Sequence #, Neighborhood, Legal Description

2. **Dwelling Data:** Year built, Type, Quality

   Section Name: Section name, Area, Heated area, Total Heated Area

3. **Dwelling Characteristics:** Category, Type, % - Category, Units

4. **Depreciation and Adjustments:** Depreciation Type and Adjustment, Total Depreciation

5. **Price Index Type:** Neighborhood Adjustment, County Multiplier, Quality Adjustment, Structure Adjustment

6. **Description:** Land Value

8. **Improvement Sketch**: Shows each section of main improvement, Site Address is show at bottom of sketch box

9. **Value Summary – Full Cash Value**: Prior and Current Years, Improvement, Land, Total, Preferential Land, Curtelage

10. **Sale Data:** Date of Sale and Sale Price

11. **Building Notes**: - includes permit data

12. **Outbuilding Data:** Description, Year built, Units, Quality Price, %condition, Value, Notes

13. **Dwelling Value:** Total Dwelling Value, Value per # of Heated Area

Property Record Card – Inspection and Cost Model

OV

- Property record card is used for many purposes - all data, info for each account
- Assessor uses in field inspection or (with imagery) to verify relevant characteristics and to note changes and corrections
- Blank Card is used for new property inspections – pickups
- Sketch allows quick viewing to identify sections, measurements, size, etc.
- Property owner can request record card and sales analysis
- The data is the basis for information on tax roll and the SDAT Website for each property

Property Sales Analysis

OV

- A property Sales Analysis is used to analyze the results of the model - property sales are listed with various data and assessment ratios (new value to sale price) and descriptive statistics about the data

Illustrative Sales Analysis

					LAND					IMP										Total				
Sale #	Sale Date	Sale Price	Prior Assess	Prior Ratio	Land Size	Prior Ld Rate	Prior Ld Value	New Ld Rate	New Ld Value	Prior IMP Value	IMP Quality	Size	RCN	RCN Sq Ft	Year Blt Eff Age	IMP Cond.	% Dep.	Value	IMP Value sq foot	New L&I Value	New Value Sq Ft	Sale Per Sq Ft	Proposed Ratio	MVI
1	XX/XX/XX	365,000	300,000	0.82	4.13	20,000	82,600	23,317	96,300	217,400	4	3,489	468,974	134.42	1982	AVE	0.25	246,822	70.74	349,022	100.03	104.61	0.96	0
2																								
3																								
Total		x	x	x	x	x	x	x	x	x		x	x	x			x	x	x	x	x	x	x	
Count																								
Mean																								
Median																								
COD																								
St Dev																								
COV																								

x - descriptive statistics calculate

Commercial & Industrial Appraisal

OV

- **Cost Approach** – cost record document and cost the quality, physical characteristics and condition of the property

$V = RCNLD + LV$

where

V = value

$RCNLD$ = replacement cost new less depreciation

LV = land value

Commercial & Industrial Appraisal

- **Sales Comparison Approach** – if comparable sales are available, develop units of comparison from recent comparables – (Sale price per unit, per square foot, per space, etc.), make adjustments for differences to the subject, and value the subject.

$$V = SP \pm ADJ$$

where

SP = sale price

ADJ = adjustment to sale price.

Commercial & Industrial Appraisal

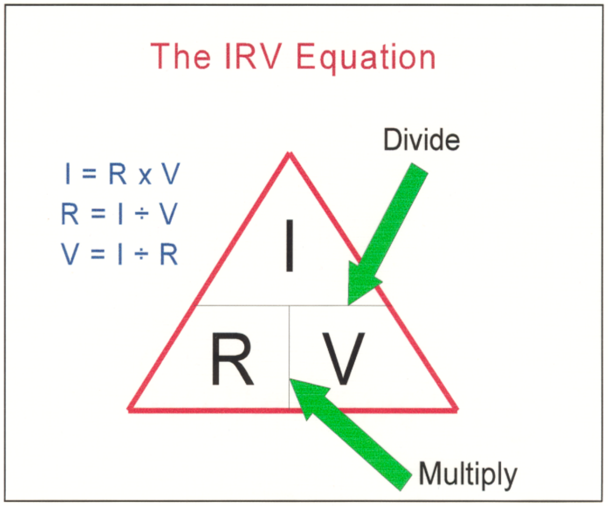
- **Income Approach** – an estimate of market rent (net operating income) is capitalized into and estimate of value by a capitalization rate in direct capitalization.

$V = I \div R$

where

I = Income

R = capitalization rate



- **Assessor most document** market rent, operating expense ratios, and capitalization rates for each appraisal cycle by type of income producing property.

Commercial & Industrial Appraisal

- **Six Methods to Develop Capitalization Rates**

1\

1. Market Comparison – IRV (R = Income/Value)
2. Band of Investment – Mortgage Equity
3. Band of Investment – Land Building
4. Debt Coverage Ratio
5. Net Income Ratio
6. Yield Change

Assessor most document capitalization rates for each appraisal cycle by type of Income producing property.

Commercial & Industrial Net Operating Income

NOI Flowchart

GPI	**(Gross Potential Income)**
- V & C	**(Vacancy and Collection Loss)**
+ Other Income	
= EGI	**(Effective Gross Income)**
- Op. Ex.	**(Operating Expenses)**
	- Property Operating Expense
	- Reserves for Replacement
= NOI	**(Net Operating Income)**
- Debt Service	
=Before Tax (Income Tax) Cash Flow	

Commercial & Industrial Income and Expense Forms

Commercial Property Income Questionnaires

For further information, or to receive a particular questionnaire, contact your local Department of Assessments and Taxation office. Completed questionnaires must be returned to the appropriate local assessment office.

- Apartment Building
- Assisted Living Facility
- Campground
- Cemetery
- Commercial/ Industrial
- Garage and Parking Lot
- Golf Course
- Hotel/Motel
- Marina
- Mobile Home Park
- Nursing Home
- Section 42 Tax Credit Property
- Subsidized Housing
- Tenant List & Rent Schedule

Apartment Income and Expense Form

APARTMENT INCOME AND EXPENSE QUESTIONNAIRE

FOR THE 36 MONTHS: FROM 2011 TO 2013

NAME AND LOCATION OF PROPERTY

OWNER AND ADDRESS OF RECORD

Check Services & Utilities in Rent: Heat ( ) A/C ( ) Gas ( ) Electricity ( )
Carpets ( ) Drapes ( ) Washer/Dryer ( ) Swimming Pool ( ) Party Room ( )
Tennis ( ) Parking ( ) Switchboard ( ) Security ( )

RENT SCHEDULES:

	# UNITS	BATH/UNIT	2013 RENT/MO.	2012 RENT/MO.	2011 RENT/MO.
Efficiency					
1 Bedroom					
2 Bedroom					
2 Bedroom & Den					
3 Bedroom					
3 Bedroom & Den					
Other (List)					
PARKING # SPACES					

Retail/Commercial:	# UNITS	LEASABLE	RENT/SF	RENT/SF	RENT/SF
Shops/Stores					
Offices					
Other (List)					

ANNUAL INCOME:	2013	2012	2011
1. Total Gross Rents (100% Occupancy)	$		
2. Owner, Janitor, Manager Apartments	$		
3. Other Income (laundry, pool, etc.)	$		
4. Loss due to vacancy or delinquent.	$		
5. TOTAL ACTUAL INCOME (Total lines 1-4)	$		
EXPENSES:			
6. Payroll (except manager, repair)	$		
7. Supplies (janitor, bulbs, etc.)	$		
8. Electricity	$		
9. Water/Sewage	$		
10. Fuel (Type of fuel:__________)	$		
11. Management Fees/Wages	$		
12. Administrative Costs (List)	$		
13. Maintenance & Repairs (List)	$		
14. Miscellaneous Expenses (List)	$		
15. Fire Insurance & Extend. Coverage	$		
16. Reserves for Replacements (List)	$		
17. TOTAL EXPENSES (Total lines 6-16)	$		
18. Net Operating Income (Line 5 less line 17)	$		
19. Real Estate Taxes	$		
20. Mortgage Payment	$		
21. Building Depreciation	$		
22. Capital Expenditure	$		

MORTGAGE/SALES INFORMATION:

1. Is there a current mortgage on this property? Yes ________ No ________
2. If Yes, please provide the following data:

Name of Mortgagee ________ Mortgage Amount ________ Interest Rate ________

Term of Mortgage ________ Date 1st Payment ________ Monthly Payment ________

3. Please provide: Date Purchased______________ Consideration______________

I declare, under the penalties of perjury, that the contents of this form and all the accompanying schedules and statements have been examined by me and are true, correct, and complete to the best of my knowledge, information, and belief.

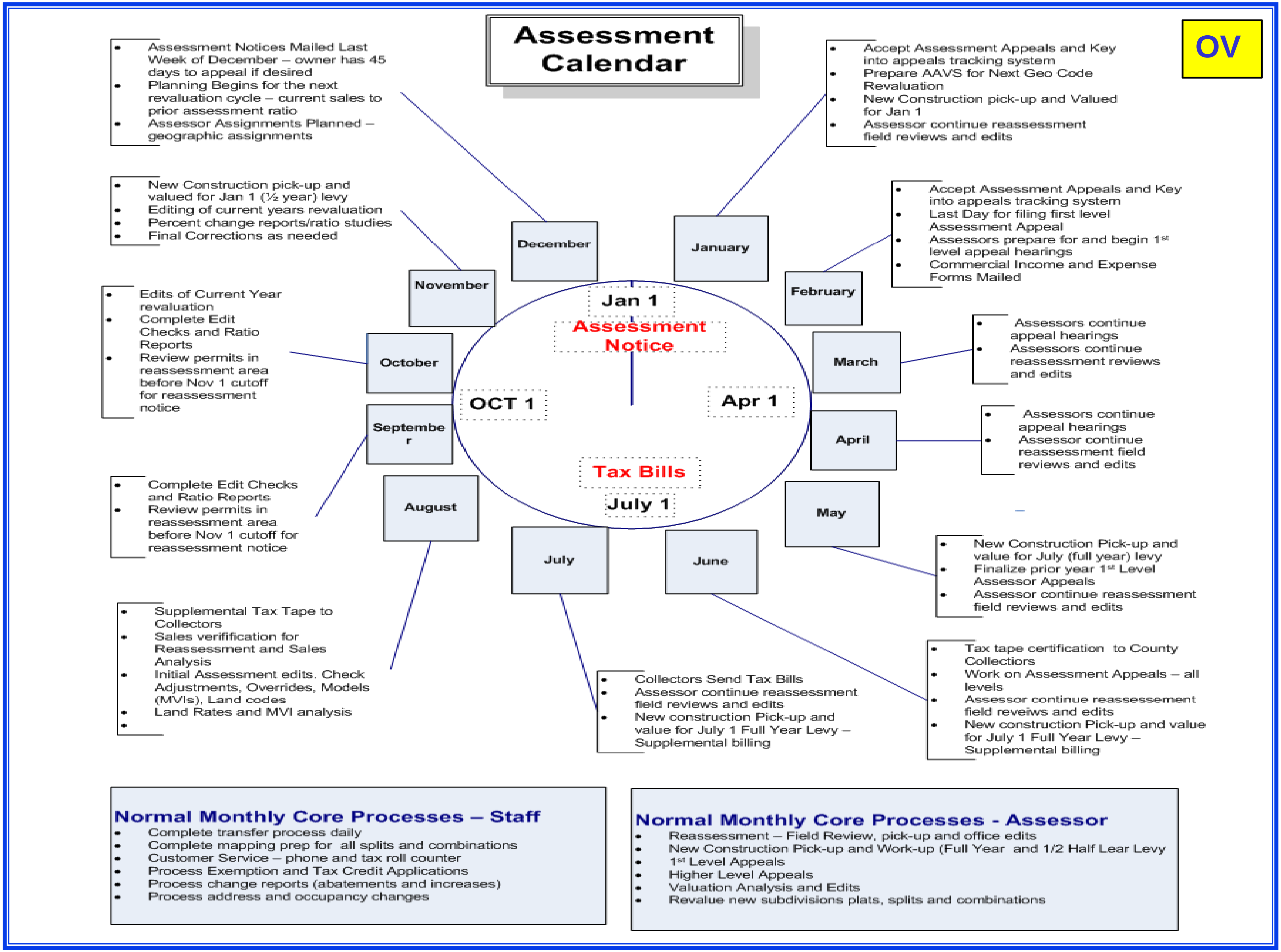
Signature ________ Title of Signer ________ Date ________

Print/Type Name of Signer ________ Phone Number ________

RP-6 (Rev.12/03 rs)

NOI – Income Cap. Work Sheet

Apartment Building								
Units	**Number**	**Monthly**	**Annual**					
1 bed 1 bath	205	1150	2,829,000					
2 bed 2 bath	183	1450	3,184,200					
3 bed 2 bath	81	1650	1,603,800					
	469		7,617,000					
	Actual		**Actual**		**Actual**			
Income	**2011**		**2012**		**2013**		**STABILIZED**	
Gross Potential	$6,755,783		$7,260,237		$7,560,401		$7,617,000	
Concessions	-$10,600		-$21,193		-$33,044		-$20,000	
Total Gross Income	$6,745,183		$7,239,044		$7,527,357		$7,616,005	
Vacancy/ Bad Debt	$719,494		$560,175		$686,605		$377,020	
	11%		**8%**		**9%**		**5%**	
Other Income	**$396,612**		$412,008		$329,224		$330,000	
Effective Gross Income	**$6,422,301**		**$7,090,877**		**$7,169,976**		**$7,568,985**	
Expenses								
								Avg
Miscellaneous Expenses	$692,062	11%	$702,506	10%	$693,120	10%	$765,731	10%
Utilities	$251,489	4%	$246,678	3%	$252,063	4%	$275,264	4%
Maintenance & Repairs	$402,662	6%	$285,114	4%	$329,149	5%	$375,453	5%
Payroll (except manager, repair)	$651,240	10%	$714,822	10%	$675,775	9%	$747,973	10%
Reserves for Replacement							$227,070	3%
Total Expenses								
	$1,997,453		$1,949,120		$1,950,107		$2,422,075	
	31%		**27%**		**27%**		**32%**	32%
Net Operating Income	**$4,424,848**		**$5,141,757**		**$5,219,869**		**$5,146,910**	
Capitalization Rate					Base Cap		7.000%	
					Effective Tax		1.062%	
					Overall Cap		8.062%	
Indicated Value as of 1/1/2014							**$63,841,600**	
Current Assessment							**$60,558,600**	



Assessment Calendar
OV
Assessment Notices Mailed Last Week of December – owner has 45 days to appeal if desired
Planning Begins for the next revaluation cycle – current sales to prior assessment ratio
Assessor Assignments Planned – geographic assignments
Accept Assessment Appeals and Key into appeals tracking system
Prepare AAVS for Next Geo Code Revaluation
New Construction pick-up and Valued for Jan 1
Assessor continue reassessment field reviews and edits
New Construction pick-up and valued for Jan 1 (½ year) levy
Editing of current years revaluation
Percent change reports/ratio studies
Final Corrections as needed
Accept Assessment Appeals and Key into appeals tracking system
Last Day for filing first level Assessment Appeal
Assessors prepare for and begin 1st level appeal hearings
Commercial Income and Expense Forms Mailed
December
January
November
February
Jan 1
Assessment Notice
Edits of Current Year revaluation
Complete Edit Checks and Ratio Reports
Review permits in reassessment area before Nov 1 cutoff for reassessment notice
October
March
Assessors continue appeal hearings
Assessors continue reassessment reviews and edits
OCT 1
Apr 1
September
April
Assessors continue appeal hearings
Assessor continue reassessment field reviews and edits
Tax Bills
July 1
Complete Edit Checks and Ratio Reports
Review permits in reassessment area before Nov 1 cutoff for reassessment notice
August
May
July
June
New Construction Pick-up and value for July (full year) levy
Finalize prior year 1st Level Assessor Appeals
Assessor continue reassessment field reviews and edits
Supplemental Tax Tape to Collectors
Sales verification for Reassessment and Sales Analysis
Initial Assessment edits. Check Adjustments, Overrides, Models (MVIs), Land codes
Land Rates and MVI analysis
Collectors Send Tax Bills
Assessor continue reassessment field reviews and edits
New construction Pick-up and value for July 1 Full Year Levy – Supplemental billing
Tax tape certification to County Collections
Work on Assessment Appeals – all levels
Assessor continue reassessement field reveiws and edits
New construction Pick-up and value for July 1 Full Year Levy – Supplemental billing
Normal Monthly Core Processes – Staff
Complete transfer process daily
Complete mapping prep for all splits and combinations
Customer Service – phone and tax roll counter
Process Exemption and Tax Credit Applications
Process change reports (abatements and increases)
Process address and occupancy changes
Normal Monthly Core Processes - Assessor
Reassessment – Field Review, pick-up and office edits
New Construction Pick-up and Work-up (Full Year and 1/2 Half Lear Levy
1st Level Appeals
Higher Level Appeals
Valuation Analysis and Edits
Revalue new subdivisions plats, splits and combinations

Assessment and Tax Calendar

January 1	Valuation date (Date of Finality) for real and business personal property
	Deadline for filing a real property petition for review appeal form
January	Business personal property returns mailed to all current businesses
	Homeowners' and Renters' tax credit applications mailed to all current recipients and prior year applicants
February 14	Constant yield tax rates established and mailed to local governments
Mid February	Deadline for appealing reassessment notices mailed the prior December (deadline date is on the notice and depends on the actual notice mailing date)
April 15	Deadline for filing business personal property returns or 60 day extension requests
May 1	Homeowners' tax credit applications received by this date will have credits reflected on property tax bills, if eligible.
June 15	Deadline for filing extended business personal property returns
June 30	Deadline for local governments to set property tax rates
July 1	Beginning of taxable year for property taxes Local governments typically mail tax bills in early July
September 1	Deadline to submit Homeowners' and Renters' tax credit applications
	Deadline to submit initial real property exemption applications for all filers other than blind persons and disabled veterans.
September 30	Deadline to pay property taxes without interest and penalty. Homeowners must pay the first installment of semiannual property taxes by this date.
Late December	Real property reassessment notices mailed to one-third of property owners in each county. Property owners have 45 days to file an appeal.
December 31	Deadline for homeowners to pay the second installment of semiannual property taxes without interest and penalty.

Assessment Offices

OV

General Organization & Staffing 24 Counties - Class A, B, & C Counties

- **CORE Processes –** more than appraisal
  - Appeals, new property pick up, sketching, subdivisions
- **Work Load – Actual vs. Desired (1/3 accounts)**
  - Actual parcel counts per assessor is 5,163
  - SDAT Desired Parcels per Field Assessor - 3,000 residential and 750 commercial per year
- **Budget*** **(**Total local assessment offices FY 15 $ 32,715,903 - see page 81)
  - SDAT assessment budget averages $12.00 - $19.00 per parcel
  - IAAO staffing study shows $22.00 to 24.00 per parcel

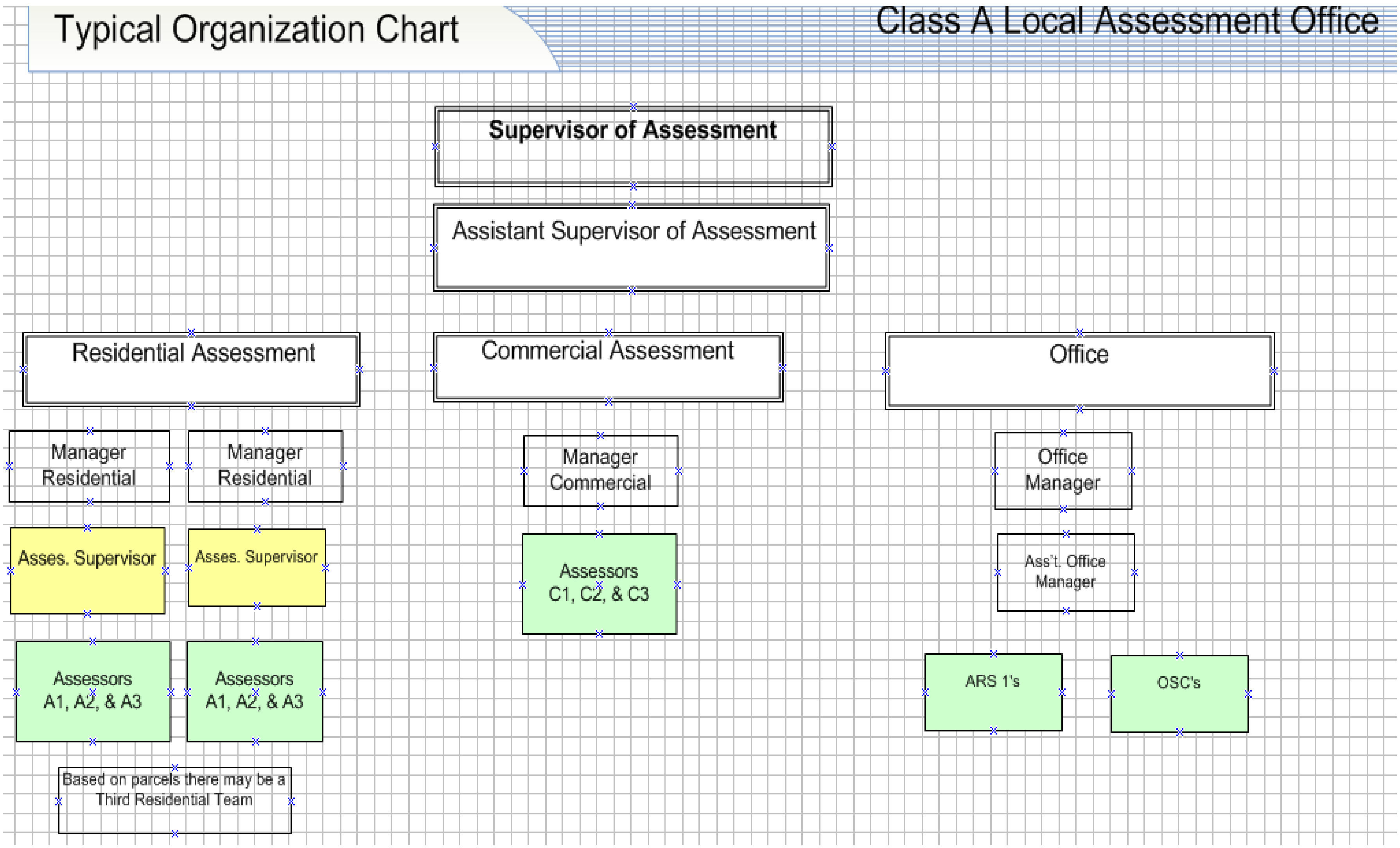
*Local Assessment Office Budgets

(FY 13 $28,817,498; FY 14 $29,855,618; FY15 $ 32,715,903)

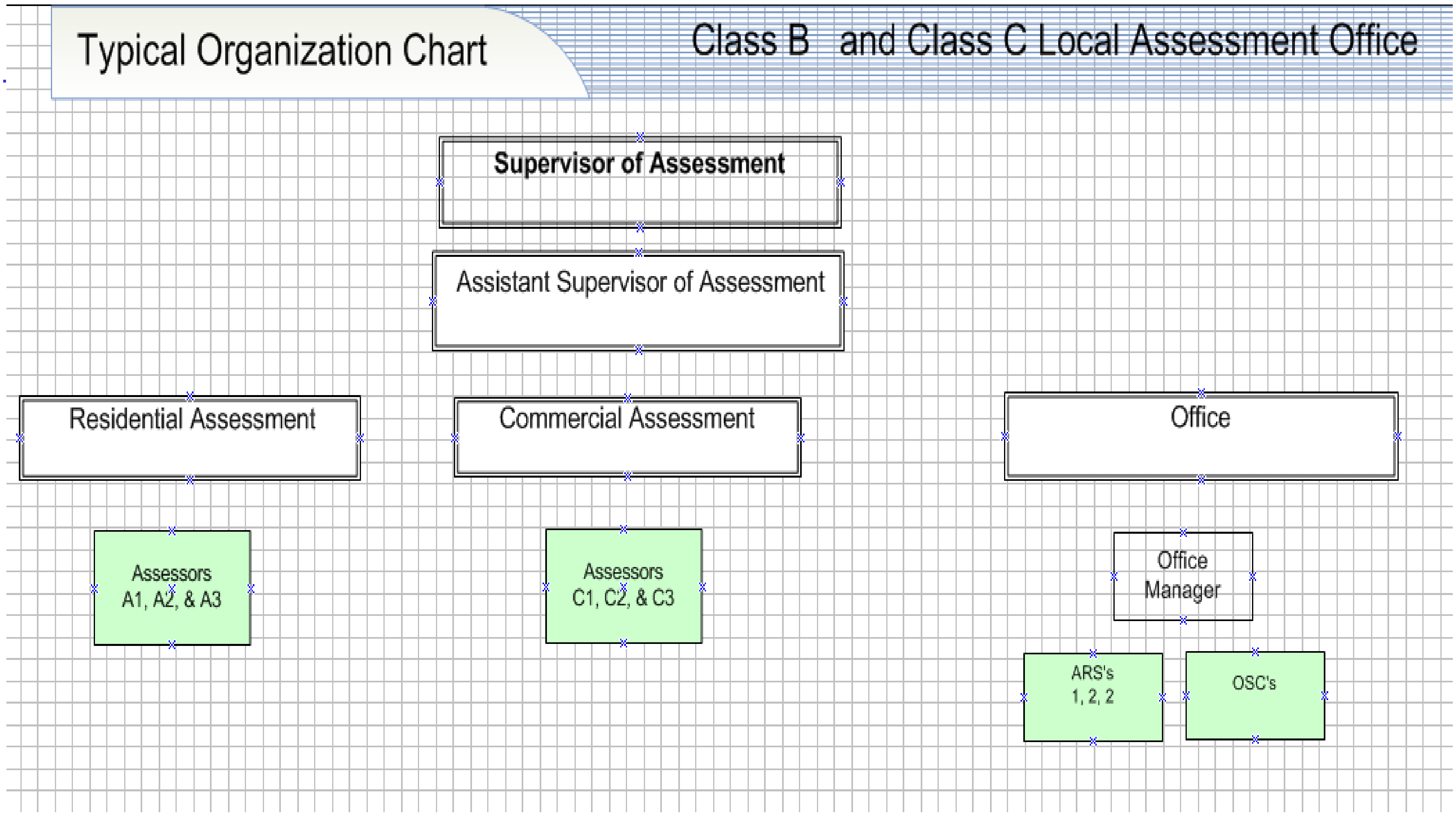
Assessment Office Organization

- 24 Local Assessment Offices – in each county seat
- Local Offices- 5 - Class A, 6 - Class B, 12 - Class C
  - Class A – 211,000 to 336,785 Parcels
  - Class B – 58,904 to 104,185 Parcels
  - Class C – 13,467 to 46,683 Parcels
- Local Offices have:
  - Supervisor of Assessments
  - Assistant Supervisor of Assessment
  - Staff of assessors and administrative staff

Typical Class A Organization



Typical Class B & C Organization



2014 - Total Parcels

Assessable Real Property Accounts Per Staffing - All Groups 7/1/2014

County Name	AGRI	GOLF	MARSH	RESIDENCE	CONDO	RES COMM	TOWN HOUSE	RES SUBTOTAL	COMM	INDUST	COMM CONDO	APT'S	COMM RES	COMM SUBTOTAL	TAXABLE	EXEMPT	TOTAL ACC'TS
Allegany	1,516	5	-	33,613	60	334	-	35,528	2,585	374	49	39	3	3,050	38,578	2,749	41,327
Anne Arundel	1,473	6	51	173,731	21,390	20	-	196,671	5,369	989	1,735	226	1,135	9,454	206,125	5,183	211,308
Baltimore City	-	-	-	193,477	12,110	22	1	205,610	8,963	2,333	584	2,188	4	14,072	219,682	17,247	236,929
Baltimore	3,981	39	1	240,936	22,028	1	1	266,987	7,865	3,190	429	2,625	863	14,972	281,959	16,559	298,518
Calvert	1,315	1	2	36,828	1,128	1	1,410	40,685	709	161	114	17	162	1,163	41,848	892	42,740
Caroline	2,659	-	14	12,115	24	15	272	15,099	712	89	-	69	57	927	16,026	708	16,734
Carroll	4,634	12	-	54,793	1,981	2	1	61,423	2,313	261	299	182	392	3,447	64,870	1,978	66,848
Cecil	2,175	-	3	37,784	937	4	2,232	43,135	1,998	205	179	112	267	2,761	45,896	1,207	47,103
Charles	2,288	3	5	48,485	434	14	9,363	60,592	1,455	353	833	66	289	2,996	63,588	1,257	64,845
Dorchester	2,364	-	237	18,133	264	1	26	21,025	905	176	-	25	7	1,113	22,138	1,033	23,171
Frederick	5,180	26	-	62,464	4,808	23	14,629	87,130	2,646	537	663	256	561	4,663	91,793	2,827	94,620
Garrett	3,032	-	-	22,886	881	-	168	26,967	1,111	20	252	38	-	1,421	28,388	1,005	29,393
Harford	3,299	-	-	82,322	7,139	10	-	92,770	2,802	347	156	205	70	3,580	96,350	1,986	98,336
Howard	1,181	-	-	79,010	14,544	3	1,854	96,592	1,733	815	1,369	133	173	4,223	100,815	3,270	104,085
Kent	1,382	-	4	10,631	280	-	-	12,297	612	4	15	22	27	680	12,977	490	13,467
Montgomery	2,034	44	1	244,555	62,408	27	2	309,071	4,267	1,439	3,244	1,631	161	10,742	319,813	16,972	336,785
Prince Georges	1,950	80	7	199,700	26,681	1	33,653	262,072	5,061	3,312	3,011	1,042	554	12,980	275,052	17,115	292,167
Queen Anne	2,223	-	16	19,512	1,523	-	21	23,295	900	26	429	37	472	1,864	25,159	670	25,829
St. Marys	2,794	-	31	39,817	893	-	1,875	45,410	1,546	82	149	166	-	1,943	47,353	1,460	48,813
Somerset	2,116	-	133	12,218	519	-	-	14,986	943	-	17	39	7	1,006	15,992	1,117	17,109
Talbot	1,812	4	10	16,860	407	-	13	19,106	1,050	68	211	83	71	1,483	20,589	591	21,180
Washington	3,313	9	-	44,745	824	66	3,313	52,270	2,538	372	86	601	235	3,832	56,102	2,802	58,904
Wicomico	3,360	8	50	35,927	1,001	1	1,183	41,530	2,442	533	291	142	135	3,543	45,073	1,610	46,683
Worcester	2,860	7	36	30,775	28,099	3	-	61,780	2,011	185	858	126	36	3,216	64,996	1,387	66,383
Total	58,941	244	601	1,751,317	210,363	548	70,017	2,092,031	62,536	15,871	14,973	10,070	5,681	109,131	2,201,162	102,115	2,303,277

2014 – SDAT Staffing & Parcels

Assessable Real Property Accounts Per Staffing - All Groups 7/1/2014

County Class	County Name	RES SUBTOTAL	COMM SUBTOTAL	TAXABLE	EXEMPT	TOTAL ACC"TS	C & I ASSESS	Total FTE	RES. ASS'OR Equilivent	Total Acc'ts Per FTE	Total Field Assessor	Total Acc'ts Field Assessor	1/3 Total Acc'ts Field Assessor	Total Res Res Act's	1/3 Per Res Assess	"Tot Com Per C& I .	"1/3 Com .Per C& I
C	Allegany	35,528	3,050	38,578	2,749	41,327	1	8	2	5,166	3	13,776	4,592	17,764	5,921	3,050	1,017
A	Anne Arundel	196,671	9,454	206,125	5,183	211,308	2	34	15.5	6,215	17.5	12,075	4,025	12,688	4,229	4,727	1,576
A	Baltimore City	205,610	14,072	219,682	17,247	236,929	5	45	19.5	5,265	24.5	9,671	3,224	10,544	3,515	2,814	938
A	Baltimore	266,987	14,972	281,959	16,559	298,518	4	43	19	6,942	23	12,979	4,326	14,052	4,684	3,743	1,248
C	Calvert	40,685	1,163	41,848	892	42,740	0.5	10.5	3	4,070	3.5	12,211	4,070	13,562	4,521	2,326	775
C	Caroline	15,099	927	16,026	708	16,734	0.5	7.5	1	2,231	1.5	11,156	3,719	15,099	5,033	1,854	618
B	Carroll	61,423	3,447	64,870	1,978	66,848	1	12	4.5	5,571	5.5	12,154	4,051	13,650	4,550	3,447	1,149
C	Cecil	43,135	2,761	45,896	1,207	47,103	1	9	3	5,234	4	11,776	3,925	14,378	4,793	2,761	920
B	Charles	60,592	2,996	63,588	1,257	64,845	0.5	12.5	6	5,188	6.5	9,976	3,325	10,099	3,366	5,992	1,997
C	Dorchester	21,025	1,113	22,138	1,033	23,171	1	6	1	3,862	2	11,586	3,862	21,025	7,008	1,113	371
B	Frederick	87,130	4,663	91,793	2,827	94,620	2	14	4	6,759	6	15,770	5,257	21,783	7,261	2,332	777
C	Garrett	26,967	1,421	28,388	1,005	29,393	1	9	2	3,266	3	9,798	3,266	13,484	4,495	1,421	474
B	Harford	92,770	3,580	96,350	1,986	98,336	2	15	5	6,556	7	14,048	4,683	18,554	6,185	1,790	597
B	Howard	96,592	4,223	100,815	3,270	104,085	2	15	6	6,939	8	13,011	4,337	16,099	5,366	2,112	704
C	Kent	12,297	680	12,977	490	13,467	0.5	5.5	1	2,449	1.5	8,978	2,993	12,297	4,099	1,360	453
A	Montgomery	309,071	10,742	319,813	16,972	336,785	5	53	25.5	6,354	30.5	11,042	3,681	12,120	4,040	2,148	716
A	Prince Georges	262,072	12,980	275,052	17,115	292,167	6	42	13.5	6,956	19.5	14,983	4,994	19,413	6,471	2,163	721
C	Queen Anne	23,295	1,864	25,159	670	25,829	1	6	1	4,305	2	12,915	4,305	23,295	7,765	1,864	621
C	St. Marys	45,410	1,943	47,353	1,460	48,813	1	10	3	4,881	4	12,203	4,068	15,137	5,046	1,943	648
C	Somerset	14,986	1,006	15,992	1,117	17,109	0.5	6.5	2	2,632	2.5	6,844	2,281	7,493	2,498	2,012	671
C	Talbot	19,106	1,483	20,589	591	21,180	0.5	7.5	2	2,824	2.5	8,472	2,824	9,553	3,184	2,966	989
B	Washington	52,270	3,832	56,102	2,802	58,904	1	11	4.5	5,355	5.5	10,710	3,570	11,616	3,872	3,832	1,277
C	Wicomico	41,530	3,543	45,073	1,610	46,683	1	8	2	5,835	3	15,561	5,187	20,765	6,922	3,543	1,181
B	Worcester	61,780	3,216	64,996	1,387	66,383	2	14	3.5	4,742	5.5	12,070	4,023	17,651	5,884	1,608	536
	Total	2,092,031	109,131	2,201,162	102,115	2,303,277	42	404	149.5	5,701	191.5					2,598	866

	Res Assess @ 3,000 per		C&I Assess @750 per
Needed	232		49
Existing Fiel	150		42
Additional	82		6.5
Total New	89		

Staffing*

- SDAT Total FTE staffing from 1976 to 1992 reduced by 18% while Total Accounts increased by 33.3 %   *** Local Assessment office staff**

- SDAT Field Assessor staff from 1990 to 2014 reduced 70% while the number of accounts increased by 25.5%   *** Local Assessment office staff**

- Current county FTE staffing is 401 with 131 personnel having more than 30 years service (32%)

- IAAO Staffing Survey conducted in 1986 and 2013

  <u>Staffing in Assessment Offices in the United States and Canada Results of 2013 Survey</u> – IAAO Research Committee and Lawrence C. Walters, PH.D. - 62 pages

Staffing – IAAO 2013 Survey

Table 16. Parcels per permanent employee by type of agency

Type of Agency	Number of Respondents	Parcels per Permanent Employee: Mean	Median	Minimum	Maximum	1986 Mean	Percentage Change 1986–2013
County	311	3,610	3,000	68	32,793	3,120	+15.7%
Municipality	217	2,488	2,302	31	8,133	2,220	+12.1%
Township	64	2,740	2,467	126	12,000	1,770	+54.8%
Public multiple	22	3,227	3,190	1,375	8,938	5,530	−42.6%
Private multiple	15	3,919	2,333	320	9,857	NA	
State/Province	14	2,873	2,867	984	5,000	NA	
Overall	643	3,123	2,692	31	32,793	2,420	+29.0%

- **2013 IAAO Staffing Study – Table 35- Frequency of Reappraisals**

Reappraisal Frequency	Respondents Number	Percent	Mean Permanent Employees per 1,000 Parcels
More than once a year	8	1.2%	N/A
Every year	147	22.7%	0.61
2-4 years	189	29.2%	0.63
5 years	105	16.2%	0.61
6-10 years	84	13.0%	0.96
> than 10 years	34	5.2%	0.29
As needed	64	9.9%	0.7
Rarely or never	17	2.6%	0.39
	648	100.0%	0.65

Staffing – IAAO 2013 Survey

- FTE Maryland vs. 2013 IAAO Study Table 35 SDAT needs 85 personnel

County Class	County	FTE	Total Parcels	Field Assessor	Mean FTE 1000 parcel	Per 1000	FTE Total Act	FTE 1/3 Total	SDAT 1/3 DELTA
C	Allegany	8	41,327	3	0.62	41.3	26	9	1
A	Anne Arundel	34	211,308	17.5	0.62	211.3	131	44	10
A	Baltimore City	45	236,929	24.5	0.62	236.9	147	49	4
A	Baltimore	43	298,518	23	0.62	298.5	185	62	19
C	Calvert	10	42,740	3	0.62	42.7	26	9	(1)
C	Caroline	7	16,734	1	0.62	16.7	10	3	(4)
B	Carroll	12	66,848	5.5	0.62	66.8	41	14	2
C	Cecil	9	47,103	4	0.62	47.1	29	10	1
B	Charles	12	64,845	6	0.62	64.8	40	13	1
C	Dorchester	6	23,171	2	0.62	23.2	14	5	(1)
B	Frederick	14	94,520	6	0.62	94.5	59	20	6
C	Garrett	9	29,393	3	0.62	29.4	18	6	(3)
B	Harford	15	98,336	7	0.62	98.3	61	20	5
B	Howard	15	104,085	8	0.62	104.1	65	22	7
C	Kent	5	13,467	1	0.62	13.5	8	3	(2)
A	Montgomery	53	336,785	30.5	0.62	336.8	209	70	17
A	Prince George's	42	292,167	19.5	0.62	292.2	181	60	18
C	Queen Anne's	6	25,829	2	0.62	25.8	16	5	(1)
C	St. Mary's	10	48,813	4	0.62	48.8	30	10	0
C	Somerset	6	17,109	2	0.62	17.1	11	4	(2)
C	Talbot	7	21,180	2	0.62	21.2	13	4	(3)
B	Washington	11	58,904	5.5	0.62	58.9	37	12	1
C	Wicomico	8	46,683	3	0.62	46.7	29	10	2
B	Worcester	14	66,383	5.5	0.62	66.4	41	14	(0)
	Total	401	2,303,177	188.5	0.62	2303.2	1428	476	75

* 75 plus 17 because of small offices need staff to complete Succession Plans and Daily Functions

Assessment Budget

Pages 179-181

Budget Analysis

FY 2015 Budget**

County Class	County	General Funds	Special Funds	Total	FTE	Total Parcels	Field Assessor	2015 Budget per FTE	Per Parcel	Per Field
C	Allegany	374,632	374,633	749,265	8	41,327	3	93,658	18.13	249,755
A	Anne Arundel	1,170,355	1,170,356	2,340,711	34	211,308	17.5	68,844	11.08	133,755
A	Baltimore City	2,090,459	2,090,459	4,180,918	45	236,929	24.5	92,909	17.65	170,650
A	Baltimore	1,701,024	1,701,025	3,402,049	43	298,518	23	79,117	11.40	147,915
C	Calvert	320,212	320,212	640,424	10	42,740	3	64,042	14.98	213,475
C	Caroline	261,136	261,137	522,273	7	16,734	1	74,610	31.21	522,273
B	Carroll	522,252	522,252	1,044,504	12	66,848	5.5	87,042	15.63	189,910
C	Cecil	362,796	362,797	725,593	9	47,103	4	80,621	15.40	181,398
B	Charles	430,044	430,044	860,088	12	64,845	6	71,674	13.26	143,348
C	Dorchester	236,780	236,781	473,561	6	23,171	2	78,927	20.44	236,781
B	Frederick	615,102	615,103	1,230,205	14	94,520	6	87,872	13.02	205,034
C	Garrett	365,178	365,178	730,356	9	29,393	3	81,151	24.85	243,452
B	Harford	578,397	578,398	1,156,795	15	98,336	7	77,120	11.76	165,256
B	Howard	611,104	611,105	1,222,209	15	104,085	8	81,481	11.74	152,776
C	Kent	202,721	202,722	405,443	5	13,467	1	81,089	30.11	405,443
A	Montgomery	2,149,258	2,149,258	4,298,516	53	336,785	30.5	81,104	12.76	140,935
A	Prince George's	1,714,332	1,714,332	3,428,664	42	292,167	19.5	81,635	11.74	175,829
C	Queen Anne's	287,612	287,613	575,225	6	25,829	2	95,871	22.27	287,613
C	St. Mary's	472,961	472,961	945,922	10	48,813	4	94,592	19.38	236,481
C	Somerset	223,530	223,531	447,061	6	17,109	2	74,510	26.13	223,531
C	Talbot	293,725	293,725	587,450	7	21,180	2	83,921	27.74	293,725
B	Washington	474,542	474,543	949,085	11	58,904	5.5	86,280	16.11	172,561
C	Wicomico	351,075	351,076	702,151	8	46,683	3	87,769	15.04	234,050
B	Worcester	548,717	548,718	1,097,435	14	66,383	5.5	78,388	16.53	199,534
	Total	16,357,944	16,357,959	32,715,903	401	2,303,177	188.5	1,964,229	428.35	5,325,478
	*FY 2013 Actual Expenditures allocated 10% GF/90% SF						Mean	81,842.87	17.85	221,895
	** FY 2014 and FY 2015 allocated 50% GF/50% SF - Actuals are preliminary as of 7/						Mean Total	81,585.79	14.20	173,559

Assessment Budget

- Maryland Class A Median Budget per parcel $ 11.74
- Maryland Class B Median Budget per parcel $ 13.26
- Maryland Class C Median Budget per parcel $ 21.35

IAAO Staffing Study 2013 – Budget Per Parcel

	Mean	Median
• County	$ 26.38	$ 21.85
• Municipality	$ 30.79	$ 28.02
• State Provence	$ 24.04	$ 21.00

Maryland Assessor's

Maryland Assessor 3 Salary

Salary over 6 years $40,547 to $45,194

Average Salary	$43,500
Fringe Benefits (Dept./ Leg. Ser.) **27.35 %**	11,897
Total	$55,397

Assessor Fiscal Analysis		
Additional Assessors @	55,397	'($43,500 plus 27.35% fringe)
10	553,970	
20	1,107,940	
30	1,661,910	
40	2,215,880	
50	2,769,850	
60	3,323,820	

* Does not include training costs

Representative Data

- **Market Areas and Neighborhoods (geographic stratification) SDAT statewide:**

Market Areas	Neighborhoods	Parcels
1,250	15,722	2,275,062

- **Total Parcel Transfers (arms length/non-arms length**

2012	2013	2014 (7 months)
141,501	160,378	80,902

- **Estimated annual arms length residential sales (all groups statewide)** – 50,000
- **Annual Owner-Occupied residential sales –** 35,000 to 40,000
- **Annual Estimated arms length commercial/industrial sales -** 900

Property Sketches - Overview

- With 61 % of statewide sketches converted to digital format, there are 650,800 remaining to be converted (39%)
- Remaining conversion could take several courses
- For remaining 650,000

➢ Scan image of record cards -link images to AAVS – convert to digital over several years

➢ Project to convert all to digital by Revaluation Geo code – in-house or vendor (vendor would need image of sketch)

Property Sketches - Status

APRIL 2014	Residential Sketches Possible	Residential Sketches Complete	Residential Sketches % Complete
Allegany	26,522	26,472	100%
AA Co	168,274	63,910	38%
Baltimore	139,088	75,619	54%
Baltimore Co	230,056	103,936	45%
Calvert	32,130	31,944	99%
Caroline	11,734	11,678	100%
Carroll	55,283	34,402	62%
Cecil	34,075	33,539	98%
Charles	50,682	29,753	59%
Dorcester	13,630	13,590	100%
Frederick	75,826	75,035	99%
Garrett	16,292	16,234	100%
Harford	78,971	12,287	16%
Howard	82,312	34,539	42%
Kent	8,954	8,713	97%
Montg Co	236,974	50,521	21%
PG Co	214,145	208,293	97%
QA Co	19,574	18,877	96%
St. Mary's	36,375	34,956	96%
Somerset	8,918	8,852	99%
Talbot	17,197	16,873	98%
Wash Co	47,586	47,343	99%
Wicomico	32,430	32,343	100%
Worcester	27,280	23,797	87%
	1,664,308	1,013,506	61%

Property Sketches - Overview

- Needed to quickly and accurately verify if building sections and sizes are correct
- Historically, sketch was on paper record.
- CAMA in 1990 did not have sketch routine
- In mid late 1990’s, Apex sketch software was added and a digital sketch conversion project began.
- Preceding Chart is the status of digital sketch conversion
- Sketches are a combination of digital (in AAVS) and manual paper sketches on old property record cards

Property Sketches - Considerations

- For an extremely large or complex new property, it might a day to pick up one
  - ➢ Montgomery County – in last 42 months has averaged over 230 per month new property permits > $100,000. If we estimate that there are only 30 permits extremely large or complex completely new properties – it would equal to one assessor per month to do those 30 properties with other assessor's having to pick up the other 200 accounts.
  - ➢ Montgomery County - currently has 11 are new residential assessors filling vacancy's from retirements and hiring freezes

Staffing – Core Processes

- There are certain core processes that assessors must complete annually besides field inspection in the general reassessment
- Work production studies can be developed for any work segment of the years work – each staff member is only available for work a certain number of days a year.
- Total work days would typically be about 200 days per year after weekends, holidays, sick days, vacation days, training days are deducted from 365 days per year

CORE Processes – Assessor Staff

- Supervisors – each year plan for revaluation cycle, make assessor assignments, review exempt accounts, prepare AAVS for next revaluation, etc. – See 12 steps in a revaluation pages
- Assessors - Inspect and verify property sales information for each area being appraised and conduct market research
- Assessors Re-appraise each triennial group once every three years – conduct market analysis, field inspections, and valuation analysis (sales analysis, MVIs and edits).
- Revalue new subdivision plats, splits and combinations

CORE Processes – Assessor Staff

- Complete and review ratio reports, make final edit checks and percent change edit reports
- Pick-up New Buildings and Major Renovations (over $100,000 in cost) at least twice a year (Full year and Half Year Levy and quarter year levy where applicable) – conduct field inspections and value
- Conduct 1st Level assessment appeals
- Conduct 2nd Level assessment appeals
- Conduct 3nd Level assessment appeals

CORE Processes – Admin. Staff

- Daily complete all real property transfers and enter on the tax roll in the AAVS system – sales data and owner information
- Complete mapping prep for all splits and combinations and Subdivision Plats
- Customer Service – phone and tax roll counter
- Process change reports (abatements and increases)
- Process address and occupancy changes

Work Production

- Staffing production reports allow management to estimate staff requirements
- CORE processes must be completed daily as required
- After CORE processes are complete, the assessors can focus on the step in the reappraisal process for the current assessment year
- Supervisors of Assessment can calculate the number of Rating Days for each assessor function

Calculator for Rating Days

Calculator for Number of Rating Days-

Task Name			
		Ass days per yr	Ass Needed
Total Rating Days	205	205	1.00

Team	Task	Number	Difficulty factor enter + or - %	Est Accts per day	Standard Accts per Day	Rating Days
Residential	FLD REV-Scheduled			8	8	205
Residential	FLD REV-Unscheduled			16	16	0
Residential	IMP SUB-Reassessment			60	60	0
Residential	IMP ATT-Reassessment			100	100	0
Residential	IMP REG-Reassessement			40	40	0
Residential	VACANT-Reassessment			200	200	0
Residential	AG-Reassessment			25	25	0
Residential	WF-Reassessment (Add)			100	100	0
Residential	X HSES-(Add)			100	100	0
Residential	EDITS			100	100	0
Residential	SF Edits and Sketches (Combined)			30	30	0
Residential	SF SKETCH			45	45	0
Residential	Att Edits and Sketches (Combined)			45	45	0
Residential	ATT SKETCH			60	60	0
Residential	VALUATION			350	350	0
Residential	NC PU			12.5	12.5	0
Residential	NC WU inc sketch			12.5	12.5	0
Residential	NC PU ATT			20	20	0
Residential	NC WU ATT inc sketch			20	20	0
Residential	MTC WU			1	1	0
Residential	MTC HLD			4	4	0
Residential	PTAAB WU			5	5	0
Residential	PTAAB HLD			20	20	0
Residential	HEAR HLD			15	15	0
Residential	DECISION inc sketch			15	15	0

Calculator for Rating Days

33	Commercial	IMP ATT-Reassessment			100	100	0
34	Commercial	IMP REG-Reassessment			25	25	0
35	Commercial	VACANT-Reassessment			200	200	0
36	Commercial	X HSES-(Add)			100	100	0
37	Commercial	EDITS			25	25	0
38	Commercial	SF SKETCH			30	30	0
39	Commercial	VAULATION			40	40	0
40	Commercial	NC PU			4	4	0
41	Commercial	NC WU			4	4	0
42	Commercial	MTC WU			0.3	0.33	0
43	Commercial	MTC HLD			2	2	0
44	Commercial	PTAAB WU			3	3	0
45	Commercial	PTAAB HLD			10	10	0
46	Commercial	FLD REV			6.7	6.67	0
47	Commercial	HEAR HLD			10	10	0
48	Commercial	DECISION			6.7	6.67	0
49							0

Work Day Calculation		
Week days (5x52wks)		260
Non production days		
Annual Leave (Avg)	13	
Personal Leave	6	
Sick used (Avg)	10	
Holidays & Furlough	15	
Confer, Training &Semin, Weather , LAW, Jury duty, othe	11	
Total non production days		55
Remaing work days		205
From leave reports res assessor 1,2 and3		

CORE Process & Field Review

Essentially after assessor CORE days are completed, the remaining days are for re-assessment field inspection

The field inspection during each re-assessment includes:

- observing the market areas and neighborhood in detail
- sales verification
- review all properties for characteristics changes, and
- the measurement and recording of changes in relevant characteristics

Re-Assessment Field Review

Work Production Estimate Analysis

Assumptions: Suburban Jurisdiction
200,000 parcels
9 Assessors

TOTAL WORK DAYS 9 ASSESSORS*	1,845	100%
Less CORE work days	1,024	56%
REMAINING days for REASS	821	44%

* 9 assessors x 205 work days = 1845 days

Annual Major Tasks	Days	Percent of Total Work Days
Re- assessment field review & office edits	821	44%
New construction pick-up and valuaton	349	19%
1st level appeals	266	14%
2nd and 3rd level appeals	219	12%
Reassessment Valuation and edits	190	10%
	1,845	100%

Re-Assessment Field Review

Assume:

- 1/3 of 200,000 parcels valued annually or 66,666 parcels
- REMAINING Days for Reassessment are 821 days and 9 assessors, there are 91 assessor days for re assessment field review and edit.
- Average reassessment field review and pick up of changes is 45 accounts per day, 1 assessor's could review 4,100 parcels and 9 assessors would complete 36,900 of a total of 66,700. Thus, about 55% of properties could be reviewed.
- Rural Counties or counties with more complex properties would take longer to field and office review as the distance between properties or the complexity of the property increases.

Planning the Reappraisal - 12 Steps

1. Performance Analysis – ratio study – current sale to prior assessment.
2. Reappraisal Decision
3. Analysis of Available and Required Resources
4. Planning and Organization
5. System Acquisition or Development

Planning the Reappraisal - 12 Steps

6. Pilot Study
7. Data Collection
8. Valuation
9. Performance analysis (ratio study) and edits
10. Mail Assessment Notices
11. Value Defense
12. Final Ratio Study

Assessment Appeal

Pages 182-184

- The assessment appeal process is available to allow property owners the opportunity to dispute the value determined by the department, if they feel the value is wrong.
- Appeals may be filed on three occasions:
  1. When an assessment notice is received (reassessment)
  2. Out of cycle review – file a petition for review (in the two years when the property is not valued)
  3. Upon Purchase (When a property is transferred between Jan. 1 and July 1

Assessment Appeals

- 1st Level – supervisor - informal
- 2nd Level – PTAAB – informal independent board
- 3rd Level – Md. Tax Court – more formal
- 4th Level – Circuit Court – county where property is located.
- 5th Level – Court of Special Appeals
- 6th Level – Court of Appeals

1st Level Appeals – Statewide Summary

Statewide First Level Assessment Appeals FY 2011 to 2014

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % Notice	Field Res Ass	Filed C&I *	AppealPer DAY Res	Appeal Per DAY C&I	Appeal DAY Res	Appeal DAYs C&I
2011	81	740,128	23,029	8,907	31,936	15,404	3,273	18,677	50,613	38,433	12,180	4.3%	124	39	15	10	21	31
2012	82	737,387	21,472	8,730	30,202	10,907	3,942	14,849	45,051	32,379	12,672	4.1%	124	39	15	10	17	32
2013	80	678,666	12,718	5,936	18,654	8,204	2,812	11,016	29,670	20,922	8,748	2.7%	124	39	15	10	11	22
2014	81		16,345	9,399	25,744	4,638	3,462	8,100	33,844	20,983	12,861		124	39	15	10	11	33

- Appeals vary by county by year and type (Res. & C&I)
- Appeals impact workload each year
- Statewide Res and C& I averages mask actual impact by county
- Note typical days to hearings from statewide to big 5 counties on the following pages

1st Level Appeals Summary –

Anne Arundel and Baltimore City

Anne Arundel		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	74,910	990	1,142	2,132	866	382	1,248	3,380	1,856	1,524	2.8%	14	2	15	10	9	76
2012	82	61,953	1,578	714	2,292	383	387	770	3,062	1,961	1,101	3.7%	14	2	15	10	9	55
2013	80	59,769	672	421	1,093	413	371	784	1,877	1,085	792	1.8%	14	2	15	10	5	40
2014	81	-	806	1,589	2,395	219	262	481	2,876	1,025	1,851		14	2	15	10	5	93

Baltimore City		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	74,910	4,817	1,085	5,902	2,185	525	2,710	8,612	7,002	1,610	7.9%	18	5	15	10	26	32
2012	82	61,953	7,036	1,009	8,045	2,583	344	2,927	10,972	9,619	1,353	13.0%	18	5	15	10	36	27
2013	80	59,769	3,628	1,068	4,696	2,408	175	2,583	7,279	6,036	1,243	7.9%	18	5	15	10	22	25
2014	81	-	5,570	1,174	6,744	379	492	871	7,615	5,949	1,666		18	5	15	10	22	33

1st Level Appeals Summary –

Baltimore Co. And Montgomery

Baltimore Co — **First Level Assessment Appeals FY 2011 to 2014**

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % of Notice	Field Res Ass	Filed C&I *	Appeal DAYs Res	Appeal DAYs C&I	Appeal DAYs Res	Appeal DAYs C&I
2011	81	90,876	2,610	1,790	4,400	1,434	440	1,874	6,274	4,044	2,230	4.8%	17	4	15	10	16	56
2012	82	98,931	3,309	1,844	5,153	1,102	559	1,661	6,814	4,411	2,403	5.2%	17	4	15	10	17	60
2013	80	86,745	834	1,235	2,069	959	377	1,336	3,405	1,793	1,612	2.4%	17	4	15	10	7	40
2014	81		1,393	1,726	3,119	379	492	871	3,990	1,772	2,218		17	4	15	10	7	55

Montgomery — **First Level Assessment Appeals FY 2011 to 2014**

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % of Notice	Field Res Ass	Filed C&I *	Appeal DAYs Res	Appeal DAYs C&I	Appeal DAYs Res	Appeal DAYs C&I
2011	81	91,923	2,359	1,118	3,477	1,804	587	2,391	5,868	4,163	1,705	3.8%	24	6	15	10	12	28
2012	82	118,485	3,020	1,962	4,982	789	612	1,401	6,383	3,809	2,574	4.2%	24	6	15	10	11	43
2013	80	102,446	1,609	630	2,239	507	347	854	3,093	2,116	977	2.2%	24	6	15	10	6	16
2014	81		1,750	1,333	3,083	285	568	853	3,936	2,035	1,901		24	6	15	10	6	32

1st Level Appeals Summary – Prince Georges

Princes Georges		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	112,287	5,141	1,859	7,000	3,903	285	4,188	11,188	9,044	2,144	6.2%	11	6	15	10	55	36
2012	82	84,612	1,728	1,126	2,854	2,616	1,230	3,846	6,700	4,344	2,356	3.4%	11	6	15	10	26	39
2013	80	77,606	1,086	963	2,049	1,354	816	2,170	4,219	2,440	1,779	2.6%	11	6	15	10	15	30
2014	81		1,982	1,439	3,421	568	1,063	1,631	5,052	2,550	2,502		11	6	15	10	15	42

County Samples

In order to conduct an objective analysis regarding the correctness of current building characteristics a random sample of properties have been reviewed.

Reviews were conducted in the following jurisdictions:

- Allegany
- Baltimore City
- Harford
- Howard
- St. Mary's
- Worcester

IAAO Mass Appraisal Standard

There is a Mass Appraisal Standard

Pages 187-197

3.3.4 Maintaining Property Characteristic Data

Summary

- Property characteristics data should be continually updated in response to changes brought about by new construction, new parcels, remodeling, demolition, and destruction.

- There are several ways of updating data.
  - Building permits
  - Aerial photography
  - Multiple listing sources
  - Periodic field inspections

- Periodic Field Inspections should be conducted at least every 4 to 6 years.

IAAO 2013 Staffing Study

Selected Information from 2013 IAAO Staffing Study

IAAO 2013 Staffing Study

Table 4. Number of parcels by type of agency

Type of Agency	Respondents	Number of Parcels			
		Mean	Median	Minimum	Maximum
County	311	74,200	25,000	745	1,800,000
Municipality	217	14,843	7,100	753	197,000
Township	64	8,640	5,922	504	39,360
Public multiple	22	67,425	16,611	2,722	908,073
Private multiple	15	25,418	12,267	1,080	101,000
State/Province	14	285,859	27,914	3,462	2,282,385
Overall	643	50,882	13,600	504	2,282,385

Table 11. Number of full-time employees by type of agency

Type of Agency	Number of Respondents	Number of Full-time Employees			
		Mean	Median	Minimum	Maximum
County	311	22.2	7	1	623
Municipality	217	5.8	3	1	84
Township	64	2.8	2	1	11
Public multiple	22	17.2	4	1	200
Private multiple	15	5.2	5	1	11
State/Province	14	68.9	10	1	576
Overall	643	15.2	5	1	623

IAAO 2013 Staffing Study

Table 18. Total budget per permanent employee

Type of Agency	Number of Respondents	Total Budget per Permanent Employee			
		Mean	Median	Minimum	Maximum
County	301	$77,721	$70,453	$819	$851,813
Municipality	219	$73,068	$70,284	$600	$793,569
Township	75	$57,156	$56,000	$760	$206,583
Public multiple	25	$74,350	$70,000	$21,667	$213,000
Private multiple	15	$58,627	$37,000	$3,453	$164,450
State/Province	13	$72,864	$68,330	$1,267	$229,488
Overall	648	$73,099	$68,886	$600	$851,813

Table 19. Total budget per parcel

Type of Agency	Number of Respondents	Total Budget per Parcel			
		Mean	Median	Minimum	Maximum
County	302	$26.38	$21.85	$2.72	$329.29
Municipality	223	$30.79	$28.02	$1.05	$328.67
Township	80	$23.71	$20.26	$1.55	$68.70
Public multiple	26	$20.91	$17.35	$9.17	$46.30
Private multiple	17	$12.53	$12.00	$3.20	$26.69
State/Province	13	$24.05	$21.02	$1.10	$56.91
Overall	661	$26.93	$23.23	$1.05	$329.29

IAAO 2013 Staffing Study

Table 20. Total salaries and benefits per employee*

Type of Agency	Number of Respondents	Total Salaries and Benefits per Employee			
		Mean	Median	Minimum	Maximum
County	214	$52,589	$50,091	$0	$185,283
Municipality	163	$49,270	$49,890	$0	$194,828
Township	59	$43,525	$37,717	$0	$150,000
Public multiple	18	$55,908	$55,785	$15,000	$99,720
Private multiple	7	$64,310	$39,500	$0	$282,500
State/Province	5	$48,812	$56,092	$9,750	$80,396
Overall	466	$50,544	$49,268	$0	$282,500

**Includes permanent and temporary employees.*

IAAO 2013 Staffing Study

Agency Technology

Use in Assessment Process

One area that has changed radically since the 1986 survey is the use of technology in the assessment process. The following list summarizes some of the technology often available to assessors:

- 88.6 percent use aerial imagery
- 83.4 percent use geographic information systems (GIS)
- 72.6 percent have digital property sketches
- 40.7 percent use oblique photography
- 32.9 percent have their own office library.

There are specific pieces of equipment often employed in the field by assessment staff. Table 27 reports the percentage of

IAAO 2013 Staffing Study

Table 27. Equipment used in the field for data collection and recordation

Equipment Type	Field Use (Respondents = 663)
Photographic equipment	93.51%
Video equipment	2.11%
Laptop/notebook	32.28%
Electronic distance measuring device (EDM)	20.51%
Tablet	13.73%
Digital pen	1.51%
GPS unit	12.52%
Cell phone	41.33%
Remote electronic data entry device	3.62%
Audio recorders	2.71%
Real-time remote access to assessment data	7.39%
Other[a]	16.14%

[a]Most common "other" response was a tape measure.

IAAO 2013 Staffing Study

Table 29. Relative availability of technologies

Technology Classification	Technology	Agency Use
Most common	Aerial imagery used by agency	88.6%
	GIS used by agency	83.4%
	Digital property sketches	72.6%
Less common	Cell phones used in field inspections	41.3%
	Oblique photography used by agency	40.7%
	Agency has its own office library	32.9%
	Laptop/notebook used in field inspections	32.3%
Least common	Electronic distance measuring device used in field inspections	20.5%
	Tablet used in field inspections	13.7%
	GPS unit used in field inspections	12.5%
	Real-time remote access to assessment data used in field inspections	7.4%
	Photographic equipment used in field inspections	6.5%
	Remote electronic data entry device used in field inspections	3.6%
	Audio recorders used in field inspections	2.7%
	Video equipment used in field inspections	2.1%
	Digital pen used in field inspections	1.5%

IAAO 2013 Staffing Study

Table 31. Technology by type of agency (respondents = 683)

Type of Agency	Mean Technology Index Score	Technologies Available		
		Most Common[a] (Maximum = 3)	Less Common[b] (Maximum = 4)	Least Common[c] (Maximum = 9)
County	10.10	2.62	1.64	1.69
City	8.22	2.31	1.20	1.36
Township	7.27	2.09	1.05	1.27
Public multiple	10.38	2.41	1.93	1.90
Private multiple	9.00	2.33	1.90	1.71
State/Province	7.82	2.27	1.27	1.18

[a] *GIS, aerial imagery, and digital property sketches*

[b] *Oblique photography, office library, cell phone, laptop/notebook*

[c] *Photographic equipment, audio recorders, digital pen, real-time remote access to assessment data, remote electronic data entry device, tablet, video equipment, EDM device, GPS unit*

Field Inspection and Technology

1. Physical Field Inspection only
2. Ortho-photography review and change detection
3. Oblique-photography with LIDAR
4. Street View Images
5. Field Verification Services - Geo Code street view images and/or oblique-images or ortho-images maps, and property characteristics
6. To be most efficient in property characteristic review – aerial photography must be linked to each account in the valuation system or a subset of the system.

Field Inspection and Technology

The technology that would be best for assessor remote verification of property characteristics is oblique aerial photography linked to the valuation system. This is because this technology is the only one that would not require on slte inspection to verify property sections and dimensions.

The advantages and disadvantages of the various technological alternatives are:

Street view images

Advantage - view exterior of property to identify style, grade, and condition of the property

Disadvantage – cannot see the whole property, can only view from the property front, cannot view property in relation to surroundings, cannot view if vegetation or trees are in the way, and cannot view improvements unless it is near the street**.**

Field Inspection and Technology

Ortho images

Advantage - can view the foot print of the building directly and determine if large additions have been made

Disadvantage – difficult to view property is much higher than oblique imagery, can only see property from above and cannot measure exterior wall length without adjusting (guessing) for roof eves, cannot view if leaf cover is on, cannot judge exterior condition of improvements, difficult to measure small additions porches, pools, decking, and on commercial properties verifying paving, walks, or verifying exterior lighting

Oblique images

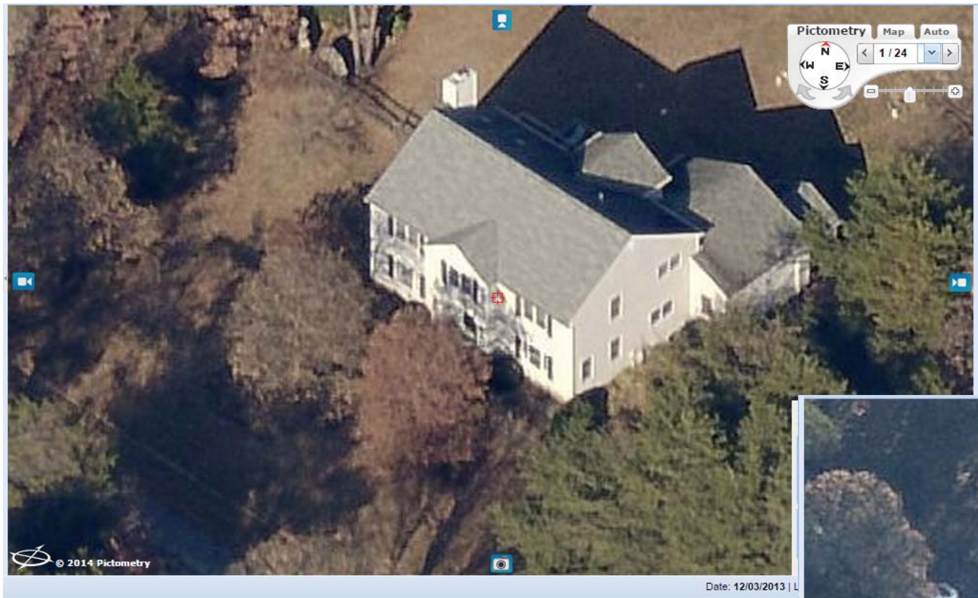
Advantage – can view property the best from oblique images, can view improvements directly from each side (four sides from a 40 degree angle view), can measure improvements on the exterior wall (not having to adjust for roof eves), can view property in relation to adjoining properties identifying fences, possible encroachments, and judging a property in relation to adjoining properties, can easily identify if additions have been made, can judge exterior condition, can measure changes

Disadvantage – if flown with leaf cover cannot view property accurately

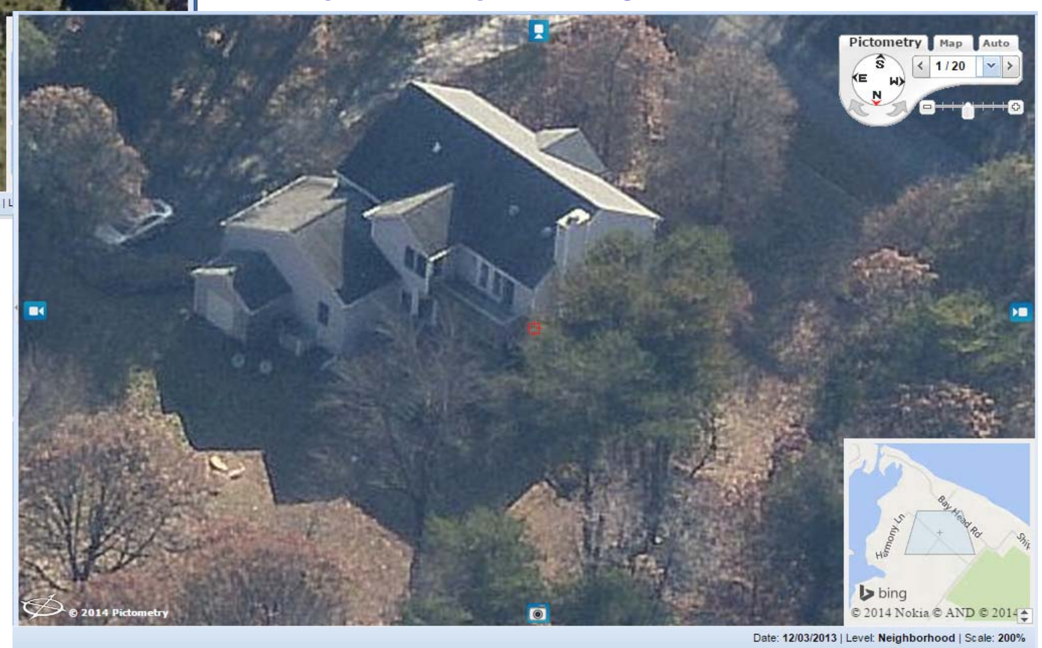
Field Inspection and Technology

Oblique images – Views from each of the four cardinal directions (see two below)

Oblique image (slanting or side-looking) (Dec, 2013) – looking from South to North

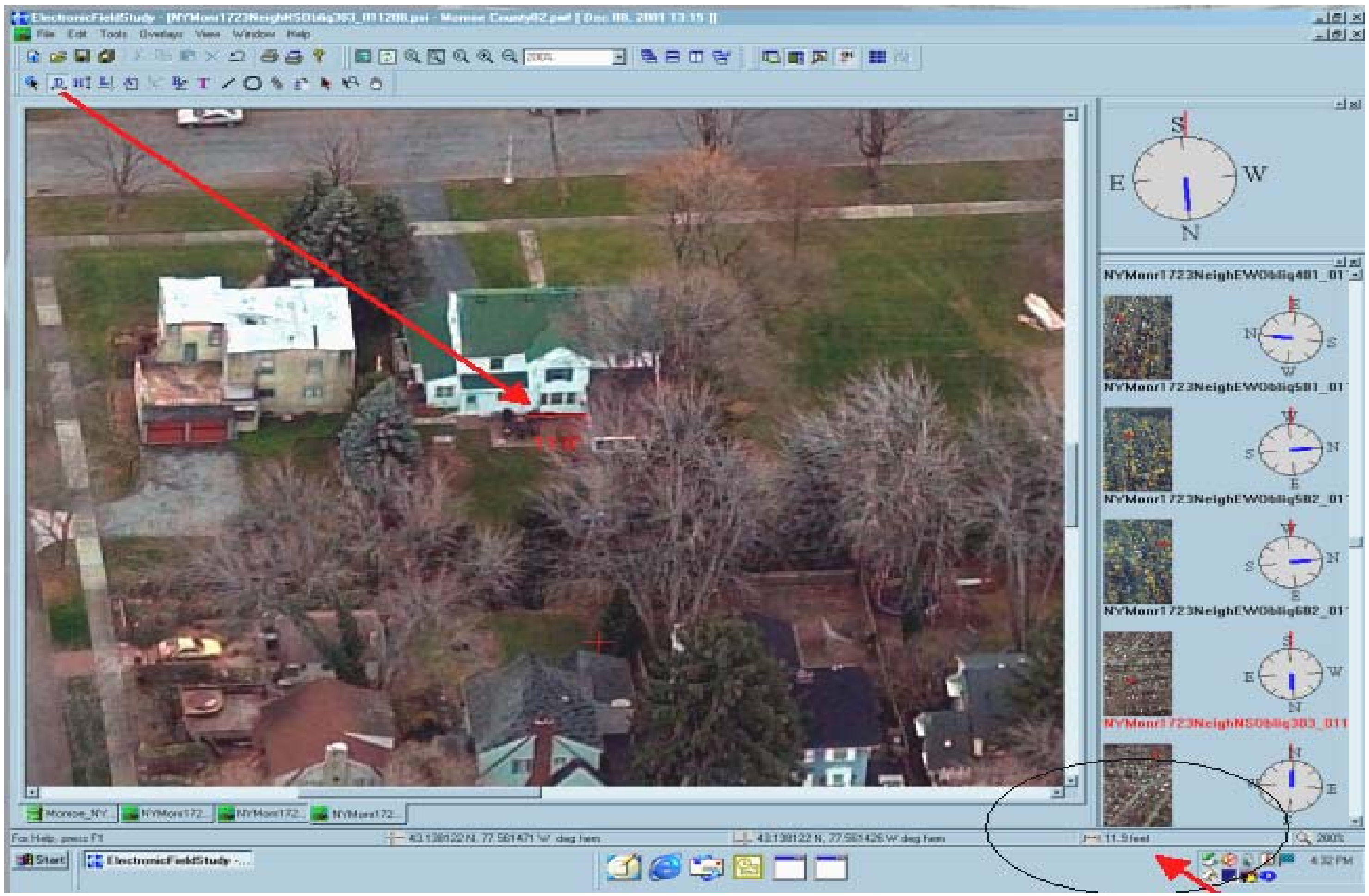


(Dec, 2013) – looking from South to North



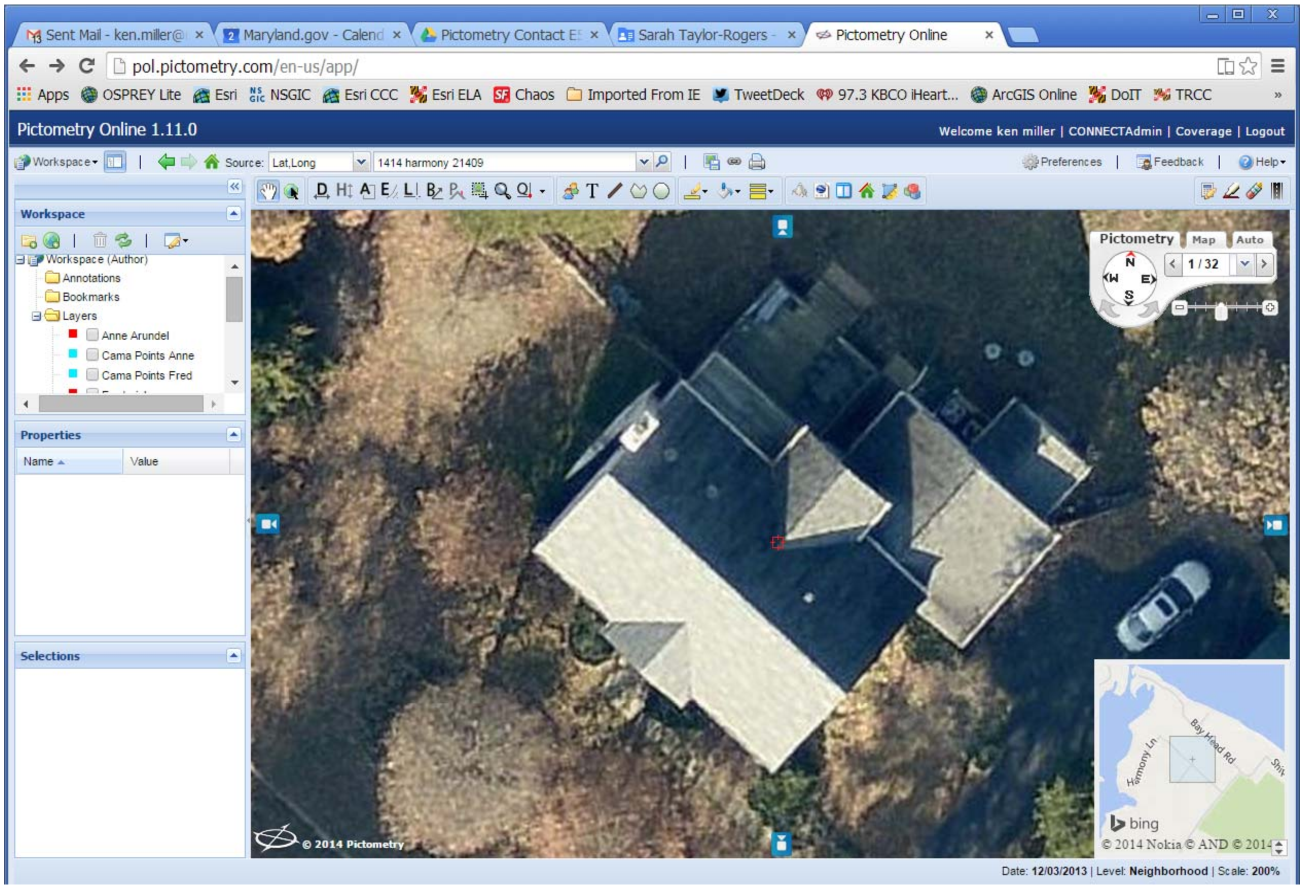
Field Inspection and Technology

Oblique images – use of measuring tool with oblique aerial photography



Field Inspection and Technology

Ortho images – only looks straight down – cannot accurately measure because of overhangs and cannot get an oblique view from each side of the property

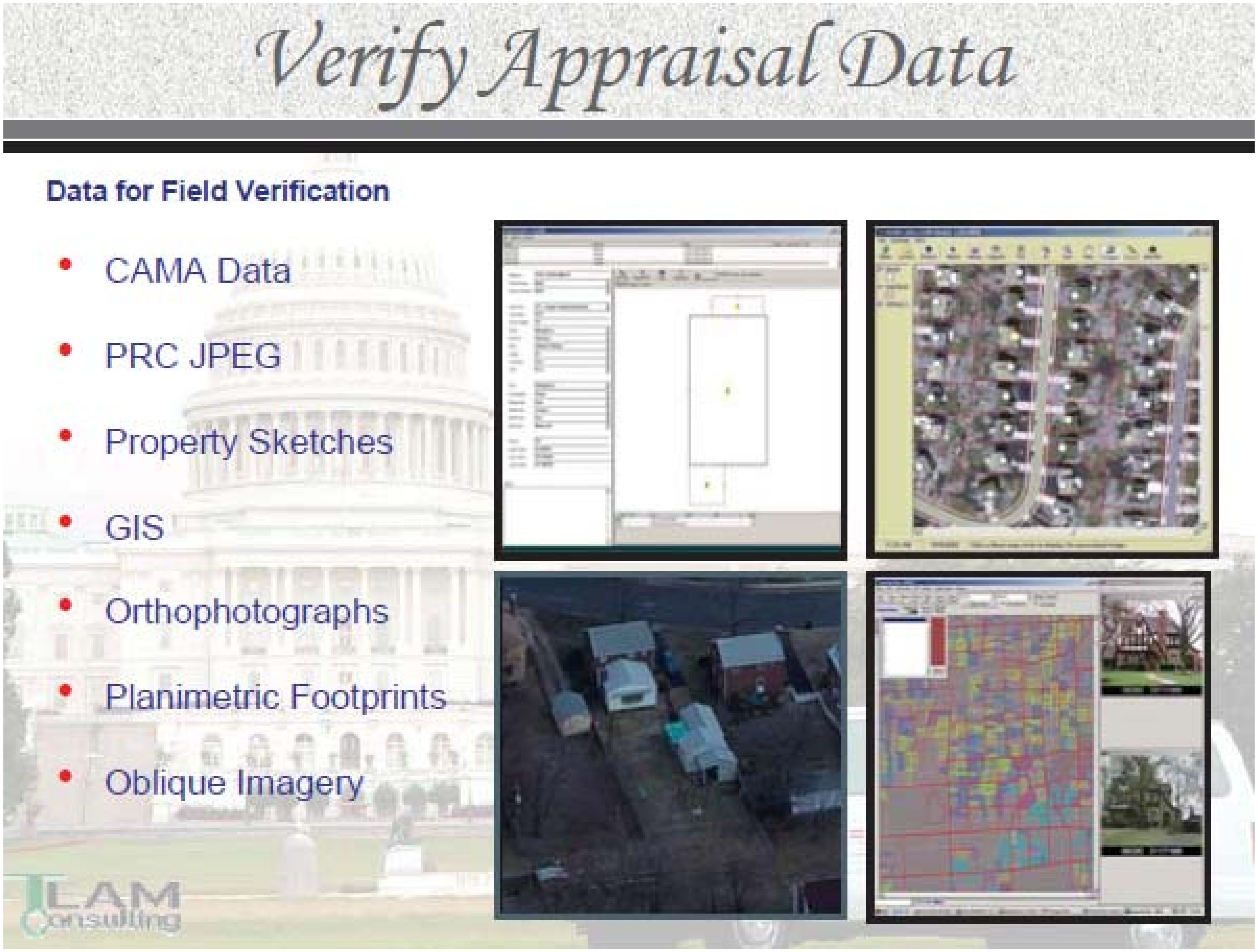


Field Inspection and Technology

Field Inspection and Technology

Verify Appraisal Data

Field Inspection and Technology

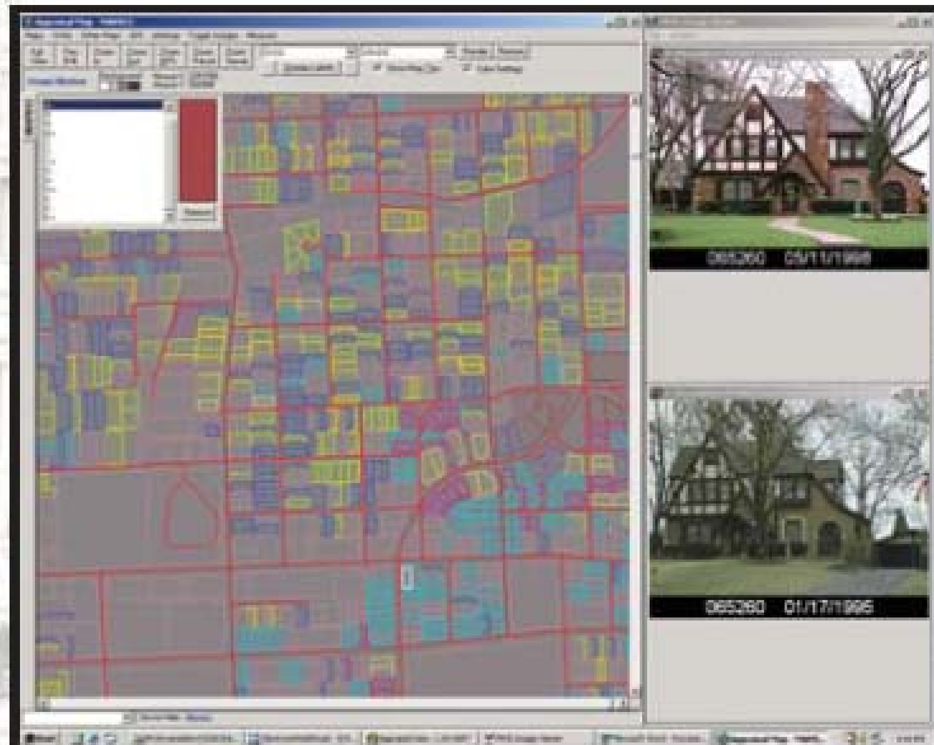


Field Inspection and Technology

Verify Appraisal Data

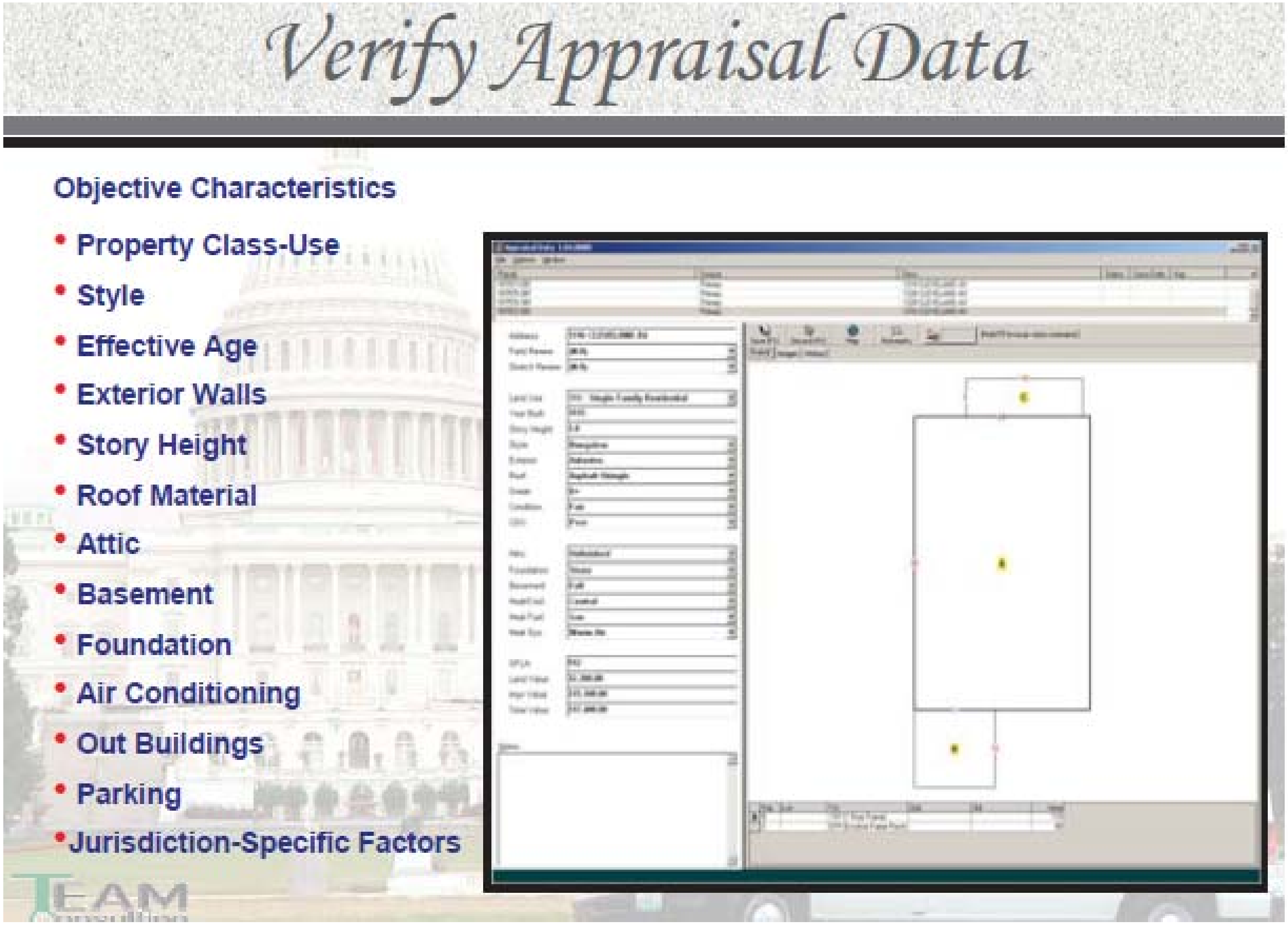
Subjective Characteristics

- Grade
- Condition
- Location Factors
- Jurisdiction-Specific Factors

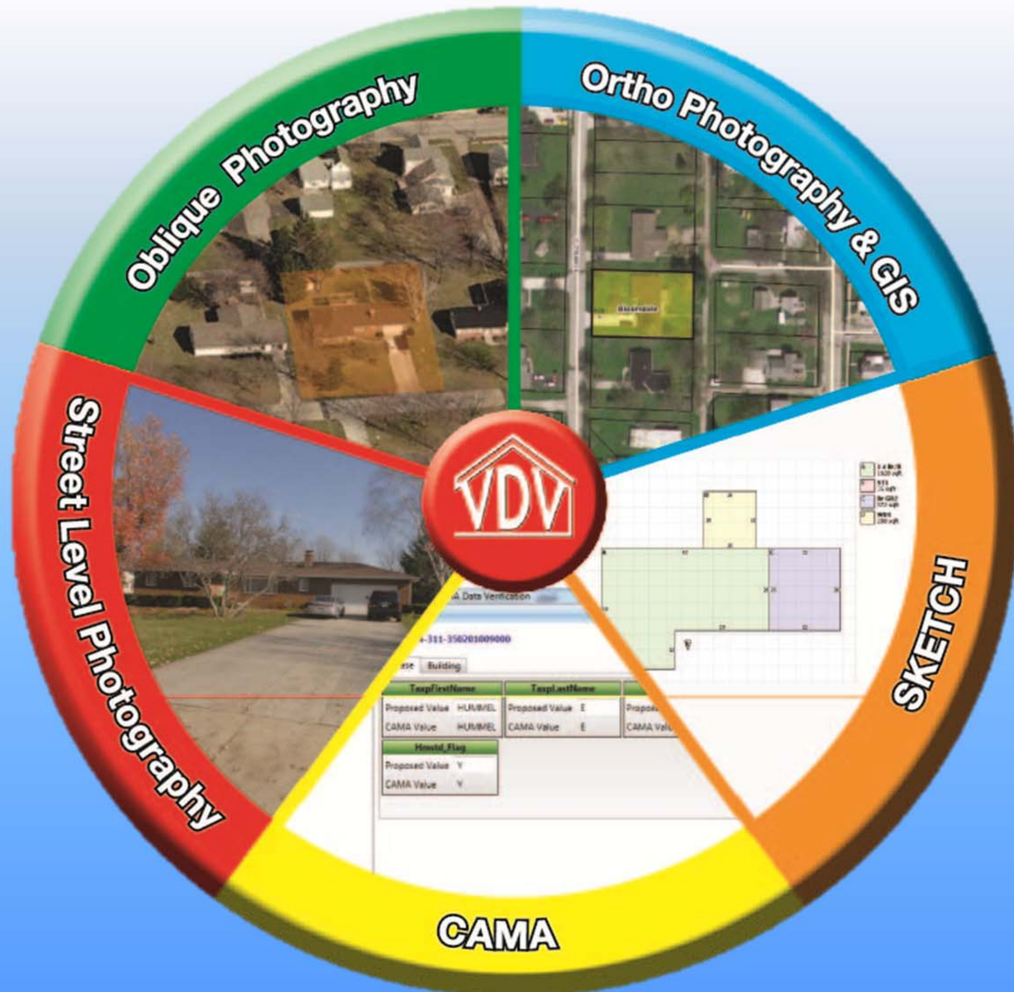


The integration of data with GIS, sketch and imaging provides for a high-quality review and enhanced productivity.

Field Inspection and Technology



Technology and Services



Field Review Alternatives and Technology

Physical review alternatives

- IAAO mass appraisal standard
- Staff Only
- Staff and technology
- Review Cycles

Technology – hardware/software

- GIS
- Imagery – street view, ortho, oblique
- Change detection – sketch overlay
- SDAT sketch data
- Linking with AAVS – alternatives

New Property Pick Up

• New Property Pick-up includes all new buildings and any renovations over a cost of $100,000 in each triennial group

• New Property Pickup occurs at least twice a year for the July 1 – Full Year Levy and the January 1 Half year levy - 6 counties with quarterly pickup

• Renovations with a cost of less than $100,000 are to be picked up in reappraisal cycle once every three years.

New Property Pick-up and Changes

- New construction is picked up and placed on the tax roll twice a year for Full Year Levy (July1) or Half Year Levy (Jan 1)

- Several counties have a Quarterly Levy – Baltimore City, Baltimore County, Charles, Howard, Montgomery, Prince Georges

- New property consists of new improvements to land (buildings and site improvements or additions/renovations to property

- New improvements to land are picked up for Full Year and Half Year (or Quarterly when substantially complete

New Property Pick-up and Changes

- Additions/renovations to property are picked up for Full Year and Half Year (or Quarterly when complete if the cost is greater than $100,000.   If cost is less than $100,000 additions/renovations are picked up in the triennial valuation cycle during.

- Change of use to land is picked up for Full Year Levy

- Building permits are key to identification of new improvements/additions/renovations. However property owners sometimes make improvements without going through the permit process, the <u>only way to identify this is through field review or the use of imagery.</u>

New Property Pick-up and Changes

- Most counties have automated building permit systems for the issuance and processing of building permits for the county and municipalities within a county.

- Some municipalities have their own building permit systems

- Historically, counties and municipalities forward paper copies of building permits and certificates of occupancy to each local assessment office and/or listings of permits & Certificates of Occupancy (C of O)

New Property Pick-up and Changes

- Today there are various methods of transmitting permit information to the assessment office. These include:
  - Paper permit or lists
  - Periodic Adobe file (monthly) of what would be paper permits
  - Assessment access to county permit system
  - Electronic extract from county system (typically Excel) which can be used by assessment managers for management of the pick-up process and for loading of permit information to each account in the AAVS system

- It is important for all counties and municipalities to work closely with the local assessment office to provide permit and C of O information as efficiently, as possible to help insure proper pickup

Building Permits

- Sample summary statistics – Anne Arundel Co.

ANNE ARUNDEL COUNTY PERMITS THAT HAVE BEEN ENTERED INTO AAVS	
ADO	PERMITS WITH POTENTIAL PICK UP VALUE OF $100,000 FOR ANNUAL OR 6 MONTH BILLING-INCLUDES NEW BLDGS AND ADDITIONS
ADU	PERMITS THAT WILL NOT ADD $100,000 - REVIEWED DURING REASSESSMENT
OTH	MOSTLY DEMOLITIONS- ARE REVIEWED AND ABATED THROUGHOUT THE YEAR IN ALL GEO AREAS
NOTES	STARTING LATE 2012, CERTAIN PERMITS WERE NOT LOADED- FENCES, ABOVE GROUND POOLS, SIGNS ETC.
	2014 IS THROUGH APRIL

Count of A		Permit~Type			
YEAR	MONTH	ADO	ADU	OTH	Grand Total
2011	1	127	349	13	489
	2	95	406	16	517
	3	151	520	25	696
	4	81	490	14	585
	5	94	607	15	716
	6	118	599	17	734
	7	109	504	11	624
	8	157	540	8	705
	9	136	491	10	637
	10	112	516	8	636
	11	103	343	10	456
	12	105	261	13	379
2011 Total		1388	5626	160	7174

Building Permits

- Sample summary statistics – (Anne Arundel Cont.)

2012	1	110	326	13	449
	2	112	356	22	490
	3	230	344	6	580
	4	105	359	11	475
	5	122	314	8	444
	6	136	360	8	504
	7	161	379	3	543
	8	152	379	4	535
	9	74	302	3	379
	10	114	317	2	433
	11	130	283	7	420
	12	107	270	16	393
2012 Total		1553	3989	103	5645
2013	1	138	252	13	403
	2	128	213	13	354
	3	151	239	12	402
	4	179	359	36	574
	5	177	315	26	518
	6	135	376	41	552
	7	189	398	39	626
	8	193	417	40	650
	9	180	312	35	527
	10	194	393	47	634
	11	114	188	22	324
	12	106	153	8	267
2013 Total		1884	3615	332	5831
2014	1	270	312	12	594
	2	95	150	13	258
	3	245	310	11	566
	4	200	391	23	614
2014 Total		810	1163	59	2032
Grand Total		5635	14393	654	20682

Building Permits

- Sample summary statistics – (Anne Arundel Cont.)

Anne Arundel					
2011 to June 2014		**Permits**	**Estimated Total**		
2011	>100,000	1,388	776,630,302		
2012	>100,000	248	496,816,264		
2013	>100,000	294	558,632,100		
2014	>100,000	157	184,475,286		
		2,087	2,016,553,952	966,245	Per Permit

Building Permits

- Sample summary statistics – Baltimore City
  - Total 2011 > 100,000 — 232
    All permits – 16,234
  - Total 2012 > 100,000 — 248
    All permits – 16,234
  - Total 2013 > 100,000 — 294
    All permits – 17,112
  - Total 2014 **(to June)** > 100,000 — 167
    All permits – 8317

- Baltimore City has new home credit program and vacant and abandoned property program

Baltimore City					
2011 to June 2014		Permits	Estimated Total		
2011	>100,000	232	109,427,928		
2012	>100,000	248	224,391,560		
2013	>100,000	294	500,771,874		
2014	>100,000	157	282,615,544		
		931	1,117,206,906	1,200,007	Per Permit

Building Permits

- Sample summary statistics – Montgomery Co.

- 2011 to June 2014

  Commercial > $100,000 - 2,024 permits – Total 5,414
  Residential file 1 > $100,000 - 4,670 Permits -Total 19,999
  Residential file 2 > $100,000 - 5,002 Permits -Total 19,721
  Demolition Total 867

2011 to June 2014		Permits	Declared Value			
Commercial	>100,000	2,024	3,722,194,455			
Residential 1	>100,000	4,670	1,294,002,855			
Residential 2	>100,000	5,002	1,366,589,733			
Demolition		867		Months		
		Total	6,382,787,043	42	151,971,120	per Month
					1,823,653,441	12 Months
					911,826,720	6 Months

Bldg. Permit / Sample Excel Extract

21	020100007978900	B02303226	4/16/2014	1119 MT AIRY RD	ADD RGA 24'X30'X14' POLE BUILDING	BEALES THOMAS W	R	ADU	35251	4	2014
22	020100008599300	B02301914	3/13/2014	620 CENTRAL AVE E	NEW STR CONSTRUCT 35'X80' STORAGE BLDG IN REAR OF	LOCH HAVEN PROPERTY LLC	C	ADO	135000	3	2014
23	020100008671805	B02299992	2/10/2014	3737 ELMER F HAGNER LN	NEW REC ERECT A FRAMED FABRIC STRUCTURE ON A CC SL	ANNE ARUNDEL COUNTY	EC	ADO	300000	2	2014
24	020100008917600	B02302445	4/3/2014	4726 WOODFIELD RD	ADD RGA PROPOSED DEMO & REBUILD OF DETACHED GARAGE	CASALI SR RICHARD A	R	ADU	60000	4	2014
25	020100009047905	B02301100	2/7/2014	2991 SOLOMONS ISLAND RD	NEW SFD CONSTRUCT NEW SFD-NEW CASTLE, ELEVATION 4	JACKSON PAUL W II	R	ADO	237233	2	2014
26	020100090013909	B02302415	3/28/2014	439 CENTRAL AVE	ADD CSP INSTALL A 18'X36' MAX DEPTH 20" DOG BONE S	FULL CIRCLE LLC	R	ADU	30000	3	2014
27	020100090017904	B02300963	1/23/2014	4861 CHURCH LN	ADD SFD ENCLOSE 9X20.5 PART OF EXISTING PORCH TO C	OYSTER COVE PTNSHP	CR	ADU	20000	1	2014
28	020100090022014	B02301938	3/4/2014	15 LEELAND RD	ADD CTW INSTALL 3 PANEL ANTENNAS	AMERICAN TOWER LP	C	ADU	30000	3	2014
29	020100090029225	B02301993	3/6/2014	361 POLLING HOUSE RD	DEM SFD DEMO EXISTING SFD FOR FUTURE NEW SFD	ETKINS ROBERT J	R	OTH	9000	3	2014
30	020100090035464	INVEST	3/12/2014	353 HARWOOD RD	ADD STABLE 14/15 & USE CHANGE	DALTON BRUCE A	A	OTH	0	3	2014
31	020100090039784	B02300052	1/17/2014	5175 SOLOMONS ISLAND RD	NEW EDU PROVIDE FIRE SPRINKLERS FOR NEW BUILDING I	ANNE ARUNDEL COUNTY BD OF ED	EC	ADO	300000	1	2014
32	020100090043926	B02303532	4/30/2014	4573 S POLLING HOUSE RD	ADD POR RMV EXSTNG FRNT STOOOP & RPLC W/COVERED FR	TURNQUIST SCOTT R	R	ADU	25000	4	2014
33	020100090052264	B02302378	3/6/2014	4785 SANDS RD	ADD RSP CONSTRUCT A 18X44 INGROUND POOL W/FENCE TO	JACKSON MONIQUE H	R	ADU	40000	3	2014
34	020100090073276	B02225506	1/1/2014	40 S RIVER CLUBHOUSE RD	ADD SFD 16X20 ADDITION FOR KITCHEN	KRAMPF WILLIAM R	R	ADU	19539	1	2014
35	020100090098002	B02300201	3/10/2014	227 BRICK CHURCH RD	RBL SFD DEMO EXST SFD/CNST NEW 1 1/2STY SFD W/FIN	DELCORE SCOTT M	A	OTH	258509	3	2014
36	020100090211358	INVEST	1/1/2014	POLLING HOUSE RD	FARM BLDG 32 X 41	SHAW TRUSTEE ROSE ANN	A	ADU	60000	1	2014

SDAT – Website

Pages 198-204

SDAT – Website

- **Wealth of Information –** real property, personal property, corporate charter & certificate of status, property exemptions, SDAT statistics, annual reports, ratio studies, assessment process, appeal process, forms and applications
- **Web site -** 14.5 million pages viewed in per month
- **Real Property Data Base –** not possible without CAMA and Automated Property Maps
    - Access accounts by account id, address, map reference, and property sales
    - Property Map for each property
    - Summary of Assessment Roll and Property Information
    - Property Sales

SDAT – Website

- SDAT provides its website data to MRIS – regional multiple list system for the public data section of that system
- SDAT receives access to the MRIS system for assessors to have its additional property information services

SDAT – Website - Property Account

View Map | View GroundRent Redemption | View GroundRent Registration

Account Identifier: District - 04 Subdivision - 302 Account Number - 90081465

Owner Information

Owner Name:	KUKLIS JON P	**Use:**	RESIDENTIAL
		Principal Residence:	YES
Mailing Address:	1455 GRAHAM FARM CIR SEVERN MD 21144-1086	**Deed Reference:**	/27454/ 00118

Location & Structure Information

Premises Address:	1455 GRAHAM FARM CIR SEVERN 21144-0000	**Legal Description:**	LT 82 1455 GRAHAM FARM CIR GRAHAM FARM

Map:	Grid:	Parcel:	Sub District:	Subdivision:	Section:	Block:	Lot:	Assessment Year:	Plat No:	
0014	0011	0091		302			82	2014	**Plat Ref:**	0151/ 0033

Special Tax Areas:	**Town:**	NONE
	Ad Valorem:	
	Tax Class:	

Primary Structure Built	Above Grade Enclosed Area	Finished Basement Area	Property Land Area	County Use
1997	1,692 SF		7,000 SF	

Stories	Basement	Type	Exterior	Full/Half Bath	Garage	Last Major Renovation
2	YES	STANDARD UNIT	SIDING	2 full/ 1 half	1 Attached	

Value Information

	Base Value	Value	Phase-in Assessments	
		As of 01/01/2014	As of 07/01/2014	As of 07/01/2015
Land:	125,200	135,200		
Improvements	184,200	162,600		
Total:	309,400	297,800	297,800	297,800
Preferential Land:	0			0

Transfer Information

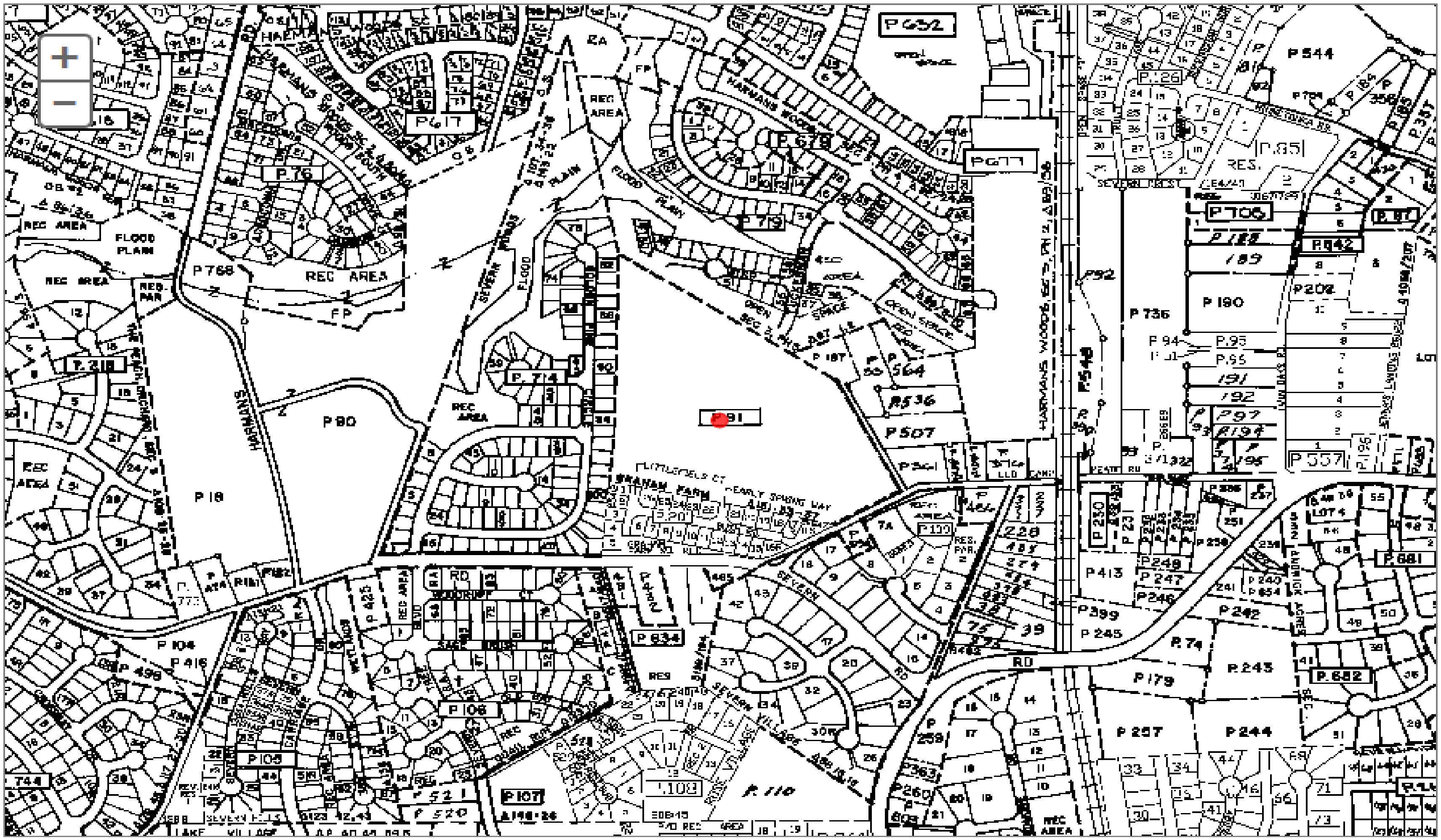
Seller: ANDERSON TODD D	**Date:** 07/15/2014	**Price:** $339,000
Type: ARMS LENGTH IMPROVED	**Deed1:** /27454/ 00118	**Deed2:**

SDAT – Website - Property Map

New Search

Anne Arundel County

District: 04 **Subdivision:** 302 **Account Number:** 90081465



Summary

- Goal of Assessment
- Assessment Process and Types of Property
- Appraisal Process – single property vs. mass appraisal
- Approaches to value
- Mass Appraisal Process
- ➢ Maryland market calibrated cost approach (residential - C&I property)
- ➢ Maryland Commercial and Industrial approaches and models
- ➢ Field inspections – importance and steps
- ➢ Ratio Studies
- Trending and Indexing Assessment Appeals
- Assessment Calendar
- Assessment Offices

  Organization – staffing, CORE processes, work loads, budgets,
- New Property/renovations/demolition Pick up
- Physical Review Alternatives
- Technology- Hardware and Software
- SDAT Website
- Sketching and Field Review

Details Page Summary

Detail Pages

	Main Page	High Level Topic	Detail Pages
1	p27	Personal Property	148-153
2	p35	Appraisal Process	153
3	p38	USPAP STD 1,2,&6	154-156
4	p47	Mass Appraisal	157-158
5	p48	Record Card, Insection	
		Cost Model	159-181
6	p81	County Budgets	182-184
7	p101	Appeals	185-187
8	p108	Mass Appraisal STD	188-198
9	p85	Property Sketches	199-204

Personal Property – Form 1 – Page 1

Personal Property Return As of January 1, 2014 Due April 15, 2014
STATE OF MARYLAND, DEPARTMENT OF ASSESSMENTS AND TAXATION, PERSONAL PROPERTY DIVISION
301 West Preston Street, Room 801, Baltimore, Maryland 21201-2395 • www.dat.state.md.us • (410) 767-1170 • (888) 246-5941 within Maryland

2014
Form 1
Page 1 of 4

Date Received by Department

PPA

CHECK ONE

Type of Business	ID # Prefix	Filing Fee	Type of Business	ID # Prefix	Filing Fee
Domestic Stock Corporation	(D)	$300	Domestic Limited Liability Company	(W)	$300
Foreign Stock Corporation	(F)	$300	Foreign Limited Liability Company	(Z)	$300
Domestic Non-Stock Corporation	(D)	- 0 -	Domestic Limited Partnership	(M)	$300
Foreign Non-Stock Corporation	(F)	- 0 -	Foreign Limited Partnership	(P)	$300
Foreign Insurance Corporation	(F)	$300	Domestic Limited Liability Partnership	(A)	$300
Foreign Interstate Corporation	(F)	- 0 -	Foreign Limited Liability Partnership	(E)	$300
SDAT Certified Family Farm	(A,D,M,W)	$100	Domestic Statutory Trust	(B)	$300
Real Estate Investment Trust	(D)	$300	Foreign Statutory Trust	(S)	$300

Name of Business
Mailing Address

Make Address Corrections Here

Check here if this is a change of address

DEPARTMENT ID NUMBER
ID# PREFIX

FEDERAL EMPLOYER IDENTIFICATION NUMBER

DATE OF INCORPORATION OR FORMATION

STATE OF INCORPORATION OR FORMATION

FEDERAL PRINCIPAL BUSINESS CODE

TRADING AS NAME

Please check here if you do not want personal property forms mailed to you next year.

Type or Print Department ID Number Here

ID # PREFIX

INCLUDE DEPARTMENT ID NUMBER ON CHECK

PLEASE STAPLE CHECK HERE

SECTION I

A. Is any business conducted in Maryland? ______ (Yes or No) Date began: ______

B. Nature of business conducted in Maryland: ______

C. Does the business own, lease or use personal property located in Maryland? ______ (Yes or No) If No, skip SECTION II.

ONLY CORPORATIONS COMPLETE ITEM D

D. Names and addresses of officers and names of directors (type or print):

OFFICERS

	Names	Addresses
President		
Vice-President		
Secretary		
Treasurer		

DIRECTORS

Names	Names

This form was printed from the DAT web site.

10/13

Personal Property – Form 1 – Page 2

PPA

2014
Form 1
continued
Page 2 of 4

BUSINESS TANGIBLE PERSONAL PROPERTY LOCATED IN MARYLAND

EACH QUESTION MUST BE ANSWERED—SEE INSTRUCTIONS

ROUND CENTS TO THE NEAREST WHOLE DOLLAR

SECTION II

A. IMPORTANT: Show exact location of all personal property owned and used in the State of Maryland, including county, town, and street address (PO Boxes are not acceptable). This assures proper distribution of assessments. If property is located in two or more jurisdictions, provide breakdown by locations by completing additional copies of Section II for each location.

(County)

(Address, Number and Street) (Zip Code)

Check here if this location has changed from the 2013 return.

(Incorporated Town)

Is the property located inside the limits of an incorporated town? (Yes or No)

Note: If all of the personal property of this business is located entirely in the following exempt counties: Frederick, Garrett, Kent, Queen Anne's, or Talbot, you may be eligible to skip the remainder of Section II. Refer to Specific Instructions, Section II, A for more information.

① **Furniture, fixtures, tools, machinery and equipment not used for manufacturing or research and development.** State the original cost of the property by year of acquisition and category of property as described in the Depreciation Rate Chart on page 4. Include all fully depreciated property and property expensed under IRS rules.

Columns B through G require an explanation of the type of property being reported. Use the lines provided below. If additional space is needed, provide a supplemental schedule. Failure to explain the type of property will result in the property being treated as Category A property (see instructions for example). **Refer to the 2014 Depreciation Rate Chart on page 4 for computer equipment rates for categories B and D.**

	ORIGINAL COST BY YEAR OF ACQUISITION							
	A	B	SPECIAL DEPRECIATION RATES (SEE PAGE 4) C	D	E	F	G	TOTAL COST
2013								0
2012								0
2011								0
2010								0
2009								0
2008								0
2007								0
2006 and prior								0
							TOTAL COST COLUMNS A-G →	0

DESCRIBE **B** through **G** PROPERTY HERE:

② **Commercial Inventory.** Furnish an average of 12 monthly inventory values taken in Maryland during 2013 at cost or market value of merchandise and stock in trade. Include products manufactured by the business and held for retail sale and inventory held on consignment. (Do not include raw materials or supplies used in manufacturing.) Note: LIFO prohibited in computing inventory value.

Average Commercial Inventory
$

Furnish from the latest Maryland Income Tax return:
Opening Inventory - date amount $
Closing Inventory - date amount $

Note: Businesses that need a Trader's License must report commercial inventory here.

③ **Supplies.** Furnish the average cost of consumable items not held for sale (e.g., contractor's supplies, office supplies, etc.).

Average Cost
$

④ **Manufacturing/Research and Development (R&D) Inventory.** Furnish an average of 12 monthly inventory values taken in Maryland during 2013 at cost or market value of raw materials, supplies, goods in process and finished products used in and resulting from manufacturing/R&D by the business. (Do not include manufactured products held for retail sale.)

Average Manufacturing/R&D Inventory
$

Furnish from the latest Maryland Income Tax return:
Opening Inventory - date amount $
Closing Inventory - date amount $

Personal Property – Form 1 – Page 3

2014
Form 1 continued
Page 3 of 4

PPA

⑤ **Tools, machinery and equipment used for manufacturing or research and development:** State the original cost of the property by year of acquisition. Include all fully depreciated property and property expensed under IRS rules. If this business is engaged in manufacturing / R&D, and is claiming such an exemption for the first time, **a manufacturing / R&D exemption application must be submitted on or before September 1, 2014** before an exemption can be granted. **See instruction 11 for exception.** Contact the Department or visit www.dat.state.md.us for an application.

If the property is located in a taxable jurisdiction, a detailed schedule by depreciation category should be included to take advantage of higher depreciation allowances.

ORIGINAL COST BY YEAR OF ACQUISITION			
2013		2009	
2012		2008	
2011		2007	
2010		2006 and prior	

TOTAL COST $ 0

⑥ **Vehicles with Interchangeable Registration** (dealer, recycler, finance company, **special mobile equipment,** and transporter plates) and unregistered vehicles should be reported here. See specific instructions.

ORIGINAL COST BY YEAR OF ACQUISITION			
2013		2011	
2012		2010 and prior	

TOTAL COST $ 0

⑦ **Non-farming livestock** $ ______ (Book Value) $ ______ (Market Value)

⑧ **Other personal property** . . . . Total Cost $
File separate schedule giving a description of property, original cost and the date of acquisition.

⑨ **Property owned by others and used or held by the business** as lessee or otherwise . . . Total Cost $
File separate schedule showing names and addresses of owners, lease number, description of property, installation date and separate cost in each case.

⑩ **Property owned by the business but used or held by others** as lessee or otherwise. . . . Total Cost $
File separate schedule showing names and addresses of lessees, lease number, description of property, installation date and original cost by year of acquisition for each location. Schedule should group leases by county where the property is located. Manufacturer lessors should submit the retail selling price of the property not the manufacturing cost.

SECTION III This Section must be completed.

A. Total Gross Sales, or amount of business transacted during 2013 in Maryland: $
If the business has sales in Maryland and does not report any personal property, explain how the business is conducted without personal property. If the business is using the personal property of another business, provide the name and address of that business.

B. If the business operates on a fiscal year, state beginning and ending dates:

C. If this is the business' first Maryland personal property return, state whether or not it succeeds an established business and give name:

D. Does the business own any fully depreciated and/or expensed personal property located in Maryland? ☐ yes ☐ no
If yes, is that property reported on this return? ☐ yes ☐ no

E. Does the submitted balance sheet or depreciation schedule reflect personal property located outside of Maryland? ☐ yes ☐ no
If yes, reconcile it with this return.

F. Has the business disposed of assets or transferred assets in or out of Maryland during 2013? ☐ yes ☐ no If yes, complete Form 4C (Disposal and Transfer Reconciliation).

• PLEASE READ "IMPORTANT REMINDERS" ON PAGE 4 BEFORE SIGNING •

I declare under the penalties of perjury, pursuant to Tax-Property Article 1-201 of the Annotated Code of Maryland, that this return, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

NAME OF FIRM, OTHER THAN TAXPAYER, PREPARING THIS RETURN — PRINT OR TYPE NAME OF CORPORATE OFFICER OR PRINCIPAL OF OTHER ENTITY — TITLE

X SIGNATURE OF PREPARER — DATE — X SIGNATURE OF CORPORATE OFFICER OR PRINCIPAL — DATE

( ) PREPARER'S PHONE NUMBER — E-MAIL ADDRESS — ( ) BUSINESS PHONE NUMBER — E-MAIL ADDRESS

Personal Property – Balance Sheet

STATE OF MARYLAND
DEPARTMENT OF ASSESSMENTS AND TAXATION
PERSONAL PROPERTY DIVISION
FORM 4A

Balance Sheet

2014
Form 4A

PPA

Name of Business ____________________

Department ID Number ____________________

	Beginning of Period (month / day / year)		End of Period (month / day / year)	
	WITHIN MARYLAND	TOTAL*	WITHIN MARYLAND	TOTAL*
ASSETS CURRENT ASSETS				
1. Cash				
2. Marketable Securities				
3. Accounts Receivable				
4. Inventory				
5. Other Current Assets				
PROPERTY, PLANT AND EQUIPMENT				
6. Land				
7. Buildings				
8. Leasehold Improvements				
9. Equipment				
10. SUBTOTAL Property, Plant and Equipment				
11. Accumulated Depreciation				
12. Net Property, Plant and Equipment				
INTANGIBLE AND OTHER ASSETS				
13. Intangible				
14. Other (provide schedule)				
15. TOTAL ASSETS				
LIABILITIES AND EQUITY CURRENT LIABILITIES				
16. Accounts Payable				
17. Other Current Liabilities				
LONG TERM LIABILITIES AND EQUITY				
18. Mortgage, Notes, Bonds Payable				
19. Other Long Term Liabilities				
20. Capital Stock				
21. Paid in or Capital Surplus				
22. Retained Earnings				
23. Other				
24. TOTAL LIABILITIES AND EQUITY				

*Omit TOTAL columns when all assets are located in Maryland.

This form was printed from the DAT web site.

Personal Property – Dep. Schedule

Maryland
Form 4B

Depreciation Schedule

2014
Form 4B & 4C

PPA

PROPERTY IN MARYLAND AS OF ___/___/___

	TOTAL COST	DEPRECIATION THIS YEAR	ACCUMULATED DEPRECIATION	BOOK VALUE
1. Land				
2. Building				
3. Leasehold Improvements				
4. Transportation Equipment (Registered)[A]				
5. Transportation Equipment (Not Registered and Interchangeable Registrations)				
6. Furniture & Fixtures				
7. Machinery & Equipment				
8. Other (Specify)				
9. Totals:[B]				
10. Expensed Property (Not Reported on Depreciation Schedule)[C]				
11. Exempt Personal Property[D] (Included in line 9 above and not reported on the return)				

EXEMPTION CLAIMED

Type of Organization
- Charitable
- Religious
- Educational
- Veterans
- Other ______ SPECIFY

Type of Property
- Vehicles (Registered)
- Vessels (under 100 ft.)
- Aircraft
- Farming Implements (Farmers Only)
- Rental Heavy Equipment[E]
- Other ______ SPECIFY

A. Vehicles with Interchangeable Registrations (dealer, recycler, finance company, special mobile equipment, and transporter plates) are to be reported on line 5.

B. Total line must equal Line 10 on the Balance Sheet Form 4A.

C. Include all expensed property located in Maryland not reported on the Depreciation Schedule Form 4B.

D. If exempt property is owned check the appropriate boxes under line 11. Exempt organizations need to provide written justification for the claimed exemption with the return. Organizations required to file IRS Form 990 should also submit a copy of the latest available filing.

E. For Rental Heavy Equipment Only – An entity must meet all of the following provisions: 1) largest segment of its total receipts is from the short-term lease or rental of heavy equipment at retail without operators; 2) it must be defined under Code 532412 of the North American Industry Classification System; 3) the property must meet the definition of heavy equipment property in § 9-609(D)(5) of the Political Subdivisions Article and 4) the lease or rental of the heavy equipment property is for a period of 365 days or less.

Maryland
Form 4C

DISPOSAL AND TRANSFER RECONCILIATION

	BALANCE 1/1/2013	TRANSFERS IN DURING 2013	2013 ACQUISITIONS	TRANSFERS OUT & DISPOSALS*	BALANCE 1/1/2014
1. Furniture, Fixtures, Tools Machinery and Equipment					
2. Motor Vehicles					
3. Manufacturing/R&D Equip.					
4. Leased Property					
5. Totals					

This section must be completed by those businesses which transferred or disposed of personal property located in Maryland during 2013.

Property "Transferred In" from locations outside Maryland, property acquired and property "Disposed Of" or "Transferred Out" during 2013 must be reported above and reconciled with the totals from last year's return.

*If transfers out and disposals made during 2013 are more than $200,000 or greater than 50% of the total property reported as of 1/1/2013, complete the information below.

TRANSFERS	Date of transfer:	Location where transferred? City:	State:
DISPOSALS	Date of disposal:	Manner of disposal? (sale, junked, donation, etc.)	Name of buyer? (For Sales Only)

This form was printed from the DAT web site.

Appraisal Process

1. Define the valuation problem		
1.1 Identify the intended use and users of the appraisal		
1.2 Define value(s) to be developed		
1.3 Establish date(s) of value opinion(s)		
1.4 Identify and locate the real estate		
1.5 Identify the property rights to be valued		
1.6 Identify limiting conditions or assumptions		
2. Determine the required scope of work		
3. Make a preliminary analysis and plan		
General (market):	Specific property:	Competitive properties:
3.1 Market analysis	3.2 Property analysis	3.3 Comparison analysis
3.1.1 Demand components	3.2.1 Site/improvements	3.3.1 Sales
3.1.2 Supply components	3.2.2 Size	3.3.2 Rentals
3.1.3 Trends	3.2.3 Age and condition	3.3.3 Costs
3.1.4 Forecasts	3.2.4 Location	3.3.4 Elements of comparison
	3.2.5 Legal (title, use)	3.3.5 Units of comparison
4. Select and collect the data		
5. Determine highest and best use		
5.1 Land as if vacant and available		
5.2 Property as improved (existing or proposed)		
6. Apply appropriate valuation approaches		
6.1 Sales comparison		
6.2 Income capitalization		
6.3 Cost		
7. Reconcile value indicators and report opinion(s) of value(s)		

Appraisal Process - USPAP

USPAP- STANDARD 1 & 2 & STANDARD 6

Table 1. Six steps in the appraisal process under Standards 1, 2, and 6

Step 1. Definition of the Problem							Standard Rule 1-2 Standard Rule 6-1
Identify client and other intended use	Identify the intended use	Identify effective value date	Identify the type and definition of value	Identify relevant characteristics of the property	Assignment conditions*		
					Extraordinary assumptions	Hypothetical conditions	
Step 2. Scope of Work							Competency Rule Scope of Work Rule

Appraisal Process – USPAP (Cont.)

STANDARD 1 & 2 and STANDARD 6

Step 3. Data Collection and Analysis		
Market Analysis	Highest and Best Use Analysis	Standard Rule 1-3
Demand studies	Site as though vacant	Standard Rule 6-3
Supply studies	Ideal improvement	
Marketability studies	Property as improved	

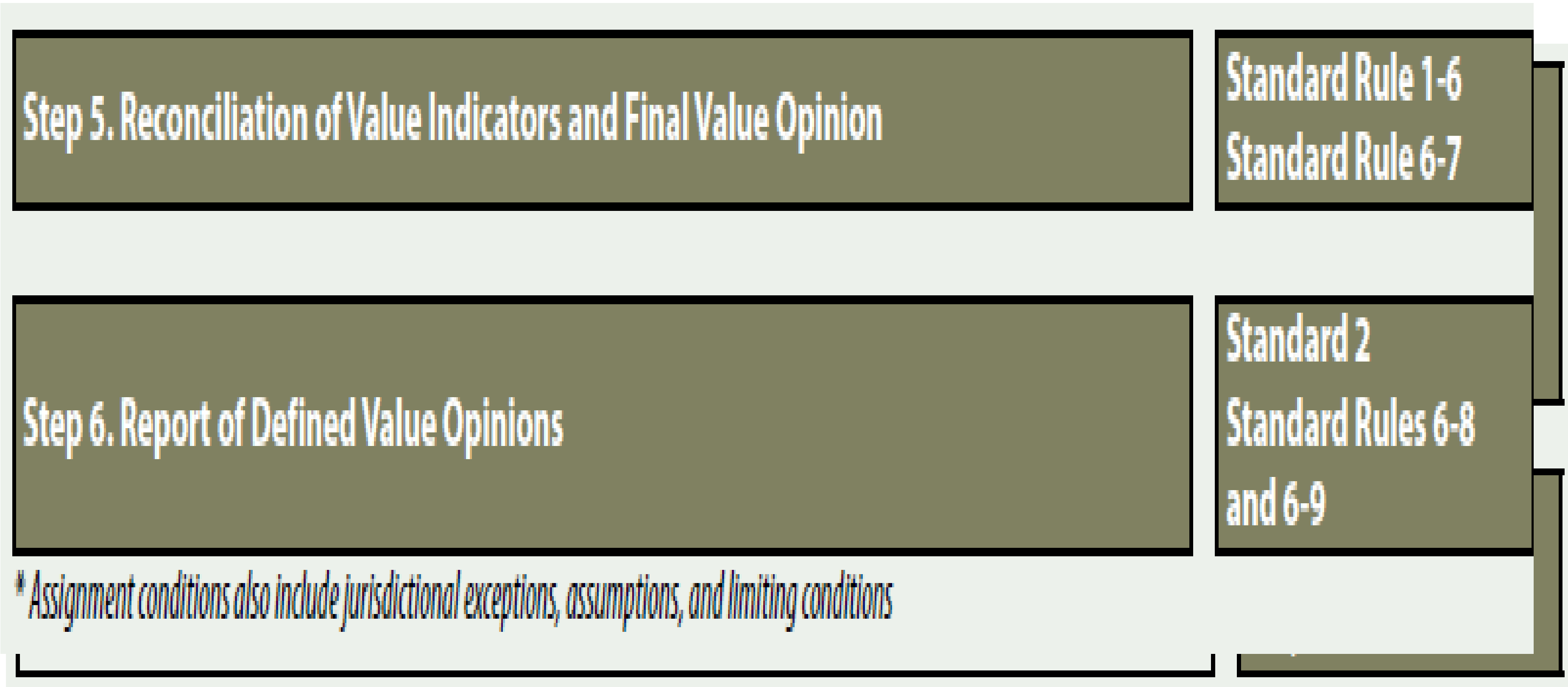
Step 4. Application of the Approaches to Value			
Cost	Sales Comparison	Income Capitalization	Standard Rule 1-4 Standard Rules 6-4, 6-5, and 6-6

Standard 6-4 (b) deals with valuation model specification – characteristics that affect value

Standard 6-4 (c) model calibration – development of rates or coefficients used in the model

Appraisal Process – USPAP (cont.)

STANDARD 1 & 2 and STANDARD 6



Standards Rule 6-7 deals with model testing, quality control, and correlation of values

Mass Appraisal

<u>Model Calibration</u> (Cont.)

- Cost manual tables are examples of calibrated parameters, as well as the coefficients (rates) in a linear or nonlinear model. Models must be calibrated using recognized techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation.

- Models must be calibrated using recognized techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation.

Mass Appraisal

<u>Model Calibration </u>(Cont.)

- Cost manual tables are examples of calibrated parameters, or coefficients (rates) they include cost, deprecation tables, and land tables and coefficients can be linear or nonlinear models.
- Models must be calibrated using recognized techniques, including, that include market and statistical analysis of relevant market data and may include but not limited to linear regression, non-linear regression and adaptive estimation feedback

Market Calibrated Cost Model

Simple Cost Model

$$MV = RCN - D + LV$$

- MV = Market Value
- RCN = Replacement Cost New
- D = Depreciation
- LV = Land Value

Expanded Cost Model

- $MV = L_Q * L_R + I_Q * I_R$
  - MV = Market Value
  - LQ = Land Size
  - LR = Land Rate
  - IQ = Improvement Size
  - IR = Improvement Rate

Market Calibrated Cost Model

STEPS IN THE COST APPROACH TO VALUE

1. Estimate the land (site) value as if vacant and available for development to its highest and best use.

2. Estimate the total cost new of the improvements.

3. Estimate the total amount of depreciation from all causes.

4. Subtract the total dollar amount of depreciation from the total cost new of the primary improvements.

5. Estimate the total cost new of any accessory improvements and site improvements.

6. Add site value to the depreciated cost of the primary improvements, accessory improvements, and site improvements, to arrive at a value indication by the cost approach.

Market Calibrated Cost Model

- **Through market analysis in the calibration process**, rates are developed for construction cost, depreciation and land
- **In market analysis**, property sales are analyzed.
- **Properties are grouped by geographic areas** – Market Areas and Neighborhoods
- **The developed rates are applied to each property** to value the land and building.
- **Within each Market Area and Neighborhood** comparable sale properties are valued by the cost model.
- **An Assessment to Sale Price ratio is calculated for each comparable sale** that is valued by the cost model.

Market Calibrated Cost Model

- **Through market analysis in the calibration process**, rates are developed for construction costs (improvement cost new), depreciation (from observed condition and indirect method, and land (from direct sale comparison, allocation, or abstraction).
- **In market analysis**, property sales are analyzed.
- **Properties are grouped by geographic areas** – Market Areas and Neighborhoods - which have similar market influences and economic characteristics.
- **The developed rates are applied to each individual property** (relevant characteristics - quantitative and qualitative) to value the land and building.

Market Calibrated Cost Model

- The **model may be reapplied** until acceptable results are attained.
- Then the **model rates or coefficients** used to value the sale properties **are then applied to value the all non-sale** comparable properties.
- Throughout the re-appraisal - **assessment performance analysis (ratio study) is conducted**.
- **Accurate values** begin with **accurate data**.
- **Assessors must ensure** that the appropriate data is being captured accurately and consistently.
- **Market transfers** must be timely **entered** into the valuation system and existing property data characteristics must be updated for changes.

Market Calibrated Cost Model

- **Properties should be regularly re-inspected** to ensure existing data is accurate and current – Maryland is to physically inspect once every three years.
- **IAAO standards** call for routine property inspections **at least every six years**. Many states have laws requiring more frequent cycles.
- **Often Building permits, and technology -** aerial/oblique photography, street view images and the linking of this data with the assessors valuation system (CAMA or AAVS) **allows for a timely and efficient review of property record characteristics**.
- SDAT does not have aerial, oblique photography, or street view images which should be linked to the valuation system.

Market Calibrated Cost Model

- With these technologies, properties with changes can be identified and field inspections can be made to verify data as need.
- In many cases data can be updated in the office using these systems.
- The largest cost of any mass appraisal is data collection and review.

Cost Model Steps

- Sales analysis - Current Sales Price to Prior Assessment Ratio
  - $\frac{\text{Prior Assessment}}{\text{Current Sale}} = \frac{300{,}000}{360{,}000} = .8333$
- Statutory Goal = 100%
- Verify property characteristics - change if not correct
- **Estimate Replacement Cost New** for Dwelling for current year and location – calculate cost – and cost per square foot new for comparison purposes
- Estimate Improvement cost new for Accessory Structures

Cost Model Steps

- **<u>Estimate Depreciation</u>** – loss in value from all causes
  - ➢ Physical Deterioration
  - ➢ Functional Obsolescence
  - ➢ Locational Obsolescence / market conditions
- Methods for estimating Depreciation
  - ➢ Observed condition – physical deterioration
  - ➢ Indirect Method – Age Life/Economic Life
- Estimate Depreciation as a percent, determine deprecation for typical condition homes in neighborhood, dwellings in better condition less depreciation, dwellings in worst condition more depreciation.

Cost Model Steps

- Indirect Method of estimating depreciation (calibrate deprecation)
  - Use comparable sales from the same neighborhood

1. Sale Price of the Comparable Sale: $100,000

Less: Land Value: 20,000

= Present Value of the Improvements: $ 80,000

2. Cost New of the Improvements (no land) : $130,000

Less: Pres. Value of the Improvements: 80,000.

=Total accrued Depreciation of Improve: $ 50,000.

(Assumption: This is all Physical Depreciation)

Cost Model Steps

3. **Total Physical Depreciation of Improvements / Divided by Cost New of Improvements:**

   $50.000. / $130,000. = .3846

4. **This is the total percentage of loss from cost new: .3846 or <u>38.5</u>%**

5. **Total percentage of loss from cost new is multiplied by Total Economic Life (TEL) of the structure: 38.5% X 70 years = <u>26.9</u> years (Effective Age)**

6. **Depreciation Percent per Year = .3846 / 26.9 = .014**

- **Just as with Paired Sales Analysis, the results of the comparable sales calculations can be used for the subject property's Effective Age and Depreciation Estimate**

Cost Model Steps

- **<u>Estimate – Improved Site (land) value</u>**.
  - ➢ Primary value in the smallest buildable lot in neighborhood
  - ➢ Land rates vary by zoning and property use/density
  - ➢ Land rates – lot size > land value per unit declines – can be linear or non-linear.
  - ➢ Methods of estimating – calibrating land rates
    - Direct Sales Comparison
    - Allocation
    - Abstraction
  - ➢ Value land on each property using land rate table and land size with adjustments as needed

Cost Model Steps

- Apply Cost Model to individual sale properties
- From Property Record Card Example – in this presentation

New Assessment =	Land	96,300
	Improvement	252,722
	Total	349,000

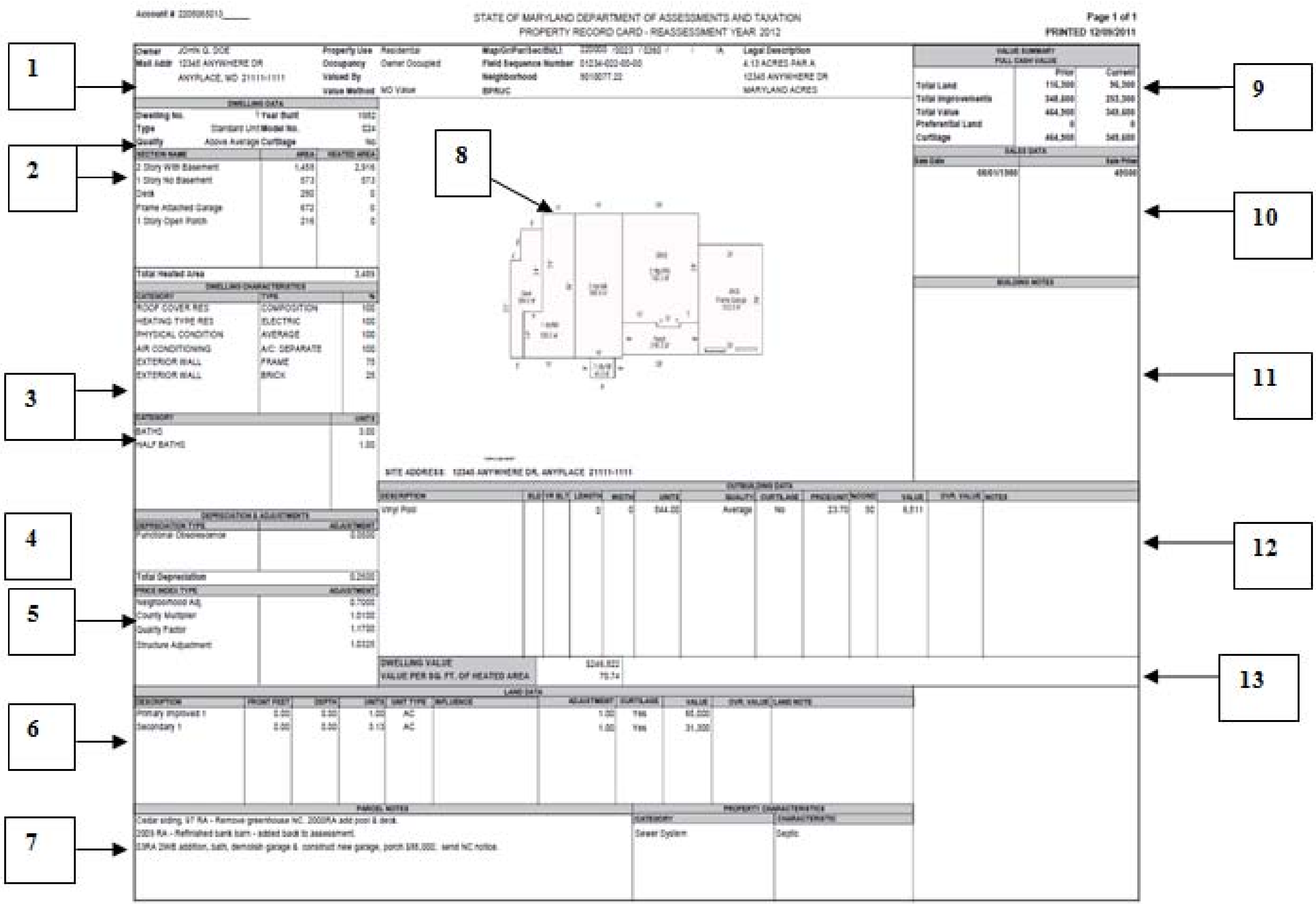
- Sales analysis - Current Sales Price to New Assessment
  - New Assessment = 349,000 = .967
    Current Sale 360,000
  - If acceptable ratio statistics on sales are attained and neighborhood edits show acceptable results, the model would then be applied to all properties in the neighborhood (sale and non-sale properties)

Cost Model Steps

- If acceptable ratio statistics are not attained and neighborhood edits show non-acceptable results, the model would be re-applied to the sale properties with individual adjustments in cost, depreciation, land rates, as needed. Then a new sales analysis is conducted with sale assessment ratios. The model may be reapplied several time until acceptable results are attained.
- Sometimes a <u>Market Value Index (MVI) </u>analysis is conducted by property model (type of construction, size range, age, style, etc.). This develops market adjustments of individual model types to adjust the model to the common level of assessment of all other properties in the neighborhood.

Property Record Card

OV



1 2 3 4 5 6 7 8 9 10 11 12 13

Account # 2205085013____

STATE OF MARYLAND DEPARTMENT OF ASSESSMENTS AND TAXATION
PROPERTY RECORD CARD - REASSESSMENT YEAR 2012

Page 1 of 1
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Owner	JOHN Q. DOE	Property Use	Residential	Map/Grid/Par/Sec/Bk/Lt	220005 /0023 /0260 / / / A	Legal Description	
Mail Addr	12345 ANYWHERE DR	Occupancy	Owner Occupied	Field Sequence Number	01234-022-00-00		4.13 ACRES PAR A
	ANYPLACE, MD 21111-1111	Valued By		Neighborhood	8010077.22		12345 ANYWHERE DR
		Value Method	MD Value	BPRUC			MARYLAND ACRES

DWELLING DATA

Dwelling No.	1	Year Built	1952
Type	Standard Unit	Model No.	024
Quality	Above Average	Curtilage	No

SECTION NAME	AREA	HEATED AREA
2 Story With Basement	1,458	2,916
1 Story No Basement	573	573
Deck	280	0
Frame Attached Garage	672	0
1 Story Open Porch	216	0
Total Heated Area		3,489

DWELLING CHARACTERISTICS

CATEGORY	TYPE	%
ROOF COVER RES	COMPOSITION	100
HEATING TYPE RES	ELECTRIC	100
PHYSICAL CONDITION	AVERAGE	100
AIR CONDITIONING	A/C SEPARATE	100
EXTERIOR WALL	FRAME	75
EXTERIOR WALL	BRICK	25

CATEGORY	UNITS
BATHS	3.00
HALF BATHS	1.00

DEPRECIATION & ADJUSTMENTS

DEPRECIATION TYPE	ADJUSTMENT
Functional Obsolescence	0.0500
Total Depreciation	0.2500

PRICE INDEX TYPE	ADJUSTMENT
Neighborhood Adj.	0.7000
County Multiplier	1.0100
Quality Factor	1.1700
Structure Adjustment	1.0320

VALUE SUMMARY
FULL CASH VALUE

	Prior	Current
Total Land	116,300	96,300
Total Improvements	348,000	253,300
Total Value	464,300	349,600
Preferential Land	0	0
Curtilage	464,300	349,600

SALES DATA

Sale Date	Sale Price
08/01/1988	49000

BUILDING NOTES

SITE ADDRESS: 12345 ANYWHERE DR, ANYPLACE 21111-1111

OUTBUILDING DATA

DESCRIPTION	BLD	YR BLT	LENGTH	WIDTH	UNITS	QUALITY	CURTILAGE	PRICE/UNIT	%COND	VALUE	OVR. VALUE	NOTES
Vinyl Pool			0	0	544.00	Average	No	23.70	50	6,511		

DWELLING VALUE	$246,822
VALUE PER SQ. FT. OF HEATED AREA	70.74

LAND DATA

DESCRIPTION	FRONT FEET	DEPTH	UNITS	UNIT TYPE	INFLUENCE	ADJUSTMENT	CURTILAGE	VALUE	OVR. VALUE	LAND NOTE
Primary Improved 1	0.00	0.00	1.00	AC		1.00	Yes	65,000		
Secondary 1	0.00	0.00	3.13	AC		1.00	Yes	31,300		

PARCEL NOTES

Cedar siding. 97 RA - Remove greenhouse NC. 2003RA add pool & deck.
2003 RA - Refinished bank barn - added back to assessment.
03RA 2WB addition, bath, demolish garage & construct new garage, porch $95,000. send NC notice.

PROPERTY CHARACTERISTICS

CATEGORY	CHARACTERISTIC
Sewer System	Septic

Property Record Card

OV

1. **Administrative data:** Reassessment Year - Owner, Address, Property Use and Location, Field Sequence #, Neighborhood, Legal Description

2. **Dwelling Data:** Year built, Type, Quality

   Section Name: Section name, Area, Heated area, Total Heated Area

3. **Dwelling Characteristics:** Category, Type, % - Category, Units

4. **Depreciation and Adjustments:** Depreciation Type and Adjustment, Total Depreciation

5. **Price Index Type:** Neighborhood Adjustment, County Multiplier, Quality Adjustment, Structure Adjustment

6. **Description:** Land Value

8. **Improvement Sketch**: Shows each section of main improvement, Site Address is show at bottom of sketch box

9. **Value Summary – Full Cash Value**: Prior and Current Years, Improvement, Land, Total, Preferential Land, Curtelage

10. **Sale Data:** Date of Sale and Sale Price

11. **Building Notes**: - includes permit data

12. **Outbuilding Data:** Description, Year built, Units, Quality Price, %condition, Value, Notes

13. **Dwelling Value:** Total Dwelling Value, Value per # of Heated Area

Cost Model Method

Dwelling cost valuation method in AAVS (MD Value method):

(Constant Rate of dwelling style
+
(Dwelling Area #1 * Sq. Ft. Rate of area type)
+
(Dwelling Area #2 * Sq. Ft. Rate of area type)
+
(Dwelling Area #3 * Sq. Ft. Rate of area type)
+
(Any additional dwelling areas * Sq. Ft. Rate of area type))
*
(Exterior Wall Adjustment #1 + Ext. Wall Adj. #2 + Ext. Wall Adj. #3, etc.)
*
Townhouse Adjustment (if necessary)
=
Dwelling Adjusted Base Value
+
(Porch Area * Sq. Ft. Rate of area type) (plus any additional porches)
+
(Garage Area * Sq. Ft. Rate of area type) (plus any additional garage areas)
+
(Area of any other attached items * Sq. Ft. Rate of area type)
+
Structural Element Charges (Bathrooms, fireplaces, A/C, etc.)
=
Total Base Value * Quality Index * County Index
=
Replacement Cost New (RCN) * (100% - (Depreciation Rate + Obsolescence Rate))
*
Neighborhood Adjustment (AKA Market Value Index or MVI)
=
Dwelling Value
+
Extra Feature Values (AKA Accessory Structures)
+
Land Value
=
Total Property Value

Dwelling Base Cost Rates

DWELLING BASE RATES

	1 STORY			1 1/2 STORY		2 STORY		2 1/2 STORY		3 STORY		4 STORY	
	NO BSMT	BSMT	Split Foyer	NO BSMT	BSMT	NO BSMT	BSMT	NO BSMT	BSMT	NO BSMT	BSMT	NO BSMT	BSMT
STANDARD DWELLING - CONSTANT	31760	35570	35570	34700	37750	37890	40960	41380	44440	45185	48220	49340	52320
STANDARD DWELLING - SQ. FT. RATE	79	89.25	104.4	75.75	85.5	72.5	81.9	69.45	78.45	66.55	75.15	63.75	72

EXTERIOR WALL ADJUSTMENTS	ADJ
FRAME ADJUSTMENT	1
BRICK ADJUSTMENT	1.13
STONE ADJUSTMENT	1.25
1/2 BRICK & FRAME ADJUSTMENT	1.07
1/2 STONE & FRAME ADJUSTMENT	1.13

QUALITY INDEX ADJUSTMENT

Index Value = 1.17

Base Quality = 4

	Quality	Power	Index
1	LOW	-3	0.62
2	ECONOMY	-2	0.73
3	BELOW AVG	-1	0.85
4	AVERAGE	0	1
5	ABOVE AVG	1	1.17
6	GOOD	2	1.37
7	VERY GOOD	3	1.6
8	EXCELLENT	4	1.87
9	SUPERIOR	5	2.19

COUNTY INDEX

ALLEGANY	0.9
ANNE ARUNDEL	1.11
BALTIMORE CITY	1.1
BALTIMORE COUNTY	1.1
CALVERT	1.06
CAROLINE	1.01
CARROLL	1.01
CECIL	1.01
CHARLES	1.06
DORCHESTER	1.01
FREDERICK	1.01
GARRETT	0.9
HARFORD	1.1
HOWARD	1.1
KENT	1.01
MONTGOMERY	1.13
PRINCE GEORGE'S	1.13
QUEEN ANNE'S	1.01
SAINT MARY'S	1.06
SOMERSET	1.01
TALBOT	1.01
WASHINGTON	1.01
WICOMICO	1.01
WORCESTER	1.01

MOBILE HOMES

Quality	Sq. Ft. Rate
1	25.11
2	28.35
3	45.36
4	51.84

TOWNHOUSE ADJUSTMENTS

END UNIT	0.97
CENTER UNIT	0.93

Dwelling Structural Element Rates

STRUCTURAL ELEMENT RATES

FIELD	Category Name	Code	Average
ROOF COVER	Comp Shingle	29	0.00
	Built-Up	34	0.00
	Tile	31	4.75
	Metal	33	2.50
	Slate	30	5.25
	Combination	35	0.00
DORMERS	Iindividual	DRI	1100.00
	Linear Foot	DRL	230.00
HEAT TYPE	Hot Air	40	0.00
	Hot Water Baseboard	41	2.05
	Heat Pump	42	0.00
	Hot Water Radiator	43	0.00
	Electric	44	0.00
	Solar	45	0.00
	Space Heater	46	-1.85
	None	79	0.00
AIR COND.	Combined System	47	2.70
	Separate System	48	5.20
FULL BATHS		BT	5000.00
HALF BATHS		HB	2840.00
PORCHES	Deck	F60	16.20
	Deck w/roof	F61	31.15
	Porch - no roof	F62	17.40
	1 Story Open	F63	32.35
	2 Story Open	F64	48.55
	3 Story Open	F65	64.75
	Enclosed Porch	F66	67.10
	Concrete Patio	F67	7.75
	Conc. Patio w/roof	F68	22.70
	Brick Patio	F69	11.25
	Brick Patio w/roof	F70	26.35
	Stone Patio	F71	16.45
	Stone Patio w/roof	F72	31.40
	Enclosed Patio	F91	53.65
FIREPLACES	1 Story Frame	51	4170.00
	1 Story Brick	52	4850.00
	1 Story Stone	88	5385.00
	2 Story Frame	53	4845.00
	2 Story Brick	54	5935.00
	2 Story Stone	89	6585.00
	3 Story Frame	55	5720.00
	3 Story Brick	56	7000.00
	3 Story Stone	90	7770.00
	1 Story Same Chimney	57	2570.00
	2 Story Same Chimney	58	3145.00
	3 Story Same Chimney	59	3145.00
	1 Story Gas	84	3600.00
	2 Story Gas	85	3860.00
	3 Story Gas	86	4090.00
	Direct-vented gas	87	3250.00
BASEMENT ROOMS	Basement Room	BSR	6270.00
	Basement Bedroom	BSB	4600.00
	Finished Basement	BSF	35.25

FIELD	Category Name	Code	Average
TRIM	Brick	TRB	16.65
	Stone	TRS	24.60
ATTACHED GARAGE	Frame	F73	27.90
	Brick	F74	35.45
	Stone	F75	39.70
	Built-in	F76	-53.20
	Basement	F77	6.60
	Carport	F78	19.15
MISC. FEATURES	Extra Kitchen	KTE	5435.00
	Kitchen Sink	KTS	725.00
	Lavatory	LAV	850.00
	Water Closet	WC	875.00
	Bath Tub	BTB	1350.00
	Shower Stall	SHR	1215.00
	Laundry Tub	LTB	830.00
	Water Heater	WTH	1950.00
	Sauna	9	4900.00
	Whirlpool	10	2680.00
	Spa - Fiberglass	11	3975.00
	Spa - Concrete	12	5050.00
	Hot Tub	13	2620.00
	Wet Bar	14	1340.00
	Storage Over	15	4.85
	Room Over	RMO	59.25
	Basement Under	17	13.80
	Open Breezeway	F18	24.90
	Enclosed Breezeway	F19	60.05
	Loft/Balcony	22	24.05
	Walkout Basement	23	3500.00
	Attached Greenhouse	F24	53.05
	Attached Storage	F25	11.55
	Cathedral Ceiling	26	12.50
	Attic Room	38	22.00
	Unfinished Area	93	-35.50
	Elevators	92	19980.00

Dwelling Extra Feature Rates

EXTRA FEATURE RATES

FIELD	Category Name	Cat. #	Average
DETACHED GARAGES	Frame	33	38.70
	Frame w/Storage Over	34	40.22
	Frame w/Room Over	35	82.07
	Brick	36	46.76
	Brick w/Storage Over	37	48.28
	Brick w/Room Over	38	91.17
	Stone	39	51.60
	Stone w/Storage Over	40	53.12
	Stone w/Room Over	41	96.50
	Carport	42	24.50
	Room Over	46	41.76
	Full Bath	47	3547.00
	Half Bath	48	1636.00
	Kitchen	49	3305.00
FARM BUILDINGS	Pole Shed	21	7.62
	Stable	22	11.57
	Barn	23	9.24
	Dairy Barn	24	23.22
	Swine Barn	25	10.19
	Milking Parlor	26	24.38
	Poultry House	27	5.46
	Corn Crib	28	8.43
	Corn Bin	29	6.45
	Silo	30	20.96
	Agr. Greenhouse	31	14.50
	Tobacco Barn	32	10.57
	Grain Tank	43	1.63
	Machine Shed	44	11.00
	Horse Barn	45	20.96
PIERS	4' Wide Pier	10	112.46
	5' Wide Pier	11	115.21
	6' Wide Pier	12	118.02
	8' Wide Pier	13	127.31
	Pier w/Water	14	8.21
	Pier w/Electric	15	5.47
	Pier w/Water & Electric	16	13.70
	Pier Addition	17	4.58
	Boat House	18	25.60
	Piles	19	281.00
MISCELLANEOUS ACCESSORY STRUCTURES	Vinyl Pool	1	23.70
	Concrete Pool	2	39.50
	Pool Enclosure	3	18.32
	Bathhouse	4	28.21
	Tennis Court - Concrete	5	5.21
	Tennis Court - Asphalt	6	3.08
	Tennis Court Lights	7	5071.00
	Res. Greenhouse	8	36.83
	Gazebo	9	24.75
	Shed	20	9.17

Dwelling Cost Example of Record Card

Dwelling cost valuation method in AAVS (MD Value method): See example Property Record Card (PRC)

(Constant Rate of dwelling style	40,960	2 Story with Basement dwelling
+	+	
(Dwelling Area #1 * Sq. Ft. Rate of area type)	238,820	2 story with Basement - 2,916 sq.ft. * 81.90
+	+	
(Dwelling Area #2 * Sq. Ft. Rate of area type)	45,267	1 story no Basement - 573 sq.ft. * 79.00
*	*	
(Exterior Wall Adjustment #1 + Ext. Wall Adj. #2)	1.0325	75% Siding & 25% Brick - (1.00 * 0.75)+(1.13*0.25)
*		
Townhouse Adjustment (if necessary)	N/A	Example dwelling is not a townhouse
=	=	
Dwelling Adjusted Base Value	335,611	(40,960 + 238,820 + 45,267) * 1.0325
+	+	
(Porch Area * Sq. Ft. Rate of area type)	11,523	1 Story open Porch (216 sq.ft.*32.35) & Deck (280 sq.ft*16.20)
+	+	
(Garage Area * Sq. Ft. Rate of area type)	18,748	Frame Attached Garage (672 sq.ft * 27.90)
+	+	
Structural Element Charges (Bathrooms, fireplaces, A/C, etc.)	30,982	2 Full Bathroom (5,000), 1 Half Bathroom (2,840),
=	=	& A/C (3,489 sq.ft.* 5.20)
Total Base Value	396,864	335,611 + 11,523 + 18,748 + 30,982
*	*	
Quality Index	1.17	Above Average Quality
*	*	
County Index	1.01	Washington County Index
=	=	
Replacement Cost New (RCN)	468,974	396,864 * 1.17 * 1.01
*	*	
(100% - (Depreciation Rate + Obsolescence Rate))	0.750	20% Depreciation and 5% Obsolescence (100% - 25%)
*	*	
Neighborhood Adjustment (AKA Market Value Index or MVI)	0.70	Market Adjustment for this dwelling model in this neighborhood
=	=	
Dwelling Value	246,211	
+	+	
Extra Feature Values (AKA Accessory Structures)	6,511	Vinyl Pool - 544 sq.ft., Average Quality, 50% depreciation,
+	+	located in Washington County (county adjustment of 1.01)
Land Value	96,300	See Example PRC
=	=	
Total Property Value	349,000	246,211 + 6,511 + 96,300 = 349,022

Cost – Sales Analysis Summary

Camaset 4.13 ASSESSOR #0286

Land **Subset 1**

Subdivision		VAC CODE	PRIM CODE	UNIT	SIZE	PRIM RATE	VALUE	SEC CODE	SEC RATE	TER CODE
680	SEVEN OAKS									
	Duplexes		1101	SF	4000	$20.00	$80,000	2001	$1.25	3001
	SFDs		1101	SF	4000	$20.00	$80,000	2001	$1.25	3001
	Townhouses		1102	SITE	1	$50,000	$50,000			
	Back to Back Townhouses		1102	SITE	1	$50,000	$50,000			

Models **Subset 1**

Model	Description			MVI
40	SFDs		ALL GRADE	1.00
42	2 & 2 1/2 STY WB	END UNITS	GRADE 3	1.15
44	3 STY NB	END UNITS	GRADE 3	1.05
45	2 & 2 1/2 STY WB	CENTER UNITS	GRADE 3	1.10
47	3 STY NB	CENTER UNITS	GRADE 3	1.05
48	2 STY WB	DUPLEXES	GRADE 3	1.25
49	TOWNHOUSE	END & CENTER UNITS	GRADE 4	0.95
50	TOWNHOUSE	END & CENTER UNITS	GRADE 5	0.80
52	Back to Back TWNH	END & CENTER UNITS	GRADE 4	1.00
53	2 STY WB	DUPLEXES	GRADE 4	1.00

Subset 80
Saybrooke at Seven Oaks Condos # 680
4130080.02-1

Model		LAND	IMPS	$ Per SF
101	UNITS LESS THAN 1000 SF	50%	50%	150
104	UNITS FROM 1000 TO 1199 SF	50%	50%	135
110	UNITS OVER 1200 SF	50%	50%	135

Enclave at Seven Oaks Condos # 680*
4130080.02-2

Model		LAND	IMPS	$ Per SF
116	Townhouse Condo - Rear	25%	75%	130
117	Townhouse Condo - Front	25%	75%	130

*SF adjusted to remove built-in garage from living space. Changed to Townhouse Condo 4/21/2009

Cost – Sales Analysis

SET	413
SUBSET	1

SUBD	(All)
Exclude outliers	TRUE

MOD	MVI	MOD	YEAR	GR	DATE	DWG TYPE	SEC1 STY	PRICE	orig MVI	ACCT	LAND	DWG RESID	DEPR RCN	2) INDIC MVI	SEL MVI	MARKET VALUE	orig ratio	RATIO
		40	2011	4	1/4/2011	1	6	408,000	1	020468090 064204	84,400	323,600	277,500	1.09	1.00	361,900	89%	89%
			2011 Total									297,243	266,514	1.05	1.00	351,129	92%	92%
40 Tot	1.00	40 Total										285,302	257,848	1.04	1.00	341,096	93%	93%
42	1.15	42	2013	3	7/31/2013	2	20	289,000	1.15	020468090 064312	80,000	209,000	159,391	1.22	1.15	263,300	91%	91%
					3/26/2013	2	20	290,000	1.15	020468090 096675	80,000	210,000	160,087	1.22	1.15	264,100	91%	91%
					3/11/2013	2	20	242,000	1.15	020468090 064491	80,000	162,000	139,826	1.07	1.15	240,800	100%	100%
					1/8/2013	2	20	299,900	1.15	020468090 062898	80,000	219,900	186,348	1.10	1.15	294,300	98%	98%
			2013 Total									200,225	161,413	1.15	1.15	265,625	95%	95%
			2012	3	10/5/2012	2	20	255,000	1.15	020468090 068576	80,000	175,000	147,826	1.10	1.15	250,000	98%	98%
					8/17/2012	2	20	283,000	1.15	020468090 068518	80,000	198,100	148,609	1.24	1.15	255,800	92%	90%
					7/24/2012	2	20	250,000	1.15	020468090 068596	80,000	170,000	141,130	1.12	1.15	242,300	97%	97%
					7/12/2012	2	20	250,000	1.15	020468090 096743	80,000	170,000	154,174	1.02	1.15	257,300	103%	103%
					5/18/2012	2	20	286,000	1.15	020468090 068533	80,000	206,000	190,000	1.01	1.15	298,500	104%	104%
					5/8/2012	2	20	282,000	1.15	020468090 096736	80,000	202,000	143,478	1.31	1.15	245,000	87%	87%
			2012 Total									186,850	154,203	1.13	1.15	258,150	97%	97%
			2011	3	4/7/2011	2	20	260,000	1.15	020468090 068690	80,000	180,000	136,957	1.22	1.15	237,500	91%	91%
			2011 Total									180,000	136,957	1.22	1.15	237,500	91%	91%
42 Tot	0.00	42 Total										191,091	155,257	1.15	1.15	258,991	96%	96%
44	1.05	44	2013	3	3/11/2013	2	23	257,400	1	020468090 064467	80,000	177,400	153,000	1.08	1.05	240,650	91%	93%
					2/13/2013	2	23	165,000	1	020468090 095467	80,000	85,000	136,700	0.56	1.05	223,540	131%	135%
			2013 Total									131,200	144,850	0.82	1.05	232,095	111%	114%
			2012	3	11/20/2012	2	23	223,500	1	020468090 095526	80,000	143,500	138,200	0.96	1.05	225,110	98%	101%
					11/13/2012	2	23	270,000	1	020468090 063971	80,000	190,000	190,400	0.93	1.05	279,920	100%	104%
					11/9/2012	2	23	215,000	1	020468090 095399	80,000	135,000	141,000	0.88	1.05	228,050	103%	106%
					8/2/2012	2	23	271,000	1	020468090 064456	80,000	191,000	145,700	1.22	1.05	232,990	83%	86%

8/21/2013

Page 2 of 13

Class A - Assessment Budget's

		Budget Analysis								
		FY 2015 Budget**								
County Class	County	General Funds	Special Funds	Total	FTE	Total Parcels	Field Assessor	2015 Budget per FTE	Per Parcel	Per Field
A	Anne Arundel	1,170,355	1,170,356	2,340,711	34	211,308	17.5	68,844	11.08	133,755
A	Baltimore City	2,090,459	2,090,459	4,180,918	45	236,929	24.5	92,909	17.65	170,650
A	Baltimore	1,701,024	1,701,025	3,402,049	43	298,518	23	79,117	11.40	147,915
A	Montgomery	2,149,258	2,149,258	4,298,516	53	336,785	30.5	81,104	12.76	140,935
A	Prince George's	1,714,332	1,714,332	3,428,664	42	292,167	19.5	81,635	11.74	175,829

Class B - Assessment Budget's

Budget Analysis

FY 2015 Budget**

County Class	County	General Funds	Special Funds	Total	FTE	Total Parcels	Field Assessor	2015 Budget per FTE	Per Parcel	Per Field
B	Carroll	522,252	522,252	1,044,504	12	66,848	5.5	87,042	15.63	189,910
B	Charles	430,044	430,044	860,088	12	64,845	6	71,674	13.26	143,348
B	Frederick	615,102	615,103	1,230,205	14	94,520	6	87,872	13.02	205,034
B	Harford	578,397	578,398	1,156,795	15	98,336	7	77,120	11.76	165,256
B	Howard	611,104	611,105	1,222,209	15	104,085	8	81,481	11.74	152,776
B	Washington	474,542	474,543	949,085	11	58,904	5.5	86,280	16.11	172,561
B	Worcester	548,717	548,718	1,097,435	14	66,383	5.5	78,388	16.53	199,534

Class C - Assessment Budget's

Budget Analysis

FY 2015 Budget**

County Class	County	General Funds	Special Funds	Total	FTE	Total Parcels	Field Assessor	2015 Budget per FTE	Per Parcel	Per Field
C	Allegany	374,632	374,633	749,265	8	41,327	3	93,658	18.13	249,755
C	Calvert	320,212	320,212	640,424	10	42,740	3	64,042	14.98	213,475
C	Caroline	261,136	261,137	522,273	7	16,734	1	74,610	31.21	522,273
C	Cecil	362,796	362,797	725,593	9	47,103	4	80,621	15.40	181,398
C	Dorchester	236,780	236,781	473,561	6	23,171	2	78,927	20.44	236,781
C	Garrett	365,178	365,178	730,356	9	29,393	3	81,151	24.85	243,452
C	Kent	202,721	202,722	405,443	5	13,467	1	81,089	30.11	405,443
C	Queen Anne's	287,612	287,613	575,225	6	25,829	2	95,871	22.27	287,613
C	St. Mary's	472,961	472,961	945,922	10	48,813	4	94,592	19.38	236,481
C	Somerset	223,530	223,531	447,061	6	17,109	2	74,510	26.13	223,531
C	Talbot	293,725	293,725	587,450	7	21,180	2	83,921	27.74	293,725
C	Wicomico	351,075	351,076	702,151	8	46,683	3	87,769	15.04	234,050
	Total	16,357,944	16,357,959	32,715,903	401	2,303,177	188.5	1,964,229	428.35	5,325,478

1^{st} Level Assessment Appeals

- **<u>Supervisors level</u>** appeal/owner can get a copy of worksheet/that information will be reviewed at the meeting.
- Your first level hearing is informal and should be viewed as an opportunity to present evidence which would indicate that the department's value of the property is inaccurate.
- Property owner should focus on points that affect value/math errors/differences in property characteristics, and property sales that supports the property owners findings as to value.

2nd Level Assessment Appeals

- Following the 1st level hearing, the property owner will be mailed a Final Notice of Assessment
- If the property owner does not agree with decision the may appeal to the **Property Tax Assessment Appeal Board** in the county where the property is located (three member independent board)
- Property owner can obtain a list of comparable properties if requested 15 days before hearing.
- Property owner is free to submit any supporting evidence.

3rd Level Assessment Appeals

- If dissatisfied with the notice of decision from the Appeal Board, you my file (within 30 days) to the **Maryland Tax Court.**

IAAO Mass Appraisal Standard

▪3.3.4 Maintaining Property Characteristic Data

- Property characteristics data should be continually updated in response to changes brought about by new construction, new parcels, remodeling, demolition, and destruction. There are several ways of updating data.

- The most efficient method involves building permits. Ideally, strictly enforced local ordinances require building permits for all significant construction activity, and the assessor's office receives copies of the permits. This method allows the assessor to identify properties whose characteristics are likely to change, to inspect such parcels on a timely basis (preferably as close to the assessment date as possible), and to update the files accordingly

IAAO Mass Appraisal Standard

▪3.3.4 Maintaining Property Characteristic Data

- Another method is aerial photography, which also can be helpful in identifying new or previously unrecorded construction and land use.

- Some jurisdictions use self-reporting, in which property owners review the assessor's records and submit additions or corrections.

- Information derived from multiple listing sources and other third-party vendors can also be used to validate property records.

IAAO Mass Appraisal Standard

▪3.3.4 Maintaining Property Characteristic Data

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- Some jurisdictions use self-reporting, in which property owners review the assessor's records and submit additions or corrections.

- Information derived from multiple listing sources and other third-party vendors can also be used to validate property records

- Periodic field inspections can help ensure that property characteristics data are complete and accurate.

IAAO Mass Appraisal Standard

▪3.3.4 Maintaining Property Characteristic Data

- Assuming that most new construction activity is identified through building permits or other ongoing procedures, a physical review including an on-site verification of property characteristics should be conducted at least every 4 to 6 years.

- Re-inspections should include partial re-measurement of the two most complex sides of improvements and a walk around the improvement to identify additions and deletions. Photographs taken at previous physical inspections can help identify changes

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- Provided that initial physical inspections are timely completed and that an effective system of building permits or other methods of routinely identifying physical changes is in place, jurisdictions may employ a set of digital imaging technology tools to supplement field re-inspections with a computer-assisted office review.

These imaging tools should include the following:

- Current high-resolution street-view images (at a sub-inch pixel resolution that enables quality grade and physical condition to be verified)

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- Ortho-photo images (minimum 6” pixel resolution in urban/suburban and 12” resolution in rural areas, updated every 2 years in rapid growth areas, or 6–10 years in slow growth areas).

- Low level oblique images capable of being used for measurement verification (four cardinal directions, minimum 6-inch pixel resolution in urban/suburban and 12-inch pixel resolution in rural areas, updated every 2 years in rapid growth areas or, 6–10 years in slow growth areas).

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- These tool sets may incorporate change detection techniques that compare building dimension data (foot-prints) in the CAMA system to geo-referenced imagery or remote sensing data from sources (such as LIDAR [light detection and ranging]) and identify potential CAMA sketch discrepancies for further investigation.

- Assessment jurisdictions and oversight agencies must ensure that images meet expected quality standards. Standards required for vendor-supplied images should be spelled out in the Request for Proposal (RFP) and contract for services, and images should be checked for compliance with specified…

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- These tool sets may incorporate change detection techniques that compare building dimension data (foot-prints) in the CAMA system to geo-referenced imagery or remote sensing data from sources (such as LiDAR [light detection and ranging]) and identify potential CAMA sketch discrepancies for further investigation.
- Assessment jurisdictions and oversight agencies must ensure that images meet expected quality standards. Standards required for vendor-supplied images should be spelled out in the Request for Proposal (RFP) and contract for services, and images should be checked for compliance with specified…

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- In addition, appraisers should visit assigned areas on an annual basis to observe changes in neighborhood condition, trends, and property characteristics. An on-site physical review is recommended when significant construction changes are detected, a property is sold, or an area is affected by catastrophic damage. Building permits should be regularly monitored and properties that have significant change should be inspected when work is complete.

IAAO Mass Appraisal Standard

▪3.3.5 Alternatives to Periodic On-site Inspection

- Sections 3.3.4 and 3.3.5, property characteristics data should be reviewed and updated at least every 4 to 6 years. This can be accomplished in at least three ways:
  - Re-inspecting all property at periodic intervals (i.e., every 4 to 6 years)
  - Re-inspecting properties on a cyclical basis (e.g., one-fourth or one-sixth each year)
  - Re-inspecting properties on a priority basis as indicated by ratio studies or other considerations while still ensuring that all properties are examined at least every sixth year

IAAO Mass Appraisal Standard

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Property Sketches - Overview

Account # 2208065013______

STATE OF MARYLAND DEPARTMENT OF ASSESSMENTS AND TAXATION
PROPERTY RECORD CARD - REASSESSMENT YEAR 2012

Page 1 of 1
PRINTED 12/09/2011

Owner	JOHN Q. DOE	**Property Use**	Residential	**Map/Gr/Par/Sec/Bl/Lt**	220000 /0023 /0260 / / /A	**Legal Description**	
Mail Addr	12345 ANYWHERE DR	**Occupancy**	Owner Occupied	**Field Sequence Number**	01234-022-00-00	4.13 ACRES PAR A	
	ANYPLACE, MD 21111-1111	**Valued By**		**Neighborhood**	3010077.22	12345 ANYWHERE DR	
		Value Method	MD Value	**BPRUC**		MARYLAND ACRES	

VALUE SUMMARY
FULL CASH VALUE

	Prior	Current
Total Land	116,300	96,300
Total Improvements	348,600	253,300
Total Value	464,900	349,600
Preferential Land	0	0
Curtilage	464,900	349,600

SALES DATA

Sale Date	Sale Price
08/01/1980	49500

BUILDING NOTES

DWELLING DATA

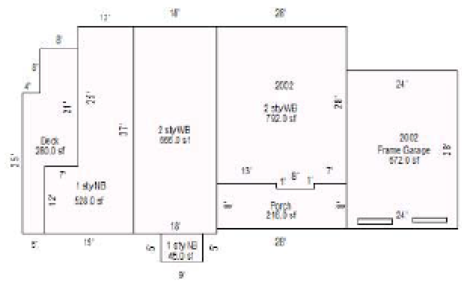
Dwelling No.	1	**Year Built**	1982
Type	Standard Unit	**Model No.**	024
Quality	Above Average	**Curtilage**	No

SECTION NAME	AREA	HEATED AREA
2 Story With Basement	1,458	2,916
1 Story No Basement	573	573
Deck	280	0
Frame Attached Garage	672	0
1 Story Open Porch	216	0
Total Heated Area		3,489

DWELLING CHARACTERISTICS

CATEGORY	TYPE	%
ROOF COVER RES	COMPOSITION	100
HEATING TYPE RES	ELECTRIC	100
PHYSICAL CONDITION	AVERAGE	100
AIR CONDITIONING	A/C: SEPARATE	100
EXTERIOR WALL	FRAME	75
EXTERIOR WALL	BRICK	25

CATEGORY	UNITS
BATHS	3.00
HALF BATHS	1.00



SITE ADDRESS: 12345 ANYWHERE DR, ANYPLACE 21111-1111

OUTBUILDING DATA

DESCRIPTION	BLD	YR BLT	LENGTH	WIDTH	UNITS	QUALITY	CURTILAGE	PRICE/UNIT	%COND	VALUE	OVR. VALUE	NOTES
Vinyl Pool			0	0	544.00	Average	No	23.70	50	6,511		

DEPRECIATION & ADJUSTMENTS

DEPRECIATION TYPE	ADJUSTMENT
Functional Obsolescence	0.0500
Total Depreciation	0.2500

PRICE INDEX TYPE	ADJUSTMENT
Neighborhood Adj.	0.7000
County Multiplier	1.0100
Quality Factor	1.1700
Structure Adjustment	1.0325

DWELLING VALUE	$246,822
VALUE PER SQ. FT. OF HEATED AREA	70.74

LAND DATA

DESCRIPTION	FRONT FEET	DEPTH	UNITS	UNIT TYPE	INFLUENCE	ADJUSTMENT	CURTILAGE	VALUE	OVR. VALUE	LAND NOTE
Primary Improved 1	0.00	0.00	1.00	AC		1.00	Yes	65,000		
Secondary 1	0.00	0.00	3.13	AC		1.00	Yes	31,300		

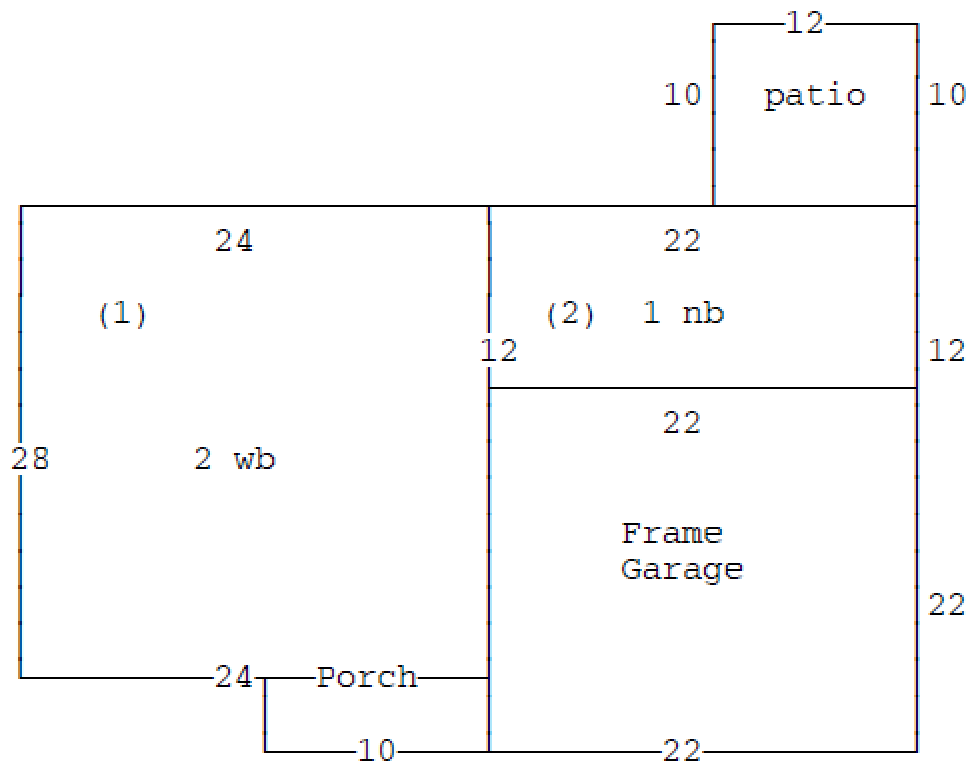
PARCEL NOTES

Cedar siding. 97 RA - Remove greenhouse NC. 2000RA add pool & deck.
2009 RA - Refinished bank barn - added back to assessment.
03RA 2WB addition, bath, demolish garage & construct new garage, porch $88,000; send NC notice

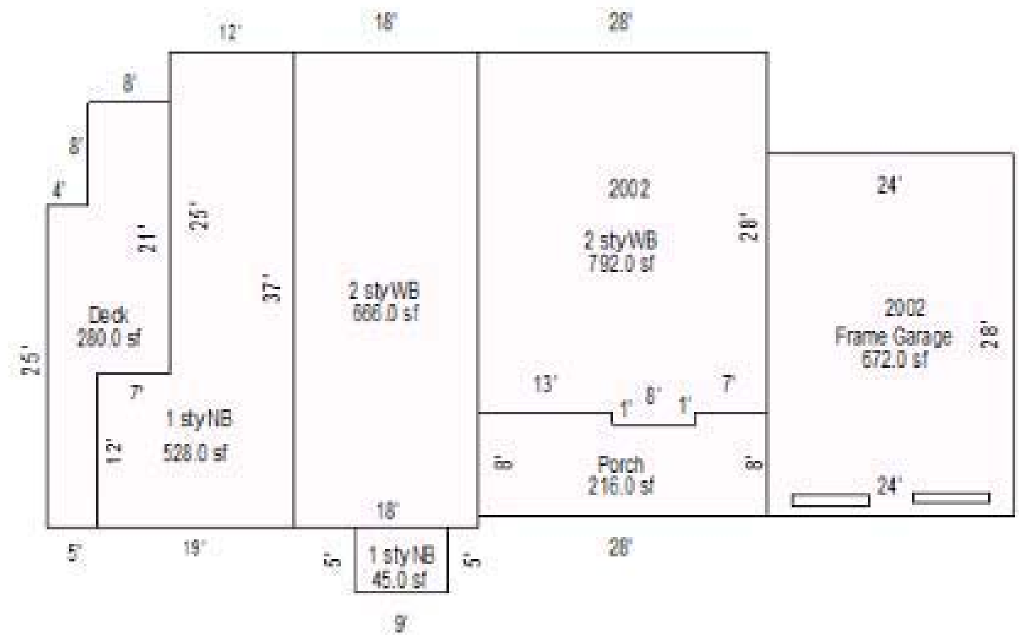
PROPERTY CHARACTERISTICS

CATEGORY	CHARACTERISTIC
Sewer System	Septic

Property Sketches - Overview



Property Sketches - Overview



Property Sketches - Status

APRIL 2014	Residential Sketches Possible	Residential Sketches Complete	Residential Sketches % Complete
Allegany	26,522	26,472	100%
AA Co	168,274	63,910	38%
Baltimore	139,088	75,619	54%
Baltimore Co	230,056	103,936	45%
Calvert	32,130	31,944	99%
Caroline	11,734	11,678	100%
Carroll	55,283	34,402	62%
Cecil	34,075	33,539	98%
Charles	50,682	29,753	59%
Dorcester	13,630	13,590	100%
Frederick	75,826	75,035	99%
Garrett	16,292	16,234	100%
Harford	78,971	12,287	16%
Howard	82,312	34,539	42%
Kent	8,954	8,713	97%
Montg Co	236,974	50,521	21%
PG Co	214,145	208,293	97%
QA Co	19,574	18,877	96%
St. Mary's	36,375	34,956	96%
Somerset	8,918	8,852	99%
Talbot	17,197	16,873	98%
Wash Co	47,586	47,343	99%
Wicomico	32,430	32,343	100%
Worcester	27,280	23,797	87%
	1,664,308	1,013,506	61%

Property Sketches - Overview

- Needed to quickly and accurately verify if building sections and sizes are correct
- Historically, sketch was on paper record.
- CAMA in 1990 did not have sketch routine
- In mid late 1990's, Apex sketch software was added and a digital sketch conversion project began.
- Preceding Chart is the status of digital sketch conversion
- Sketches are a combination of digital (in AAVS) and manual paper sketches on old property record cards

Property Sketches - Overview

- With 1,664,308 residential sketches, there should be adequately trained clerical staff to update sketches for changes or corrections on existing sketches. Both assessors and clerical should be trained.

- With New Property Pick-up, the most time consuming part of the process is the initial pick-up – measuring, sketching, listing of all property characteristics and then completing the initial data entry of all characteristics into AAVS

Performance Audit Report

Department of Assessments and Taxation

Homestead Property Tax Credits

A Comprehensive Compliance Program Should be Established

Data System Controls Should be Enhanced and Data Matches Should be Performed to Monitor Continued Eligibility of Properties for the Credits

Actions Should be Taken to Maximize the Recovery of Taxes for Improperly Granted Credits

February 2013

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.

Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

February 28, 2013

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We conducted a performance audit to assess the State Department of Assessments and Taxation's (DAT) procedures for ensuring that Homestead Property Tax Credits (HTC) are only granted for eligible properties.

DAT determines eligibility for the HTC using an application process as established by law, which helps ensure that property owners do not receive HTCs for more than one property in Maryland. Homeowners eligible for an HTC who purchased their properties prior to January 1, 2008, when there was no application requirement, needed to submit an application to DAT by December 31, 2012 to continue to remain eligible for the HTC. The HTC reduces property tax increases on an owner-occupied principal residence by capping the yearly increase in taxable assessments to a fixed percentage[1] of the prior year's taxable assessment. Using DAT's records, we estimated that the HTCs will reduce property tax revenue to the State's 23 counties and Baltimore City for fiscal year 2013 by an estimated $323.1 million, and reduce property tax revenue to the State by $2.3 million.

Our audit disclosed that DAT has not established a formal comprehensive compliance program to administer the HTC. Specifically, DAT has not established written procedures for the processing of HTC applications, delineated the roles and responsibilities of DAT headquarters and the local assessment offices to verify continued eligibility of properties for the HTC, nor established procedures to monitor the local assessment offices' HTC related activities. Furthermore, local assessment offices were not consistently using available sources of information to help identify properties that may not be

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[1] By law, the fixed percentages are set by each county and applicable municipality, and the State. The State rate is 10 percent; the county and municipal rates range from 0 percent to 10 percent.

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eligible to receive the HTC, and DAT headquarters had not developed automated matching techniques using available data sources to detect ineligible properties. Certain data matches we conducted identified numerous instances in which properties were improperly designated as eligible for the HTC. Our review also disclosed that internal controls need to be improved over application processing, access to the applicable data systems, and changes made to critical system data fields affecting HTC eligibility.

DAT also needs to establish a plan to investigate the propriety of HTCs received in prior years on properties that will be removed from eligibility because an application was not submitted by the December 31, 2012 deadline or was not approved. DAT estimated that, as of January 17, 2013, it had received approximately 175,000 applications that had not been processed. However, this quantity is significantly less than the approximately 513,000 properties deemed eligible on DAT's records at that date for which an application had not been processed, including approximately 183,000 properties with HTCs valued at approximately $87 million beginning July 1, 2013. DAT also needs to develop a policy regarding the recovery of all improperly granted HTCs as allowed by law. DAT's practice was to research the amount of improperly granted HTCs for the latest three years, even though the properties may have been ineligible for a longer period.

As part of the audit, we conducted a statistical sample of the 1,343,271 properties classified as eligible for the HTC in DAT's records as of June 1, 2012 to determine the extent to which properties were actually ineligible for HTCs. Based on the results, we are 95 percent confident that between 8,422 properties and 109,409 properties classified as eligible for the HTC were actually ineligible. Our sample was selected before the application filing deadline of December 31, 2012 had passed; therefore, some of these properties may ultimately become ineligible for the HTC due to the failure to file an application or because the application is not approved.

An executive summary of our findings can be found on page 5, and our audit scope, objectives, and methodology are explained on page 13. DAT's response is included as an appendix to this report. We wish to acknowledge the cooperation extended to us by DAT during our audit.

Respectfully submitted,

Thomas J. Barnickel III

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

Executive Summary

Legislative Audit Report on the Department of Assessments and Taxation Homestead Property Tax Credits February 2013

We conducted a performance audit to assess the State Department of Assessments and Taxation's (DAT) procedures for ensuring that Homestead Property Tax Credits (HTC) are only granted for eligible properties. The audit was conducted at the direction of the General Assembly's Joint Audit Committee. Our audit had two objectives:

1. To evaluate DAT's procedures and controls for initially approving HTCs and for periodically reviewing properties' continuing eligibility for HTCs.

2. To identify automated methods and data sources DAT could use to systematically evaluate properties for continued HTC eligibility.

The audit disclosed several areas where DAT can improve its processes to ensure that only eligible properties receive an HTC and recoveries of HTCs provided for ineligible properties are maximized. Our audit also disclosed additional automated procedures are available to DAT to ensure that HTCs are provided for only eligible properties on an ongoing basis.

DAT had not developed a comprehensive compliance program to ensure that HTCs are only granted for eligible properties. Such a program should include written procedures for the processing of HTC applications, establish the responsibilities and the related processes to be performed at both DAT headquarters and the local assessment offices, and establish procedures to monitor the local assessment offices' activities. Furthermore, local assessment offices were not consistently using available sources of information to help identify properties that may not be eligible to receive the HTC.

Our review also disclosed that procedures over HTC application processing need improvement. Applications received by DAT are initially screened, which includes a comparison of the applicant's property address to the homeowner's federal tax return address to help ensure that property owners do not receive HTCs for more than one property. However, the screening process could be enhanced by comparing applicant names with the property owner names in the real property records. Also, procedures over the approval of certain applications need to be strengthened. Users' access and capabilities for the systems that control HTC eligibility should be periodically evaluated and limited as appropriate, and changes made to critical system data fields should be independently reviewed.

DAT should also develop a policy regarding the recovery of all improperly granted HTCs as allowable under law and consider proposing legislation requiring homeowners to notify DAT regarding changes in property status that would render the property no longer eligible for the HTC. Consideration should also be given to standardizing the owner naming conventions used in DAT databases to enhance automated matching capabilities.

DAT should develop a plan to investigate the propriety of HTCs received in prior years on properties that will be removed from eligibility because an application was not submitted by the deadline or was not approved.

DAT also does not perform other automated processes to help identify, on an ongoing basis, properties that are no longer eligible for the HTC. Our audit identified several matching processes that DAT could employ to help ensure that HTCs are proper on an ongoing basis. When we performed these matches, numerous instances of ineligible properties were noted.

As part of the audit, we conducted a statistical sample of the 1,343,271 properties classified as eligible for the HTC in DAT's records as of June 1, 2012 to determine the extent to which properties were actually ineligible for HTCs. Based on the results, we are 95 percent confident that between 8,422 properties and 109,409 properties classified as eligible for the HTC were actually ineligible. Our sample was selected before the application filing deadline of December 31, 2012 had passed; therefore, some of these properties may ultimately become ineligible for the HTC due to the failure to file an application or because the application is not approved.

Background Information

Purpose of Homestead Credit

The State Department of Assessments and Taxation (DAT) is responsible for administering the State's real and personal property tax laws, including the Homestead Property Tax Credit (HTC). State Law (Section 9-105 of the Tax-Property Article of the Annotated Code of Maryland) established the HTC to help homeowners who have had large assessment increases on their principal residence. The law limits the increase in county and State taxable assessments on individual owner-occupied properties to a fixed percentage of the preceding year's taxable assessment. Every county and municipality is required to establish the limit on taxable assessment increases at 10 percent or less each year. (See Exhibit A for a list of Maryland's 24 subdivision HTC percentages.) The State limits the taxable assessment increase to 10 percent for determining the State portion of the HTC.

As an example, assume a residential property's prior taxable assessment was $100,000 and the new assessment is $160,000 to be phased in over three years (that is, increased $20,000 per year during the 3-year phase-in period). The first year phase-in assessment would be $120,000. However, a 5 percent county assessment limit over the prior year's taxable assessment would limit the first year county taxable assessment to $105,000. The difference between $120,000 and $105,000 is $15,000; the county's portion of the tax credit would apply to the taxes due on the $15,000. If the county tax rate was $1.04 per $100 of assessed value, the HTC on the county's portion of the property tax would be $156.00 ($15,000 ÷ 100 x $1.04). Similarly, the State's portion of the HTC would be based on a taxable assessment of $110,000 (that is, a 10 percent increase over the prior year) and the State tax rate of $0.112 per $100 of assessed value. Accordingly, the State tax credit for the first year would be $11.20 ($10,000 ÷ 100 x $0.112). The State credit is much less than the county credit because the State property tax rate per $100 of assessed value is much lower than county rates, and the State credit is always based on a 10 percent annual taxable assessment increase whereas counties frequently use lower limits. The HTC is shown on the property tax bill as a credit reducing the total property tax owed. Exhibit B provides a sample calculation of the HTC based on certain application filing dates.

Value of Homestead Credits and Recent Trends

Based on DAT's records, we estimated that, during fiscal year 2013, the total reduction in property tax revenue from the credit for the State's 23 counties and Baltimore City will total approximately $323.1 million. The reduction in State property tax revenue attributable to the credit during fiscal year 2013 will be approximately $2.3 million.

Not all properties that meet eligibility requirements for the HTC will actually receive a credit in any given year, and the properties that do or do not receive a credit can change from year-to-year based on application of the relevant limits and rates. For example, no credit is received in tax years where the assessment increase over the preceding tax year is less than the limits established by the individual jurisdictions and the State.

As home values and assessments have declined in recent years, fewer homeowners are receiving an HTC on their eligible property. According to DAT's records, for fiscal year 2013, there were 1,342,991 properties eligible for the HTC but only 600,197 (44.7 percent) of the properties actually received a credit. As shown by the following two tables, which are based on DAT's records, Statewide residential property assessed values have declined considerably in recent years, and as a result the total value of all HTCs has also declined. Many of the 742,794 properties eligible for an HTC but not currently receiving one could begin receiving an HTC if their property assessment values increase.

Statewide Average Change in Residential Real Property Assessments From the Preceding Three-Year Assessment Cycle[2]			
FY 2010	FY 2011	FY 2012	FY 2013
-3.4%	-20%	-22%	-17%

[2] Approximately one-third of residential properties are assessed each year with an estimated value as of December 31. The fiscal year 2013 change in values, for example, represents the change in property assessments from the fiscal year 2010 assessments on those same properties.

Statewide Estimated Value of Homestead Property Tax Credits to Homeowners (Reduction in Property Tax Revenue Collected)					
	FY 2010	FY 2011	FY 2012	FY 2013	Percent Change FY 10-13
County	$1,313,455,340	$950,462,722	$585,177,392	$323,124,929	(75.4%)
State	$86,821,366	$35,129,889	$8,073,850	$2,252,360	(97.4%)

HTC Eligibility Criteria and Application Requirements

According to State law, only owner-occupied residences are eligible for the credit and a property owner can only receive the credit on one property. An owner must reside at the property for at least six months of the year, including July 1 of the year for which the credit is received. Married couples are considered a single entity for HTC eligibility. Therefore, if a married couple receives the HTC on one residence, neither spouse is allowed to receive the HTC on another property in the State.

Legislation enacted by the Maryland General Assembly during the 2007 Legislative Session requires homeowners to submit an application for the HTC (which includes their social security numbers) to DAT. For all properties in which ownership was transferred after December 31, 2007, the new homeowner can only receive an HTC when a properly completed application is submitted to DAT and the information in the application indicates that the property qualifies for the HTC.

In addition, all homeowners whose properties are eligible for an HTC but had never submitted an application (generally those who purchased their properties prior to January 1, 2008 when there was no application requirement) were required to submit an application to DAT by December 31, 2012 to continue to remain eligible for the HTC. Under current law, homeowners who failed to submit an HTC application by this deadline will lose the HTC effective with the tax year starting July 1, 2013. As of January 17, 2013, according to DAT records, there were approximately 513,000 properties eligible for the HTC (including 183,000 that are receiving an HTC) for which an application had not been received by DAT. Homeowners who miss the December 31, 2012 filing deadline but file the application by June 30, 2014 can have their HTC eligibility and credit reinstated on the same assessment basis as it was previously calculated but cannot retroactively receive the credit for the tax year beginning July 1, 2013. Applications received after June 30, 2014 will result in the properties being assessed at their full value beginning July 1, 2014 with the HTC limits applied prospectively based on the full value. This is demonstrated in Exhibit B which is an example of the calculation of the HTC based on the date an application is filed and approved.

DAT Organization and Responsibilities

DAT's headquarters is located in Baltimore and it operates assessment offices in each of the State's 24 local subdivisions. DAT headquarters maintains an HTC office currently staffed by 11 employees who are almost exclusively devoted to processing and approving HTC applications. As required by State law, DAT is reimbursed by the State's 24 subdivisions for the cost to maintain this office (according the State records, approximately $617,000 during fiscal year 2012).

The local assessment offices have a total of approximately 390 employees. The primary responsibility of the local assessment offices is to assess and reassess the State's approximately 2.2 million taxable real property parcels every three years. Owner data are entered in the real property records by the local assessments offices for the 23 counties upon notification of a new deed. Owner data for properties in Baltimore City are uploaded to DAT's real property records from the City Government's property system which records new deeds. When a property is transferred to a new owner as evidenced by a deed, the property should lose its HTC eligibility until a valid application for the credit is filed by the new owner. The local assessment offices perform certain procedures to help ensure ongoing compliance with HTC eligibility requirements as part of the assessment process and investigate allegations about property owners who are improperly receiving HTCs.

During the 2012 Legislative session, legislation was enacted which requires a person who has been granted an HTC for which they did not qualify to be assessed all state and local taxes that they would have otherwise paid. This legislation also states if a person is found by DAT to have willfully misrepresented facts regarding qualification for the HTC, the person shall be assessed a penalty of 25 percent of the HTC received for which the person did not qualify. Prior to the enactment of this legislation, there was no statutory provision that specifically addressed recovery of prior HTCs improperly received. However, Title 14 of the Tax-Property Article of the Annotated Code of Maryland contains a statute of limitations provision that allows for the recovery of taxes imposed under the Article owed for the most recent seven years. When DAT detects HTCs granted for ineligible properties, it generally forwards the related information to the local taxing authorities so that they can bill property owners for the amounts attributable to the credits owners improperly received during a given period.

DAT Automated Systems and Processes

DAT headquarters maintains a Homestead Credit Application System to receive online HTC applications and to process mailed-in applications. The Application System conducts certain initial screening tests for eligibility and flags applications needing further review and information before DAT headquarters authorizes HTC eligibility in the System. On a weekly basis, the Application System updates the Assessment and Administration Valuation System (AAVS) for any changes made at DAT headquarters for HTC eligibility. AAVS is DAT's primary property database system that includes a wide range of information and history about individual properties, including assessment values. The information from AAVS is provided annually to local jurisdiction taxing authorities so they can calculate the property taxes and credits and prepare their respective property tax bills.

Within AAVS, certain data fields are used to identify HTC eligible properties. The Owner Occupancy Field, which is maintained and updated by the local assessment offices, is used to identify whether a property is eligible for the HTC based on information accumulated by the local assessor, usually during the triennial field assessment of each property. The Homestead Qualification Field is primarily maintained by DAT headquarters via updates of the HTC Application System. Both the Owner Occupancy and Homestead Qualification Fields must deem a property as HTC eligible before AAVS will calculate the reduced taxable assessment for a property needed to carry out the HTC law.

Statistical Analysis of Properties Designated as Eligible for the HTC

To estimate the number of properties that may be improperly classified as eligible for the HTC, we tested a statistical sample of properties classified as eligible for the HTC as of June 1, 2012. (This was before the December 31, 2012 deadline for homeowners to submit HTC applications, so both the population and sample included properties that had grandfathered HTC eligibility and properties that had HTC eligibility determined through the application process.) The population consisted of 1,343,271 properties classified as eligible as of June 1, 2012 for the HTC in DAT's AAVS from which we selected a random sample of 114 properties. Based on the information available to us, we determined that 5 of the 114 properties tested (4.39 percent) were improperly classified as eligible for the HTC. Three of these five properties had actually received an HTC for fiscal year 2013. For four of these five properties, we determined that the property owner was deceased and it did not appear that the property was occupied by an assignee, survivor, or personal representative of the property owner thus making the property ineligible for the credit (since the property was not owner-occupied). For the fifth property, we determined that the property was not owner occupied (property owner was not deceased in this case). Based on identifying 5 properties ineligible for the HTC within the sample, we are 95 percent confident that between 0.63 percent (8,422 properties) and 8.14 percent (109,409 properties) of properties classified as eligible for the HTC in AAVS as of the start of fiscal year 2013 were ineligible for the HTC (percentages are rounded). The central (or best) estimate is that 58,970 (4.39 percent) properties were incorrectly listed as eligible for the HTC. The five properties that we determined to be ineligible for the HTC were referred to DAT for further investigation.

Audit Scope, Objectives, and Methodology

Scope

We conducted a performance audit to assess the State Department of Assessments and Taxation's (DAT) procedures for ensuring that Homestead Property Tax Credits (HTC) are only granted for eligible properties. The audit was conducted at the direction of the General Assembly's Joint Audit Committee. We conducted this audit under the authority of the State Government Article, Section 2-1221 of the Annotated Code of Maryland and performed it in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our audit had two objectives:

1. To evaluate DAT's procedures and controls for initially approving HTCs and for periodically reviewing properties' continuing eligibility for HTCs.

2. To identify automated methods and data sources DAT could use to systematically evaluate properties for continued HTC eligibility.

Methodology

To perform the audit, we studied the laws applicable to the HTC, and reviewed available regulations, policies, manuals, and directives of DAT. We also interviewed numerous DAT employees and obtained an understanding of DAT's procedures and the key information systems used to process and record HTCs and related records. We also used statistical sampling to estimate the error rate for properties designated in DAT's records as eligible for an HTC as of June 1, 2012. However, due to the variability of local jurisdiction's HTC rates, property values, and other factors we could not reliably estimate from our sample the total dollar value of tax credits that had been issued for all ineligible properties.

We obtained data files from DAT, other state agencies (such as the Motor Vehicle Administration), and local subdivisions and used these data files to perform various comparisons to DAT's records. We evaluated and/or tested the files from these data sources and determined the records were appropriate and reliable for our purposes. We also determined that the data files from DAT that we used were complete.

Objective 1

We reviewed procedures and controls over the approval of HTCs at DAT headquarters and DAT policies issued to govern local assessment offices' handling of HTC matters. We also evaluated the procedures used to detect properties improperly designated as being eligible for HTCs subsequent to initial approval, and reviewed employees' access and capabilities on the systems used to record application data and other property data which designates properties as eligible for the HTC. We also reviewed procedures at the Anne Arundel County, Baltimore City and Worcester County local assessment offices, and made inquiries on specific issues at other local assessment offices as needed. The Baltimore City local assessment office was selected because it has a large dollar value of HTCs and has been the subject of several newspaper articles on properties being improperly designated as eligible for HTCs. Anne Arundel County was selected because it also has a large dollar value of credits due to its low assessment cap (that is, a maximum two percent increase over the prior year's taxable assessment). Worcester County was selected because it has a large number of non-owner occupied properties that are ineligible for the HTC.

Objective 2

We performed computer matches to various data sources and employed data mining techniques using DAT's records as recorded in the application system and real property records to identify properties potentially improperly designated as eligible to receive an HTC. We conducted these matches to determine whether these automated techniques could be worthwhile for ongoing monitoring purposes. The principal data sources used for our matching were:

- The Maryland Motor Vehicle Administration's file of individuals who surrendered their Maryland drivers' licenses during fiscal years 2010 through 2012.
- Property owners' addresses from their most recent income tax returns.
- DAT's real property records (Assessment and Administration Valuation System) to identify multiple properties with the same owner based on owners' addresses.
- Files of licensed rental properties maintained by five local governments.
- Lists of properties in foreclosure during fiscal year 2012 obtained from two circuit courts.

We subsequently selected a sample of the match results and reviewed related records and documents to determine if the properties were actually eligible for the credit. To assess the propriety of HTC eligibility and credits approved for individual properties, we reviewed homeowners' federal income tax return addresses maintained by DAT, their addresses on file with the Motor Vehicle Administration, court records such as divorce filings and recorded property deeds, rental and vacant property listings maintained by local governments, the HTC applications maintained by DAT, and a commercial database of public records. By reviewing the data sources, we were able to determine with reasonable certainty whether properties were eligible under law for HTCs. We did not contact property owners directly to obtain their representations about their properties. We did provide our findings about individual properties to DAT for its subsequent review and administrative actions. DAT had corrected the eligible status of the properties and notified the local taxing authorities for several of the properties improperly designated as eligible for an HTC while we were still performing audit fieldwork.

For individual properties we deemed ineligible for an HTC, we determined from DAT's records of applicable assessments and rates the value of HTCs granted for ineligible properties for each year the property did not qualify for an HTC (for fiscal years 2006 through 2013 as appropriate).

Fieldwork and Agency Response

We conducted our fieldwork from June 2012 to December 2012. DAT's response to our findings and recommendations is included as an appendix to our audit report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DAT regarding the results of our review of their response.

Findings and Recommendations

Objective 1

Evaluation of Procedures and Controls over the Homestead Tax Credit (HTC)

Conclusion

The State Department of Assessments and Taxation (DAT) needs to improve oversight of the HTC program and its processes to ensure that only eligible properties receive an HTC and recoveries of HTCs granted for ineligible properties are maximized.

DAT had not developed a documented comprehensive compliance program to help ensure that HTCs are only granted for eligible properties. Specifically, DAT had not established written procedures for processing HTC applications. Such a program also would formally establish the responsibilities and the related processes to be performed at both DAT headquarters and the local assessment offices and would establish procedures for the monitoring of the local offices.

Additionally, our audit disclosed that procedures over HTC application processing need improvement. In this regard, applicant names should be compared to property owner names in the real property records and procedures over the approval of certain applications need to be strengthened by ensuring independent supervisory personnel verify the propriety of the related HTC granted. Users' access and capabilities for the systems that maintain HTC eligibility information should be periodically evaluated and limited to those necessary for the employees to carry out their job duties and changes made to critical data fields should be independently reviewed.

DAT should also develop a policy regarding the recovery of all improperly granted HTCs as allowable under law and consider proposing legislation requiring homeowners to notify DAT regarding changes in property status that would affect eligibility for the HTC. Furthermore, DAT should develop a plan to investigate the propriety of HTCs received in prior years on properties removed from eligibility for not completing an application. Specifically, DAT estimated that, as of January 17, 2013, it had received approximately 175,000 applications that had not been processed, which is far less than the 513,000 properties deemed eligible for the HTC in DAT's records for which an application had not been filed (including 183,000 properties with HTCs totaling $87 million for the tax year beginning July 1, 2013). Finally, consideration should also be given to standardizing the owner naming conventions used in DAT databases to enhance automated matching capabilities.

Findings

Finding 1
DAT had not developed a documented comprehensive compliance program to help ensure that HTCs are only granted for eligible properties.

Analysis

DAT had not developed a documented comprehensive compliance program establishing the responsibilities and related processes to be performed by headquarters and the 24 local assessment offices to help ensure that HTCs are only granted for eligible properties. Specifically, DAT had not established formal written procedures to be performed during the initial processing of an HTC application, nor had DAT established formal procedures to be performed to ensure the ongoing eligibility of properties for the HTC. Additionally, DAT had not performed a resource analysis to determine whether additional resources would be needed to implement an effective compliance program, and how the resources would be funded.

DAT's headquarters HTC office is responsible for initially processing and approving HTC applications. However, DAT has not established written procedures or guidance regarding the processing of the applications such as the procedures to be used to validate information on the applications, how issues noted during review of the applications are to be resolved, and the roles and responsibilities of DAT employees, including employee responsibilities for approving the applications and accessing and updating the automated real property records.

Similarly, as part of the assessment process, local assessment offices may detect HTC properties that subsequently become ineligible. However, DAT had not prepared written guidance that specifies what procedures local assessment offices should use to detect ineligible HTC properties. In this regard, while the current HTC application process provides a cost-effective means to help prevent individuals from receiving the HTC on more than one property in the State, the process is not sufficient to ensure the continued eligibility of properties. For example, a property owner receiving an HTC in Maryland could move his or her principal residence out-of-state without selling the property or notifying DAT of the change in status of the property receiving the HTC. There is currently no requirement that property owners notify DAT of changes in circumstances that would render the property ineligible for the credit (as addressed in Finding 4). Also, DAT does not periodically perform automated procedures to monitor continued HTC eligibility (as addressed in Finding 7).

DAT headquarters does not perform any documented monitoring of the local assessment offices' procedures for detecting properties that are improperly designated as HTC eligible. As a result, our review of procedures and controls at three local assessment offices disclosed that the offices were not consistently performing detection procedures. For example, at two of the three offices reviewed, documented reviews of the United States Postal Service National Change of Address list were not performed. DAT pays for this service in part to enable local offices to detect home owners who move and thus their properties may become ineligible for the HTC. We were advised by one local office this list is considered a useful tool to detect homeowners who are no longer entitled to an HTC, while two other offices did not consider the list to be a useful tool.

We also noted that one of the local assessment offices reviewed did not adequately assess ownership changes reported by the local government finance office that are uploaded to the Assessment and Administration Valuation System (AAVS). This report includes changes of ownership or address and is the primary mechanism by which the local assessments office can identify properties whose eligibility for the HTC may have changed. Accordingly, the local assessment office needs to evaluate these changes to determine whether the changes result in a property losing eligibility for HTC. However, the local DAT office could not document any review for 8 out of 10 properties which we tested from the report. Of those 8 properties, 6 properties were improperly receiving the HTC. The 6 properties received improper County and State HTCs totaling $8,903 and $142, respectively, for fiscal years 2011 through 2013.

During the course of our audit, we were advised by DAT management that a lack of resources would limit the extent of any compliance program. As previously mentioned, DAT maintains an HTC office with 11 employees (8 full-time budgeted positions and 3 temporary positions) that have been almost exclusively devoted to processing and approving HTC applications. DAT management advised us that when the volume of applications diminishes after the December 31, 2012 deadline, the 11 employees in the HTC office will begin performing certain compliance activities. However, the extent to which these employees could be used to address ongoing compliance monitoring has not been analyzed by DAT nor has DAT otherwise analyzed its overall staffing resources for implementing a compliance program. Consequently, the funding necessary to support a comprehensive compliance program has not been researched. In accordance with law, DAT is reimbursed by the State's 24 subdivisions for the cost to maintain the HTC office for processing and approving applications. Additional tax revenue mostly benefits the counties and municipalities when HTCs granted for ineligible properties are detected and removed. Therefore, it would be reasonable for the local governments to bear a portion of the cost of maintaining a compliance program to detect HTCs that were granted for ineligible properties.

Recommendation 1
We recommend that DAT

a. **develop and document a comprehensive compliance program to help ensure that HTCs are only granted for eligible properties, including specifically defining the roles and responsibilities of headquarters and the local assessment offices when processing HTC applications and ensuring ongoing compliance;**
b. **provide for periodic monitoring by headquarters of the HTC compliance activities performed at the local assessment offices, including ensuring that local offices use available sources of information to identify ineligible properties; and**
c. **perform an analysis of personnel and resource funding requirements for developing a comprehensive compliance program and submit a proposal for consideration by appropriate Executive Department agencies and the General Assembly.**

Finding 2
Procedures over the HTC application processing need improvement.

Certain enhancements are needed to improve procedures and controls over the HTC application processing. Specifically, we noted the following conditions:

- Since it began processing applications for the HTC in 2008, DAT has not routinely compared the property owner names on HTC applications to the property owners' names in the real property records in AAVS. This comparison could identify situations whereby someone other than a property owner (such as a renter) could manually apply for the HTC and an ineligible property could be deemed eligible to receive an HTC based on an application submitted by a non-owner. In addition, other discrepancies could be detected between information in the HTC application system and AAVS which affect HTC eligibility.

We matched the names of property owners listed in DAT's real property records to the names on HTC applications as of June 2012. This comparison disclosed 26,240 instances in which the name on the application did not agree to the name in the real property records. (This comparison was generally made using the property account number and the property owners' last names.) For fiscal year 2013, these properties received HTCs that reduced county and state property tax revenue by approximately $8.2 million and $146,000, respectively. We tested 20 of these properties and determined that 15 of the properties should not have been designated as eligible for the HTC at the time of the match.

We also noted that for 10 of the 15 properties the HTCs were based on applications previously submitted by the former owners of the properties. In these cases, it appeared that ownership of the properties had changed and, although the new owners' names were recorded in AAVS, the data fields affecting HTC eligibility were not updated by the applicable local assessment offices. Once a property changed owners, the HTC eligibility should have been removed pending receipt of an application from the new owner. These 15 properties were referred to DAT for further investigation.

- DAT did not establish adequate controls over the subsequent approval of HTC applications initially suspended from processing. Specifically, to ensure the propriety of approved HTC applications, including those approved after being suspended, an output report of approved applications was reviewed by two DAT supervisors. However, these two supervisors also approved the HTC applications. Consequently, there was a lack of assurance that applications approved by these employees were proper as there was no independent review of the approvals.

  When the addresses on HTC applications did not agree to owner's income tax filing address, the applications were placed in a pending status. The pending applications were manually researched, such as by checking Motor Vehicle Administration records or by contacting the applicant, and subsequently approved or denied by a DAT employee.

- DAT had a backlog of unprocessed applications. Specifically, we were advised by DAT management that it had an estimated 175,000 unprocessed applications on hand as of January 17, 2013. The backlog resulted from the large number of applications that were received near the December 31, 2012 deadline and the increased level of related activity (phone inquiries) that greatly reduced the level of application processing. In this regard, we noted that DAT only had approximately 1,500 unprocessed applications as of June 18, 2012.

Recommendation 2

We recommend that DAT

a. compare the names on HTC applications to the listed owners of the properties and review and investigate approved HTC applications for which the applicant's name(s) does not match the listed property owner(s);
b. investigate the aforementioned properties that were improperly granted an HTC, establish the cause of the inappropriate designation, and establish appropriate guidance and controls;
c. ensure independent supervisory personnel verify the propriety of the tax credits granted for applications that were initially suspended from processing, at least on a test basis; and
d. ensure the backlog of HTC applications is processed as soon as possible.

Finding 3

DAT did not establish adequate controls over its automated records to prevent or detect unauthorized changes to HTC eligibility determinations.

Analysis

DAT did not establish adequate controls over the real property records (the AAVS) or the Homestead Application System to prevent or detect unauthorized changes to eligibility determinations. Specifically, we noted that certain system access was not adequately restricted and that edits to critical data fields in both AAVS and the Application System were not subject to independent supervisory review. Although the certain information in AAVS, such as the Homestead Qualification Field, is generally updated weekly in AAVS for new actions recorded in the Application System, the information can also be manually edited in AAVS by certain DAT employees and these edits are not reviewed by independent supervisory personnel. The potential impact of this control weakness is exacerbated by the large number of employees who were assigned critical system capabilities. As of August 2012, 400 employees had access to the AAVS with 371 of these employees being assigned access capabilities that allowed the users to change information such as the Homestead Qualification Field in AAVS.

In addition, our test of 59 employees having access to the Homestead Application System disclosed that 4 employees had unnecessary access to delete an application and the ability to perform other functions on AAVS without supervisory review and approval. DAT does not review these edits for propriety.

We noted eligibility information for HTCs recorded in the Application System and in the AAVS did not always agree. We performed a match between AAVS system data effective July 2012 and the Homestead Application System data effective June 2012, The match identified 1,134 properties in which the AAVS system indicated the application was approved or the property had a grandfathered HTC eligibility but was actually either rejected or pending in the Homestead Application System. Applications rejected or placed in the pending status should render the property ineligible on AAVS. We selected 20 properties from our match and identified 11 properties that, based on the application and other external data sources, were not eligible for the HTC but were classified as eligible for the HTC in AAVS.

Recommendation 3

We recommend that DAT

a. establish procedures to ensure edits to critical fields affecting HTC eligibility are independently reviewed,
b. evaluate the propriety of employee access capabilities for critical data fields in the HTC Application System and AAVS and remove access that employees do not require for their job duties, and
c. identify all discrepancies between AAVS and the Homestead Application System regarding eligibility for HTC and research the propriety of the discrepancies and make the necessary changes.

Finding 4

Certain policies and requirements could be established to improve DAT oversight of the HTC program.

Analysis

DAT should adopt a policy regarding the recovery of all improperly granted HTCs as allowable under law and should consider proposing legislation requiring homeowners to notify it of changes in property status which would affect HTC eligibility.

- DAT did not develop a policy regarding the recovery of all improperly granted HTCs as allowable under law. When DAT detected HTCs granted for ineligible properties, it advised the local taxing authorities and requested them to recover the taxes not paid as a result of HTCs being granted for ineligible properties. State law specifies that the local taxing authorities, not DAT, are responsible for the collection of property taxes. However, our review of procedures at three local assessments offices indicated that DAT did not research and/or inform the local taxing authority of improperly granted HTC’s received beyond the prior three years. We were advised by DAT that the records needed to conduct the research for earlier years were not readily available in its systems.

Prior to July 1, 2012, there was no statutory provision that specifically addressed the recovery of prior HTCs improperly received. However, Title 14 of the Tax-Property Article of the Annotated Code of Maryland contained a statute of limitations provision that allows for the recovery of taxes imposed under the Article owed for the most recent seven years. Legislation enacted during the 2012 legislative session requires a property owner who had been granted an HTC for which they did not qualify to be assessed all state and local taxes (without a time limit) that they would have otherwise paid.

The forgone tax revenue from prior years can be significant. For example, we reviewed 30 properties from lists maintained by two local assessment offices of properties determined to have improperly received HTCs. Although 19 of these properties received HTCs for more than three years, the local assessment offices did not research beyond the most recent three years to determine how long the properties had improperly received the HTC so that improperly received credits could be recovered to the fullest extent possible. Consequently, we estimate that these properties may have had their taxes improperly reduced by an additional $52,516 and $6,435 for the County and State, respectively, during fiscal years 2006 through 2012.

- There is no legal requirement that homeowners notify DAT of changes in circumstances affecting a property's eligibility for the HTC. Specifically, although DAT is automatically made aware of certain changes in a property's status (such as via the recordation of a new deed), there is no requirement for a homeowner to notify DAT of certain other changes that would render a property ineligible for the credit (such as the homeowner moving out of state). We were advised by DAT management that a legal provision that would require that such circumstances be reported to DAT would be helpful in their monitoring the ongoing eligibility of properties for the credit.

Recommendation 4
We recommend that DAT
a. **develop a policy regarding recovery of HTCs granted for ineligible properties to the fullest extent allowable under law and develop the related recordkeeping resources,**
b. **ensure that the policy on recovery of improperly granted HTCs for prior years is consistently followed by the local assessment offices, and**

c. consider proposing legislation to require homeowners to notify it regarding changes in property status that would affect eligibility for the HTC.

Finding 5
DAT does not have a plan to investigate the propriety of HTCs received in prior years on properties removed from eligibility after the application filing period.

DAT does not have a plan to evaluate the propriety of HTCs received in prior years on properties removed from eligibility after the December 31, 2012 deadline because an application was not submitted or was not approved. Many such property owners may never send in an application if they have been receiving an HTC to which they were not entitled. As of January 17, 2013, there are 512,823 properties currently deemed eligible for the HTC that may have not submitted an application and will lose HTC eligibility unless an application was submitted before the deadline and it is approved. (As mentioned in Finding 2, DAT had a large unprocessed application backlog.) Additionally, 182,782 of these properties are designated for HTCs that would reduce their fiscal year 2014 County and State property tax bills by approximately $86.9 million and $409,000, respectively. Therefore, the amount of improperly granted HTC's received in prior years could be significant.

DAT officials advised us that it does not have the resources to pursue such a large number of cases. However, as previously mentioned (see Finding 1), DAT has not performed an analysis of its staffing needs nor analyzed additional funding necessary to support a comprehensive compliance program regarding HTC.

Recommendation 5
We recommend that DAT

a. develop a plan to investigate property owners who have previously received HTCs for which applications had not been submitted or approved, and determine if HTCs were granted for ineligible properties in prior years; and
b. request local taxing authorities to recover taxes for the value of HTCs granted for ineligible properties in prior years to the extent allowed by law.

Finding 6
DAT's real property records were not formatted in a manner to facilitate computer matches.

Analysis

DAT's real property records were not formatted in a manner to facilitate computer matches. Specifically, owner names were not consistently recorded in the same data fields and all owners were not always specifically listed in the DAT real property records. There are two owner's name fields in AAVS that allow 34 characters each. In most (but not all) cases, the owner's name is entered with the last name first. A second owner may be entered on either the first field with the first owner or the second field. In other cases, a second or other additional owner may be implied but not specifically entered. For instance, the records may state "and wife" or "et al". There are approximately two million residential real properties in the State; accordingly, adding all owners to current AAVS records and formatting the existing AAVS records consistently would require a significant commitment of resources.

Typically, owner data are entered in AAVS by the local assessments offices for the 23 counties upon notification of a new deed. Owner data for properties in Baltimore City is uploaded to AAVS from the City Government's property system which records new deeds.

While the consistent recordation of property owners' names is not critical to the administration of the assessment process, there is no assurance that matches performed using the owners' name, or portion thereof, will identify all properties that meet the match criteria given such inconsistencies. Furthermore, the lack of a consistent method to format names and the records that lack the names of all property owners makes it impractical for the HTC application system to automatically compare HTC applicant names to property owner names.

Recommendation 6

We recommend that DAT determine the feasibility of

a. **establishing a protocol for recording owner names in its automated real property records and requiring the protocol to be used uniformly by all assessment offices; and**
b. **adding all owners to the current real property records and formatting the existing records consistently, at least on a prospective basis.**

Objective 2

Procedures to Detect Properties Improperly Deemed Eligible for HTCs

Conclusion

DAT should use additional automated procedures to ensure the continued eligibility of properties receiving the HTC.

The only automated screening process currently used at DAT headquarters to prevent improperly approving HTCs is the comparison of the property address to the homeowner's federal tax return address performed when an HTC application is initially received. This procedure does provide some assurance that property owners do not receive an HTC for more than one property. However, this screening process is not repeated in subsequent years, and DAT does not perform other automated processes to ensure the continued eligibility of properties that previously were approved as eligible for the HTC.

Our audit identified several matching processes, as described below, that DAT could employ to help ensure the ongoing eligibility of properties for the HTC. Certain of the matches can be performed on a statewide basis by DAT headquarters and others could be performed at the local assessment offices based on records available from the local jurisdictions.

Finding 7
Additional automated procedures are available to help ensure properties remain eligible for the HTC on an ongoing basis.

Analysis

Additional automated procedures are available to help ensure properties remain eligible for the HTC on an ongoing basis. As previously mentioned, DAT has not established a comprehensive compliance program to verify the ongoing eligibility of properties for the HTC.

We identified various automated matching processes that, if used, would enhance DAT's ability to identify properties that are no longer eligible for an HTC. Below we describe five matches we performed to identify properties no longer eligible for the HTC and the results of those matches, (as would be expected, match results overlapped in some cases; that is, identified the same questionable properties). Our results demonstrate that these matches can detect properties that are potentially improperly classified as eligible for the HTC. While the results of any matches will need to be verified by DAT contacting the owner before any action is taken to remove an HTC, the matches provided an effective starting point to identify properties needing further review.[3] Also, since not all properties classified as eligible for the HTC will actually receive a credit, DAT's subsequent research of matched properties should focus first on the properties actually receiving credits.

It should also be noted that we performed the matches before the application filing deadline of December 31, 2012 had passed, and thus some properties identified as matches may not be considered eligible for the HTC after applications have been processed.

Motor Vehicle Administration Match

Using individuals' last names and a portion of the properties' addresses, we compared a file from the Motor Vehicle Administration (MVA) of individuals who surrendered their drivers' licenses during fiscal years 2010 through 2012 to homeowners whose properties were classified as eligible for the HTC for fiscal year 2013.[4] The match disclosed 24,751 properties classified as eligible for the HTC for which at least one owner had surrendered their drivers' license. Furthermore, 10,367 of these properties had their fiscal year 2013 county property taxes reduced by approximately $7.2 million and 891 of these properties had their state property taxes reduced by approximately $32,000. Our test of 25 properties designated as eligible for the HTC in which an owner(s) had surrendered their drivers' license, according to the MVA file, disclosed that 21 properties were not eligible for the credit, including 6 properties for which an application had been filed and approved. Of these 21 properties, 20 properties improperly had their county and state taxes reduced by approximately $178,000 and $9,000, respectively during fiscal years 2010 through 2013.

Income Tax Records Match

With the assistance of the Comptroller of Maryland, the address individuals used to file their most recent Maryland state income tax returns (generally the 2011 tax year) was compared to the property address used by the same individuals when they applied for the HTC (the Comptroller used the individuals' social security numbers when performing the comparison). We then compared the match results to properties classified as eligible for the

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[3] There are various reasons why the match results are not conclusive evidence of a property improperly receiving the HTC. For example, in the Motor Vehicle Administration match mentioned below, the match was performed using the last name and the property address. As a result, an adult child that lived at the address and surrendered their driver license would show up as a match result, although eligibility for the HTC would not be affected if the parents continued to live at the same address.

[4] Per our test, most drivers surrendered their Maryland licenses because they moved to another state. However, certain licenses in the MVA file were surrendered for other reasons such as court orders or medical conditions.

HTC for fiscal year 2013. Our match disclosed 11,231 properties classified as eligible for the HTC for which the applicants filed Maryland tax returns listing an out-of-state address. Of these properties, 4,156 had their fiscal year 2013 county property taxes reduced by approximately $2.8 million and 652 properties had their state taxes reduced by approximately $25,000. Our match also disclosed 140,885 additional properties classified as eligible for the HTC whose applicants' state income tax returns listed a different Maryland address than the property for which they received an HTC (that is, the HTC property may no longer be their principal residence). Of these properties, 73,706 had their fiscal year 2013 county property taxes reduced by approximately $48.2 million and 15,554 properties had their state property taxes reduced by approximately $493,000. Our test of 30 properties receiving an HTC for which the owner(s) listed an address other than the HTC property address on their Maryland income tax returns disclosed that 11 were not eligible for the credit although applications had been filed and approved for all 11 properties. Based on our research, these 11 properties had their county and State taxes improperly reduced by $248,133 and $22,111, respectively, during fiscal years 2007 through 2013.

Multiple Properties Analysis
This match was performed using only DAT's records from the AAVS. We sorted the statewide listing of properties eligible for the HTC for fiscal year 2013 by the addresses the owner provided for tax and assessment notice mailing purposes to identify mailing addresses used for more than one property. This sorting disclosed 9,506 mailing addresses that were used for two or more properties classified as eligible for the HTC, pertaining to 26,058 properties. Of these properties, 10,880 had their fiscal year 2013 county property taxes reduced by approximately $5.4 million and 4,828 properties had their state property taxes reduced by approximately $148,000. Our test of 12 pairs of properties receiving the HTC (24 properties) that had the same tax mailing address disclosed that 8 of the 24 properties were not eligible for the credit, including 1 property for which an application had been filed and approved. These 8 properties had their county and state taxes improperly reduced by approximately $95,500 and $5,600 respectively, during fiscal years 2007 through 2013. Although the new Application System screening process should generally prevent an owner from receiving an HTC on more than one property due to use of social security numbers, this address sorting analysis would have been useful to detect inappropriate credits during the period when applications were being filed. Additionally, even after the submitted applications have been processed, this analysis could still be useful to detect prior inappropriate credits issued for properties where the owners did not file an HTC application.

Rental Properties Match

Using property addresses, we matched files from five jurisdictions of licensed rental properties to properties classified as eligible for the HTC for fiscal year 2013.[5] Our match disclosed 9,258 properties classified as eligible for the HTC that were identified as rental properties according to local government records. Of these properties, 4,013 had their fiscal year 2013 county property taxes reduced by approximately $3.3 million, and 1,427 properties had their state property taxes reduced by approximately $53,000. Our test of 25 of the 4,013 properties designated as eligible for the HTC for a property that was classified as a rental property by local governments disclosed that 11 properties were not eligible for the credit for certain years, including 5 properties for which an application had been filed and approved. Of these 11 properties, 10 properties had their county and state taxes improperly reduced by approximately $54,000 and $2,600, respectively, during fiscal years 2007 through 2013.

Review of Foreclosed Properties

We compared two circuit courts' records of foreclosure cases filed in fiscal year 2012 to properties classified as eligible for the HTC for fiscal year 2013.[6] We reviewed approximately 330 cases out of approximately 5,900 foreclosure cases to identify 30 properties for which the foreclosure process was completed as of June 30, 2012 and which were identified in DAT's records as eligible for the HTC. Our test of these 30 properties eligible for the HTC for a residence that was foreclosed disclosed that 25 properties were not eligible for the credit, including 10 properties for which an application had been filed and approved. Furthermore, 10 of these properties were not owner occupied prior to the foreclosure proceedings. Of these 25 properties, 16 properties improperly had their county taxes reduced by approximately $15,300 during fiscal years 2007 through 2013.

According to the Department of Housing and Community Development, there were 15,293 foreclosures in the State during fiscal year 2012. Legislation passed during the 2012 legislative session requires that financial institutions that take possession of properties during foreclosure proceedings are required to notify DAT of such actions. These properties would no longer be eligible for the HTC.

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[5] The five jurisdictions used for our match were Baltimore City, Ocean City and Baltimore, Montgomery, and Howard Counties. These counties and cities and certain other jurisdictions in the state require rental properties to be registered or licensed.

[6] The two courts covered Baltimore City and Prince George's County where, based on Department of Housing and Community Development records, there was known to be many foreclosures.

We discussed these procedures to detect HTCs granted for ineligible properties with DAT management. They agreed that more procedures, such as the matches we performed, should be used to detect homeowners receiving HTCs to which they are not entitled. While automated procedures to detect properties improperly designated as eligible for the HTC can be performed without a large commitment of resources, investigating potentially ineligible properties can be a time-consuming process. For this reason, DAT management maintained that performing such procedures for every potentially ineligible property would generally not be possible with DAT's existing staff. However, the investigation of match results could be prioritized such as by investigating properties actually receiving an HTC first. Additionally, as previously mentioned (Finding 1), DAT has not analyzed its staffing needs to determine the adequacy of its staff at both its headquarters and local assessment offices.

Recommendation 7

We recommend that DAT develop automated procedures to detect properties that are ineligible for the HTC on an ongoing basis, such as data matches against other state and local agencies' records.

Exhibit A

Maryland Counties and Baltimore City
Homestead Credit Cap
Over Preceding Year's Taxable Assessment
Effective July 1, 2012

SUBDIVISION	PERCENTAGE LIMIT
Allegany	107
Anne Arundel	102
Baltimore City	104
Baltimore	104
Calvert	110
Caroline	105
Carroll	105
Cecil	108
Charles	107
Dorchester	105
Frederick	105
Garrett	105
Harford	105
Howard	105
Kent	105
Montgomery	110
Prince George's	104
Queen Anne's	105
St. Mary's	105
Somerset	110
Talbot	100
Washington	105
Wicomico	105
Worcester	103

Exhibit B
Sample Calculation of the Homestead Property Tax Credit

These tables below show an example of the Homestead Property Tax Credits (HTC) that would be applied to a property depending when the current homeowner first applied for a tax credit that is approved by DAT. (The example assumes no change in property ownership.) The tables also show the interaction of the HTC and the three-year phase-in of the full market value appraisal of the property. The calculations are based on the following conditions:

Property Value:

- $300,000 previous full market value appraisal with grandfathered HTC
- $450,000 full market value appraisal at January 1, 2012
- $400,000 full market value appraisal at January 1, 2015
- A three-year phase-in of the January 1, 2012 appraisal increase

County Property Tax:

- County tax rate of $1.00 per $100.00 of county taxable assessment
- County HTC cap on taxable assessment increases of 5 percent per year

State Property Tax:

- State tax rate of $0.112 per $100.00 of state taxable assessment
- State HTC cap on taxable assessment increases of 10 percent per year

	Owner First Applies for HTC by December 31, 2012							
	Appraised Full-Value Assessments	Full Value Three-Year Phase-In	Taxable Assessment Due to HTC Cap		Assessment Reduction for Tax Calculation		Tax Reduction Due to HTC	
			County	State	County	State	County	State
Prior Assessed Full Value	$300,000							
New Assessed Full Value at 1/1/12	450,000							
For Tax Year Starting 7/1/12		$350,000	$315,000	$330,000	$35,000	$20,000	$350	$22
For Tax Year Starting 7/1/13		400,000	330,750	363,000	69,250	37,000	693	41
For Tax Year Starting 7/1/14		450,000	347,288	399,300	102,713	50,700	1,027	57
New Assessed Full Value at 1/1/15	400,000							
For Tax Year Starting 7/1/15		400,000	364,652	400,000	35,348	-	353	-
For Tax Year Starting 7/1/16		400,000	382,884	400,000	17,116	-	171	-
For Tax Year Starting 7/1/17		400,000	400,000	400,000	-	-	-	-
Total six-year tax reduction due to HTC:							**$2,594**	**$121**

	Owner First Applies for HTC by June 30, 2014							
	Appraised Full-Value Assessments	Full Value Three-Year Phase-In	Taxable Assessment Due to HTC Cap		Assessment Reduction for Tax Calculation		Tax Reduction Due to HTC	
			County	State	County	State	County	State
Prior Assessed Full Value	$300,000							
New Assessed Full Value at 1/1/12	450,000							
For Tax Year Starting 7/1/12		$350,000	$315,000	$330,000	$35,000	$20,000	$350	$22
For Tax Year Starting 7/1/13		400,000	400,000	400,000	-	-	-	-
For Tax Year Starting 7/1/14		450,000	347,288	399,300	102,713	50,700	1,027	57
New Assessed Full Value at 1/1/15	400,000							
For Tax Year Starting 7/1/15		400,000	364,652	400,000	35,348	-	353	-
For Tax Year Starting 7/1/16		400,000	382,884	400,000	17,116	-	171	-
For Tax Year Starting 7/1/17		400,000	400,000	400,000	-	-	-	-
Total six-year tax reduction due to HTC:							**$1,902**	**$79**

	Owner First Applies for HTC after June 30, 2014 or Never Applies							
	Appraised Full-Value Assessments	Full Value Three-Year Phase-In	Taxable Assessment Due to HTC Cap		Assessment Reduction for Tax Calculation		Tax Reduction Due to HTC	
			County	State	County	State	County	State
Prior Assessed Full Value	$300,000							
New Assessed Full Value at 1/1/12	450,000							
For Tax Year Starting 7/1/12		$350,000	315,000	330,000	35,000	20,000	350	22
For Tax Year Starting 7/1/13		400,000	400,000	400,000	-	-	-	-
For Tax Year Starting 7/1/14		450,000	450,000	450,000	-	-	-	-
New Assessed Full Value at 1/1/15	400,000							
For Tax Year Starting 7/1/15		400,000	400,000	400,000	-	-	-	-
For Tax Year Starting 7/1/16		400,000	400,000	400,000	-	-	-	-
For Tax Year Starting 7/1/17		400,000	400,000	400,000	-	-	-	-
Total six-year tax reduction due to HTC:							**350**	**22**

APPENDIX

State of Maryland

DEPARTMENT OF ASSESSMENTS AND TAXATION

Office of the Director

MARTIN O'MALLEY
Governor

ROBERT E. YOUNG
Director

February 28, 2013

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
301 W. Preston St., Rm. 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

The purpose of this letter is to formally provide you in the attached document the Comments and Response of the Department of Assessments and Taxation to the performance audit report on the Department of Assessments and Taxation – Homestead Property Credits.

Let me take this opportunity to commend the professionalism, thoroughness, and fairness of your audit team performing this review led by Mr. Stephen C. Pease and Ms. Julia M. King.

If you have any questions or if the Department can provide any further information, please let me know.

Sincerely,

Robert E. Young

Robert E. Young
Director

300 West Preston Street – Room 605 – Baltimore, Maryland 21201
Phone: (410) 767-4881 – FAX: (410) 333-5873 – TTY users call Maryland Relay 1-800-735-2258
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Comments and Response of the Department of Assessments and Taxation (DAT) to the Findings and Recommendations of the Legislative Auditors Regarding Homestead Tax Credits

Finding 1 – DAT had not developed a documented comprehensive compliance program to help ensure that HTCs are only granted for eligible properties.

DAT Comments and Response: The Department concurs with the Auditors' finding here and the three specific recommendations (a, b, and c) under this item.

a) Once the Department completes the significant data programming and administrative processing of the 175,000 applications received in the last four months before the December 31, 2012 application deadline, DAT will develop (during the first half of fiscal 2014) a comprehensive written manual describing the specific procedures to validate applications. That manual will combine existing procedures historically utilized by the local Assessment Offices to validate eligibility and the newer procedures developed by the central application processing unit in 2007 as well as incorporating certain automated procedures proposed in this Audit.

b) The manual will provide a specific list of audits to be performed by local Assessment Offices and a mandatory monthly schedule for performing those duties.

c) The Department will prepare for the submission of the Fiscal 2015 Budget Request a detailed proposal for additional positions and funding for implementing the comprehensive compliance program proposed by this Audit to be considered by the Executive Department of Budget and Management and the General Assembly. For the record, this fiscal request will be substantial because of the demonstrated need in the Audit for an increased number of employees. The Legislative Auditors had a team of two managers and six field employees at the Department for six months to find and validate limited numbers of improper Homestead Tax Credits. In this regard, it must be emphasized that the Department's employees in the local Assessment Offices who perform Homestead audits do so on a part-time basis because they have other regular assessment related duties to perform each day. Finally, legislation will have to be introduced accompanying the budget request that will amend the existing Homestead application law to provide for local governments to reimburse the Department for the cost of the additional employees and other administrative costs for implementing these new ongoing audits. Given that legislation is likely to be enacted in the 2013 session that will extend the Homestead application deadline until December 31, 2013, there is sufficient time for the Executive Budget Department and the General Assembly to approve the funding for additional Homestead employees for the Department.

Finding 2 – Procedures over the HTC application processing need improvement.

DAT Comments and Response: The Department concurs with the Auditors' finding here and the four specific recommendations (a, b, c, and d) under this item.

a) and b) Initially, the Department had compared the names of all HTC applicants with the name in its legal ownership file in the AAVS Real Property System. However, that practice was discontinued for electronically filed applications after a careful review of exceptions showed that the program was producing a large number of "false positive" exceptions based upon revision to a maiden name by the former spouse or et al ("and others") ownership of the property. The Department has continued to check the applicant name and the ownership name for all paper applications that are manually entered into the data system as well as for the substantial number of applications "imaged" into the system via the "KOFAX" system.

The Department will implement (by December 31, 2013) an additional computer program that will retroactively compare applicant name with ownership name for all electronically filed applications in each calendar year. That program will produce a better "exceptions" report that can be individually investigated by the Department. The report also will contain a section for dealing with ownership discrepancies where the original applicant owner has died and the AAVS system's "stop" credit feature for transferred properties did not apply because the property was transferred via inheritance and not transferred for a financial "consideration" to a new, unrelated owner.

c) Given the limited number of "full-time" Homestead Tax Credit employees (8 permanent employees) to process and audit the 1.1 million applications, the Department is going to have to assign (by July 1, 2013) a managerial level employee from a totally unrelated agency program to perform a spot review on a test basis of the proprietary of tax credit eligibility for initially suspended applications.

d) The Department has already developed an orderly plan to process by March 31, 2013 (in just three months after the December 31, 2012 deadline), the 175,000 applications received in the past four months. The Department could not process this group of applications as they were received because its limited number of employees were occupied answering the 87,000 telephone calls and 13,000 e-mails received in this same four month period.

Finding 3 – DAT did not establish adequate controls over its automated records to prevent or detect unauthorized changes to HTC eligibility determinations.

DAT Comments and Response: DAT concurs with the finding and the three recommendations (a, b, and c) under this item.

a) The Department will establish a procedure (by December 31, 2013) to have an independent supervisory review on a test basis of changes to critical fields such as deleting a Homestead application.

b) The Department has already begun restricting system access to AAVS as it relates to the Homestead Qualification Field. The only reason that 371 of 400 employees had access that included the ability to change such information as the Homestead Qualification Field was because AAVS is a new system itself where Assessment Office employees were testing its applications and functionality. The Department's IT managers will continue to monitor and eliminate data permission for employees who do not have an ongoing need for such access to perform their specific job duties.

c) The Department's IT Unit will develop (by December 31, 2013) a report identifying any discrepancies between AAVS and the Homestead Application System on Homestead eligibility. The Department submits that most of the differences are due to timing issues based upon the updating of the systems by the agency's IT Unit.

Finding 4 – Certain policies and requirements could be established to improve DAT oversight of the HTC Program.

DAT Comments and Response:

a) The Department can agree with the finding of the Auditors that there needs to be a fixed policy on the number of years for recapturing Homestead Tax Credits improperly received by the homeowner. However, the Department does not agree with their determination that a "general" statute of limitations provision for recovery of taxes for seven years (found in Section 14-1101 of the Tax-Property Article) applies to the recovery of Homestead Tax Audits improperly received.

The Department's legal counsel has advised that the authority to collect <u>any</u> past taxes has been unclear until the passage of Chapter 701, Laws of Maryland 2012 adding subsection (n) to §9-105. Before that enactment creating a 25% penalty for willful misrepresentation beginning for the July 1, 2012 tax year, the legal argument against the collection of taxes for prior years is that "once an assessment becomes final then there was no specific statutory authority for adjusting the assessment upwards after that 'finality' to recapture the taxes offset by an erroneous Homestead Tax Credit".

The Department notes that the three prior years recapture of tax credits observed by the Auditors in the three different County Assessment Offices has been the consistent determination of that policy by the agency. DAT decided on the three prior year recapture policy for several reasons: (1) the time period is consistent with the limited three year period by which a homeowner can claim a refund of taxes erroneously paid found at Section 14-915, Tax-Property Article; (2) the three prior year period is consistent with the number of years of federal tax return information that the Department is able to retain for data storage purposes in order to audit Homestead eligibility in the first place; and (3) the majority of the local governments (whom the Auditors note have the legal responsibility to collect taxes and who would receive the bulk of the tax dollars recaptured) have requested that time period be used by the Department.

The Department has advised the Auditors that there is a separate property tax appeal from a homeowner in Baltimore City that has just commenced which challenges the legal right to collect even three prior years of improperly granted Homestead Credits. Pending the outcome of that appeal, the Department will continue to follow a policy statewide of advising local governments of the recaptured tax credits for up to three prior years. When in the course of the investigation of a Homestead account that the Department employee finds more years of improper receipt of a credit beyond the three, then the employee will advise the county government employee receiving the information of the additional years. Because of the labor intensive nature of the effort required to investigate more than a three year period and because of the limitation on the number of years of automated records, the Department does not have sufficient staff to investigate every Homestead recovery for a seven year period even if the longer period is determined to be permissible under the law.

b) As the Auditors have suggested, DAT will introduce departmental legislation at the 2014 session that will require homeowners to notify the Department of changes in the property's status that would affect eligibility for the HTC. That legislation also will include a proposal creating a specific provision for recapture of Homestead Tax Credits and the number of years to be recaptured.

Finding 5 – DAT does not have a plan to investigate the proprietary of HTCs received in prior years on properties removed from eligibility after the application filing period.

<u>DAT Comments and Response</u>: The Department agrees with the finding and can comply with the two recommendations if the Executive Budget Department and the General Assembly approves funding for a significant number of additional employees in the Homestead Program.

There will be a six figure amount of homeowners who did not apply by the December 31, 2012 deadline for a variety of reasons. Although a large number of these homeowners did not apply because they know they no longer mathematically qualify for an actual credit due to reduced assessments, there will still be a six figure amount of homeowners receiving a credit who did not apply.

The Department will run a report of the nonfilers in descending order by the amount of Homestead Credit granted on the property. Given the current likelihood that legislation will be enacted in the 2013 session to extend the Homestead application filing deadline for another year until December 31, 2013, there will be another year and sufficient time for funds to be appropriated to provide additional employees to perform this particular and other audits suggested in this Audit Report. Those employees also will be needed to perform the tasks to recapture any improperly granted credits for multiple prior years. There is no overstatement in emphasizing how manually labor intensive and time consuming it becomes to investigate individual property owners where the Department must meet a legally sustainable standard of proving nonresidency for any year the tax credit is removed.

Finding 6 – SDAT's real property records were not formatted in a manner to facilitate computer matches.

DAT Comments and Response: The Department agrees with the finding and will comply with the recommendation requesting the agency to explore the feasibility of changing its Real Property format for all property records to better facilitate computer matches on property owner name for the Homestead Program.

The Department has made appropriate inquiries and it is not economically feasible to obtain a vendor to add all owners to the current AAVS records and reformat the existing AAVS records for 2.1 million properties. This process would require the vendor to examine every deed for every property to make these changes. However, the Department will review its existing instructions regarding the entry of ownership changes and issue a revised instruction to ensure consistency in the inclusion of additional names.

Finding 7 – Additional automated procedures are available to help ensure properties remain eligible for the HTC on an ongoing basis.

DAT Comments and Response: The Department agrees with the Auditors' finding and will adopt the one principal recommendation made here for the agency to use additional automated procedures to ensure the continued eligibility of properties receiving the HTC.

The Department believes that the automated procedure that will produce the most fruitful results is the Motor Vehicle Administration (MVA) match. It needs to be noted for the record that prior to the date when the Department began the administration of the Homestead application law in 2007, the agency had requested the MVA to agree to provide certain MVA records in an automated format. Instead, the MVA agreed to provide the Department with the capability to look up the driving records of persons on a manual, individual basis because of the significant number of demands the MVA receives for its information. For this Audit, the Auditors were able to request the MVA to provide them with a specialized spreadsheet showing all drivers in Maryland who had surrendered their driver's license or identification card to another State. As a result, a member of the General Assembly has introduced, after discussions with the Department, legislation (SB645) that would require the MVA and the counties to provide electronic records information to assist the Department in determining eligibility for the Homestead Property Tax Credit. The MVA match report will be produced by July 30, 2013 based on conversations already taking place between the two agencies.

The second automated procedure is the Income Tax Records match. Because the Comptroller's Office ran and edited the report instead of providing the underlying data, the results here will require significant individual testing and investigation of the exceptions. That investigation also will require the Department to obtain a particular commercial vendor's information service that the Legislative Auditors routinely have in their offices. There are many valid reasons for having a different tax return address such as a return filed by a separated spouse, an elderly parent filing a return at the address of an adult son or daughter, an adult child moving from the home, or the Comptroller's Office using a different tax year's address for the return. Since the Department matched the Homestead property address income tax return in our federal income tax database, the Department believes that this particular automated procedure will produce less positive results. Depending on the number of applications the Department receives based on the filing deadline extension legislation, the Department expects to produce this report on July 1, 2014.

The third automated procedure recommended by the Auditors is the Multiple Properties Analysis which the Department will begin performing on an automated report basis on December 31, 2013. The Auditors note that this audit is useful for properties not yet submitting a Homestead application. Otherwise, the Homestead application screening process prevents an owner from receiving a HTC on more than one property due to the comparison of Social Security numbers. In addition, there is a longstanding manual letter issuance and credit removal process in the local Assessment Offices where the employees send out an inquiry whenever a property owner uses a different "mail to address" for receipt of Assessment Notices or tax bills. This new automated procedure will be included in the comprehensive compliance manual the Department is developing pursuant to Recommendation 1 of this Report.

The fourth automated procedure is the Rental Properties Match which is an audit that the local Assessment Offices (in counties where rental licensing exists) have been performing for years. The Auditors have acknowledged to the Department that several of the properties in their test of 25 properties had already been earmarked for recapture by the local Assessment Office. The Auditors had requested their own independent rental property lists from the local governments without reference to earlier lists and the time periods for those lists. As was noted in the larger Audit Report, it is essential for the Department to contact individual property owners to receive an explanation of the property's use. Recently, the Department had found several instances where the City Government had incorrectly indicated that a property was a currently licensed rental property when in fact the property had been purchased two years earlier by the former tenant. The local Assessment Office employees will continue reviewing these reports as they are received from local governments.

The fifth and final automated procedure discussed by the Auditors is the Review of Foreclosed Properties. The Department would assign the lowest priority to this audit because the Department successfully had departmental legislation enacted in the 2012 session that requires a mortgage lender to report the foreclosure order on the property to the Department within 60 days of "ratification" of the Order by the court. Equally important, the legislation contains a self policing mechanism that places a lien on the property until the Homestead Tax Credit amount for that tax year is paid. The local Assessment Offices that administer the new mortgage foreclosure reporting law are already sending lists of these properties to the Homestead Section to remove Homestead Credits for those properties still receiving them. At our own initiative, the Department will seek (by December 31, 2013) an electronic listing from the Department of Labor, Licensing, and Regulation (DLLR) of its new (effective October 1, 2012) registry of foreclosed properties to compare to a listing of properties receiving a Homestead Tax Credit in the Department's AAVS.

The Legislative Auditors conclude this section of the Audit Report noting that "while automated procedures can be performed without a large commitment of resources, investigating potentially ineligible properties can be a time-consuming process". All of these procedures will have to be prioritized if the Department does not receive a significant commitment of new employees.

It is important to note again, as was mentioned previously in the comments and response to finding 1, that the Department is still in the midst of the data programming and administrative processing of those application the Homestead office received in the four months before the December 31, 2012 application deadline. Also, pending legislation introduced in the current session of the General Assembly appears likely to extend the application deadline through December 31, 2013. If this occurs, a significant number of the 8 permanent employees the Department intends to commit to performing some of the reviews on the results from new automated procedures will be needed to continue the processing of applications that are received throughout the extended application period. Therefore, all of the suggested timelines in this response for beginning the reviews of automated procedures are subject to revision based on the number of applications received in the extended filing period, the number of telephone calls received by the Homestead Section in the extended filing period, and the number of new employees, if any, the Department receives in the fiscal 2015 budget request.

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Audit Report

State Department of Assessments and Taxation

December 2013

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 W. Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.

- Electronic copies of our audit reports can be viewed or downloaded from our website at http://www.ola.state.md.us.

- Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.

- The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410 946-5400 or 301 970-5400.

Department of Legislative Services
Office of Legislative Audits
Maryland General Assembly

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

December 16, 2013

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the State Department of Assessments and Taxation (DAT) for the period beginning August 21, 2009 and ending July 29, 2012. DAT is responsible for administering the State's real and personal property tax laws, including various programs that provide property tax credits to homeowners and renters, as well as for various functions applicable to corporations.

Our audit disclosed that DAT needs to formalize certain aspects of its quality assurance processes related to real property assessments to help ensure local assessment offices are complying with its policies. For example, DAT had not established written policies specifying the documentation to be prepared by local assessment supervisors evidencing their review and approval of assessment values. Furthermore, DAT policies lacked specificity regarding the documentation that should be maintained to support certain individual property assessments. Our tests disclosed variations in the assessment documentation maintained by the three local offices visited. Our audit also disclosed that DAT did not conduct physical exterior inspections of all properties every three years as required by State law, nor did it document the inspections that were performed. The total assessable real property tax base was valued at approximately $690 billion.

DAT's centralized real property database system (Assessment Administration Valuation System – AAVS) had critical access vulnerabilities due to deficiencies in the AAVS program, and system software updates were not installed. For example, all system users (including those designated with read-only access) could perform unauthorized modifications to critical data via commonly used system functions without detection. Furthermore, DAT's network was not adequately secured because its firewalls and intrusion detection and prevention systems were not properly configured.

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DAT also had not performed timely and comprehensive procedures to verify the accuracy of information on personal property returns and applications for homeowners' and renters' credits. Finally, DAT had certain internal deficiencies relating to payments to contractors and the processing of cash receipts.

An executive summary of our findings can be found on page 5. The response from DAT to our findings and recommendations is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DAT.

Respectfully submitted,

Thomas J. Barnickel III

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

* **Denotes item repeated in full or part from preceding audit report**

* **Denotes item repeated in full or part from preceding audit report**

Executive Summary

Legislative Audit Report on the
State Department of Assessments and Taxation (DAT)
December 2013

- **Certain aspects of DAT's quality assurance process for real property assessments need to be improved. For example, DAT oversight of the local assessment offices should be formalized to help ensure local assessment offices and their assessors are complying with DAT assessment policies. Furthermore, DAT policies lacked specificity regarding the documentation to be maintained to support certain assessment values and to evidence the review and approval of those values by local office supervisors (Finding 1).**

  DAT should enhance its quality control process by formalizing policies pertaining to the oversight of local assessment offices performed by area supervisors, and the documentation to be maintained to support assessment values and to evidence those values were reviewed and approved by the local office supervisors.

- **Physical exterior inspections were not performed for all properties in accordance with State law and a record of inspections performed was not maintained (Finding 2).**

  DAT should take appropriate actions to help ensure compliance with State law regarding the physical inspection of properties and should maintain records of inspections conducted.

- **The Assessment Administration and Valuation System (AAVS) had access vulnerabilities that placed critical assessment data at risk of unauthorized modification. For example, all AAVS users, including those with read-only access could modify critical data without a record identifying the changes being prepared. Furthermore, DAT did not establish procedures to ensure that certain data (such as property sales and permit information) received from local jurisdictions were properly recorded in AAVS (Findings 3 and 4).**

  DAT should perform a full evaluation of AAVS to identify system access vulnerabilities and should ensure appropriate modifications are made. Also, DAT should establish procedures to ensure the completeness and accuracy of data input into AAVS.

- **Personal property returns submitted by businesses for calendar years 2008 through 2011 had not been reviewed to ensure the values reported to DAT were proper, and appropriate actions were not taken to identify businesses that failed to file or submitted returns late. DAT also had not completed audits of applications received from individuals who qualified for homeowners' and renters' tax credits during calendar years 2009 through 2011 (Finding 5).**

  DAT should review personal property returns timely and enhance procedures to identify late or non-filers of returns. DAT should also perform timely audits of approved homeowners' and renters' tax credit applications, and take appropriate action to recover any tax credits that are determined to have been improperly granted to homeowners and renters.

- **Security and control weaknesses were noted with respect to DAT's information systems and network, and proper internal controls were not established for certain payments to contractors and for the processing of cash receipts (Findings 6 – 11).**

  DAT should take the recommended actions to improve information security controls, to ensure the propriety of contractor payments and to verify all collections received were deposited.

Background Information

Agency Responsibilities

The State Department of Assessments and Taxation (DAT) is responsible for administering the State's real and personal property tax laws as well as for various functions applicable to corporations (for example, issuing corporate charters and collecting certain taxes, such as gross receipts taxes). DAT also administers programs that provide property tax credits primarily to homeowners and renters who meet the related eligibility requirements (such as gross income limitations). DAT's headquarters is located in Baltimore City and it operates assessment and taxation offices in each of the State's 24 local subdivisions. According to the State's and DAT's accounting records, during fiscal year 2012, DAT's expenditures totaled approximately $131.5 million and revenue collected totaled approximately $232 million. DAT's 2011 annual report identified the total assessable real property tax base subject to State tax rates to be valued at $690 billion consisting of 2,171,132 individual properties.

Baltimore City Historic Tax Credits

The Tax Property Article of the Annotated Code of Maryland provides a property tax credit of up to 25 percent of properly documented expenses of a private owner taxpayer for the restoration and preservation of a structure that the Mayor and City Council of Baltimore City have determined to be of historic or architectural value. According to published reports, errors in the calculation of such Historic Tax Credits resulted in certain Baltimore City properties being granted excessive property tax credits.

The Baltimore City Director of Finance and the DAT Director, in a jointly issued letter to the Chairman of the Senate Budget and Taxation Committee dated October 17, 2013, provided an overview of the tax credit calculation problem and the related procedural solution. The directors indicated that the problem resulted from a change in computation methodology by the City that used assessments that had not been adjusted for certain situations, such as appeals. DAT and the City have now developed a new process whereby DAT will certify assessment amounts to the City for use in calculating the Historic Tax Credit. The directors believe the new process will lead to a more consistent and uniform calculation of the credit.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of eight of the nine findings contained in our preceding audit report dated August 4, 2010. We determined that DAT satisfactorily addressed four of the findings and four other findings were not resolved and are repeated in this report. These four repeated findings appear as three findings in this report. During this audit, we did not review the status of the one remaining finding because it was addressed in our February 2013 performance audit entitled *Department of Assessments and Taxation - Homestead Property Tax Credits.*

Findings and Recommendations

Real Property Assessments

Background
The Department of Assessment and Taxation's (DAT) Real Property Valuation Division is responsible for assessing property on a three-year cycle by reviewing one-third of all property in Maryland every year and certifying the assessed value to the 24 local governments for each property within their respective subdivision. The valuation of property is conducted by assessors working in the 24 local assessment offices (one per county including Baltimore City), under the Division's direction and oversight. DAT maintains an Assessment Administration Valuation System (AAVS) as its primary database system. AAVS includes a wide range of information and history about individual properties, including assessed values. Under the provisions of the Tax-Property Article of the Annotated Code of Maryland, DAT is responsible for promoting fairness in taxation for Maryland property owners by uniformly assessing properties throughout the State at market value.

DAT has adopted national standards for assessing real property as issued by the International Association of Assessing Officers (IAAO). IAAO has issued technical standards for various topics related to property tax administration, property tax policy, and valuation of property including mass appraisal and related disciplines. The objective of IAAO standards, which represent a consensus in the assessing profession, is to provide a systematic means by which assessing officers can improve and standardize the operation of their offices. IAAO standards are advisory in nature and the use of, or compliance with, these standards is voluntary.

Annually, DAT prepares an Assessment Ratio Report to measure the quality of real property assessments as of January 1st by reviewing sales for the six-month period before and after January 1st. The Report is used to compare its assessed values with the sales values and evaluate the variation against standards developed by IAAO for ratio studies. According to DAT's 2012 Assessment Ratio Report, measured variation was within the acceptable ranges set forth by the IAAO for properties assessed at January 1, 2012.

According to DAT's 2011 State Department of Assessments and Taxation Report, the total assessable real property tax base subject to State and County tax rates was valued at approximately $690 billion.

Per State law, DAT shall attempt to determine the most effective and equitable method to assess property. DAT uses several assessment methods to determine properties' assessed values. Commercial properties are primarily assessed using the Maryland value, income, and reconcile assessment methods. For residential properties, the primary assessment method used is the Maryland value method. The Maryland value method is based on market conditions and depreciation. The method establishes a market value index (MVI) adjustment factor to adjust the assessed value of the properties, primarily based on the analysis of sales data for comparable properties within a designated geographic area.

Finding 1
Certain aspects of DAT's quality assurance process for real property assessments and related documentation requirements were not formalized.

Analysis
DAT needs to formalize certain quality assurance processes over real property assessments and to clarify the related documentation requirements. IAAO standards state that quality assurance is an important aspect of every valuation system, and the lack of effective quality assurance can result in minor or major gaps, ranging from loss of data to failure to recognize or correct inequities. IAAO standards also state that valuation procedures and models should be documented.

DAT has instituted certain aspects of a comprehensive quality assurance program, such as conducting ratio studies (for example, the Annual Assessment Ratio report required by State law). DAT also employs residential and commercial property area supervisors to oversee the local assessment offices. However, written guidance was not established regarding certain oversight and supervision performed by area supervisors and local office supervisors to help ensure compliance with DAT assessment policies and IAAO standards. Furthermore, our review of the assessment practices at three local assessment offices identified variations in the documentation maintained to support property assessment values. Specifically, we noted the following conditions:

- DAT's independent review processes involving area supervisors were not formalized. While area supervisors are responsible for oversight of the local assessment offices, the extent of area supervisor's reviews, the method for communicating the related findings and corrective actions, and the documentation requirements related to such reviews, were not established in DAT policy. Consequently, DAT had no formal mechanism for assessing the effectiveness of the reviews or the level of compliance of local assessment offices with assessment policies.

At one local office, we noted widespread reductions in assessed land values (which is separate from the values for the dwellings) for residential properties. Specifically, our extraction of data from AAVS indicated that 16,948 of 60,199 accounts for which valuations were performed for the 2012 – 2013 tax year received land value reductions ranging from 20 percent to 43 percent. These reductions decreased the assessable base of these properties by approximately $285.5 million. While local assessment office personnel could not provide the rationale or documentation to support the reductions (for example, sales analysis), management personnel at DAT headquarters advised us that the reductions were likely done to take into account declining sales in the jurisdiction. Furthermore, DAT advised us that it believed large adjustments such as these would have been discussed with an area supervisor. However, no documentation was provided to substantiate the area supervisor had reviewed and agreed with the reductions.

- DAT had not established written policies delineating the responsibilities of local assessment office supervisory personnel regarding the documentation to be maintained to evidence their review and approval of assessment values. For example, the primary basis for residential assessments is the computation of a market value index (MVI) by assessors that considers property sales in certain geographic areas (such as a neighborhood) to compute a factor used to adjust values for properties with similar characteristics. Although the factors computed by assessors are entered into AAVS by supervisors, there was no requirement that supervisors review the computations for reasonableness and document their approvals before entry into AAVS.

  We were advised by DAT management that local office supervisors performed "spot checks" of work performed by assessors by reviewing sales ratios analysis and percentage change reports generated from AAVS. However, there was no formal policy requiring the performance of spot checks, the nature or extent of the spot checks, or the documentation to be maintained evidencing that the spot checks were performed. IAAO standards state that every assessment jurisdiction should establish procedures for internal review of work product, including supervisory review of appraisal and assessment work.

- DAT's policies lacked specificity regarding the documentation that should be maintained to support individual property assessments under each assessment method. In this regard, our review disclosed variations in the nature and level of documentation maintained by the three local offices to support real property assessments recorded in AAVS for certain commercial and residential properties.

Specifically, our review of 39 commercial real property assessments (with values totaling of approximately $700 million) disclosed that 12 properties (with assessed values of $161 million) lacked certain information substantiating the recorded values. For example, 8 of these properties, located in two jurisdictions, were assessed under the income capitalization method (which uses the property's income stream as the basis for determining the assessed value). For 4 of these properties with assessed values totaling $58 million, DAT lacked current information on which to base the assessments (for example, income information obtained during a prior assessment period was used in calculating the assessment). IAAO standards state that the income approach is the preferred method in valuing commercial property if sufficient income data are available. For the other 4 properties, the assessed values recorded in AAVS ($91 million) did not agree with the supporting documentation prepared by assessors ($106 million). Consequently, for these properties, it is unclear which valuation amounts were the appropriate values to use for assessment purposes.

Our review of six residential properties with a total assessable base of $1.5 million in one jurisdiction disclosed that the local office did not retain documentation supporting the MVI used to adjust the assessed values for five of those properties having an assessable basis of $1.3 million. We requested support for the MVIs calculated for other properties in the applicable geographic locations (wards); however, the local office could not provide us any documentation to support the MVIs. There were approximately 9,400 properties assessed using the Maryland value method in those wards. We noted that another local assessment office maintained documentation of the sales that were considered in developing the MVIs for its neighborhoods and explanations were on file to support the MVI used in performing the assessment, including when the MVI was not based on comparable sales due to the lack of sales activity in the area.

Recommendation 1

We recommend that DAT formalize certain aspects of its quality assurance process by

a. **specifying the nature and extent of the reviews to be conducted by area supervisors, including the method for communicating the findings and corrective actions and the related documentation requirements;**
b. **establishing the responsibilities of local office supervisory personnel and related documentation requirements regarding their review and approval of assessors' work and the resulting assessment values; and**
c. **specifying the documentation to be maintained to support assessment values for commercial and residential properties under each assessment method.**

Finding 2
Physical exterior inspections were not performed for all properties in accordance with State law.

Analysis
DAT does not perform physical exterior inspections for all properties due for reassessment during the three-year assessment cycle as required by State law. Furthermore, DAT lacked policies governing how physical inspections should be documented. DAT is responsible for valuing all real property in the State triennially based on an exterior physical inspection of the property in accordance with Title 8 of the Tax-Property Article of the Annotated Code of Maryland.

We were advised by DAT that the physical inspections of properties, as required by State law, have not been conducted for many years primarily because of staffing shortages. Per DAT records, as of fiscal year 2012, 152 field assessors were responsible for assessing 2,171,132 statewide accounts over the three-year cycle, which represents a reduction of 78 assessors since fiscal year 2002. Consequently, DAT only required inspections when certain significant events occurred such as when a property was sold during the assessment period, when a new building was constructed or, at a minimum, every nine years. In addition, DAT personnel advised us that they were able to rely on property sales and permit data received from the local governments to obtain updated property information. However, as noted in Finding 4, sufficient controls were not established over data received from the local governments.

DAT management advised us that it has received 22 additional assessor positions during fiscal years 2013 and 2014, but that those positions are not sufficient to enable it to comply with the physical inspection law. DAT management further advised us that a law change may be necessary. In this regard, IAAO standards indicate that a physical review including an on-site verification of physical characteristics should be conducted at least every four to six years. In addition, other techniques that employ digital imaging technology may be available to assist in identifying changes in property characteristics.

The number of physical inspections conducted by the local offices could not be determined by DAT, since documentation requirements were not established and a record of all inspections was not maintained. AAVS has the capability to record inspection data, including storing photographs; however, the system generally was not used for this purpose or required to be used by DAT.

Recommendation 2
We recommend that DAT

a. **take appropriate actions (such as requesting a law change, using technology) to help ensure compliance with State law regarding the physical inspection of properties;**
b. **establish documentation requirements for inspections conducted; and**
c. **maintain records of property inspections conducted and the results.**

Assessment Administration and Valuation System

In October 2006, the Board of Public Works approved a multi-year contract totaling approximately $7.6 million with a vendor to develop and implement an Assessment Administration and Valuation System (AAVS). AAVS provides DAT with a centralized database, which performs real property valuations and other assessment administration functions such as appeal processing and the generation of assessment notices. On December 31, 2008, the original vendor was purchased by a new vendor, effectively assigning all interests and obligations under the contract to the new vendor. As of October 2012, DAT had paid the vendors a total of approximately $6.9 million for AAVS. AAVS was accepted in April 2011 when it went operational in all 24 local assessment offices and at DAT's headquarters location.

Finding 3
AAVS had access vulnerabilities that placed critical assessment data at risk of unauthorized modification and certain historical data was not archived.

Analysis
AAVS had critical access vulnerabilities and vendor software updates were not installed. Additionally, DAT did not maintain a historical record of assessment data changes for one assessment tax year nor maintain certain documentation pertaining to system conversion. Specifically, we noted the following conditions:

- Due to deficiencies in the AAVS program, system users could perform unauthorized modifications to critical data via commonly used functions without detection. We noted all users (including read-only users) could modify critical server data, application data, and database data without detection, because the modifications made in this manner would not be recorded by the system. The system developer's technical proposal for the implementation of AAVS indicated users would not be able to modify certain critical database files. Upon OLA bringing this matter to its attention DAT notified the AAVS vendor and DAT advised us that the vendor was working to resolve the issue. At the time of our audit, there were 424 active AAVS user accounts, 50 of which were read-only.

- As of February 27, 2013, we noted DAT was running a version of AAVS that was eight versions behind the currently available version. Although we could not readily determine the nature of the changes in each version, we did note that each version of AAVS had multiple software updates associated with it.

- DAT did not ensure a historical record of changes to AAVS data pertaining to assessments for the 2012 - 2013 tax year was maintained. For each assessment year, shortly after assessment notices are mailed, the production database for the year is copied to a separate database for archiving; however, a historical record of changes was not maintained for the assessments prepared for the 2012 - 2013 tax year. DAT officials advised us that they mistakenly did not copy this data when archiving the database. As a result, the trail of assessment changes or other supporting data recorded in AAVS for that year is no longer available.

- DAT did not maintain complete records of the automated real property system conversion to ensure all property details were properly transferred. While DAT did maintain some preliminary reports on the conversion process and had control totals, no documentation was maintained to show control totals after the conversion. We were advised by DAT management that it believes the process of transferring records from the previous system to AAVS was complete and accurate, as local jurisdictions and other parties (two years later) have not noticed any issues with the data that had been received from AAVS. Nevertheless, DAT should have retained documentation to substantiate the conversion results in case problems subsequently arose.

Recommendation 3

We recommend that DAT

a. perform a full evaluation of AAVS to identify access vulnerabilities and ensure appropriate modifications are made;

b. ensure that the most current version of AAVS is being used and implement all software updates in a timely manner;

c. maintain historical records of changes to AAVS data; and

d. in the future, maintain complete records of the results of any system conversions.

Finding 4
DAT procedures did not ensure that certain data recorded in AAVS were complete and accurate.

Analysis
DAT procedures did not ensure that certain data recorded into AAVS were complete and accurate. Specifically, procedures were not formalized to ensure all relevant data from local county government offices were received and accurately entered into AAVS at any of the three local assessment offices we reviewed. Specifically, our review noted the following conditions:

- For two local offices, critical information (real property sales, transfers, and permit improvement data) was entered into AAVS via a manual process based on paper documents received from local government agencies. However, a receiving log of such documents was not prepared to establish initial accountability and control to ensure all information received was entered into AAVS. This is significant because permits issued which result in $100,000 or more in improvements require the completion of an assessment at that time. Furthermore, there were no documented supervisory reviews to ensure all data recorded in AAVS, such as sales activity and construction permit information, was properly supported. DAT advised us that supervisors perform "spot checks" of keyed data. Nevertheless, as previously mentioned, these spot checks were not documented.

- In the third local assessment office, data were received electronically from the local government and used to update AAVS. However, there was no verification that data entered to AAVS were properly processed. We noted that for this electronically received data, there were system-generated reports of data processed, including processing errors. While DAT headquarters personnel advised us that the local assessment office was responsible for reviewing these reports, the local office's supervisor advised us that they lacked sufficient knowledge to review and interpret the reports. Consequently, errors were not corrected. DAT headquarters' personnel further advised us that they were working to change this report so it would be more reader friendly.

According to the IAAO standard on mass appraisal related to quality control over data collection, a quality control program should review samples of finished work for completeness and accuracy, and keep tabulations of items coded correctly or incorrectly.

Recommendation 4

We recommend that DAT enhance procedures by requiring each local assessment office to

a. **establish a log to provide initial accountability and control over all property transaction documents received from local governments;**
b. **ensure that the pertinent information from documents or electronic data received are properly recorded in AAVS and any data entry errors are resolved; and**
c. **ensure that supervisors verify that critical data recorded in AAVS are properly supported, and that this verification is documented.**

Administration of Certain Tax and Credit Programs

Background

DAT is responsible for administering programs related to assessing the personal property of certain entities, granting tax credits to eligible homeowners and renters, and collecting franchise taxes from certain companies.

Annually, DAT assesses business-owned personal property (such as furniture, certain equipment, and inventory) based on returns filed by specific entities (such as corporations, limited liability companies, and partnerships) as prescribed by State law. Personal property assessments are certified by DAT and are provided to Maryland’s 24 local subdivisions. These jurisdictions (and municipal governments, when applicable) use the assessed values to calculate the taxes and then issue personal property tax bills to the applicable entities. According to its records, as of May 31, 2013, DAT had processed 306,355 accounts related to the filing of personal property returns for the calendar year ended 2011 providing the local subdivisions with a personal property assessable taxable base of $11.6 billion.

Homeowners and renters are eligible for tax credits based on meeting certain income eligibility requirements. In addition, eligible renters must be over the age of 60, disabled, or under the age of 60 with dependent children. The homeowners’ credit limits the property tax paid based on household income up to $60,000 combined household income. The renters’ credit is calculated based on income with the maximum credit being $750. DAT pays local jurisdictions for homeowners’ credits and individual renters for renters’ credits. During fiscal year 2012, DAT approved homeowners’ tax credits totaling approximately $62.6 million to 52,594 taxpayers and renters’ tax credits totaling approximately $2.7 million to 8,316 taxpayers.

State law requires telephone, electricity, and natural gas providers to file a franchise tax return by March 15th following the end of the calendar year and pay DAT a franchise tax on gross receipts for the year. During fiscal year 2012, DAT's franchise tax collections totaled approximately $127.1 million.

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

Analysis
Certain verification procedures established by DAT were not performed timely or were not comprehensive. These procedures were designed to help ensure the accuracy of information submitted on personal property returns, franchise tax returns, and applications for homeowner's and rental tax credits. Specifically, our review disclosed the following conditions:

- As of March 2013, DAT's procedure to audit selected personal property returns had not been performed for returns submitted for calendar years 2008 through 2011 (the latest tax year completed at the time of our audit). Such audits verify the propriety of the reported personal property values and ensure the return information was accurately recorded into DAT's personal property assessment system for certification purposes. Our test of 20 personal property returns submitted for calendar years 2010 and 2011 disclosed that due to a data entry error made for one return, the combined assessed value of personal property in two jurisdictions should have been recorded as $36,500 but, instead, no value was recorded. We were advised by DAT these audits of personal property returns were not completed due to staffing issues and the significant amount of time required to manually enter personal property data into the assessment system. Although reviews of returns would still be necessary, DAT should determine the feasibility of instituting electronic filing of the returns to improve overall efficiency and accuracy.

  Similarly, as of March 2013, DAT had not completed audits of the selected applications received from homeowners and renters who were granted tax credits for calendar years 2009 through 2011. At that time, DAT advised that it was reviewing credits granted in 2009. For example, one type of audit involves the random selection of five percent of approved applications to ensure the taxpayer qualified for the credit, that proper supporting documentation (such as a federal income tax return) was submitted, and that the related data were recorded properly in DAT's automated system. This condition was commented upon in our preceding audit report. Our test of 15 homeowners' credits processed during the period of February 2012 to March

2013 for a total of approximately $69,000, disclosed that supporting documentation for 5 credits totaling approximately $16,600 was not on file. In addition, one applicant received a credit of $529 more than they should have due to a data entry error.

Additionally, as of January 2013, DAT could not substantiate the extent to which franchise tax returns dating back to calendar year 2007 had been reviewed. Although DAT indicated that some, but not all returns for each year had been reviewed, a record of the specific returns reviewed and the results was not maintained. DAT requires that every franchise tax return (approximately 290 for calendar year 2010) be reviewed to verify mathematical accuracy and to validate certain information reported on the tax return (such as, the gross operating revenues earned by the companies). Similar conditions regarding the backlog of franchise tax returns to be reviewed were commented upon in our preceding audit report.

- Data matches to identify entities that failed to file personal property returns as required were conducted on a very limited basis. As of January 2013, the latest match between DAT's records and the Comptroller of Maryland's State vendor payment records and active sales tax accounts records was conducted for the calendar year 2009 filings. Furthermore, the match only included the entities located in one county. That match identified 1,227 potential non-filing entities. Based on DAT's records, we noted that as of the 2011 filing year, businesses operating in seven counties have not been subject to any match processes dating back to 2005. State law requires DAT to place businesses in forfeited status, which provides that the business should be prohibited from conducting business in the State, when the business fails to file at least one annual personal property return and remit the related filing fee (generally $300 annually).

- DAT did not ensure all jurisdictions submitted electronic files of homeowners' tax credits redeemed on the paid property tax bills. During our audit period, 11 jurisdictions had not submitted any of the required monthly electronic redemption reports, which would enable DAT to determine if excess credits were claimed and consequently funds were owed to the State. Differences may occur due to a property being transferred, thus altering the allowable tax credit. DAT approved homeowners' credits totaling $18.9 million for these 11 jurisdictions in fiscal year 2012. For the 13 jurisdictions that submitted the files, we noted there was no documentation that DAT reviewed the results of the electronic matches for 5 jurisdictions.

Recommendation 5
We recommend that DAT

a. **perform timely verifications of personal property tax returns, approved homeowners' and renters' tax credit applications, and franchise tax returns (repeat);**
b. **expand its data matches to identify entities that did not file personal property returns, and consider a risk-based approach for following up on non-filing entities;**
c. **ensure that local jurisdictions submit monthly electronic redemption reports and generate exception reports of redeemed credits versus approved credits and perform documented reviews of the exceptions; and**
d. **determine the cost benefits of instituting electronic filing for personal property tax returns.**

Information Systems Security and Control

Background
DAT operates several critical computer applications and databases on its internal network and on the Comptroller of Maryland's Annapolis Data Center (ADC) mainframe. These include the server based AAVS, property tax credit databases, and the mainframe based Maryland Business Entity System, which contains registrations of business entities and related filings and assessments. DAT also operates a statewide network that connects its local offices and the DAT headquarters' internal network. DAT's statewide network provides users' access to various information technology services including the AAVS system, ADC mainframe based applications, a database management system, network services, email services, and Internet access.

Finding 6
Access and monitoring controls over the AAVS database were not sufficient to protect critical data.

Analysis
Access and monitoring controls over the AAVS database were not sufficient to protect critical data. Specifically, we noted the following conditions:

- A default administrative database account unnecessarily had full access to the AAVS database. Since this account included local server administrators by default, all local administrators on the database server had full administrative access to this database. Also, anyone able to achieve local administrator privileges would automatically have full administrative access to this database and could perform unauthorized modifications to critical data.

- Numerous critical security related events for the AAVS database were not logged. In addition, although the database was set to record failed login attempts, we were advised that these failed login attempts were not reviewed. Finally, for security events that were logged, documented reviews of logged activity did not exist.

The State of Maryland Department of Information Technology (DoIT) *Information Security Policy* states that each agency must establish an authorization process which specifically grants access to information ensuring that access is strictly controlled, audited, and that it supports the concepts of "least possible privilege". This *Policy* also requires that procedures be developed to routinely (for example daily or weekly) review audit records for indications of unusual activities, suspicious activities or suspected violations, and report findings to appropriate officials for prompt resolution.

Recommendation 6
We recommend that DAT

a. limit access to all critical databases to personnel whose job duties require such access; and
b. log critical security events for the AAVS database, regularly review these logs, investigate unusual or questionable items and document and retain these reviews and investigations.

Finding 7
The DAT network was not adequately secured.

Analysis
The DAT network was not adequately secured. DAT operated virtual private network connections to its network, a firewall at its network interfaces, and a network-based intrusion detection and prevention system (IDPS). Specifically, we noted the following conditions:

- DAT improperly allowed two untrusted third parties with the capability to access its entire internal network by use of virtual private network connections. For example, one vendor could access the entire DAT internal network over all ports via virtual private networks. Consequently, such access could allow the vendors to conduct unauthorized and inappropriate activities on DAT's systems.

- DAT's firewall was not properly configured to send all critical network traffic to the network-based IDPS for analysis. Specifically, the firewall was not configured to send any traffic from outside of the DAT network (for example, Internet traffic) to the IDPS for analysis.

- Due to improper configuration, the IDPS did not analyze any network traffic sent by the firewall. Therefore, the network-based IDPS device was not providing any intrusion detection protection for the DAT network.

- DAT did not use Host-based Intrusion Protection Systems (HIPS) on critical web servers that processed encrypted traffic. The absence of HIPS coverage for such traffic created network security risk in that DAT's network-based IDPS cannot read encrypted traffic flowing into its network whereas HIPS can read and analyze such traffic and protect critical web servers from malicious traffic.

- Remote administrative access to the network-based IDPS module was not adequately restricted to only those users who required such access. For example, through connections with the Internet, individuals could make a remote management connection to the IDPS module.

DoIT's *Information Security Policy* requires that agency systems be configured to monitor and control communications at external boundaries. Strong network security uses a layered approach, relying on various resources, and is structured according to assessed network security risk. Properly configured IDPS protection can aid significantly in the detection/prevention of and response to potential network security breaches and attacks. Furthermore, without proper monitoring, critical network security breaches may occur that could otherwise possibly be detected and prevented.

Recommendation 7
We recommend that DAT

a. configure its firewall and virtual private networks to achieve a "least privilege" security strategy giving individuals and devices only those privileges needed to perform assigned tasks;

b. modify the network-based IDPS and firewall configurations to ensure that all critical network traffic is sent to and reviewed by the IDPS module;

c. perform a documented review and assessment of its network security risks, identify how IDPS and HIPS coverage should be best applied to its network, and implement such coverage for all critical portions of its network; and

d. **restrict remote access to the network-based IDPS module to only those users requiring such access.**

Finding 8
Malware protection on DAT workstations and servers needs improvement.

Analysis
Malware protection on DAT workstations and servers needs improvement. Specifically, our review disclosed the following conditions:

- DAT did not ensure that malware protection software was installed on all DAT servers. Although DAT had procedures for configuring workstations with malware protection software, similar procedures did not exist for servers.

- DAT was not using an enterprise-wide management tool to monitor and manage the use of malware protection software on its workstations and servers. Therefore, DAT could not effectively and efficiently monitor its deployed malware protection software to ensure that such software was always installed and operating properly on all DAT workstations and servers. Furthermore, DAT did not verify that malware protection software and the related definition files were kept up-to-date on all DAT workstations and servers.

- Certain workstations were configured with users having administrator rights. Administrator rights are the highest permission level that can be granted to users and allow users to install software and change configuration settings. Our testing of eight workstations disclosed that employees' user accounts were all defined with administrator rights rather than with user rights. As a result, if these workstations were infected with malware, the malware would run with administrative rights and expose these workstations to a greater risk of compromise than if the workstations' user accounts operated with only user rights.

Industry best practices recommend that organizations should employ automated tools to continuously monitor workstations, servers, and mobile devices for active, up-to-date anti-malware protection. Furthermore, the DoIT *Information Security Policy*, states that agencies should configure security settings of information technology products to the most restrictive mode consistent with operational requirements.

Recommendation 8
We recommend that DAT develop and implement enterprise-wide automated procedures to

a. ensure that all workstations and servers are configured with anti-malware software that is operating properly,
b. regularly confirm that anti-malware software and the related definition files are properly updated on its workstations and servers, and
c. limit local administrative rights on user workstations to only personnel that require such access for their job duties.

Finding 9
An up-to-date and comprehensive disaster recovery plan did not exist.

Analysis
DAT did not have an up-to-date and comprehensive information technology disaster recovery plan (DRP) for recovering from disaster scenarios (for example, a fire). Specifically, the DRP did not address certain required provisions such as an alternate site, complete listings of hardware and software components, and restoration of network connectivity. At the time of our review, the plan had not been updated for five years. Without an up-to-date and comprehensive DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring operations for information systems, such as AAVS, beyond the expected delays that would exist in a planned recovery scenario. The State of Maryland *Information Technology (IT) Disaster Recovery Guidelines* provide information on the minimum required elements needed for a complete information system DRP.

Recommendation 9
We recommend that DAT maintain a comprehensive disaster recovery plan, which is updated at least annually, in accordance with the aforementioned *IT Disaster Recovery Guidelines*, with update efforts being documented.

Contract Monitoring

Finding 10
DAT did not adequately monitor certain contract billings.

Analysis
DAT did not monitor certain payments to contractors or otherwise verify that contractor-submitted billings were proper prior to payment resulting in potential overpayments. Our review of 19 billings totaling approximately $1.3 million during fiscal years 2011 through 2013 made by four contractors disclosed the following conditions related to two contractors:

- DAT was charged incorrect rates for three fiscal year 2012 billings totaling approximately $228,300 from one contractor resulting in potential overpayments of approximately $5,000. The contractor provided lock box services, under a statewide contract procured by the State Treasurer's Office (STO). Although we were advised by STO personnel that the applicable contract had expired in June 2011, STO was in the process of obtaining a new contract and the rates from the previous contract were to remain in effect for fiscal year 2012. However, the rates billed to DAT did not agree with the previous contract rates, resulting in the aforementioned potential overpayments. Payments to this contractor totaled approximately $302,000 for services received during fiscal year 2012. Similar conditions were commented upon in our preceding audit report.

- DAT did not verify the contractor-reported level of services for document preparation and imaging services. The contract, which was effective October 2010, provided that the contractor would bill DAT a standard monthly fee based on an estimated annual total of images it scanned. The contract provided for an annual payment settlement based on an audit performed by the contractor to determine the actual number of images scanned. The contractor was paid approximately $498,000 during the period October 2010 through May 2012.

  DAT did not maintain its own record of images scanned per month to independently verify the contractor's monthly reported activity. Our tally of scanned batch totals for one month (93,000 images) differed with the contractor's report of activity for that month (120,000 images) by approximately 27,000, which under the contract rates would have a value of approximately $6,900.

Furthermore, an annual settlement had not occurred even though the contractor reported fewer scanned images than the number specified for the monthly fee that was charged. The vendor reported to DAT that it scanned approximately 553,000 fewer images than were billed, which represented potential overpayments to the contractor of approximately $139,500 for the period October 2010 through August 2012.

Recommendation 10
We recommend that DAT establish procedures to ensure the propriety of contractor billings. Specifically, we recommend that DAT

a. **maintain records necessary to perform verifications of contractor billings,**
b. **verify that billed costs agree with contractual terms and conditions (repeat), and**
c. **seek recovery of any overpayments identified including those mentioned above (repeat).**

Cash Receipts

Finding 11
Sufficient controls were not established over certain collections.

Analysis
DAT had not established adequate accountability and control over cash and check collections received at DAT's headquarters office (such as, filing fees and recoveries of excess tax credits from the counties). Cash collections are initially recorded on a cash register and subsequently posted to an automated system or on a manual check log. According to DAT's records, during fiscal year 2012, cash and check collections at the headquarters location totaled approximately $23.5 million (approximately $2.5 million in cash and $21 million in checks). Our review disclosed the following control deficiencies:

- For certain collections, documentation was lacking to substantiate that independent verifications were performed to ensure that cash and check collections received were recorded in the automated system and were deposited. Our test of collections from 24 days totaling approximately $4.7 million received during fiscal years 2011 and 2012 disclosed collections from 20 days totaling approximately $1.5 million for which there was no documentation that DAT had performed the verifications.

- Recordation of “no fee” transactions was not adequately controlled. Since State law prohibits DAT from charging a fee for services provided to certain entities (such as, non-profit organizations), the automated system permits the recording of a no fee transaction to account for such services. However, we noted that 14 employees who had access to collections could also record a no fee transaction in DAT’s automated system. Additionally, 8 employees with access to collections had the ability to remove a payment transaction recorded in the automated system and record a no fee transaction in its place. This capability is needed, for example, in the case of cashier error. Yet, output reports of no fee transactions recorded in the automated system were not generated and reviewed by supervisory personnel. As a result, collections could be misappropriated without detection. According to DAT records, a total of 1,309 no fee transactions were recorded in DAT’s automated system during fiscal year 2012, and 391 payments totaling approximately $86,700 were removed from the system during fiscal years 2011 and 2012.

Similar conditions were commented upon in our preceding audit report. According to the Comptroller of Maryland—General Accounting Division’s *Accounting Procedures Manual*, a verification of cash receipts from initial recordation to deposit is to be performed by an employee independent of the cash receipts function. The *Manual* also requires supervisors to review and approve adjustments to cash receipts.

Recommendation 11
We recommend that DAT

a. document the performance of independent verifications of recorded collections to deposit (repeat); and
b. generate output reports of “no fee” transactions recorded in the automated system, and ensure that supervisory personnel independent of the cash receipts functions review these transactions for propriety (repeat).

We advised DAT on accomplishing the necessary separation of duties using existing personnel.

Audit Scope, Objectives, and Methodology

We have audited the State Department of Assessments and Taxation (DAT) for the period beginning August 21, 2009 and ending July 29, 2012. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine DAT's financial transactions, records and internal controls, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. The areas addressed by the audit included corporate fees and taxes, tax credits, real property assessments, procurements and disbursements, information systems, cash receipts, and payroll. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of DAT's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

DAT provides certain support services (such as payroll, invoice processing, maintenance of accounting records and related fiscal functions) to the Property Tax Assessment Appeals Board. These support services are included within the scope of our audits of DAT.

DAT's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect DAT's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to DAT that did not warrant inclusion in this report.

DAT's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DAT regarding the results of our review of its response.

APPENDIX

State of Maryland

DEPARTMENT OF ASSESSMENTS AND TAXATION

Office of the Director

MARTIN O'MALLEY
Governor

ROBERT E. YOUNG
Director

December 12, 2013

Mr. Thomas J. Barnickel, III CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Barnickel:

The State Department of Assessments and Taxation (SDAT) herewith submits its responses to the Audit Findings and Recommendations contained in your compliance audit of the agency for the period beginning August 21, 2009 and ending July 29, 2012.

The Department concurs with the Findings and each of the Recommendations contained in this audit performed by your office. SDAT's Responses provide specific information as to what steps we have already taken to implement the Recommendations and what actions will be taken by a date certain in the immediate future.

If you need any other information concerning the Department's Audit Responses, please let me know.

Sincerely,

Robert E. Young

Robert E. Young
Director

300 West Preston Street – Room 605 – Baltimore, Maryland 21201
Phone: (410) 767-4881 – FAX: (410) 333-5873 – TTY users call Maryland Relay 1-800-735-2258
Toll Free: 1-888-246-5941 – Website: //www.dat.state.md.us

RESPONSE OF THE STATE DEPARTMENT OF ASSESSMENTS AND TAXATION (SDAT) TO LEGISLATIVE AUDITOR'S REPORT OF NOVEMBER 2013

Finding 1 by the Auditor:
Certain aspects of DAT's quality assurance process for real property assessments and related documentation requirements were not formalized.

SDAT Response: The Department concurs with the Auditor's Finding, and it has already taken steps to implement Recommendations 1 a, b, and c to provide greater transparency here. SDAT has developed a written, formalized policy for the reports and audits to be conducted by the Area Supervisors whose duty it is to oversee the performance of the County Supervisors of Assessment and the assessors assigned to that office. Specific reports will be reviewed by the Area Supervisors to ensure compliance of local assessment offices with assessment procedures. For the reassessment of Group 2 properties for the January 1, 2014 assessment notices, a memorandum dated August 12, 2013 was sent out to all local Supervisors of Assessment identifying specific reports and other items of information to be produced for review by the Area Supervisors. This detailed memorandum will be issued each year prior to that year's reassessment work for the next one-third Group of residential and commercial properties.

Regarding documentation to support assessment values as discussed in Recommendation 1b, the annual memorandum described above included a provision that an Area Supervisor must sign off whenever land values are adjusted across the board for a particular community. Similarly, each local Supervisor of Assessments will sign off and documents will be retained showing that they have independently checked and verified the individual Market Value Indexes (MVIs) being used in certain geographic areas. Incidentally, although the Supervisors did perform the proper sales analysis for the MVIs in all three subdivisions the Auditors visited, the retained documentation did exist in two of the three subdivisions. When the local Supervisors also perform the regular spot checks of the work performed each year, the central administration of Real Property will require that the particular checkoffs will be noted in the AAVS system.

Finally, the Auditor's Recommendation 1c suggests that the Department maintain documentation to support assessment value for commercial and residential properties under **EACH** assessment method. For commercial properties, there are three different assessment methods for valuing properties but standard appraisal law and Maryland court decisions specify that the assessor should use his or her professional judgment as to which assessment method produces the best indication of market value. Therefore, the Department will maintain specific documentation only for the assessment method used and only in those instances where the data exists for a particular commercial account.

Finding 2 by the Auditor:
Physical exterior inspections were not performed for all properties in accordance with State law.

SDAT Response: The Department agrees with the Auditor's Finding here and is already taking specific actions to address the Auditor's second and third Recommendations. The State Supervisor of Real Property Assessments is issuing a new procedure on the requirements for documenting in the agency's AAVS system all of the inspections actually conducted by local assessors each year. The AAVS system will produce a standardized report on that information for each local jurisdiction.

The first Recommendation of the Auditor here is to take appropriate actions (such as requesting a law change, using technology) to help ensure compliance with State law regarding the physical inspection of properties. Under Maryland's triennial assessment law, the physical inspection requirement would entail that the Department physically inspect one-third of the 2,171,132 total residential and commercial accounts or approximately 723,000 properties each year. The Auditor also notes that the Department has 78 fewer assessors in fiscal year 2012 than in fiscal year 2002. In this same 10 year period, there was an addition of 177,348 new properties to be assessed. Although the Department has received 22 additional assessor positions in fiscal years 2013 and 2014, those positions are not sufficient to comply with the physical inspection law. Based on these facts, the Department is actively exploring the cost of a pilot project in one major subdivision to obtain satellite imagery of real properties at a sufficient resolution to replace physical inspection of properties. Once the Department determines the feasibility of this project and once it collects a year's worth of data in 2014 on the number of physical inspections actually conducted with the additional assessor positions noted above, the agency expects to propose departmental legislation on the physical inspection law to the 2015 session of the General Assembly.

Finding 3 by the Auditor:
AAVS has access vulnerabilities that placed critical assessment data at risk of unauthorized modification and certain historical data was not archived.

SDAT Response: The Department concurs in the Auditor's Finding and will comply with the four Recommendations but needs to supply "context" to the Auditor's comments. While the Department's IT managers want to acknowledge major credit to the Auditor's IT Unit for finding this particular vulnerability where all users could modify critical server data, the Department submits there is an extremely remote possibility that someone else would discover this vulnerability. As the Auditor notes, the Department promptly notified the AAVS vendor to prepare a permanent system fix to correct the problem. On December 10, 2013, the vendor provided an update that the problem will be remedied by January 15, 2014.

Regarding the Auditor's comment that as of February 27, 2013 that the Department was running a much earlier version of AAVS, the agency advised the Auditor that SDAT was awaiting funding on July 1, 2013 for the installation of new servers before installing the latest version of AAVS. Those servers have now been installed and so has the next version of AAVS.

Regarding the retention of the **complete** records for the data conversion from the old Real Property CAMA system to the new AAVS system, it needs to be noted that the Department did keep this information for five years prior to the time it was discarded (six months before the Auditor began this audit of the Department). If there are ever future conversions, the Department will keep such records in perpetuity or until at least the next audit of the agency by the Legislative Auditor.

Finding 4 by the Auditor:
DAT procedures did not ensure that certain data recorded in AAVS were complete and accurate.

SDAT Response: The Department concurs in the Auditor's three Recommendations here. The August 2013 Memorandum from the State Supervisor for Real Property discussed in the SDAT Response to Finding 1 also required checking on AAVS inputs of the applicable data by the Supervisor of Assessments or Commercial/Residential manager in the larger jurisdictions. The report generated by one of the three subdivisions is being critically reviewed by headquarters administration to rewrite its parameters; hopefully, with the cooperation of the local jurisdiction for the automated input of its information. The Auditor's comments referring to permit information and sales reflects the fact that the Department is implementing a new system for this information in AAVS.

Steps to track permit and sales are evolving and being implemented. During calendar year 2013, more Assessment offices have been able to import building permits which allows for better tracking. The import of this information also required SDAT to contact local governments to revise the manner in which they electronically presented the building permit data. After a property is physically inspected for a building permit greater than $100,000 resulting in an out of cycle reassessment, then specific fields in the AAVS system are utilized to input and collect the information for supervisory review.

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

SDAT's Response: The Department concurs in the Auditor's Finding and will undertake different steps to implement the four Recommendations that affect Personal Property Assessments, Homeowners'/Renters' Tax Credits, and Franchise Taxes collected from telephone, electric and natural gas providers.

The Auditor's first comment in this Finding deals with a particular audit not being performed by SDAT on certain personal property returns due to staffing issues and the significant amount of time required to manually enter personal property data into the assessment system. The Auditor recommends the Department to determine the feasibility of instituting electronic filing of the returns to improve overall efficiency and the accuracy of the information entered. The Department has begun the process to obtain a system for the electronic filing of personal property returns, and we project its implementation on January 1, 2015 with the start of the filing of returns that year. This electronic filing system also should free up some resources to conduct a specialized audit noted by the Auditor to determine which business entities should be required to continue filing a personal property return in subsequent years. In the meantime, the Department will again conduct the two audits each year for all seven counties noted in the Auditor's description of this Finding.

The Auditor offers two sets of comments on the different audits performed by the Homeowners'/Renters' Tax Credit Programs. The first comments note that the Tax Credit Programs had not **"completed"** audits of selected applications for certain years. The Auditor also notes that this condition was commented upon in the Auditor's preceding audit report. The Department is performing all of the audits just not as "timely" as the Auditor would like. For the record, it should be noted that there is an automatic 18 month delay in performing an audit in a new year because of the time period by which the Department receives the electronic transmission of the income tax information from the IRS. The primary reason that these audits cannot be more timely is because the Tax Credit Programs had four positions abolished in the last Cost Containment. The Tax Credit Programs need additional positions if the Department is to complete the audits the agency designed in a more timely manner. As a result, the Department has requested additional positions for fiscal year 2015 for the Tax Credit Programs.

For the Tax Credit Programs, the Auditor also noted that some local jurisdictions had not submitted monthly electronic redemption reports for all months showing the amounts of recaptured tax credits upon a transfer of the property. The Tax Credit administration will send out a written directive to the affected County Finance Offices to ensure that they submit the electronic report on a monthly basis even if there are no accounts to report in later months, and it will follow up on any jurisdiction that does not respond with a monthly report.

The Auditor's final comment in this Finding states that SDAT did not substantiate the extent to which franchise tax returns had been reviewed. This condition was also commented upon in the preceding audit report. For the 2008 returns, the Department had timely reviewed the returns of the top thirty filers who pay the largest amounts of the franchise taxes. As of August 2013, the audit completion rates were as follows: 2008 – 90%; 2009 – 82%; 20120 – 82%; 2011 – 76%; and 2012 – 28%. All returns could not be audited because the Department's Franchise Tax Unit has had two of its three positions vacant for two years because of retirements and recruitment problems for this highly specialized work unit. Now that all three positions have been filled, the Department committed to the Auditor during the Discussion Note period for this audit that the agency would perform a specified number of audits each year, by a certain date, and appropriate documentation of the audits would be permanently noted in the records. The new audit schedule requires that audits will be completed on 70% of the returns within one year of receipt, and 100% of the returns will be audited within 20 months of receipt. Accounts with more $1 million in annual Franchise Tax payments will be completed within 8 months of receipt. During the Discussion Note period for this audit, the Department specified in the "exit" conference that the Auditor would have to raise at that time any objections it had to the specific audit parameters the Department proposed here. No objections were raised, and the Department has already implemented the specific audit schedule provided to the Auditor.

Finding 6 by the Auditor:
Access and monitoring controls over the AAVS database were not sufficient to protect critical data.

SDAT Response: SDAT concurs in the Finding and Recommendations. It must be emphasized that this Finding and Recommendation "b" to document reviews of logs of security events will result in a massive amount of work for the IT Unit that will require the agency to obtain a new full-time employee in the FY'15 Budget Request to function as a dedicated Security Officer employee performing these tasks exclusively. It also should be noted that the Agency's total number of IT employees in this Unit has declined from 20 to 13 employees from 2008 to 2013. The necessary security reports have been written and produced but cannot be thoroughly audited until that new employee is hired in the FY'15 budget.

Finally, it should be noted regarding Recommendation "a" on critical database access that only three senior level managerial employees have system administrator access to the AAVS database.

Finding 7 by the Auditor:
The DAT network was not adequately secured.

SDAT Response: The Department concurs in the Auditor's Finding/ Recommendations and has taken the following actions.

Recommendation "a" to configure its firewall and virtual private networks to a "least privilege" strategy.

1. The Internet. SDAT has disconnected the line for the Image 1 server, and it is no longer used. This action was taken while the Auditor was here.
2. AAVS Vendor. SDAT's CIO has limited the access by this vendor to just a preview test server and not on the main database. The ports were limited to just this server.

3. Virtual Private Networks (VPN). SDAT's CIO has removed one VPN. The partner VPN is limited to use by the AAVS vendor to access the preview server.

Recommendation "b" to modify network-based IDPS and firewall to send critical network to office to review by the IDPS module. We are in the process of ordering new equipment to allow review of all network traffic. The new equipment will be installed in July/August 2014, and it will be configured to address any of the concerns raised here by the Auditor.

Recommendation "c" to review network security risks is addressed in finding 6 and involves the hiring of a dedicated Security Officer employee performing these tasks exclusively.

Recommendation "d" is to restrict remote access to the IDPS module only to those needing such access. Currently, the network based device only allow access by the CIO and Deputy Director. The new Security Officer will be granted access.

Finding 8 by the Auditor:
Malware protection on DAT workstations and servers need improvement.

SDAT Response: The Department concurs in the Finding and provides the following information regarding the agency's implementation of the Auditor's Recommendations.

Recommendation "a" to ensure all workstations/servers are configured with anti-malware software that is operating properly. SDAT's response is that it did not have a new computer to use as a server for this Malware. With the new 2015 budget, the Department will obtain a computer to use as a server for Malware, and then explore the capabilities and option for using the software to serve all of its computer workstations.

Recommendation "b" to regularly confirm that anti-malware software and related definition files are properly updated. The new server will have software installed to regularly confirm updates on workstations and servers.

Recommendation "c" to limit local administrative rights on user workstations to only necessary personnel. The Department is in the process of removing all administrator rights from all workstations. Currently, we have completed this project in five of the twenty-four Assessment offices.

Finding 9 by the Auditor:
An up-to-date and comprehensive disaster recovery plan did not exist.

SDAT Response: The Department concurs in the Auditor's Finding and Recommendation. Though we do have a disaster recovery plan in place, the agency's IT Unit is in the process of updating our documentation, which will be annually maintained.

Finding 10 by the Auditor:
DAT did not adequately monitor certain contract billings.

SDAT Response: The Department concurs in the Auditor's Finding and will implement the three Recommendations. However, the Department must provide a fuller explanation as to what occurred regarding the **two** contract billings that are the subject of this Finding.

The first contract billing involved a "lock box" service provided under a contract procured by the State Treasurer's Office (STO). The Auditor notes that this condition was commented upon in the preceding audit period. The Department presented documentation to the Auditor in the Discussion Note period of earlier instances where the efforts by the agency's accounting chief to get applicable rate information from the STO resulted in being ignored or being rebuffed by STO personnel administering the statewide lockbox contract. At the exit interview, the Department requested the Audit Manager to intercede on the Department's behalf by providing directly to the STO the specific rate information for the period in question indicating an overcharge occurred and a refund was due for the year in question. Once that information is provided, the Department will complete the review of this billing.

The second contract billing involves a contract for document imaging services. The Auditor is correct in noting that the Department did not maintain a monthly record of images scanned per month. The Department does perform a review of the annual reconciliation report on the total number of images scanned in the reporting period. The Auditor is incorrect in stating that the annual settlement had not occurred for the specific reporting period. The Department had instead directed the vendor to perform a new major imaging initiative to scan personal property tax returns and apply the end of year reconciliation amount as partial payment towards the cost of the new major imaging project. In the prior reporting period, the Department had received an $80,000 check payment from the vendor for the fewer scanned images provided under the contract.

The Department has already required and the vendor has responded in revising the monthly invoice document so the agency can better monitor the number of documents imaged monthly for each of the separate departmental programs (Charter, Homestead, and Personal Property) using the imaging services.

Finding 11 by the Auditor:
Sufficient controls were not established over certain collections.

SDAT Response: The Department concurs in the Auditor's Finding and has already taken steps to implement the two Recommendations. The first Recommendation deals with a particular subset of cash/check collections. A major independent audit (including computer report verification) was performed by the Department on all collections in the cash receipts process for a period of time to verify the cash receipts entered into the MBES system with the daily deposit record. No discrepancies were found. Going forward, our lead accountant will perform a daily verification of all of the cash receipts entered into the MBES system and the daily deposit. Also, the cash register will be closed later so that all cash receipts will be entered into the system by Charter staff by the close of business for that day's receipts and so that an exact reconciliation amount can be certified since cash receipts are no longer being received or processed after the cash register was closed.

The Department is producing a new automated report on "no fee" transactions for copies of documents provided primarily to State and local government agencies. An independent supervisor will review on a test basis the appropriateness of the "no fee" status on the sampled transactions to determine if further review for more accounts is appropriate. That review will entail a matching of the "no fee" document and the request on the letterhead stationary of the office making the request. The review of the sampled accounts will be documented with the supervisor's initials, the date it occurred, and an attachment of the letter request.

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

Richard L. Carter, CISA
Stephen P. Jersey, CPA, CISA
Information Systems Audit Managers

John F. Nogel, CPA, CFE
Senior Auditor

R. Brendan Coffey, CPA, CISA
Omar A. Gonzalez, CPA
Information Systems Senior Auditors

Michael D. Cheese
Marissa L. Eby
Evan E. Naugle
LaTeasa R. Robertson
Staff Auditors

Matthew D. Walbert
Information Systems Staff Auditor

Department of
Assessments and Taxation
Baltimore City Assessment Office
William Donald Schaefer Tower
6 St. Paul Street, 11th Floor
Baltimore, Maryland 21202-1608

Martin O'Malley
Governor

Robert E. Young
Director

Michael W. Griffin
Associate Director

SMITH MARY A
123 SUNSHINE RD
BALTIMORE MD 21202

Ward/Section/Block/Lot:

Site Address:

CITY SITE ADDRESS, LINE1
CITY SITE ADDRESS, LINE2

Date of Notice: 05/05/2014

Dear Exempt Property Owner:

Maryland law specifically requires that the Department of Assessments and Taxation periodically review the continued entitlement of an organization to a property tax exemption. An organization is required to submit any information the Department needs to verify the propriety of the exemption.

At this time, every owner in Baltimore City currently receiving a charitable, educational, or religious property tax exemption under Tax-Property Article Sections 7-202 and 7-204 of the Annotated Code of Maryland is being required to submit the attached questionnaire/affidavit on the reverse side of this letter. The affidavit must be completed and returned to the Department within thirty (30) days of the date of this letter.

Failure to timely respond to this inquiry within the specified time period may result in the removal of your property's tax exemption for the current July 1, 2014 tax year.

Once the Department receives your questionnaire/affidavit response back in the mail, the Agency also will be out to physically inspect the property.

If you have any questions concerning this matter, please contact Ms. Anna Bancroft of our office at (410) 767-8507.

Thank you in advance for your cooperation in this matter.

Supervisor of Assessments for
Baltimore City

EXMPRP

2014 EXEMPT PROPERTY QUESTIONNAIRE AND AFFIDAVIT FROM SDAT REGARDING THE USES OF THE PROPERTY

Account Number: 03-00-00000000000

CITY SITE ADDRESS, LINE1
CITY SITE ADDRESS, LINE2

1. What percentage of the property is being exclusively used for charitable or educational purposes?

   ______________ %

2. Describe each building on the property and indicate the use of each.

   ____

   ____

   ____

3. Describe each building NOT being used for exempt purposes and indicate what areas are not being used, and what the alternative uses are:

   ____

   ____

   ____

4. Is any portion of the property being rented? ________ Yes ________ No
   If Yes, specify to whom the property is rented: ____;
   what is the annual rent amount received: $ ______________; and what is the square footage of the rental space ______________ (square feet).

5. Is any portion of the property made available to an individual or individuals for personal use such as for a personal residence? ________ Yes ________ No
   If Yes, specify to whom: ____, what is the square footage of the area used for personal use____________(square feet) and whether any rent $_____________ is received.

NOTE: You may attach a supplemental sheet to provide further explanatory information for the above questions or any other matter regarding the property.

I, ____ , hereby declare under the penalties of perjury, pursuant to Md. Anno. Code, Tax-Property Article, Section 1-201 that this form (including any accompanying statements) has been examined by me and the information contained herein is true, correct and complete to the best of my knowledge and belief. I further understand that the Department may request additional information to verify the responses on this form, and that SDAT may independently verify the information.

_____________________________________ _____________________________________
Representative's Signature Date

_____________________________________ _____________________________________
Title of Representative Printed Name of Representative

_____________________________________ _____________________________________
Daytime Telephone Number E-mail Address

MAIL COMPLETED APPLICATION TO:
State Department of Assessments and Taxation
Baltimore City Assessment Office, Exempt Unit
William Donald Schaefer Tower
6 St. Paul Street, 11th Floor
Baltimore, Maryland 21202-1608

RETURN TO:

STATE OF MARYLAND
DEPARTMENT OF ASSESSMENTS AND TAXATION
APPLICATION FOR EXEMPTION
CHURCHES, PARSONAGES, CONVENTS, EDUCATIONAL BUILDINGS, AND CHURCH CEMETERIES

TO BE FILED with the Supervisor of Assessments in the appropriate local office.

Applications must be received no later than September 1 in order to have the exemption considered for the current tax levy. Applications received after September 1 will be considered for the next tax levy.

This form seeks information for the purpose of a church exemption on the indicated property. Failure to provide this information will result in denial of your application. However, some of this information would be considered a "personal record" as defined in State Government Article, §10-624. Consequently, you have the statutory right to inspect your file and to file a written request to correct or amend any information you believe to be inaccurate or incomplete. Additionally, personal information provided to the State Department of Assessments and Taxation is not generally available for public review. However, this information is available to officers of the State, county or municipality in their official capacity and to taxing officials of any State or the federal government, as provided by statute. Additionally, if your property would be used by the State Department of Assessments and Taxation as a comparable for purposes of establishing the value of another property in a hearing before the Maryland Tax Court, the requested information, or a portion thereof, may have to be provided to the owner of that other property.

Full Name of Titled Owner: ____________________

Address of property: ____________________

____

Location and description of property: Account Number ____________________

Baltimore City	Ward	Section	Block	Lot
Counties	District	Map	Block	Parcel

Subdivision ____________________

Description ____________________

Date Acquired ____________________ Deed Reference ____________________

1. Below, explain in sufficient detail the type and use of the property, land and buildings:

____

____

____

____

2. Is any part of this property rented? **Yes** ☐ **No** ☐

   If yes, to whom? ____________________

   What is the estimated annual rent? ____________________

3. Does this organization own any adjoining Real Property? **Yes** ☐ **No** ☐

I declare under the penalties of perjury, pursuant to Section 1-201, Tax Property Article, of the Annotated Code of Maryland, that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

____________________ ____________________

SIGNATURE OF APPLICANT DATE

____________________ ____________________

ADDRESS PHONE

____

CITY STATE ZIP CODE

(FOR OFFICE USE ONLY)

COMMENTS: ____________________

____

____

New Application ☐ **Re-Application** ☐ **Code No.** ____________

Approved ☐ **Disapproved** ☐ **Effective** ____________

Land ____________	**Imp** ____________	**Total** ____________

____________________ ____________________

Supervisor's Signature **Date**

THIS APPLICATION IS NOT OPEN FOR PUBLIC INSPECTION **SDAT - EX 1**

State Department of Assessments & Taxation
County Assessment Offices

Allegany County Assessments
112 Baltimore Street, 3rd Floor,
PO Box 343
Cumberland, MD 21501
Hours: 8:00 to 5:00
(301) 777-2108
Fax: (301) 777-2052
E-mail: sdat.alle@maryland.gov

Anne Arundel Co. Assessments
45 Calvert St., 3rd Floor
Annapolis, Maryland 21401
Hours: 8:00 to 5:00
(410) 974-5709
FAX (410) 974-5738
E-mail: sdat.aa@maryland.gov

Baltimore City Assessments
Wm D. Schaefer Tower
6 Saint Paul St., 11th Floor
Baltimore, Maryland 21202-1608
Hours: 8:00 to 5:00
(410) 767-8250
FAX (410) 333-4626
E-mail: sdat.baltcity@maryland.gov

Baltimore County Assessments
Hampton Plaza
300 E. Joppa Road, Suite 602
Towson, MD 21286
Hours: 8:00 to 5:00
(410) 512-4900
FAX: (410) 321-4148
E-mail: sdat.blco@maryland.gov

Calvert County Assessments
State Office Building, Room 1200
200 Duke Street
Prince Frederick, Maryland 20678
Hours: 8:00 to 5:00
(443) 550-6840
FAX: (443) 550-6850
E-mail: sdat.calv@maryland.gov

Caroline County Assessments
SDAT/Denton Multi-Service Center
207 South 3rd Street
Denton, Maryland 21629
Hours: 8:00 to 5:00
(410) 819-4450
FAX: (410) 819-4441
E-mail: sdat.crln@maryland.gov

Carroll County Assessments
Winchester Exchange/SDAT
Rear 17 E. Main Street
Westminster, Maryland 21157
Hours: 8:00 to 5:00
(410) 857-0600
FAX: (410) 857-0128
E-mail: sdat.carl@maryland.gov

Cecil County Assessments
SDAT/Multi-Service Center,
170 East Main Street
Elkton, Maryland 21921
Hours: 8:00 to 5:00
(410) 996-2760
FAX: (410) 996-2770
E-mail: sdat.cec@maryland.gov

Charles Co. Assessments
Southern Maryland Trade Center
101 Catalpa Drive - Suite 101A
P.O. Box 2726
LaPlata, Maryland 20646
Hours: 8:00 to 5:00
(301) 932-2440
FAX: (301) 932-2189
E-mail: sdat.char@maryland.gov

Dorchester County Assessments
P.O. Box 488
501 Court Lane
Cambridge, Maryland 21613
Hours: 8:00 to 4:30
(410) 228-3380
FAX: (410) 228-3704
E-mail: sdat. dor@maryland.gov

Frederick County Assessments
5310 Spectrum Dr, Suite E
Frederick, Maryland 21703
Hours: 8:00 to 5:00
(301) 815-5350
FAX (301) 663-8941
E-mail: sdat.fred@maryland.gov

Garrett County Assessments
County Courthouse
P. O. Box 388
Oakland, Maryland 21550
Hours: 8:00 to 4:30
(301) 334-1950
FAX: (301) 334-5018
E-mail: sdat.gar@maryland.gov

Harford County Assessments
SDAT/Mary E.W. Risteau DCMSC
2 South Bond Street, 4th Floor
Bel Air, Maryland 21014
Hours: 8:00 to 5:00
(410) 836-4800
FAX (410) 838-5914
E-mail: sdat. harf@maryland.gov

Howard County Assessments
SDAT/DC-MSC
3451 Courthouse Drive
Ellicott City, Maryland 21043
Hours: 8:00 to 5:00
(410) 480-7940
FAX (410) 480-7960
E-mail: sdat.how@maryland.gov

Kent County Assessments
114-A Lynchburg Street
Chestertown, Maryland 21620
Hours: 8:00 to 5:00
(410) 778-1410
FAX (410) 778-1525
E-mail: sdat.kentco@maryland.gov

State Department of Assessments & Taxation
County Assessment Offices

Montgomery County Assessments
30 W. Gude Drive, Suite 400
Rockville, Maryland 20850
Hours: 8:00 to 5:00
(240) 314-4510
Commercial (240) 314-4530
FAX: (301) 424-3864
E-mail: sdat.mont@maryland.gov

Prince George's Co. Assessments
14735 Main Street, Suite 354B
Upper Marlboro, Maryland 20772
Hours: 8:30 to 4:30
(301) 952-2500
FAX: (301) 952-2955
E-mail: sdat.princeg@maryland.gov

Queen Anne's Co. Assessments
Carter M. Hickman DC/MSC
120 Broadway Suite 7
Centreville, Maryland 21617
Hours: 8:00 to 5:00
(410) 819-4160
FAX: (410) 819-4170
E-mail: sdat.qaco@maryland.gov

St. Mary’s Co. Assessments
Carter Bldg., Room 2059
23110 Leonard Hall Drive
P.O. Box 1509
Leonardtown, Maryland 20650-0653
Hours: 8:00 to 5:00
(301) 880-2900
FAX: (301) 475-4856
E-mail: sdat.stm@maryland.gov

Somerset County Assessments
SDAT/ 11545 Somerset Avenue
Princess Anne, Maryland 21853
Hours: 8:00 to 5:00
(410) 651-0868
FAX: (410) 651-1995
E-mail: sdat.som@maryland.gov

Talbot County Assessments
29466 Pintail Drive Ste. 12
Easton, Maryland 21601
Hours: 8:00 to 5:00
(410) 819-5920
FAX: (410) 822-0048
E-mail: sdat.talb@maryland.gov

Washington County Assessments
SDAT/ 3 Public Square
Hagerstown, Maryland 21740
Hours: 8:00 to 5:00
(301) 791-3050
FAX: (301) 791-2925
E-mail: sdat.wash@maryland.gov

Wicomico County Assessments
Salisbury DC-MSC
201 Baptist Street
Salisbury, Maryland 21801-4962
Hours: 8:00 to 5:00
(410) 713-3560
FAX (410) 713-3570
E-mail: sdat.wic@maryland.gov

Worcester County Assessments s
One West Market Street, Rm. 1202
Snow Hill, Maryland 21863
Hours: 7:30 to 4:30
(410) 632-1196
FAX: (410) 632-1366
E-mail: sdat.wor@maryland.gov

Revised: 8/13/14

ISSUE: Why is the assessment administered by the State Department of Assessments and Taxation?

Statewide Assessment Administration – Overview

The Maryland State Department of Assessments and Taxation (SDAT) was created in the late 1950's from what had been the Maryland State Tax Commission. Also the assessment appeal body function of the Tax Commission was moved to the then newly create Maryland Tax Court, a separate independent state agency not part of SDAT.

SDAT (and former State Tax Commission) was the oversight agency for assessment and tax administration and valued centrally certain specialized property (Corporate Personal Property and Regulated Utilities). The County Supervisors of Assessment and their staffs of assessors and clerical personal were county employees. Their operating budgets were funded by the counties; while the SDAT budget was funded by the state.

It had historically been the practice to revalue properties on a triennial basis throughout the state with the 1/3 of properties being valued being valued each year receiving their reassessment notice in that year. Similarly, a market calibrated cost approach (sales comparison approach and cost approach) to value was used in the mass appraisal process using a manual basis of cost tables, depreciation tables, and land tables and applied using individual property record cards and property sales analysis listings. Where appropriate, the income approach was considered.

While the SDAT had oversight and responsibility for all assessment functions statewide, many counties followed the administrative directions of the Director and State Supervisor of Assessments of the SDAT. There were some jurisdictions where there was a close allegiance to those that provided their funding. Similarly there were counties that did not provide appropriate funding for staff, office, and equipment. Salaries in some jurisdictions were adequate to retain appropriate work force, while in others they were at levels that could not attract persons with appropriate education and skills.

In the late 1960's and early 1970's, real property markets fluctuated greatly. In some areas values were "down" because of social unrest, in others "up" due to demand for housing, and then "down" for the first of two energy crises. As property values change, so must assessments to reflect current market value. This "uniformity" of assessment is required by a clause in the State constitution.

In the early 1970's in the midst of an inflationary cycle - as assessment notices were mailed reflecting large increases in assessed value - a class action suit was brought by property owners of Talbot, Anne Arundel County, Baltimore City, and Baltimore County against the SDAT and individually and personally against the Supervisors of Assessment in each of those counties and the Director and State Supervisor of Assessment of the SDAT. The property owners did not like the increase in values or the plan of assessment

The result, known as the Judge Wray decision (of the Anne Arundel County Circuit Court) was a strict interpretation of the code which basically said that "if there was a change in any property value then the property was to be reassessed" whereas the SDAT was administratively assessing on a triennial basis. In other words, since market values were increasing rapidly county wide in the counties involved in the suit, this meant that all properties should have been valued, not just the 1/3 that had received notices.

Judge Wray noted that while the law required reassessment when there was a change in value, the assessor could not accomplish this unless there was proper assessment administration with appropriate funding, staffing and training. At the time, certain jurisdictions had not valued properties for various reasons. Some areas were not revalued because values might go down, in other areas large acreage parcels were not revalued because values were increasing or they did not have the time resources or training to adequately value. In still other areas properties were revalued appropriately. In other words, there was a "hodgepodge" of assessment practices some of which were contrary to law and administrative directive. While it was not the desired course of action for SDAT, SDAT considered, suing certain counties for not properly funding or administering the assessment functions. The suit never occurred, because of the state takeover of the assessment function.

With the Judge Wray decision, the numerous assessment administration issues of the time, and with property owner's from across the state testifying in Annapolis about assessment problems and matters, the Maryland General Assembly passed State Assessment "Takeover" Legislation. This caused the state to assume funding of property assessment statewide over a three year period in the early 1970's. In the first year, supervisors of assessment and county appeal board members became State funded positions. The second year saw assessors and clerical personal become state employees. In the third year, the costs of offices, fixtures and equipment became State funded. This was done to insure consistent funding and uniform assessment administration and practices statewide.

What did the Judge Wray decision do? In that first year, there was a roll-back of assessments (in the two most recently valued 1/3 groups to a common base - the year of the oldest most recently valued triennial group. This was done by applying "adjustment /inflation" factors to two groups. The next year, the SDAT went to an "annual" valuation cycle as required as a consequence of the Wray decision.

This meant that all properties would be valued and assessment notices sent to all property owners annually. One-third of the properties were field reviewed and valued annually and the other two-thirds were updated via indexing. While values were updated on a more frequent basis, there were problems with assessment uniformity in the indexed areas. Property owner appeals of assessments increased significantly. Typically, two-thirds of the appeals came from the one-third of properties physically reviewed and one third of the appeals came from the areas (two-thirds of properties) that were indexed.

With annual assessment and a slower pace of finalizing appeals (because of volume), property owners would receive the next year's assessment notice before the last year's assessment was adjudicated. Often some assessment increases were nominal.

With these and other problems with annual assessment, the General Assembly passed triennial assessment legislation in the late 1970's which still the practice is today. It basically states that all properties shall be "assessed once every three years" and it removed the concept of "assessed if value changes". This legislation kept a frequent valuation cycle and brought order to the valuation and appeal process.

Also during this time, the General Assembly enacted measures to limit the impact of large assessment and property tax increases on certain property owners. These included 'circuit breaker" tax credits for elderly and low income homeowners (state reimburses counties for this); "homestead" assessment increase limits in any one tax year, and finally an assessment "phase in law" that allowed any increase in full cash value from the last assessment to be phased in over the next three years. The net effect was to limit large increases in value and assessment from one year to the next. Similarly, the General Assembly focused attention on the distinction between the assessment administration function of the assessing authority and the tax rate setting and taxing responsibility of the taxing authority. It also passed a "truth in taxation" standard which established the "constant yield tax rate" law.

Statewide assessment administration has been in place for 40 years. During this time period, more uniform methods and systems have been instituted across the state in all 24 counties. One statewide, computer assisted mass appraisal system was first developed in the mid 1990's with standard records, record cards, methods and techniques, and reports in all counties. While assessment administration is always challenging and improvements can always be made, statewide administration has created uniformity of assessment statewide.

In the early 2000's, a study commission (Mandel Commission) was established by the new Governor to review the statewide assessment system after 30 years of operation. That study basically found that the current statewide assessment system administered by SDAT was performing as intended and should be continued with administration and funding from SDAT. As you all know, legislation was enacted in recent years providing that counties contribute to a portion of funding (with legislative oversight) for the administration of the assessment laws by SDAT since county governments are the primary recipients of the property tax dollars generated by the assessments.

Introduction

Real Property Appraisal can be accomplished by single property appraisal or mass appraisal. The credibility each appraisal is judged in the context of the intended use of the appraisal.

Single property appraisals are made for various purposes and involve the appraisal of a single property as of a given date. Single property appraisals are governed by the Uniform Standards of Professional Appraisal Practice (USPAP Standards 1 and 2) and the credibility of the appraisal is judged against comparable sale properties used in the appraisal.

Mass appraisal involves the appraisal of many properties, a universe of properties, as of a given date. The intended use of mass appraisals is most often for ad valorem purposes, but can be for other intended uses. Mass appraisals are governed by USPAP – Standard 6.

Both single property and mass appraisal use three traditional approaches to value and require market research. Both require logical and systematic methods for collecting, analyzing, and processing data to produce supportive, well-documented value estimates. Single property appraisal requires only one person to research and analyze data and make appraisal judgments and decisions, while mass appraisal requires many persons performing many tasks. Appraisal quality is measured by comparison to comparable sales.

The major difference between the two types of appraisal is the scale of the mass appraisal. It is much larger, involving many properties, many people (coordination of tasks and appraisal judgment), with emphasis on standardization in procedures, methods, models and tables. Mass appraisal requires many people to contribute to the process using standardized procedures. Quality is measured using statistical procedures to test estimated values against sale prices.

Mass Appraisal

The three traditional approaches considered in valuing real property are the cost approach, the sales comparison approach, and the income approach. Typically, assessors use a market calibrated cost model (cost and sales comparison approaches) in ad valorem residential mass appraisal. For properties bought and sold on their income producing capability (commercial and industrial property), an income capitalization approach and comparative sales approach are typically considered.

Minimum standards on appraisal are established in the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation (Washington, DC).

Key mass appraisal concepts are:

MASS APPRAISAL: (is) the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing. (USPAP Definitions)

MASS APPRAISAL MODEL: a mathematical expression of how supply and demand factors interact in a market. (USPAP Definitions)

<u>Model Specification</u> (USPAP/STD 6)

Supply and demand factors affect property value. Identification of these factors and the formal development of a model statement or equation are called model specification.

Mass appraisers must develop mathematical models that, with reasonable accuracy, represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. The models may be specified using the cost, sales comparison, or income approaches to value. The specification format may be tabular, mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics. Appropriate approaches must be used to value a class of properties. The concept of recognized techniques applies to both real and personal property valuation models.

<u>Model Calibration</u> (USPAP/STD 6)

After a model is specified, then model calibration occurs. Calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model. Most simply, it is the development of rates (coefficients) for use in the model. These include such things building rates, land rates, depreciation rates, adjustments and other items.

Cost manual, depreciation, land rate tables are examples of calibrated parameters.

Market Calibrated Cost Approach

In mass appraisal, assessors use “production line” methods and techniques to value a “universe” of properties. For many property types a “market calibrated” cost approach to value is used. A basic cost model formula (specified model structure) is:

Market Value = Replacement Cost New - Depreciation + Land Value

Model calibration of a cost approach occurs by applying tables of rates for improvement costs, depreciation, and land values. These rates are applied to each property’s relevant characteristics to produce a land value and building value. The model is analyzed and tested; and re-applied until acceptable results are attained. Essentially, properties that have sold are valued using this method and analyzed via sale to assessment ratio studies and other performance measures. Once the analysis is completed and acceptable performance measures are attained on the sample of sales, the model (rates/coefficients) is applied to the all properties (sale and non-sale properties) to estimate their value. Both during and following the re-appraisal, assessment performance analysis (ratio studies) is conducted to analyze quality.

Accurate property data (relevant property characteristics) is essential for accurate property values. Thus, the quality and quantity of data is important. Accurate values begin with accurate data. Assessors must ensure that the appropriate data is being captured accurately and consistently. Market transfers (property sales) must be timely entered into the valuation system and existing property data characteristics must be updated for changes.

Properties should be regularly inspected to ensure existing data is accurate and current. IAAO standards call for routine property inspections at least every six years. Many states have laws requiring more frequent cycles. Maryland calls for inspections at least every three years. Building permits, aerial/oblique photography, street view images and the linking of this data with the assessors valuation system allows for a timely and efficient review and management of property record characteristics. Properties with changes can be identified and field inspections can be made to verify data as need. In many cases, data can be updated in the office using these technologies. The largest cost of any mass appraisal is data collection and review

Geographic Stratification

Market or economic areas are broad geographic areas of properties subject to similar economic influences and value trends. Subareas or neighborhoods are groupings of homes that share similar location amenities. In mass appraisal, the universe of properties to be valued is analyzed and valued based upon type of property within market and submarket areas.

In supporting mass appraisal values, the assessor uses current market transactions of similar properties within a market or sub market area. The assessor uses land rates, building costs and depreciation tables in a model to value all similar properties uniformly.

Assessment Performance

A measure of assessment quality is the assessed value to sale price ratio. In a market calibrated cost approach, the ratio of total property estimate of value is compared to actual sale prices. The goal is to achieving a ratio of 100%. Known as an assessment ratio study, these assessment performance analyses are performed measure assessment quality. These studies measure the typical level of assessment (measures of central tendency) and the variation between assessments (coefficient of dispersion, coefficient of variation, or standard deviation). Similarly, assessment uniformity is analyzed.

Frequency of Reassessment

Property values are constantly changing and each property is affected by market factors unique to the each properties location, neighborhood or market area.

An underlying precept of ad valorem appraisal is uniformity of assessment – that "similar properties" are assessed alike. Thus, all similar properties should be assessed similarly. This is accomplished by appraising at market value.

The Maryland Constitution (Article 15 – Declaration of Rights) and law require appraisal at market value[1]. Historically, Maryland counties have re-appraised properties on a triennial cycle.

[1] Article 15 Declaration of Rights – "…General Assembly shall, by uniform rules, provide for the separate assessment, classification and sub-classification of land, improvements on land and personal property, as it may deem proper; and all taxes thereafter provided to be levied by the State for the support of the general State Government, and by the

Many counties have done this since the 1940's. In the early 1970's, the state law was amended to require statewide ad valorem appraisal on a triennial cycle.

In the 1970's and 1980's, the state legislature conducted several legislative study groups regarding real property assessment and enacted numerous provisions of law that govern real property assessment, tax credits, and real property tax exemptions.

Market Value Standard

The Maryland Constitution and law require a market value appraisal standard and the assessor must consider the level of assessment and the uniformity of assessments. These are the underlying principles that guide the assessor.

Some suggest that the assessor should assess every property at 100% of its sale price. Assessors do not assess to 100% of each sale price. First, all properties do not sell. When they do sell they may not be current sales. The assessor must consider comparable sales occurring near the date of appraisal. Also properties are not all the same; and, often the sales may not be indicative of arms-length market transactions.

Price is a fact – list price, asking price, reduced price, sale price. Cost is a fact or an estimate of a fact. It cost $100,000 or it will cost $125 a square foot to build. Value is an opinion based upon fact. The assessor uses arms-length sales as comparables to estimate value.

Residential Property

Article 15 of the Maryland Declaration of Rights, is why the assessor uses a market calibrated cost approach in valuing residential property. The valuation starts from replacement cost new (a" common basis" for all similar properties (similar cost new on similar properties). Next, depreciation (loss in value from all causes) is deducted from replacement cost new depreciation (similar condition properties have similar depreciation). The result is an estimate of the improvement value. Next an estimated land value (similar land rates for similar properties) is added to the improvement value to produce the estimated property value. The formula is RCN – Dep. = RCND + LV = MV.

The specification of the cost model and the application of the model on a sample of property sales, allows the assessor calibrate the model and to test it by the use of a sales to value ratio

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Counties and by the City of Baltimore for their respective purposes, shall be uniform within each class or sub-class of land, improvements on land and personal property which the respective taxing powers may have directed to be subjected to the tax levy;…"

Tax Property Article – Definitions (Section 1-101 (c) "Assessment" means: (1) for real property, the phased-in full cash value or use value to which the property tax rate may be applied; and (2) for personal property, the value to which the property tax rate may be applied.; (pp) Valuation. -- "Valuation" means the process of determining the value of a property; Value. -- "Value" means the full cash value of property. Case law further defines Full Cash Value as the Market Value of Property.

analysis. When acceptable ratio results are achieved the model is then applied to all other similar properties. This approach causes like type of property to be assessed alike.

Commercial Property

Assessments on commercial income producing properties must, also, be uniform between like types of properties. This is why the income approach is used. The "common basis" for income property valuation is using market rents, market vacancy, and market expense ratios, in developing an estimate of the properties Net Operating Income (NOI). The assessor then uses a market capitalization rate to estimate market value. The formula is Income/Capitalization Rate = Value. We should emphasize that this is Market Income; Market Capitalization Rate equals Market Value.

The income approach, as with the cost approach (market calibrated cost approach), is related to the comparative sales approach. Market Capitalization rates consider the relationship of income to sale price. In other words, the capitalization rate is the percentage that income (NOI) is to value (sale price). The use of market rent and market cap rates allow the assessor to treat similar income producing properties similarly for assessment purposes.

Many do not understand the concept of the level of assessment and the uniformity/equalization requirement for assessments and tend to think of the income capitalization approach is separate and distinct from the comparative sales approach. The income approach and comparative sales approach are related. Market capitalization rates must be supported by market information. To do this, the assessor can develop capitalization rates, when they have income and expense information on properties that have sold. This is known as the direct comparison method. Similarly capitalization rates can be developed from the band of investment (mortgage/ equity) method and other methods.

Sales of income producing properties are not as common as sales of non-income producing properties or residential properties. Maryland has over 109,000 commercial parcels with approximately 900 (0.08%) commercial sales per year. Of all commercial sales many are not income producing properties and often property owners do not comply with the income and expense form filling requirement, so appraisers and assessors usually subscribe to commercial services that provide income and expense data summaries.

Discover, List, and Value

Assessment officials are to discover, list and value all property for ad valorem purposes. For real property, discovery means to find each parcel of real property and assure that it is on the tax roll. This is accomplished by reviewing property deeds, and adding each parcel to the jurisdiction's tax roll and tax maps.

Listing involves adding each property to the assessment roll and identifying the relevant property characteristics in the assessment records needed to value the property. This includes relevant quantitative and qualitative characteristics for improvements and improvement sketches, zoning, property images, etc.

Value means developing an opinion of market value for all land and improvements to land at the highest and best use of the property for ad valorem purposes.

Property Characteristics Changes

Modern appraisal systems, such as Computer Assisted Mass Appraisal (CAMA), greatly speed calculations and valuation in ad valorem mass appraisal. These systems streamline valuation sales analysis and individual property valuation. CAMA provides for more efficient assessment performance analysis (ratio analysis, data edits, and management reports). These systems allow linking of other technology systems which provide for efficient mass appraisal. Maryland's current CAMA system, known as AAVS should be linked to the various counties zoning, permits, and vacant (etc.) departments.

Assessment Calendar

The Maryland Annotated Code prescribes many of the governing criteria for property assessment administration. In Maryland one third of all properties must be re-valued each year, and assessment notices are to be mailed by January 1. First level assessment appeal hearings must be heard (preferably before the assessment/tax roll is certified for real property tax billing July 1). If first level appeals are not completed timely, tax billing can be complicated by supplemental billing or by many manual adjustments.

Administrative and assessor staff must complete many administrative functions along with completing the reassessment program. Major administrative functions of the assessment office include the real property transfer process, administration of property tax credit and exemption programs, maintaining parcel maps, maintenance of the tax roll, and maintaining relations with county government agencies and community groups.

Major assessment functions include the annual revaluation program, pick up of additions and new construction to be added to the tax roll (full year. semi-annual or quarterly levy), and to hear and finalize assessment appeal hearings at all appeal levels.

New Construction

• New Property Pick-up includes all new buildings and any renovations over a cost of $100,000 in each triennial group

• New Property Pickup occurs twice a year (July 1 – Full Year Levy and the January 1 -Half year levy and several counties have a quarterly pickup)

• Renovations with a cost of less than $100,000 are to be picked up in reappraisal cycle once every three years.

Several counties have a Quarterly Levy – Baltimore City, Baltimore, Charles, Howard, Montgomery, and Prince George's Counties

Other characteristics of new construction are:

- New property consists of new improvements to land (buildings and site improvements or additions/renovations to property;
- New improvements to land are picked up for Full Year and Half Year (or Quarterly) when substantially complete;
- Additions/renovations to property are picked up for Full Year and Half Year (or Quarterly when complete if the cost is greater than $100,000. If cost is less than $100,000 additions/renovations are picked up during the triennial valuation cycle;
- Change of use to land is picked up for Full Year Levy only;
- Building permits are used to identify of new improvements/additions/renovations. However property owners sometimes make improvements without going through the permit process, the only way to identify this is through field review or the use of imagery;
- Most counties have automated building permit systems for the issuance and processing of building permits for the county and municipalities within a county;
- Some municipalities have their own building permit systems; and
- Historically, counties and municipalities forward paper copies of building permits and certificates of occupancy to each local assessment office and/or listings of permits & certificates of occupancy.

There are various methods of transmitting permit information to the assessment offices. These include:

- Paper permit or lists
- Periodic PDF file (monthly) of what would be paper permits
- Assessment office access to the county permit system
- Electronic extract from county system, typically Excel files, which can be used by assessment managers for management of the pick-up process and for loading of permit information to each account in the AAVS system
- It is important for all counties and municipalities to work closely with the local assessment office to provide permit and certificate of occupancy information as efficiently, as possible to help insure proper pickup

Anne Arundel County building permit data is summarized below:

ANNE ARUNDEL COUNTY PERMITS THAT HAVE BEEN ENTERED INTO AAVS	
ADO	PERMITS WITH POTENTIAL PICK UP VALUE OF $100,000 FOR ANNUAL OR 6 MONTH BILLING-INCLUDES NEW BLDGS AND ADDITIONS
ADU	PERMITS THAT WILL NOT ADD $100,000 - REVIEWED DURING REASSESSMENT
OTH	MOSTLY DEMOLITIONS- ARE REVIEWED AND ABATED THROUGHOUT THE YEAR IN ALL GEO AREAS
NOTES	STARTING LATE 2012, CERTAIN PERMITS WERE NOT LOADED- FENCES, ABOVE GROUND POOLS, SIGNS ETC.
	2014 IS THROUGH APRIL

Count of A		Permit~Type			
YEAR	MONTH	ADO	ADU	OTH	Grand Total
2011	1	127	349	13	489
	2	95	406	16	517
	3	151	520	25	696
	4	81	490	14	585
	5	94	607	15	716
	6	118	599	17	734
	7	109	504	11	624
	8	157	540	8	705
	9	136	491	10	637
	10	112	516	8	636
	11	103	343	10	456
	12	105	261	13	379
2011 Total		1388	5626	160	7174
2012	1	110	326	13	449
	2	112	356	22	490
	3	230	344	6	580
	4	105	359	11	475
	5	122	314	8	444
	6	136	360	8	504
	7	161	379	3	543
	8	152	379	4	535
	9	74	302	3	379
	10	114	317	2	433
	11	130	283	7	420
	12	107	270	16	393
2012 Total		1553	3989	103	5645
2013	1	138	252	13	403
	2	128	213	13	354
	3	151	239	12	402
	4	179	359	36	574
	5	177	315	26	518
	6	135	376	41	552
	7	189	398	39	626
	8	193	417	40	650
	9	180	312	35	527
	10	194	393	47	634
	11	114	188	22	324
	12	106	153	8	267
2013 Total		1884	3615	332	5831

Anne Arundel					
2011 to June 2014		Permits	Estimated Total		
2011	>100,000	1,388	776,630,302		
2012	>100,000	248	496,816,264		
2013	>100,000	294	558,632,100		
2014	>100,000	157	184,475,286		
		2,087	2,016,553,952	966,245	Per Permit

Assessment Appeals

The assessment appeals process includes:

<u>Supervisors' level</u> appeal/owner can get a copy of worksheet/that information will be reviewed at the appeal meeting.

- The first level hearing is informal and should be viewed as an opportunity to present evidence which would indicate that the department's value of the property is inaccurate.
- The property owner should focus on points that affect value/math errors/differences in property characteristics, and property sales that support the property owners' findings as to value.
- Following the 1^{st} level hearing, the property owner will be mailed a Final Notice of Assessment

<u>Property Tax Assessment Appeal Board</u>

If the property owner does not agree with decision of the assessor, they may appeal to the <u>Property Tax Assessment Appeal Board</u> in the county where the property is located (three member independent board)

- Property owner can obtain a list of comparable properties if requested 15 days before hearing.
- Property owner is free to submit any supporting evidence.

<u>Maryland Tax Court.</u>

- If dissatisfied with the notice of decision from the Appeal Board, you may file (within 30 days) to the <u>Maryland Tax Court.</u>

Assessment appeal levels include:

- 1^{st} Level – Supervisor of Assessment – informal meeting with assessor
- 2^{nd} Level – PTAAB – informal independent board
- 3^{rd} Level – Md. Tax Court – more formal
- 4^{th} Level – Circuit Court – county where property is located.
- 5^{th} Level – Court of Special Appeals
- 6^{th} Level – Court of Appeals

The assessment appeal process is available to allow property owners the opportunity to dispute the value determined by the department, if they feel the value is wrong.

Appeals may be filed on three occasions:

- When an assessment notice is received (reassessment)
- Out of cycle review – file a petition for review (in the two years when the property is not valued)
- Upon Purchase (When a property is transferred between Jan. 1 and July 1

Statewide First Level Assessment Appeals FY 2011 to 2014

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % Notice	Field Res Ass	Filed C&I *	AppealPer DAY Res	Appeal Per DAY C&I	Appeal DAY Res	Appeal DAYs C&I
2011	81	740,128	23,029	8,907	31,936	15,404	3,273	18,677	50,613	38,433	12,180	4.3%	124	39	15	10	21	31
2012	82	737,387	21,472	8,730	30,202	10,907	3,942	14,849	45,051	32,379	12,672	4.1%	124	39	15	10	17	32
2013	80	678,666	12,718	5,936	18,654	8,204	2,812	11,016	29,670	20,922	8,748	2.7%	124	39	15	10	11	22
2014	81		16,345	9,399	25,744	4,638	3,462	8,100	33,844	20,983	12,861		124	39	15	10	11	33

- Appeals vary by county by year and type (Res. & C&I)
- Appeals impact workload each year
- Statewide Res and C& I averages mask actual impact by county
- Note typical days to hearings from statewide to big 5 counties on Pages Following

Anne Arundel — First Level Assessment Appeals FY 2011 to 2014

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % of Notice	Field Res Ass	Filed C&I *	Appeal DAYs Res	Appeal DAYs C&I	Appeal DAYs Res	Appeal DAYs C&I
2011	81	74,910	990	1,142	2,132	866	382	1,248	3,380	1,856	1,524	2.8%	14	2	15	10	9	76
2012	82	61,953	1,578	714	2,292	383	387	770	3,062	1,961	1,101	3.7%	14	2	15	10	9	55
2013	80	59,769	672	421	1,093	413	371	784	1,877	1,085	792	1.8%	14	2	15	10	5	40
2014	81	-	806	1,589	2,395	219	262	481	2,876	1,025	1,851		14	2	15	10	5	93

Baltimore City — First Level Assessment Appeals FY 2011 to 2014

	GEO	In Cycle Notices	In Cycle Res	C&I	Total	Out Cycle Res	C&I	Total	Grand Total	Total Res	Total C&I	In Cycle % of Notice	Field Res Ass	Filed C&I *	Appeal DAYs Res	Appeal DAYs C&I	Appeal DAYs Res	Appeal DAYs C&I
2011	81	74,910	4,817	1,085	5,902	2,185	525	2,710	8,612	7,002	1,610	7.9%	18	5	15	10	26	32
2012	82	61,953	7,036	1,009	8,045	2,583	344	2,927	10,972	9,619	1,353	13.0%	18	5	15	10	36	27
2013	80	59,769	3,628	1,068	4,696	2,408	175	2,583	7,279	6,036	1,243	7.9%	18	5	15	10	22	25
2014	81	-	5,570	1,174	6,744	379	492	871	7,615	5,949	1,666		18	5	15	10	22	33

Baltimore Co		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	90,876	2,610	1,790	4,400	1,434	440	1,874	6,274	4,044	2,230	4.8%	17	4	15	10	16	56
2012	82	98,931	3,309	1,844	5,153	1,102	559	1,661	6,814	4,411	2,403	5.2%	17	4	15	10	17	60
2013	80	86,745	834	1,235	2,069	959	377	1,336	3,405	1,793	1,612	2.4%	17	4	15	10	7	40
2014	81		1,393	1,726	3,119	379	492	871	3,990	1,772	2,218		17	4	15	10	7	55

Montgomery		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	91,923	2,359	1,118	3,477	1,804	587	2,391	5,868	4,163	1,705	3.8%	24	6	15	10	12	28
2012	82	118,485	3,020	1,962	4,982	789	612	1,401	6,383	3,809	2,574	4.2%	24	6	15	10	11	43
2013	80	102,446	1,609	630	2,239	507	347	854	3,093	2,116	977	2.2%	24	6	15	10	6	16
2014	81		1,750	1,333	3,083	285	568	853	3,936	2,035	1,901		24	6	15	10	6	32

Princes Georges		First Level Assessment Appeals FY 2011 to 2014																
		In Cycle	In Cycle			Out Cycle			Grand	Total	Total	In Cycle %	Field	Filed	Appeal	Appeal	Appeal	Appeal
	GEO	Notices	Res	C&I	Total	Res	C&I	Total	Total	Res	C&I	of Notice	Res Ass	C&I *	DAYs Res	DAYs C&I	DAYs Res	DAYs C&I
2011	81	112,287	5,141	1,859	7,000	3,903	285	4,188	11,188	9,044	2,144	6.2%	11	6	15	10	55	36
2012	82	84,612	1,728	1,126	2,854	2,616	1,230	3,846	6,700	4,344	2,356	3.4%	11	6	15	10	26	39
2013	80	77,606	1,086	963	2,049	1,354	816	2,170	4,219	2,440	1,779	2.6%	11	6	15	10	15	30
2014	81		1,982	1,439	3,421	568	1,063	1,631	5,052	2,550	2,502		11	6	15	10	15	42

CORE Work Processes

Assessors must annually complete certain core processes besides field inspection in the general reassessment. Work production studies can be developed for any work segment of a years' work. Each staff member is only available for work a certain number of days a year.

Total work days would typically be about 200 days per year after weekends, holidays, sick days, vacation, and training days are deducted from 365 days per year

Each year supervisors of assessment year plan for the revaluation cycle, make assessor assignments, review exempt accounts, prepare AAVS for next revaluation, and complete a work production analysis next revaluation cycle.

CORE Processes include:

- Inspection and verification property sales information for each area being appraised and conducting market research;
- Re-appraise each triennial group once every three years including conducting market analysis, field inspections, and valuation analysis (sales analysis, market value index analysis and valuation edits).
- Revaluing new subdivision plats, splits and combinations
- Completing and reviewing ratio reports, making final edit checks and percent change edit reports checks
- Picking up New Buildings and Major Renovations (over $100,000 in cost) at least twice a year (Full year and Half Year Levy and quarter year levy where applicable) – conduct field inspections and value
- Conducting 1st Level assessment appeals
- Conducting 2nd Level assessment appeals
- Conducting 3nd Level assessment appeals
- Daily completing all real property transfers and entering that information on the tax roll in the AAVS system – sales data and owner information
- Completing mapping prep for all splits and combinations and subdivision plats
- Performing customer service duties– phone and tax roll counter
- Processing change reports (abatements and increases)
- Processing address and occupancy changes
- Staffing production reports allow management to estimate staff requirements

CORE processes must be completed daily as required. After CORE processes are complete, the assessors can focus reassessment physical inspections. In staffing analysis the supervisor of assessments estimates the number of days for all CORE Processes. If CORE process days are subtracted from total available work days for all assessors, the remaining days are available for reassessment physical inspection.

If there are not enough personnel to complete the physical review in the days available for physical review, additional resources would have to be added to complete field reviewed. If additional personal are not added, then the physical review cannot be accomplished.

CORE days and Reassessment field days can vary from county to county and are due to the property complexity, property density (urban, suburban, and rural), method of valuation, etc.

For each county, work production estimates can be developed and consider the various job functions, standard production rates per day, and a difficulty factor.

Assessment Office Production

An example of a CORE work production report follows. It is a suburban jurisdiction with approximately 200,000 total parcels. Assuming the production for residential and commercial properties are roughly the same (which it is not) and 9 assessors would produce the following results.

Assuming 1/3 of the 200,000 total parcels are valued each year, 66,700 parcels would have to be reassessed. If total work days for the 9 assessors is 1,845 and the CORE days are 1,024, the remaining days for reassessment are 821.

With 9 assessors and 821 reassessment days, there are 91 man days for reassessment field review and edit. If the average field review is 45 accounts per day, 1 assessor could review 4,100 parcels and 9 assessors would complete 36,900 of a total of 66.700. In this case, all properties could be field reviewed in about 6 years

Rural Counties or counties with more complex properties would take longer to field and office review as the distance between properties or the complexity of the property increases.

Example - CORE day analysis worksheet

Calculator for Number of Rating Days-

Task Name		days per yr	Ass Needed
Total Rating Days	0	205	0.00

Team	Task	Number	Difficulty factor enter +	Est Accts per day	Standard Accts per Day	Rating Days
Residential	FLD REV-Scheduled			8	8	0
Residential	FLD REV-Unscheduled			16	16	0
Residential	IMP SUB-Reassessment			60	60	0
Residential	IMP ATT-Reassessment			100	100	0
Residential	IMP REG-Reassessement			40	40	0
Residential	VACANT-Reassessment			200	200	0
Residential	AG-Reassessment			25	25	0
Residential	WF-Reassessment (Add)			100	100	0
Residential	X HSES-(Add)			100	100	0
Residential	EDITS			100	100	0
Residential	SF Edits and Sketches (Combined)			30	30	0
Residential	SF SKETCH			45	45	0
Residential	Att Edits and Sketches (Combined)			45	45	0
Residential	ATT SKETCH			60	60	0
Residential	VALUATION			350	350	0
Residential	NC PU			12.5	12.5	0
Residential	NC WU inc sketch			12.5	12.5	0
Residential	NC PU ATT			20	20	0
Residential	NC WU ATT inc sketch			20	20	0
Residential	MTC WU			1	1	0
Residential	MTC HLD			4	4	0
Residential	PTAAB WU			5	5	0
Residential	PTAAB HLD			20	20	0
Residential	HEAR HLD			15	15	0
Residential	DECISION inc sketch			15	15	0
Commercial	IMP ATT-Reassessment			100	100	0
Commercial	IMP REG-Reassessment			25	25	0
Commercial	VACANT-Reassessment			200	200	0
Commercial	X HSES-(Add)			100	100	0
Commercial	EDITS			25	25	0
Commercial	SF SKETCH			30	30	0
Commercial	VAULATION			40	40	0
Commercial	NC PU			4	4	0
Commercial	NC WU			4	4	0
Commercial	MTC WU			0.3	0.33	0
Commercial	MTC HLD			2	2	0
Commercial	PTAAB WU			3	3	0
Commercial	PTAAB HLD			10	10	0
Commercial	FLD REV			6.7	6.67	0
Commercial	HEAR HLD			10	10	0
Commercial	DECISION			6.7	6.67	0

Anne Arundel Residential Assessor Activities WITH 9 RESIDENTIAL ASSESSORS (Avg 2 years)

WORK DAYS from Below	821	349	266	219	190	1845
PERCENT of total work days	44.5%	18.9%	14.4%	11.9%	10.3%	100.0%
	Reassessment Pickup and Office edits	**New Construction Pu and Workup**	**1st level appeals**	**Higher level Appeals**	**Valuation and edits**	**TOTAL**
November	85%	0%	5%	10%	0%	100%
December	20%	65%	5%	10%	0%	100%
January	15%	55%	20%	10%	0%	100%
February	40%	0%	50%	10%	0%	100%
March	20%	0%	70%	10%	0%	100%
April	75%	0%	15%	10%	0%	100%
May	70%	15%	5%	10%	0%	100%
June	55%	30%	0%	15%	0%	100%
July	25%	60%	0%	15%	0%	100%
August	45%	0%	0%	15%	40%	100%
September	15%	0%	0%	15%	70%	100%
October	70%	0%	0%	15%	15%	100%
sum of percent	535%	225%	170%	145%	125%	1200%
Overall percent	44.6%	18.8%	14.2%	12.1%	10.4%	100.0%

TOTAL WORK DAYS 9 ASSESSORS*	1,845	100%
Less CORE work days	1,024	56%
REMAINING REASS	821	44%

* 9ass x205work days =1845 days

Work Production Estimate Analysis

Assumptions: Suburban Jurisdiction
200,000 parcels
9 Assessors

TOTAL WORK DAYS 9 ASSESSORS*	1,845	100%
Less CORE work days	1,024	56%
REMAINING days for REASS	821	44%

* 9 assessors x 205 work days = 1845 days

Annual Major Tasks	Days	Percent of Total Work Days
Re- assessment field review & office edits	821	44%
New construction pick-up and valuaton	349	19%
1st level appeals	266	14%
2nd and 3rd level appeals	219	12%
Reassessment Valuation and edits	190	10%
	1,845	100%

See Appendix ??

Staffing

- Staffing production reports allow management to estimate staff requirements
- CORE processes must be completed daily as required
- After CORE processes are complete, the assessors can focus on the reappraisal physucak review for the current assessment year
- Supervisors of Assessment can calculate the number of Rating Days for each assessor function

Total Parcels

Assessable Real Property Accounts Per Staffing - All Groups 7/1/2014

County Name	AGRI	GOLF	MARSH	RESIDENCE	CONDO	RES COMM	TOWN HOUSE	RES SUBTOTAL	COMM	INDUST	COMM CONDO	APT'S	COMM RES	COMM SUBTOTAL	TAXABLE	EXEMPT	TOTAL ACC'TS
Allegany	1,516	5	-	33,613	60	334	-	35,528	2,585	374	49	39	3	3,050	38,578	2,749	41,327
Anne Arundel	1,473	6	51	173,731	21,390	20	-	196,671	5,369	989	1,735	226	1,135	9,454	206,125	5,183	211,308
Baltimore City	-	-	-	193,477	12,110	22	1	205,610	8,963	2,333	584	2,188	4	14,072	219,682	17,247	236,929
Baltimore	3,981	39	1	240,936	22,028	1	1	266,987	7,865	3,190	429	2,625	863	14,972	281,959	16,559	298,518
Calvert	1,315	1	2	36,828	1,128	1	1,410	40,685	709	161	114	17	162	1,163	41,848	892	42,740
Caroline	2,659	-	14	12,115	24	15	272	15,099	712	89	-	69	57	927	16,026	708	16,734
Carroll	4,634	12	-	54,793	1,981	2	1	61,423	2,313	261	299	182	392	3,447	64,870	1,978	66,848
Cecil	2,175	-	3	37,784	937	4	2,232	43,135	1,998	205	179	112	267	2,761	45,896	1,207	47,103
Charles	2,288	3	5	48,485	434	14	9,363	60,592	1,455	353	833	66	289	2,996	63,588	1,257	64,845
Dorchester	2,364	-	237	18,133	264	1	26	21,025	905	176	-	25	7	1,113	22,138	1,033	23,171
Frederick	5,180	26	-	62,464	4,808	23	14,629	87,130	2,646	537	663	256	561	4,663	91,793	2,827	94,620
Garrett	3,032	-	-	22,886	881	-	168	26,967	1,111	20	252	38	-	1,421	28,388	1,005	29,393
Harford	3,299	-	-	82,322	7,139	10	-	92,770	2,802	347	156	205	70	3,580	96,350	1,986	98,336
Howard	1,181	-	-	79,010	14,544	3	1,854	96,592	1,733	815	1,369	133	173	4,223	100,815	3,270	104,085
Kent	1,382	-	4	10,631	280	-	-	12,297	612	4	15	22	27	680	12,977	490	13,467
Montgomery	2,034	44	1	244,555	62,408	27	2	309,071	4,267	1,439	3,244	1,631	161	10,742	319,813	16,972	336,785
Prince Georges	1,950	80	7	199,700	26,681	1	33,653	262,072	5,061	3,312	3,011	1,042	554	12,980	275,052	17,115	292,167
Queen Anne	2,223	-	16	19,512	1,523	-	21	23,295	900	26	429	37	472	1,864	25,159	670	25,829
St. Marys	2,794	-	31	39,817	893	-	1,875	45,410	1,546	82	149	166	-	1,943	47,353	1,460	48,813
Somerset	2,116	-	133	12,218	519	-	-	14,986	943	-	17	39	7	1,006	15,992	1,117	17,109
Talbot	1,812	4	10	16,860	407	-	13	19,106	1,050	68	211	83	71	1,483	20,589	591	21,180
Washington	3,313	9	-	44,745	824	66	3,313	52,270	2,538	372	86	601	235	3,832	56,102	2,802	58,904
Wicomico	3,360	8	50	35,927	1,001	1	1,183	41,530	2,442	533	291	142	135	3,543	45,073	1,610	46,683
Worcester	2,860	7	36	30,775	28,099	3	-	61,780	2,011	185	858	126	36	3,216	64,996	1,387	66,383
Total	58,941	244	601	1,751,317	210,363	548	70,017	2,092,031	62,536	15,871	14,973	10,070	5,681	109,131	2,201,162	102,115	2,303,277

Staffing and Parcels

Assessable Real Property Accounts Per Staffing - All Groups 7/1/2014

County Class	County Name	RES SUBTOTAL	COMM SUBTOTAL	TAXABLE	EXEMPT	TOTAL ACC"TS	C & I ASSESS	Total FTE	RES. ASS'OR Equilivent	Total Acc'ts Per FTE	Total Field Assessor	Total Acc'ts Field Assessor	1/3 Total Acc'ts Field Assessor	Total Res Res Act's	1/3 Per Res Assess	"Tot Com Per C& I.	"1/3 Com .Per C& I
C	Allegany	35,528	3,050	38,578	2,749	41,327	1	8	2	5,166	3	13,776	4,592	17,764	5,921	3,050	1,017
A	Anne Arundel	196,671	9,454	206,125	5,183	211,308	2	34	15.5	6,215	17.5	12,075	4,025	12,688	4,229	4,727	1,576
A	Baltimore City	205,610	14,072	219,682	17,247	236,929	5	45	19.5	5,265	24.5	9,671	3,224	10,544	3,515	2,814	938
A	Baltimore	266,987	14,972	281,959	16,559	298,518	4	43	19	6,942	23	12,979	4,326	14,052	4,684	3,743	1,248
C	Calvert	40,685	1,163	41,848	892	42,740	0.5	10.5	3	4,070	3.5	12,211	4,070	13,562	4,521	2,326	775
C	Caroline	15,099	927	16,026	708	16,734	0.5	7.5	1	2,231	1.5	11,156	3,719	15,099	5,033	1,854	618
B	Carroll	61,423	3,447	64,870	1,978	66,848	1	12	4.5	5,571	5.5	12,154	4,051	13,650	4,550	3,447	1,149
C	Cecil	43,135	2,761	45,896	1,207	47,103	1	9	3	5,234	4	11,776	3,925	14,378	4,793	2,761	920
B	Charles	60,592	2,996	63,588	1,257	64,845	0.5	12.5	6	5,188	6.5	9,976	3,325	10,099	3,366	5,992	1,997
C	Dorchester	21,025	1,113	22,138	1,033	23,171	1	6	1	3,862	2	11,586	3,862	21,025	7,008	1,113	371
B	Frederick	87,130	4,663	91,793	2,827	94,620	2	14	4	6,759	6	15,770	5,257	21,783	7,261	2,332	777
C	Garrett	26,967	1,421	28,388	1,005	29,393	1	9	2	3,266	3	9,798	3,266	13,484	4,495	1,421	474
B	Harford	92,770	3,580	96,350	1,986	98,336	2	15	5	6,556	7	14,048	4,683	18,554	6,185	1,790	597
B	Howard	96,592	4,223	100,815	3,270	104,085	2	15	6	6,939	8	13,011	4,337	16,099	5,366	2,112	704
C	Kent	12,297	680	12,977	490	13,467	0.5	5.5	1	2,449	1.5	8,978	2,993	12,297	4,099	1,360	453
A	Montgomery	309,071	10,742	319,813	16,972	336,785	5	53	25.5	6,354	30.5	11,042	3,681	12,120	4,040	2,148	716
A	Prince Georges	262,072	12,980	275,052	17,115	292,167	6	42	13.5	6,956	19.5	14,983	4,994	19,413	6,471	2,163	721
C	Queen Anne	23,295	1,864	25,159	670	25,829	1	6	1	4,305	2	12,915	4,305	23,295	7,765	1,864	621
C	St. Marys	45,410	1,943	47,353	1,460	48,813	1	10	3	4,881	4	12,203	4,068	15,137	5,046	1,943	648
C	Somerset	14,986	1,006	15,992	1,117	17,109	0.5	6.5	2	2,632	2.5	6,844	2,281	7,493	2,498	2,012	671
C	Talbot	19,106	1,483	20,589	591	21,180	0.5	7.5	2	2,824	2.5	8,472	2,824	9,553	3,184	2,966	989
B	Washington	52,270	3,832	56,102	2,802	58,904	1	11	4.5	5,355	5.5	10,710	3,570	11,616	3,872	3,832	1,277
C	Wicomico	41,530	3,543	45,073	1,610	46,683	1	8	2	5,835	3	15,561	5,187	20,765	6,922	3,543	1,181
B	Worcester	61,780	3,216	64,996	1,387	66,383	2	14	3.5	4,742	5.5	12,070	4,023	17,651	5,884	1,608	536
	Total	2,092,031	109,131	2,201,162	102,115	2,303,277	42	404	149.5	5,701	191.5					2,598	866
															Res Assess @ 3,000 per		C&I Assess @750 per
														Needed	232		49
														Existing Fiel	150		42
														Additional	82		6.5
														Total New	89		

- SDAT Total FTE staffing from 1976 to 1992 reduced by 18% while Total Accounts increased by 33.3 %
- SDAT Field Assessor staff from 1990 to 2014 reduced 70% while the number of accounts increased by 25.5%
- Current county FTE staffing is 401 with 131 personnel having more than 30 years service (32%)

IAAO Staffing Survey conducted in 1986 and 2013

<u>Staffing in Assessment Offices in the United States and Canada Results of 2013 Survey</u> – IAAO Research Committee and Lawrence C. Walters, PH.D. - 62 pages

Table 16. Parcels per permanent employee by type of agency

Type of Agency	Number of Respondents	Parcels per Permanent Employee: Mean	Median	Minimum	Maximum	1986 Mean	Percentage Change 1986–2013
County	311	3,610	3,000	68	32,793	3,120	+15.7%
Municipality	217	2,488	2,302	31	8,133	2,220	+12.1%
Township	64	2,740	2,467	126	12,000	1,770	+54.8%
Public multiple	22	3,227	3,190	1,375	8,938	5,530	−42.6%
Private multiple	15	3,919	2,333	320	9,857	NA	
State/Province	14	2,873	2,867	984	5,000	NA	
Overall	643	3,123	2,692	31	32,793	2,420	+29.0%

Reappraisal Frequency	Respondents Number	Percent	Mean Permanent Employees per 1,000 Parcels
More than once a year	8	1.2%	N/A
Every year	147	22.7%	0.61
2-4 years	189	29.2%	0.63
5 years	105	16.2%	0.61
6-10 years	84	13.0%	0.96
> than 10 years	34	5.2%	0.29
As needed	64	9.9%	0.7
Rarely or never	17	2.6%	0.39
	648	100.0%	0.65

FTE Maryland vs. 2013 IAAO Study Table 35 SDAT needs 85 personnel

County Class	County	FTE	Total Parcels	Field Assessor	Mean FTE 1000 parcel	Per 1000	FTE Total Act	FTE 1/3 Total	SDAT 1/3 DELTA
C	Allegany	8	41,327	3	0.62	41.3	26	9	1
A	Anne Arundel	34	211,308	17.5	0.62	211.3	131	44	10
A	Baltimore City	45	236,929	24.5	0.62	236.9	147	49	4
A	Baltimore	43	298,518	23	0.62	298.5	185	62	19
C	Calvert	10	42,740	3	0.62	42.7	26	9	(1)
C	Caroline	7	16,734	1	0.62	16.7	10	3	(4)
B	Carroll	12	66,848	5.5	0.62	66.8	41	14	2
C	Cecil	9	47,103	4	0.62	47.1	29	10	1
B	Charles	12	64,845	6	0.62	64.8	40	13	1
C	Dorchester	6	23,171	2	0.62	23.2	14	5	(1)
B	Frederick	14	94,520	6	0.62	94.5	59	20	6
C	Garrett	9	29,393	3	0.62	29.4	18	6	(3)
B	Harford	15	98,336	7	0.62	98.3	61	20	5
B	Howard	15	104,085	8	0.62	104.1	65	22	7
C	Kent	5	13,467	1	0.62	13.5	8	3	(2)
A	Montgomery	53	336,785	30.5	0.62	336.8	209	70	17
A	Prince George's	42	292,167	19.5	0.62	292.2	181	60	18
C	Queen Anne's	6	25,829	2	0.62	25.8	16	5	(1)
C	St. Mary's	10	48,813	4	0.62	48.8	30	10	0
C	Somerset	6	17,109	2	0.62	17.1	11	4	(2)
C	Talbot	7	21,180	2	0.62	21.2	13	4	(3)
B	Washington	11	58,904	5.5	0.62	58.9	37	12	1
C	Wicomico	8	46,683	3	0.62	46.7	29	10	2
B	Worcester	14	66,383	5.5	0.62	66.4	41	14	(0)
	Total	401	2,303,177	188.5	0.62	2303.2	1428	476	75

Maryland FY 15 budget per parcel

- **Maryland Class A (largest) Counites Median Budget per parcel $ 11.74**
- **Maryland Class B (midsize) Counites Median Budget per parcel $ 13.26**
- **Maryland Class C (smallest) Counites Median Budget per parcel $ 21.35**

IAAO Staffing Study 2013 – Budget Per Parcel

	Mean	Median
• County	$ 26.38	$ 21.85
• Municipality	$ 30.79	$ 28.02
• State Provence	$ 24.04	$ 21.00

Should assessor staff have to be added one Assessor III salary with fringe benefits is listed below this includes costs for multiples of 10 assessors.

Typical Assessor Salary

Maryland Assessor 3 Salary

Salary over 6 years $40,547 to $45,194

Average Salary	$43,500
Fringe Benefits (Dept./ Leg. Ser.) 27.35 %	11,897
Total	$55,397

Assessor Fiscal Analysis		
Additional Assessors @	55,397	'($43,500 plus 27.35% fringe)
10	553,970	
20	1,107,940	
30	1,661,910	
40	2,215,880	
50	2,769,850	
60	3,323,820	

Representative Key Data

- **Market Areas and Neighborhoods (geographic stratification) SDAT statewide:**

Market Areas	**Neighborhoods**	**Parcels**
1,250	**15,722**	**2,275,062**

- **Total Parcel Transfers (arms length/non-arms length**

2012	**2013**	**2014 (7 months)**
141,501	**160,378**	**80,902**

- **Estimated annual arms length residential sales (all groups statewide) – 50,000**
- **Owner-Occupied residential sales – 35,000 to 40,000**
- **Estimated arms length com/ind sales - 900**

Evaluation of the Enterprise Zone Tax Credit



Department of Legislative Services 2014

Evaluation of the Enterprise Zone Tax Credit

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

August 2014

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Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

Karl S. Aro
Executive Director

Warren G. Deschenaux
Director

August 6, 2014

The Honorable Thomas V. Mike Miller, Jr., President of the Senate
The Honorable Michael E. Busch, Speaker of the House of Delegates
Honorable Members of the Maryland General Assembly

Ladies and Gentlemen:

The Tax Credit Evaluation Act of 2012 (Chapters 568 and 569) established a legislative process for evaluating certain tax credits. The Tax Credit Evaluation Committee created by that legislation was required to review and evaluate the Enterprise Zone tax credit by July 1, 2014. To assist the committee in its work, the Department of Legislative Services (DLS) was required to evaluate the tax credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

During the 2013 interim and 2014 session, the committee reviewed a draft of this report and also held a public hearing on the report. The report makes several recommendations as to how the tax credit may be more effectively claimed and administered. The report is divided into four chapters.

Chapter 1 provides an overview of State tax credits, the Tax Credit Evaluation Act, and the Enterprise Zone tax credit.

Chapter 2 provides an overview of the objectives of Enterprise Zone programs.

Chapter 3 assesses the economic impact of the credit, as well as its impact on State and local finances.

Chapter 4 summarizes the findings of the report and discusses recommended changes to the tax credit.

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The Honorable Thomas V. Mike Miller, Jr., President of the Senate
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Honorable Members of the Maryland General Assembly
August 6, 2014
Page 2

We wish to acknowledge the cooperation and assistance provided by various State agencies in the development of this report. DLS trusts that this report will be useful to members of the Tax Credit Evaluation Committee and the other members of the General Assembly in future deliberations about the Enterprise Zone tax credit.

Sincerely,

Warren G. Deschenaux
Director

WGD/mpc

cc: The Honorable Richard S. Madaleno, Jr. Co-chair, Tax Credit Evaluation Committee
The Honorable C. William Frick, Co-chair, Tax Credit Evaluation Committee
Mr. Karl S. Aro

Contents

Executive Summary

Since the mid-1990s, the number of State business tax credits has grown exponentially, as have related concerns about the actual benefits and costs of many of these credits. Although tax credits comprise a small percentage of total income tax revenues, the number and amount of credits claimed have increased over time. Since 1995, 28 primarily business tax credits and 14 primarily individual tax credits have been established; these numbers include temporary and/or expired tax credits.

In response to concerns about the impacts of tax credits on State finances, Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act, a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee that is appointed jointly by the President of the Senate and the Speaker of the House. The Act requires that the Enterprise Zone tax credit be evaluated by the committee by July 1, 2014. To assist the committee in its work, the Department of Legislative Services (DLS) is required to evaluate each credit on a number of factors, including (1) the purpose for which the tax credit was established; (2) whether the original intent of the tax credit is still appropriate; (3) whether the tax credit is meeting its objectives; (4) whether the goals of the tax credit could be more effectively carried out by other means; and (5) the cost of the tax credit to the State and local governments.

Created in 1982, the Enterprise Zone tax credit program was designed to encourage and assist in economic growth within economically distressed areas and to improve the employment of the chronically unemployed in the State. In an effort to better understand the fiscal impacts and effectiveness of the credit, this report provides an overview of the credit, how enterprise zones are designated, the economic challenges facing residents in and near enterprise zones, the impacts of the credit on residents and businesses in particular enterprise zones, and the costs of the tax credit.

DLS makes several recommendations as to how the effectiveness of the Enterprise Zone tax credit might be improved.

Enterprise Zone Tax Credits Are Not Effective in Creating Employment Opportunities for Enterprise Zone Residents

While Enterprise Zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents that are chronically unemployed and/or live in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility. As such, improved educational opportunities and/or additional job training programs for residents may be more effective in enabling those residents to better compete for jobs created in enterprise zones.

DLS recommends that the Department of Business and Economic Development (DBED) and the Department of Labor, Licensing, and Regulation (DLLR) propose statutory changes that will improve the likelihood that residents in enterprise zones and enterprise zone communities, particularly

those that are in poverty and/or chronically unemployed, can gain employment within enterprise zones. DBED and DLLR should also propose methods by which other State and local programs that seek to improve job skills and educational attainment levels, such as job training programs, can be better coordinated with the Enterprise Zone tax credit.

Annual claims for the Enterprise Zone income tax credit have been modest, particularly when compared to the property tax credit. DBED indicates that this could be in part due to administrative burdens that contribute to low utilization rates of the enhanced income tax credit that can be claimed for hiring members of an economically disadvantaged household.

DLS recommends that DBED, in consultation with the Comptroller's Office, propose statutory changes to the Enterprise Zone income tax credit that will help increase net employment, including reducing administrative burdens and a mechanism that incorporates job reductions at similar sites or other locations in the State.

In a Significant Number of Enterprise Zones, Few Businesses Are Claiming the Tax Credit

Of the 30 current enterprise zones, 13 zones have less than 10 businesses claiming Enterprise Zone property tax credits. Not only are these enterprise zones failing to attract many businesses, but a number of the businesses claiming the tax credit are not making significant investments in those zones. Each political subdivision is authorized to establish additional local standards to govern access to the program. Many local jurisdictions generally require a minimum capital investment or a minimum number of jobs created, or both. A few enterprise zones also have additional standards limiting the type or category of business entity that is eligible to participate.

DBED should comment as to the potential reasons for the lack of activity in some enterprise zones, the variation in program effectiveness across zones, and the role of local standards in attracting businesses to enterprise zones, specifically as to whether those local standards are beneficial or a detriment to encouraging businesses to locate in enterprise zones.

DBED and the Comptroller's Office Do Not Assess the Effectiveness of the Enterprise Zone Tax Credit

DBED and the Comptroller's Office are required by law to annually assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted and the success of the tax credits in attracting and retaining businesses within enterprise zones. While DBED tracks the number and amount of credits granted annually, it does not have a framework or metrics in place for measuring the actual effectiveness of the credit. There is also a lack of accurate data on the change in employment and number of businesses within enterprise zones, which makes assessing the impacts of the credit very difficult.

DLS recommends that DBED, in consultation with the Comptroller's Office and the State Department of Assessments and Taxation (SDAT), adopt formal metrics and a framework for analyzing the cost effectiveness of each

enterprise zone and the effectiveness of each zone in attracting businesses and increasing employment. DBED should identify clear outcomes and determine quantifiable measures, which could include project evaluation, employment trends, impacts on poverty and population, private-sector investment in communities, and overall community revitalization.

Enterprise Zone Expansions Have Become More Prevalent in Recent Years, Diluting the Impacts of Zones and Increasing State and Local Credit Costs

State reimbursements to local jurisdictions for 50% of Enterprise Zone tax credit costs are subject to an annual appropriation in the State budget. However, there is no limit on the maximum amount of reimbursements. State reimbursements have greatly increased in recent years, from $2.5 million in fiscal 2001 to $13.9 million in fiscal 2014, an average annual increase of 14%. There are few limitations on zone expansions and no specific criteria related to zone expansion requirements. In addition, a handful of enterprise zones are large enough to have one or more focus areas within the zone. State reimbursement costs may also increase significantly as credits are granted for new development projects, particularly for the Harbor Point and Amazon.com developments in Baltimore City.

DLS recommends that DBED propose statutory changes that will provide for evaluation criteria that must be considered before an enterprise zone may be expanded. These criteria could include restrictions on the size of any expansion, whether businesses have expressed interest in locating within the potential area of expansion, and whether basic infrastructure is in place in order to facilitate business development within the proposed expansion area.

DBED should comment on whether focus areas within enterprise zones have actually increased employment and economic development in those areas above and beyond what would have otherwise occurred within the zone with the general Enterprise Zone tax credit.

DBED should comment on whether a cap on the maximum amount of State reimbursements that may be granted each year should be imposed.

Some Baltimore City Enterprise Zone Property Tax Credits Have Been Erroneously Calculated

Recent press reports and a performance audit conducted by the Office of Legislative Audits determined that were errors in several property tax credit programs including the Enterprise Zone, Homestead, and Baltimore City Historic Tax credits. These reports also documented that $700,000 in improper Enterprise Zone property tax credits were granted to properties located in Baltimore City. For this report, DLS requested that SDAT provide Enterprise Zone property tax credit data – SDAT was only able to partially fulfill the request and only after a significant delay which prevented DLS from fully analyzing the data.

SDAT should comment on:

- **whether the department's current tax credit calculation procedures are sufficient to properly (1) calculate the current credit assessment if a**

property owner successfully appeals an assessment; (2) value the pre-improvement base year property assessment of the property; (3) assign the correct percentage of the credit based on which year the property is claiming the credit; and (4) exclude the value of residential property from the credit.

- **the administration of the credit for properties in Baltimore City, including (1) the reasons for SDAT procedures differing from procedures used in other counties; (2) the sources of discrepancies between initial and final credit determinations; and (3) how tax credit calculations for properties will be handled going forward.**

DLS advises that the evaluation committee may wish to consider asking the Office of Legislative Audits to conduct a performance audit of the Enterprise Zone property tax credit program.

Collection of Enterprise Zone Property Tax Credit Data Is Not Standardized

SDAT provided DLS a summary report of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone. While the data contained in the summary report and computation worksheets should have been sufficient to evaluate the Enterprise Zone property tax credit, some of the data that SDAT provided was incomplete and/or inaccurate.

There is a lack of standardization in the data that each county assessment office provides about properties claiming the Enterprise Zone property tax credit. Data errors included incorrect base year assessments, using the wrong percentage of the eligible assessment to calculate the credit, and basic data entry errors. The methodology and processes used for reporting data is generally unsophisticated and often necessitates the manual entry of information.

In addition, the summary reports of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone did not match the aggregate data that SDAT provided. With such disparities in the data, it was impossible for DLS to determine if SDAT correctly calculated the State's reimbursement for half of the Enterprise Zone property tax credit.

DLS recommends that SDAT adopt regulations to provide for uniform Enterprise Zone tax credit data collection procedures in each county. SDAT should also work with local assessment offices to reduce the amount of data that is manually entered and improve its ability to provide data in an accurate and timely fashion. SDAT should comment as to whether additional resources would be required to implement these changes.

Chapter 1. Overview and Background

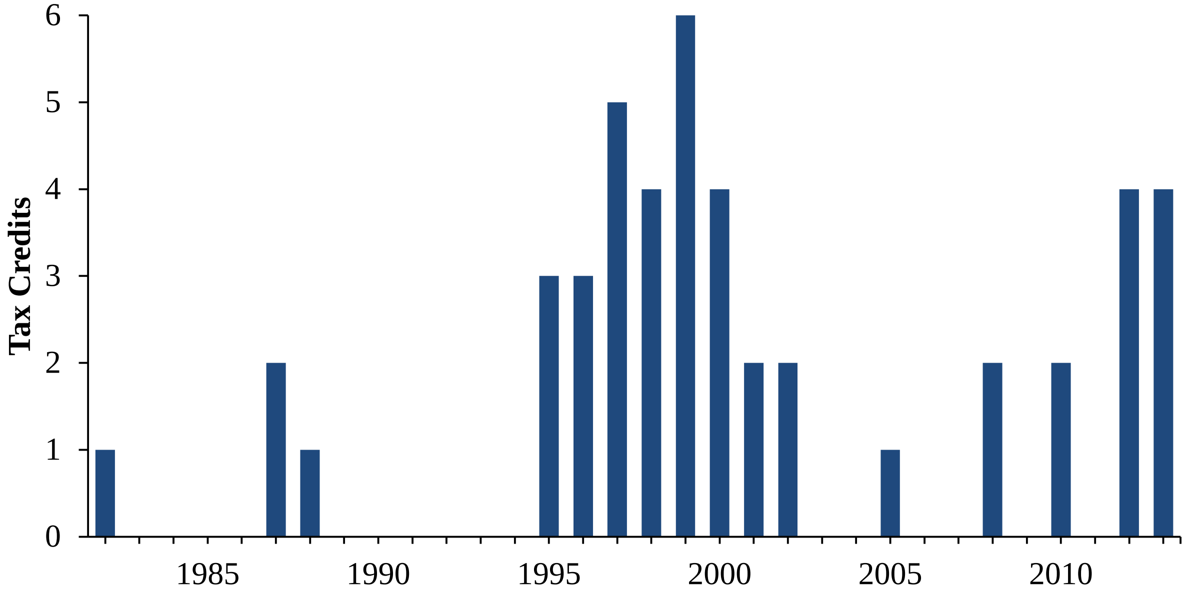
Introduction

Since the mid-1990s, the number of State business tax credits has grown exponentially, as have related concerns about the actual benefits and costs of many of these credits. Although the reduction in State revenues from tax credits are generally incorporated in the State budget, most tax credits are not subject to an annual budgetary appropriation as is required for most other State programs. However, a few credits are subject to an annual appropriation, such as the Biotechnology Investment and Sustainable Communities tax credits, as well as for State reimbursement for one-half of the local property tax revenue losses under the Enterprise Zone tax credit program. Information reported by State agencies for State tax credits varies by credit. Under certain tax credit programs, agencies are required to publish specified information about the credit on an annual basis. The Department of Budget and Management (DBM) is required to prepare every other year a tax expenditure report of the estimated amount by which exemptions from all types of State taxation reduce revenues.

Although tax credits comprise a small percentage of total income tax revenues (less than 3% in fiscal 2009), the number and amount of credits claimed has increased over time. Prior to 1995, there was one credit primarily for individuals (the Earned Income Credit) and two primarily business tax credits (Enterprise Zone and Maryland-mined coal credits). Since 1995, 28 primarily business tax credits and 14 primarily individual tax credits have been established; these numbers include temporary and/or expired tax credits.

As seen in **Exhibit 1.1**, the tendency has been for credits to be established in clusters by year. Twenty-nine of the credits were established between 1995 and 2002, and a resurgence of new credits occurred more recently, with 12 credits established since 2008, including 8 since 2012. The total amount expended for credits has increased from a little less than $50 million in tax year 1994 to about $250 million in tax year 2008. Most of this increase has been due to an increase in tax credits for individuals, which have increased by almost five-fold since 1994, primarily due to growth in the Earned Income Credit. Tax credits for businesses comprised about one-fifth of the total credits claimed in tax year 2008.

Exhibit 1.1
Number of Tax Credits Created Each Year
1982-2013



Source: Department of Legislative Services

Tax Credit Evaluation Act

Overview

In response to concerns about the impacts of certain tax credits, Chapters 568 and 569 of 2012 established the Tax Credit Evaluation Act, a legislative process for evaluating certain tax credits. The evaluation process is conducted by a legislative evaluation committee and must be done in consultation with the Comptroller's Office, DBM, the Department of Legislative Services (DLS), and the agency that administers each tax credit. The committee is appointed jointly by the President of the Senate and the Speaker of the House of Delegates and must include at least one member of the Senate Budget and Taxation Committee and one member of the House Ways and Means Committee.

The following credits are required to be reviewed by the date indicated:

- July 1, 2014: Enterprise Zone and One Maryland economic development credits;
- July 1, 2015: Earned Income and Film Production Activity credits;
- July 1, 2016: Sustainable Communities and Research and Development credits; and
- July 1, 2017: Businesses That Create New Jobs, Biotechnology Investment, and Wineries/Vineyards credits.

In lieu of the evaluation dates listed above, if a tax credit has a termination date provided for by law, an evaluation of that credit must be made on or before July 1 of the year preceding the calendar year of the termination date.

Department of Legislative Services' Evaluation

By June 30 of the year prior to a tax credit's evaluation date, the evaluation committee is required to meet with the Comptroller's Office, DBM, DLS, and the agency that administers the credit to prepare a plan for evaluation. By October 31 of the same year, DLS is required to publish a report evaluating the tax credit.

The report submitted by DLS must discuss:

- the purpose for which the tax credit was established;
- whether the original intent of the tax credit is still appropriate;
- whether the tax credit is meeting its objectives;
- whether the goals of the tax credit could be more effectively carried out by other means; and
- the cost of the tax credit to the State and local governments.

By December 14 of the same year, the evaluation committee must hold a public hearing on the evaluation report. By the twentieth day of the legislative session before the evaluation date of a tax credit, the committee is required to submit a report to the General Assembly that states whether or not the tax credit should be continued, with or without changes, or terminated.

Enterprise Zone Tax Credit

Background

Enterprise zones were first proposed and implemented in the late 1970s and early 1980s in the United Kingdom as an alternative to more traditional urban redevelopment programs and policies. The proposed purpose of these enterprise zones was to encourage industrial and commercial activity by promoting the development of damaged or vacant land. In the United States, according to a study conducted in 1988 by the U.S. General Accounting Office (GAO), "proposed and actual enterprise zone programs typically have two objectives: the revitalization of depressed urban or rural areas and the creation of jobs." The GAO study further states that "the philosophy behind the enterprise zone concept is simple: reducing governmental burdens on industry in targeted areas encourages private investment and growth there."

In the early 1980s, New York State Representatives Jack Kemp and Robert Garcia proposed federal enterprise zone legislation that later gained the support of the Reagan Administration as an urban revitalization tool. The initial proposals included a series of tax benefits for businesses located and locating in an enterprise zone. However, the initial federal legislation enacted at the time did not provide specific tax benefits, but rather allowed designated enterprise zones increased access to federal grant programs. At the time, no Maryland jurisdictions applied for this federal program. In the 1990s, the federal Enterprise Zone program was revised under the Empowerment Zone and Enterprise Community Program to include a package of tax benefits, federal financing assistance, and certain block grants.

Maryland was one of the first states to establish an Enterprise Zone program. Chapter 789 of 1981 authorized the establishment of enterprise zones in Maryland contingent upon federal Enterprise Zone legislation. Chapter 298 of 1982 repealed this contingency and created an Enterprise Zone program in Maryland to encourage businesses to locate in economically distressed areas and to hire residents from those areas. Chapter 298 established enterprise zone eligibility criteria and provided for special property tax and income tax credits for eligible businesses located in enterprise zones. The legislation also authorized loans to eligible businesses under the Maryland Industrial Land Act as well as grants and loans from the Maryland Industrial and Commercial Redevelopment Fund, and low-cost loan guarantees from the Enterprise Zone Venture Capital Guarantee Fund. In December 1982, the State designated its first four enterprise zones – Park Circle Industrial Park in Baltimore City as well as areas in Cumberland, Hagerstown, and Capital Heights in Prince George's County.

As of September 2013, there are 30 enterprise zones in 12 counties and Baltimore City, as shown in **Exhibit 1.2**. Chapter 467 of 1999 expanded the State's Enterprise Zone program to include a focus area tax credit in order to increase the amount of Enterprise Zone tax credits for businesses in particularly distressed parts of an enterprise zone. The Baltimore City and Prince George's zones are the only zones which currently have focus areas.

Exhibit 1.2
Number and Size of Enterprise Zones by County
Calendar 2000 and 2013

	Enterprise Zones: 2000		Enterprise Zones: 2013	
	Number	**Acreage**	**Number**	**Acreage**
Allegany	4	7,833	3	8,438
Anne Arundel	0	0	0	0
Baltimore City	5	9,557	1	13,453
Baltimore	3	5,563	3	5,520
Calvert	1	253	0	0
Caroline	0	0	0	0
Carroll	0	0	0	0
Cecil	1	1,989	1	4,334
Charles	0	0	0	0
Dorchester	2	1,516	2	2,319
Frederick	0	0	0	0
Garrett	3	436	3	634
Harford	2	10,502	2	12,857
Howard	0	0	0	0
Kent	0	0	0	0
Montgomery	2	872	4	1,135
Prince George’s	1	6,625	1	7,275
Queen Anne’s	0	0	0	0
St. Mary’s	1	3,155	0	0
Somerset	2	1,402	2	1,588
Talbot	0	0	0	0
Washington	4	6,104	3	6,637
Wicomico	2	2,985	2	4,353
Worcester	3	2,412	3	2,293
Total	**36**	**61,204**	**30**	**70,836**

Source: Department of Business and Economic Development; Department of Legislative Services

Designation of Enterprise Zones

State Standards

Section 5-704 of the Economic Development Article outlines the statutory requirements for obtaining an enterprise zone designation. In order to qualify as an enterprise zone, a political subdivision must first apply to the Secretary of Business and Economic Development for an enterprise zone designation. The Secretary may only designate an area as an enterprise zone if it is in a priority funding area (PFA) and satisfies one of the following criteria:

- for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is greater);
- the population in the area, or within a reasonable proximity to the area but in the same county, qualifies the area as a low-income poverty area;
- at least 70% of the families in the area, or within a reasonable proximity to the area but in the same county, have incomes that are less than 80% of the median family income of the political subdivision where the area is located; or
- the population in the area, or within a reasonable proximity to the area but in the same county, decreased by 10% between the most recent two censuses, and the political subdivision can demonstrate to the Secretary's satisfaction that (1) chronic abandonment or demolition of property is occurring in the area or (2) substantial property tax arrearages exist in the area.

The 1997 Priority Funding Areas Act directs State funding for growth-related infrastructure to PFAs, providing a geographic focus for State investment in growth. PFAs are existing communities and places where local governments want State funding for future growth. Growth-related projects include most State programs that encourage growth and development such as highways, sewer and water construction, economic development assistance, and State leases or construction of new office facilities. The Act legislatively designated certain areas as PFAs – municipalities (as they existed on January 1, 1997), Baltimore City, areas inside the Baltimore and Capital beltways, the Department of Housing and Community Development designated neighborhoods – and established criteria for locally designated PFAs. The criteria include permitted density, water and sewer availability, and designation as a growth area in the jurisdiction's comprehensive plan. A PFA also includes an area designated as an enterprise zone or an empowerment zone or enterprise community by the federal government.

The Secretary of Business and Economic Development may designate one or more State enterprise zones within 60 days of a political subdivision's submission for an enterprise zone designation. Once approved, the enterprise zone designation is effective for 10 years. While State law limits the number of enterprise zones the Secretary may designate within a calendar year, Chapter 173 of 2006 granted the Secretary the authority to approve the expansion of an existing enterprise zone by up to 50% in size without the expansion counting toward the statutory limit. State law limits the number of enterprise zones the Secretary may designate annually to six enterprise zones and one extraordinary expansion. A county may not receive more than two enterprise zone designations in a calendar year. At any time, a political subdivision may reapply to the Secretary to designate another area as an enterprise zone. Pursuant to Chapter 362 of 2006, any business located in a State enterprise zone may apply to obtain the Enterprise Zone tax credit for an additional five years following the enterprise zone's expiration.

Local Standards

In addition to the State standards that a business entity must meet to participate in the Enterprise Zone program, each political subdivision is authorized to establish additional local standards to govern access to the program. Each zone has a local administrator who determines if a business entity meets the required local standards. These additional local standards generally require a minimum capital investment or a minimum number of jobs created, or both. A few enterprise zones have additional standards limiting the type or category of business entity that is eligible to participate. **Appendices 1** and **2** identify the local standards that apply in each enterprise zone.

Focus Areas

Chapter 467 of 1999 provided additional incentives for businesses located in designated focus areas within enterprise zones. A focus area is an area located in an enterprise zone that meets at least three of the following criteria: (1) for the most recent 18-month period, the average unemployment rate for the area is at least 150% of the average for the State or the United States (whichever is greater); (2) the incidence of poverty for the population in the area is 150% of the national average; (3) the crime rate in the area is at least 150% of the crime rate in the political subdivision; (4) the percentage of substandard housing is at least 200% of the percentage of housing units in the State that is substandard; or (5) the percentage of square footage of vacant commercial property in the area is at least 20%.

Enterprise Zone Property Tax Credit

Businesses located or locating in an enterprise zone may receive a 10-year property tax credit against local real property taxes. The amount of the property tax credit is based on a specified percentage of assessment increases resulting from the value of real property improvements. As shown in **Exhibit 1.3**, the credit is applied to the tax imposed on 80% of the eligible assessment during the first five years, and decreases by 10% annually to 30% in the final year. Within a focus area, a business can receive the 80% credit for the full 10-year period. In addition, businesses in a focus area may be eligible for a 10-year, 80% tax credit against local personal property taxes on new investment. During the course of the property tax credit period, the State Department of Assessments and Taxation (SDAT) is responsible for reimbursing local governments (through the department's annual general fund budget) for 50% of the property tax revenue lost as a result of the credit.

Exhibit 1.3
Enterprise Zone Property Tax Credit
Percentage of Eligible Property Assessment

Taxable Year	Percentage
1-5	80%
6	70%
7	60%
8	50%
9	40%
10	30%

Source: Department of Legislative Services

In order to obtain the property tax credit, a business located within a designated enterprise zone must contact the local enterprise zone administrator to determine whether a particular property meets specific requirements within a given enterprise zone. While State law indicates that businesses may qualify for the credit by making capital improvements or hiring new employees, local enterprise zones may establish additional requirements (*e.g.*, qualifying businesses must hire a certain number of new employees or that the jobs created must be in certain industries). Following a determination by the local administrator that a property qualifies for the credit, the administrator certifies this finding in writing to SDAT. SDAT will then calculate the amount of the assessment that is eligible to receive the credit. In addition to computing the amount of the eligible property assessment, SDAT is required to keep track of each property that has been certified by the local enterprise zone administrator and notify each local jurisdiction of its property tax credit obligation. It should be noted that the credit is granted to the owner of the qualifying property. In cases where a lessee makes the capital improvements, the lessee is responsible for executing an agreement with the owner of the property regarding the receipt of the property tax credit.

Enterprise Zone Income Tax Credit

There are two types of income tax credits for firms located within an enterprise zone: a general income tax credit and a larger income tax credit for hiring economically disadvantaged employees. As shown in **Exhibit 1.4**, the general income tax credit is a one-time $1,000 credit per new employee filling a newly created position, or $1,500 for each qualified new employee in a focus area. For economically disadvantaged employees, the credit increases to a total of

$6,000 per new employee, or $9,000 per new employee in a focus area. The tax credit for economically disadvantaged employees is claimed over a three-year period.

Exhibit 1.4
Enterprise Zone and Focus Area
Income Tax Credit

Enterprise Zone	
Regular employee	$1,000 per employee (one-time)
Economically disadvantaged employee	$6,000 per employee (over three years)
Focus Area	
Regular employee	$1,500 per employee (one-time)
Economically disadvantaged employee	$9,000 per employee (over three years)

Source: Department of Business and Economic Development

Similar to the property tax credit, businesses located in an enterprise zone must be certified by the local enterprise zone administrator in order to be eligible to receive the income tax credit (including the focus area credit). To qualify for the credit, businesses must hire at least one employee who (1) is hired after the business was located in the enterprise zone or after the enterprise zone was designated; (2) is employed by the business for at least 35 hours per week for 6 months (or 12 months in a focus area) before or during the taxable year in which the credit is taken; (3) spends at least 50% of the workday either in the enterprise zone or on an activity related to the enterprise zone; (4) is hired to fill a new position (*i.e.*, the firm's number of new full-time positions must increase by the number of credits taken); and (5) earns at least 150% of the federal minimum wage. Businesses claiming the credit for hiring an economically disadvantaged employee must obtain certification from the Department of Labor, Licensing, and Regulation. Once certified, a business may claim the income tax credit.

Studies of Maryland's Enterprise Zone Credit

In 1988, GAO undertook a study of state Enterprise Zone programs. The study focused primarily on Maryland's Enterprise Zone program due to its similarity to previously proposed federal legislation. GAO examined economic and employment data from the Cumberland, Hagerstown, and Salisbury enterprise zones. The study concluded that, generally, "the Maryland program did not stimulate local economic growth as measured by employment or strongly influence most employers' decisions about business location."

Chapter 467 of 1999 established an Enterprise Zone Task Force to study the effectiveness of the State's Enterprise Zone program and how it compares to programs in other states. The task force met during the 1999 interim and submitted a report to the Governor in December 1999. The task force "found insufficient data at either the State or county level to reach an empirical conclusion as to the effectiveness of the Enterprise Zone Program." The task force made six recommendations focused on increased incentives, additional State and local coordination and cooperation, and additional program accountability.

Chapter 464 of 2000 established a Task Force to Study the Maryland Enterprise Zone program. The task force was required to study further enhancements to the State's Enterprise Zone program including (1) allowing local authority to grant real estate credits for converting vacant commercial property to residential use; (2) the feasibility of State agencies favoring enterprise zones in the delivery of services; and (3) examination of other states' Enterprise Zone incentives. The task force made several recommendations including increased income tax credits, increased hourly wages (150% of the federal minimum wage) in order to qualify for the income tax credits, and increased hourly work requirements, as well as administrative issues to be addressed by the Department of Business and Economic Development and the Department of Housing and Community Development, including the submission of an annual report on the status of the State's Enterprise Zone program.

Similar Credits in Other States

Most of Maryland's nearby states have some form of enterprise zone or economic development zone tax credit to encourage businesses to locate in economically distressed areas. It is worth noting that most of the credits in these states are claimed against the income tax, while Maryland's credit is primarily taken as a property tax credit.

Delaware

Delaware maintains an Enterprise Zone credit program in which a business is eligible for a credit of $750 for each new employee hired and each $100,000 invested in a new or expanding facility in a targeted area. A targeted area is a census tract targeted for economic development based on the following criteria: percent of persons below poverty level; percent of households receiving public assistance; unemployment rate; median household income; significant presence of vacant property within the target area; character of the community; and population. In addition, a business may qualify if its real property is owned by the State, a nonprofit organization, or if it is within a federally approved foreign trade zone. The credit may be taken against the corporate or personal income tax, and any unused credit may be carried forward 10 years.

District of Columbia

The District of Columbia provides an Economic Development Zone tax credit, which offers a credit to businesses equal to 50% of the wages to certain employees during their first 24 months of employment, not to exceed $7,500 per qualifying employee in each taxable year.

Generally, an eligible zone is one in which the:

- unemployment rate is at least 150% of the average in the district;
- family poverty rate is at least 20%; or
- income of 70% of the residents of the area is not more than 80% of the median income of district residents.

A qualifying employee must be a district resident with an annual income of no more than 150% of the lower living standard income level, as defined by federal law, for the 12 months immediately preceding the beginning of employment. The credit may be carried forward for five years. Currently, the credit is in abeyance until permitted by the federal government.

New Jersey

New Jersey has multiple tax incentives available to encourage employment and business growth in qualifying areas.

Under New Jersey's "Qualified Municipality Open for Business Incentive Program," businesses locating or expanding in a qualified municipality are eligible for a credit against their corporation business tax or the tax on insurers. The program offers a $2,500 tax credit for each new full-time position in credit year one and $1,250 for each new full-time position in credit year two. The credit may be carried forward for five years. Currently, the City of Camden is the only qualified municipality. A qualified municipality is one that:

- has been subject to the supervision of a financial review for at least one year;
- has been subject to the supervision of the Local Finance Board for at least one year; and
- is dependent upon state aid and other state revenues for not less than 55% of its total budget.

New Jersey also maintains an Urban Enterprise Zone program. For each new full-time permanent employee who is a resident of a qualifying municipality in which the enterprise zone is located, a certified qualified business may receive a one-time credit of $1,500. A qualifying zone is one which, for the last full year prior, had an annual average of at least 2,000 unemployed persons and in which the municipal average annual unemployment rate for that year exceeded the state average annual unemployment rate. The employee must have been unemployed for at least 90 days or relied on public assistance as the employee's primary source of income; otherwise, the one-time credit is $500. The employee must be employed for at least six months for the business to be eligible.

New Jersey has considered eliminating its Urban Enterprise Zone Program since at least 2009. The state hired independent consultants that completed a study analyzing the effectiveness of the program. The study concluded that the program delivered a limited economic impact on the zones, and that it produced a negative return on state investment. Specifically, the study found only $0.08 in new state and local revenue were generated per $1 of state funding investment and only $0.83 in “ripple effect” economic activity was generated per $1 of state funding investment.

Additionally, New Jersey operates a credit for businesses operating at a location within a project associated with the New Jersey Urban Development Corporation in a qualified municipality. A qualified municipality must be eligible to receive state aid and also meet certain population and aid requirements. The program provides a credit against the corporation business tax in the amount of $1,500 for each new employee for each of two years. The employee must be a resident of the qualified municipality and who immediately prior to employment was either unemployed for at least 90 days or for whom public assistance was the person’s primary source of income. The employee must be employed for at least six months for the business to be eligible.

Pennsylvania

Pennsylvania provides a tax credit for businesses generating employment in Keystone Opportunity Zones or Expansion Zones. The tax credit is $1,250 per job, and the total value of the job credits for any year may not exceed $1 million. The job credit is to be prorated if the total value exceeds this amount. The credit may not be carried forward.

For an area to qualify for designation as a Keystone Opportunity Zone or a Keystone Opportunity Expansion Zone, the area must meet two of the following criteria:

- at least 20% of the population is below the poverty level;
- the unemployment rate is 1.25 times the statewide average;
- at least 20% of all occupied housing within a certain radius of the proposed zone is deteriorated;
- the median family income is 80% or less or the urban median family income for that metropolitan statistical area; or for a nonurban area, of the statewide nonurban median family income;
- the population loss exceeds 10% in an area which includes the proposed zone, but is not larger than the county or counties in which the proposed zone is located, based on census data between 1980 and 1990, or census estimates since 1990 establishing a pattern of population loss;

- the political subdivision in which the proposed zone is located has experienced a sudden and/or severe job loss;
- at least 33% of the real property in the proposed zone in a nonurban area would otherwise remain undeveloped or nonperforming due to physical characteristics of the real property; and
- the area has substantial real property with adequate infrastructure and energy to support new or expanded development.

Pennsylvania also offers a Neighborhood Assistance Enterprise Zone Program credit, which provides a tax credit of up to 25% of the qualified investment or up to 35% of the qualified investment in a special program designated by the Department of Community and Economic Development. An enterprise zone is one in an "impoverished area," which has a high incidence of unemployment, underemployment, residents receiving public assistance, crime and delinquency, infant mortality, school dropouts, "or other evidence of low educational attainment"; or overcrowded, unsanitary, or inadequate housing. The credit may be carried forward for up to five years. The total amount of tax credits granted may not exceed $18 million in any fiscal year.

Virginia

Virginia offers a tax credit for businesses creating employment in an economically depressed area. An economically depressed area is a county or city with an unemployment rate for the preceding year at least 0.5% higher than the average statewide unemployment rate for that year or is an enterprise zone. The tax credit is capped at $1,000 per qualified full-time employee. The credit may be carried forward for up to 10 taxable years.

Virginia also maintains an Enterprise Zone Grant Program, in which the Virginia Department of Housing and Community Development recommends an area to be an enterprise zone to the Governor, who may establish up to 30 enterprise zones for 10 years with two 5-year renewals. The department bases its recommendations upon economic distress factors within a county or city and a local government's revitalization and development initiatives.

West Virginia

West Virginia does not appear to offer a comparable tax incentive program.

Recent Developments in Other States

In recent years, some states have completely eliminated or considered the elimination of their Enterprise Zone programs in favor of other economic development programs. On the other hand, some states have expanded their programs in recent years, extending zones and expanding eligibility.

California

Effective after 2013, California eliminated its existing Enterprise Zone program, replacing it with a new economic development program. California established three categories of incentives designed to encourage economic development in the state:

- A partial sales and use tax exemption for manufacturing and for companies that conduct certain types of research and development upon purchase of certain property.

- A hiring credit to allow some taxpayers located in specific enterprise zones and census tracts with high unemployment and poverty to claim a credit for hiring specific employees. The credit is only available for the hiring of new employees who are long-term unemployed, veterans, ex-felons, or recipients of the federal Earned Income tax credit or other similar assistance.

- The creation of a fund to negotiate agreements to provide tax credits for investments and employment expansion in California. The factors determining how much credit a taxpayer is allocated in a fiscal year includes the number of jobs created or retained; compensation levels paid to employees; investment amounts made in the state; levels of unemployment or poverty in the area where the business is located; other incentives available to the taxpayer; duration for which the taxpayer commits to remaining in the state; and the overall economic impact of the business and anticipated benefits to the state.

Kentucky

Kentucky decided to phase out its Enterprise Zone program by allowing for its enterprise zones to expire as of 2008. Legislation was introduced on multiple occasions to continue the program, including proposals to extend the expiration for those already receiving the credit, though these attempts were unsuccessful. A major criticism of the program was that data collected for evaluating the program was incomplete and did not allow for meaningful analysis of the program's effectiveness.

Louisiana

Louisiana's Enterprise Zone program provides income and franchise tax credits to businesses located in designated enterprise zones that create new jobs and hire at least 35% of their new jobs from one of four targeted groups based on residency within a zone, eligibility for public assistance, disability, or employability. Louisiana's program also provides sales tax exemptions for materials and equipment purchased and used on the zone site. In 2012, Louisiana provided approximately $67 million in Enterprise Zone tax incentives, compared to $91 million in 2011 and $110 million in 2010.

Minnesota

Minnesota's JOBZ program is intended to increase employment and to attract and retain businesses in the state, but a 2008 study by the state's Program Evaluation Division found many problems with this program. The study found that "economic distress" was defined too broadly, allowing the majority of businesses in the state to be located in geographically eligible areas. Additionally, the study noted reporting deficiencies, concluding that at least one-third of businesses had not hired as many employees as they had certified. The study also found that only 5% of businesses receiving the credit had moved from out of state, and it concluded that since many businesses are competing against other businesses in the state, subsidizing those in areas of economic distress hurt businesses elsewhere in the state. Although the legislature did not act on most of the recommendations, the study highlighted important conclusions that can benefit other states.

North Carolina

In 2013, North Carolina's Department of Commerce released a report analyzing the effectiveness of the state's tax credits, including those related to economic development and job creation. The report concluded that most of the credits were ineffective and actually created a negative impact on the state's economy. As a result, the legislature implemented comprehensive tax reform in 2013, eliminating most of the state's tax credits.

Chapter 2. Objectives of Enterprise Zone Programs

Economic Revitalization and Job Creation

Enterprise Zone programs typically have two objectives: the revitalization of economically depressed areas and the creation of jobs. Maryland's Enterprise Zone program, established in 1982, includes these objectives and specifies that the program focus both local and State resources on achieving the objectives. Specifically, under COMAR 24.05.01:

> The objective of the Enterprise Zones Program is to focus local and State resources on the encouragement of economic growth in economically distressed areas and employment of the chronically unemployed in the State.

In the subsequent three decades Maryland has made progress by many measures – education, economic growth, and the average well being of its residents. The Maryland economy in real terms is 2.4 times larger than it was in 1982 and the income of the typical household has increased by 22% to $71,780, the highest in the nation. However, the progress has been uneven with a marked dissimilarity within economically distressed areas.

A number of academic studies have attempted to determine whether enterprise zones have been effective in achieving their objectives of promoting business development and job creation in economically distressed areas. These studies have reviewed the economic theory behind enterprise zones, how enterprise zone incentives factor into business location decisions, the impacts of incentives on residents, businesses, and property values within zones, and the costs of enterprise zone incentive programs. Despite the increased popularity of enterprise zones over time, these studies have not provided definitive evidence that enterprise zones achieve their stated goals of economic revitalization and job creation. **Appendix 3** provides a more detailed overview of some of the studies that have attempted to gauge the effectiveness of enterprise zone programs.

In addition, several states have recently evaluated their enterprise zone programs and determined that in most cases the program's impact on job creation and economic development have been overstated. **Exhibit 2.1** highlights the key findings of four recent state analyses of enterprise zone programs and whether the analysis found that job creation impacts had been overstated. The analyses found that the overestimation of jobs resulted from inaccurate or inadequate recordkeeping, and not taking into consideration jobs that would have been created without the incentive. Some states have found that only a small percentage of qualified businesses take advantage of enterprise zone programs, while other states have found that businesses that utilize the enterprise zone program do not generate much economic activity. Generally, states that have evaluated their enterprise zone programs have been skeptical of the economic activity claimed by program administrators.

Exhibit 2.1
Recent Evaluations of State Enterprise Zone Programs

State	Economic Impact/Job Creation Issues	Key Findings
MN	Actual increase in employment at JOBZ businesses was at least 20% less than the number of reported new jobs.	Two-thirds of JOBZ businesses would have expanded to some extent without JOBZ assistance. Program should be used more selectively.
LA	Job creation overstated by over 300% when taking into consideration jobs that would have occurred without the incentive and job losses from increased competition of EZ projects.	Over 95% of the value of EZ incentives has been provided to large businesses (more than 500 employees). Despite being one of the state's most active incentive programs, less than 1% of employers have historically accessed the program. Incentives provided to industries which are dependent on local demand (such as retail) do not increase jobs.
NJ	NJ collects EZ data from 6 different systems causing data to be incomplete and unreliable.	Only 20% of qualified businesses participate in the program. Every $1.00 invested by the state in the program is estimated to generate around $0.08 in new State and local tax revenue. Recommended program termination and replacing it with a new place-based community and economic development program.
PA	Job figures are self-reported and include anticipated jobs. Some businesses were double-counted and some job losses were not included.	Program lacked accountability and transparency. Three-quarters of program participants did not report any job creation activity and most businesses have generated little capital investment.

Source: Louisiana Economic Development Office; Minnesota Office of the Legislative Auditor; State of New Jersey Community Affairs; Pennsylvania Legislative Budget and Finance Committee

Chronic Unemployment Is Difficult to Measure

Economic and demographic data provide insight on Maryland's economically distressed areas and chronically unemployed individuals. Precise data, however, is not available on the "chronically unemployed." The chronically unemployed include the long-term unemployed; however, researchers differ over how long-term unemployment should be defined and precise geographic data is limited. The unemployment rate, including long-term unemployment, captures only those individuals actively looking for a job and who are therefore included in the labor force. In addition to the long-term unemployed, the chronically unemployed also include discouraged workers who have left the labor force because they believe that there is little hope of finding a job. Accounting for these individuals requires using broader measures of labor utilization such as the labor-force participation rate, which measures the percentage of the civilian noninstitutional population age 16 or older that is employed or actively seeking employment. This measure includes those who are not in the labor force by choice (retired individuals, students, parents staying home to raise children). Many analysts, however, believe it more accurately measures the amount of underemployment in the economy. For example, labor force participation among prime-age men has fallen as employment prospects worsen due to a decreased demand for less-skilled workers.

It is also possible to identify areas within the State that are likely to have a large number of chronically unemployed and higher level of economic distress by other measures such as levels of poverty. Although some individuals who live in poverty are employed, it is a useful proxy for determining areas with high levels of economic distress and joblessness. As discussed below, areas of economic distress and high poverty are often concentrated and there is a strong correlation between economic distress, long-term joblessness, poverty, and other social ills.

Sources of Unemployment and Policy Implications

Unemployment that results from individuals who want to work but are unable to find a job is typically thought of within a supply and demand framework as an insufficient supply of jobs for the population seeking employment. This source of unemployment, which can measure the extent to which the economy is underperforming relative to its potential or the level of economic distress within an area, is referred to as cyclical unemployment. Another source of unemployment results not from an imbalance between the quantity of jobs and people seeking work but reflects structural problems within the labor market. This can result from a mismatch between the available jobs and individuals seeking employment. Firms may be hiring but cannot fill the positions due to a variety of factors including (1) the time that it takes workers to successfully search for jobs and (2) geographic, skill, and industry mismatches.

The source of the unemployment has important policy implications for policies that strive to increase employment through economic development, including the Enterprise Zone tax credit. If unemployment merely reflects an imbalance between the labor demand and supply, then policies that aim to stimulate business and job creation, such as the Enterprise Zone tax credit, will alleviate the unemployment if it is effective in increasing economic development and net employment within the distressed area. However, if the unemployment results from structural problems within the labor market, *i.e.* a mismatch between the skills employers need and those possessed by residents, policies designed to increase the total amount of jobs will not effectively decrease the target population unemployment. Active labor market policies such as job retraining and job search assistance, if well designed and implemented, might be more effective in addressing the problem of structural unemployment.

The long-standing debate over whether cyclical or structural unemployment is the most important factor in contributing to overall unemployment has intensified recently given the large and persistent increase in unemployment. Recent research by the U.S. Federal Reserve and

International Monetary Fund (IMF) examined the relative importance of cyclical and structural factors in explaining U.S. unemployment and identified the sources of structural unemployment.

The U.S. unemployment rate rose sharply during the recent recession, increasing from 4.4% in May 2007 to 10.1% in October of 2010 and was accompanied by a striking increase in the duration of unemployment. There was a disproportionate increase in unemployment among low-skilled workers; young workers; and in certain sectors including manufacturing, construction, and finance. As of August 2010, labor force participation was 64.7%, down from the pre-recession level of about 66%. This decline reflects a large-scale exit of workers from the labor force over the past few years. The labor force participation of men age 25 to 54 has also declined steadily in recent decades, albeit at a much slower rate than that of teenagers. At the end of 2009, it reached 88.9%, almost 9 percentage points below its peak in the mid-1950s. Many prime-age men who leave the labor force during downturns stay out even after the economy recovers, although not to the same extent as teenagers. Although the unemployment rate and duration of unemployment have subsequently improved, they have not returned to pre-recession levels, and the labor participation rate has not improved.

The U.S Federal Reserve concluded that the severity and persistence of output declines was the dominant factor in pushing up unemployment, contributing to three-quarters of the increase in unemployment; structural factors contributed to the remaining one-quarter. The International Monetary Fund reached a similar conclusion, finding that structural factors might have raised the natural rate of unemployment by about one and a half percentage points since 2007. Although the research concluded that cyclical factors are responsible for a majority of the increase in the U.S. unemployment rate, it identified important sources of structural unemployment and variation in the importance among the population.

The Federal Reserve found that structural unemployment was a larger factor in explaining unemployment among the long-term unemployed. According to IMF, factors that cause structural unemployment include:

- a mismatch between the skills demanded by employers and the supply of residents;
- a variation in the demand for labor across industries, particularly if there is a sharp decrease in some industries and increased demand in other industries which require different skills; and
- other mismatches including the lack of geographic mobility in the labor force.

The recent recession caused a significant decline in employment within the manufacturing and construction sectors, as well as sectors of the financial industry. Yet demand for skilled labor within industries such as professional science and technical services, health care, and education remains relatively strong. This shift in the composition of labor demand requires a reallocation of labor; the speed at which this occurs depends on several factors, including the ability of workers to have the skills necessary in growth industries.

Poverty Is Often Concentrated and Persistent In Certain Areas

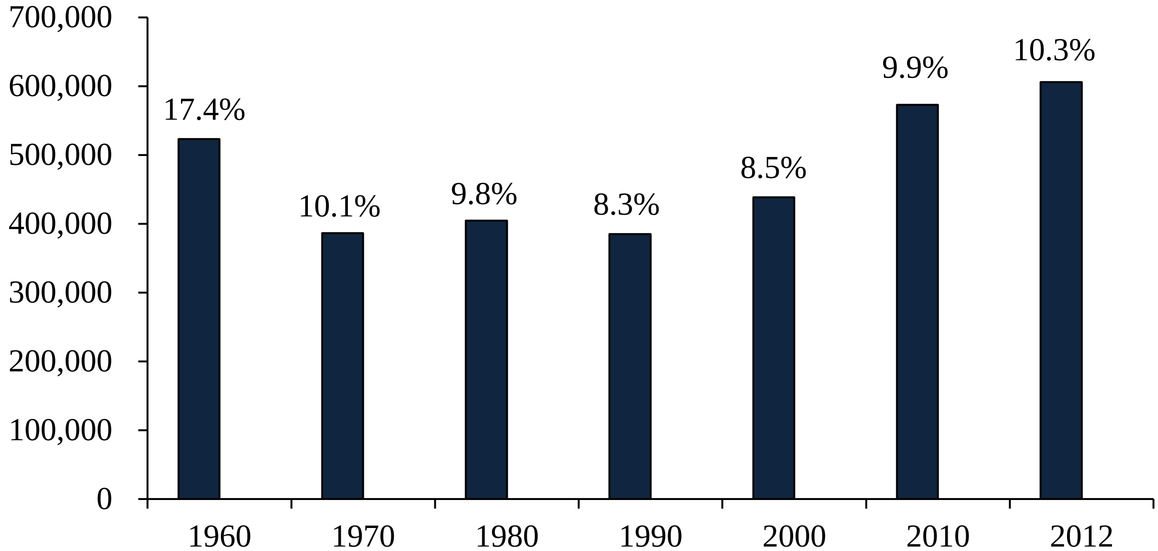
Research indicates that poverty is often concentrated and persistently present in many areas. People living in poverty tend to be clustered in certain neighborhoods rather than being evenly distributed across geographic areas. Concentrated poverty has been described as the coincidence of a number of social ills including poverty, joblessness, crime, depressed economic conditions, and low levels of skills in small geographic areas. Factors that have contributed to the concentration of poverty include the dramatic decline in blue-collar employment caused by de-industrialization, out-migration, and a growing mismatch between the educational levels of residents and the skill levels demanded in growth industries.

Persistent poverty is often associated with inner cities, but it is also a problem in many rural areas. According to recent research conducted by the Population Reference Bureau, metropolitan areas accounted for more than three-fourths of children living in persistently poor neighborhoods. However, children in rural (nonmetropolitan) counties were more likely to live in persistently poor neighborhoods (15%) than were their metropolitan counterparts (11%). In 2000, the study found that there were 8.3 million children living in persistently poor neighborhoods – defined as neighborhoods with poverty rates of at least 20% in 1980, 1990, and 2000. Moreover, a recent study conducted jointly by the U.S. Federal Reserve and the Brookings Institution found that poverty is spreading and may be re-clustering in suburbs, where a majority of America’s metropolitan poor now live.

The recent U.S. Federal Reserve and Brookings Institution study examined the challenges, trends, and impacts of concentrated poverty. The study stated that concentrated poverty presents some of the deepest economic and social challenges facing America today as concentrated poverty and joblessness exact a grave toll on people who continue to live in its midst and threatens to perpetuate disadvantage across generations. Other research indicates that children growing up in poor neighborhoods are at a higher risk of health problems, teen pregnancy, dropping out of school, and other social and economic problems than are children living in more affluent communities. Long-term joblessness is associated with deep, permanent reductions in future earnings as well as decreased mental and physical health. This body of research argues that concentrated poverty places additional burdens on poor families that live within them, beyond what the families’ own individual circumstances would dictate. In addition, concentrated poverty can have wider effects on surrounding areas that limit overall economic potential and social cohesion.

Exhibit 2.2 shows the number of Marylanders living in poverty and the poverty rate since 1960. After decreasing through the 1990s, poverty in Maryland has since increased in both absolute and percentage terms. This increase has been exacerbated by the recent economic recession.

Exhibit 2.2
Number and Percentage of Maryland Residents Living in Poverty
1960-2012



Source: U.S. Census Bureau; Department of Legislative Services

Although concentrated poverty persists in Maryland, it is less prevalent in Maryland than in the rest of the nation. About 9% of Maryland's population lives in areas with poverty rates of 20% or more, compared with a little less than one-quarter nationally. In addition, the percentage of population living in poverty areas is lower in Maryland than in each surrounding state.

Numerous Business Incentives Are Designed to Encourage Development In Economically Distressed Areas

The intent of the Enterprise Zone credit in promoting economic development and jobs within distressed areas of the State is still applicable today given (1) the economic and social consequences of concentrated areas of economic distress/poverty and long-term joblessness on both on individuals and the wider community and (2) that significant areas of the State continue to exhibit economic distress and joblessness.

The validity of the credit's intent and objectives must be viewed, however, with additional information in mind. The State and local jurisdictions have expanded the number of tax credits and incentives targeting job creation in and near economically distressed areas. The Enterprise Zone program established the first State business tax credit in 1982; since that time the State has created almost 30 additional business tax credits. Though the intent of the Enterprise Zone program remains valid, numerous State, federal, and local programs with a similar focus and objective have been enacted since the program's inception. The State has subsequently enacted numerous incentives that aim to increase employment or economic development within distressed areas or similar areas to enterprise zones including the One Maryland and Job Creation tax credits, the Base Realignment and Closure (BRAC) revitalization incentive program, Brownfields tax credit, Community Investment tax credit, and Sustainable Communities Rehabilitation tax credit. Of the current business tax credits, about one-quarter are employment tax credits and one-half are related to economic development.

In addition to these tax credits, State business assistance programs with similar objectives include:

- *Maryland Economic Development Assistance Authority and Fund:* MEDAAF was established by the General Assembly under Chapter 301 of 1999 as a revolving loan fund. The fund provides below market, fixed-rate financing in the form of loans, grants, conditional loans, conditional grants, and direct investment to local jurisdictions and businesses.

- *Economic Development Opportunities Program Fund (Sunny Day):* This program provides conditional loans and investments to take advantage of extraordinary economic development opportunities, defined in part as those situations which create or retain substantial numbers of jobs and where considerable private investment is leveraged.

- *Maryland Economic Development Corporation:* MEDCO is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. MEDCO was created in 1984 with the mission to help expand, modernize, and retain existing Maryland business and to attract new business to the State.

One of the objectives of the Enterprise Zone tax credit is to boost unemployment of the long-term unemployed. In addition, jurisdictions seeking designation of a zone must meet at least one of four criteria. Three of these criteria – number of low-income households, unemployment, and poverty – overlap with the objectives and impacts of the federal and State Earned Income Credits (EIC). The federal EIC was enacted in 1975; however, the program has been expanded significantly since enactment of the State Enterprise Zone program. In addition, the State has enacted an Earned Income Credit (1987), Refundable Earned Income Credit (1998), and Poverty Level Credit (1998). Most researchers agree that Earned Income Credit programs have successfully reduced poverty and increased labor force participation and employment of low-income individuals by incentivizing work.

Numerous federal and local economic development programs have also been enacted. Local governments have established and expanded the use of financial assistance, job creation and economic development tax credits, tax increment financing (TIFs), payment-in-lieu-of tax agreements (PILOTs), and special taxing districts in order to subsidize infrastructure and development within targeted areas. The federal government has established and expanded numerous business financial assistance, loan, and job training programs.

Several federal programs have significant overlap with the State's Enterprise Zone Program, including the Empowerment Zone and Enterprise Community Program. The Baltimore Empowerment Zone extends over 6.8 square miles, covering three separate areas of east, west, and south Baltimore, and containing over 50,000 people and 2,000 businesses. Benefits include federal employment tax credits. Other federal programs with similar business utilization include the New Markets Tax Credit, employment tax credits, and historic rehabilitation tax credits.

Targeted Business Incentives May Not Increase Net Employment in Economically Distressed Areas

An assumption of the credit is that promoting economic development within distressed areas will benefit residents and also boost employment of the chronically unemployed. This linkage crucially depends on the nature and causes of chronic unemployment. Although the intent of promoting economic development is a valid one, it is not clear if the existing Enterprise Zone credit is the most effective approach to increasing overall *net* economic development and employment. Academic and other research has raised significant questions as to whether tax credits, and state and federal Enterprise Zone programs specifically, are effective in promoting economic development and increased employment. In addition, research has also indicated that within smaller geographies (county-to-county versus across the U.S.) tax incentives are generally more effective. This research indicates that, to the extent Enterprise Zone tax credits are effective, they are more likely to redistribute economic activity within Maryland. Given the intent is to promote economic development within distressed areas, the State as a matter of policy may accept this redistribution in order to assist distressed areas.

Chapter 3. Evaluating Maryland's Enterprise Zones

Overview

Analyzing the true economic impact of a tax credit requires isolating the impact of the credit from other factors that influence the business undertaking the qualifying activity. This approach will provide an estimate of how much economic activity resulted solely from the credit and was not due to other factors or that would have occurred even without receipt of the tax credit. An additional step requires an estimate of the net impact to State revenues – the cost of foregone revenue plus any additional State revenue that was generated by economic activity that would not have occurred without the credit. Since the Governor is required to submit a balanced budget every year, revenue that is foregone under the credit requires either a corresponding reduction in State spending or an increase in revenue from individuals or businesses, both of which dampen economic activity. Lastly, any spillover impacts should be captured. Positive spillover impacts include a business using the reduction in taxes to increase production and purchase additional goods from Maryland businesses. Conversely, a negative spillover impact includes the competitive advantage conferred to businesses that receive tax credits. An increase in sales and jobs at these businesses might be at the expense of sales and jobs at other businesses that do not receive the tax benefit.

Enterprise Zone Data Limitations Make Precise Evaluations Difficult

Local governments, with Department of Business and Economic Development (DBED) approval, establish enterprise zone boundaries that generally do not correspond to geographic areas with readily available data, such as defined geographies within the U.S. Census Bureau. Due to data limitations, boundary data were not available before 2000; the Department of Legislative Services (DLS) was only able to review a sample of 2000, 2007, and 2013 boundary data due to the amount of work required by DBED and the Department of Information Technology to collect the information. The boundary data were paired with data from the State Department of Assessments and Taxation (SDAT) containing business locations, U.S. Census Bureau data, and information from the National Employment-Time Series Database in order to identify businesses within enterprise zones. This identification and data analysis was generally precise, with the outer limit of accuracy at the block level within U.S. Census Bureau data.

This data provided information about all businesses within enterprise zones, including information detailing the extent to which enterprise zone workers live in enterprise zone communities and demographic information about those workers, including education levels. The nature of aggregated information at the U.S. Census Bureau and a delay in DLS receiving data from SDAT limited the ability to analyze only those businesses claiming the credit. However, the intent of the Enterprise Zone tax credit is to promote economic development and employment of the chronically unemployed (in totality) within the enterprise zone and community, not just that related to businesses claiming the credit.

In order to assess the effectiveness of the program, DLS uses two geographies referred to as the enterprise zone and enterprise zone community. The enterprise zone is the exact boundary of the zone and is used to assess business activity in the zone. When applying to establish or expand an enterprise zone, local jurisdictions are required to submit data providing evidence that the proposed zone meets statutory requirements, including that the area or area within reasonable proximity to the proposed zone but still within the same county meets at least one criterion related to poverty, low-income households, population loss, or unemployment. Unless the Secretary of Business and Economic Development approves another source of data, local jurisdictions are generally required to use U.S. Census Bureau American Community Survey five-year estimates or unemployment data from the Department of Labor, Licensing, and Regulation.

The geography of an enterprise zone community does not correspond exactly to the enterprise zone, primarily because enterprise zones are usually only parts of a county or municipality. The economic distress of these communities, however, is used to justify the creation of the zones and subsequent tax credit benefits. DLS uses the community geography to assess the level of economic distress within communities, social and economic changes over time, and the impact of the zones on chronically unemployed individuals. These geographies are defined by linking the enterprise zone boundaries to the most appropriate census geography – municipalities, census designated places (CDPs) for unincorporated jurisdictions, or census tracts. In addition, the populations of enterprise zone communities ranged from small towns and rural areas (13 had a population of less than 5,000) to urban areas such as Baltimore City (620,200) and Gaithersburg (59,000). Population size influences the accuracy of U.S. Census data as well as the ability to accurately limit census geographies to enterprise zones. For instances in which there was not a clear census geography, DLS calculated multiple geographies to assess accuracy and consistency, and where appropriate, selected the most precise geography. Data were limited for the Rt. 220 enterprise zone in Allegany County, Central Industrial and Keyser's Ridge enterprise zones in Garrett County, Glenmont enterprise zone in Montgomery County, and the Prince George's County enterprise zone.

DBED and the Comptroller's Office Do Not Assess the Effectiveness of the Enterprise Zone Tax Credit

Section 5-709 of the Economic Development Article requires DBED and the Comptroller's Office to annually assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted and the success of the tax credits in attracting and retaining businesses within enterprise zones. While DBED tracks the number and amount of credits granted annually, it fails to assess the effectiveness of the tax credits. DBED does not have a framework for measuring success (or failure), and it considers every business that claims an Enterprise Zone credit a success. Various studies, like the GAO study referenced in this report, have shown that many businesses would have increased their economic activity even without the Enterprise Zone incentives.

DBED does not have reliable data on the number of jobs created as a result of the Enterprise Zone program. DBED has produced an estimate in recent annual reports; however, this data is collected from local zone administrators and is based on the companies which choose to report the data. This estimate is not accurate for two reasons: (1) it does not include some of the companies that claim the credit and (2) it does not include businesses that are not claiming the credit. In addition, DBED does not verify that the data provided by local administrators is accurate; it is also not clear the extent to which local administrators verify the company-reported information. DBED acknowledges these shortcomings in the annual report by stating "it is difficult to compare information on the amount of investment or jobs on a year-to-year basis because the information is, in any year, only reflective of the businesses that provided information to the enterprise zone administrators and does not reflect the activity of all of the businesses in the zones."

DLS examined some local administrator reports and found the data problematic. Some of the reports did not accurately measure employment at the business location within a zone and instead included employment by the business at other locations in the State. In addition, businesses appear more likely to report in years in which employment increased. For example, the Baltimore Development Corporation estimated that the number of jobs within the Baltimore City enterprise zone increased by 3,591 in 2010. However, about 880 of those jobs or one-quarter of the total increase was incorrectly attributed to a single dining establishment within the zone. In another instance, within a seven-year period one company reported job increases in five of those years but did not report in the two years in which employment decreased. As a result the reported data shows that the company increased employment by 487 jobs in the seven-year period; however, the company actually decreased employment by 281 jobs. Additionally, some of the new jobs being credited to the Enterprise Zone credit are also being credited to other incentive programs, like the One Maryland and Job Creation tax credits. By not acknowledging how these other programs have influenced job creation within enterprise zones, DBED overstates the impact of the Enterprise Zone credit.

While DBED assumes that all business activity for a business claiming the Enterprise Zone tax credit is a result of the Enterprise Zone incentives, therefore making the credit a success, it does not appear that DBED has carefully examined the data to see what percentage of business activity is actually attributable to the credit. While DBED assumes that 100% of new jobs are attributable to the Enterprise Zone credit, research suggests that a much lower percentage should be attributable to the credit.

There Have Been Recent Errors In the Administration of the Baltimore City Enterprise Zone Property Tax Credit

Local enterprise zone administrators certify eligibility for the Enterprise Zone property and income tax credits. SDAT oversees the administration of property assessments in the State, as well as administering or assisting counties in the calculation of several property tax credits and exemptions. These programs include the Enterprise Zone property tax credit as well as the Homeowners' and Renters' tax credits and the Homestead tax credit; in addition, SDAT calculates the components of tax credits under local property tax credit programs including the Baltimore City Historic Restoration and Rehabilitation property tax credit and the Brownfields property tax credit.

Recent press reports stated that there have been errors in credits granted under the Baltimore City Historic Restoration and Rehabilitation property tax credit, the Homestead tax credit, and the Enterprise Zone property tax credit. At the request of the General Assembly's Joint Audit Committee, the Office of Legislative Audits (OLA) recently conducted a performance audit of the Homestead property tax credit. One of the audit's findings was that SDAT should improve its processes to ensure that only eligible properties receive the credit, as OLA determined that a significant number of properties were receiving the credit improperly.

Recent press reports documented that $700,000 in improper Enterprise Zone property tax credits were granted to properties located in Baltimore City. Errors including granting the credit to ineligible properties, using incorrect pre-improvement base year assessments, applying the incorrect credit percentage, and not using the current year assessment in cases where the property owner successfully appealed for a lower assessment.

According to SDAT, its local assessment supervisors calculate the components of the Enterprise Zone property tax credits using one of the agency's systems. This information is sent to SDAT's central office where it is reviewed by the deputy director. In Baltimore City, the final credit component determination in each year is calculated within a spreadsheet where information is manually entered in each year. DLS requested that SDAT provide this data as part of its analysis of the Enterprise Zone program. SDAT was unable to complete the request in a timely manner nor was it able to fully provide all of the requested data. DLS previously requested this data in 2011 and SDAT was able to provide data on fiscal 2012 reimbursements. However, the data was unusable due to discrepancies between the local supervisor data and the final credit determination for Baltimore City – only about one-half of the total eligible assessed values matched in each case. In other instances a business was reflected on one set of data but not the other, or the business was on both but there were discrepancies between the two data sets.

Enterprise Zone Property Tax Credit Data Provided by SDAT Was Inaccurate or Incomplete

SDAT provided DLS a summary report of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone. The summary report lists the account number, owner, beginning date, year number, eligible assessment, base year assessment, credit percentage, and credit amount for a tax credit recipient. The computation worksheet lists the owner, address, property location, type of building, the first taxable year the property will receive the credit, the base year, county, enterprise zone, zone administrator and telephone number, account number, calendar year the property is first qualified, and the last taxable year the property can receive the credit. It also provides the current assessment, the base year assessment, the percentage of the assessed improvements eligible for the credit, and the assessment subject to the tax credit for the 10 years that the recipient is eligible for the credit.

While this data should be sufficient to evaluate the Enterprise Zone property tax credit, the data that SDAT provided DLS was both incomplete and inaccurate. Additionally, although SDAT has data for the fiscal 2014 assessments, it only provided DLS with fiscal 2013 assessment data.

For fiscal 2013, DLS did not receive an enterprise zone summary report for six of the counties with zones (Calvert, Cecil, Garrett, Prince George's, St. Mary's, and Washington). DLS received a summary report for five of the counties (Allegany, Dorchester, Montgomery, Wicomico, and Worcester), but received no computation worksheets for the businesses receiving credits. Harford County provided an Excel spreadsheet which contained data consisting of the summary report. DLS received both a summary report and computation worksheets on the businesses claiming credits from only three jurisdictions (Baltimore City, Baltimore County, and Somerset County).

Some of the summary reports did not clearly indicate where the property was located. Several of the computation worksheets did not list the enterprise zone, while others incorrectly misclassified the enterprise zones. For instance, the data from Montgomery County erroneously lists Bethesda as an enterprise zone. Similarly, the Worcester County report lists an arts and entertainment district enterprise zone, but there is no enterprise zone in Worcester County designated as such. Additionally, many local assessment supervisors only provided partial addresses for Enterprise Zone properties that were eligible for the credit, or provided no address at all. SDAT uses the account number of a business to identify its address. While SDAT does not have an issue locating a business using account numbers, it creates a huge administrative burden for DLS to look up addresses on SDAT's website using account numbers.

The overall quality of the tax credit data provided ranged from relatively accurate to clearly flawed. Errors included incorrect base year assessments, using the wrong percentage of the eligible assessment to calculate the credit, and basic data entry errors. Despite errors, some counties provided useful information. In Cecil County, for example, the local assessment supervisor made relatively minor errors in calculating the credit over a 9-year instead of a 10-year period. Even with these errors, Cecil County did a good job of providing complete addresses of the Enterprise Zone properties. It also noted why there were changes in some of the base year assessments, such as revisions to reflect acreage changes. Washington County's report was one of the few that provided mailing and physical addresses, and the local zone administrator was thorough in noting six properties that were vacant and therefore ineligible to receive the credit.

The methodology and processes used for reporting data is generally unsophisticated and often necessitates the manual entry of information. Calvert County hand-wrote the assessment and base year assessment values, along with the assessment value subject to the credit. Meanwhile, Wicomico County faxed its summary report to SDAT. Baltimore City uses Excel spreadsheets to determine the assessment eligible for the Enterprise Zone property tax credit.

Using Excel eliminates the manual entry of information, thus making the process faster and more efficient. However, DLS questions whether there is a more sophisticated system that can easily track the Enterprise Zone data.

The summary reports of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone did not match the aggregate data that SDAT provided. With such disparities in the data, it was impossible for DLS to determine if SDAT correctly calculated the State's reimbursement for half of the Enterprise Zone property tax credit costs.

SDAT believes many of the data reporting issues will be resolved through its new assessment administration system, AVS. AVS will modernize the methodology and processes used for reporting data. Through AVS, SDAT can electronically compile standardized spreadsheets with information from summary reports and computation worksheets. AVS will be able to show the physical addresses of businesses. Data will be automatically calculated in AVS so only the base year assessment will need to entered, thus eliminating the need for most manual entries. By reducing the need for most manual entries, SDAT predicts there will be less errors going forward.

The summary reports of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone did not match the aggregate data that SDAT provided. With such disparities in the data, it was impossible for DLS to determine if SDAT correctly calculated the State's reimbursement for half of the Enterprise Zone property tax credit costs.

Reported Amount of Enterprise Zone Property Investments Is Inaccurate

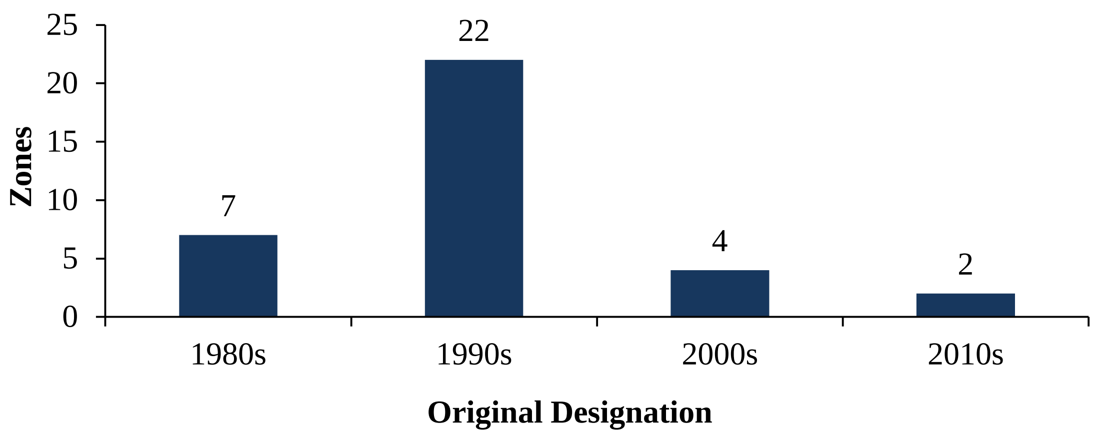
DBED reports the amount of eligible property investments under the program, this data is provided by SDAT. For example, the *2011 Annual Enterprise Zone Report* states that in fiscal 2014 there was a total of $2.38 billion in eligible property investments and that these investments have increased 22.1% since fiscal 2010. According to SDAT, the investment amount is calculated by comparing the current assessment of an eligible property to the base year assessment (generally the value of the property before the eligible investment). This calculation is not accurate because it includes the change in the assessed value of the building over time. For example, consider the example of a company that makes a $50.0 million investment in a building that was assessed at $10.0 million prior to any investment. If the assessed value of the building increases by 4% annually, by the fifth year after the eligible investment the building will be assessed at $70.7 million (an increase of about $10.7 million). Under the current method comparing the current year assessment to the base year assessment yields a reported investment of $60.7 million, thus overstating the investment amount by $10.7 million or a little more than one-fifth.

Designation of Enterprise Zones

Most Current or Recently Expired Zones Were Designated in the 1990s

As shown in **Exhibit 3.1**, most of the current or recently expired zones were originally designated during the 1990s. Of the zones designated in the 1980s, six zones (Salisbury, Cumberland, Hagerstown, Calvert, Baltimore City, and Washington County Airport) date from the program's inception. Except for the Salisbury zone, the Eastern Shore enterprise zones date from the early- and mid-1990s. Most of the Baltimore area and Western Maryland zones were originally designated in the 1980s and 1990s. Enterprise zones in the Capital region are more recent – one-half of the last eight zone designations are within this area, including Takoma Park, Gaithersburg, Glenmont, and the re-designation of the Prince George's County zone. Other recent designations include Woodlawn in Baltimore County and Keyser's Ridge in Garrett County.

Exhibit 3.1
Enterprise Zone Designations by Date
Current and Recently Expired Zones



Source: Department of Business and Economic Development; Department of Legislative Services

Exhibit 3.2 shows the chronology of recent and expired enterprise zones since the program's beginning. Of the currently designated zones, the typical zone is in its eighteenth year; Western Maryland zones have been designated the longest (23 years), followed by the Eastern Shore (20 years), Greater Baltimore region (15 years), and Capital region (9 years). The Baltimore City enterprise zone is entering its thirty-second year.

Exhibit 3.2

Chronology of Enterprise Zones

Source: Department of Business and Economic Development; Department of Legislative Services

Zone Re-designations and Expirations

All but a few zones are re-designated upon the tenth and final year of the original designation. Upon termination of a zone, a business may continue to claim credits for which it previously qualified when the zone was active. In addition, Chapter 362 of 2006 specified that a business may continue being eligible for additional property tax credits for up to five years after the expiration of the enterprise zone designation. Four zones – Silver Spring, Lexington Park, Rocky Gap, and Interstate 81 in Washington County – were not recently re-designated. The Calvert Industrial Park and Central Garrett County zones each expired after two designations (20 years).

Generally, zones are not re-designated due to changes in the communities over time, and as a result, the area no longer meets one of the credit qualifications related to poverty, low-income households, unemployment, or population loss. St. Mary's County and Calvert County officials chose not to reapply for re-designation because it was estimated that the area could no longer meet one of the four criteria. DBED indicates that both the Silver Spring and I-81 zones are examples of successful zones that no longer qualified for re-designation.

During the 1980s and 1990s, Silver Spring experienced a significant loss of retail establishments and other businesses, a high office vacancy rate, and elevated crime in certain areas. The Silver Spring enterprise zone designation in 1997 was part of a comprehensive and sustained effort by Montgomery County to revitalize the downtown area. These efforts included designation of an arts and entertainment district, several redevelopment committees and boards, purchase and restoration of the Silver Theatre, successfully attracting the Discovery Communications headquarters, and a concerted effort to develop a "town center." According to the Maryland Department of Planning, public investments of about $450.0 million were accompanied by an additional $2 billion in private investment. An analysis by the Montgomery County Planning Department concluded that although public investments and incentives were necessary to leverage greater private investments and improve the tax base, there was no "silver bullet" for success but instead a sustained commitment to a comprehensive development plan that was backed by the engagement of both businesses and residents. These comprehensive efforts to improve the community, in conjunction with transportation access and a strong demand for housing in the Washington, DC area, helped positively transform the downtown Silver Spring area.

Washington County determined that the I-81 enterprise zone created in 1991 would not qualify for re-designation in 2001 due to positive economic changes in the zone, which was located in the Hopewell Valley immediately to the west of Hagerstown. However, in July 2012 the county expanded the Hagerstown enterprise zone beyond the city to the predominantly manufacturing and warehousing business area located within the Hopewell Valley. As a result, the Hagerstown enterprise zone has now re-incorporated nearly all of the area which comprised the I-81 zone.

Zone Expansions

Various research studies on Enterprise Zone programs recommend that states target Enterprise Zone programs to economically distressed areas and limit the geographic expansion of zones. Although a limited area of Maryland is currently designated as an enterprise zone, about 1.1% of the State in 2013, the program has increased by 9,700 acres since 2000, representing a 15.8% increase. About one-fifth of all designated acres are within Baltimore City, the largest zone, followed by Harford County (18%) and zones within Allegany County (12%).

Enterprise zones have expanded in 11 of the 13 counties currently housing zones. The Baltimore City enterprise zone expanded the most, from 9,557 acres in 2000 to 13,453 acres in 2013, while Cecil County had the biggest percentage increase in enterprise zone acreage, expanding from 1,989 acres in 2000 to 4,334 acres in 2013. Despite these changes, the overall distribution of enterprise zone acreage by county has remained relatively stable. The amount of acres designated as a zone varies from 18,400 acres in the Greater Baltimore area (about one-quarter of the total) to 8,400 acres in the Capital region (about 12%). The size of the Baltimore City enterprise zone (one-fifth of the total) is similar to the total acres designated within both the Eastern Shore and Western Maryland.

Compared to similar programs in other states, the geographic scope of the Maryland Enterprise Zone program is larger than several states but significantly less than programs in Louisiana, Colorado, and the recently terminated program in California. The amount of acres designated under the Maryland program is 1.5 times larger than the amount of acres designated under the Pennsylvania Keystone Program and 2.5 times larger than the Minnesota JOBZ Program, even though those states are significantly larger than Maryland. About one-fifth of Maryland's population resides within an enterprise zone community, which is similar to New Jersey's Enterprise Zone program.

Baltimore City consolidated from five zones in 2000 to one zone in 2013. By consolidating Baltimore City into one large zone, it makes it easier for city officials to expand the enterprise zone. Zone expansions are also infrequently denied.

Characteristics of Maryland's Enterprise Zone Communities

Enterprise Zone Communities Have Higher Unemployment and Poverty Rates

Enterprise zone communities have higher unemployment (12% higher than the State average), lower labor force participation (5% lower), and lower median household incomes (60% of the State average) compared with the rest of the State. About one in seven enterprise zone community residents are employed within the manufacturing or transportation/warehousing industries, which is about 50% more than the State average of 10%.

Many communities experience concentrated areas of joblessness. The Baltimore City unemployment rate is 12.6%; however, 22 census tracts within the city (representing 10% of the adult population) have unemployment rates in excess of 25%, with a peak unemployment rate of 39%. Other areas with high unemployment include Landsdowne within the Southwest enterprise zone in Baltimore County, downtown Hagerstown, and areas within the Frostburg enterprise zone. Concentrated unemployment also exists in communities with smaller populations, albeit on a smaller and more difficult to measure geographic scale.

The incidence of poverty, low-income households, and receipt of public assistance is significantly higher in enterprise zone communities than what the amount of underemployment relative to the rest of the State would suggest. The incidence of receipt of Supplemental Nutrition Assistance Program (SNAP) benefits is about three-quarters higher than the State average and a little more than one-third of all households earn less than $35,000 – double the State average. Eastern Shore communities had the highest average incidence of poverty – about one-third of Crisfield and Princess Anne residents earn incomes at or below the poverty threshold. Other communities with high levels of poverty include Pocomoke City, Cambridge, Frostburg, Hurlock, and Baltimore City.

Exhibit 3.3 shows the economic and demographic characteristics of enterprise zone communities by region. **Exhibit 3.4** shows the 10 communities with the highest incidence of poverty and unemployment. **Appendix 4** and **5** show detailed economic and demographic information for each enterprise zone community.

Exhibit 3.3

Enterprise Zone Community Economic and Demographic Characteristics by Region

Calendar 2007-2011

	Western Maryland	Eastern Shore	Greater Baltimore	Baltimore City	Capital Region	All Zones	State
Population	100,880	61,840	266,250	620,210	138,210	1,187,390	5,736,550
Unemployment (%)	5.6	9.3	8.5	12.6	7.7	8.2	7.3
Labor Participation (%)	63.9	62.1	69.3	62.3	75.6	65.4	69.0
Median Household Income	$37,730	$39,820	$55,350	$40,100	$74,770	$44,290	$72,420
Manufacturing/Warehousing (%)	17.1	16.0	14.6	10.9	5.5	14.6	9.7
Poverty (%)	15.4	24.0	11.3	22.4	11.9	15.6	9.0
SNAP Recipients (%)	13.5	16.4	11.4	17.1	7.5	12.7	7.1
Low-income Households (%)	44.2	46.9	27.8	44.8	41.1	37.2	15.6
White (%)	90.6	55.0	68.1	31.6	41.1	68.1	59.2
African American (%)	7.1	38.7	22.8	65.3	20.4	20.7	29.4
Foreign Born (%)	1.5	4.5	7.3	7.2	41.5	5.7	13.5

Notes: Low-income households are the percentage of households earning less than $35,000. Manufacturing and warehousing equals percentage of residents who are employed within the manufacturing and transportation/warehousing industries. SNAP recipients are the percentage of population receiving Supplemental Nutrition Assistance Program benefits. Poverty rate is for all individuals.

Source: U.S. Census Bureau, *2007-2011 American Community Survey*; Department of Legislative Services

Exhibit 3.4
Enterprise Zone Communities with Highest Unemployment and Poverty Rates

Highest Unemployment	% Rate	Highest Poverty	% Rate
Hurlock	16.4	Crisfield	35.3
Cambridge	15.5	Princess Anne	33.0
Pocomoke City	14.9	Pocomoke City	27.0
Southwest Baltimore Co.	14.2	Frostburg	24.5
Baltimore City	12.6	Cambridge	24.1
Hagerstown	10.5	Hurlock	24.0
Cumberland	10.4	Baltimore City	22.4
Hancock	10.3	Snow Hill	20.9
North Point	10.0	S. Garrett	20.4
Crisfield	9.3	Hagerstown	19.9

Source: U.S. Census Bureau, *2007-2011 American Community Survey*; Department of Legislative Services

Enterprise Zone Communities are Diverse

Enterprise zone communities are a diverse mix of small towns, rural areas, and larger urbanized areas. About one-half have a population of less than 5,000, while about one-third have a population of 25,000 or greater including Wheaton (47,300), Gaithersburg (59,000), and North Point (151,200). The Baltimore City enterprise zone is much larger in scope and population (620,200) than other zones. Although several small communities have high rates of unemployment and poverty, in general, larger communities have greater unemployment (one-third more) as well as a 20% higher incidence of poverty and low-income households. Most zones are located within one community or rural area. However, about one-third of all enterprise zones are located in multiple communities – examples of these include Hagerstown, Cumberland, Takoma Park, and zones located in Baltimore, Harford, and Cecil counties.

The Baltimore City, Capital region, and Eastern Shore zones are also racially diverse. Except for the Capital region, significantly fewer community residents are foreign-born. About 10% of community residents are veterans, with residents of the Capital region less likely to have served in the Armed Forces. About one in six residents of the Hurlock, Rt. 220 South, Aberdeen, and Edgewood zones are veterans.

Desired Job Skill Intensity Levels Vary

This report describes research conducted by the International Monetary Fund (IMF) examining the role and sources of structural unemployment, which is unemployment caused primarily by a mismatch between jobs and job seekers. The analysis also focused on the role of the skills mismatch between jobs and job seekers and the extent to which the recent recession increased this mismatch. Although IMF estimated that Maryland had an average skills mismatch compared to other states, the increase caused by the recent recession was higher than that experienced in most states. The research focused on the role of education mismatches and housing market difficulties, which may restrict the ability of individuals to move for employment opportunities.

The IMF research classified industries into three categories based on their skill intensity – low, semi, and high skill – based on the average educational attainment of workers in each industry. This classification, representing the skills demanded by employers, was compared to the supply of education skills provided by Maryland residents. **Exhibit 3.5** shows the classification of industries according to the industry's skill intensity and need for skilled labor.

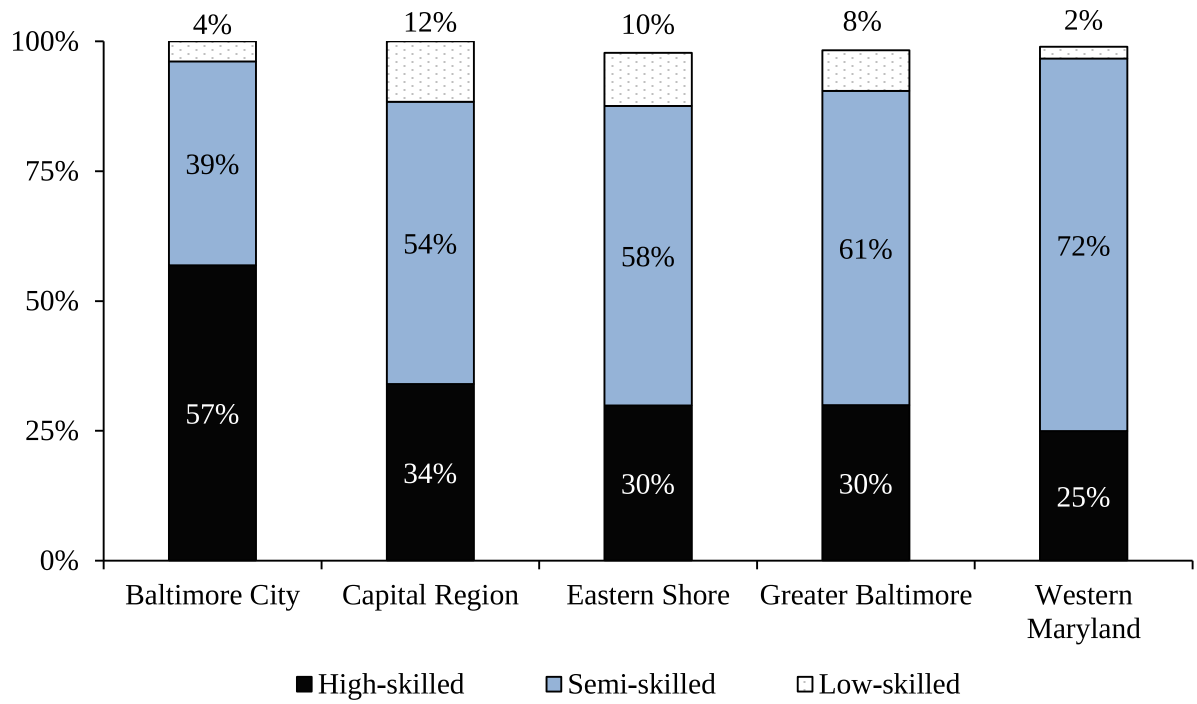
Exhibit 3.5
Skill Level by Industry

Low Skill	**Semi Skill**	**High Skill**
Construction	Manufacturing	Information
Mining	Utilities	Financial Activities
Logging	Trade and Transportation	Education
	Leisure/Hospitality	Health Care
	Other Services	Professional/Scientific/Technical
		Business Services

Source: International Monetary Fund – *Has the Great Recession Raised U.S. Structural Unemployment?*

DLS collected data on the total number of private jobs within enterprise zones, including the industry classification and worker demographic information. **Exhibit 3.6** shows by region the percentage of enterprise zone jobs according to skill intensity.

Exhibit 3.6
Percentage of Enterprise Zone Jobs by Skill Intensity
Calendar 2011



Source: National Employment Time-Series Dataset; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Baltimore City enterprise zone employers had the highest regional demand for high-skill jobs; health care and education industries accounted for about one-half of the demand. Compared with other individual zones, Baltimore City had the third highest skill intensity after zones in Berlin and Salisbury. The health care industry is the dominant employer in Berlin and also has a large presence in Salisbury, which also has a concentration of professional, science, technical services, finance, and information industry jobs. Semi-skilled jobs are prevalent in industrial parks or enterprise zones that target manufacturing and warehousing, including the North Garrett Industrial Park, Hurlock Industrial Park, Hancock enterprise zone, Washington County Airport, Cecil County, North Point and Southwest within Baltimore County, and Edgewood enterprise zone (Harford County). The Capital region's enterprise zones lack dominant industries and have the most job diversity.

Chronically unemployed individuals may live near enterprise zones; however, they must compete against other job seekers. Around 13% of Marylanders have moved within the last year and about one-half of all workers commute 30 minutes or more to work. The efficacy of the Enterprise Zone credit in promoting employment of the chronically unemployed is dependent on the likelihood of firms hiring these individuals. A large body of research has focused on the link between education levels and employment outcomes. Within the competitive labor market, education acts as a signal to employers about the potential productivity of a job applicant. Research has consistently shown a link between increased education and better job market outcomes. Conversely, a lack of education remains strongly associated with economic and social disadvantage and can reinforce intergenerational cycles of disadvantage.

Enterprise zone businesses may hire community residents, even if less educated, if the skill levels of residents and jobs are aligned. However, as shown in Exhibit 3.6, about one-third of all enterprise zone jobs are within high-skill industries, although these industries employ 6 out of every 10 Baltimore City enterprise zone jobs.

Recent Economic Difficulties Have Intensified Competition for Jobs

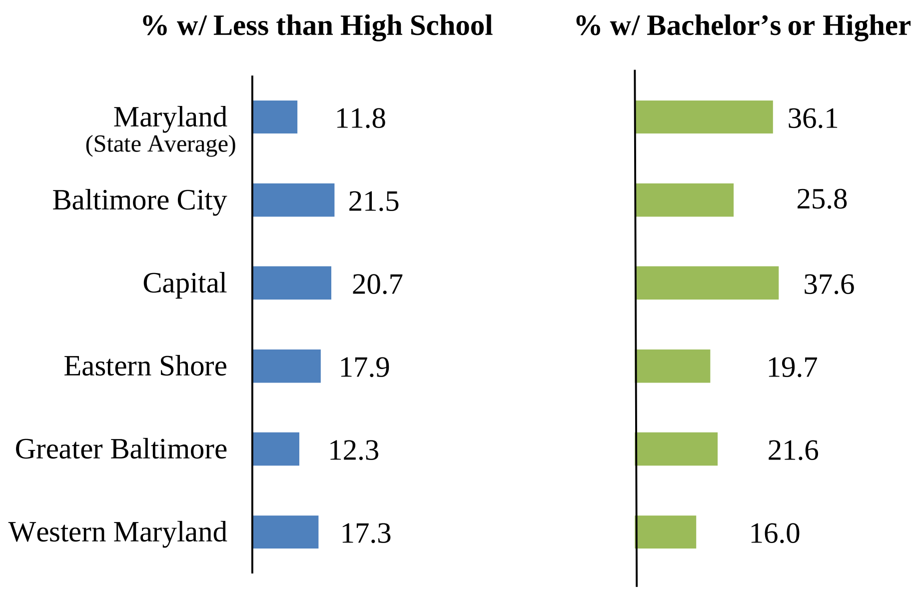
In addition to potential education and skills disadvantages, the recent economic downturn has intensified job competition. Recent research suggests that in the current economy employers are very unlikely to consider hiring individuals who have been unemployed for a long duration. One researcher found that employers would rather call for an interview someone with no relevant experience who has only been out of work for a few months than someone with more relevant experience who has been out of work for longer than six months.

The economy is expected to continue to remain below its potential in the next few years, leading to a lackluster job market in which it is likely that the long-term unemployed will face significant barriers to employment. According to the U.S. Bureau of Labor Statistics (BLS), the long-term unemployed accounted for 4.0% of the total labor force in September 2010, higher than the previous peak of 2.6% in 1983. Although conditions have recently improved, BLS stated that with regard to the labor market, the downturn that began in 2007 is by all indications much worse than those in recent years and can even be considered one of the worst ever.

On Average, Enterprise Zone Community Residents Are Less Educated Than Other Residents

Enterprise zone community residents are on average less educated than the rest of the State. Almost 90% of enterprise zone communities had either a greater percentage of residents without at least a high school diploma or had fewer residents with at least a bachelor's degree or higher. On average, there was a 50% higher prevalence of individuals without a high school diploma (17.9% compared to 11.8%) and 40% fewer individuals with a bachelor's degree or higher (about one-fifth and one-third, respectively). **Exhibit 3.7** shows the education level of enterprise zone community residents by geographic region compared with the State average. Capital region enterprise zone communities had the highest education levels, primarily due to Gaithersburg and Glenmont residents. Enterprise zone communities with the lowest levels of education include Hancock, Hurlock, Hagerstown, and North Point. Baltimore City had an average education level compared to other zones, with a greater number of both less-educated and more-educated individuals.

Exhibit 3.7
Educational Attainment of Enterprise Zone Community Residents by Region Compared to State Average



Source: U.S. Census Bureau; Department of Legislative Services

Differing Educational Attainment Levels Create Skills Mismatches

DLS compared the educational attainment levels of enterprise zone community residents with the actual education levels of enterprise zone private industry workers. There is a significant mismatch between the skills of those who fill the private jobs within enterprise zones and those who reside in or near the zones. Two measures illustrate this mismatch. The IMF analysis constructs a skills mismatch index (SMI) – the difference in education (whether greater or less) provided by residents and that demanded by employers. The mismatch in resident and worker education levels, as measured by SMI, is two-thirds greater within enterprise zones compared to the entire State. The North Garrett Industrial, Hurlock, Aberdeen, Gaithersburg, and Washington County Airport zones have the lowest mismatch in education levels between residents and enterprise zone workers and are therefore most likely to employ community residents. In four out of the five zones with the greatest mismatch, the mismatch is partially due to a greater supply of residents with at least a bachelor's degree – 30% of Frostburg community residents have at least a bachelor's degree, double the percentage of private wage workers within its enterprise zone.

Given that the intent of the credit is to boost employment of the chronically unemployed and not all area residents, DLS uses a modified skills mismatch index to illustrate the level of educational disadvantage that community residents face when seeking employment within that community's enterprise zone. This measure shows that 90% of all enterprise zone communities are also undereducated compared to the workers who actually fill the private industry jobs within enterprise zones and thus face significant barriers to employment within the zones. **Exhibit 3.8** shows the zones in which the community residents have the highest and lowest education disadvantages, as measured by the amount by which community residents are undereducated relative to the individuals who fill the jobs within the zone.

Exhibit 3.8

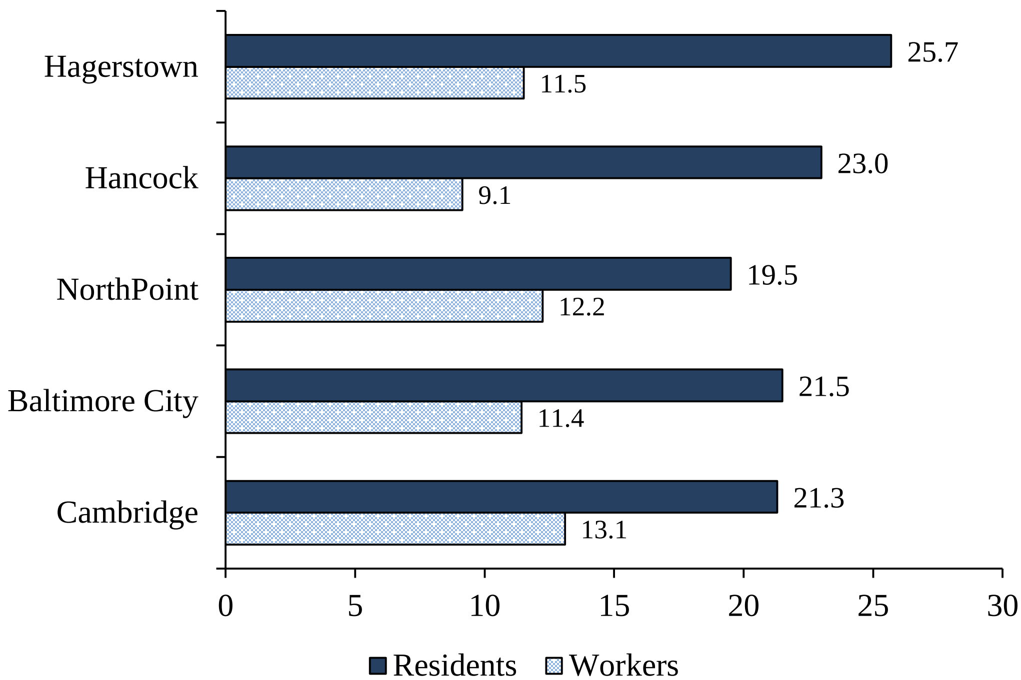
Ranking of Enterprise Zone Community Education Disadvantages

Highest Disadvantage	Lowest Disadvantage
Hagerstown	Pocomoke City
Hancock	Washington Co. Airport
North Point	Wheaton
Baltimore City	Snow Hill
Cambridge	Aberdeen
Takoma Park	Woodlawn
Fruitland	N. Garrett
Princess Anne	Gaithersburg

Source: U.S. Census Bureau; Department of Legislative Services

For example, about one-quarter of community residents in Hagerstown and Hancock do not have a high school diploma. Businesses within these zones demand higher skills and hire individuals who are better educated – 90% of the jobs within these zones are filled with workers who have at least a high school diploma. **Exhibit 3.9** illustrates the percentage of community residents without a high school diploma within the five zones with the highest education disadvantages.

Exhibit 3.9
Percentage of Enterprise Zone Workers and Residents without a High School Diploma
Zones with the Highest Education Disadvantage

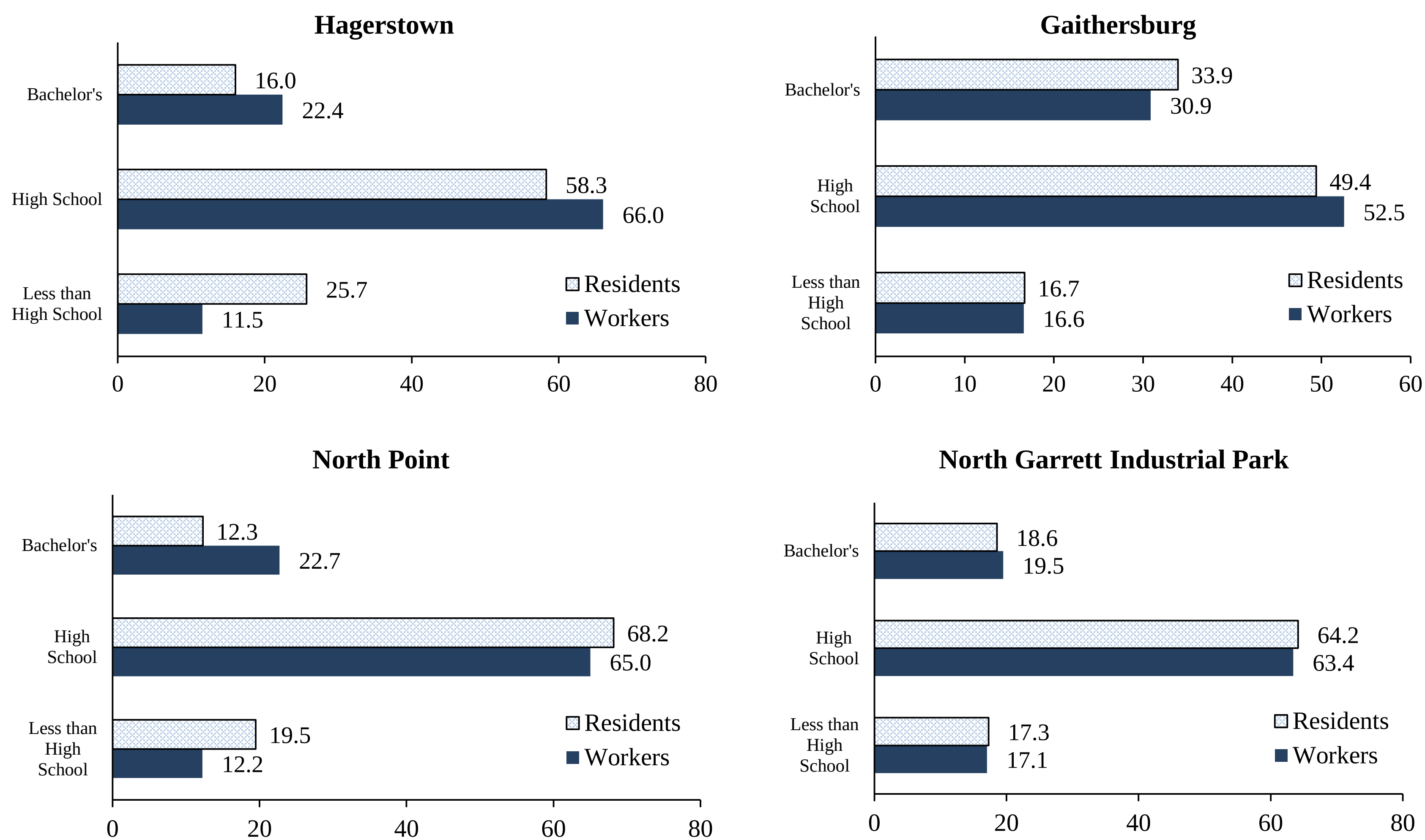


Source: U.S. Census Bureau; Department of Legislative Services

Exhibit 3.10 compares the education levels of residents and workers of two communities with sufficient skills to fill jobs within enterprise zones and two communities that have a large number of individuals who lack the skills demanded by enterprise zone employers. On average, 87% of all jobs within enterprise zones are filled with individuals with at least a high school diploma and almost one-quarter have at least a bachelor's degree. Enterprise zones that focus on semi-skilled industries such as manufacturing and warehousing show mixed results in reducing the education gap between the skills demanded by employers and those possessed by community residents. This gap persists primarily due to the supply of community residents who lack basic education levels. Of the 11 zones with the highest concentration of manufacturing and warehousing jobs, five have an above-average amount of residential under-education including Hagerstown and North Point which have among the highest mismatches.

Exhibit 3.10
Educational Attainment in Selected Enterprise Zones

Residents Lack Skills and Face Employment Barriers | **Residents are Sufficiently Skilled**

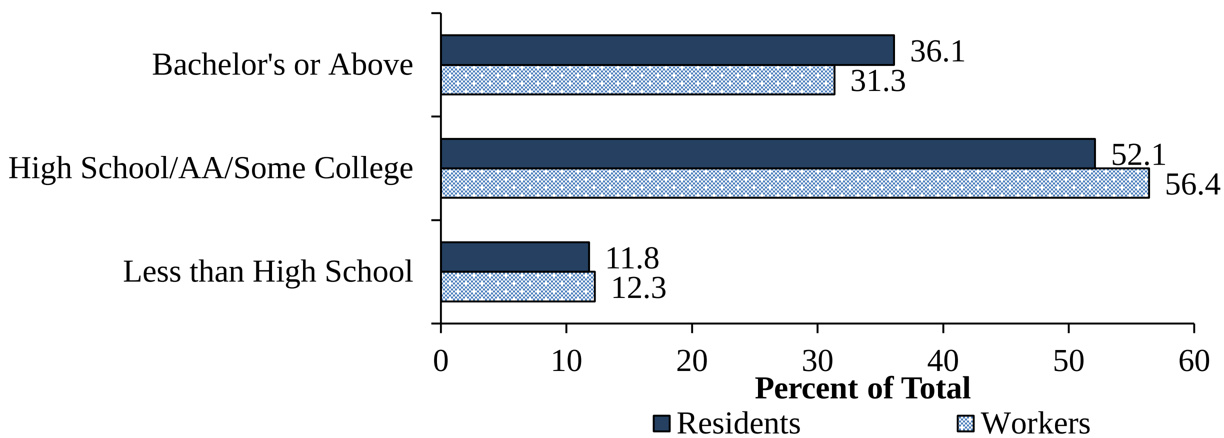


Notes: Bachelor's includes Bachelor's degree or higher; high school includes individuals with high school diploma, some college, or two-year degree.
Source: U.S. Census Bureau, *2007-2011 American Community Survey*; Department of Legislative Services

Labor Mobility Hinders the Hiring of Enterprise Zone Community Residents

A significant portion of enterprise zone community residents lack the education skills demanded by enterprise zone employers. Labor supply and demand are mobile across communities – as a result, employers can hire those with the highest skill sets regardless of where the workers live and import skilled workers from other communities. Overall, these workforce trade flows balance out – **Exhibit 3.11** shows that in contrast to enterprise zone communities, the educational level of Maryland residents is sufficient to fill private jobs in the State.

Exhibit 3.11
Percentage of Educational Attainment of Maryland Residents and Private Industry Workers



Source: U.S. Census Bureau – *American Community Survey & Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Due to the lack of skills among enterprise zone community residents and the mobility of labor, only about one in eight enterprise zone jobs are filled by community residents. This includes all community residents and not just the chronically unemployed. **Exhibit 3.12** shows the average percentage of enterprise zone jobs that are filled by residents of the enterprise zone community and county in which the zone is located.

Baltimore City has the highest community job retention compared to other regions. However, the Baltimore City enterprise zone is 13,453 acres, comprises a significant portion of the commercial and industrial areas of the city, and is significantly larger than other zones. About one-half of all zones are less than 1,000 acres and are on average 3% the size of the Baltimore City zone. Given the scope of the Baltimore City zone, a more accurate comparison is at the county level. About two-thirds of Baltimore City enterprise zone workers are not city residents; by comparison, about one-half of all enterprise zone workers do not live in the county in which the zone is located.

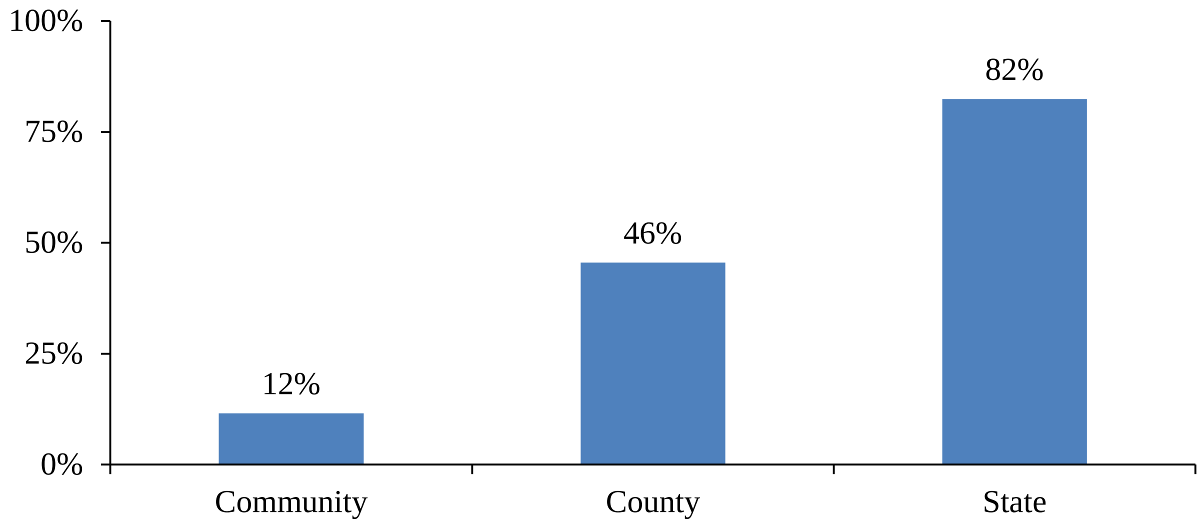
Exhibit 3.12
Percentage of Enterprise Zone Workers by Geography

Region	Community	County	State
Western Maryland	14%	56%	71%
Eastern Shore	8%	39%	86%
Baltimore City	32%	32%	94%
Greater Baltimore Area	13%	46%	93%
Capital Region	6%	39%	83%

Source: Department of Business and Economic Development; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Exhibit 3.13 shows for all zones the average percentage of enterprise zone jobs that are filled by community, county, and Maryland residents.

Exhibit 3.13
Percentage of Enterprise Zone Jobs Retained by Geography



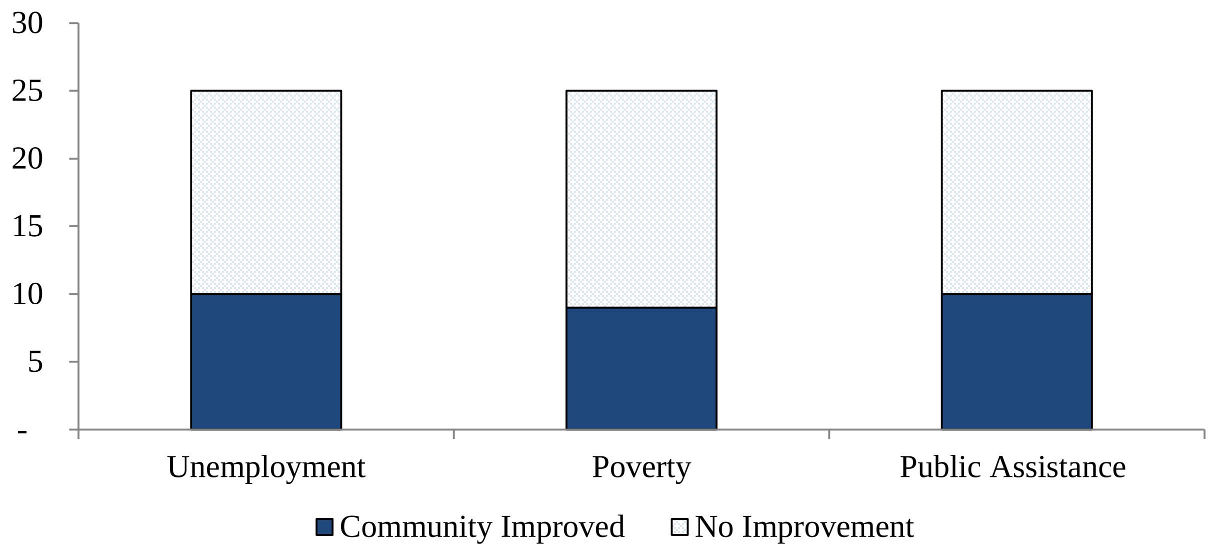
Source: Department of Business and Economic Development; U.S. Census Bureau – *Longitudinal Employer-Household Dynamics*; Department of Legislative Services

Have Enterprise Zone Communities Shown Improvement?

DLS examined changes in communities over time to assess if Enterprise Zone tax credits have benefitted communities through increased employment and reduced poverty. These changes include measuring U.S. Census demographic and economic characteristics of areas that were designated as an enterprise zone from 2000 to the present. Several factors, however, inhibit an accurate assessment including (1) the small population of many zones, which require the use of five-year estimates (2007-2011) with high margins of errors that prevent statistically significant results; (2) the impacts of the recent recession; (3) enterprise zones are economically distressed and should be compared to a similar control group; (4) a limited ability to separate out other influences which might have caused changes within communities; and (5) geographic imprecision. For example, selecting different geographies for several zones that do not have easily identifiable U.S. Census geographies often led to conflicting results.

With these limitations in mind, it appears that median incomes and adult populations increased in most communities. As shown in **Exhibit 3.14**, about one-third of communities had a lower adult poverty rate and 40% had a lower incidence of unemployment and receipt of public assistance.

Exhibit 3.14
Number of Enterprise Zone Communities that Showed Improvement
2000 to Present



Source: U.S. Census Bureau; Department of Legislative Services

Communities with the largest improvement in poverty and unemployment rates include Central Garrett, Berlin, South Garrett, Snow Hill, and Rt. 220; the Edgewood, Cambridge, Hagerstown, Pocomoke City, and Southwest Baltimore zones experienced the largest increases in poverty and unemployment.

Total private employment of enterprise zone community residents increased by about 27,000, an average annual increase of 0.7%; private employment grew the most within the Capital region and slowest in the greater Baltimore region. The growth in private employment among community residents lagged significantly behind the overall statewide change in private employment. Despite the emphasis of several zones on increasing manufacturing employment, total employment within the manufacturing industry decreased by 13,000 or by 30%, this was greater than the 2010 decrease in the State over the same time, as shown in **Exhibit 3.15**. Significant employment losses also occurred within the wholesale trade, finance, and information industries; the last two industries suffered significant employment losses nationwide due to the recession. Conversely, employment increased most within the education and health care industries, professional, science, and technical services, and arts and entertainment industries. Overall, growth was strongest in high-skilled industries (15.5%) and decreased by 1% within low- and semi-skilled industries.

Exhibit 3.15 also shows for each region the most recent estimate of the total number of unemployed community residents by region. About 90,600 community residents were unemployed, about 40% of the total number of unemployed statewide.

Exhibit 3.15
Change in Employment in Enterprise Zone Communities by Industry Classification
2000-Present

	Western Maryland	Eastern Shore	Greater Baltimore	Baltimore City	Capital	All Zones	Percent Change Zones	Percent Change State
Agriculture, Forestry	(150)	0	63	41	29	(17)	-2.3%	-7.5%
Construction	549	(102)	(74)	2,742	340	3,455	13.5%	17.4%
Manufacturing	(1,580)	(1,072)	(5,157)	(5,137)	(26)	(12,972)	-28.8%	-20.0%
Wholesale Trade	(401)	324	(522)	(1,938)	(103)	(2,640)	-20.3%	-13.3%
Retail Trade	501	494	199	904	83	2,181	4.6%	2.8%
Transportation & Warehousing	504	371	(403)	393	(49)	816	2.3%	1.8%
Information	(349)	(41)	22	(2,397)	(53)	(2,818)	-22.3%	-27.9%
Finance	318	(128)	(53)	(494)	(76)	(433)	-2.4%	2.7%
Professional, Science, Technical Services	1,182	626	2,438	3,863	581	8,690	21.4%	31.1%
Education & Healthcare	1,971	1,702	6,170	13,452	358	23,653	23.1%	22.6%
Arts and Entertainment	1,066	1,294	1,038	3,118	771	7,287	21.3%	26.8%
Other Services	(48)	306	(7)	(427)	7	(169)	-1.3%	7.4%
Total Private Employment	**3,563**	**3,774**	**3,714**	**14,120**	**1,862**	**27,033**		
Percent Annual Change	1.0%	1.8%	0.3%	0.7%	2.4%	0.7%	0.7%	1.2%
Current Number of Unemployed*	**4,114**	**3,358**	**13,794**	**39,359**	**29,943**	**90,598**		**227,000**

Notes: Change in employment within Capital region does not include Prince George's County.
*Current number of unemployed reflects 2007-2011 American Community Survey estimates of the total number of unemployed.

Source: U.S. Census Bureau; Department of Legislative Services

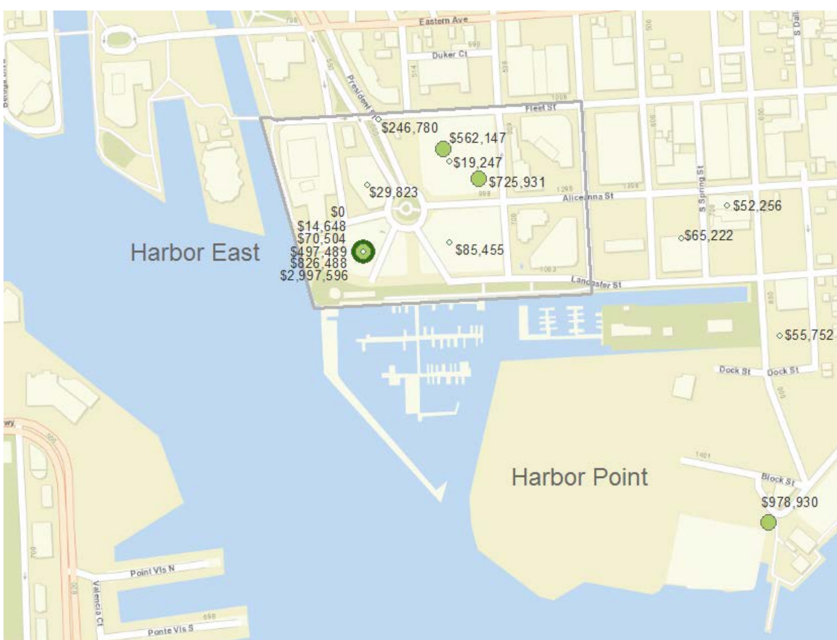
As mentioned previously, Baltimore City has a large enterprise zone encompassing almost 13,500 acres. Baltimore City has used the Enterprise Zone credit, and other State and local incentives, in efforts to build the city's property tax base. Baltimore City's real property tax rate of $2.248 per $100 of assessed value in fiscal 2014 is significantly higher than the rate in other jurisdictions in the State, and the city also has a large portion of its property tax base that is exempt from property taxes. For example, if Baltimore City imposed the average property tax rate of $0.94 per $100 of assessed value imposed in other enterprise zone counties, State reimbursements to Baltimore City in fiscal 2014 would have totaled $3.5 million, or about 58% lower than the actual reimbursement of $8.3 million.

Baltimore City's Harbor East development is a good example of an economic development project in an enterprise zone that has been successful in providing additional employment and property tax revenues, but only with mixed results for the residents of the local community. Harbor East is a mixed-use development on Baltimore's waterfront with more than 5.5 million square feet of office, residential, hotel, retail, entertainment, and parking space. In addition to creating a concentration of retail stores, there is significant employment within the financial, educational, and professional services industries. According to the Baltimore Development Corporation (BDC), Harbor East is a highly successful development which replaced an area that was formally dominated by heavy industry. **Exhibit 3.16** shows in more detail the location of the Harbor East area, which is located next to the future Harbor Point development, and properties receiving a fiscal 2014 property tax credit.

Exhibit 3.16

Enterprise Zone Property Tax Credit
Harbor East Projects

Fiscal 2014



The ongoing benefits of the Harbor East development include:

- the number of businesses increased from 40 in 2000 to 170 in 2011;
- total private employment increased by 2,700 over the same time period according to the U.S. Census Bureau;
- adding residential units and increasing the population of the city;
- increasing the tax base by adding higher-income residents and property taxes; and
- increasing the attractiveness of the area and number and type of amenities available to residents, which can spur additional development and population growth.

Although employment and businesses in the area increased, a significant portion of these businesses and jobs relocated from other parts of the city. In addition to receiving Enterprise Zone credits, several properties received Baltimore City Brownfields tax credits. If a property is receiving the Enterprise Zone credit, the Brownfields tax credit can reduce any remaining amount of property tax in the first 10 qualifying years. As a result, most of the increased property taxes will occur after the expiration of these credits. The Enterprise Zone tax credit reduced the property taxes on the increased assessment of the development; however, the credit does not apply to residential property. Therefore, the credit provided, at best, an indirect incentive for the development of the residential units.

The Harbor East development shifted employment in the area to high-skilled industries which are more likely to increase future employment, thereby increasing economic development within the city. According to BDC, the Baltimore City enterprise zone does not meet statutory criteria related to low-income households, unemployment, or population loss. The high incidence of poverty among residents within the zone; however, is sufficient to meet the statutory requirement.

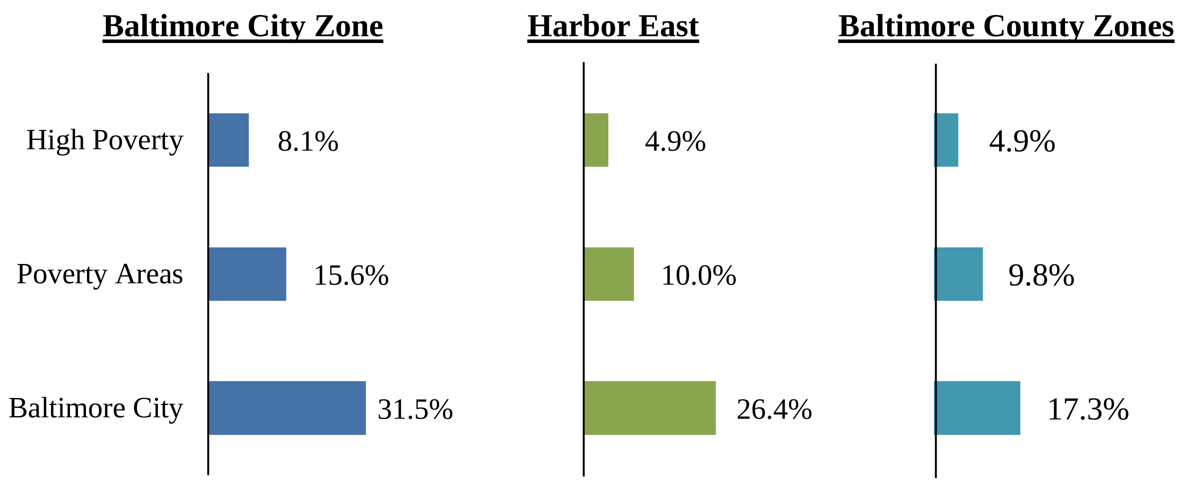
The Harbor East development has had a limited employment impact on Baltimore City poverty area residents. About three-quarters of all jobs are filled by workers who live outside of the city. About 270 jobs, or only 1 in 10 total jobs, are filled by a Baltimore City resident who lives in a census tract that meets the enterprise zone's poverty requirement. This includes any qualifying census tract, not just the census tracts with high poverty within the enterprise zone. Residents who live in high-income areas are three times more likely than residents of the lowest-income areas of the city to be employed within the Harbor East area.

By comparison, businesses located within a Baltimore County enterprise zone (North Point, Southwest, and Woodlawn) employ 3,100 Baltimore City poverty area residents. These zones are just as efficient as Harbor East in providing employment to Baltimore City residents who live in poverty areas and high-poverty areas within the city. **Exhibit 3.17** compares the percentage of jobs within the Baltimore City enterprise zones, Harbor East, and

Baltimore County enterprise zones that are filled by Baltimore City residents, Baltimore City poverty area residents, and residents of high-poverty areas of the city. Poverty areas are all census tracts within Baltimore City (not just those within the enterprise zone) that currently meet the statutory criterion related to poverty by having a family poverty rate of at least 1.25 times the U.S. average. **Exhibit 3.18** shows the dissimilarity of the demographics of the workers who fill jobs within the Baltimore City enterprise zone and Harbor East and the residents of poverty areas and high-poverty areas within Baltimore City. Baltimore City poverty area residents have significant educational disadvantages relative to the workers who fill jobs within the Baltimore County enterprise zones and Harbor East. For example, as shown in **Exhibit 3.19**, a little less than one-half of all Harbor East workers have at least a bachelor's degree, and less than 10% do not have a high school diploma. A little more than one-quarter of all poverty area residents do not have a high school diploma, and only 10% have at least a bachelor's degree.

Exhibit 3.17

Percentage of Enterprise Zone and Harbor East Jobs Filled by Baltimore City Residents



Notes: Poverty areas are all census tracts within Baltimore City (not just those within the enterprise zone) that currently meet the statutory criterion related to poverty by having a family poverty rate of at least 1.25 times the U.S. average. High-poverty areas are the Baltimore City census tracts with poverty rates in excess of 40%.

Source: U.S. Census Bureau; Department of Legislative Services

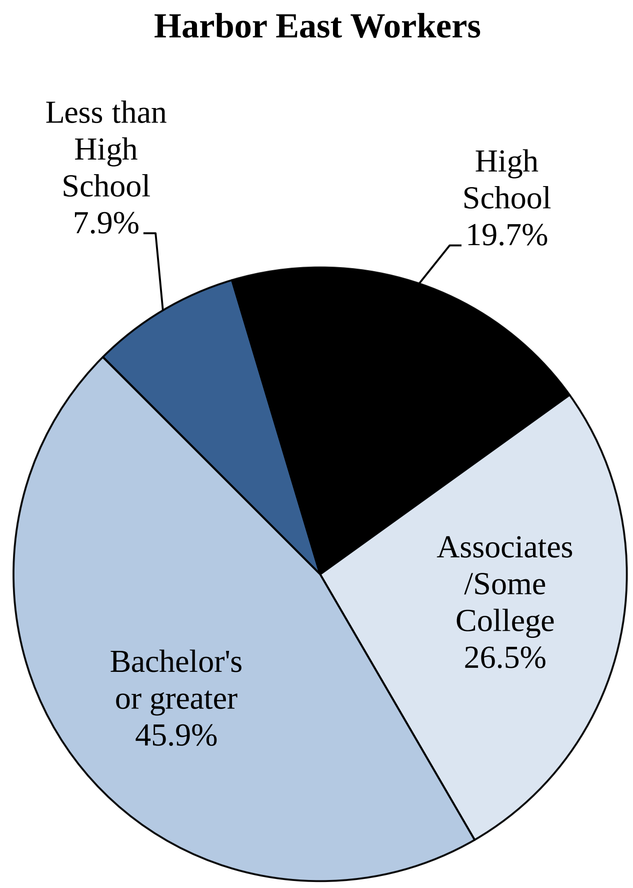
Exhibit 3.18
Demographics of Baltimore City Workers and Poverty Residents

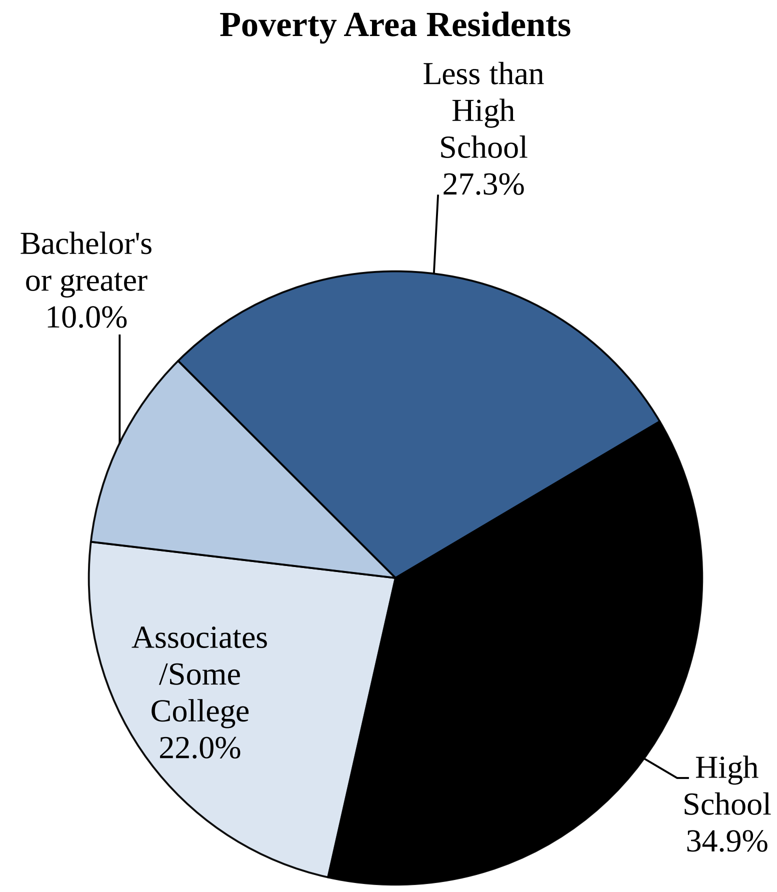
	Workers		Baltimore City Residents	
Education Levels	**Enterprise Zone**	**Harbor East**	**Poverty Areas**	**High Poverty**
Less than High School	11%	8%	27%	30%
High School	25%	20%	35%	35%
Associates/Some College	30%	27%	22%	22%
Bachelor's or greater	33%	46%	10%	9%
Ethnicity				
Caucasian	62%	73%	19%	4%
African American	31%	20%	76%	92%
Other	7%	7%	5%	3%

Notes: Education levels are for private workers within the Baltimore City enterprise zone and Harbor East. Poverty areas are all census tracts within Baltimore City (not just those within the enterprise zone) that currently meet the statutory criterion related to poverty by having a family poverty rate of at least 1.25 times the U.S. average. High-poverty areas are the Baltimore City census tracts with poverty rates in excess of 40%. Resident data is 2007-2011 American Community Survey. Worker data is calendar 2011.

Source: U.S. Census Bureau; Department of Legislative Services

Exhibit 3.19
Educational Attainment of Harbor East Workers and Baltimore City Poverty Area Residents





Source: U.S. Census Bureau; Department of Legislative Services

Businesses Claiming Enterprise Zone Tax Credits

Variation in Business Activity among Enterprise Zones

The Enterprise Zone program has grown significantly since fiscal 2001 – total State reimbursements to local governments have increased from $2.4 million to $13.9 million in fiscal 2014 and the number of businesses eligible to receive property tax credits increased from 352 to 810. However, this growth has not been uniform. Counties and municipalities, with DBED approval and overview, implement the program by (1) establishing and expanding (or not) zones (2) setting any additional standards; (3) certifying businesses; and (4) marketing the program to businesses, which might include additional local incentives. As discussed in this report, local governments take a variety of approaches to the program. Differences in program implementation are in addition to other county and municipal policies which may influence business decisions. Although each enterprise zone has some level of economic distress, zones vary in the amount of distress as well as other factors that influence business decisions such as the zone's proximity to markets; availability, cost, and skill level of the work force; infrastructure; and amenities and attractiveness of the area.

Of the 13 counties which currently have at least 1 enterprise zone, State reimbursements have increased significantly in 8 of these counties – Baltimore, Cecil, Garrett, Harford, Montgomery, Prince George's, and Wicomico counties and Baltimore City. State reimbursements to the other five counties (Allegany, Dorchester, Somerset, Washington, and Worcester) have remained flat or fallen. Total State reimbursements to the eight "growth" counties averaged $1.9 million from fiscal 2001 through 2003 with reimbursements to the other five counties averaging $1.1 million over the same time. While total reimbursements to the growth counties grew to an average of $16.0 million in fiscal 2012 through 2014, total reimbursements to the other five counties decreased to an average of $830,700. **Exhibit 3.20** shows for each zone the total number of businesses which received a property tax credit in fiscal 2014.

Exhibit 3.20
Number of Businesses Receiving Property Tax Credits by Enterprise Zone
Fiscal 2014

County	Enterprise Zone	Designation Date	Businesses Receiving Property Tax Credit
Allegany	Frostburg	1984	14
	Rt. 220 South	1999	1
	Cumberland/Gateway	1982	11
Baltimore County	North Point	1995	21
	Southwest Baltimore County	1996	23
	Woodlawn	2011	0
Baltimore City	Baltimore City	1983	289
Cecil	Cecil County	1997	23
Dorchester	Hurlock Industrial Park	1999	3
	Cambridge	1993	11
Garrett	Southern Garrett	1987	14
	Northern Garrett	1990	13
	Keyser's Ridge	2004	0
Harford	Edgewood-Joppatowne	1995	33
	Aberdeen-Havre de Grace	1996	75
Montgomery	Gaithersburg	2008	3
	Wheaton	1998	9
	Long Branch/Takoma Park	2003	7
	Glenmont	2013	0
Prince George's	Prince George's	1999	51
Somerset	Crisfield	1996	1
	Princess Anne	1992	2
Washington	Washington County Airport	1984	7
	Town of Hancock	1995	3
	Hagerstown	1982	30
Wicomico	Fruitland	1995	1
	Salisbury	1982	43
Worcester	Snow Hill	1995	1-3*
	Berlin	1996	1-3*
	Pocomoke City	1991	1-3*
Expired Zones			**113**
Total			**810**

Note: Individual data were not available for Snow Hill, Berlin, and Pocomoke City. According to SDAT there were a total of three reimbursements to Worcester County.

Source: State Department of Assessments and Taxation; Department of Legislative Services

Enterprise Zones with Limited or Decreased Business Activity

A significant number of enterprise zones have a limited number of businesses claiming property tax credits or have had a decrease in either the number of businesses claiming property tax credits or in the amount of investments. Of the 27 enterprise zones that have been established for at least five years, 10 zones have less than 5 businesses currently claiming the Enterprise Zone property tax credits – an average of less than 1 new business every two years. Not only are these enterprise zones failing to attract many businesses, but many of the businesses that are claiming the Enterprise Zone tax credit are not making significant investments in the zones. Seven of the enterprise zones had State reimbursements of less than $10,000.

In contrast to the total growth in total investment activity under the property tax credit since fiscal 2001, total investments have fallen in four counties – Dorchester, Somerset, Washington, and Worcester. Investment activity is volatile and can fluctuate from year-to-year, so using an average over several years is a more accurate measure. Investments in Dorchester County averaged $48.3 million from fiscal 2001 through 2004, but investments decreased to $8.2 million in fiscal 2011 through 2014 despite a 53% growth in the amount of acres designated as an enterprise zone. Over the same period the average amount of investments decreased from $225.9 million to $102.6 million in Washington County. Investments decreased by about one-third in Somerset County and by about three-quarters in Worcester County. Total investments in these four counties decreased by a total of 60% despite a 12.3% growth in the size of zones within the counties. In contrast, total investments increased in enterprise zones in other counties from $601.9 million to $2.7 billion; these counties had a similar growth in the size of zones as the four counties which experienced a sharp decrease in investments.

Enterprise zones which had a decrease in the number of businesses claiming the property tax credit include Frostburg (from 25 in fiscal 2001 to 14 in fiscal 2014), Cumberland (34 to 11), Hagerstown (62 to 30), and zones in Worcester County (8 to 3). **Exhibit 3.21** shows the counties which had a decrease in the number of businesses or amount of investments under the property tax credit or have enterprise zones which currently have a limited number of businesses claiming the property tax credit.

Exhibit 3.21

Counties with Limited or Decreased Enterprise Zone Activity

	Fiscal 2001-2014 Decrease in		Enterprise Zones with
	Businesses	**Investment**	**Limited Activity**
Allegany	X		Rt. 220 South
Dorchester		X	Hurlock
Montgomery			Gaithersburg
Somerset	X	X	Crisfield Princess Anne
Washington	X	X	Hancock
Wicomico			Fruitland
Worcester		X	Snow Hill Berlin Pocomoke City

Notes: Lack of activity is defined as zones that currently have less than five businesses claiming the property tax credit. A decrease in businesses or investment reflects a significant decrease in the amount of businesses or qualifying investments under the property tax credit.

Source: State Department of Assessments and Taxation; Department of Legislative Services

The geographic size of the enterprise zone does not seem to have much of an impact on the number of businesses claiming the Enterprise Zone tax credit. For example, the Northern Garrett Industrial Park is the smallest zone with only 107 acres and has 13 businesses claiming the credit, while the Princess Anne zone is 1,155 acres with only 2 businesses claiming the credit. The Cambridge zone, with 1,661 acres, has the same number of businesses claiming the credit, 11, as the Gateway zone, which has 7,783 acres. Thus, the zone size does not appear to affect business activity. Additionally, the lack of zone activity is not concentrated in one area. While the majority of businesses are located in the greater Baltimore region, the rest of the businesses are fairly evenly distributed between Western Maryland, the Eastern Shore, and the Capital region. The Capital region, Eastern Shore, and Western Maryland have at least three zones with less than 10 businesses claiming the credit. The lack of activity in enterprise zones is not merely concentrated in rural areas. Gaithersburg, which is a fairly urban area, only has three businesses claiming the credit.

While the geographic size and location of the zones do not appear to explain the lack of activity, there are a number of reasons as to why activity is limited in certain enterprise zones. The lack of activity in certain zones might reflect differences in program implementation such as local governments choosing to limit the scope of the program or poor marketing and targeting of zones. Economic reasons include competition from other nearby zones and barriers such as economic distress and lack of markets and labor force. Seven out of the 10 zones with the highest poverty rates have either a limited number or significant decrease in the number of businesses claiming the property tax credit. The Enterprise Zone credit might not be effective in promoting economic growth within zones that have a high level of economic distress and/or lack of attractiveness to businesses. Although the value of the credit is constant (except for within focus areas) the variation in economic distress and attractiveness to businesses increases as the amount and sizes of zones increase. As a result, program activity might increase in areas that are attractive to businesses or have less distress at the expense of zones or areas within zones that are more distressed or are less attractive to businesses.

For example, Allegany County has struggled to attract businesses to its Rt. 220 South enterprise zone, with only one business in the zone. Local officials indicate that competition from Hagerstown, an enterprise zone that has a large supply of vacant property, has kept the Rt. 220 zone from attracting businesses. Additionally, economic barriers of the Rt. 220 zone, including a six-mile distance from the nearest interstate, might pose challenges to businesses that the tax credits cannot overcome. In addition local officials indicate that a nearby housing development is also negatively impacting the zone. Despite only one business claiming the credit, local officials consider the Enterprise Zone program a success. The business claiming the credit in the Rt. 220 South zone, American Woodmark Corporation, is the ninth largest employer in Allegany County. While American Woodmark Corporation closed several manufacturing facilities located outside of the State, it has been able to expand its business in Rt. 220 South zone, due to substantial State and local incentives including the Enterprise Zone property tax credit.

Incomplete and Missing Data Hinder Efforts to Identify Businesses Claiming the Credit and to Analyze Economic Impacts

Local enterprise zone administrators submit annual reports to DBED providing information on certified businesses as well as other information about the zone. In general, these reports consist of a narrative that contains general information on the business activity within the reporting year as well as information on marketing, additional incentives offered, and local standards and certification processes. Local governments also submit information listing the businesses which were certified during the year, the change in employment of all certified businesses within the zone, and the total amount of capital investment in that year. While DBED provided local reports from 2006 to 2011, reports were missing for several zones. Only some of the local reports contain information on the industry of the businesses, while others report information for only those certified in the reporting year while others report over multiple years. As is detailed in this report, the local employment data that is reported has proven problematic and likely overstates the change of employment within zones. The employment data is self-reported and does not appear to be verified, and covers only those businesses that actually report the data.

The local reports do not contain information on the amount of credit received by the business; this data is potentially available from SDAT (property tax) or the Comptroller's Office (income tax). In addition, for every zone except Baltimore City there is no indication whether the business received the income tax credit and/or the property tax credit. Although the income tax credit is relatively small compared to the property tax credit, a total of $9.9 million in income tax credits have been claimed since tax year 2000. Each business claiming the income tax credit submits a limited amount of data to the Comptroller's Office, and the Comptroller's Office cannot provide information on businesses claiming the credit due to confidentiality requirements. There is no available complete set of data identifying all of the companies that have claimed the credit and the change in employment within these businesses.

The lack of data provided by SDAT as detailed in this report limit the ability to identify the businesses that are claiming the property tax credit and the economic impacts of qualifying investments. Except for Baltimore City, most data provided by SDAT listing each property tax credit does not contain adequate identifying information such as the name of the business or accurate address information. In addition, SDAT did not provide total investment and property tax credits claimed in each zone and year since fiscal 2001.

A Number of Enterprise Zones Focus Incentives to Certain Categories of Businesses

About one-third of all enterprise zones have businesses that are concentrated within manufacturing, fabrication, transportation, warehousing, distribution, and research and development. This concentration typically results from either enterprise zone local standards restricting credit eligibility to these activities and industries or the establishment of the zone within an industrial or business park that has similar requirements. Zones with additional local standards include North Point and Southwest within Baltimore County and zones that are primarily located within a business or industrial park include Garrett County enterprise zones, Rt. 220 South, Cecil County, and Hurlock Industrial Park. Other zones with a high concentration of employment or certified businesses within the manufacturing and transportation/warehousing industries include Washington County Airport and Snow Hill.

Five of these concentrated zones are located in Western Maryland, three are located on the Eastern Shore, and two are in the Greater Baltimore area. No zones in the Capital region are concentrated zones; manufacturing and transportation/warehousing industries employ about 3.5% of all employees within those zones, the lowest amount of any region.

Most of the other enterprise zones are located primarily within one municipality or other urban area. There is variation in the degree to which the zone is located within the "downtown" area and lesser developed areas outside of the urban area. Typical businesses within the downtown area include retail, accommodation and food services, and health care with industry, warehousing, and other lower density development outside of the urban area. For example, the Princess Anne zone comprises part of the downtown area as well as a nearby industrial park. Princess Anne has certified nine companies for tax credits, of which four are manufacturing businesses, one construction, and four are retail. Four of these businesses have closed. Other examples include Hagerstown and Cumberland, which have substantial portions of their zones outside of the urban area and the zones in Cambridge and Salisbury which are mainly urban. Although the Baltimore City zone is entirely within an urban area, there are lower density areas of significant size where industry and warehousing are prevalent.

Montgomery County has established zones that are limited to part of the urban area (Glenmont, Takoma Park and Silver Spring, and Gaithersburg) in which the zone is located. These zones range from 125 to 491 acres, substantially smaller than the typical zone. As a result, most of these zones have significant numbers of businesses within the retail and accommodation and food services industries.

Several zones encompass more than one urban area and/or municipality. Several urban areas, municipalities, and lesser developed areas along the Rt. 40 corridor in Harford and Cecil counties are located within the Aberdeen and Edgewood enterprise zones. At least 30 municipalities and urban areas are within the Prince George's County zone.

Exhibit 3.22 shows the industries which have the greatest share of employment within enterprise zones that have a mixture of businesses. This includes all businesses and can differ from the businesses that actually claim credits, as described below for Baltimore City.

Exhibit 3.22
Industries with the Highest Employment within Enterprise Zones by Region

Region	Top Five Industries
Capital Region	Retail Construction Accommodation/Food Services Administration/Support Services Professional/Science/Technical
Baltimore City	Health Care Education Administration/Support Services Accommodation/Food Services Professional/Science/Technical
Greater Baltimore	Manufacturing Retail Professional/Science/Technical Health Care Accommodation/Food Services
Eastern Shore	Health Care Manufacturing Retail Accommodation/Food Services Professional/Science/Technical
Western Maryland	Health Care Retail Warehousing/Transportation Accommodation/Food Services Finance

Source: U.S. Census Bureau; Department of Legislative Services

Employment Data for Businesses Claiming the Enterprise Zone Credit in Baltimore City

The Baltimore Development Corporation provided data on the 152 companies which submitted enterprise zone employment data in 2011. These companies reported employment of a little more than 13,000, which is about 7% of the total private employment within the zone. According to SDAT, about 300 Baltimore City properties were eligible for a property tax credit at this time in 2011; an unknown number of Baltimore City businesses were awarded income tax credits. Baltimore City does not impose any additional eligibility standards; as such, businesses that reported employment data within 16 different industries. The industries most represented in the reported data are manufacturing; retail; professional, science, and technical services; and accommodations and food services. Finance and insurance and manufacturing reported about one-half of the total employment whereas these industries comprise 12% of total private employment within the zone. Most of the reported net increase in employment resulted from businesses within the manufacturing, retail, health care, and accommodations and food services industries, as shown in **Exhibit 3.23**.

Exhibit 3.23
Baltimore City Business and Employment Data by Industry
Enterprise Zone Tax Credit

Industry	Companies	Percent Total	Employment	Percent Total	2010-2011 Employment Change
Agriculture & Forestry	1	0.7%	181	1.4%	-2
Construction	13	8.6%	821	6.3%	238
Manufacturing	23	15.1%	2856	21.8%	666
Wholesale Trade	13	8.6%	627	4.8%	237
Retail	15	9.9%	595	4.5%	472
Transportation/Warehousing	9	5.9%	522	4.0%	218
Information	2	1.3%	30	0.2%	-5
Finance and Insurance	4	2.6%	3,380	25.8%	73
Real Estate, Rental, and Leasing	6	3.9%	119	0.9%	24
Professional, Scientific, and Technical Services	15	9.9%	667	5.1%	215
Management of Companies	1	0.7%	23	0.2%	2
Administrative and Support Services	10	6.6%	658	5.0%	130
Educational Services	2	1.3%	95	0.7%	8
Health Care and Social Assistance	10	6.6%	858	6.6%	692
Accommodation and Food Services	18	11.8%	735	5.6%	225
Other Services (except Public Administration)	10	6.6%	932	7.1%	-25
Total	**152**		**13,099**		**3,168**

Source: Baltimore Development Corporation; Dun & Bradstreet; National Employment Time-Series Dataset; Department of Legislative Services

Tax Credits for Businesses that Depend on Local Demand May Have a Limited Economic Impact

Research indicates that many industries are dependent on local demand and/or have high substitution effects – gains in employment at one business might be at the expense of other businesses given a finite local demand. This can include businesses within the hotel, restaurant, retail, and health care industries. For example, the demand for restaurants is mostly dependent on the number of nearby residents and the disposable income of the residents.

The Louisiana Economic Development agency recently analyzed its Enterprise Zone program and estimated that 90% of enterprise zone jobs within industries dependent on local demand merely replaced existing jobs and limited the overall effectiveness of the program relative to nearby states, most of which limited credits to these industries. In response to the report's findings Louisiana enacted restrictions on the ability of retail businesses to claim the credit.

As shown in Exhibit 3.23 above, about 28% of the Baltimore City businesses that reported employment data in 2011 were within the health care, retail, and accommodations and food services industries. These businesses accounted for 44% of the reported 3,168 increase in employment, suggesting that a significant portion of the reported employment change was the result of increased demand within Baltimore City and not due to receipt of the Enterprise Zone credit. Supermarkets, convenience stores, pharmacies, and chain stores comprised most of the retail businesses. The accommodation and food services industry was comprised of 3 bars, 11 restaurants, and 4 hotels.

Local demand dependent industries comprise a significant portion of certified businesses within the Prince George's, Hagerstown, Takoma Park, Gaithersburg, and Wheaton enterprise zones. Chain restaurants and hotels comprised most of the Prince George's certified businesses in 2010 and a significant portion of certified businesses in Hagerstown. Virtually all of the certified businesses in the Wheaton zone are retail businesses or developers of retail property. However, Montgomery County appears to be adopting a comprehensive development plan for Wheaton and its other zones, similar to the development plan that was implemented for Silver Spring. For example, the county has designated the Wheaton area as a priority for development, offers additional incentives, and plans a number of initiatives to boost revitalization, including a transit-oriented development to attract businesses and residents and the development of a town center. The success of these other county initiatives in increasing local population and revitalizing the area will be a key determinant in the effectiveness in providing Enterprise Zone credits to these retail businesses.

Economic Impacts of Credit Can Differ Based on Property Ownership

A significant portion of businesses that claim the property tax credit in several zones are developers or real estate management companies. About one-third of the total businesses that have been certified in Baltimore City from 2001 to 2010 and have identifying information are developers or real estate companies. The economic impact of a credit provided to a real estate developer differs from a credit provided to a business that is also the owner of the property. The most important distinction is within the direct impacts – tax credits to businesses may increase investment and jobs at the business whereas the impact of tax credits to developers is mainly through additional investment in nonresidential property. This will typically result in additional commercial property in nonindustrial zones which can increase the likelihood that a business locates within the zone by increasing the quantity or quality of commercial property. In these instances the investment did not necessarily "create" the jobs located at businesses within the property but could have increased the likelihood that a business located within the zone rather than a location outside the zone.

In both instances, however, the most important determinant of the credit's effectiveness is the extent to which the development or business expansion/establishment was due to the credit and would not have happened in the absence of the credit. If the activity would have occurred in the absence of the credit, which research has typically shown is a majority of activity, the impact is more muted and comprised of the economic impacts from increasing the cash flow of the business or property developer's return on investment, minus the offsetting cost of reducing State spending or increasing revenues to cover the net State cost of the credit.

Enterprise zones can have difficulties attracting businesses and residents due to poverty, unemployment, and other economic barriers present within the zone. Given the limited geography of zones, most of the indirect impacts of credits (additional construction spending and income) will not be recycled within the zone but will be realized in areas beyond the zone. Increased investment and business expansions and establishments may increase the assessable property tax base of the area, can revitalize areas which suffer from vacant buildings and a lack of property maintenance, and increase the attractiveness of the zone to businesses by increasing the supply or quality of office space. If investment is sufficient, it may re-invigorate the local property market and spur additional investment and businesses thereby increasing the attractiveness of the area. To date, the only clear evidence of this occurring is within the Silver Spring enterprise zone, which was part of a comprehensive effort by Montgomery County to revitalize that area.

Research indicates, however, that enterprise zone benefits may instead be capitalized into property values, therefore transferring resources from businesses to property owners. This shift in resources may reduce the amounts the businesses within zones would otherwise spend on capital assets or labor. A recent analysis of the Ohio Enterprise Zone program concluded that this impact was not likely in zones that were truly economically distressed but likely to occur in zones that were marginally distressed or not distressed at all. The analysis concluded that if an Enterprise Zone program expands, in particular to areas that are not truly distressed, it will dilute the effectiveness of incentives offered in areas that are actually distressed.

About 150 census tracts are located either fully or partially within the current Baltimore City enterprise zone. The Baltimore Develop Corporation and DBED calculate that the average poverty rate of all of these census tracts is higher than 125% of the U.S. family poverty rate, thereby qualifying the area for designation as an enterprise zone. However, there is considerable variation within the zone, about one-quarter of the census tracts do not meet any of the statutory requirements to be designated as an enterprise zone, and about 50 census tracts or one-third, do not qualify based on poverty rate. There is also significant variation in the amount of business activity within the zone.

A total of $12.4 million or three-quarters of the total property tax credits claimed within Baltimore City in fiscal 2014 were awarded to businesses located within six census tracts. Five of these zones do not have a poverty rate that would qualify the tract for the program, while the sixth census tract qualifies but is no longer part of the enterprise zone. In addition, these census tracts are higher-income communities, have increased employment, and lower incidence of public assistance. In contrast, there have been no property tax investments in more than one-half of the census tracts located within the zone, these census tracts are lower-income communities, as shown in **Exhibit 3.24**.

Exhibit 3.24
Baltimore City Property Tax Credits by Census Tract
Fiscal 2014

Area	Census Tracts	Credits ($ in Millions)	Unemployment Rate	Mean Income	SNAP	Labor Force Participation
Enterprise Zone:						
Top 6 Census Tracts	6	$12.8	5.7%	$50,702	8%	68.1%
No Projects	80	0	15.6%	38,399	22%	62.1%
Baltimore City	200	17.1	14.0%	41,085	20%	63.6%

Note: SNAP is receipt of Supplemental Nutrition Assistance Program.
Source: State Department of Assessments and Taxation; Department of Legislative Services

The federal New Markets Tax Credit is a similar tax credit program that aims to increase investment in lower-income communities. In contrast to the State Enterprise Zone program, the census tract in which a proposed project is located must meet program requirements, not just the entire zone spread out over many census tracts. The Baltimore City zone has expanded significantly within the last several years. As the zone has expanded it has increased the likelihood that the program focuses development within lesser distressed areas of the city at the expense of more distressed areas.

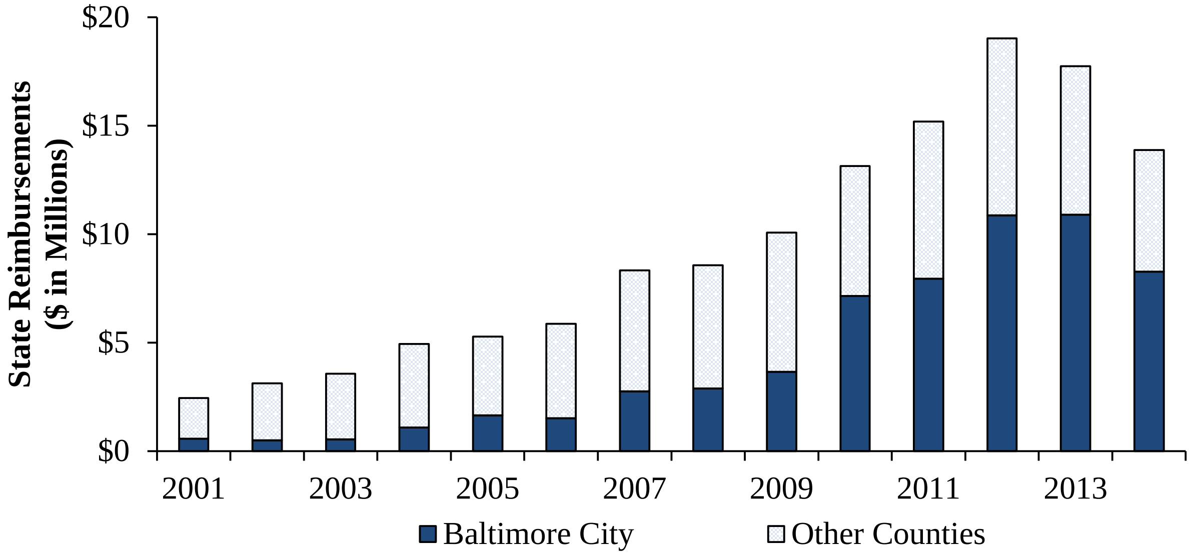
State and Local Revenue Impacts

State Reimbursements to Local Governments Have Increased Significantly Since Fiscal 2001, Although Reimbursements Have Decreased in the Last Two Fiscal Years

The State reimburses local governments for one-half of the cost of the Enterprise Zone property tax credit. The State budget includes this reimbursement as an appropriation within SDAT. From fiscal 2001 to 2014, State reimbursements to local governments totaled $131.2 million.

State Enterprise Zone credit reimbursements have significantly increased since fiscal 2001. State reimbursements increased from $2.5 million in fiscal 2001 to $13.9 million in fiscal 2014, an average annual increase of 14%. SDAT reimbursements to Baltimore City totaled $8.3 million or about 60% of the total amount reimbursed in fiscal 2014, as illustrated in **Exhibit 3.25**.

Exhibit 3.25
State Enterprise Zone Property Tax Reimbursements
Fiscal 2001-2014



Source: State Department of Assessments and Taxation; Department of Legislative Services

The increase in reimbursements to Baltimore City accounts for about two-thirds of the net increase in State reimbursements over this period. Baltimore City reimbursements spiked three times – tripling from fiscal 2003 to 2005 and doubling in both fiscal 2007 and 2010. The remaining net increase in State reimbursements resulted mainly from growth in Baltimore, Cecil, Harford, Montgomery, and Prince George's counties. Since 2001, reimbursements have increased by 23% annually in Baltimore City and 32% in both Montgomery County and Prince George's County.

The largest percentage increase in total reimbursements occurred in fiscal 2007 when State reimbursements increased by 42%; this growth was driven by a $1.2 million increase in reimbursements to Montgomery County. In contrast to this growth, reimbursements to Somerset County remained constant and decreased in Dorchester, Washington, and Worcester counties. **Exhibit 3.26** shows the State reimbursements and local property tax loss in each county for fiscal 2014.

Exhibit 3.26
State and Local Property Tax Credit Costs
Fiscal 2014

County	State Cost	Local Cost	Total
Allegany	$259,900	$259,900	$519,800
Anne Arundel	0	0	0
Baltimore City	8,276,500	8,276,500	16,553,000
Baltimore	662,500	662,500	1,325,000
Calvert	33,300	33,300	66,600
Caroline	0	0	0
Carroll	0	0	0
Cecil	761,300	761,300	1,522,600
Charles	0	0	0
Dorchester	15,300	15,300	30,600
Frederick	0	0	0
Garrett	137,700	137,700	275,400
Harford	1,540,900	1,540,900	3,081,800
Howard	0	0	0
Kent	0	0	0
Montgomery	493,700	493,700	987,400
Prince George's	1,006,300	1,006,300	2,012,600
Queen Anne's	0	0	0
St. Mary's	41,600	41,600	83,200
Somerset	10,100	10,100	20,200
Talbot	0	0	0
Washington	485,800	485,800	971,600
Wicomico	151,700	151,700	303,400
Worcester	1,000	1,000	2,000
Total	**$13,877,500**	**$13,877,500**	**$27,755,000**

Source: State Department of Assessments and Taxation; Department of Legislative Services

Despite the overall growth, State reimbursements have decreased by about one-quarter in the last two fiscal years. According to SDAT and DBED, the recent recession coupled with the phase in of lower property assessments has contributed to this decrease. Overall changes in the number of participating businesses appear to have a larger impact on reimbursements than changes in property tax values. A total of 352 businesses were eligible to receive a property tax credit in fiscal 2001; that number had tripled to 1,027 by fiscal 2012. Within the last two fiscal years the number of participating businesses fell by slightly less than total reimbursements (one-fifth).

Baltimore City Projects Receive Almost One-half of Overall State Tax Credit Reimbursements

The Baltimore City enterprise zone is the largest zone in the State, consisting of about 13,500 acres, and contains about one-half of the total population that lives within an enterprise zone community. From fiscal 2001 through 2014, State property tax credit reimbursements to Baltimore City totaled $60.3 million, which was a little less than one-half of the total reimbursements over this time. Baltimore City reimbursements over this period increased by 23% annually. About 266 properties and $1.1 billion in assessed property were eligible to receive a property tax credit during fiscal 2014.

About Two-thirds of the Fiscal 2014 Property Tax Credits for Baltimore City are from a Small Number of Projects

About 20 eligible properties in the city did not receive a credit because the current assessment does not exceed the base assessment. A little more than one-half of all city property credits were for less than $10,000; these properties comprised about 2% of the total credits. Conversely, credits to the 15 city properties that received the largest property tax credits totaled $11.1 million, about two-thirds of the total amount of credits. **Exhibit 3.27** shows the number of properties and credits by the amount of credit in fiscal 2014.

Exhibit 3.27
Baltimore City
Enterprise Zone Property Tax Credits
Fiscal 2014

Credit Amount	Number	% Total	Total	% Total
No Credit	20	7.5%	$0	0.0%
$10,000 or less	145	54.5%	350,900	2.1%
$10,000 to $50,000	61	22.9%	1,389,400	8.1%
$50,000 to $100,000	30	11.3%	1,969,000	11.5%
$100,000 to $500,000	22	8.3%	4,857,900	28.5%
$500,000 to $1.0 million	7	2.6%	5,502,900	32.2%
Over $1.0 million	1	0.4%	2,997,600	17.6%
Total	**266**		**$17,067,700**	

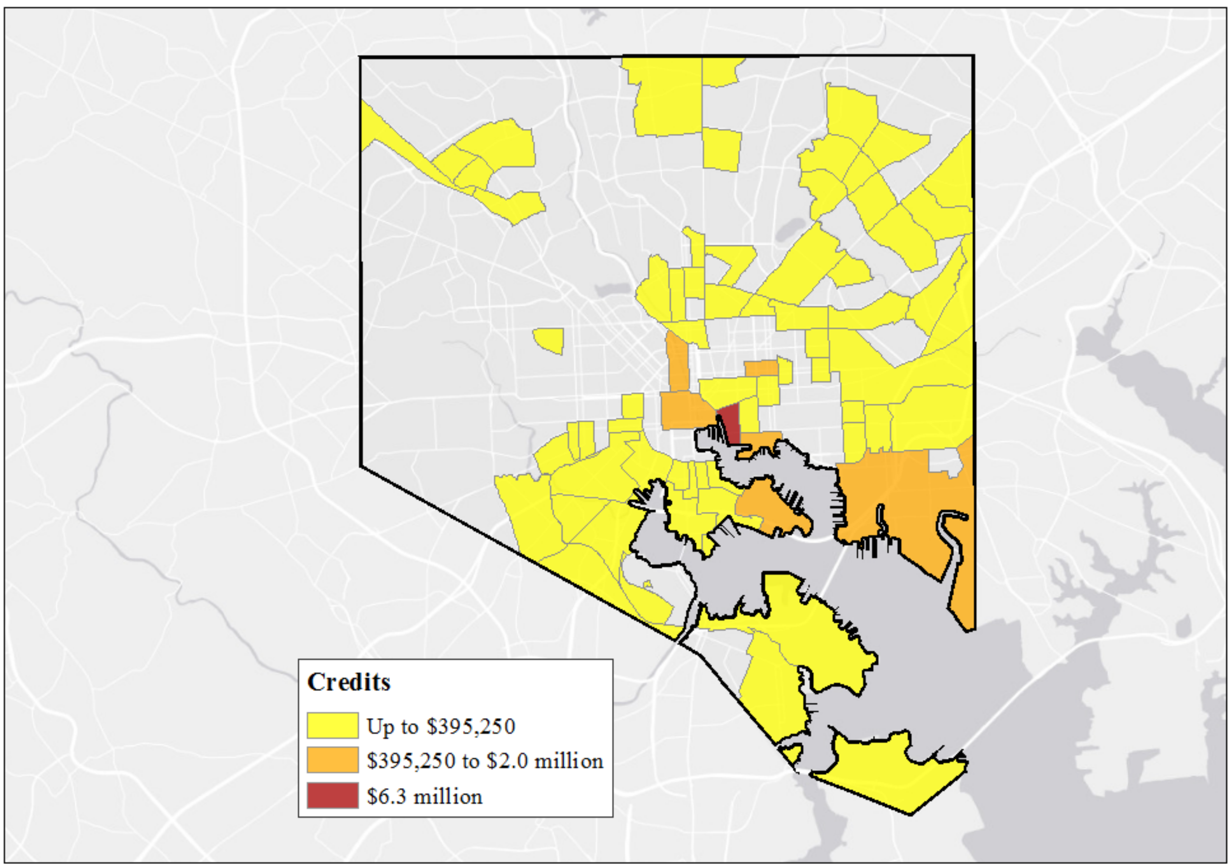
Note: Data is based on analysis of individual projects, the amount of credits shown here differ than that reported for Baltimore City by SDAT.

Source: State Department of Assessments and Taxation; Department of Legislative Services

Most Baltimore City Tax Credits Are For Inner Harbor Projects

Although the properties receiving Enterprise Zone property tax credits are dispersed throughout the city, most of the property tax credits are concentrated in the Inner Harbor area. The highest concentration of fiscal 2014 credits, about $6.3 million or a little more than one-third of the total fiscal 2014 credits, is for properties located in the area to the east of Harborplace or the central Inner Harbor. **Exhibit 3.28** shows the amount of fiscal 2014 property tax credits by Baltimore City census tract.

Exhibit 3.28
Enterprise Zone Property Tax Credit
By Baltimore City Census Tract
Fiscal 2014

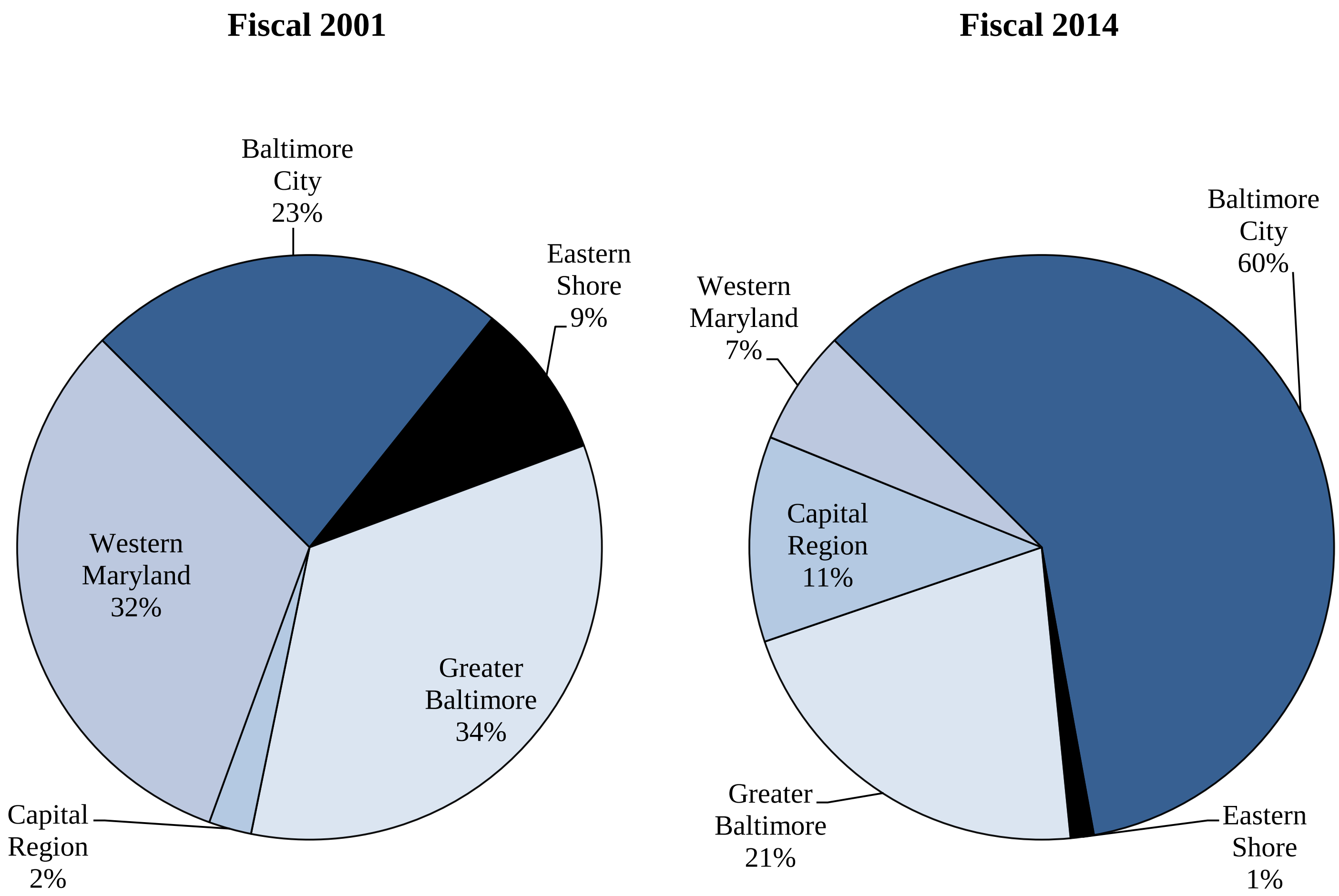


Source: U.S. Census Bureau; Department of Legislative Services

The Bulk of Property Tax Credits and Reimbursements Has Shifted to Enterprise Zones in Baltimore City and the Capital Region

Since fiscal 2001, Enterprise Zone property tax credits have reduced local property tax revenues by $131.2 million. Property tax credits in Western Maryland and the Eastern Shore comprised 40% of all reimbursements in fiscal 2001 but decreased to 9% of all reimbursements in fiscal 2014. Conversely, property tax credits increased in Baltimore City and the Capital region from one-quarter of all reimbursements in fiscal 2001 to almost three-quarters in fiscal 2014. Anne Arundel, Caroline, Carroll, Charles, Frederick, Howard, Kent, Queen Anne's, and Talbot counties have no enterprise zones so they did not incur any costs associated with the Enterprise Zone program. **Exhibit 3.29** illustrates the shift in the distribution of property tax credits since 2001.

Exhibit 3.29
Enterprise Zone Property Tax Credits by Region



Source: State Department of Assessment and Taxation; Department of Legislative Services

Baltimore City's Planned Harbor Point Development and Amazon.com Facility Could Significantly Increase State and City Property Tax Credit Costs

The Harbor Point development is an approximately 3-million square-foot master-planned mixed-use community being built on a 27-acre waterfront site in Baltimore City. Harbor Point will include retail and office space, a hotel, apartments, and a number of public infrastructure projects, including parks and community open space, a promenade, and roads and utilities to complement privately financed buildings and privately financed public parking.

The project will be built in three phases over approximately 12 years and consists of nine planned buildings and related public infrastructure. The project represents an investment of just over $1 billion in Baltimore City, consisting of $921 million of private development costs that will be supplemented by approximately $107 million of public infrastructure costs.

The project developer is eligible to take advantage of Enterprise Zone tax credits for each of the commercial buildings. The pre-development assessed value of the property is estimated at $10.8 million and Baltimore City is collecting pre-development property taxes of approximately $244,000 annually. At completion, the property is expected to be assessed at over $1.8 billion and Baltimore City anticipates collecting an average of $19.6 million in annual property taxes at full build-out.

The Enterprise Zone tax credits will be recognized over a 19-year period. If the project proceeds as planned, the last year of the Enterprise Zone tax credit will be the tax year starting July 1, 2032 (fiscal 2033). It is estimated that the project developer will be entitled to Enterprise Zone tax credits valued at $88.4 million over the life of the project. The State will reimburse Baltimore City 50% of the total amount of the credits for a total reimbursement of $44.2 million.

Amazon.com recently announced plans to open a 1 million square foot distribution center in Baltimore City. The company stated that it selected the site because of its proximity to a large customer base. According to published reports, DBED and BDC offered incentives totaling $43 million, including Enterprise Zone tax credits ($35.5 million), One Maryland credits ($5.5 million), Brownfield and Job Creation credits ($1.7 million), and a conditional loan of $1.25 million which will be forgiven if certain conditions are met.

Annual Income Tax Credit Claims Have Been Relatively Modest

Since tax year 2000, an average of $900,000 in Enterprise Zone income tax credits have been claimed. In tax year 2010 about 100 tax returns claimed $634,900 in income tax credits, as shown in **Exhibit 3.30**. By comparison, 850 properties claimed $30.4 million in property tax credits. In contrast to the rapid growth of the property tax credit, the total amount of income tax credits has grown by less than 1% annually. While income tax credits consisted of almost 20% of the enterprise zone total costs for the State in tax year 2000, income tax credits now make up only 4% of the enterprise zone total costs in tax year 2010. In fiscal 2011, businesses averaged $6,478 in Enterprise Zone income tax credits and $17,791 in Enterprise Zone property tax credits.

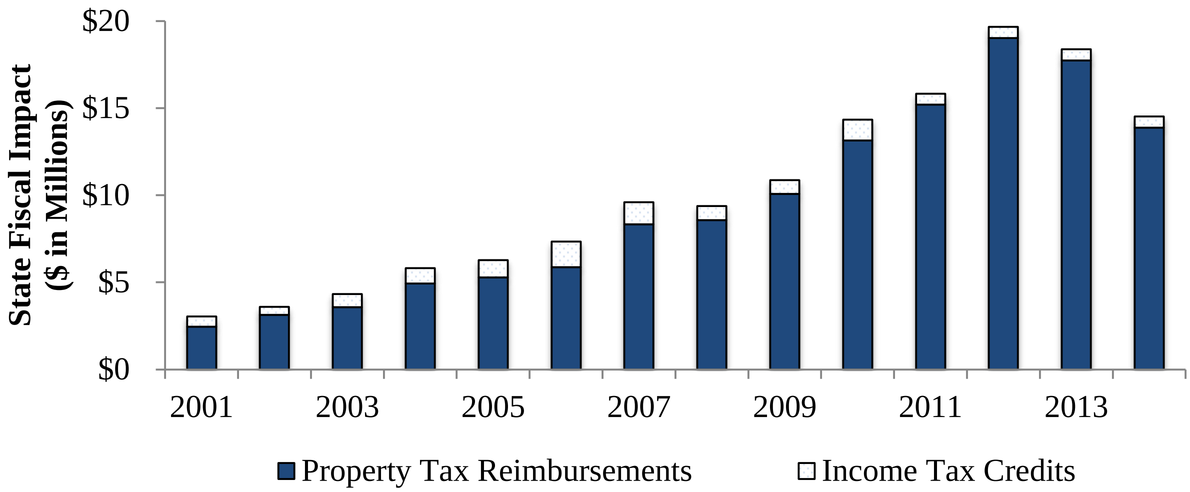
Exhibit 3.30
Enterprise Zone Income Tax Credits
Tax Years 2000-2010

Tax Year	Tax Returns	Credit	Average
2000	125	$587,356	$4,699
2001	83	463,483	5,584
2002	86	768,042	8,931
2003	110	881,044	8,009
2004	117	1,006,097	8,599
2005	111	1,464,866	13,197
2006	81	1,256,951	15,518
2007	101	809,834	8,018
2008	130	788,575	6,113
2009	93	1,197,890	12,881
2010	98	634,892	6,478

Source: Comptroller's Office; Department of Legislative Services

Exhibit 3.31 shows in each fiscal year the total State income tax credits claimed and State property tax reimbursements.

Exhibit 3.31
Total State Income Tax Credits and Property Tax Reimbursements
Fiscal 2001-2014



Note: Fiscal 2012-2014 assume a constant amount of income tax credit claims.
Source: State Department of Assessments and Taxation; Comptroller's Office; Department of Legislative Services

According to DBED and local governments, many businesses are eligible to claim the income tax credit but fail to do so because the credit value does not justify the perceived amount of time necessary to claim the credit. In addition, DBED indicates that businesses have indicated that the income tax credit that may be claimed for economically disadvantaged workers is also underutilized due to the perceived difficulty in receiving certification for those workers from DLLR. In order to claim the credit, the business must be aware that a potential hire is a member of an economically disadvantaged household. According to DBED, potential hires are hesitant to self-identify as economically disadvantaged during the interview process either due to a lack of knowledge about the program or the potential stigma of doing so.

Chapter 4. Findings and Recommendations

Based on the information and analysis provided in this report, the Department of Legislative Services (DLS) recommends that changes to the Enterprise Zone tax credit be made to improve the credit's effectiveness as discussed below.

Enterprise Zone Tax Credits Are Not Effective in Creating Employment Opportunities for Enterprise Zone Residents

While Enterprise Zone tax credits may incentivize some businesses to create additional jobs within enterprise zones, the tax credit is not effective in providing employment to zone residents that are chronically unemployed and/or live in poverty. A number of factors contribute to this problem, including skills mismatches for new jobs created, lower than average educational attainment levels of zone residents, and labor mobility. As such, improved educational opportunities and/or additional job training programs for residents may be more effective in enabling those residents to better compete for jobs created in enterprise zones.

In addition, annual claims for the Enterprise Zone income tax credit have been modest, particularly when compared to the property tax credit.   The Department of Business and Economic Development (DBED) indicates that this could be in part due to administrative burdens that contribute to low utilization rates of the enhanced income tax credit that can be claimed for hiring members of an economically disadvantaged household.

Recommendation: DBED and the Department of Labor, Licensing, and Regulation (DLLR) should propose statutory changes that will improve the likelihood that residents in enterprise zones and enterprise zone communities, particularly those that are in poverty and/or chronically unemployed, can gain employment within enterprise zones. DBED and DLLR should also propose methods by which other State and local programs that seek to improve job skills and educational attainment levels, such as job training programs, can be better coordinated with the Enterprise Zone tax credit.

Recommendation: DBED, in consultation with the Comptroller's Office, should propose statutory changes to the Enterprise Zone income tax credit that will help increase net employment, including reducing administrative burdens and a mechanism that incorporates job reductions at similar sites or other locations in the State.

In a Significant Number of Enterprise Zones, Few Businesses Are Claiming the Property Tax Credit

Of the 30 current enterprise zones, 13 zones have less than 10 businesses claiming Enterprise Zone property tax credits. Not only are these enterprise zones failing to attract many businesses, but a number of the businesses claiming the tax credit are not making significant investments in those zones. While the geographic size and location of the zones do not appear to explain the lack of activity in some zones, other reasons may contribute to the lack of activity. Possibilities for why zones have failed to attract businesses are poor marketing and targeting of zones, competition from other nearby zones, and that the credits are simply not enough of an incentive to overcome economic barriers. Each political subdivision is authorized to establish additional local standards to govern access to the program. Many local jurisdictions generally require a minimum capital investment or a minimum number of jobs created, or both. A few enterprise zones also have additional standards limiting the type or category of business entity that is eligible to participate.

Recommendation: DBED should comment on the potential reasons for the lack of activity in some enterprise zones, the variation in program effectiveness across zones, and the role of local standards in attracting businesses to enterprise zones, specifically as whether those local standards are beneficial or a detriment to encouraging businesses to locate in enterprise zones.

DBED and the Comptroller's Office Do Not Assess the Effectiveness of the Enterprise Zone Tax Credit

DBED and the Comptroller's Office are required by law to annually assess the effectiveness of tax credits provided to businesses in enterprise zones, including the number and amount of credits granted and the success of the tax credits in attracting and retaining businesses within enterprise zones. While DBED tracks the number and amount of credits granted annually, it does not have a framework or metrics in place for measuring the actual effectiveness of the credit. There is also a lack of accurate data on the change in employment and number of businesses within enterprise zones, which makes assessing the impacts of the credit very difficult.

Recommendation: DBED, in consultation with the Comptroller's Office and the State Department of Assessments and Taxation (SDAT), should adopt formal metrics and a framework for analyzing the cost-effectiveness of each enterprise zone and the effectiveness of each zone in attracting businesses and increasing employment. DBED should identify clear outcomes and determine quantifiable measures, which could include project evaluation, employment trends, impacts on poverty and population, private-sector investment in communities, and overall community revitalization.

In addition, DBED, in consultation with SDAT and local jurisdictions, should adopt procedures that will facilitate more accurate collection of enterprise zone data to enable evaluation of the program.

Enterprise Zone Expansions Have Become More Prevalent in Recent Years, Diluting the Impacts of Zones and Increasing State and Local Credit Costs

State reimbursements to local jurisdictions for 50% of Enterprise Zone tax credit costs are subject to an annual appropriation in the State budget. However, there is no limit on the maximum amount of reimbursements. State reimbursements have greatly increased in recent years, from $2.5 million in fiscal 2001 to $13.9 million in fiscal 2014, an average annual increase of 14%. There are few limitations on zone expansions and no specific criteria related to zone expansion requirements. In addition, a handful of enterprise zones are large enough to have one or more focus areas within the zone. State reimbursement costs may also increase significantly as credits are granted for new development projects, particularly for the Harbor Point and Amazon.com developments in Baltimore City.

Recommendation: DBED should propose statutory changes that will provide for evaluation criteria that must be considered before an enterprise zone may be expanded. These criteria could include restrictions on the size of any expansion, whether businesses have expressed interest in locating within the potential area of expansion, and whether basic infrastructure is in place in order to facilitate business development within the proposed expansion area.

Recommendation: DBED should comment on whether focus areas within enterprise zones have actually increased employment and economic development in those areas above and beyond what would have otherwise occurred within the zone with the general Enterprise Zone credit.

Recommendation: DBED should comment on whether a cap on the maximum amount of State reimbursements that may be granted each year should be imposed.

Some Baltimore City Enterprise Zone Property Tax Credits Have Been Erroneously Calculated

Recent press reports and a performance audit conducted by the Office of Legislative Audits determined that were errors in several property tax credit programs including the Enterprise Zone, Homestead, and Baltimore City Historic tax credits. The press reports also documented that $700,000 in improper Enterprise Zone property tax credits were granted to properties located in Baltimore City. Potential errors including granting the credit to ineligible properties, using the incorrect pre-improvement base year assessments, applying the incorrect credit percentage, and not using the correct assessment when the property owner successfully appealed for a lower assessment. For this report, DLS requested that SDAT provide Enterprise Zone property tax credit data – SDAT was only able to partially fulfill the request and only after a significant delay. This delay prevented DLS from fully analyzing the data and assessing whether tax credits have been accurately calculated.

Recommendation: DLS recommends that SDAT comment on:

- Whether SDAT, DBED, and local zone administrators' current tax credit calculation procedures are sufficient to properly (1) calculate the current credit assessment if a property owner successfully appeals an assessment; (2) value the pre-improvement base year property assessment of the property; (3) assign the correct percentage of the credit based on which year the property is claiming the credit; and (4) exclude the value of residential property from the credit.

- The lack of standardization of the administration of the credit across counties, including (1) the reasons for differences in SDAT procedures used in counties; (2) the sources of discrepancies between initial and final credit determinations; and (3) how tax credit calculations for properties will be handled going forward through a new assessment administration system, AVS.

In addition, the evaluation committee may wish to consider asking the Office of Legislative Audits to conduct a performance audit of the Enterprise Zone property tax credit program.

Collection of Enterprise Zone Property Tax Credit Data Is Not Standardized

SDAT provided DLS a summary report of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone. While the data contained in the summary report and computation worksheets should have been sufficient to evaluate the Enterprise Zone property tax credit, some of the data that SDAT provided DLS was incomplete and/or inaccurate.

There is a lack of standardization in the data that each county assessment office provides about properties claiming the Enterprise Zone property tax credit. Many counties do not provide information such as the prior credit year, the credit recipient's address, or other basic identifying information such as the zone in which the property is located. Data errors included incorrect base year assessments, using the wrong percentage of the eligible assessment to calculate the credit, and basic data entry errors. The methodology and processes used for reporting data is generally unsophisticated and often necessitates the manual entry of information. In addition, the summary reports of the individual enterprise zones and computation worksheets for companies claiming the credit in each zone did not match the aggregate data that SDAT provided. With such disparities in the data, it was impossible for DLS to determine if SDAT correctly calculated the State's reimbursement for half of the Enterprise Zone property tax credit.

Many of these issues will likely be resolved with SDAT implementing AVS. AVS will standardize the data so information, like a business's physical address, will be reported. Additionally, the system will automate the calculation of the credit so only the base year assessment will be entered manually, thereby reducing the chance of data entry errors. Through

AVS, a spreadsheet can be compiled using the summary report and the computation worksheets, thus eliminating disparities in the data.

Recommendation: Procedures should be adopted that provide for uniform Enterprise Zone tax credit data collection procedures in each county. Ideally, the data collected for each credit recipient would contain the following information for all years that the business is eligible to receive the credit:

- company name and employer identification number;
- address of the company and address of the enterprise zone property;
- type of company;
- county and enterprise zone;
- current assessment and base assessment of the property;
- assessment subject to the credit;
- year the property began receiving the credit; and
- the number of years it has been receiving the credit.

SDAT should also continue to work with local assessment offices to reduce the amount of data that is manually entered and improve its ability to provide data in an accurate and timely fashion through AVS. SDAT should comment as to whether additional resources would be required to implement these changes.

Appendix 1

Local Enterprise Zone Capital Investment And Job Creation Requirements

Enterprise Zone	Capital Investment Requirements	Job Creation Requirements
Baltimore City	• None	• None
North Point	• None	• None
Southwest Baltimore County	• None	• None
Woodlawn	• None	• None
Edgewood	• At least $50,000	• At least 5 jobs
Aberdeen/Havre de Grace	• At least $75,000 for a business with 10 or less employees • At least $125,000 for a business with 11 or more employees	• At least 2 jobs for a business with 10 or less employees • At least 5 jobs for a business with 11 or more employees
Long Branch/Takoma Park[1]	• The minimum qualifying capital investment is $10 per sq. ft. of building floor area improved • At least 20% of the total building floor area must be improved	• A business must show a net increase of at least 35 work hours per week for each employment tax credit • A business must show an increase in employees of 5% to a minimum of 1 employee
Wheaton[1]	• The minimum qualifying capital investment is $10 per sq. ft. of building floor area improved • At least 20% of the total building floor area must be improved	• A business must show a net increase of at least 35 work hours per week for each employment tax credit • A business must show an increase in employees of 5% to a minimum of 1 employee
Olde Towne[1]	• A minimum qualifying capital investment of $250,000 is required for new construction and additions	• None

Enterprise Zone	**Capital Investment Requirements**	**Job Creation Requirements**
	• Renovations with no expansion of floor area require a minimum qualifying capital investment of at least $10 per sq. ft., and at least 50% of the total building floor area must be improved	
Glenmont	• The minimum qualifying capital investment is $10 per sq. ft. of building floor area improved • At least 20% of the total building floor area must be improved	• A business must show a net increase of at least 35 work hours per week for each employment tax credit • A business must show an increase in employees of 5% to a minimum of 1 employee
Prince George’s County	• None	• None
Cecil County	• A business presently located and operating in Cecil County that relocates from outside the zone to within a zone may be eligible for incentives if the assessable value of the land and building located in the zone exceeds the assessed value of the land and building located outside the zone by 50% or more	• A business presently located and operating in Cecil County that relocates from outside the zone to within a zone may be eligible for incentives if total employment of the business increases by a minimum of 50% during a 12-month period
Cambridge	• New and existing companies in the Central Business District must either meet the job creation requirement or make a capital investment of at least $5,000 • New and existing companies within areas zoned as industrial must either meet the job creation	• New and existing companies in the Central Business District must either meet the capital investment requirement or create 1 new job above a base employment level • New and existing companies within areas zoned as industrial must either meet the capital

Enterprise Zone	Capital Investment Requirements	Job Creation Requirements
	requirement or make a capital investment of at least $50,000	investment requirement or create 5 new jobs above a base employment level
Hurlock	• None	• None
Crisfield	• None	• None
Princess Anne	• None	• None
Fruitland	• None	• None
Salisbury	• A business must invest at least $50,000	• A business must create at least 2 jobs
Berlin	• None	• None
Pocomoke City	• None	• None
Snow Hill	• None	• None
Gateway	• Existing businesses in the zone must make an unspecified investment or demonstrate the required job creation • A business existing in the zone, which has been previously certified, may make a capital investment of $200,000 and be exempt from all employment standards	• An existing business that does not make an capital investment must demonstrate a 5% increase in employment to a minimum of 1 new job above a base employment level within a reasonable time period as determined by the Enterprise Zone Advisory Committee • A business relocating in the zone must (1) demonstrate a 10% increase in employment over its previous high level for the preceding 5 years; (2) the increase in employment must have occurred within the first year of operation in the zone; and (3) the Enterprise Zone Advisory Committee must agree by majority opinion that it was impossible for the business to have expanded at its previous location • Businesses that are

Enterprise Zone	**Capital Investment Requirements**	**Job Creation Requirements**
		certified as eligible for Enterprise Zone program participation must be recertified annually. Businesses previously certified as eligible, who have been in the program for 10 years, will be given an adjusted employment base determined by the average number of employees that company had for years 6 through 10 of its original certification
Frostburg/Allegany County	• None	• None
Rt. 220 South/Allegany County	• None	• Existing businesses in the zone must demonstrate a 5% increase in employment to a minimum of 1 new job above a base employment level within a reasonable time period as determined by the Enterprise Zone Advisory Committee • A business relocating in the zone must (1) demonstrate a 10% increase in employment over its previous high level for the preceding 5 years; (2) the increase in employment must have occurred within the first year of operation in the zone; and (3) the Enterprise Zone Advisory Committee must agree by majority opinion that it was impossible for the business to have expanded at its previous location

Enterprise Zone	**Capital Investment Requirements**	**Job Creation Requirements**
Keyser's Ridge	• None	• None
Northern Garrett Industrial Park	• None	• None
Southern Garrett Industrial Park	• None	• None
Hagerstown	• In the Central Business District a minimum $5,000 capital investment is required • Outside the Central Business District a minimum $50,000 capital investment is required	• Job creation requirements are for the State Income Tax Credits • In the Central Business District a minimum of 1 new job must be created • Outside the Central Business District a minimum of 5 new jobs must be created
Town of Hancock	• In the Central Business District a minimum of $5,000 capital investment is required	• Job creation requirements are for the State Income Tax Credits • In the Central Business District a minimum of 1 new job must be created
Washington County Airport	• In the Central Business District a minimum of $5,000 capital investment is required	• Job creation requirements are for the State Income Tax Credits • In the Central Business District a minimum of 1 new job must be created

[1]Construction of new parking facilities, or improvements to existing parking facilities, are not eligible for tax credits.

Appendix 2
Local Enterprise Zone Industry Requirements

Industry	**Enterprise Zone**								
	Woodlawn	**Edgewood**	**Aberdeen/ Havre de Grace**	**Cambridge**	**Gateway EZ**	**Rt. 220 South**	**Hagerstown**	**Hancock**	**Washington County Airport**
Manufacturing	✓	✓	✓	✓	✓				
Fabrication	✓	✓	✓						
Assembly	✓	✓	✓						
Warehousing	✓	✓	✓	✓	✓	✓	✓	✓	✓
Distribution	✓	✓	✓		✓				
Offices	✓	✓	✓	✓	✓	✓	✓	✓	✓
Research and Development	✓	✓	✓	✓	✓	✓	✓	✓	✓
Community Facilities	✓				✓	✓			
Retail		✓	✓	✓	✓		✓	✓	✓
Services		✓	✓	✓	✓		✓	✓	✓
Tourism Activities			✓	✓	✓	✓			
Hospitality Services			✓						
Professional or Personal Commercial Services			✓	✓		✓			
Residential Services					✓				

Appendix 3. Studies of Enterprise Zone Programs

The concept of enterprise zones began in 1978 in Great Britain as a means to encourage local economic development in distressed communities. The Enterprise Zone program was established in Maryland in 1982 with two enterprise zones in two jurisdictions as an economic development tool to stimulate business investment and job creation through the use of real property and employment tax credits. It has since grown to include 30 enterprise zones throughout the State.

The federal government passed the Empowerment Zone and Enterprise Community Act in 1993. By 1995 over half of the states had Enterprise Zone programs, and as of 2008, 43 states had programs. While most states have Enterprise Zone programs, the programs differ vastly. The prevalence of enterprise zones varies from only 1 zone in New Mexico to more than 1,700 zones in Louisiana. Goals of the program vary from curbing population flight in Michigan's inner city neighborhoods to improving community infrastructure in New Jersey. Additionally, the programs have different requirements and incentives.

This section provides an overview of various academic studies that have attempted to determine whether enterprise zones have been effective in achieving their objectives of promoting business development and job creation in economically distressed areas.

Challenges of Evaluating Enterprise Zones

Despite the increased popularity of enterprise zones over the last 30 years, academic studies have not provided definitive evidence that enterprise zones have achieved their goals. Much of the variation in enterprise zone studies stems from the challenges of evaluating the effectiveness of enterprise zones. Neumark and Kolko (2010) summarize those challenges as (1) precisely identifying the targeted areas; (2) selecting appropriate control groups; (3) differentiating the effects of enterprise zone policies from other policies; and (4) measuring outcomes in line with program goals. Additionally, variations in program characteristics make it difficult to come to broad generalizations of the effectiveness of Enterprise Zone programs.

Most enterprise zones do not perfectly coincide with zip codes or census tracts. Thus studies that use zip codes or census tracts likely have measurement errors because they incorrectly assign areas as inside or outside of enterprise zones. This measurement error leads toward a bias of finding enterprise zones ineffective. Bondonio and Greenbaum investigated state-specific policy features across 10 states and the District of Columbia by assigning a zip code as an enterprise zone if any portion of an enterprise zone was within the zip code. Bondonio and Greenbaum admit this method is not ideal since it might lead to underestimating the enterprise zones' levels of distress, and they found enterprise zones did not have a statistically significant net impact on economic growth outcomes. O'Keefe examined the impact of California's Enterprise Zone program on employment growth at the census tract level by comparing census tracts that received the enterprise zone designation to similar census tracts that did not receive the designation. She found that the enterprise zone designation raises employment growth approximately 3% each year for the first six years after designation, but then the effect disappears in later years. The bias that stems from measurement error is mitigated by employing geographic mapping methods, which constructs precise boundaries of enterprise zones using GIS maps.

Another issue that researchers face is selecting appropriate control groups for comparison. Comparing an enterprise zone to a control group is a way to estimate how much economic growth would have occurred without the program. The ideal control group would be identical to the enterprise zone except that it is not designated as an enterprise zone. Some studies use broad control groups such as all areas within a state that are not in an enterprise zone. Peters and Fisher looked at 13 states as a whole and compared them to the enterprise zones within those states and found that enterprise zone incentives had no significant impact on local establishment growth. Another approach is to select control groups based on characteristics of the enterprise zones or proximity to the enterprise zones. However, propensity score matching, which bases control groups on characteristics, fails to account for unobservable differences, which could cause an enterprise zone to be predisposed to grow faster than areas not in the enterprise zone. O'Keefe uses a propensity score matching model to match enterprise zone census tracts to nonenterprise zone census tracts and finds no long-term effect on employment growth. Boarnet and Bogart concluded that the Enterprise Zone program in New Jersey had no significant impact on employment or property values by comparing enterprise zones to municipalities that qualified but were not designated as enterprise zones. Some studies compare enterprise zones to areas right outside of the enterprise zone in a methodology known as the border effect. The border effects methodology assumes that unobservable characteristics are unlikely to differ between businesses in a small geographical area.

Areas within enterprise zones usually qualify for other geographically targeted policies, so it is hard to distinguish the effects of the Enterprise Zone program from other programs. In Maryland, a business can qualify for the Enterprise Zone income tax credit and various other State tax credits, along with the federal Work Opportunity Tax Credit (WOTC) and the federal Empowerment Zone Tax Credit. Approximately 5% of enterprise zones are also federal empowerment zones or federal enterprise communities, and approximately 10% of federal empowerment zones and 20% of federal enterprise communities are also state enterprise zones. Ham, *et al.*, measures the impact of state enterprise zones, federal empowerment zones, and federal enterprise community programs using census tract data. The authors found that all three programs have a positive impact on local labor markets but that federal empowerment zones and federal enterprise community programs have a much greater effect than state enterprise zones in terms of the unemployment rate, poverty rate, wage and salary income, and employment.

The challenges of evaluating enterprise zones have led researchers to approach the methodology of enterprise zones differently. One must account for all of the other factors that affect local growth before the impact of enterprise zones alone can be measured, so researchers have gone about this in different ways. There are three basic methodologies for evaluating enterprise zones, which are through surveys, case-study analysis, and regression analysis. Survey studies are biased toward showing larger increases in employment or income because they rely on representations made by businesses and other respondents who tend to benefit from the existence of enterprise zones. Also, response rates for surveys tend to be low and those directly involved in the issues may not be the ones completing the surveys. A case-study approach compares economic growth levels before and after the implementation of an Enterprise Zone program, but this approach fails to consider other factors that may have caused growth. Shift-share analysis, a more sophisticated case-study method, tries to isolate job growth within the enterprise zone from job growth related to a larger geographic region. While this method is preferable over the survey method, it still fails to control for all other factors that could account for growth in the enterprise zone, it can only compare two time periods, and it assumes that growth within the enterprise zone is proportionate to growth within the larger geographic region. Regression analysis avoids the limitations of surveys and shift-share analysis by statistically measuring the extent to which various factors impact the desired variable. A difference-in-difference methodology compares an enterprise zone to a nonenterprise zone over time, but it assumes that unobservable factors do not vary over time. This methodology assumes that enterprise zones do not have fundamentally different growth trends.

Given all of the challenges of evaluating enterprise zones, it is not surprising that researchers have not been able to agree on the effectiveness of enterprise zones in spurring economic growth. Up to the 1990s, most academics thought economic development incentives had only a marginal impact on business location decisions, and thus on the creation of new investment and jobs. However, in the 1990s opinion changed to thinking lower taxes or more incentives would cause greater economic growth. The consensus changed due to improvements in econometric modeling and increased tax and incentive differentials across states and cities. More recent studies have found ambiguous effects of enterprise zones on economic growth.

Economic Theory Behind Enterprise Zone Programs

An Enterprise Zone program is a tool that many state governments use to encourage economic development in designated locations, which are often economically distressed areas. An Enterprise Zone program tends to be different from other economic development programs in that the program is geographically targeted for investment in economically depressed areas. Supporters of Enterprise Zone programs believe enterprise zones are needed to overcome economic barriers of businesses, the decentralization of cities, and poor labor markets.

Economically distressed areas typically experience high economic costs to do business, such as poor access to transportation, labor, and capital. These areas may also have high crime and environmental compliance issues. Thus, compared to the rest of the state, economically distressed areas tend to have higher levels of unemployment, lower incomes, less jobs or well-paying jobs, and more unused land or blighted structures. These economic barriers, which include transportation problems, lack of financial capital, few skilled workers, high crime rates, and land requiring environmental cleanup expenses, presumably raise the cost of doing business and impede economic activity in the area. Economic principles suggest that lower taxes and less regulation can increase jobs and incomes by reducing the cost of doing business. By reducing economic burdens, the government attracts capital, labor, and economic activity in those targeted areas. Greenstone and Looney claim, "attracting new businesses to distressed areas would provide new jobs, raise wages, and provide local services."

Besides overcoming economic barriers, another economic argument for Enterprise Zone programs is the spatial mismatch hypothesis. The spatial mismatch hypothesis claims that businesses have been moving from the cities to the suburbs as a result of various developments, like trucks and the interstate highway system. This decentralization led to inner cities losing employment opportunities and the middle class moving out of the city. Public transit was built, but on the basis of moving workers downtown, not to low-density suburban work sites. High costs and racial discrimination in the suburban housing market have prevented the economically disadvantaged inner-city residents from moving easily to the suburbs. Consequentially, there is a concentrated population of economically disadvantaged people in the inner cities who find working in the suburbs difficult. Enterprise Zone programs are used as a way to bring jobs to those in the inner cities who are unable to commute.

Lastly, Enterprise Zone programs can shift employment from tight labor markets to labor surplus markets (high unemployment areas), thus raising overall employment. A decrease in the unemployment rate from 15% to 14% may have a larger positive impact on a community than a decrease in the unemployment rate from 5% to 4%. Additionally, it can offset program costs from increases in workers' tax liability and a decrease in transfer payments to those on welfare. Employment demand shocks, like those created by Enterprise Zone programs, have positive long-term employment, labor force participation, and income effects.

Enterprise zone theory assumes that state officials can identify Enterprise Zone tax incentives that can overcome economic barriers and that conditions in the enterprise zone will allow for businesses to be profitable in the long run. Tax incentives should be set so that an enterprise zone can offer equal or higher returns to businesses than in other areas. Some businesses may require additional incentives to compensate for the political risk of legislative changes or repealing the enterprise zone. The tax incentives need to be large enough to entice businesses to invest in the enterprise zone, but not too large so that the program merely raises the public cost without adding benefits. It is possible that tax incentives at the cost of local public services may reduce, rather than increase economic activity. Ideally, the Enterprise Zone's tax incentives would be set so that the marginal social benefits caused by the Enterprise Zone program would equal the marginal social costs of the program. However, valuing the social costs and benefits is a difficult task because it involves assigning a monetary value to nonmonetary items, such as crime, blight, and other social issues.

Additionally, enterprise zone theory assumes that the enterprise zones increase overall growth, and it is not merely speeding up when the growth occurs or shifting the growth from a nearby location. Enterprise Zone programs should not merely induce an investor to locate in the enterprise zone instead of right outside of the enterprise zone, but rather the enterprise zones should bring new businesses to the region. The program should also bring sustained growth, so that a business does not end operations when the tax incentives expire.

Do Enterprise Zone Incentives Factor into Business Location Decisions?

Researchers have argued that enterprise zones are ineffective at influencing business location choices. Most experts agree that businesses tend to be reluctant to move long distances in response to state and local tax breaks. However, some believe that enterprise zones can play a role on location choices on the local level.

State and local business taxes do not account for a large share of a business's activity so taxes should not be a big influencing factor on location decisions. State and local business taxes make up only 4% of Maryland's private-sector gross State product in 2012 so taxes are only a small share of a business's activity. Other considerations play a larger role in determining where a business will locate, such as being strategically located near suppliers and customers. In reviewing enterprise zone studies, Wilder and Rubin stated, "traditionally recognized location factors such as proximity to markets and transportation access were consistently acknowledged as more critical than development incentives in site selections." The U.S. Government Accountability Office's (GAO) 1988 study concurred with this assessment by surveying select Maryland employers on location decision factors. GAO determined financial incentives were relatively unimportant factors while market access was of great or very great importance to most respondents. Community and site characteristics also ranked high in importance on location decision factors. Only 14% of respondents cited financial inducements of great or very great importance to their location decision, while 60% of respondents rated financial inducements of little or no importance. This is consistent with survey findings of other states. Lister found 55% of firms surveyed in California ranked enterprise zone designation of little or no importance to their location decision.

Tax differences become more important in determining location when other factors, such as wage rates, and access to markets and inputs are similar across localities, as they are likely to be within a metropolitan area. By reviewing literature on enterprise zones, Wilder and Rubin claim enterprise zones incentives became important when the more central factors for competing locations were equal.

However, Billings finds that enterprise zones have no effect on where new establishments locate in Colorado by comparing mean values of the number of new establishments and the number of establishments lost in an enterprise zone to a nonenterprise zone border area. He bases his analysis on the assumption that location characteristics drive a business's location decision, but for establishments located in an enterprise zone border neighborhood, enterprise zones may impact a business's location decision. While Billings found no significant impact on location decisions of new establishments overall, he found significant positive impacts for manufacturing and retail establishments. Conversely, he found negative results for mining and construction, which he speculates is from tax credits being capitalized in land rents, which negates the benefit of the tax credits. Additionally, there may be a lack of acceptable locations on both sides of the enterprise zone border since mining and construction have specific site requirements.

Enterprise Zones and Job Creation

An important goal of Maryland's enterprise zones, like most enterprise zones, is to create and retain jobs. However, academics have criticized an enterprise zone's ability to create jobs and many studies of Enterprise Zone programs have not found employment effects of enterprise zones. Some researchers assert that Enterprise Zone programs are a zero-sum game where instead of generating new investments, it merely moves investments to different locations. New investment and job creation within enterprise zones come at the expense of other urban areas. This spatial equilibrium theory suggests mobile workers and firms will arbitrage the benefits associated with Enterprise Zone programs by relocating into the enterprise zones. This will in turn increase land prices and offset any welfare gains to the original enterprise zone residents. Other critics claim the program has a negative net impact on the national economy because it induces businesses to make inefficient location decisions, while others argue the program is ineffective because the incentives are too small to sway investment decisions.

GAO used interrupted time series analyses of employment levels of enterprise zone participants in Hagerstown, Cumberland, and Salisbury, along with data from select employers, and determined that while there was employment growth in the enterprise zones between 1980 and 1987, it could not be linked to the Enterprise Zone program. When GAO interviewed participants who experienced employment growth, the majority of them said it was due to increased demand, not the enterprise zone incentives.

Boarnet and Bogart concluded that New Jersey's Enterprise Zone program had no significant impact on employment by using econometric analysis. Bondonio and Engberg and Greenbaum and Engberg did not find that employment growth in enterprise zones was significantly greater than in comparable nonenterprise zone areas. Using establishment-level data and geographic mapping methods, Neumark and Kolko find that enterprise zones do not increase employment in California.

Bondonio and Greenbaum investigate state-specific policy features across 10 states and the District of Columbia by looking at employment; sales (shipments); capital expenditures; and payroll per employee growth outcomes for new, existing, and vanishing establishments using establishment-level data. They found positive enterprise zone-induced increases in employment, sales, and capital expenditures in new and existing establishments, but they were offset by enterprise zone-induced losses among firms that close or leave the enterprise zone areas. Bondonio and Greenbaum speculate that new economic activity is more visible than retention of existing economic activity so political pressure puts more emphasis on attracting new jobs at the expense of existing establishments, which must compete in the same markets without any subsidies. Their findings support the theory that enterprise zones are a zero-sum game.

Additionally, Peters and Fisher found no evidence that enterprise zones created economic growth by examining births, moves-in, deaths, and expansions of businesses. They suggest tax incentives are not enough to overcome the economic barriers in the area, such as high crime, poor infrastructure, and lack of skilled workers.

There are several reasons why enterprise zones would not create jobs. For states that offer an incentive for hiring disadvantaged workers, like California, one might expect to see higher-skilled labor being substituted for low-skilled labor. However, since Neumark and Kolko found no evidence of a shift toward low-wage industries in California, they dismiss this theory.

An economic theory suggests geographically targeted economic development policies, like the Enterprise Zone program, are ineffective because the benefits of the enterprise zone are capitalized into higher property values. The capitalization theory rationalizes that property values increase within jurisdictions that have expectations of lower property taxes. However, if land values rise, employers will substitute toward labor, especially since the employment credits make labor cheaper. Lack of a significant effect on employment from Enterprise Zone programs may suggest enterprise zone benefits targeting property could lead to businesses substituting away from labor and toward property inputs. Lynch and Zax's believe that this is happening in Colorado's urban enterprise zones because the investment tax credit for machinery and equipment accounts for approximately 70% of total subsidies claimed by enterprise zone participants in Colorado. Lynch and Zax found that urban enterprise zones had no positive effects on employment while rural enterprise zones had a small positive employment effect. They believe there is a positive effect on employment in rural enterprise zones because capital is a less suitable substitution for labor in agricultural processing. Neumark and Kolko do not believe this substitution away from labor is what is happening in California since California's hiring credits are generous and are the largest of the enterprise zone tax incentives in California. Peters and Fisher found the maximum price reduction of labor never exceeded 3% when they examined 16 sectors in 13 states, so it is likely that most states have a capital bias that will lead firms to more capital-intensive methods of production over labor. In Maryland, property tax credits are much larger than employment tax credits, so it is likely that Maryland behaves similarly to Colorado by favoring capital over labor in urban enterprise zones.

Enterprise zones may have positive spillover effects, in which areas just outside of the enterprise zone boundaries experience employment growth due to increased retail traffic, increased income of local residents, and improvements in infrastructure. Thus, it is not surprising that studies that compare enterprise zones to neighboring areas might find no effect of enterprise zones on employment. However, Neumark and Kolko did not find any positive spillover effects of employment growth just outside of enterprise zone boundaries.

Enterprise zone incentives may not be large enough to affect behavior. Peters and Fisher found the effects of labor incentives on the price of labor to be small. The maximum price reduction never exceeded 3% when Peters and Fisher examined 16 sectors in 13 states, so one would not expect a firm to hire more workers because labor became 3% cheaper. However, Peters and Fisher caution against increasing the incentives. Assuming the elasticity of economic activity with respect to taxes is less than one, enterprise zones will generate fiscal losses, so the larger the incentives, the larger the fiscal losses will become. Bondonio and Engberg agree with Peters and Fisher's warnings since they found that the success of Enterprise Zone programs is not dependent on the monetary amount of the enterprise zone incentives. If that is the case, the enterprise zone's costs are not justified.

Although most studies have found that enterprise zones do not create jobs, some studies have found that enterprise zones do positively affect employment, or at least in the short term. O'Keefe found the enterprise zone designation in California raises employment growth in enterprise zones approximately 3% each year for the first six years after designation, but then the effect disappears in later years. O'Keefe suggests the employment growth disappears in later years due to businesses seizing the most attractive vacant properties in the early years, so that in later years there are fewer opportunities for businesses, and the time horizon left for receiving enterprise zone benefits shrinks as years pass, making it less profitable for a business to begin or expand in later years. Additionally, O'Keefe found that enterprise zone status does not significantly affect earnings or number of firms in the first six years, but it has a significant negative effect on number of firms after seven years.

Billings examined Enterprise Zones credits in Colorado by using establishment-level data and a border effects methodology. He found the credit increased the number of employees hired by between 1.5 and 1.8 more employees for new establishments and 0.0 to 0.3 more employees for existing establishments located within an enterprise zone. Given that existing establishments in Colorado must increase employment by at least 10% or investment by at least $1 million, it is not surprising that existing establishments have a smaller impact on employment than new establishments.

Papke found that Indiana enterprise zones reduced unemployment claims by about 19% in cities that had enterprise zones. Indiana's Enterprise Zone program, which includes an incentive for stock of inventory, differs greatly from other states, so Papke's conflicting results could merely reflect differences in programs.

Using a two-way fixed effects model and census data, Moore finds some firms (finance, insurance, and real estate, along with wholesale and retail) have produced some positive employment effects for enterprise zones. Couch *et al.*, find a positive effect from qualifying as an enterprise zone in Mississippi on a county's rate of job creation using ordinary least squares and data from the Mississippi Statistical Abstract.

Bartik examined how taxes affect business activity and concluded that if a small suburban jurisdiction within a metropolitan area raised its taxes 10%, there would be a 10% to 30% reduction in its business activity in the long run. However, if an entire state or metropolitan area raised taxes by 10%, it would only see between a 1% and 6% reduction of business activity.

Bartik's findings suggest that if taxes decreased through the Enterprise Zone program, business activity would increase.

Busso, Gregory, and Kline found that the federal Urban Empowerment Zone program increased employment in zone neighborhoods by 12% to 21% compared to equivalent neighborhoods in rejected and future empowerment zones. Busso, Gregory, and Kline disagree by finding that the federal urban empowerment zone program increased employment in zone neighborhoods and raised wages for local workers, but it did not significantly increase population or the local cost of living. They used rejected and future applicants to the empowerment zone program as controls.

Negative spillover effects may cause Enterprise Zone programs to look successful. Enterprise zones may steal jobs and businesses away from neighboring areas causing a negative spillover effect. However, Neumark and Kolko did not find any negative spillover effects of employment growth just outside of enterprise zone boundaries in California. Maryland tries to prevent negative spillover effects from happening by stipulating the credits are only for new hires or those that move businesses from outside of the State to a Maryland enterprise zone.

Impact of Enterprise Zones on Enterprise Zone Residents and Economically Disadvantaged Workers

Many enterprise programs have goals of improving the employment opportunities for people living in the enterprise zones since people, especially those with less skills, do not readily move to find work (Bartik, 1991). However, the vast majority of workers in enterprise zones do not live in an enterprise zone and those who lived in enterprise zones do not work in the enterprise zones. Thus, it is not surprising that many academic studies have found enterprise zone residents are not directly benefiting from Enterprise Zone programs.

Elvery expected that if any Enterprise Zone program would have a positive impact on resident employment, it would be in California and Florida because they provided large incentives for hiring enterprise zone residents and people with a history of unemployment. By examining California and Florida Enterprise Zone programs, Elvery finds that the programs had no significant effects on the employment of enterprise zone residents. Additionally, Elvery did not find support for the belief that enterprise zones create negative spillovers for residents of nearby areas. Reasons for enterprise zones to be ineffective in improving employment for enterprise zone residents or disadvantaged workers include: (1) enterprise zone residents do not possess the skills required by businesses that are attracted by the Enterprise Zone program; (2) the Enterprise Zone program causes businesses to substitute labor for capital; (3) capital-intensive establishments do not value labor incentives; and (4) enterprise zones incentives are poorly targeted or insufficiently large to induce businesses to increase enterprise zone resident employment.

The enterprise zone studies that Wilder and Rubin reviewed averaged about 20% to 30% of new jobs going to enterprise zone residents while nonzone residents received many of the new jobs created by enterprise zones. They noted many state Enterprise Zone programs provide such modest tax credits for employing enterprise zone residents or disadvantaged persons that businesses view them as "not worth the trouble." DBED officials believe businesses in the State share this viewpoint because it takes a lot of effort to claim the Enterprise Zone employment tax credits in Maryland.

Using establishment-level data and geographic mapping methods, Neumark and Kolko find that enterprise zones do not increase employment or shift employment toward targeted low-wage workers in the enterprise zone in California.

Bondonio and Greenbaum stated enterprise zones reduce the payroll per employee because jobs created by new establishments in enterprise zones are likely low-paying and low-skill jobs. So even if an enterprise zone resident or disadvantaged worker is hired, he or she will be paid low wages. This is consistent with Lynch and Zax's findings that enterprise zones have no effect on payroll per worker.

Lynch finds that urban zones increase the unemployment rate of zone residents while reducing per capita income in urban and rural zones. This finding suggests enterprise zone incentives led businesses to the substitution of capital for labor. Additionally, the study finds the enterprise zones have no significant effect on poverty rates.

While most studies have found that enterprise zone residents do not benefit from enterprise zones, a few studies have contradicted these results. Papke found that Indiana enterprise zones increased employment for enterprise zone residents by about 1.5 percentage points. However, by utilizing unemployment claims, Papke does not include those who are unemployed but are not claiming unemployment benefits, so the impact may be overstated.

Busso, Gregory, and Kline found that the largest employment increases in the federal Urban Empowerment Zone were from zone residents. Additionally, they found that the federal urban empowerment zone program raised weekly wages for zone residents working inside the zone by approximately 8% to 13% compared to workers in equivalent neighborhoods in rejected and future zones, but when examining overall wage effects for zone workers as a whole, there was no significant wage effect. The Empowerment Zone tax credit program creates an incentive to hire zone residents over commuters with all else being equal, so zone firms are likely to pay different wages to residents and commuters. For enterprise zones that do not link employment tax credits to an employee's residence, there is no cost differential for employers to hire enterprise zone residents or nonresidents so higher wages for enterprise zone residents is unlikely. Maryland does not link employment tax credits to an employee's residence.

Ham *et al.*, measure the impact of State enterprise zones, federal empowerment zones, and federal enterprise community programs through a double difference estimation approach using census tract data. The authors found that all three programs have a positive impact on local labor markets, but that federal empowerment zones and federal enterprise community programs have a much greater effect than state enterprise zones.

Types of Firms Utilizing Incentives

Previous studies on Enterprise Zone programs have found that larger firms utilize enterprise zone incentives more than small businesses. Wilder and Rubin found larger firms with over 50 employees favored incentives more, since they tend to have more capital assets and want to take advantage of inventory-related and capital investment credits. O'Keefe suggests enterprise zones attract larger firms than nonenterprise zones since she found overall employment grew more quickly in enterprise zones. Busso, Gregory, and Kline found that employment increased for establishments that were already large when studying the federal urban empowerment zone, which is consistent with prior findings that large firms are more likely to use tax credits.

GAO found that large urban businesses and rural businesses were more likely than small urban businesses to use federal empowerment zone tax incentives. Nonrefundable tax credits are only useful for businesses that generate profits. Generally small businesses have limited tax liability during the first few years of operation. Another reason why businesses do not claim the federal empowerment zone credits is that businesses are not aware of the credit. Small family-run businesses are less likely to be aware of the empowerment zone program than large establishments (Busso, Gregory, and Kline). Additionally, larger firms have the economies of scale advantage when it comes to the process of claiming the credit. Neumark and Kolko state, "smaller businesses find it less worthwhile than larger businesses do to claim enterprise zone benefits because of the administrative burden."

By reviewing enterprise zone studies, Wilder and Rubin concluded new employment created through enterprise zones was heavily concentrated in manufacturing and wholesale/retail trade, and most new jobs are within firms with fewer than 50 employees. However, Neumark and Kolko found that the enterprise zone incentives favor the creation of jobs outside the manufacturing sector instead of within it in California. Economic developers use additional incentives to lure manufacturing firms so enterprise zone incentives are small comparatively to other economic development tools. Additionally, manufacturing firms that Neumark and Kolko studied may have shifted from labor to capital as a result of the manufacturing firms valuing enterprise zone benefits focused on property and machinery more than those focused on labor.

Existing firms and/or new business start-ups generated most new jobs, while relocating firms and new branch expansions of outside firms made up only a small proportion of new jobs. Wilder and Rubin summarized that existing firms were more likely to utilize enterprise zone incentives than new firms by expanding facilities through tax breaks.

Impact on Property Values

Critics of Enterprise Zone programs suggest geographically targeted economic development policies are ineffective because the benefits of the enterprise zone are capitalized into higher property values. The capitalization theory rationalizes that property values increase within jurisdictions that have expectations of lower property taxes. Offering enterprise zone incentives increases demand for enterprise zone property, which is immobile. Since the supply of enterprise zone sites is fixed, researchers expect enterprise zones to raise property values in the enterprise zone. However, when Boarnet and Bogart studied the Urban Enterprise Zone program in New Jersey, they found that the enterprise zones did not increase property values.

Using a hedonic price model and parcel-level property sales data from Cleveland, Ohio, Landers concludes that having an enterprise zone status may have a positive impact on enterprise zone property values in some instances, but the potential price effects diminish as enterprise zones are designated in other nearby locations. Additionally, Landers notes in depressed areas, there is an overabundance of idle resources. Thus, the supply of commercial and industrial property is elastic while the demand for business sites is inelastic. As a result, Landers found some evidence that suggests enterprise zone premiums are not present in economically distressed areas, but may be present in nondistressed areas. Longo and Alberini found that the Maryland Enterprise Zone program increased property values of contaminated industrial sites in Baltimore by 25%, but there was a negative significant effect on property values of commercial properties.

It is unlikely that capitalization is occurring in Maryland's Enterprise Zone program. Since enterprise zones expire within 10 years (unless they are renewed), the expectations of lower property taxes becomes unstable, thus diminishing the likelihood of enterprise zones raising property values.

Enterprise Zone Program Costs

Enterprise Zone program costs have not been scrutinized as closely as other economic development programs. Few studies have calculated cost/benefit ratios or cost-per-job figures of Enterprise Zone programs, and those that have done so have not measured indirect impacts or costs. Indirect benefits include increased personal taxes paid by in-migrants or those who were previously unemployed and increased taxes paid by other businesses that may see increased economic activity as a result of a new firm opening. Indirect costs may consist of increased state and local public service costs that would follow from a new firm opening. Also, researchers are unable to obtain data on state revenues foregone due to the confidential nature of tax returns, and often states do not provide detailed annual reports of the program costs. Studies that have calculated the cost-per-job have ranged greatly.

Enterprise Zone programs generally cost states and local governments more money than they receive in revenue from increased economic activity because it is extremely difficult for governments to target tax reductions at firms who would have otherwise not made an investment without the enterprise zone incentives.

Peters and Fisher found that governments lost more revenue the more they front-loaded their incentives. When incentives are front-loaded, localities need a larger response of investments to tax reductions in order to break even because businesses tend not to live forever. Establishments could have ceased operations or moved before the incentives are phased out so they never pay additional taxes. Peter and Fisher found that enterprise zones experience a large amount of establishment turnover. Peters and Fisher also found that constant, permanent tax cuts produce more positive revenues than a larger initial tax cut that is phased out over several years. However, GAO claims that new businesses are in need of help the most during their earlier years.

Enterprise zone studies vary widely on the cost-benefit analysis of enterprise zones. Wilder and Rubin note the aggregate costs of states and localities for enterprise zone incentives range from less than $400,000 to over $50 million. The Enterprise Zone program cost Colorado on average $30 million annually of forgone tax revenue between 1986 and 1996, with the amount increasing to over $60 million annually between 2000 and 2005. Papke found the cost-per-job of enterprise zones in Indiana was $4,100 in forgone tax revenue by using data from official firm-level tax records, while Rubin and Wilder found the annual cost-per-job to be $1,045 in one specific enterprise zone in Indiana.

Peters and Fisher find the cost-per-job of Enterprise Zone tax credits to be approximately $5,000 for the 20 most industrialized states during the 1990s. They believe the value-to-firm/ cost-to-government ratio is less than one, which means enterprise zone incentives cost states and cities more than they benefit firms. By examining 20 states, Peters and Fisher found enterprise zone incentives reduced state and local taxes on new investments by approximately 19%.

Research Recommendations

As a result of studies on the enterprise zone, researchers have made suggestions to make enterprise zones more successful. The number of enterprise zones should be targeted and restricted. Enterprise Zone programs should develop specific employment goals. By reviewing enterprise zone studies, Wilder and Rubin found that the most successful state programs (1) restricted the number of enterprise zones, (2) used a competitive designation process, and (3) provided a wide array of development incentives.

Enterprise zones should be targeted to distressed areas. Bartik found economic development policy was more cost effective and efficient when it was targeted in economically depressed areas because the reservation wage (the lowest wage at which a person is willing to work) is lower in depressed areas compared to less depressed areas. Additionally, Landers suggest that enterprise zone premiums are not prevalent in economically distressed zones, but may be present in more prosperous areas. Peters and Fisher warns against designating zones in nondistressed areas, saying “in growing places enterprise zones may do little more than reinforce growth trends.”

Enterprise Zone program officials should limit the geographic expansion of enterprise zones. Bondonio and Greenbaum state, “the baseline employment and sales growth among new establishments increases when the geographic extent of the zones decreases.” Bondonio and Greenbaum tout the advantages of limiting geographic expansion of enterprise zones by arguing the following: (1) it enables program officials to intensify marketing efforts for each enterprise zone; (2) officials are better able to evaluate the comparative advantage of different eligible areas; (3) it allows for close program monitoring and evaluation; and (4) it prevents the dilution of enterprise zone incentives. Landers agrees that creating more enterprise zones dilutes the effectiveness of incentive packages offered in distressed zones.

Bondonio and Greenbaum recommend that Enterprise Zone program officials should incorporate a strategic planning portion into the application process. Developing an Enterprise Zone strategic plan would facilitate communication on business needs between business leaders and administrative officials. Additionally, it would help business owners become more aware of the opportunities offered by enterprise zone incentives.

Bondonio and Greenbaum think incentives should be tied to job creation since they found that it is the only enterprise zone feature that marginally increases employment growth of existing enterprise zone firms. However, they found that tying incentives to new jobs does not impact employment for new firms.

Appendix 4
Enterprise Zone Community Demographics
Percent of Population

Zone	Poverty	SNAP Recipient	Low Income	White	African American	Foreign Born	Other Language
Hagerstown	19.9	20.8	46.3	77.9	19.1	6.0	
Wash. Co. Airport	8.6	6.4	21.9	87.2	9.6	5.3	
Hancock	11.7	6.0	47.6	87.6	10.4	1.3	
Cumberland	16.8	18.0	52.5	86.8	8.9	1.7	
Rt. 220 South	11.2	26.8	42.1	93.5	5.3	1.7	
Frostburg	24.5	16.3	52.4	86.2	9.0	2.3	
N. Garrett	16.4	10.8	37.2	97.8	0.1	0.2	
Keyser’s Ridge	14.3	9.9	36.3	98.4	0.1	0.3	
C. Garrett	7.2	9.6	39.8	99.3	0.2	0.7	
S. Garrett	20.4	16.7	47.6	96.5	2.3	1.2	
Western Maryland	**15.4**	**13.5**	**44.2**	**90.6**	**7.1**	**1.5**	
Berlin	10.0	12.7	34.9	72.3	22.9	11.0	15.6
Cambridge	24.1	29.6	49.2	47.1	46.7	4.5	5.7
Crisfield	35.3	27.5	51.7	59.7	34.4	2.6	5.6
Fruitland	17.3	14.6	28.2	55.0	38.9	8.3	9.9
Hurlock	24.0	15.9	46.9	49.6	38.7	6.2	10.7
Pocomoke City	27.0	24.6	60.4	49.1	47.8	2.0	3.7
Princess Anne	33.0	16.4	52.6	34.3	54.7	8.4	11.0
Snow Hill	20.9	17.6	45.7	64.1	35.4	2.5	3.5
Cecil County	12.4	10.9	31.5	85.1	11.3	3.8	10.2
Eastern Shore	**24.0**	**16.4**	**46.9**	**55.0**	**38.7**	**4.5**	**9.9**
Aberdeen	11.1	8.8	26.9	68.1	22.8	5.7	9.3
Edgewood	13.1	11.4	26.9	59.7	33.9	6.5	11.1
North Point	11.3	11.8	32.9	74.4	18.7	7.3	9.3
Southwest	19	15	33.8	69.6	20.7	9.1	11.6
Woodlawn	10.4	8.1	27.8	14.9	70.4	16.6	18.2
Greater Baltimore	**11.3**	**11.4**	**27.8**	**68.1**	**22.8**	**7.3**	**11.1**
Baltimore City	**22.4**	**17.1**	**44.8**	**31.6**	**65.3**	**7.2**	**8.9**
Gaithersburg	8.3	7.3	17.7	53.3	15.6	38.1	46.0
Glenmont	10.7	5.9	15.6	39.0	26.1	42.0	58.1
Takoma Park	13.1	7.7	22.6	38.6	25.1	48.0	56.6
Wheaton	15.6	8.5	21.3	43.2	15.1	41.0	53.5
Capital Region	**11.9**	**7.5**	**19.5**	**41.1**	**20.4**	**41.5**	**55.1**
All Regions	**15.6**	**12.7**	**37.2**	**68.1**	**20.7**	**5.7**	**10.7**
Maryland	**9.0**	**7.1**	**15.6**	**59.2**	**29.4**	**13.5**	**16.2**

Note: Other Language is percent of households where a language other than English is spoken at home.
Source: U.S. Census Bureau – *2007-2011 American Community Survey*; Department of Legislative Services

Appendix 5
Enterprise Zone Community Economic Conditions

Zone	Population	Unemployment	Labor Participation	Median Household Income	MFG/ Warehousing
Hagerstown	36,140	10.5%	64.1%	$38,231	15.4%
Wash. Co. Airport	8,512	5.3%	65.3%	58,347	14.6%
Hancock	1,490	10.3%	66.2%	37,222	18.6%
Cumberland	26,388	10.4%	53.4%	34,058	16.1%
Rt. 220 South	4,097	2.2%	66.0%	40,674	34.3%
Frostburg	10,400	8.1%	56.0%	32,890	7.2%
N. Garrett	2,566	5.5%	65.3%	32,890	18.3%
Keyser's Ridge	4,187	5.2%	63.7%	48,912	21.0%
C. Garrett	2,162	3.7%	61.4%	44,288	18.1%
S. Garrett	4,938	5.8%	57.7%	37,066	11.9%
Western Maryland	**100,879**	**5.6%**	**63.9%**	**$37,727**	**17.1%**
Berlin	4,415	3.9%	71.6%	$58,000	6.2%
Cambridge	12,226	15.5%	62.1%	35,599	19.7%
Crisfield	2,741	9.3%	58.2%	34,074	18.0%
Fruitland	4,781	3.9%	72.0%	52,871	16.0%
Hurlock	1,979	16.4%	71.6%	39,821	32.4%
Pocomoke City	4,217	14.9%	61.2%	30,909	11.8%
Princess Anne	3,199	6.2%	59.8%	32,159	7.2%
Snow Hill	2,530	5.9%	54.5%	40,515	12.9%
Cecil County	25,750	9.3%	65.9%	58,440	16.4%
Eastern Shore	**61,838**	**9.3%**	**62.1%**	**$39,821**	**16.0%**
Aberdeen	37,195	8.2%	69.3%	$63,311	12.2%
Edgewood	39,288	8.5%	72.3%	62,281	15.5%
North Point	151,174	10.0%	65.4%	50,665	16.0%
Southwest	23,496	14.2%	68.0%	52,888	14.6%
Woodlawn	15,094	7.4%	71.9%	55,345	12.6%
Greater Baltimore	**266,247**	**8.5%**	**69.3%**	**$55,345**	**14.6%**
Baltimore City	**620,210**	**12.6%**	**62.3%**	**$40,100**	**10.9%**
Gaithersburg	59,037	5.5%	76.5%	$81,118	6.2%
Glenmont	12,657	7.0%	74.7%	82,338	6.4%
Takoma Park	19,239	8.4%	81.5%	68,426	4.1%
Wheaton	47,279	8.5%	74.1%	66,395	4.8%
Capital Region	**138,212**	**7.7%**	**75.6%**	**$74,772**	**5.5%**
All Zones	**1,187,386**	**8.2%**	**65.4%**	**$44,288**	**14.6%**
Maryland	**5,736,545**	**7.3%**	**69.0%**	**$72,419**	**9.7%**

Note: MFG/Warehousing is percent of residents employed within the manufacturing and transportation and warehousing industries.

Source: U.S. Census Bureau – *2007-2011 American Community Survey*; Department of Legislative Services

REPORT TO THE JOINT CHAIRMEN ON
MEASURES TAKEN TO ENSURE VERIFIABLE
COMPLIANCE WITHIN THE HOMESTEAD TAX CREDIT PROGRAM

Respectfully Submitted by the
State Department of Assessments and Taxation
October 31, 2013

REPORT ON MEASURES TAKEN TO ENSURE VERIFIABLE COMPLIANCE WITHIN THE HOMESTEAD TAX CREDIT PROGRAM

The purpose of this Report is to provide the General Assembly specific information it can use to evaluate the issues related to the Department of Assessments and Taxation's implementation of the Recommendations of the Legislative Auditor resulting from the Performance Audit of the Homestead Tax Credit Program issued by the Office of the Legislative Auditor in February, 2013. There are certain Recommendations that will be immediately implemented by the Department. There is one of the Legislative Auditor's Recommendations that the Department believes to be legally incorrect. There is another Recommendation that the Department believes to be unworkable and unrealistic. The most significant Recommendations in the Legislative Auditor's Performance Audit fall in the category of being clearly contingent upon a major increase in the number of new employees to perform these additional audits and other proposed activities. On page 20 of the Performance Audit, the Legislative Auditor's Recommendation states that the Department should "perform an analysis of personnel and resource funding requirements for developing a comprehensive compliance program and submit a proposal for consideration by appropriate Executive Department agencies and the General Assembly".

Throughout the Performance Audit and the ongoing discussions with the Department, the Legislative Auditor's own audit staff acknowledged the intensive nature of the labor required to investigate and examine whether a particular property owner's Homestead eligibility should be removed and for which years. The Legislative Auditor had a team of two Audit managers and six field auditors at the Department's offices for six full months to find and authenticate limited numbers of improper Homestead Tax Credits. In this regard, it must be emphasized that the Department's employees in the local Assessment Offices who perform Homestead audits do so on a part-time basis because they have other regular Real Property reassessment duties to perform each day.

The Department is going to discuss below the specific Findings and Recommendations of the Legislative Auditor and provide the General Assembly the information it needs for an informed decision about the feasibility and timing of implementing the Auditor's Recommendations.

Auditor's Finding 1
DAT had not developed a documented comprehensive compliance program to help ensure that HTCs are only granted for eligible properties.

The Recommendation accompanying this Finding is for the Department to develop a comprehensive written manual describing all of the specific procedures to validate Homestead eligibility. This written manual will combine existing procedures historically utilized by local Assessment Offices to validate Homestead eligibility and the newer procedures developed by the central Homestead Application Processing Unit in 2007 as well as incorporating certain new automated procedures proposed in this Audit. While the Auditor's comments note that some local Assessment Offices did not consistently perform certain detection methods, there is no recognition that a Supervisor of Assessments made the decision to utilize the limited staff time to pursue other checks (*e.g.* name matches) that have proven more effective in that office for detecting improper Homestead Credits.

By December 31, 2013, the Department will prepare a written manual that will describe in detail the specific audit functions to be performed by the central Application Unit and the local Assessment Offices, respectively. The manual will include a mandatory monthly schedule for the audits being performed by the different offices. The resulting audit reports will be retained and a supervisory level employee will sign and date the particular report verifying what information has been reviewed. The central administration of the Homestead Tax Credit Program will monitor the activities performed by the local Assessment Offices.

The final part of the Recommendation for this Finding contains the directive that the Department prepare an analysis of necessary personnel and funding requirements for a submission of a proposal for consideration by appropriate Executive Department agencies and the General Assembly. The Department has prepared this information as part of its Fiscal Year 2015 Budget Request.

Auditor's Finding 2
Procedures over the HTC application processing need improvement.

The Department agrees with the Auditor's Finding here that certain "enhancements" to existing processes and data programs should be added. The Department will implement these Recommendations during the current 2014 Fiscal Year. The Recommendation to compare the names on HTC applications to the listed owners will require that the existing data processing program performing this function be rewritten to eliminate the large number of "false positive" exceptions based upon reverting to a maiden name by the former spouse or <u>et</u> <u>al</u> ("and others") ownership of the property. This revised computer program will retroactively compare applicant name in the property records with all electronically filed applications for prior years. Regarding the part of the Recommendation for an independent managerial employee to review certain information, the Department will have to assign a manager from another Department program to perform this review on a test basis because of the limited number of employees in the Homestead Application Processing Unit.

Finally, there is a Recommendation here that the Department ensure the backlog of 175,000 applications received in the last months before the filing deadline be processed as soon as possible. All of these applications were already processed by April 15, 2013. It should be noted that during the months of August and September 2013, the Department did another special statewide mailing of an application to the 131,000 homeowners who received a 2013 Homestead Credit but still had not yet submitted an application. In response to the mailing, the Department has received over 55,000 new applications being processed at the present time.

Auditor's Finding 3
DAT did not establish adequate controls over its automated reports to prevent or detect unauthorized changes to HTC eligibility determinations.

This Finding and the Recommendations deal with matters of internal IT administration within the Department related to the Homestead Tax Credit Program. By December 31, 2013, the Department will establish a procedure to have an independent supervisory review of changes to critical fields such as deleting a Homestead application. In another part of the Finding, the Department has already begun restricting access to its Real Property AAVS automated assessment system as it relates to the Homestead Qualification Field. The only reason that 371 of 400 employees in Real Property had access that included the ability to change information (such as the Homestead Qualification Field) was because AAVS is a new data system itself where the Department's Real Property assessment employees (in the local Assessment offices) were testing its applications and functionality at that particular time. It is also important to keep in mind that the Department's AAVS system has a provision to permanently record the identification number of any employee making a change to a field. The Department's appropriate AAVS data manager will continue to monitor and eliminate data permission for employees who do not have an ongoing need for such access to perform their specific duties. Finally, the Department submits that the last part of the Finding and Recommendation dealing with possible discrepancies between AAVS and the Homestead Application on Homestead eligibility are due simply to timing issues based upon the updating of the system by the agency's IT Unit. By December 31, 2013, a new automated report for identifying any discrepancies will be written and implemented.

Auditor's Finding 4
Certain policies and requirements could be established to improve DAT oversight of the HTC program.

The substance of this Finding and Recommendation is that the Legislative Auditor wants the Department to adopt a policy on the **number** of back years of recaptured Homestead Tax Credits that the Department believes is not supported by Maryland law. The Department's legal counsel believes that the Legislative

Auditor is incorrectly relying on a general statute of limitations provision (Tax-Property Article §14-915) that allows for the recovery of taxes imposed for the most recent **seven** years. It is DAT's legal position that the number of years that the Department and the local government can collect for back years of improper Homestead Credits is dependent upon finding a specific statutory authorization for collecting Homestead Credits for a number of years.

The first specific statutory provision authorizing recapture of erroneous Homestead credits was not enacted by the General Assembly until the passage of Chapter 701, Laws of Maryland 2012 adding subsection (n) to Tax-Property Article §9-105. This enactment also created a 25% penalty for willful misrepresentation beginning for the July 1, 2012 tax year. The important point to be noted is that this is the only specific statutory authority to recapture erroneous Homestead Tax Credit for prior tax years but it begins with the July 1, 2012 tax year and going forward.

Contrary to the statement in the Legislative Auditor's Finding here, the Department has had an established policy of collecting prior year credits for a period of **three** previous years. This three year period is what the Auditor observed in the three Assessment Offices in which it conducted its site visit audits. DAT decided on the three previous year recapture period for several reasons: (1) the three year recapture is consistent with the number of previous years that "escaped property" may be assessed under Tax-Property Article §8-417; (2) the time period is consistent with the limited three year period by which a homeowner can claim a refund of taxes erroneously paid found at Tax-Property Article §14-915; (3) the three year period is consistent with the number of years of federal tax return information that the Department is able to retain for data storage purposes in order to audit Homestead eligibility in the first place; and (4) the majority of the local governments (whom the Auditor notes have the legal responsibility to collect taxes and who would receive the bulk of the tax dollars for the recaptures) have requested that time period be used by the Department.

On October 11, 2013, the Maryland Tax Court issued a decision affirming the Department's authorization for the City of Baltimore to collect back **three years** of erroneously granted Homestead Credits for the years 2008, 2009 and 2010. *Phillip Mizrach v. State Department of Assessments and Taxation*, (Md. Tax Court Case No. 13-MI-BA-0436). Since these years predated the 2012 enactment by the General Assembly specifically codifying the right to collect back years of erroneous tax credits from that year forward, the Maryland Tax Court had to find another statutory authority for recovering these credits for the three previous years. Taking judicial notice of Court of Appeals decisions that find these "tax credits are by their nature an exemption", the Tax Court then held that the "escaped property" provisions for exempt property (Tax-Property Article §8-417) are applicable to the tax credits for three years for this property. That statute notes that escaped property for exempt property may be taxed for the current tax year as well as three previous years. Significantly, the Maryland Tax

Court also declined to rule on the applicability of the seven year limitation on the collection of taxes. In other words, the Maryland Tax Court found statutory authority for collecting three and not seven years of previous tax credits.

Pending the outcome of likely appeals in the *Mizrach* case, the Department will continue to follow a policy statewide of advising local governments to recapture tax credits for three prior years. It also should be noted that when the Department's employee finds more years than three years in which the homeowner has improperly received the County Homestead Credit, then the employee will advise the county government employee of the additional years so that the county can make its own billing determination.

Finally, because of the amount of time it takes to investigate and document the removal of several years worth of credits, this is a Recommendation by the Legislative Auditor that will increase the need for new additional employees in order for the Department to also conduct these audits. Again, it must be remembered that the Department has to advise in writing each homeowner of his or her right to appeal within thirty (30) days the removal of any Homestead Credit.

Auditor's Finding 5
DAT does not have a plan to investigate the propriety of HTCs received in prior years on properties removed from eligibility after the application filing period.

Upon further examination of this matter after the "exit" discussion with the Legislative Auditor, the Department has now concluded that the Auditor's Recommendation to develop a plan to investigate non-filers of Homestead applications for improper credits in prior years is simply unworkable and unrealistic. The Auditor's comments note that there are 512,823 properties currently "grandfathered" in as being eligible for (though not necessarily receiving) the HTC, and they have not submitted an application. The Auditor's verbal suggestion made to the Department to "test" the properties receiving the highest amounts of credit is not an effective guideline because most of the largest credits are typically received by longtime homeowners still actively residing in their homes. Even with an increased number of new Homestead employees, the Department cannot represent to the General Assembly that the majority of even 131,000 non-filers receiving a credit can be individually audited, especially given the tens of thousands of accounts in the other audits the Department is to perform. A crucial fact that the Legislative Auditor apparently overlooked is that the Department does not have a Social Security number for the homeowner not filing an application, and therefore, the automated audits that rely on a Social Security number cannot be used to do an initial screening of this volume of property owners. This audit will require multiple, manual lookups of every account.

Auditor's Finding 6
DAT's real property records were not formatted in a manner to facilitate computer matches.

The Department's new AAVS Real Property system allows for the entry of all owners' names regardless of how many owners there are. This AAVS system is utilized in all county Assessment Offices except for Baltimore City where the City Government uses its own property record system to provide lesser ownership information to the Department. The Department's new property record system does format names in a manner to facilitate computer matches for Homestead audit purposes.

Prior to the implementation of the AAVS system, there are 2.2 million existing ownership records where there are incomplete listings of owners' names and old archaic conventions (*e.g.* "WF" wife or et al for others). It is cost prohibitive for the Department to obtain a contractor to research 2.2 million deeds and add a complete listing of all owners' names and in the same format without abbreviation.

The Department has issued a memorandum reminding its local office transfer clerks in the 23 counties to enter all of the ownership names in the same way and locate in a specific place within the naming field odd legal ownership interests (*e.g.* Smith John T Jr Trustee and not Smith Jr Trustee John T).

It needs to be noted for the record that this Recommendation by the Auditor will produce little audit value because it affects only recently transferred accounts where the new owner(s) must submit a Homestead Application with his or her Social Security number before he or she can receive Homestead eligibility on that property. If the General Assembly does not again change the current December 30, 2013 Homestead application filing deadline, then the more effective means to find homeowners receiving Homestead credits on more than one property is to run a Social Security number match for every property in the State still eligible for a Homestead Credit because of the submission of an application for that property.

Auditor's Finding 7
Additional automated procedures are available to help ensure properties remain eligible for the HTC on an ongoing basis.

The Department strongly agrees with the Auditor's Finding and Recommendation here that additional automated audits can be developed to detect ineligible HTC properties by using data matches against other State and local agencies' records. However, the volume of accounts that will have to be individually reconciled by the Department in each of these audits are at such levels that it will require a significant increase in the number of new employees to conduct these audits. To cite just one example, the Department already prepared on July 2, 2013 (with the cooperation of the Maryland Motor Vehicle Administration) a new comparative report on the number of Maryland property owners who surrendered their driver's licenses to another State. There were 12,000 drivers on this report who surrendered their licenses in one year. The Department has to investigate each account to determine whether the Homestead Tax Credit should not be removed because there are multiple co-owners where one recently separated spouse owning the property still resides there or an adult child co-owner of the property still resides there after his or her parents retired to another state. In each instance, the Department is legally required to send the Homestead applicant homeowner a letter providing the person the opportunity to explain what occurred and advising him or her of the right to appeal a negative determination if the Department decides to remove the credit.

Each type of the new automated audits proposed by the Legislative Auditor will generate tens of thousands of accounts to be investigated each year. The Office of Legislative Auditor specifically states in its Performance Audit the following: "While automated procedures to detect properties improperly designated as eligible for the HTC can be performed without a large commitment of resources, investigating potentially ineligible properties can be a time-consuming process." (pg. 31).

Summary

The Department has endeavored in this Report to provide the General Assembly the kinds of detailed information it needs to justify a commitment of new personnel and other resources to conduct the audits proposed in the Performance Audit of the Legislative Auditor for the Homestead Tax Credit Program. The Department has been careful to clearly state which of the Auditor's Recommendations cannot be implemented in a meaningful way without that commitment of the additional resources. At the same time, the Department has provided the specific date by which the Auditor's other Recommendations will be implemented by the Department.

What property is entitled to a "charitable" or "educational" property tax exemption?

- Tax-Property Article , Section 7-202:

  "Property necessary for and ***actually*** used ***exclusively*** *f*or a ***charitable*** or ***educational*** purpose benefitting the ***general public welfare of the people of the State***".

History of the Current Property Tax Exemption Statutes

- 1970 Report, Md. Leg. Council Committee on Taxation and Fiscal Matters
- The new statutes enacted in 1972 had fundamentally rewritten the prior statutes and were intended to "sweep away prior exemptions and significantly narrow the range of exempt property" (Report, p.114). The insertion of the new words "actually" and "exclusively" in the statutes evidenced this restrictive intent.
- The General Assembly also specifically codified in the law the directive that the tax exemption statutes are to be "strictly construed". Tax-Property Article, Section 7-101
- The exemption provisions establish a much stricter standard for exemption than the requirements for an Internal Revenue Service 501 (c)(3) determination.
- These statutes were recodified unchanged in the new Tax-Property Article Volume created in 1986.

History of the Current Property Tax Exemption Statutes

- Beginning in the 1980s, SDAT litigated a series of cases to the Md. Tax Court, the Court of Special Appeals, and the Court of Appeals that established the standards used to this day for determining whether a property is entitled to a charitable or educational exemption.

- The leading Court of Appeals decision describing the history of the property tax exemption statutes is actually a religious exemption case, Supervisor of Assessments v. Trustees of Bosley Methodist Church Graveyard, 293 Md. 208 (1982). The Bosley Court held: "Churches, religious institutions, fraternal, benevolent, or charitable groups enjoy no inherent right to exemption from property taxation, for all real property within the State is liable to taxation, unless it is expressly exempt".

- Throughout the 1980’s, the 1990’s, and to the current date, the Department has continued to litigate a series of court cases which, as a practical matter, define what each of these specific terms in the exemption statutes meant and required (i.e. actually, exclusively, charitable, educational, and general public welfare).
- **WHAT DOES THE TERM “ACTUALLY” MEAN?**
- Md. Tax Court decision in JHP, Inc./The Johns Hopkins University v. Supervisor of Assessments of Baltimore City, Md. Tax Court (Case No. 5887 (1-3)) (1988) held that there must be an “immediate prospect” of the intended use of the property for the exempt purposes. This was an important case that litigated the Department’s requirement of a building permit being obtained coupled with actual construction for properties being renovated.
- For a case interpreting the term “actually” under the Tax-Property Article, Section 7-204 exemption for religious groups, see King’s Contrivance Interfaith Campus v. State Department of Assessments and Taxation, Md. Tax Court (Case No. 01-Mi-H0-0601) (2002).
- Other cases the Department litigated in this matter held that the building permit and the actual construction must start no later than November in the first half of the tax year to be eligible for tax exemption that year.

What does the term “exclusively” mean?

- The requirement of exclusive use may be generally satisfied where there is a showing that the property is used “primarily” for exemption purposes, with only incidental or occasional use for other purposes. Friends School v. Supervisor of Assessments of Baltimore City, 314 Md. 194 (1988).

- The Department may grant exemptions only on **“components”** of large scale charitable organizations where the purposes being served by the components are themselves charitable. Supervisor of Assessments of Montgomery County v. Asbury Methodist Home, Inc., 313 Md. 614 (1988).

  A hospital owned medical arts building where 55% of the space is occupied by private doctors offices for seeing patients on a fee for service basis is not primarily used for exempt purposes and ineligible for exemption even though the remainder of the building is used for exempt hospital purposes. Board of Governors of Memorial Hospital of Cumberland v. Supervisor of Assessments of Allegany County, Md. Tax Court (Misc. Case No. 53) (1983).

What does the term “exclusively” mean?

- The Court of Special Appeals allowed a charitable exemption to a hospital’s land and improvements that involved an unrecorded ownership of the improvements by a for-profit company and the hospital’s ownership of land that involved leases and leaseback agreements between the hospital and the company. Supervisor of Assessments of Baltimore County v. Greater Baltimore Medical Center, 202 Md. App. 282 (2011).

What is the "general public welfare"?

- An independent living unit complex for the elderly, which included health care and nursing facilities, was not entitled to tax exemption where all of the residents had the ability to fully pay the substantial entrance and monthly fees. The lower court in this decision had observed that other citizens financially excluded from residency would be asked to indirectly subsidize residents with the means to pay by the granting of a property tax exemption. <u>Supervisor of Assessments v. Ashbury Methodist Home,</u> Inc., 313 Md. 614 (1988).

- A nonprofit health maintenance organization whose primary purpose is to provide high quality medical care to its members for a fee and whose educational aspects are only incidental to its main function of providing health care services to its members is not exempt from taxation as a charitable organization. <u>Supervisor of Assessments of Montgomery County v. Group Health Association</u>, 308 Md. 151 (1986).

- A nonprofit corporation operating low income housing (using federal rent subsidies) that performed only minimal other services, most of which were only for its tenants, did not qualify for the exemption as a "charitable" organization under this section of the law. <u>Supervisor of Assessments of Baltimore City v. Har Sinai W. Corporation</u>, 95 Md. App. 631 (1993).

- A private golf course owned by a fraternal organization and reserved for the exclusive use of its fraternal organization members and guests is not "necessary for or fairly incidental" to the charitable and benevolent purposes of the organization and therefore, not exempt under this section. <u>Supervisor of Assessments of Wicomico County v. Lodge No. 817, Trustees, Benevolent Protective Order of Elks</u>, 48 Md. App. 319 (1982).

- Serving the general public means serving an indefinite number of persons and includes those without the financial means to pay for the services provided.

What property is entitled to an exemption for actually and primarily serving "<u>charitable</u>" purposes?

- In order to grant a charitable exemption, the stated purposes of the organization as evidenced by its Articles of Incorporation or bylaws must be those traditionally thought of as public charity (i.e. "almsgiving and relief to the aged, infirm, sick and poor"). An organization must be organized and operated to benefit an indefinite number of people, and the service rendered to those eligible must act to relieve the public of a moral or economic obligation where it would otherwise have to such beneficiaries.

- The actual work performed requires the organization be engaged in public works and otherwise lessening the burden upon the State to care for or advance the interest of its citizens.

- The extent which the work performed benefits the community and the public welfare in general requires a showing that the work performed is for the general public good and not to benefit the organization's members or a limited class of persons. "Terms 'benevolent' and 'charitable' are virtually synonymous and neither encompasses a form of beneficence or largess from which the public is actively excluded." Lodge 817, Trustees BPOE v. Supervisor of Assessments, 292 Md. 533 (1982).

- Another important holding in the Lodge 817 decision states that "the dedication of the funds generated by the non-exempt use of a property to the overall exempt purposes of the organization will not entitle that property to tax exemption" (see footnote 4 of the opinion).

- The mere providing of services on a nonprofit basis to persons with the means to pay for those services is not deemed charitable under this statute. Supervisor of Assessments v. Asbury Methodist Home, Inc., 313 Md. 614 (1988).

- The level of charitable contributions received by the organization is only one factor to be considered. State Department of Assessments and Taxation v. North Baltimore Center, Inc., 361 Md. 612 (2000). Cf. Supervisor of Assessments of Baltimore County v. Har Sinai W. Corporation, 95 Md. App. 631 (1993).

What property is entitled to an exemption for actually and primarily serving "educational" purposes?

- "Educate" defined . – Formal instruction for purposes of a property tax exemption may be the heart of education, but it is not the entire body; the verb "educate" is defined as: (1) to give knowledge or training to, (2) train or develop the knowledge, skill, mind, or character of, especially by formal schooling or study, (3) teach, and (4) instruct. That allows for other methods of imparting knowledge and training. Baltimore Science Fiction Society, Inc. v. State Department of Assessments and Taxation, 384 Md. 402 (2004).

- Science fiction society was entitled to a property tax exemption for its property as the property was used as library, for writing workshops, and to encourage students to compose literature. Baltimore Science Fiction, supra.

- But property used primarily for social or recreational purposes will be denied exemption even though the activities of the organization do impart some knowledge or information. Northwest Family Sports Center, Inc. v. State Department of Assessments and Taxation, Md. Tax Court (Case No. 996) (1997), North Baltimore Aquatic Club, Inc. v. State Department of Assessments and Taxation, Md. Tax Court (Case No. 99-PP-00-0748((2001). See also, Lodge No. 817, supra.

- Generally, organizations promoting individual "hobbies" (e.g. coin collecting, ham radio club, gun ranges) are not sufficiently "educational" to receive a property tax exemption.

What property owned by a "<u>religious group or organization</u>" is not subject to property tax?

- The property is exempt if it is "actually used exclusively for" one of three purposes: (1) public religious workshop; (2) a parsonage or convent; or (3) educational purposes.
- Ancillary property used as a caretaker's residence and deemed "necessary for" maintaining the other admittedly exempt property of a religious organization is not itself used for "public religious worship" and therefore ineligible for exemption under this section. <u>Supervisor of Assessments of Baltimore County v. Trustees of Bosley Methodist Church Graveyard</u>, 293 Md. 208 (1982). Significantly, the Court noted the removal of the "necessary for" language from the religious exemption statute in the 1972 enactment by the General Assembly.

- To qualify for an organization as a "parsonage" there must be a minister with an "identifiable congregation" and church that has provided that house for his residency. A minister who has described himself as "congregation nucleus builder" will not receive a parsonage exemption on the house the national church has provided because the minister did not have a regular "identifiable congregation". East Coast Conference of the Evangelical Convent Church of America, Inc. v. Supervisor of Assessments of Montgomery County, 40 Md. App. 213 (1978).

- An ordained minister who primarily served as the "minister of music" for a congregation is serving a "secular" function and the house provided as a residence by the congregation is not entitled to a parsonage exemption. While churches may have more than one parsonage, it must be occupied by a minister who serves as a "spiritual counselor" for the congregation. There are two Maryland Tax Court decisions here. Supervisor of Assessments of Anne Arundel County v. Trustees of Annapolis District Parsonage, Md. Tax Court (Case No. 194) (1979); Trustees of the First Baptist Church Silver Spring v. Supervisor of Assessments of Montgomery County, Md. Tax Court (Case No. 1094-B) (1980).

- Housing built and donated to the church by "lay ministers" and subsequently used as their residences is not a parsonage or convent within the meaning of the statute. Md. Tax Court decision in Life In Jesus, Inc. v. Supervisor of Assessments of Frederick County, Md. Tax Court (Case No. 06-MI-FR-0610) (2007).
- The Court of Appeals exempted, by writing its own definition of what constitutes a "convent", a 46 unit garden apartment complex purchased by a national church organization and used as temporary housing for up to two years for retired church members from across the country who volunteer as "ordinance workers" at a national cathedral and who donate $600 per month toward the cost of their housing. Supervisor of Assessments of Montgomery County v. Church of Jesus Christ Of Latter-day Saints, 430 Md. 119 (2013).

- The Department has made a concerted effort in the subdivisions throughout the State to find churches that have space in the church steeple leased to cellular companies for cell towers. The amounts of the leases are capitalized at a 10% rate to produce assessments and appropriate tax bills.

See Handout on Class Codes For Categories of Ownership and Use of Exempt Properties

Department's Property Tax Exemption Procedures

1. The organization seeking the exemption must apply on the standard exemption application form required by the Department for each type of exemption requested.

2. The applicant organization must attach to the form a copy of the Articles of Incorporation and operating by-laws so that the Department can carefully examine the stated purposes of the organization.

3. Depending on the type and nature of the organization, the Department will very likely subsequently request a copy of the organization's most recent audited financial statement to determine those specific purposes or activities on which the funds are primarily expended.

4. For charitable exemption applications, the Department specifically inquires how the applicant organization is serving the “general public” and what percentage of the beneficiaries do not have the ability to pay.
5. The Supervisor of Assessments or his/her designee will then schedule an appointment to physically inspect the subject property.
6. Each property granted or denied an exemption must be “signed off” by the Supervisor of Assessments in the jurisdiction where the property is located.
7. The Supervisor of Assessments is advised to consult with the Associate Director of the Department if there is any question about the action being taken on the requested exemption.

8. The Associate Director may represent the Department at the Property Tax Assessment Appeals Board if requested by the Supervisor for a denial of an application, and then appear as the Department's principal witness if an appeal is taken to the Md. Tax Court by either party.

9. At its annual meeting for Supervisors of Assessment, the Department discusses the new court decisions and any changes to procedures involving exempt properties. The higher level of review for exemptions by the Associate Director ensures uniformity of application of the exemption laws throughout the Assessment Offices in the State.

Maryland Property Assessment Workgroup September 15, 2014

Personal Property

presented by

Michael W. Griffin
Associate Director
State Department of Assessments and Taxation
michael.griffin@maryland.gov
www.dat.state.md.us

Personal Property : The Assessment Process

- Personal Property Assessment Calendar

  January 1 – establishes annual filing requirement
  April 15 – annual report due date
  June 15 – extended report due date
  July 1 – tax year begins
  August 1 – estimated assessments made
  September 15 – estimated assessments certified
  October 1 – domestic entity forfeitures for failure to file prior year's report
  November 15 – foreign entity forfeiture for failure to file current year's report

- Legal Entities and Sole Proprietorships assessments begin to be certified June 1 to each jurisdiction
- Certification of assessments occurs bi-monthly (1st and 3rd Tuesday)and jurisdictions bill after certification
- Filing forms on SDAT website prior to January 1

Personal Property : The Assessment Process

Number of active entities as of 8-31-2014:

- 361,056 – Legal Entities (Corporations, LLC's, etc.)
- 84,525 – Sole Proprietorships/General Partnerships

For 2013:

- o 134,913 - certified Legal Entities
  County Base $11,274,878,140
- o 12,930 - certified Sole Proprietorships
  County Base $359,613,580

For 2012:

- o 136,991 - certified Legal Entities
  County Base $11,632,254,310
- o 13,838 - certified Sole Proprietorships
  County Base $381,530,610

For 2011:

- o 137,611 - certified Legal Entities
  County Base $12,210,078,850
- o 14,069 - certified Sole Proprietorships
  County Base $373,308,850

Personal Property Form 1 – Page 1

Personal Property Return As of January 1, 2014 Due April 15, 2014

STATE OF MARYLAND, DEPARTMENT OF ASSESSMENTS AND TAXATION, PERSONAL PROPERTY DIVISION
301 West Preston Street, Room 801, Baltimore, Maryland 21201-2395 • www.dat.state.md.us • (410) 767-1170 • (888) 246-5941 within Maryland

2014

Form 1

Page 1 of 4

Date Received by Department

CHECK ONE

Type of Business	ID # Prefix	Filing Fee	Type of Business	ID # Prefix	Filing Fee
☐ Domestic Stock Corporation	(D)	$300	☐ Domestic Limited Liability Company	(W)	$300
☐ Foreign Stock Corporation	(F)	$300	☐ Foreign Limited Liability Company	(Z)	$300
☐ Domestic Non-Stock Corporation	(D)	- 0 -	☐ Domestic Limited Partnership	(M)	$300
☐ Foreign Non-Stock Corporation	(F)	- 0 -	☐ Foreign Limited Partnership	(P)	$300
☐ Foreign Insurance Corporation	(F)	$300	☐ Domestic Limited Liability Partnership	(A)	$300
☐ Foreign Interstate Corporation	(F)	- 0 -	☐ Foreign Limited Liability Partnership	(E)	$300
☐ SDAT Certified Family Farm	(A,D,M,W)	$100	☐ Domestic Statutory Trust	(B)	$300
☐ Real Estate Investment Trust	(D)	$300	☐ Foreign Statutory Trust	(S)	$300

Name of Business

Mailing Address

Make Address Corrections Here

☐ Check here if this is a change of address

INCLUDE DEPARTMENT ID NUMBER ON CHECK

PLEASE STAPLE CHECK HERE

Type or Print Department ID Number Here

ID # PREFIX

DEPARTMENT ID NUMBER ID# PREFIX ☐	FEDERAL EMPLOYER IDENTIFICATION NUMBER	
DATE OF INCORPORATION OR FORMATION	STATE OF INCORPORATION OR FORMATION	FEDERAL PRINCIPAL BUSINESS CODE
TRADING AS NAME	☐ Please check here if you do not want personal property forms mailed to you next year.	

SECTION I

A. Is any business conducted in Maryland? ________ (Yes or No) Date began: ________

B. Nature of business conducted in Maryland: ________

C. Does the business own, lease or use personal property located in Maryland? ________ (Yes or No) If No, skip SECTION II.

ONLY CORPORATIONS COMPLETE ITEM D

D. Names and addresses of officers and names of directors (type or print):

OFFICERS

Names	Addresses
President	
Vice-President	
Secretary	
Treasurer	

DIRECTORS

Names	Names

10/13

Personal Property
Form 1 – Page 2

BUSINESS TANGIBLE PERSONAL PROPERTY LOCATED IN MARYLAND

EACH QUESTION MUST BE ANSWERED—SEE INSTRUCTIONS

ROUND CENTS TO THE NEAREST WHOLE DOLLAR

2014
Form 1
continued
Page 2 of 4

SECTION II

A. IMPORTANT: Show exact location of all personal property owned and used in the State of Maryland, including county, town, and street address (PO Boxes are not acceptable). This assures proper distribution of assessments. If property is located in two or more jurisdictions, provide breakdown by locations by completing additional copies of Section II for each location.

(County)

(Address, Number and Street) (Zip Code)

☐ Check here if this location has changed from the 2013 return.

(Incorporated Town)

Is the property located inside the limits of an incorporated town? ________ (Yes or No)

Note: If all of the personal property of this business is located entirely in the following exempt counties: Frederick, Garrett, Kent, Queen Anne's, or Talbot, you may be eligible to skip the remainder of Section II. Refer to Specific Instructions, Section II, A for more information.

① **Furniture, fixtures, tools, machinery and equipment not used for manufacturing or research and development.** State the original cost of the property by year of acquisition and category of property as described in the Depreciation Rate Chart on page 4. Include all fully depreciated property and property expensed under IRS rules.

Columns B through G require an explanation of the type of property being reported. Use the lines provided below. If additional space is needed, provide a supplemental schedule. Failure to explain the type of property will result in the property being treated as Category A property (see instructions for example). **Refer to the 2014 Depreciation Rate Chart on page 4 for computer equipment rates for categories B and D.**

ORIGINAL COST BY YEAR OF ACQUISITION								
	A	B	C	D	E	F	G	TOTAL COST
		SPECIAL DEPRECIATION RATES (SEE PAGE 4)						
2013								
2012								
2011								
2010								
2009								
2008								
2007								
2006 and prior								
							TOTAL COST COLUMNS A-G ➤	

DESCRIBE **B** through **G** PROPERTY HERE:

② **Commercial Inventory.** Furnish an average of 12 monthly inventory values taken in Maryland during 2013 at cost or market value of merchandise and stock in trade. Include products manufactured by the business and held for retail sale and inventory held on consignment. (Do not include raw materials or supplies used in manufacturing.) Note: LIFO prohibited in computing inventory value.

Average Commercial Inventory
$

Furnish from the latest Maryland Income Tax return:
Opening Inventory - date ________ amount $ ________
Closing Inventory - date ________ amount $ ________

Note: Businesses that need a Trader's License must report commercial inventory here.

③ **Supplies.** Furnish the average cost of consumable items not held for sale (e.g., contractor's supplies, office supplies, etc.).

Average Cost
$

④ **Manufacturing/Research and Development (R&D) Inventory.** Furnish an average of 12 monthly inventory values taken in Maryland during 2013 at cost or market value of raw materials, supplies, goods in process and finished products used in and resulting from manufacturing/R&D by the business. (Do not include manufactured products held for retail sale.)

Average Manufacturing/R&D Inventory
$

Furnish from the latest Maryland Income Tax return:
Opening Inventory - date ________ amount $ ________
Closing Inventory - date ________ amount $ ________

Personal Property Form 1 – Page 3

2014

Form 1
continued
Page 3 of 4

⑤ **Tools, machinery and equipment used for manufacturing or research and development:** State the original cost of the property by year of acquisition. Include all fully depreciated property and property expensed under IRS rules. If this business is engaged in manufacturing / R&D, and is claiming such an exemption for the first time, **a manufacturing / R&D exemption application must be submitted on or before September 1, 2014** before an exemption can be granted. **See instruction 11 for exception.** Contact the Department or visit www.dat.state.md.us for an application.

If the property is located in a taxable jurisdiction, a detailed schedule by depreciation category should be included to take advantage of higher depreciation allowances.

ORIGINAL COST BY YEAR OF ACQUISITION			
2013		2009	
2012		2008	
2011		2007	
2010		2006 and prior	

TOTAL COST $

⑥ **Vehicles with Interchangeable Registration** (dealer, recycler, finance company, **special mobile equipment,** and transporter plates) and unregistered vehicles should be reported here. See specific instructions.

ORIGINAL COST BY YEAR OF ACQUISITION			
2013		2011	
2012		2010 and prior	

TOTAL COST $

⑦ **Non-farming livestock** $ ____________ (Book Value) $ ____________ (Market Value)

⑧ **Other personal property** .... Total Cost $
File separate schedule giving a description of property, original cost and the date of acquisition.

⑨ **Property owned by others and used or held by the business** as lessee or otherwise . . . Total Cost $
File separate schedule showing names and addresses of owners, lease number, description of property, installation date and separate cost in each case.

⑩ **Property owned by the business but used or held by others** as lessee or otherwise. . . . Total Cost $
File separate schedule showing names and addresses of lessees, lease number, description of property, installation date and original cost by year of acquisition for each location. Schedule should group leases by county where the property is located. Manufacturer lessors should submit the retail selling price of the property not the manufacturing cost.

SECTION III This Section must be completed.

A. Total Gross Sales, or amount of business transacted during 2013 in Maryland: $ ____________
If the business has sales in Maryland and does not report any personal property, explain how the business is conducted without personal property. If the business is using the personal property of another business, provide the name and address of that business.

B. If the business operates on a fiscal year, state beginning and ending dates: ____________

C. If this is the business' first Maryland personal property return, state whether or not it succeeds an established business and give name: ____________

D. Does the business own any fully depreciated and/or expensed personal property located in Maryland? ☐ yes ☐ no
If yes, is that property reported on this return? ☐ yes ☐ no

E. Does the submitted balance sheet or depreciation schedule reflect personal property located outside of Maryland? ☐ yes ☐ no
If yes, reconcile it with this return.

F. Has the business disposed of assets or transferred assets in or out of Maryland during 2013? ☐ yes ☐ no If yes, complete Form 4C (Disposal and Transfer Reconciliation).

• PLEASE READ "IMPORTANT REMINDERS" ON PAGE 4 BEFORE SIGNING •

I declare under the penalties of perjury, pursuant to Tax-Property Article 1-201 of the Annotated Code of Maryland, that this return, including any accompanying schedules and statements, has been examined by me and to the best of my knowledge and belief is a true, correct and complete return.

NAME OF FIRM, OTHER THAN TAXPAYER, PREPARING THIS RETURN

PRINT OR TYPE NAME OF CORPORATE OFFICER OR PRINCIPAL OF OTHER ENTITY TITLE

X
SIGNATURE OF PREPARER DATE

X
SIGNATURE OF CORPORATE OFFICER OR PRINCIPAL DATE

( )
PREPARER'S PHONE NUMBER E-MAIL ADDRESS

( )
BUSINESS PHONE NUMBER E-MAIL ADDRESS

See top of page 4 for correct mailing address

Personal Property Form 1 – Page 4

MAILING INSTRUCTIONS

Use the address below for:	Use the address below for:
• originally filed 2014 personal property returns. • originally filed prior year returns. State of Maryland Department of Assessments & Taxation Personal Property Division PO Box 17052 Baltimore, Maryland 21297-1052 • **Do not send Certified Mail to this PO Box. See box at right.**	• US Postal Service Certified Mail. • all overnight delivery service mail. • amended returns, correspondence, appeals, applications, etc. • late filing penalty payments. **State of Maryland Department of Assessments & Taxation Personal Property Division 301 W Preston St Baltimore, Maryland 21201-2395**

2014

Form 1
continued
Page 4 of 4

IMPORTANT REMINDERS

- Rules for 2014 personal property extensions:
  Internet extension requests are due by April 15, 2014 and are free of charge.
  Paper extension requests are due on or before March 17, 2014 and require a $20 processing fee for each entity.
- **The annual report filing fee is $300 for most legal entities. Be sure to enclose the correct fee with the Form 1.**
- **Manufacturing/R&D application deadline is September 1, 2014. Exception for tax years beginning after June 30, 2009 - an exemption application may be filed within 6 months after the date of the first assessment notice for the taxable year that includes the manufacturing personal property. See instruction 11 for more information.** A manufacturing exemption cannot be granted unless a timely application is filed. Once filed, no additional applications are required in subsequent years.
- Entities requesting a revised assessment due to other **missed exemptions** (vehicles, software, charitable organizations, etc.) must file that request within three years of the April 15th date the return was originally due.
- Do not prepay late filing penalties or pay personal property taxes to this Department.
- Business entities that require a Trader's License must report commercial inventory on line item ②.
- This return must be accompanied by Form 4A (Balance Sheet) or latest available balance sheet, and Form 4B (Depreciation Schedule), unless the business does not own any personal property in Maryland. All information on pages 2 and 3 of this report and supporting schedules are held confidential by the Department and are not available for public inspection. Page 1 is public record (Tax-Property Article 2-212).
- If you discontinued business prior to January 1, 2014, notify the Department immediately, stating to whom and the date all personal property was sold. If the business is sold on or after January 1, 2014 and before July 1, 2014, submit statement of sale, including value of personal property, date of sale, name and address of the buyer on or before October 1, 2014.
- File the pre-addressed return to ensure proper posting to your account.
- This return must be signed by an officer or principal of the business.
- Make check for filing fee payable to Department of Assessments and Taxation. Place the Department ID number on the check.
- Place the Department ID number on page 1 if the pre-addressed return is not used.

LATE FILING PENALTY

DO NOT PAY PENALTIES AT TIME OF FILING RETURN

- A business which files an annual return postmarked after the due date of April 15, 2014 will receive an initial penalty of 1/10 of one percent of the county assessment, plus interest at the rate of two percent of the initial penalty amount for each 30 days or part thereof that the return is late.
- Businesses which fail to file this report will receive estimated assessments which will be twice the estimated value of the personal property owned.

DEPRECIATION RATE CHART FOR 2014 RETURNS

STANDARD DEPRECIATION RATE

Category A: 10% per annum*
All property not specifically listed below.

SPECIAL DEPRECIATION RATES (The rates below apply only to the items specifically listed. Use Category A for other assets.)

Category B: 20% per annum*
Mainframe computers originally costing $500,000 or more.

Category C: 20% per annum*
Autos (unlicensed), bowling alley equipment, brain scanners, carwash equipment, contractor's heavy equipment (tractors, bulldozers), fax machines, hotel, motel, hospital and nursing home furniture and fixtures (room and lobby), MRI equipment, mobile telephones, model home furnishings, music boxes, outdoor Christmas decorations, outdoor theatre equipment, photocopy equipment, radio and T.V. transmitting equipment, rental pagers, rental soda fountain equipment, self-service laundry equipment, stevedore equipment, theatre seats, trucks (unlicensed), vending machines, x-ray equipment.

Category D: 30% per annum**
Data processing equipment, canned software.

Category E: 33⅓% per annum*
Blinds, carpets, drapes, shades. The following applies to equipment rental companies only: rental stereo and radio equipment, rental televisions, rental video cassette recorders and rental DVDs and video tapes.

Category F: 50% per annum*
Pinball machines, rental tuxedos, rental uniforms, video games.

Category G: 5% per annum*
Boats, ships, vessels, (over 100 feet).

Long-lived assets
Property determined by the Department to have an expected life in excess of 10 years at the time of acquisition shall be depreciated at an annual rate as determined by the Department.

* Subject to a minimum assessment of 25% of the original cost.
** Subject to a minimum assessment of 10% of the original cost.

DATE OF ASSESSMENT NOTIFICATION

OFFICE USE ONLY

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Personal Property Form 4A

STATE OF MARYLAND
DEPARTMENT OF ASSESSMENTS AND TAXATION
PERSONAL PROPERTY DIVISION
FORM 4A

Balance Sheet

2014
Form 4A

Name of Business ____________________

Department ID Number [ ] ___ ___ ___ ___ ___ ___ ___ ___

	Beginning of Period ___/___/___ month day year		End of Period ___/___/___ month day year	
	WITHIN MARYLAND	TOTAL*	WITHIN MARYLAND	TOTAL*
ASSETS CURRENT ASSETS				
1. Cash				
2. Marketable Securities				
3. Accounts Receivable				
4. Inventory				
5. Other Current Assets				
PROPERTY, PLANT AND EQUIPMENT				
6. Land				
7. Buildings				
8. Leasehold Improvements				
9. Equipment				
10. SUBTOTAL Property, Plant and Equipment				
11. Accumulated Depreciation				
12. Net Property, Plant and Equipment				
INTANGIBLE AND OTHER ASSETS				
13. Intangible				
14. Other (provide schedule)				
15. TOTAL ASSETS				
LIABILITIES AND EQUITY CURRENT LIABILITIES				
16. Accounts Payable				
17. Other Current Liabilities				
LONG TERM LIABILITIES AND EQUITY				
18. Mortgage, Notes, Bonds Payable				
19. Other Long Term Liabilities				
20. Capital Stock				
21. Paid in or Capital Surplus				
22. Retained Earnings				
23. Other				
24. TOTAL LIABILITIES AND EQUITY				

*Omit TOTAL columns when all assets are located in Maryland.

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Personal Property Form 4B and 4C

Maryland
Form 4B

Depreciation Schedule

2014
Form 4B & 4C

PROPERTY IN MARYLAND AS OF ______/______/______

	TOTAL COST	DEPRECIATION THIS YEAR	ACCUMULATED DEPRECIATION	BOOK VALUE
1. Land				
2. Building				
3. Leasehold Improvements				
4. Transportation Equipment (Registered)[A]				
5. Transportation Equipment (Not Registered and Interchangeable Registrations)				
6. Furniture & Fixtures				
7. Machinery & Equipment				
8. Other (Specify)				
9. Totals:[B]				
10. Expensed Property (Not Reported on Depreciation Schedule)[C]				
11. Exempt Personal Property[D] (Included in line 9 above and not reported on the return.)				

EXEMPTION CLAIMED

Type of Organization
- ☐ Charitable ☐ Religious
- ☐ Educational ☐ Veterans
- ☐ Other ______________________ SPECIFY

Type of Property
- ☐ Vehicles (Registered) ☐ Vessels (under 100 ft.)
- ☐ Aircraft ☐ Farming Implements (Farmers Only)
- ☐ Rental Heavy Equipment[E] ☐ Other ______________ SPECIFY

A. Vehicles with Interchangeable Registrations (dealer, recycler, finance company, special mobile equipment, and transporter plates) are to be reported on line 5.

B. Total line must equal Line 10 on the Balance Sheet Form 4A.

C. Include all expensed property located in Maryland not reported on the Depreciation Schedule Form 4B.

D. If exempt property is owned check the appropriate boxes under line 11. Exempt organizations need to provide written justification for the claimed exemption with the return. Organizations required to file IRS Form 990 should also submit a copy of the latest available filing.

E. For Rental Heavy Equipment Only – An entity must meet all of the following provisions: 1) largest segment of its total receipts is from the short-term lease or rental of heavy equipment at retail without operators; 2) it must be defined under Code 532412 of the North American Industry Classification System; 3) the property must meet the definition of heavy equipment property in § 9-609(D)(5) of the Political Subdivisions Article and 4) the lease or rental of the heavy equipment property is for a period of 365 days or less.

Maryland
Form 4C

DISPOSAL AND TRANSFER RECONCILIATION

	BALANCE 1/1/2013	TRANSFERS IN DURING 2013	2013 ACQUISITIONS	TRANSFERS OUT & DISPOSALS*	BALANCE 1/1/2014
1. Furniture, Fixtures, Tools Machinery and Equipment					
2. Motor Vehicles					
3. Manufacturing/R&D Equip.					
4. Leased Property					
5. Totals					

This section must be completed by those businesses which transferred or disposed of personal property located in Maryland during 2013.

Property "Transferred In" from locations outside Maryland, property acquired and property "Disposed Of" or "Transferred Out" during 2013 must be reported above and reconciled with the totals from last year's return.

*If transfers out and disposals made during 2013 are more than $200,000 or greater than 50% of the total property reported as of 1/1/2013, complete the information below.

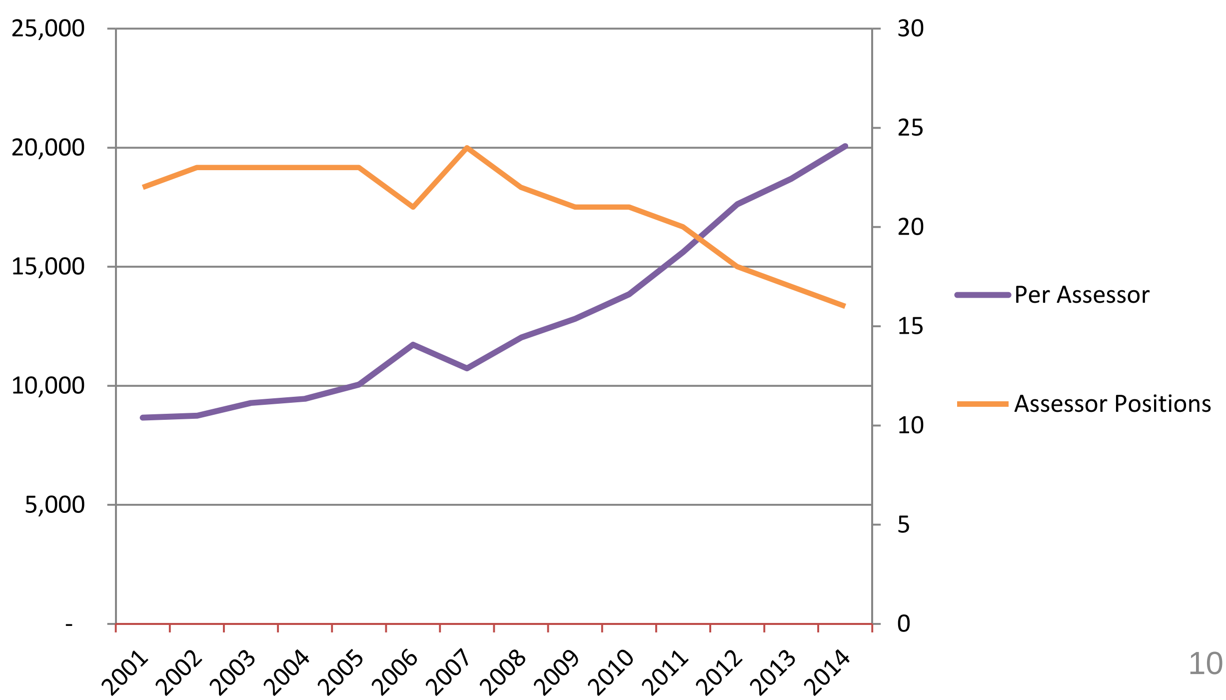
TRANSFERS	Date of transfer:	Location where transferred? City: State:	
DISPOSALS	Date of disposal:	Manner of disposal? (sale, junked, donation, etc.)	Name of buyer? (For Sales Only)

This form was printed from the DAT web site.

Personal Property Assessor Workload

Filing Year	Returns Filed	Filled Assessor Positions (as of April 15)	Returns per Assessor
2001	190,476	22	8,658
2002	201,066	23	8,742
2003	213,480	23	9,282
2004	217,468	23	9,455
2005	231,224	23	10,053
2006	246,244	21	11,726
2007	257,511	24	10,730
2008	264,565	22	12,026
2009	268,960	21	12,808
2010	290,707	21	13,843
2011	312,424	20	15,621
2012	317,244	18	17,625
2013	317,768	17	18,692
2014**	321,000	16	20,063

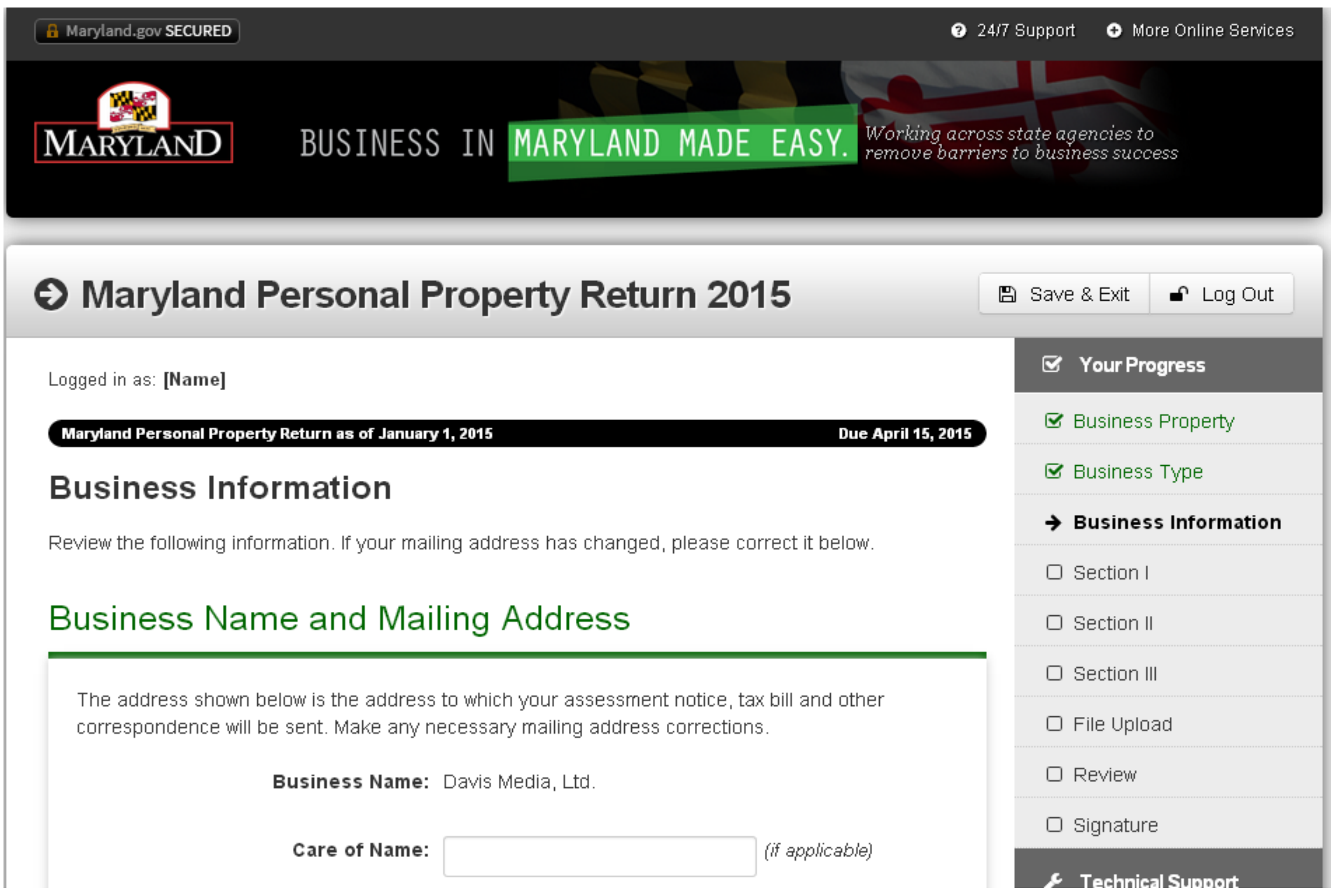
** projected



Personal Property Assessor's Role

- ❖ Review returns and supporting financial documents
- ❖ Validate category selections
- ❖ Allocate value to proper County/Municipality
- ❖ Review manufacturing exemption applications and provide recommendations to supervisor (approvers)
- ❖ Review charitable/educational/religious exemption requests, provide detail to supervisor
- ❖ Process amended returns
- ❖ Handle first line appeals
- ❖ Answer correspondence/phone calls/e-mails; explain Personal Property laws, procedures and policies to taxpayers, local officials, preparers, and public
- ❖ Revise data system information (MBES), Federal Business Codes, FEIN, assessor alerts, entity notes
- ❖ Staff the public counter

Online Personal Property Filing System



STATISTICS & REPORTS

Annual Reports of the Department: Annual report of the Department providing an overview of important actions taken by the Department over the prior year and various statistical reports.

- Sixty-Ninth Report of the Department of Assessments and Taxation (Fiscal Year 2013)
- Sixty-Eighth Report of the Department of Assessments and Taxation (Fiscal Year 2012)
- Sixty-Seventh Report of the Department of Assessments and Taxation (Fiscal Year 2011)
- Sixty-Sixth Report of the Department of Assessments and Taxation (Fiscal Year 2010)

Assessment Appeals: Data on the number of reassessment appeals made to the county supervisors of assessments. Produced annually in the spring. These tables are from the Annual Reports of the Department.

Appeals filed since Fiscal Year 2003

Assessable Base Estimates: The assessable base for the current and two following years is estimated each November and updated in March. These tables show the assessable value of various types of property by county. The property types broken out are: real property, new construction, utility real and personal property, railroad real and personal property, and other business personal property.

Assessment Ratio Surveys: Annual report comparing the values determined by the Department with actual sale prices. This report includes narrative as well as several tables of data.

- 2013 Assessment Ratio Survey Report
- 2012 Assessment Ratio Survey Report
- 2011 Assessment Ratio Survey Report
- 2010 Assessment Ratio Survey Report

Number of Accounts AIMS 1: These tables show the number of real property accounts in each county, broken down by land use code and whether the land is vacant or has buildings (is improved). The land use codes are: agricultural, country club, marsh, residential, condominiums, residential/commercial, commercial, industrial, commercial condominiums, apartments, commercial/residential, and townhouses. (Note: Not all counties use all codes.) These tables also show the number of exempt accounts. These tables are also known as an AIMS 1 report and are produced annually in July.

July 2014 July 2013 July 2012 July 2011 July 2010

Real Property Base AIMS 2: These tables show the taxable real property assessable base by each county, broken down by land use code and whether the land is vacant or has buildings (is improved). The land use codes are: agricultural, country club, marsh, residential, condominiums, residential/commercial, commercial, industrial, commercial condominiums, apartments, commercial/residential, and townhouses. (Note: Not all counties use all codes.) The tables are also known as an AIMS 2 report and are produced annually in July.

July 2014 July 2013 July 2012 July 2011 July 2010

Reassessments: Data regarding property reassessments which is produced annually in late December.

January 1, 2014 Revaluation: Press release and report
January 1, 2013 Revaluation: Press release and report
January 1, 2012 Revaluation: Press release and report
January 1, 2011 Revaluation: Press release and report
January 1, 2010 Revaluation: Press release and report

Residential Sales: Data on the number of transactions and the median sale price for owner-occupied arms-length real property transfers by county.

- **Fiscal Year 2014 (July 1, 2013 to June 30, 2014)**
- Fiscal Year 2013 (July 1, 2012 to June 30, 2013)
- Fiscal Year 2012 (July 1, 2011 to June 30, 2012)
- Fiscal Year 2011 (July 1, 2010 to June 30, 2011)
- Download **Microsoft Excel file** that has tables covering fiscal years since 2000.

Tax Credits: Data on the most recent Homeowner's and Renters' Tax Credits by county. Includes the number of applications, number of credits issued, total credit amount, and average credit.

- Homeowners' Tax Credit Statistics
- Renters' Tax Credit Statistics

Tax Exemptions: Data on the amount of assessable base exempt from taxation by county and general type of exemption (government, educational, religious, charitable, benevolent, fraternal, blind, veteran and other).

Real Property Exemptions since fiscal year 2003

Property Tax Rates: Current and prior year's State, county and municipal tax rates.

- County & Municipal property tax rates in effect for July 1, 2014 tax bills.
- County & Municipal property tax rates in effect for July 1, 2013 tax bills.
- County & Municipal property tax rates in effect for July 1, 2012 tax bills.
- County & Municipal property tax rates in effect for July 1, 2011 tax bills.
- County & Municipal property tax rates in effect for July 1, 2010 tax bills.
- Current Constant Yield Tax Rates

The prior years statistical data and reports listed below are available by e-mailing a request to sdat.inquiry@maryland.gov Available reports will be emailed in a pdf format. For statistics and reports produced before 1990 contact the Maryland State Archives at 800-235-4045; http://www.mdarchives.state.md.us.

AIMS 1 - since 1990	Ratio Report - since 2000
AIMS 2 - since 2001	Reassessments - since 2000
Annual Reports - since 2000	Renter's Tax Credit - since 1990
Assessment Appeals - since 1990	Tax Exempt Real Property - since 1990
Homeowners Tax Credit - since 1993	

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