

PUBLIC OVERSIGHT HEARING

on:

OFFICE OF THE CHIEF FINANCIAL OFFICER

and the

**DC LOTTERY AND CHARITABLE GAMES
CONTROL BOARD**

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

The Honorable Jack Evans, Chairman

**December 13, 2012
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 developments relating to the real property assessment process administered by the Office of Tax and Revenue since your oversight hearing of October 10. In particular, it is important to emphasize that we continue to stand by our real property assessment process and settlements which have been reached in cases before both the Board of Real Property Assessments and Appeals and the Superior Court.

The Report on the Evaluation of the District's Management and Valuation of Commercial Real Property Assessments

By far the most significant development since the hearing of October 10th insofar as real property tax administration is concerned, is the issuance on November 16, of a report prepared by Almy, Gloudemans, Jacobs and Denne, property tax and assessment consultants of Phoenix, Arizona, under the direction of the Inspector General. The requirement for the report was enacted as part of the Fiscal Year 2011 Budget Support Act of 2010.

The report was generally complimentary of the District's commercial real property assessment process. It did make 28 recommendations, not all of

which were directed to OTR. The Inspector General has requested that OTR respond to the recommendations by January 15, 2013.

Preliminarily, OTR is generally supportive of the recommendations directed to it. Most of these are internal, such as recommendations for additional training, specialization by type of property, increased modeling, and modest organizational changes. The report does make several policy recommendations which require some discussion.

The most important of these is that OTR should no longer consider long-term contract rent derived from long-term leases and shift to a purely economic income basis which values properties as though the encumbrances of existing long-term leases did not exist. OTR sharply disagrees with the contention set forth in the report that its current practice is based upon a “selective reading” of the *National Place* case. We have responded to this particular allegation in a letter to the *Washington Post* published on November 29, in which we pointed out that our reading of the Superior Court in the *National Place* case was not “selective” but compelled by a Court of Appeals decision.

Any change in how contract rent is used in determining commercial property assessments will have to emanate from the Council. OTR does have the legal authority to make such a change. While adopting the change could, in theory, simplify modeling for OTR, as a practical matter, the change would amount to a significant tax increase, value properties at more than the amount for which they could in fact be sold and put the District at odds with both Maryland and Virginia which take into consideration contract rent to the same extent as the District does at present.

The report does pick up on the suggestion made by you and supported by us at the hearing of October 10, that the date of the mailing of notices of assessment for income producing properties should be deferred until after OTR has had an opportunity to receive and review Income and Expense statements for the preceding calendar year. I will say more about this in a moment.

Appeals at Superior Court

As I advised the Committee in my testimony of October 10, the number of appeals pending at Superior Court has grown from barely 300 in 2007 to more than 1,200 today. The Court simply does not have the capacity to decide any large number of these cases. As a consequence, much of its

efforts are directed to encouraging settlements through its two formal mediation programs and through a Case Resolution Session (CRS) procedure worked out by a task force which it created, consisting of private practitioners and the Attorney General's Office. While the Office of Tax and Revenue was not a participant in the task force, once the procedures developed by the task force were established, OTR worked with the Attorney General's Office and the practitioners to settle those cases which could be settled on terms favorable to the District. Not surprisingly, as the backlog of cases at Superior Court quadrupled, the number of settlements increased in proportion. The vast majority of cases pending at Superior Court, however, do not lend themselves to settlement on terms favorable to the District. These are likely to remain undecided for some time.

Mailing of Assessment Notices for Income Producing Properties

Returning to the proposal to defer the mailing of assessments on income-producing property until after Income and Expense statements are received, the OCFO has prepared, and submitted to your office, draft legislation for this purpose. Under present law, assessments are mailed on March 1, appeals are due on April 1, Income and Expense statements are filed on April 15 and all first level appeals are decided by August 1. The last day to

appeal to the Real Property Tax Appeals Commission is 45 days from the date of the first level appeal decision or September 30, whichever is earlier. Under the proposal submitted to your office, the due date for Income and Expense statements is advanced to April 1 (where it was for many years until changed to April 15 several years ago), the mailing of assessments for approximately 11,000 income-producing properties would be delayed until June 15, the appeal deadline would become July 15, first level decisions on these properties would be made by August 31 and the appeals deadline for the commission would remain at 45 days from the date of the first level appeal decision or September 30, whichever is earlier. Thus, all cases would reach the Commission no later than at present, so there should be no need for additional changes to the schedule. We will have a chance to discuss all of this in more detail at the hearing on the bill. The point here is that we have an opportunity to improve the assessment process while reducing the need for adjustments occasioned by not having income information before assessment notices are mailed.

CAMA Upgrade

OTR is moving ahead with its plan to upgrade its VISION Computer-Assisted Mass Appraisal system (CAMA) from Version 6.4 to Version 7.

Version 7 will provide additional enhancements to make the work of our appraisers more efficient and effective. As stated in October, the system has an audit trail of the changes made. The upgrade will improve controls by providing:

- User Permission – enhanced security that includes the ability to set up rights for viewing, editing and hiding all screens and/or fields in the data base
- Password Policy – including complexity settings, allowing the administrator to specify minimum character requirements, password history settings, global settings for fail attempts and iteration settings
- Administrative module – a module separate from the data elements database
- Enhanced User audit trail – a new screen at the parcel level
- Enhanced audit trail features – tracking every change including the logged in user, day and time, table, field and a description of changes, including mass updates and table recalculation batch jobs.

The implementation is on target for the end of the fiscal year.

Roll Correction Audit

- At the hearing on October 10, I testified that the Office of Integrity and oversight had made a number of well-taken recommendations for improvements in its roll correction and CAMA systems. As I noted at the time most of the recommendations have been implemented. Some remain in progress. Most of the recommendations which remain in progress will be completed by December 31st or will be addressed through the system upgrade.

Outreach

OTR is engaged in a number of outreach activities. We are constantly working towards connecting with taxpayers. Since the October 10, hearing, outreach entailed:

- On October 18, Rob Farr, Director of the Real Property Tax Administration, met with Michael Allen to address his concerns about commercial real estate matters.
- On October 22, Rob Farr, along with Steve Cappello, Acting Chief Appraiser, and Jack Gordon, Residential Manager, met with a group of advocates to discuss their concerns about residential real property tax administration issues.

- Additionally, on October 25, Dr. Natwar Gandhi, Steve Cordi and Rob Farr met with Amy Mix of Legal Counsel for the Elderly and other advocates to discuss their concerns regarding the needs of senior citizens in dealing with tax issues. There was a follow-up meeting concerning the FOIA request they submitted and we anticipate future sessions to work with them to resolve the issues concerning how the tax office interacts with senior citizens.

The Office of Tax and Revenue has formed a residential advisory board, which consists of DC homeowners, to provide information and insight to OTR and to provide advice on policies and programs relating to residential real property taxes. The first meeting is scheduled for January 24, 2013.

Throughout the month of March 2013, OTR will hold a series of community outreach seminars in each ward. The neighborhood assessor will be on hand to address specific billing, assessment and appeal concerns. Additional services, such as free tax preparation of the DC personal income tax returns, problem resolution, and payment arrangements will also be provided.

Conclusion

Thank you for the opportunity to testify today.