

PUBLIC OVERSIGHT HEARING
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF TAX AND REVENUE
REAL PROPERTY TAX ADMINISTRATION

Before the
Committee on Finance & Revenue
Council of the District of Columbia

The Honorable Jack Evans, Chairman

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John A. Wilson Building
Council Chambers



Testimony of
Stephen M. Cordi
Deputy Chief Financial Officer
Government of the District of Columbia

Mr. Chairman and members of the Committee , I am Stephen Cordi, Deputy Chief Financial Officer for the Office of Tax and Revenue. I am here before you today to discuss the real property assessment process administered by the Office of Tax and Revenue.

The Assessment Process

OTR annually appraises approximately 195,000 parcels of real estate in the District. The law provides for OTR to value property at market as of January 1st of the year before the tax year, authorizing three approaches to value, comparable sales, replacement cost and capitalized income.

All three methods are considered when valuing properties, however, one approach may hold more weight than others in the final value reconciliation, making one approach primary and the other two supporting.

The sales comparison approach assumes that the sales price of a property is a proxy for its market value. An unsold subject property's value may be determined by comparing it to similar properties that have recently sold, adjusting for differences between the sold properties and the subject.

The sales comparison approach is best suited for the valuation of property where there are an adequate number of sales of similar properties where few

adjustments to the sales properties are necessary. This situation is most typically found in residential properties in the District.

The income approach to valuation involves capitalizing net operating income by a capitalization rate to arrive at a market value. This approach is typically the best method for appraising income-producing commercial properties such as office buildings, retail shopping centers, hotels and the like. These properties are owned by investors whose primary motive for ownership is the production of income, and, as such, they make purchase decisions based on the value of the income stream of the property.

The cost approach to value follows the formula where market value equals the current replacement cost new of the improvements, less any depreciation, plus the value of the land. This approach is best suited for newly-constructed property where building costs and land values are well documented. The approach is typically used to establish the initial market value of newly constructed commercial properties until such time as their income streams become stable and the more reliable income approach may then be employed.

Throughout the year, appraisers physically inspect properties in order to update our records, compare properties to their sales prices, and identify new construction. Our computer assisted mass appraisal, or CAMA, system is annually calibrated to replicate the market based on extensive sales analyses and the property inspections conducted by our staff.

The office relies on proprietary income models and the income approach to value its major commercial properties. Data to help calibrate its income models include information derived from the approximately 11,000 income and expense forms filed each year, along with a commissioned capitalization rate study by a reputable appraisal research firm.

Near the end of our valuation, usually about mid-January each year, a variety of edits and reports are generated to ensure the values are both uniform and equitable. Both the appraisers and supervisory staff review and refine the values to ensure uniformity and equalization. Assessment notices are mailed to taxpayers by March 1.

Taxpayers who wish to appeal their assessments must do so by April 1. The first level appeal is informal and usually consists of a face-to-face meeting

with the appraiser to review the valuation, correct any data errors and exchange any valuation information available. The taxpayer may also have the hearing conducted over the phone or submit a wholly written appeal. Hearings are typically scheduled from April through June.

After the decision of the appraiser has been reviewed by a supervisor, a Notice of First Level Appeal is sent to the taxpayer. If the taxpayer is not satisfied with the results, an appeal may be filed within 45 days to the Real Property Tax Appeals Commission (RPTAC), previously the Board of Real Property Assessments and Appeals (BRPAA), the second level of appeal. Once RPTAC gets the application, it will schedule a *de novo* hearing.

If new information concerning the assessment under appeal is made available far enough in advance of a RPTAC hearing, OTR may enter into a stipulation with the taxpayer agreeing to a lower value. In order for this to happen, OTR must have the opportunity for full supervisory approval based upon predetermined thresholds. Once a stipulation is agreed to and signed, it will be submitted to RPTAC which, if it approves, will cancel the hearing. If the new information became available, but the parties do not have enough time to agree on a stipulation, the appraiser will make a recommendation as

to value. If the taxpayer is not satisfied with the results of a hearing at RPTAC, an appeal to Superior Court, the third level of appeal, may be filed by September 30. Either party may request a re-hearing at RPTAC, but only the taxpayer may appeal a RPTAC decision.

When an appeal is made to the Superior Court, the Office of the Attorney General (OAG) manages the case. The OAG must file a response with the District's answer within 60 days of the initial court notice. After that, the Court schedules the first of two mandatory mediations.

Within 60 days of mediation, the petitioner submits its settlement offer to OAG which then reviews it and presents it to OTR within 30 days of the mediation. If the mediation is successful, OAG notifies OTR that the case has been settled and will confer with the opposing counsel to draft a settlement memorandum to be presented to the Court. If the Court accepts the settlement memorandum, a court order is transmitted to OTR.

If the mediation is not successful, the judge will issue a scheduling order. The scheduling order sets discovery deadlines and OTR will produce the necessary documents, to include an expert appraisal report, by the stated

deadline. After the parties exchange expert appraisal reports and other discovery items, the Court will schedule the second mandatory mediation. If the second mandatory mediation fails to reach a settlement, the Court will schedule the case for trial.

At this point, I should note that the backlog of cases at Superior Court has grown from barely 300 at the end of 2007 to more than 1,200 today. The Superior Court does not have the capacity to decide any large number of these cases. In recent years, Superior Court has tried no more than 2 or 3 cases a year. Taxpayers must pay the taxes while their cases are pending in Superior Court and, of course, representatives of the property owners, who are paid on a contingent fee basis, are not being paid. It is no coincidence that the growth in settlements has paralleled the growth in the Superior Court backlog. We believe that taxpayers have been willing to approach us with settlement offers which are no better than they might expect by pursuing a decision at BRPAA to avoid the adverse consequences of falling into the Superior Court backlog.

To a very large degree, the number of commercial appeals, settlements and recommendations and account adjustments is occasioned by the fact that

assessments must be mailed on March 1st of each year but income and expense statements are not required to be filed with OTR until April 15th.

We, therefore, support the suggestion that you, Mr. Chairman, have made, in your pre-hearing questions to Dr. Gandhi, of moving the mailing of commercial assessments until after the income and expense reports have been received and processed. We believe that there is enough time available in the process for this to be accomplished without delaying the ultimate resolution of cases by RPTAC. With prompt Council action, this is a change that could be implemented in time for mailing the 2014 assessment notices next year, resulting in higher quality assessments with fewer appeals.

OTR is ready to assist your staff in drafting such legislation if you decide you would like to proceed with the proposal.

The CAMA System Audit

Let me turn now to OIO's audit of the roll correction process in OTR's CAMA system. It has been widely-reported that OIO conducted audit of OTR's assessment roll correction process and the CAMA system. It is important to understand that the relationship between OTR and OIO is not adversarial, but in fact highly collaborative. Both organizations share a strong commitment to maintaining strong internal controls and improving

tax administration. In keeping with that spirit, OIO made a number of well-taken recommendations for improvements in its roll correction and CAMA audit. OTR agreed with virtually all of the recommendations and has largely implemented them. These included recommendations for additional reviews of transactions, additional reconciliations, revised procedures and the maintenance of additional documentation. As is often the case, OTR responded to several of the recommendations by proposing alternative corrective action which OIO found to be acceptable.

OIO did raise a concern about what it believed at the time to be the lack of an audit trail of transactions in the CAMA system and recommended that such a trail be developed. After additional work conducted jointly by OTR and OIO staff, OIO determined that the CAMA system had an audit function that sufficiently tracks all transactions including any changes made to previous assessment values. At the request of Finance and Revenue committee staff, OTR and OIO staff provided a briefing last week on this additional work which led to OIO's acknowledgement that an audit trail exists within the CAMA system. With the assistance of OIO staff, OTR is now in the process of developing procedures to utilize this tracking information.

Committee staff, in exercising its due diligence, made an on-site visit to OTR last week to review, with the Real Property Tax Administration, the operation of the CAMA system and the details of the system's audit trail. We extend an invitation to members of the Council and staff members to visit with us to obtain of a better understanding of the operation CAMA system.

Finally, I should take note of news reports of prior year OIO reports of OTR audits going back to 2001. In all cases, OTR responded to the recommendations in these audits with responses that OIO found acceptable and the issues identified have long since been resolved. There was a brief reference to the recommendations of the Wilmer Hale report. There, the Inspector General reported to the Council on xxx that the Chief Financial Officer had complied with 97% of Wilmer Hale recommendations. The principal recommendation not completed as of the time was the replacement of ITS. The Council provided the necessary capital funds last year, an RFP has been issued, responses have been received, the agency expects to make a selection shortly and bring the contract to the council for approval before the end of this year.

Conclusion

Thank you for the opportunity to testify today.