Commercial Property Assessments in Baltimore

A Costly Problem – A Strategic Opportunity

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Introduction

This study was prompted by a belief that a significant number of commercial and industrial real properties in the City of Baltimore are now, and have historically been, assessed for taxation purposes significantly below prevailing fair market value; and as a result, the City of Baltimore and the State of Maryland have foregone a sizeable revenue source.

This belief has been prompted by media reports that a number of high-profile properties have transferred at prices substantially in excess of their taxable assessed values, such as the following:

	Sale Price	Assessed Value (AV)	Difference	AV as % of Sale Price
First Union Bldg. 7 St. Paul Street	$50,200,000	$35,000,000	$15,200,000	70%
Candler Bldg. 111 Market Place	$65,000,000	$48,000,000	$17,000,000	74%

The unrecognized value for these two properties alone, as measured by the difference between the fair market value (reflected by the sale price) and the assessed value computed in the year prior to sale by the Maryland State Department of Assessments and Taxation, led to unrealized tax revenue foregone by the City in a single year of approximately $750,000. At the same time, the State of Maryland missed the opportunity to collect approximately $42,000 annually as result of this value variance.

At the end of each year, the State Department of Assessments and Taxation (SDAT) issues an Annual Report that measures the quality of real property assessments in each of Maryland's 23 counties and the City of Baltimore. In the cover letter, the Director of Assessments and Taxation states:

> *"Uniform and accurate assessments are the foundation of fair property taxation. Maryland's Constitution requires that all real property subject to property taxation be assessed uniformly. State law requires that assessments be based on the fair market value of the property. Therefore, uniformity and market value are the standards used to measure the quality of the assessment work performed by the Department."*

In accordance with standards published by the International Association of Assessing Officers, each year SDAT computes and reports various ratios that compare the assessed value of properties that have sold to their selling prices, similarly to the examples cited above.

As illustrated by the following chart,[1] in four of the last seven years, SDAT presents ratio statistics suggesting that for properties sold, commercial property assessments represent 95 percent to 100 percent of the prices paid.

YEAR	2003	2002	2001	2000	1999	1998	1997
MEDIAN RATIO	93%	95%	97%	90%	99%	84%	100%

During this same period, SDAT reports[2] that in each year the computed median ratio complies with the standard established by the International Association of Assessing Officers, thereby inferring that the assessments are uniform and accurate.

How does one reconcile SDAT's self-reported satisfactory performance with the sales experience of the two properties presented above? Are the two sales recited above aberrations, or do they reflect a more pervasive pattern of underassessment and consequent revenue loss?

Property taxes are the result of two separate and distinct components. The State of Maryland is only one of two states (along with Montana) in which the responsibility to determine assessed value is centralized and performed by a state agency instead of by local jurisdictions. Although the State imposes a small property tax ($0.13 per $100 of assessed value), the majority of the property tax rate is independently set and collected by the City of Baltimore ($2.328 per $100 of assessed value). According to Baltimore officials, property tax revenues account for 53 percent of the City's annual operating budget. To the extent that the value of the City's assessable tax base may be understated by SDAT, the City's options include:

1. Reducing services to reflect the level of revenues generated by the current tax rate.
2. Increasing what is already the highest tax rate in the State to generate revenues to provide the intended level of services.
3. Borrowing money to fund City operations.
4. Procuring additional funding from State and federal government sources.
5. A combination of some or all of the above.

Each option has ramifications. Decreasing services might not only anger current residents and prompt them to leave the City, but could also make it difficult to attract

new residents and businesses. Increasing the tax rate could have the same effects. Borrowing money has long-term effects on the City budget. And State and federal funding sources may not always be available when needed, especially during periods of fiscal austerity.

What actions, if any, should the City take to measure, monitor and manage its commercial property tax base? Would implementing a property tax advocacy program raise revenues or simply undermine economic development efforts?
This assignment seeks to address these questions by:

1. Estimating the extent to which non-residential properties in Baltimore City are undervalued for assessment purposes, providing specific examples of non-residential properties that are undervalued.
2. Identifying and investigating the reasons for the under-assessment.
3. Developing recommendations to enhance the accuracy of SDAT's assessments.
4. Examining the nature, extent and effectiveness of the City government's role as the principal beneficiary of the tax revenues generated from property tax assessments within Baltimore.
5. Developing recommendations for improving the City government's ability to measure, monitor, and manage the assessable tax base and equitably enhance the tax revenues to be derived from non-residential real property.

WHY FOCUS ON NON-RESIDENTIAL PROPERTY?

Although the scope of work for this assignment originally intended to include both residential and non-residential property in Baltimore, the magnitude of such an assignment transcended the resources available. Furthermore, while there is anecdotal evidence suggesting instances of under-valuation of residential[3] and non-residential properties alike, inaccurate assessments of non-residential properties, although taxed at the same rate as residential properties, appear to have a disproportionate effect on State and local property tax revenues over time, and therefore warrant greater attention.

In addition, the assessment processes and procedures employed to value non-residential properties differ somewhat from those used to value owner-occupied dwellings. Although the three traditional valuation approaches (market, income, and cost approaches) underlie the assessor's conclusions for both residential and non-residential properties, mass appraisal techniques using mathematical and statistical modeling are more prevalent in the assessment of owner-occupied dwellings.

In absolute terms, the number of non-residential real properties is relatively small, representing only 6 percent of all properties in Baltimore City. However, it comprises 35 percent of the City's assessable tax base as depicted in the accompanying chart. (The three groups refer to the geographic divisions of the City used by SDAT.)

GROUP TAX BASE	2001 GROUP 1	2000 GROUP 3	1999 GROUP 2	TOTAL ALL GROUPS
RESIDENTIAL	$11,091,579,586	$4,330,473,560	$4,259,640,220	
COMMERCIAL	$5,926,071,031	$2,315,712,366	$2,280,318,410	
TOTAL	$17,017,650,617	$6,646,185,926	$6,539,958,630	
TOTAL ACCOUNTS	67,699	67,474	84,663	219,836
COMMERCIAL ACCOUNTS	3,056	5,374	5,734	14,164
RESIDENTIAL ACCOUNTS	64,643	62,100	78,929	205,672

SOURCE: SDAT Annual Report
NOTE: The significant increase in the tax base figures for 2001 are due to a change in State law that took effect that year requiring that all properties be taxed on 100 percent of their assessed value. Previously, the tax was applied to much less of a property's value, about 40 percent. As the full value of the property became subject to tax, actual tax rates were reduced by a proportional amount.

Although single-family, owner-occupied property is by far the larger component of the City's assessable tax base, the growth in tax revenues attributable to increases in the values of those properties is limited by the Homestead Tax Credit, also known as the Assessment Cap, which applies to many, but not all residential properties. Although the State limits annual increases in assessments to 10 percent, a self-imposed cap in Baltimore City limits such increases to 4 percent annually. In recent years property values in such neighborhoods as Canton, Fells Point, Federal Hill, Locust Point, Mt. Washington, Guilford, Roland Park and Homeland have been escalating annually at double-digit rates. However, unless the homeowner occupants in these neighborhoods sell their properties during this period, the homes' overall contribution to the City's tax revenues will not keep pace with the actual value of the properties, as a result of the Assessment Cap.[4] Meanwhile, residential property values in many other City neighborhoods have been stagnant or have declined, according to real estate listing services.

To illustrate the point, consider the tax revenue derived over time from a hypothetical owner-occupied residential property and the revenue produced by a non-residential property, each of which is initially valued at $100,000. As illustrated in Exhibit 2, at a uniform 8 percent rate of annual appreciation, over a 9-year period (three assessment cycles of three years each), the value of each property would appreciate 85 percent.

However, by the end of year 9, the effective rate of assessment of the non-residential property has increased 59 percent, while the owner-occupied residential property, as a result of the Homestead Tax Credit, has increased only 26.5 percent. Although appreciating in value and taxed at the same rates, non-residential property produces 10.6 percent more City tax revenues than the owner-occupied residential property. Since value increases occurring between assessment cycles are uniformly phased-in over each year of the ensuing three-year cycle, the phase-in magnifies the effect of the Homestead Tax credit. For instance, in the example, tax revenues produced by the non-residential property are 15 percent greater than those generated by the residential property when only the second and third assessment cycles (in which value increases have been phased-in) are considered.

Since non-residential real property is not subject to the Assessment Cap, any value changes that can be identified and quantified will contribute fully to the amount of tax revenues to be collected by the City and the State.

WHAT DO THE RATIOS MEAN?

According to IAAO[5], the assessor's major responsibility is to estimate the fair market value of property. Fair market value is defined as the most probable selling price in terms of money in an open market, arm's length transfer between willing and well-informed buyers and sellers.

Ratio studies provide a means to evaluate the accuracy of an assessor's value conclusions, by comparing the assessment of a property to an indicator of its actual market value (for example, the sale price obtained for the property when transferred, or, when necessary, an independent appraisal of the property in absence of sale). The ratios are computed by a mathematical equation in which the property's assessment is the numerator, and the property's actual selling price is the denominator. SDAT normally limits selection of the properties sampled to those that have sold within the current geographic assessment cycle within 6 months before and after the date of finality, January 1.

Assessment accuracy is normally viewed from two perspectives: level and uniformity. Level refers to the degree to which the assessed value of a specific property at the time of its sale approximates its selling price (used as a surrogate for market value under normal conditions). Uniformity, on the other hand, refers to the degree to which different properties are assessed at equal percentages or proportions of market value. From this perspective, it is entirely possible that some or all properties within a taxing jurisdiction can be uniformly assessed, but at levels significantly above or below their market values.

The law requires uniform treatment of property taxpayers. Ratio studies gauge whether uniformity requirements are being met. For instance, even when an appeal

proves that a property has been assessed at its fair market value (the appropriate level), if it can be shown that similar properties in the taxing jurisdiction have been assessed at 80 percent of market value, the assessment of the appealed property could equitably be reduced to 80 percent of market value so that it would be uniformly assessed.[6] The possibility of such an outcome should be adequate incentive for all taxing authorities to ensure that assessment levels as close to 100 percent of fair market value as possible are maintained for all property types.

Since all taxable properties in Baltimore do not sell every year, the measure of SDAT's assessment accuracy must be estimated by analyzing those properties that actually do sell.

Statistical measures of central tendency – mean, weighted mean, and median ratios – are most often used to gauge levels of assessed values.

The median ratio is the midpoint of the computed ratios comparing assessed values to selling prices for those properties that have sold within 6 months of the date of finality – when the ratios are arrayed from lowest to highest. A median ratio of 100 percent does not mean that all properties have been valued at fair market value. It merely indicates that of those properties evaluated, the same number of properties have been assessed at values below fair market value as have been assessed at levels above fair market value. The magnitude of the variation among the ratios and the corresponding dollar amounts associated with those properties above and below the median are not addressed. Since the median ratio is the least influenced by extreme ratios, it is the preferred measure of central tendency usually presented in SDAT reports.

As the name implies, the average ratio is the sum of all of the ratios divided by the number of ratios. The weighted ratio represents the sum of all assessed values for each of the properties in the sample, divided by the sum of their sale prices. The weighted ratio gives weight to each dollar of value in the sample, whereas the median and average ratios give equal weight to each parcel, an important distinction.

Understanding the amount of spread or degree of variation from the average or typical ratio (known as measures of dispersion) is critical to the proper interpretation of ratio statistics. Variability is measured by computing coefficients of dispersion and variation, average deviation and standard deviation. These factors help the reader to understand how closely the measures of reported central tendency (mean, median, etc.) represent the ratios of the properties that have been analyzed. The higher the resulting number, the greater is the spread or variation between the sale prices and the assessed values for the properties considered. Another important statistical measure to gauge assessment uniformity is the price related differential that is calculated by dividing the average ratio by the weighted ratio. The PRD tests to see if higher or lower valued properties are assessed at the same levels.

Although median and average ratios of 95 percent to 100 percent, such as those reported by SDAT over the last six years for Baltimore City, might imply that assessments properly reflect the fair market values of all properties, in actuality, they paint only a portion of the picture. The following chart illustrates the point. It outlines the relationship between assessments and market value for five hypothetical properties.

PROPERTY	RATIO	ASSESSED VALUE	MARKET VALUE	DIFFERENCE
1	1.75	$350,000	$200,000	$150,000
2	1.00	$200,000	$200,000	$0
3	0.99	$950,000	$1,000,000	-$50,000
4	0.60	$1,800,000	$3,000,000	-$1,200,000
5	0.55	$2,750,000	$5,000,000	-$2,250,000
TOTAL		$6,050,000	$9,400,000	-$3,350,000

MEDIAN	AVG	WEIGHTED AVG.	PRD
0.99	0.98	0.64	1.52

TAX RATE	TAXES
0.2328	$779,880

The median, or middle, ratio of the five properties in the example is 0.99 (Property 3), and the average ratio (the sum of the ratios divided by the number of properties in the sample) is 0.98. However, as the example illustrates, notwithstanding computed median and average ratios near 100 percent, the assessable base in this example has been understated by $3.35 million at the stipulated tax rate, representing a theoretical loss of approximately $780,000 in annual taxes.. Although the assessments of Properties 2 and 3 were quite accurate, Property 1 was assessed considerably above market value, while the assessments of Properties 4 and 5 were considerably below market value. The low weighted average ratio of 0.64 is an indicator that the assessed values have understated fair market value, since it accords equal weight to each dollar instead of each property. Likewise, the high PRD of 1.52 is further evidence of the under-valuation of higher priced properties in light of IAAO Ratio Study Performance Standards for Income Producing Properties as follows:

	Measures of Central Tendency	PRD
Income Producing Properties		
Large Urban Jurisdictions	.90 - 1.10	.98 - 1.03

BALTIMORE'S RECENT EXPERIENCE

The following chart presents the median, average and weighted ratios calculated by SDAT for commercial properties in Baltimore City during the period 1997-2003, arrayed in the triennial geographic groupings to which the ratios apply as reported in SDAT's annual reports. Although not included in SDAT reports, the chart calculates and presents the PRD ratios for each year. Property sales reflect the number of commercial property sales transactions that occurred and were used within each year's sample.

	2003 GRP 3	2002 GRP2	2001 GRP1	2000 GRP 3	1999 GRP 2	1998 GRP 1	1997 GRP 3
MEDIAN RATIO	93%	95%	97%	90%	99%	84%	100%
WEIGHTED RATIO	91%	85%	95%	83%	78%	58%	93%
AVERAGE RATIO	95%	98 %	105%	95%	93%	102%	95%
PRD RATIO	1.04	1.15	1.11	1.14	1.19	1.76	1.02
PROPERTY SALES	84	111	81	87	96	137	67

Although SDAT's annual Residential Ratio Studies includes the measures of central tendency, the PRD, and the measures of dispersion, SDAT's annual Commercial Ratio Studies report only the measures of central tendency and exclude the PRD and measures of dispersion. When asked about the omission, SDAT staff indicated that the sample size for commercial properties was too small to yield statistically relevant findings. However, the 2,419 residential property sales included in the 2001 ratio study represented 4 percent of the Group 1 total of 67,699 residential properties, which was similar to the 3 percent that the 81 commercial property sales represented of the Group 1 total of 3,056 commercial properties. Although SDAT argues that for a sample to be reliable, its absolute size rather than its percentage of the total population must be considered, and that certain localities (e.g. Calvert, Caroline and Dorchester Counties) post a small number of annual commercial sale transactions, the commercial sales transaction experience in Baltimore City over the last six years has consistently exceeded the threshold size (30) that statistical texts refer to as small samples. Since the weighted and average ratios computed for commercial properties are each reported annually, computing and reporting the PRD ratio should be a relatively simple task since the PRD is calculated by dividing the average ratio by the weighted ratio.

In the absence of published measures of dispersion, the significant difference between the published mean, median, and weighted average ratios from 1997 to 2003 is a strong indicator that the assessed values of commercial properties have generally been understated, since the weighted ratio gives equal weight to each dollar. The cal-

culated PRD for commercial properties in Baltimore City exceeds the published standard in each year from 1998 to 2003. According to the explanatory comments in SDAT's annual Assessment Ratios Survey Report a PRD of 1.03 or higher indicates under-valuation of high priced properties, further supporting the contention that values for non-residential properties have generally been understated.

The aggregate weighted ratio[7] of 83 percent for the period 1997 to 2003 suggests that commercial properties in Baltimore City have generally been assessed approximately 17 percent below market value. Although overly simplistic, since the factors influencing municipal finance and the tax rate are complex and varied , in a revenue neutral environment the property tax rate could, theoretically decline by as much as 7% from the current $2.328 to $2.16 per $100 of assessed value if this variance could be eliminated. . Conversely, as much as $20-$25 million per year ($70 million over a 3 year cycle) in additional taxes could be available to fund City operations if the variance could be entirely eliminated.

In light of the foregoing, a logical next step would be to ascertain the reasons for the disparity between assessed values and sale prices. Knowing those factors that contributed to the gap could offer insights into improvements to rectify the situation. A detailed discussion of the Methodology and Scope of Work including a roster of the 121 property sales transactions examined in the course of this study is presented in Exhibit 3.

Although deriving statistically valid inferences from the data examined was not possible due to the protocols followed, the following anecdotal observations are notable:

- The sale consideration of properties considered totaled $98 million.
- The assessed value of properties considered totaled $77 million.
- The total assessed value of properties considered was 79 percent of reported sale consideration at the time of sale.
- The number of properties sold at prices greater than assessed value was five times the number sold at prices less than assessed value.
- As a group, the computed mean value of the weighted average ratios of the properties considered was 80 percent with a computed standard deviation of 28 percent.

Although SDAT might contend that certain of the properties included on the list of those considered are inapplicable or incomplete (e.g. other related accounts might have been excluded), SDAT does not publish nor did it provide a roster of specific property sales that it used to compute the published annual ratios. Consequently, it is impossible to corroborate whether similarly inapplicable or incomplete data was included in the computation of ratios reported annually by SDAT. Furthermore, any inclusion of inappropriate or incomplete properties among those considered in Exhibit 3 was the result of erroneous or incomplete data retrieved from SDAT's data

system since the search parameters specified arms length transactions of commercial properties including multiple accounts.

Some would attribute assessment inaccuracies to the rise in non-deeded transfers of controlling interests that escape recordation, and thus SDAT's information and taxation system, diminishing the number of commercial property sales transactions available for SDAT to use in the Sales Comparison Approach. Although these transactions pose an important and complex legislative issue with its own revenue implications, such transactions are too select and few to profoundly influence widespread assessment accuracy. This assertion also overlooks that "in the absence of good sales information, there are two remaining options for valuing the property – the cost approach and the income approach" (Procedure 014-100-004).

SUMMARY OF FINDINGS

The findings can generally be summarized as follows:

I. SDAT is inefficiently organized and not equipped with up to date tools to adequately and effectively perform the non-residential property valuation function.

II. SDAT's non-residential property valuation systems and procedures are structured and administered in a manner that is neither efficient, uniform, transparent, or conducive to independent oversight.

III. Despite its heavy reliance on property tax revenue, the Baltimore City government lacks a strategic viewpoint with regard to its assessable tax base and has no coordinated program for monitoring assessments of non-residential properties in the City. The current mindset is strictly process-oriented focused solely on the routine task of collecting taxes. No agency or official is designated with the authority or responsibility to monitor and, when appropriate, challenge SDAT's assessment conclusions.

The balance of this report will examine each of these findings in the context of the three principal issues underlying them, namely:

- Organizational structure
- Information Systems
- Processes and Procedures

The discussion will focus first on the issues as they relate to SDAT and then to the City of Baltimore.

STATE DEPARTMENT OF ASSESSMENTS AND TAXATION (SDAT)

SDAT is inefficiently organized and not equipped with up to date tools to adequately and effectively perform the non-residential property valuation function.

ORGANIZATIONAL ISSUES

Like officials at most government agencies, those at SDAT attribute their department's shortcomings to a lack of resources. Both SDAT employees and publications lament that the agency is under-funded and understaffed, with personnel who are underpaid when compared with those in surrounding jurisdictions. Some of the best SDAT employees have reportedly been lured away to jobs with better compensation, in some instances, up to $20,000 more per year, according to SDAT senior staff.

The department's assertion is not without merit. An SDAT report to the legislature noted that over the past 25 years, the number of real property accounts has increased by 68 percent while the number of real property assessor positions has declined 30 percent. The City SDAT office is reportedly staffed with seven commercial real property assessors. Five of the assessors are assigned to specific geographic regions of the City without regard to property type; that is, they assess all types of commercial properties within the designated geographic areas. One assessor is responsible for assessing all multifamily apartment properties, and one assessor handles all new construction. According to senior SDAT officials, approximately 30 percent to 35 percent of the assessors' time during the course of the year is devoted to work related to property tax appeals, thereby leaving only 32 weeks, or 160 work days, to perform valuation activities. When the 7,680 available valuation man-hours (160 days x 6 assessors x 8 hrs. per workday) are apportioned to the annual caseload, the following results:

AREA OF CITY	# COMMERCIAL PROPERTIES	MANHOURS PER PROPERTY
GROUP I	3,282	2.3 HRS
GROUP II	5,744	1.3 HRS
GROUP III	5,374	1.4 HRS
TOTAL	14,400	1.7 HRS

City records indicate that during 2001, a total of 746 new construction or alteration permits authorizing commercial construction that exceeded $50,000 were issued within the City of Baltimore. Such a caseload would allow an assessor to spend an average of about 1.7 hours on each case.

The average of 1.7 hours that an assessor can devote per assessed property is merely a fraction of the 10-20 hours or more needed to complete similarly complex commercial property appraisal assignments by private appraisers.

Although the objective of both appraising and assessing is to estimate the value of property, they are not quite the same. Assessments rely on the application of mass appraisal techniques that are covered by Standard 6 of the Uniform Standards of Professional Appraisal Practice (USPAP). Real estate appraisals are governed by Standard 1 of USPAP. The International Association of Assessing Officers (IAAO) defines Mass Appraisal as:

> *"…the process of valuing a group of properties as of a given date using common data, standardized methods, and statistical testing. To determine a parcel's value, assessing officers must rely upon valuation equations, tables and schedules developed through mathematical analysis of market data…"*

Automated valuation models like CAMA (Computer Assisted Mass Appraisal) and other statistical analysis procedures, including regression analyses, employ statistically generated tables and mathematical models in the application of the traditional valuation techniques and enjoy widespread use, especially in the valuation of single family residential properties. Their applications have the capacity to achieve corresponding staff efficiencies and enhanced economies of scale. . Interviews with senior SDAT staff and field assessors revealed that, as elsewhere, such mechanized techniques and statistical modeling are not generally applied as primary valuation tools when valuing commercial properties since the techniques are not particularly conducive to the valuation of commercial properties and, as a result, are not widely employed.[8] Instead, assessors in Baltimore, as elsewhere, perform commercial property assessments in a manner that is quite similar to a commercial property appraisal applying the three traditional approaches to value, only, by necessity, in a fraction of the time.

As a result, SDAT's work must rely on having up to date information and the ability to quickly and efficiently analyze that information. Reason would dictate that if the commercial assessor must complete the same task in a fraction of the time as the commercial property appraiser, then the commercial assessor should be equipped with tools and resources equal or superior to those used by commercial appraisers. Unfortunately, SDAT's access to and use of tools and resources of modern information technology has been lacking. SDAT officials blamed the situation on a lack of funding.

In an austere budgetary environment, additional funding would indeed help to resolve some of these issues. However, rather than viewing necessity as a catalyst for creative solutions, during the interview process SDAT senior staff seemed to repeat a familiar bureaucratic mantra: SDAT is unable to adequately accomplish its mission without more funding, personnel and resources, and therefore has little choice but to eliminate, forego, or cut back its activities. For instance, note this excerpt from a prior report to the legislature provided by SDAT staff:

> *"…The current level of staffing is not sufficient to assess properties as State law requires. Although the law requires that each property receive an exterior physical inspection in the year of reassessment, over 1/3 of properties reassessed will not be inspected…Staffing shortages will cause some assessment offices to fail to pick up all new construction when due for quarterly and semiannual billing dates…"*

A useful and essential first step for SDAT might be to adopt a subtle yet simple shift in perspective, away from the negative, "We can't do what we must with what we have," to the more positive, "How can we accomplish what we must with what we've been given."

Such outside the box thinking could well entail radical changes to SDAT's established operating procedures and both its internal and external relationships. It could also force significant adjustments to the department's traditional staffing and organizational structure.

Likewise, State budget and elected officials need to recognize the importance of accurate property tax assessments. Not only is it a matter of equity for the taxpayer, erroneous assessments lead to lost revenues for local as well as state governments, thereby undermining local government self-reliance.

The appropriation process, especially in lean times, should make it a priority to support functions such as property tax assessment that have the potential to produce additional revenue. After a short "payback" period, these revenues can then be made available to fund other initiatives that consume rather than produce revenues.

RECOMMENDATION

In light of the specialized nature of non-residential real property valuation and the limited resources available, the State should consider reorganizing and centralizing SDAT's commercial assessment function and staff for deployment regionally on a statewide basis rather than duplicating the function in each county. The existing structure is redundant and costly, a legacy preserved since the State took over the

assessment function from local political subdivisions three decades ago. Although commercial assessments could continue to be performed on a triennial basis, the work could be performed on a regional basis to comport with the natural market boundaries within which the properties typically trade and compete, -- that is, Metropolitan Baltimore, Metropolitan Washington, Western Maryland, Southern Maryland, and the Eastern Shore.

Such a move could yield a number of significant benefits and opportunities. SDAT personnel could have the opportunity to specialize in a specific property type such as warehouse/industrial, apartment, hotel, retail, or office. This could give each the opportunity to develop in-depth knowledge of current and historic market and sub-market conditions that would be useful in identifying emerging trends or imbalances in supply and demand. It could bolster the assessor's knowledge and skills and enhance his stature and credibility as an expert witness before the Property Tax Assessment Appeals Boards and the Maryland Tax Court.

Centralized databases containing salient market data from all jurisdictions could be assembled, accessed, and maintained. These could help assessors make cross jurisdictional comparisons of comparable land and improved sales, comparable rentals, comparable expenses, and vacancy rates that are not easily accomplished now, and provide greater support for the assessor's valuation conclusions.

Efficient deployment of scarce personnel resources could eliminate redundancy. In turn, any savings could be used for increased pay scales to attract and retain specialists, and for improved technology.

INFORMATION SYSTEM ISSUES

SDAT's non-residential property valuation systems and procedures are structured and administered in a manner that is neither efficient, uniform, transparent, or conducive to independent oversight.

NOTE: The following sections – "Data Access Capabilities," "Data Analysis Capabilities" "Data Accuracy and Uniformity" – reflect research undertaken by the author during the last two years. SDAT officials report that the department has made significant recent improvements in its Internet access and in its data processing and analysis capabilities, changes that may not be reflected in this report.

A. DATA ACCESS CAPABILITIES

Commercial property field assessors report that they have no direct access to the Internet – not even the data contained on SDAT's own website.

Although almost inconceivable in the information age, field assessors reported the inability to do that which most businesses and individuals take for granted – access the Internet from their desk.

Proper valuation analysis, even in the context of mass appraisal for ad valorem tax purposes, requires more than merely gathering recent sales of similar properties, or applying a standardized capitalization rate to the property's net operating income submitted by the owner. Knowledge of current market conditions and the factors influencing the supply of and demand for specific types of property in distinct locations is the foundation of accurate and defensible value conclusions. As USPAP Mass Appraisal Standards Rule 6-1[9] states, consideration must be given to"…economic supply and demand…neighborhood trends, and highest and best use…"

The inability to access the Internet deprives each commercial assessor of a quick, reliable, inexpensive, and valuable resource for information critical to the proper application of the Market and Income Approaches. The websites of major commercial real estate brokerage houses and other privately operated information services contain up-to-date information about current commercial property sale and rental offerings, as well as reports on prevailing market conditions. SDAT reportedly subscribes to a few rate survey publications such as those published by Price Waterhouse-Korpacz and Real Estate Research Corporation. However, the Internet also offers much free or inexpensive information about emerging trends and conditions for market segments such as retailing, warehousing, and manufacturing. Similarly, much demographic data on population, households, income levels and other topics, as well as community plans and studies, is also available on the Internet.

Although SDAT reportedly subscribes to MRIS (the regional multiple listing service), the information contained therein is overwhelmingly oriented to the single-family housing market, with little data about non-residential property transactions. SDAT officials reported that the Department does not subscribe to any of the information services devoted to non-residential property sales and rental offerings because the cost is prohibitive. With limited access to sources of non-residential property sales and rental data provided by private vendors, and without an Internet connection to commercial brokerage websites or to other commercial data services, the assessor's knowledge of current commercial property market activity is quite narrow, and restricted to SDAT transfer data. The lack of connectivity via the Internet or otherwise to non-residential property transactional data occurring in other metropolitan jurisdictions only exacerbates the assessor's myopic perspective of the regional commercial/investment property marketplace in which City properties compete. Although property sales data from private providers and other jurisdictions could be obtained via other channels and in print format, as previously discussed, time is a scarce resource for the commercial property assessor.

B. DATA ANALYSIS CAPABILITIES

Internal databases that contain comparable sales, rents, or operating expense data are not maintained in a manner that facilitates quick and efficient reference.

Information concerning comparable sales, comparable rentals, and operating expenses gleaned from questionnaires routinely provided by property owners is not aggregated (so that it is no longer confidential) and compiled into databases that are readily accessible to assessors, either online or in print format. The SDAT Valuation Manual provision 014-065-010 states that the assessor is not strictly bound by the income and expense data provided by the owner in developing and defending an assessment. But without the benefit of empirical data that such a database could offer, the assessor has little choice to do otherwise, and he is ill equipped to question or refute the information provided by the owner.

A review of a representative sample of the comparable sales data report in print format (see Exhibit 4) that is routinely used by assessors revealed numerous instances of incomplete or inaccurate data. For example, land or building area data was sometimes omitted or was reported as 1 square foot. Such discrepancies undermine the relevance and reliability of the information. In addition, the data is randomly organized without reference to geographic location, such as zip code, or neighborhood, and many of the properties lack basic information on type and use. This undermines meaningful and efficient application of the data in the valuation process and hampers its use in supporting the assessor's conclusions during the appeals process.

The information system currently used by SDAT personnel is not equipped with the capacity to download data directly from the SDAT computer system into a computer spreadsheet environment that would permit meaningful statistical or comparative analysis.

The ability to analyze large volumes of data within short timeframes is crucial when performing mass appraisal assignments, and is required for statistical analysis, modeling and projections. Unfortunately, as presently configured, the current information system appears to inhibit rather than enhance the assessor's analytical capacity. For instance, the author's request to obtain detailed information about all warehouse, retail and office properties located within the City of Baltimore had to be delayed for a number of days while a specially programmed computer run was arranged at the Director's office. System constraints required that subsequent data delivery occur in print, rather than electronic format requiring the author to re-enter all data from the print documents into a spreadsheet for organization and analysis. Interviews with a commercial field assessor confirmed that his ability to obtain data was no less complex and equally cumbersome.

Property use classifications are too broadly defined and do not correspond with those typically employed by the market, hindering the effective retrieval and analysis of data.

For instance, the property use classifications currently used by SDAT, which are known as BPRUC codes, group warehouse structures into very broad size classifications. The existing categories provide no distinction between a functional, single-story structure and a functionally inferior, multi-story loft structure of equivalent size. The organization of office categories is similarly flawed, with no distinction between Class A, Class B or Class C structures. There are currently no classifications for unimproved land, which makes the identification and retrieval of comparable data within a particular use category (for example, residential, commercial, or industrial) a time-consuming, cumbersome process.

Although prior sale data is presented, SDAT's public website does not include information on each property's prior or historical assessments.

This omission of historical assessment data on SDAT's public website precludes the public from identifying and tracking trends by class, location, age of property, or by other factors. It also significantly limits the public's ability to monitor SDAT performance and accuracy over time. A similar omission of such information within the internal data system used by assessors could also be a problematic shortcoming for the same reasons.

The SDAT information system cannot retrieve and report same property re-sales over time.

This shortcoming deprives the assessor and the taxpayer of the ability to calculate rates of appreciation by type and class of property, location, or other criteria for trend analysis and use in the appeal process. Citing budgetary constraints, SDAT for a period restricted on-line historic transfer data retrieval on the SDAT public website to a period of two years from the request date. Since the number and frequency of commercial property sales is limited, this action significantly impaired the public's ability to retrieve comparable sales data to evaluate and refute the assessor's value conclusions. It also precluded the identification and analysis of paired sales to calculate and support rates of appreciation. This action was subsequently reversed.

C. DATA ACCURACY AND UNIFORMITY

The format of the information contained in the database is not uniformly recorded, hindering the constructive retrieval, comparison and analysis of data.

Some parcels have numeric addresses and street names; others have street names with no numeric addresses. Still others have neither and can only be retrieved by block and lot reference.

The land sizes of some parcels are reported in square feet while others are presented in acres – within the same data field, undermining any reasonable data search or analysis in which land size is a criterion.

Although use classifications in the counties are reported by BPRUC codes, properties within Baltimore City are classified employing an unrelated City Use Code, complicating effective cross-jurisdictional comparisons of property by use. It should be noted that the SDAT public website provides no key defining the City Use Codes.

Information concerning the age of improvements is often omitted or unavailable from the data records, removing essential data used for comparison and analysis of properties within a use class.

Properties that are comprised of multiple tax accounts are not linked or cross-referenced in the database.

To identify all of the accounts comprising a property now requires a cumbersome search of every transaction that occurred on the same date in a quest to identify accounts with the same deed recording reference. This flaw can result in comparative inaccuracies involving the size of land and buildings that will affect value conclusions, not only for assessment purposes, but also for private appraisals, such as those used to underwrite mortgage loans, since many private commercial reporting services and appraisers use the SDAT database as source data.

RECOMMENDATION

Techniques that enable the quick and efficient review and analysis of data in the context of mass appraisal require data to be readily accessible and accurate. The State should enhance SDAT's commercial field assessors' accessibility to information on the Internet. The State should also consider:

- Reviewing and revamping SDAT's information system to make data more accessible, timely, functional, user-friendly, and conducive to the retrieval and analysis of

data by salient property characteristics and traits
- Correcting data deficiencies, including inaccurate and incomplete information, and cross-referencing properties comprising multiple accounts
- Reviewing alternatives to the use of BPRUC codes that are more descriptive and useful when retrieving, analyzing, and comparing data.

PROCEDURAL ISSUES

The assessment process lacks transparency and adequate oversight

As mentioned previously, Maryland is one of only two states that have turned over the assessment process to a state agency. In most states, as was formerly the case in Maryland, the local governments are responsible not only for collecting the taxes and setting the tax rate, but also for establishing the assessed values. Under such an arrangement, the state's role is generally confined to overseeing the local jurisdictions' efforts to maintain tax parity, and, in some cases, to establish the value of certain property classes on a statewide basis, most often real properties owned by public utilities and railroads. As stated in section 4.1.1 of the IAAO Standard on Property Tax Policy:

> *"…State administrative agencies typically play a limited role in direct property valuation, but often provide oversight, guidance and training. Local assessing jurisdictions usually have considerable autonomy and are usually responsible for the appraisal of most real and personal property…"*

IAAO professional standards have, therefore, been developed from an organizational perspective wherein the results of the valuation process are subject to independent scrutiny. This is not the case in Maryland, where a state agency is itself responsible for assessments – but with little independent oversight.

When queried on the issue of oversight, SDAT officials were quick to point out that the Department has an internal chain of command structure, whereby each assessor must justify his or her performance to an immediate supervisor, the jurisdiction's Supervisor of Assessments, and ultimately, the Director of SDAT. While chain of command provides control within an organizational structure, it is by no means a substitute for independent oversight, especially when the organization's mission is to perform a technically arcane process that is little understood by those untrained in valuation methodology, and that is shrouded in legally mandated confidentiality with inefficient data retrieval systems.[10] Without the scrutiny of an independent authority qualified to monitor and publicly report on the motivations and actions – or inactions – of superiors, a chain of command is not particularly effective or convincing as an oversight device.

SDAT personnel also referred to the Department's Annual Report to the Governor and Legislature as further evidence of oversight. They stated that performance reviews concerning the amount of work completed by individual assessors are conducted periodically. However, SDAT staff reported that there is no set schedule for carrying out internal or external performance audits. Although the SDAT's Annual Report states that "…the Department's work is reviewed by legislative auditors and is often scrutinized by individual property owners…"[11], during an interview, SDAT staff conceded that the last independent, external performance audit was done by legislative auditors more than five years earlier. In any case, it is doubtful that legislative auditors without specialized training in valuation principles, practices and procedures would be capable of detecting errors or omissions that might result in material misstatements of value, especially in the case of complex, income-producing commercial properties. And, naturally, scrutiny by property owners would seldom detect understatements of value since property owners typically would not petition to have their assessments increased.

The Maryland Tax Property Article establishes an appellate process to dispute the validity of the assessed value determination. Section 14-502(a) states

> *"… any taxpayer, county, or state agency may submit a written appeal to the Supervisor as to the value or classification (of property) on or before 45 days from the date of the notice of assessment…"*

The appeal process takes place at three levels. The first is an informal meeting with the assessor. The second is a hearing before a three-member panel appointed by the Governor, after recommendation by the Mayor, comprised of citizens of the City (the sole qualification for appointment to the panel) that is independent of SDAT known as The Property Tax Assessment Appeals Board (PTAAB). Finally, a petition for an administrative hearing can be made to The Maryland Tax Court.

SDAT publications encourage taxpayers to avail themselves of the appeal process stating that

> *"…the appeal process is a mechanism intended to assure accurate property valuation… property owners should file an appeal when they believe that their property is not valued at its current fair market value."*[12]

Although the appellate process presents the mantle of transparency and oversight, in current practice PTAAB's role is little more than that of an arbiter in a dispute between the property owner/petitioner (who, in every instance, is seeking a reduction in the assessor's value conclusion) and SDAT. For the appeal process to be a true surrogate for oversight, PTAAB and the Maryland Tax Court must have the authority,

responsibility and opportunity to independently establish a property's value, not merely affirm the taxpayer's or assessor's assertions. The General Assembly has given PTAAB the legal authority and responsibility to determine the fair market value of property[13], and the power to increase, as well as decrease, a property assessment beyond that proposed by the Supervisor of Assessments[14]. However, historic hearing results do not support the contention that the Board is a forum for the independent determination of value as illustrated by the following chart summarizing the results of PTAAB of Baltimore City's appeal hearings from 2000-2002.

	2000	%	2001	%	2002	%
TOTAL APPEALS	2293		1926		2548	
COMMERCIAL APPEALS	603	26%	202	10%	494	19%
AFFIRMED	502	22%	399	21%	619	24%
REDUCED	386	17%	347	18%	400	16%
INCREASED	0	0%	0	0%	0	0%
SETTLED	420	18%	65	3%	858	34%
WITHDRAWN	171	7%	123	6%	244	10%

Source: Property Tax Assessment Appeals Board
NOTE: Percentages do not add to 100% since the types of resolution of some appeals, such as cases that are remanded or dismissed, have been omitted. The percentages are computed based on total property tax appeals, not just those involving commercial properties.

PTAAB of Baltimore City rulings during this period affirmed SDAT's valuations 22 percent of the time and reduced assessments 17 percent of the time. But in no case, did the Board increase the assessment from the assessor's finding. It's worth noting that the manual used by Property Tax Appeals Board Members implicitly contributes to this dynamic. Pages 51-53 of the manual suggest sample statements for use by PTAAB members as grounds for assessment reductions, while pages 54-55 provide sample statements to affirm the value determined by the Supervisor of Assessments. However, the manual provides no sample statements to account for an increase in the assessed value from that determined by the Supervisor of Assessments.

Part of the problem is procedural. For a hearing to be conducted an appeal must be filed, since PTAAB does not have the statutory authority to initiate assessment hearings or to make changes to assessments on its own motion.[15] In those instances in which a property value is understated, the taxpayer has no motivation to file an appeal of the assessor's findings. As discussed elsewhere in this report, although the law provides that any taxpayer or local government may file an appeal of the value of any property, Baltimore City currently has no process in place to identify or appeal possible under-valuations of properties. Moreover, other taxpayers are more likely to focus their efforts on reducing their own assessments rather than expending time,

energy and expense on increasing the assessments of others. In the absence of an advocate, like the City, to effectively argue that the assessor's conclusion might have understated rather than overstated a property's value, experience suggests that PTAAB rulings are not likely to exceed the amount determined by the assessor. As recited in the Opinion of the Attorney General:

> *"If no other parties appear, but the PTAAB unilaterally increases the assessment…the taxpayer would almost certainly appeal to the Tax Court. Yet, on appeal it would be highly unlikely that the Supervisor of Assessments would be in a position to argue in favor of the PTAAB's… evaluation, an assessment significantly higher than that supported by the assessor's own evidence and expert opinion. And nowhere has the General Assembly made any provision for a PTAAB to appear before the Tax Court to present evidence in support of its own valuation of the property."*[16]

Unlike PTAAB, the Maryland Tax Court is empowered with the express statutory authority to increase as well as decrease assessments ex parte. However, during an interview, the clerk of the Maryland Tax Court could recall only one instance during his long tenure in which the Court had increased an assessment above that determined by SDAT, ostensibly because no party has appeared to argue in favor of an assessment increase above SDAT's determination.

As the Opinion of the Attorney General further observed:

> *"…the General Assembly retained in the hands of the local government…the former power of the County Commissioners concerning the proper valuation of property…Thus, it is the local government – which is in the best position to know the local situation – that is expected to advance local interests."*[17]

Unfortunately, it would seem that Baltimore City, as well as other local governments throughout the State, have relinquished their pivotal role in the property tax assessment process.

There is no way to readily determine the fiscal impact of PTAAB and Maryland Tax Court decisions on State and local property tax revenues since information about the dollar value changes in assessed value is not captured, calculated or reported by either. Likewise, gauging SDAT's or an individual assessor's appellate record of performance (to discern patterns and trends) is difficult since SDAT also does not capture, calculate and report the dollar increments or reductions resulting from PTAAB or Maryland Tax Court rulings.

Since the public does not have unrestricted access to information within SDAT case files because of confidentiality provisions imposed by the Tax Property Article, the extent of independent oversight of the assessment process by the public is limited. Although the assessment appeals process, as presently administered, provides ample protection against and redress for, the over-valuation of property, in the absence of active participation by Baltimore and other local governments who enjoy unrestricted access to the valuation records provided by Section 14-201(b) of the Tax Property Article[18], the appeal process fails to serve as an adequate oversight mechanism to detect and correct the under-assessment of property.

RECOMMENDATION

In light of the public's restricted access to confidential information contained within SDAT case files, the State should establish an external oversight and advisory board to monitor and review SDAT valuation procedures, monitor their consistent application and compliance within and among the State's various jurisdictions, and initially, determine the extent to which the issues raised in this report affect assessment levels and uniformity in the State's other 23 counties. Board members could also monitor the quality control, oversight, and review procedures conducted by the Department to assure that its value conclusions are suitably documented and justified. Appointees to the Board should possess appropriate qualifications in real estate, economics, valuation, statistical analysis, etc., and be prepared to offer advice and guidance to the Department.

In addition to reporting the number of cases by category, the Maryland Tax Court and PTAAB should also report the dollar amounts of assessed value increases or decreases associated with their respective actions and decisions, in each case and cumulatively. This data would be a useful barometer to measure SDAT's effectiveness in the appellate process.

As detailed elsewhere in this report, Baltimore City and other local political jurisdictions should assume a more active role in monitoring the results of the property tax assessment process.

QUALITY CONTROL ISSUES

SDAT reports using ratio studies and supervisor reviews of subordinates' work as the primary tools for quality control. Section 5.5 of the IAAO Standard on Ratio Studies makes clear that property sales included in the sample selected for analysis should be representative. To be representative, the proportion of warehouse properties analyzed in the sample of properties sold, for example, should resemble the proportion that warehouse properties bear to all types of non-residential properties in Baltimore City.

The author asked SDAT employees if the ratio analyses performed for non-residential properties are stratified or segmented by property class and characteristics – such as type of property, age, functional utility or geographic location. SDAT staff responded that the Department does not have the capability to compute subcategory ratios because BPRUC codes are not included in the data files used to perform the analysis.

As discussed elsewhere in this report, numerous non-residential properties have sold at prices considerably in excess of their assessed values at the time of sale, despite a reported median ratio near 100 percent. SDAT's Annual Report states "As work is completed, each assessor's supervisor reviews the analysis, making recommendations and approving the work…" A critical objective of any quality control program should be the identification of factors contributing to product deficiencies, to avoid future problems – in this case valuation inaccuracies. When asked if SDAT has a standing committee, or a policy or process requiring a supervisor to perform an in-depth investigation to discover the causes underlying a material over-valuation or under-valuation of property after learning that the property had sold at a price significantly above or below the assessed value, the answer was no.

RECOMMENDATION

The State should augment the information used in SDAT's ratio studies to detail property characteristics such as property class by use and sub-use categories, building age, functional utility, and geographic location. Aggregating the data by use categories within regional markets that transcend political jurisdictions might aid SDAT's ability to compute ratios by subcategories, enhancing the utility of the ratio studies.

SDAT supervisory personnel should expand the on-going quality control effort by implementing procedures to conduct regular reviews (similar to those described in the Methodology and Scope of Work section of this report) and perform screening tests as discussed in the Baltimore City Procedural Issues section of this report.

The State should establish a standing oversight committee, within SDAT, that would be responsible for investigating the causes underlying assessments that materially vary from a property's sales price either positively or negatively. Assessors should be professionally accountable for, and able to justify and defend, their value conclusions. When an assessor's valuations markedly or repeatedly differ from prices paid for properties in a market transaction they should be examined to ascertain the causes underlying the variance. When appropriate, the Department should also provide appropriate training and other remedial actions to forestall future recurrences.

If SDAT lacks funding and/or the necessary skill sets among existing personnel to design and develop analytical techniques and statistical applications to enhance the Department's quality control procedures, it should consider establishing an arrange-

ment with graduate programs at area colleges and universities for assistance (e.g. as a graduate class project or as the topic of a graduate thesis or doctoral dissertation).

THE TIMELINESS OF A TRIENNIAL PROCESS WITH PHASED IN CONCLUSIONS

The Maryland Tax Property Article requires that each property subject to taxation be valued once every three years, following an exterior physical inspection, and that any changes in the assessed value be phased in over a three-year period. As was illustrated in Exhibit 2 -, the legislative mandate to fix assessed values for a three-year period yields commercial property assessments that are approximately 15 percent below market value at the end of a three year cycle, assuming 8 percent annual property value appreciation.

The lead times associated with the assessment process further compound the problem of valuation timeliness. As described by SDAT officials, to meet a January 1, 2004, deadline for the mailing of assessment notices to taxpayers, valuation assignments might be initiated as early as 14 months before (i.e. October, 2002) since all work must be completed by the September 30th preceding the January 1st finality date. Since non-residential property sales transactions tend to occur less frequently than those for single-family dwellings, it is often necessary to employ dated comparable sales transaction data – sometimes as much as three or more years old – in the Sales Comparison Approach. Consequently, the comparable sales used for properties in the earliest phases of the work cycle (October, 2002 in the example) could have taken place as much as 5 years before the date that the taxpayer receives the January, 2004 assessment notice. Obviously, market conditions and values can shift radically over such long periods. One step that would mitigate many of these problems would be to perform assessments annually rather than once every three years. While this would require more SDAT staff to handle the increased workload, the additional revenue generated by more timely assessments would likely exceed the additional costs. Another option would be to develop and apply a reliable trending index to annually modify and update triennial property assessments. However, this option is more suitable to residential rather commercial property applications due to the residential market's higher sales volume from which to construct an index.

In times of escalating values, it is a recognized valuation procedure to adjust the price paid for a comparable sale upward as of the valuation date to account for any value increases that might have occurred since the transfer date. This is referred to as a "time" adjustment. For example if market evidence suggests that property values have escalated 8 percent per year since 2001, a unit value of $100-per-square foot paid for a comparable property that transferred in 2001 should be adjusted upward to $116.64 per square foot for a 2003 valuation date to properly reflect its current value.

Unfortunately, SDAT does not currently require commercial property assessors to retain comparable sales data used in the Sales Comparison Approach within the specific case file, thwarting any effort to confirm that such adjustments are actually being made. Despite the repeated claims by SDAT staff that dated comparable sales data were responsible for many of the under-valuations of properties encountered, specific comparable sales data to support the assertion was neither recited nor detailed in any of the property case files reviewed in conjunction with this study.

SDAT officials contend that an assessment is mass appraisal governed by Standard 6 of the Uniform Standards of Professional Appraisal Practice, and not an individual appraisal assignment governed by Standard 1. The contention that mass appraisal for assessment purposes is not intended to be performed to the same level of detail as an individual property appraisal is of dubious merit with respect to commercial properties. In the residential arena statistical applications, mathematical models, and regression techniques supplant the traditional application of the appraisal approaches. However, such mechanized techniques and statistical modeling are not generally applied as primary valuation tools when valuing commercial properties in Baltimore or elsewhere. Instead, assessors in Baltimore, as elsewhere, perform commercial property assessments in a manner that is quite similar to a commercial property appraisal using the traditional approaches to value – only by necessity, in a fraction of the time.

The assertion that the "jurisdictional exception" provision of the Uniform Standards of Professional Appraisal Practice (USPAP) exempts property tax assessments from the standards of USPAP is also tenuous since only those specific provisions of USPAP that are found to be contrary to the provisions of law or public policy would be voided and of no effect. All other provisions would remain applicable. The Maryland Tax Property Article does not appear to contain any provisions that would nullify any specific provision of the USPAP.

To qualify as a mass appraisal, USPAP Standard 6-3 states that one must use standardized data collection forms, procedures and training manuals and develop mathematical models that represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. Although Valuation Procedure 014-010-010 discusses the use and application of a Market Value Index for single family residential property, no similar procedure sets forth the specific mathematical models and calibrations to be universally and uniformly applied by assessors when valuing commercial properties. In the absence of standardized forms, training manuals and procedures that employ specified and calibrated mathematical models using regression or other statistical techniques, to believe that commercial property assessments need not be performed to the same level of detail as a real property appraisal assignment is inconsistent with USPAP and

IAAO standards (which require compliance with USPAP). In its annual report, the Director asserts that SDAT performs its work in compliance with IAAO standards.

The practice of not retaining comparable data in each case file not only undermines internal and external oversight capabilities, but also wastes the assessor's already scarce time. As explained by SDAT personnel, in the event of an appeal, the commercial assessor must retrieve the information regarding comparable sales used to compute the assessment from the print database and reconstruct his original valuation analysis, instead of merely revisiting the analysis and comparable sales data (even a notation on the assessor's card) on which the initial analysis was based had the data been retained within the case file.

According to SDAT officials, Income and Expense Questionnaires are forwarded to owners of income-producing properties in March, nine months prior to the January 1 finality date. The questionnaires solicit property income and expense data for the three preceding years. The questionnaire must be completed and submitted by May 15 (a 30-day extension is possible) for properties valued at $5 million or more. Submission is optional for those properties valued under $5 million (unless an appeal is to be filed to PTAAB). Like comparable sales data, the income and expense information on which a January 1, 2004, assessment has been computed could be at least one year old.

Although SDAT's Valuation Manual Procedure 014-065-010 states that "the assessor is not strictly bound by the income and expense data provided by the owner in developing and defending an assessment…" without convenient access to reliable sources of comparable rental and expense information, the assessor has few options other than to rely on the dated information provided by the owner. As mentioned elsewhere, information collected on the SDAT questionnaires is not presently compiled and consolidated into databases for use in analyses. Likewise, there was no indication that capitalization rates are currently being computed by matching property sales prices with the corresponding income and expense questionnaire data for compilation into databases. With almost every property surveyed for this study, SDAT reported that the income and expense data furnished by the owner was used to compute the value of the property via the Income Approach.

Some have suggested that inaccurate assessments could be attributed to a legislative loophole that allows certain, non-deeded transfers of controlling interests in property to escape recordation, and thus, SDAT's information and taxation system. Accordingly, the number of commercial property sales available for SDAT to use in the Sales Comparison Approach is diminished, thereby adversely affecting the assessor's ability to formulate accurate assessments. Although an important, but complex issue, that also causes loss of government revenue from transfer and recordation taxes, such transactions are too few in number to profoundly influence widespread

assessment accuracy and, generally, should not pose a significant obstacle to the assessor's ability to develop accurate value conclusions. As SDAT Valuation Procedure 014-100-004 states "in the absence of good sales information, there are two remaining options for valuing the property – the cost approach and the income approach each of which is a recognized and suitable surrogate for the Sales Comparison Approach.

RECOMMENDATION

Since assessed values are fixed for three years, accurate and timely valuation at the beginning of each cycle is crucial. Under current circumstances, non-residential property valuations reflect prevailing market conditions that trail the date of finality by at least three to twelve months, assuming that commercial property assessors have applied appropriate time adjustments to comparable sales, rental and expense data used in the sales comparison and income approaches. A concerted effort to monitor market trends and rigorously update assessments just prior to the date of finality and transmittal to the taxpayer is needed, but is hampered by the lack of personnel, procedures, and accurate, functional, real time databases that are organized in a manner conducive to the use of statistical and other analytical techniques to establish up to the minute valuations. The State should establish and monitor procedures to assure that SDAT's non-residential property assessors are applying appropriate time adjustments to the comparable data (including the retention of comparable sales and rental data and analysis in the case files for oversight and transparency purposes). To assure timely assessed values, the Department should enhance data processing and analysis systems to enable assessors to compute trending factors that can update their earlier value conclusions just prior to the date of finality. Compilation of functional data bases regarding comparable sales and rentals, including collection and consolidation of income and expense questionnaire data, would not only facilitate computation of trending factors, but would also identify derivation of current capitalization rates and factors from data that is already present within the system.

ARBITRARY GEOGRAPHIC DIVISIONS DO NOT COMPORT WITH MARKET BOUNDARIES

The geographic boundaries governing the triennial revaluation cycle in the City are the same for residential and non-residential properties. Unfortunately, this arbitrary geographic division of the City, while suitable for residential property, does not comport with boundaries recognized by the market for non-residential property. This undermines the ability to make intelligent comparisons over time or to evaluate the uniformity of assessments for properties within similar use classes.

The values of single-family residential properties are greatly influenced by supply and demand forces within markets often defined by relatively compact neighborhood

boundaries. The trade areas in which non-residential properties compete, and the forces of supply and demand that influence them, tend to be much larger than for residential property. Although influenced by their environs, non-residential property competes on a citywide and, sometimes, regional or national basis. Re-valuing properties that are similar in use at different times, based on arbitrary geographic divisions of the City precludes constructive, on-going comparisons for accuracy and uniformity both within and between political jurisdictions. For instance, Holabird Business Park is in Assessment Group 2, Seton Business Park is in Assessment Group 1, while the business parks located in south Baltimore are in Assessment Group 3.

UNIFORMITY AND CONFORMITY ISSUES

Like most large organizations, SDAT conducts periodic training and publishes a policy and procedures manual to ensure that employees implement policies and perform similar tasks in a similar fashion. Interviews with SDAT personnel suggested that the following three areas might warrant attention.

A. HIGHEST AND BEST USE

Among the sample properties examined, the following four properties appear to have been undervalued as a result of issues dealing with the determination and treatment of each property's highest and best use.

LOCATION	SALE DATE	SALE PRICE (SP)	ASS'D VALUE (AV)	DIFFERENCE.	AV/SP RATIO
131 E. REDWOOD STREET	Aug-01	$1,500,000	$504,500	$995,500	34%
4601 LIBERTY HEIGHTS AVE	Jul-01	$630,000	$325,000	$305,000	52%
5 N. CALVERT STREET	Jun-01	$2,200,000	$437,000	$1,763,000	20%
2711 FOSTER AVENUE	Feb-01	$1,200,000	$452,200	$747,800	38%

The economic principle of highest and best use is a bedrock valuation premise. The fair market value of real estate presumes that a parcel of land is devoted to its highest and best use, that is, the physically possible, legally permissible, financially feasible, and maximally productive use that will produce the most benefits or the greatest investment returns over time. Sometimes forces of supply and demand and changing market conditions increase the value of land to a level exceeding the value (productive capacity) of the existing structures, so that the existing buildings no longer represent the property's highest and best use. In such cases, the buildings will either be demolished or redeveloped for the higher and better use. If an appraiser or assessor automatically values the existing improvements without first considering if, as presently used, they represent the property's highest and best use, an under-valuation might result.

A simple example illustrates the point. Suppose a one-acre site is improved with a small 10,000 square foot warehouse that is rented at a market rate of $15,000 per year. If investors are seeking a 10 percent return on their investment, the warehouse use of this property is worth $150,000 ($15,000 income divided by 10 percent return) as computed by the Income Approach to Value. If recent sales of warehouses similar in location, size, and design have occurred at about $15 per square foot, the Sales Comparison Approach to Value would also confirm a $150,000 value for use of the property as a warehouse. However, if market forces have pushed land values in the vicinity to $300,000 per acre, the buildings no longer positively contribute to the value of the property, a circumstance that would justify their removal. In this instance, the highest and best use has changed, and the property is worth $300,000, minus projected demolition costs, not $150,000.

The Redwood Street and Calvert Street properties each were older, multistory, class C office buildings with outdated features and finishes, located in the City's Financial District, which had been chronically vacant and producing little or no income for extended periods of time. The Liberty Heights property was a chronically vacant, functionally deficient freestanding retail structure (formerly a food market) on the City's northwest side. The Foster Avenue property was an older, chronically vacant neighborhood shopping center in Canton. Each of these properties was acquired with the intention of immediately changing its use subsequent to the sale. The CBD office structures were slated for redevelopment to hotel and apartment uses respectively, while the Liberty Heights improvements were reportedly to be demolished to make way for a new gasoline service station. The Canton shopping center improvements were demolished to make way for a new upscale townhouse community.

When asked if assessors had considered if the existing uses of the four sample properties represented their highest and best use, or if they had evaluated the economics of redeveloping each property for another use, and thereafter had computed a revised residual land value, SDAT officials reiterated that mass appraisals are not performed to the same level of detail as an individual appraisal. From this statement , it would appear that commercial property assessors do not, as a matter of common practice, consider highest and best use issues when valuing non-residential properties in Baltimore City. Rather, as stated by SDAT staff, they merely value the existing use of a property as currently improved.

SDAT Valuation Procedure 014-130-010 issued in 1989 states that the highest and best use of property must be examined by the assessor, and instructs the assessor to consider the probability of developing a property for all current uses permitted by zoning. The Procedure further directs the assessor to analyze existing improvements to determine whether they are appropriate or inappropriate. SDAT Valuation Procedure 014-100-004 issued in June, 1994 cites the decision in Brack vs. Mayor and City

Council of Baltimore 125Md378 (1915) which states that all capabilities of the property must be taken into account when valuing a property.

Although a lack of adequate time and resources is likely to blame, the foregoing suggests that practice in Baltimore City does not always follow SDAT's established valuation procedures with respect to highest and best use issues.

B. OUT OF CYCLE REVISIONS TRIGGERED BY BUILDING ALTERATIONS OR MODIFICATIONS

Section 8-104 of the Tax Property Article states that all qualifying property will be valued only once every three years. But, its provisions also call for SDAT to revalue a property during the three-year cycle if an owner initiates zoning changes, the property's use or character changes, or improvements add $50,000 or more to the value of the property.

The City Permit office issued 746 building and alteration permits of $50,000 or more for commercial properties during 2001. The face amount of these permits totaled $585,494,610. Under the City's tax rate, this permit total represents a potential for collection of an additional $13.6 million annually in property taxes. However, the face amount of the permit is not always indicative of the actual value added to the property because of improvements made. In some cases, the value added is greater than the permit amount, and in others, the value added is less or even negligible. Changes to the assessed values of properties for alterations, modifications and additions are made quarterly during the year on the first days of January, April, July, and October. Obviously, the more rapidly additions to value resulting from property improvements are recognized, the sooner the City and the State are able to capture additional tax revenues. Section 5-103 of the Tax Property Article requires that local jurisdictions notify SDAT immediately after issuing a building permit. However, the Tax Property Article does not specify a time frame within which SDAT must complete the task of re-valuing a property after it has been altered, modified or improved.

Although the scope of this assignment did not permit an in-depth analysis of this topic, an attempt was nonetheless made to determine how quickly and to what extent the value added by building alterations, modifications and additions is being recognized and subjected to property taxation. From the 2001 City permit data, the experience of twenty-three properties was reviewed, eight of which involved staged construction involving the issuance of multiple permits over time, with a total stated value of more than $166 million.

Conclusions were difficult to formulate since City and SDAT officials conceded that neither has a tracking process in place, an information system that facilitates collection of the requisite data, or a procedure that monitors and assesses SDAT's perform-

ance in terms of timeliness or the amount of value added. (Additional discussion of this topic can be found in the Baltimore City section of this report under Data).

Subsequent interviews with SDAT officials revealed a number of important collateral issues that materially influence SDAT's timeliness and/or valuation performance in this area.

C. SUBSTANTIAL COMPLETION OF WORK

After receiving a copy of the building/alteration permit from the City, SDAT must await completion of the work by the owner before it can revise a property's assessed value. Obviously, the construction schedule is a variable that is beyond the City or SDAT's control. However, at what point is construction complete for the purpose of revising a property's assessed value? This issue is particularly significant for properties that are being renovated, and for properties on which construction is to be completed in stages, over time, under multiple permits. Such determination is not only of concern to the taxpayer who must commence the payment of property taxes, but also to the local government, as the recipient of the bulk of the tax revenue. According to SDAT staff, assessed value is to be revised when the building is substantially completed in accordance with Tax Property Article 8-104 that provides "improvements not substantially completed on the date of finality should not be assessed"

Unfortunately, the responses by SDAT officials to the query regarding the criteria used by the assessor to determine the point at which non-residential construction is substantially completed were vague, inconsistent and varied depending on what type of buildings were being discussed. For instance, among the office buildings examined, the assessment for one multi-tenant building that had been newly constructed was being revised incrementally as the finishes were completed in five-floor increments. When pressed for clarification about the criteria employed to determine when each floor was deemed to be complete for purposes of re-assessment – for example, upon execution of a lease, completion of construction punch list items, issuance of a Use and Occupancy Permit, or occupancy by a tenant – the assessor demurred, saying such decisions were made on a case by case basis. In another instance, the re-assessment for an existing multi-tenant office structure of similar size that was in the process of being completely renovated was being deferred until completion of all renovations, rather than incrementally as floors were retrofitted. The assessment for yet another office project involving the renovation of multiple buildings under multiple permits over a long period was delayed until completion of all construction within all of the buildings. One SDAT official reported that revaluation for apartment buildings typically awaits completion of all construction within the entire building, but was unable to specifically define completion, including the treatment of complexes involving multiple buildings.

Valuation Procedure 019-110-011 revised 2/12/98 provides that:

> *"With regard to new construction, substantially completed means something other than the final completion of the building…As a general rule, buildings under roof with completed walls should be considered substantially complete…"*

This valuation procedure relies upon and refers to two guiding judicial rulings on matters relating to the substantial completion of improvements. In Radin v. Supervisor[19] the court observed:

> *"Something other than the final completion of the building was intended, otherwise the assessable date could have easily been equated with the time the certificate of final inspection and occupancy was issued."*

In Thames Point Associates v Supervisor[20], the appellate court agreed with SDAT's argument that substantial completion is a question of fact, stating:

> *"On a case by case basis the fact finder must review those matters which tend to show the degree of completion: the expenditure of time and money, what work actually has been done, and what needs to be done. With those relevant facts as the basis, it must then determine if the improvement is substantially complete."*

Although final adjudication of substantial completion of construction might ultimately be decided on a case by case basis as a question of fact by the courts, the timing of the entitlement to tax receipts by the local government is, unfortunately, not among the issues at bar. Moreover, the court has also opined, "the question of substantial completeness is peculiarly one within the province of the taxpaying authorities…"[21]

As such, the experience revealed by the examples presented above suggests that the criteria governing determination of substantial completion is neither concise nor uniformly applied in practice. Judicial determination of fact does not obviate the need for unambiguous and appropriate guidelines about criteria to be employed by the assessor to assure consistency in assessment practice within and between political jurisdictions. When criteria are vague and amorphous, especially in cases involving renovation of existing structures that are already "under roof with completed walls", the individual assessor is inadvertently conferred with considerable discretion and authority, not only over the uniformity of treatment among taxpayers, but also over the timing of the local government's entitlement to receipt of its tax revenues.

RECOMMENDATION

The State should review current SDAT practices regarding the determination of "substantial completion" of improvements by property type and classification to establish how uniformly the principle is being applied. Based upon the findings, the Department should consider appropriate revisions to the Valuation Procedures Manual to clarify criteria for assessors to use – broken down by class and type of property – to assure uniform application within and between jurisdictions.

Alterations and Building System Enhancements

As a corollary to the foregoing topic, do alteration permits issued by the City for renovation of major building systems of non-residential properties – for example, roof, HVAC, plumbing or electrical work – that are reported to SDAT prompt an immediate review and revision of the property's assessed value? According to the SDAT officials interviewed, SDAT does not amend assessments "out-of-cycle" for such matters that are considered to be items of maintenance and repair.

Valuation Procedure 8-235 defines repair and maintenance expenditures as those incurred to replace original components to maintain the physical character of the building in its current condition, including, among other things, painting; electric rewiring; and replacement of the roof, furnace, plumbing fixtures, ceilings, or wall surfaces. However, this Valuation Procedure specifically states that such items may not be separately assessed for inclusion in the assessment of real property used for residential purposes. The Valuation Procedure does not cover non-residential property. Although current practice reported by the SDAT staff suggests otherwise, it appears that the Valuation Procedure calls for such improvements' effect on the value of non-residential property to be properly considered when completed. For example, what if all of the work items described above were to be performed simultaneously and collectively in an existing office or retail building? That would appear to exceed the definition of maintaining the physical character of the building in its current condition?

When should the assessor properly capture and reflect the effect of such expenditures on a non-residential property's value – upon completion of the work during the cycle, or, as asserted by SDAT staff, at the beginning of the next regularly scheduled assessment cycle? Additionally, how does the assessor measure the increment in property value contributed by such expenditures?

Such questions are not explicitly addressed in the Valuation Procedures Manual. And interviews with SDAT personnel suggest that current practice does not always appear to be consistent or comply with the existing Valuation Procedure. Of particular concern is the method(s) being used (or in this case not used) to measure the increment in value contributed by the construction expenditures for alterations. When asked

how the assessors determined if construction performed under an alteration permit contributed more than the statutorily mandated $50,000, and, if so, by how much, SDAT personnel responded that the Income and Sales Comparison Approaches are not used. When asked why the methods were excluded, the response was somewhat perplexing: the assessor's action does not represent a new assessment of the property. SDAT asserts that using new comparable sales of income information from two to three years after that employed to value other properties in the same assessment area would cause a uniformity problem. If SDAT does not view an out-of-cycle assessment as a new assessment, or revaluation of the property, in the context of Section 8-104, what is it that the assessor is doing out-of-cycle, if not revising assessments for improvements that contribute more than $50,000 to the value of the property as required by the law? Since the incurred construction cost does not necessarily correspond with the value to be created by the expenditure, relying solely on cost without considering the contributory value of the expenditure as measured by the Market or Income Approaches can result in material misstatements of value and possibly foregone tax revenues.

RECOMMENDATION

The face value of alteration permits exceeding $50,000 for non-residential property issued by Baltimore City exceeded $500 million in 2001. The lack of clarity as to how and when the value added by such alteration expenditures is to be measured and captured by SDAT for taxation should be of considerable concern to all State and local budget officials. The State should draft procedural directives clarifying the timing of and the appropriate procedures and valuation approaches to be used by all jurisdictions to recognize the incremental value associated with building modifications and alterations. Correspondingly, the State should institute oversight measures to assure compliance with all SDAT procedural directives concerning this and other issues, including proper documentation of the valuation procedures employed, to assure uniformity in application and practice within and among all jurisdictions to avoid an unintended shift in wealth and taxation

BALTIMORE CITY

The Baltimore City government lacks a strategic viewpoint with respect to the assessment process and the enhancement of its assessable tax base. The current mindset is strictly process-oriented and focused solely on the task of collecting taxes. Despite being the principal beneficiary and recipient of property tax revenues, the City has not coordinated its resources and no agency or official is authorized or responsible for monitoring, and when appropriate, challenging SDAT's assessment conclusions.

Although Maryland law vests the State government with the authority and responsibility for establishing assessed values of properties in the State, it would seem prudent

for the City of Baltimore and other local governments, as the principal beneficiaries and recipients of property tax revenues generated by the assessable tax base, to take an ongoing, pro-active role in the assessment process.

Indeed, provisions of the Tax Property article explicitly signify that the legislature intended that local governments would remain active in determining their respective property tax bases, and envisioned an active role for the local government in the property tax assessment process.

For instance, Article 14-502(a) grants local governments the right to file appeals of any assessed value with the local Supervisor of Assessments within 45 days of the date of the assessment notice. Articles 14-509 and 14-512 include local governments among those entitled to appeal the Supervisor of Assessments' determination of the assessed value for any property, by appealing at the local Property Tax Assessment Appeals Board (PTAAB) and the Maryland Tax Court. Article 2-215 requires that the Supervisor of Assessments notify the local government's legal officer of all appeals filed by property owners of any property valued at $2 million or more. Section 2-204(b) obliges the Director of Assessments to consult with the governing body of a county in which property is located before ordering a revaluation of property, while Section 2-216 requires that the local Supervisor of Assessments cooperate with appropriate county officials to make equitable assessments.

However, with the exception of Montgomery County, which has operated an office of the Public Advocate since 1975, Baltimore City and other local governments within the State have, for the most part, relinquished any involvement in the property tax assessment process. For instance, during an interview, Robert Zouck, Clerk, and John Hearn, Deputy Clerk of the Maryland Tax Court, could not recall an occasion when a representative of Baltimore City (or any other local jurisdiction) attended a proceeding or presented testimony concerning the assessment of a property located within the City. When asked to which City official the docket of scheduled property tax appeal hearings is sent, Bernadette Jones, Clerk of the City PTAAB, replied that, to her knowledge, no City official has ever requested receipt of the docket and that the docket is not sent to any representative of the City government. She, too, could not recall an instance when a City representative had attended a PTAAB appeal hearing regarding an assessment of property located within the City. SDAT senior staff had no recollection of a specific case in which a City representative participated in the appeal of a property tax assessment.

PUBLIC ADVOCACY- THE MONTGOMERY COUNTY MODEL

According to Timothy Jones, Montgomery County's Property Tax Advocate, the Montgomery County Council established an independent Office of the Property Tax Advocate in 1975. Although originally staffed with four fulltime positions, the county

has recently merged the office into its Finance Department, and reduced the staff to a single half-time position. Jones reports that since its inception, the office has been a General Fund operation rather than self-funded through dedication of revenues raised as a result of its activities.

Until recent action by the General Assembly that limited the timeframe within which property tax appeal actions could be filed by a local government, Jones reported that his office had filed an average of 800 - 1,000 appeals each year. About 90 percent involved assessments of single-family homes. In addition, the Advocate often appeared at hearings to contest taxpayer-initiated appeals.

The Advocate's Office reports that it selects properties to be appealed using an intuitive approach, with no established, systematic screening mechanism or methodology apparent or communicated by Mr. Jones. According to Mr. Jones, the county office had historically chosen to appeal assessments on properties solely from those that had recently sold at prices more than $150,000 above the property's assessed value. The Advocate performed no comprehensive analyses of properties grouped by geographic or use characteristics that had not been sold, nor were the assessments for other identical properties within the same neighborhood that had not recently been sold, challenged or appealed by the Advocate. The Advocate's focus strictly on the filing of out-of-cycle appeals of recently sold homes eventually attracted the attention and ire of State lawmakers, and the legislature reacted by ending a practice that it perceived to be inherently inequitable and contrary to the concept of assessment uniformity.

As illustrated in Exhibit 5, for fiscal years 1997 to 2001, the Advocate's activities were relatively productive, yielding a total of approximately $8.7 million in additional tax revenue, averaging approximately $1.74 million per year.

Two conclusions can be drawn from Montgomery County's experience with public advocacy in the area of ad valorem tax assessment of real property:

1. A public advocacy program can enhance the tax base and consistently produce additional property tax revenues for a local jurisdiction over time.

2. A successful public advocacy program must be organized and conducted in a manner that will generate confidence and trust in the process among all constituencies, including assessors, taxpayers, and legislators, as well as promote the fair and uniform treatment of taxpayers, and the accurate, justifiable, and equitable assessment of real property.

What should Baltimore City (and, by extension, other local governments within the State) be doing to monitor and manage its property tax base – and whenever possible and appropriate, enhance tax revenues – in an environment of limited resources?

ORGANIZATIONAL CONSIDERATIONS

All entities, public and private sector alike, require monetary resources to accomplish their stipulated goals and objectives.

The private sector generates revenues by sales of an enterprise's goods and services. The ability to generate revenue in adequate amounts to operate and grow a business is a function of its capacity to compete successfully in the marketplace. Consequently, production and maximization of revenue is the quintessential activity for a private enterprise; otherwise, growth is impossible, and existence itself could be threatened. Profitability, therefore, influences the organizational structure, as well as every decision made within the private enterprise. All private sector employees, management and labor alike, realize that generating and maximizing revenues are essential to the survival of the firm and to their own personal employment security.

This perspective is foreign to management and employees within public-sector entities. The mission of local government agencies is the delivery of essential services, not the production or maximization of government revenues, particularly taxes. From the perspective of a government manager or employee, the source of funds needed to accomplish a government agency's service delivery mission is a budgeted appropriation from a legislative body. The strategic perspective and organizational cohesion fostered by a private enterprise's need to generate revenues is absent in government settings. Instead decisions are more often made from a tactical standpoint, commonly motivated by a parochial rather than universal objective.

It is little surprise, then, that City agencies involved in the property tax assessment process would be organized and focused on their own specific contribution to the tactical objective of collecting taxes, instead of on providing a coordinated, interagency effort aimed strategically at monitoring, managing, and when possible and appropriate, enhancing the tax base.

Although projects encouraged and promoted by economic and community development entities like HCD and the Baltimore Development Corporation (BDC) often add to the City's property tax base, tax increments from their efforts are most often the result of new construction or redevelopment of properties. A number of City agencies currently have a role in the property tax assessment process and routinely deal with SDAT as well as each other. However, their efforts appear to be disjointed, with little awareness or appreciation of how the respective functions relate to each other or collectively, and with no overall coordination, direction, or monitoring of the effort.

For example, interviews showed that no one within the City government is now responsible for periodically reviewing the accuracy of SDAT's value conclusions concerning commercial properties. No one is designated to oversee a coordinated effort

to monitor, manage or enhance the City's property tax base on a continual basis. For instance, interviews showed that once the City Permits' office forwards building/alteration permit data to SDAT, the City generally views its role as completed. No one apparently monitors the timeliness or tracks the results of SDAT's subsequent actions regarding the building additions, and no one seems to be aware of the agency or person responsible for performing such follow-up activities within the City government.

As described by permits' office staff, SDAT's revisions to the assessed value of a property after the issuance of a permit can be communicated back to the City in a variety of manners, including direct input into City records by SDAT without the specific knowledge of, or oversight by, a City official. On other occasions, the revisions are transmitted to the permits office on a quarterly basis, and are then forwarded to the Finance Department's Accounts Receivable unit for manual billing of the taxes. When asked to confirm the dates on which the City had received SDAT's assessment revisions for 16 specific properties that had been issued an alteration permit, or, in the alternative, the current status of SDAT's pending re-assessment action, the City could not unequivocally verify the status of approximately one half of the cases requested, even though Use & Occupancy permits had been issued for all but four properties.

As another example, although SDAT reported that it routinely communicates information regarding building sizes to the City, City Management Information System (MIS) officials indicated that such information has neither been captured nor retained by the City's information system since it is superfluous to the function of billing and collecting taxes. In addition, MIS personnel stated that the capture and retention of such data had not been specifically requested by any City agency. Unfortunately, without building size data in the system, unit value comparisons of SDAT's assessed value conclusions by City personnel would be difficult, if not impossible.

The essential first step for the City is the simplest but also the most difficult to accomplish, because it is subtle. City leaders must adopt a strategic viewpoint that designates the monitoring, management, and whenever appropriate and possible, enhancement of the tax base as a priority objective.

Once identified as a goal, the City must organize and coordinate its effort to yield desired results. The City must define specific tasks required and delegate the authority and responsibility for the performance of each task to a specific agency or individual. The list of responsibilities and tasks (many of which are not being performed at present) the City must assign and coordinate include:

- Assembling, maintaining and continuously updating a database of property sales and rentals by use category, improvement size, geography, and other characteristics.

- Devising and implementing analytical procedures, including statistical analysis techniques, to review and evaluate sales and rental data for quick and efficient screening of SDAT non-residential property assessments to detect anomalies that might warrant further investigation, and when appropriate and justified, the filing of timely appeal documentation.

- Developing empirical standards and criteria to decide which, if any, properties merit the filing of assessment appeals by the City to SDAT, PTAAB, and the Maryland Tax Court, and detailing an expedient process, including authorization and responsibility for the filing of such appeals by the City when appropriate.

- Arranging with SDAT, PTAAB and the Maryland Tax Court to notify designated City officials of all commercial property assessment appeals filed by taxpayers, not just those exceeding $2 million in value. Specifying a process to promptly analyze the basis underlying the taxpayer's appeal and, when necessary and appropriate, to respond with a reasonable and rational challenge, including the presentation of testimony.

- Devising and implementing a program to monitor SDAT's timeliness and accuracy when assessing properties subsequent to the issuance of City building/alteration permits.

Since the requisite tasks to accomplish the goal will entail the coordinated work of several City agencies, City leaders must specifically designate which agencies shall have authority, responsibility, and accountability for coordinating and directing the effort.

From the outset, the City should set up an annual process to evaluate performance (in terms of cost[22] and effectiveness) as well as to measure and quantify the tangible results (in terms of increments to the tax base and additional property tax revenues) of the program to monitor and manage the tax base in order to justify continuation of the effort.

Finally, the City leadership must provide adequate seed funding to initiate the effort, and effectively communicate its intent and expectations to City personnel including:

- The decision to adopt monitoring, management and, whenever possible and appropriate, enhancement of the tax base as a goal

- The assignment of specific authorities and responsibilities to accomplish the goal

- The details concerning procedures and reporting requirements to accomplish the goal

Mounting a successful effort should not necessitate the creation of a new bureaucracy or the retention of an inordinate number of new workers. Rather, launching the activity should be possible through a re-alignment, re-allocation, and re-deployment of existing personnel and resources, since many of the required skill sets already exist within the organization. The City merely needs to mobilize, direct and deploy those resources more effectively. Any seed funding needed to implement this activity should be minimal. The greater challenge would seem to be defining the means and responsibility for programming, funding, and accounting for an activity that overlaps jurisdictions, is inter-departmental in nature, and transcends traditional departmental budgetary boundaries.

Of course, all or some portion of the activity could be outsourced and performed by a private contractor with compensation generated by the program itself. However, in such instance, detailed guidelines and strict safeguards would have to be instituted, and the contractor's activities closely supervised to avoid the contractor's pursuit of excessively aggressive tax appeals designed to maximize the contractor's income. A contractor's compensation for the outsourced activity should be carefully structured and appropriately balanced. If asked to bear all of the costs and risks associated with conducting the activity, a prudent contractor will anticipate rewards and profit commensurate with the risks. To protect his downside risk, under such conditions, a contractor's fixed fee might be too high, depleting or negating the benefits to be reaped by the City from the effort. Conversely, fixed compensation that is too low or overly reliant on the contractor's receipt of speculative incentive payments might produce a lax effort by the contractor, or alternatively, one that is overly aggressive and inequitable.

DATA ISSUES

Historically, the City has relied on a real-property information system that has been configured primarily as a tool to facilitate the billing and collection of property taxes. The information in this antiquated, mainframe computer system, as well as the system's capability to retrieve and analyze data has been quite constrained. The current mainframe set-up has no intrinsic analytical capabilities, for instance.

The computer screen printouts in Exhibit 6 demonstrate the current system's data retrieval capacity and limitations. The nature and organization of the data within the system, as well as the form and format in which the data can be retrieved, exemplifies the system's design as a billing and collection device, with little apparent forethought for any analytical applications. The property tax account numbers, along with tax and taxpayer data, appear to be the system's foundation. Search functions are primarily geared to retrieving individual property tax records that contain this data. As presently configured, the system permits three browsing options: by owner name, by block, and by address on a block. As the sample computer panels indicate, the browse fea-

ture yields very little information, the content of which is fixed and cannot be customized. Retrieval of any additional information requires accessing the individual property record. The system is therefore, not conducive to compiling and analyzing data on an aggregate basis. For instance, the system is not able to retrieve and display the assessed value of each property on the block for comparative purposes. To do so would require opening the individual property record for each lot on the block and manually recording the information on a paper or electronic spreadsheet for comparison. The system is also incapable of downloading information directly into an electronic spreadsheet or performing any type of customized search, such as retrieving and displaying data by use category, geographic location, physical feature, or triennial assessment cycle.

The information contained within the individual property records also does not allow for efficient and effective data analysis. For instance, the format for presentation of lot size data within the property record is length and width. A calculated size of the parcel of land in acres and square feet is not presented. This omission often yields inaccurate size data that undermines accurate comparisons since only two dimensions are reported for irregularly shaped lots. Comparing the unit values – for example, price per square foot or price per acre – of assessments or property transfers on an aggregated basis thus requires the additional step of computing land parcel sizes from the given dimensions.

The efficient comparison or analysis of assessed values and transfer data for improved properties is precluded since individual property records are devoid of any information about buildings or other improvements including size, dimensions, number of stories, age or type and use of structure. Likewise, no geographic information such as zip code or neighborhood is presented. Although current phase-in year and base year assessed value data is presented, the individual records lack any historic assessment information, thereby precluding comparisons over time or the detection of trends.

The inherent shortcomings of the city's information systems as depicted have rendered any attempt by the City to analyze, review or challenge SDAT's valuation conclusions a difficult, if not impossible, task.

However, the City is in the process of replacing its antiquated system with two new data systems – the Tidemark system introduced in 2002 by the housing department for building and alteration permits and a real property tax information and billing system in the process of being implemented by Manatron Corporation that is scheduled for service in June, 2005.

A review of the contents and features of each of these systems transcended the scope of work commissioned by this study. However, discussions concerning the systems were conducted with City officials Louise Greene, Dorreya Elmenshawy, and James

Wayland, as well as Al Ales, the Manatron Corporation project manager supervising implementation of the new Manatron system. Based on these discussions and a review of the capabilities and limitations of the legacy system, the Tidemark and Manatron systems must each overcome the analytical constraints imposed by the existing mainframe system. Each should include data, features and capabilities that will facilitate the efficient review, analysis, and, when appropriate, challenge of SDAT's assessed value conclusions. Otherwise, the City's ability to achieve the goal of tax base enhancement could be significantly undermined.

According to Mr. Ales of Manatron, the Tidemark and Manatron systems are independent. Although the systems interface, they do not interact. Consequently, it is imperative that procedures be put in place to assure that the data in the permit system and in the property tax and assessment information system are complete, uniform, compatible, consistently formatted, seamless, synchronized, and available for swift and efficient retrieval and analysis.

At a minimum, the Tidemark and Manatron systems should:

1. Contain data that is useful in valuation and statistical analysis, not just for billing. Data should include, but not be limited to:

    a. Physical Size, both in total and by floor, configuration and age of buildings, and lot square footage and acreage. Such information is essential for analysis by Floor Area Ratio (FAR) and coverage ratio.

    b. Classification by subcategories for analytical purposes including, but not limited to:
        1. Warehouses – loft, flex, distribution, manufacturing, terminals; business park versus freestanding locations.
        2. Offices – CBD, class A, B, C; business park or neighborhood
        3. Retail – neighborhood, community, regional; anchored or not; store fronts on neighborhood retail strips
        4. Convenience stores, Food & Beverage (fast food, chain versus independent)
        5. Land – by zoning classifications and use.

2. Enable data retrieval on a customized basis – for example, compiling all properties on a square block, adjoining blocks, or within neighborhoods; by zip code; by owner; by use categories, including BPRUC codes used by SDAT; by triennial cycle year, and other characteristics. The system should be able to display data in a spreadsheet format that includes, for example, all properties on a square block, current assessment of both land and building, transfer date and sales prices, including computation by unit value – square feet of land, square feet of building

and square feet of first floor of building. If the Manatron and Tidemark systems have no inherent analytical capability, data within each system should be uniformly configured to allow it to be transferred into an electronic spreadsheet environment for analysis.

3. Include historic sales transfer data as well as historic assessment data.

4. Have the capability to retrieve and store sales (transfers) of property by use, size, age, land size, site coverage and FAR ratios, and other salient property characteristics, including the ability to identify and report repeat sales of the same property over time to detect trends.

5. For oversight purposes, have the capacity to track and monitor SDAT's performance regarding the recognition of value added by building and alteration permits with the goal of capturing the incremental value as soon as permissible and possible. The system should have the capability to track the status of each permit throughout the process – that is, issuance, transmittal to SDAT, completion of construction (for example, the Use and Occupancy permit date), report of revised assessment by SDAT, transmittal to City billing office, and issuance of tax bill. The system should also be designed to alert the City on a property-specific basis when SDAT's timeliness exceeds pre-determined criteria. The system should also immediately alert those City personnel with assigned analytical responsibilities to the receipt of assessment revisions associated with building and alteration permits so that an appropriate review and evaluation of SDAT findings can be performed, and when appropriate, challenged. For the purpose of establishing appropriate benchmark data over time, the system should compile, compute and report SDAT's timeliness and valuation results on a quarterly basis, as well as monitor the total incremental value associated with building and alteration permits.

PROCEDURAL ISSUES

Once the City's operation is properly organized and equipped with a functional information system, the final task would be to implement an on-going process to enhance the non-residential property tax base in a manner that promotes confidence and trust, and leads to accurate, justifiable, and equitable real property assessments.

The Tax Property Article restricts a local government's ability to file appeals of assessed values for the current cycle to the same 45-day period from the date of notice allotted the taxpayer. With so many property assessments to review and so little time to act once notices are received, the City must be prepared to immediately identify those properties, if any, that it believes to be undervalued, and, when justified, file appropriate appeal documentation in a timely manner. Otherwise, according

to Ronald Bowers, the Administrator of the Maryland Property Tax Assessment Appeals Board, appeals filed after the deadline would have to be considered out-of-cycle, and, would therefore not be eligible for hearing until the following year. At the same time, the City must be ready to respond quickly to taxpayer appeals for assessment reductions in those instances that the City believes are unwarranted.

Such quick responses can occur only as the result of preparation throughout the period preceding SDAT's annual dissemination of assessment notices.

First and foremost, the City must arrange with SDAT for the timely receipt of assessment information in a form and format that will facilitate prompt and efficient analysis of the data. The new Manatron assessment information system should, therefore, have the capacity to electronically receive and be alerted of assessment transmittals from SDAT in a format that is ready for analysis, needing little or no subsequent adjustment or alteration. The data should be capable of downloading directly into a spreadsheet or other analytical environment if such capability is not already included within the Manatron system. The City personnel responsible for data analysis should have instantaneous notification of, and real-time access to the data as it is received, together with the ability to identify, sort and retrieve the information by a variety of parameters including the triennial cycle year. Likewise, SDAT should make annual assessment data available to the City as soon as it is available, prior to or, at least simultaneous with, its transmittal to taxpayers. Any delay compromises the City's ability to review and respond to the assessments in a timely manner. Likewise, arrangements should be made with SDAT, PTAAB, and the Maryland Tax Court for prompt notification of designated City officials concerning all non-residential property assessment appeals filed by taxpayers, not just those exceeding $2 million in value, as required by the Tax Property Article. In addition to the legal officer stipulated in Section 2-215, those designated with the responsibility for performing analyses or responding to taxpayer appeals should receive timely, direct notification of the taxpayer appeal filings to allow adequate time to prepare reasonable and rational challenges.

The data transmittal arrangements envisioned above could be considered a part of the Supervisor of Assessments' Tax Property Article Section 2-216(e) obligation to "… cooperate with local county officials…to make equitable[23] assessments."

The City's updated database should include property sales and rentals by use, improvement size, geography, and other characteristics. The database[24] should also include computed unit rental and unit sale values (for example, on a per square foot of improvements basis), and capitalization and yield rates. It should be continually analyzed throughout the year to evaluate not only the substance of taxpayer appeals filed with SDAT, but also the annual issuance of new assessments by SDAT that must be promptly evaluated and challenged, when appropriate.

With such a database in place, City agencies can apply analytical techniques, including statistical models, to develop empirical standards and criteria from the on-going review and evaluation of sales and rental data from the current cycle and over time. This will allow for the swift screening of assessment data for anomalies that might justify challenge.

For example, the mean (average) and standard deviation are two straightforward statistical devices that are easy to understand conceptually, and relatively simple to compute. Together, they can serve as tools to identify inappropriately assessed properties. The mean (average) identifies the center of grouped data, while the standard deviation indicates the range within which most of the data falls (75 percent of data are within two standard deviation units of the mean, 95 percent if in a statistically defined normal distribution). Assessment data can be grouped by key traits and then scanned to identify assessed values that exceed one or two standard deviations from the mean value, based on similar observations from the sample data within the database.[25] During the year preceding the issuance of a new assessment, each property's existing assessment can be surveyed in this manner to identify outstanding instances of under-valuation. Should an irregularity be detected, the property can be tagged and tracked for subsequent review and analysis when cyclical assessment notices are issued at year's end. In a similar fashion, City employees could quickly review and analyze cyclical assessments as they are issued. Alternatively, measuring each property's rate of increase in assessed value occurring between cycles to isolate those that exceed the stipulated standard deviation criteria can be a simple apparatus to spot incongruities that might warrant further examination.

In addition to reviewing and responding to taxpayer appeals and SDAT's cyclical assessments on a property specific basis, the City should also take steps to identify, research and evaluate those properties that pose particularly challenging valuation problems, the complexity of which might not be easily discerned by an assessor with limited time and analytical resources. The City's analysis of vacant or underutilized properties located in speculative or redeveloping neighborhoods where rapidly changing market conditions are influencing highest and best use and property values could be shared with SDAT. This might enable time-strapped SDAT assessors to more readily comprehend subtle or emerging influences on property values thereby forestalling the potential for under-assessment of properties as a result of incorrect highest and best use determinations in redeveloping neighborhoods.

Performing continuous reviews and analyses of market segments – such as office, retail, hotel, or warehouse – could be useful in discerning incidents in which properties, although uniformly assessed, might, as a class, significantly understate the prevailing market for the specific property type. Appropriate preventative action by the City in such cases could avert the potential for corresponding revenue losses.

For instance, Tax Property Article Section 2-204 states that:

> *"The Director (of Assessments & Taxation) may order a revaluation of any real property if, based on consideration and evaluation of a review of real property valuation on which the existing assessment is based, it appears that the existing valuation of the real property is erroneous because it differs significantly from valuations on comparable properties."*

Tax Property Article Section 2-203(b) further states that, for purposes of action by SDAT "… real property is not required to be reviewed individually or separately, but may be grouped." Furthermore, Section 2-203(c) empowers the Property Tax Assessment Appeal Board to request a review of any real property assessment, and the Director of Assessments and Taxation shall order it. However, PTAAB can only respond to actions brought before it by others[26] and not on its own motion.

The foregoing Tax Property Article provisions, when taken together, render PTAAB a useful and effective forum within which the City, and other local jurisdictions, can petition for the review and correction of inaccurate or inequitable assessments, whether for a single property, or for an entire class of properties. This is especially so since action by the Director of SDAT is compulsory when requested by the PTAAB as recited in the opinion of the Attorney General:

> *"What the General Assembly has provided…is the right of the local government to appear before the PTAAB and assert the alleged under-assessment of property by the Supervisor of Assessments…It is the local government – which is in the best position to know the local situation – that is expected to advance local interests before the PTAAB…"*

Finally, as discussed previously in the Data Issues section, the City should develop appropriate procedures to closely monitor SDAT's actions and conclusions subsequent to the City's issuance of building and alteration permits. The City should ensure that SDAT's response is timely. Moreover, the City should be aware of and monitor those cases in which substantial completion (discussed previously) is an issue. It should also take steps to review and ensure that SDAT measures the appropriate amount of value added by the improvements made under the building/alteration permit, and capture that value at the earliest permitted opportunity.

When reporting building and alteration permit data to SDAT, as required by Tax Property Article Section 5-103, the City should take steps to eliminate the duplicative reporting of permits. Additionally, in its reporting to SDAT and subsequent tracking of those permits, the City should attempt to identify and distinguish those building/alteration permits for construction that represents major property renova-

tions (qualifying for immediate out-of-cycle assessment recognition) from those that obviously address repair and maintenance items reflected in SDAT Valuation Procedure 8-235. City personnel should regularly monitor and reconcile Use and Occupancy permit data with the receipt of pending SDAT assessment revisions for accuracy and timeliness.

THE PILOT PARADOX

Investigating whether non-residential real property in Baltimore City is properly assessed and filing appeals when the City believes that it is not might be considered somehow disingenuous since the City government frequently bestows property tax incentives, including abatements such as Payment in Lieu of Tax agreements (PILOTs), to encourage the development of certain economic and community development ventures. Wouldn't seeking to maximize property tax receipts from some property owners while minimizing the collection of taxes through the award of subsidies, incentives, credits and abatements for others discourage businesses from investing, locating or remaining in the City?

Although that is a legitimate question, there is nevertheless a significant difference between economic stimulus and tax parity. While no one likes to pay taxes, and few would volunteer to do so, the law provides that all[27] real property is subject to the property tax, and will be taxed and assessed uniformly based on fair market value.

Because it is uniformly applicable, conspicuous, and easy to comprehend, the tax rate component of the property tax equation typically attracts the most attention and discussion. The under-assessment of property draws less attention because it is inconspicuous, infinitely variable, and can only be estimated by procedures that are esoteric and often not easily understood.

Governments at all levels use tax incentives and subsidies as tools to attract and encourage specific economic activities and to implement particular policies. Only when business taxpayers perceive inconsistent or inequitable treatment, or sense that incentives are awarded without regard to merit or economic justification is the practice viewed disparagingly. Property taxes are but one of many criteria in the calculus of locating or displacing a business enterprise. Seldom would property taxes alone be the sole reason for a business-location decision. Although a comparison of the total tax burdens among alternative locations would be the appropriate standard to employ when selecting sites, a disproportionate tax rate does stand out, and can be a criterion used to disqualify a location in the early rounds of decision-making.

Although homeowners might view and criticize PILOTs and other tax incentives as a bonanza for the politically connected, the value of such inducements pales in comparison to the subsidies reaped by homeowners under the Homestead Tax Credit.

There is a public perception that foregoing property taxes under a PILOT agreement in the name of economic development could well lead to increases in the tax rate. However, taxpayers seem to be oblivious to the inherent penalty imposed by under-assessed property that could also prompt a tax rate hike to offset the corresponding revenue deficiency. PILOT agreements that forego property tax receipts, when strategically granted, bring forth offsetting, and hopefully, greater benefits in exchange. On the other hand, when properties are under-assessed, the City only loses tax revenues without receiving any corresponding benefits in return.

Identifying inaccurate assessments should, therefore, be a priority for government officials. While the State establishes assessed values, it has relatively little revenue at stake in the event that a specific property is improperly assessed. Hence, from a revenue potential standpoint, there is little cause for concern or incentive for precision on a case-by-case basis. And on a practical level, a conservative assessment is less likely to lead to a property owner's appeal, which brings with it a larger workload for a staff that believes it is already overburdened and underpaid. It is important to emphasize that any steps that the City would take in this regard must include a review, analysis and process that is equitable and based on clear standards, to develop public acceptance and confidence.

The following chart shows that the number of property tax appeals[28] filed a decade ago (a period of real estate recession) has dropped significantly in recent years (a period of escalating values). At least anecdotally, the decline in appeals could be attributed to taxpayer perception that the property tax assessments are more advantageous, when compared to prevailing market values, today than in the past.

YEAR	APPEALS	APPEALS AS A % OF ACCOUNTS ASSESSED	ASSESSMENT GROUP	% CHANGE OVER 10 YEARS
2001	5415	7.90%	1	-40%
2000	5193	7.50%	3	-34%
1999	6251	7.20%	2	-35%
1998	6082	9.00%	1	
1997	6598	9.50%	3	
1996	10435	12.20%	2	
1995	5072	7.50%	1	
1994	6959	10.20%	3	
1993	8400	9.80%	2	
1992	9041	13.30%	1	
1991	7873	11.70%	3	
1990	9635	11.30%	2	

Source: Property Tax Assessment Appeals Board of Baltimore City & SDAT data

As the principal beneficiary of the property taxes to be generated, one would expect that the City would be scouring the tax rolls for every opportunity to rectify assessment shortfalls. Service curtailment and a non-competitive tax rate reinforce the need for the City to grant more PILOTs and other tax incentives to attract and preserve businesses and residents, which perpetuates a vicious circle of revenue loss. Unfortunately, as previously discussed, the City's review of SDAT valuations has, to date, been virtually non-existent with few mechanisms in place to detect, deter, or correct assessment inaccuracies.

IMPORTANT CONSIDERATIONS

This report makes the case that the City of Baltimore should monitor the assessments process more diligently. Although primarily a matter of equity and parity in taxation, such an effort would most likely produce an ensuing enhancement in tax base and tax revenues since, as presently organized and administered, the appellate process is designed to respond to and rectify instances of over-assessment, rather than identify and remedy under-assessment. However, it is important to note that such a strategy carries with it the potential for unintended side effects that should be carefully considered and addressed.

First, under current State funding formulas, the City could inadvertently end up costing itself some State aid if it were to unilaterally pursue a program to monitor assessment accuracy that results in a significantly enhanced property tax revenue. In particular, State education funding is based, in part, on a local jurisdiction's wealth as measured by its tax base, or its relative ability to generate property tax revenues. In simplest terms, the higher the jurisdiction's property wealth, the less State aid it receives. At stake could be millions of dollars in State education funding. Although such a linkage appears to penalize rather than reward local government officials for managerial diligence, efficiency, and resourcefulness, it is an issue that policy makers at the State and local level must ponder and reconcile.

Similarly, a substantial increase in the City's real property assessable base could lead to a reduction in the City's property tax rate. Such a rate cut, though, carries other consequences. In particular, the real property tax rate is tied by law to the tax on personal property, such as machinery and equipment. Currently, the personal property rate is set at 2.5 times the real property tax rate. If the City were to reduce the real property tax rate, it would also be cutting personal property rates and collections.

Finally, while this report did not specifically look at the assessment process and results in jurisdictions outside Baltimore, the findings here raise red flags about the possible under-valuation of commercial properties throughout the State. For instance, SDAT's 2003 Commercial Ratio Study reports that half of the State's 24 political subdivisions have weighted ratios below the 87% statewide average with 3 below 75%.

While this could be attributable to a variety of circumstances including a very small sample of property sale transactions, there is reason to believe that the concerns noted here transcend the confines of the City of Baltimore. If Baltimore alone among the jurisdictions were to take unilateral steps to ensure the accuracy of commercial assessments within its jurisdiction, it could well be put at a competitive disadvantage. It is important that officials of both the City and State carefully, consider issues concerning uniformity of assessments and the potential shifting of tax burdens among jurisdictions as they contemplate changes in assessment policies and practices.

CONCLUSION

In summary, this report concludes that there is much to be done, but also much to be gained.

Although fiscal resources at every level of government are scarce, State leaders should recognize that adequately funding the property tax assessment function must be a priority. Unlike many other appropriations, dollars prudently invested in the assessment function should produce more timely and accurate assessments that can yield an enhanced tax base capable of reaping a bounty of additional revenues for use by other State agencies whose missions consume rather than produce revenues. In addition, resources devoted to expanding the tax base, will benefit local, as well as State government coffers, while simultaneously promoting local self-reliance.

The operative word is prudently invested. Prudence dictates that when State leaders appropriate finite resources in response to an agency's request for funding, it should be done with an implied but clear expectation that the allocation will yield suitable benefits, tangible or intangible. Those providing the funds have the right to expect that those seeking the funds will demonstrate and document not only the needs, but also the results. Hence, appropriate benchmarks against which subsequent agency performance can be measured ought to be established and monitored so that results can be confirmed. For instance, increased salaries or procurement of enhanced technology should yield evidence of improved productivity, for instance an increase in output per assessor, or improved performance, such as a greater proportion of successful appeals, documented incidents demonstrating the capture of previously elusive values, or enhanced assessment accuracy as reflected in improved statistical parameters.

SDAT would benefit from a more progressive viewpoint. Although the claim of insufficient resources is undoubtedly valid, it is by no means unique among agencies at all levels of government. Neither is it a legitimate excuse or justification to compromise the objective of providing the most accurate, reliable and credible valuations possible. Tough times demand novel solutions to intractable problems. This report has offered a few relatively inexpensive and straightforward suggestions, including a tactical reorganization and redeployment of staff and departmental resources to reduce costs and

augment performance through elimination of redundancy. Additional opportunities to achieve operational economies are surely possible after adequate introspection.

Whenever and wherever possible, SDAT should seek to piggyback or leverage local resources to accomplish its mission. After all, both State and local governments benefit from accurate and credible assessments. Such cooperation was originally envisioned by the General Assembly as reflected in Tax Property Article 2-216: "…the local Supervisor (of Assessments) shall cooperate with appropriate county officials…to make equitable assessments."

This report has identified the need for a greater degree of transparency, oversight and accountability in the preparation of non-residential property assessments. The need for confidentiality of proprietary taxpayer information is evident. However, the oversight function in the assessment process that is typically fulfilled by State assessment authorities elsewhere in the United States is currently missing in the Maryland model. Furthermore, merely knowing (from the results of yearly ratio studies) and acknowledging (through disclosures in annual reports) that property values are being understated, with no apparent curiosity to determine the underlying causes, or resolution to implement remedial policies and procedures to correct inaccuracies in the future, is indicative of complacency instead of accountability. This report has also presented some straightforward and relatively inexpensive suggestions, including a wider use of contemporary analytical techniques to enhance quality control and performance. For assessments to be uniform, the Department should clearly articulate and universally apply valuation procedures. As of now, there appear to be shortcomings that SDAT needs to address in this area.

Finally, the City and other local jurisdictions can no longer afford to abdicate the proactive role in the assessment process that was originally envisioned and reserved for it by the General Assembly and embodied in the Tax Property statute. The most difficult step for the City to take is the first – acknowledging the need to adopt a strategic viewpoint with respect to monitoring, managing, and enhancing its tax base. In so doing, the City must ensure that any process of reviewing, and when appropriate, challenging commercial property assessments must be done equitably, systematically, and transparently to foster public confidence and acceptance.

While at the inaugural stages of implementing two new information systems that will complement its existing CitiStat resource, the City has a prime opportunity to develop a superior analytical capability to monitor, and when warranted, increase its property tax revenues. This report has set forth a number of relatively simple and inexpensive ideas to organize and oversee a commercial property tax assessment monitoring and enhancement program by re-aligning and re-deploying existing personnel and resources, as well as introducing some basic analytical procedures.

Each year, taxpayers diligently review their property tax assessments to ensure that they are being asked only to pay their appropriate share of property taxes, and no more. Isn't it only reasonable for taxpayers to expect local public officials to exert a similar degree of fiscal prudence and check assessment accuracy on behalf of the City at large to ensure that the City is receiving its fair share of tax revenues from the assessable tax base, and no less?

In close, it is worth repeating that while this report focuses on the City of Baltimore, the issue discussed should be considered and addressed collectively by jurisdictions throughout the State to prevent an unintentional and unwarranted shift in tax burden and revenues that would accompany unilateral action. Baltimore City already faces tough competition from other jurisdictions on business and development matters. It would be counter-productive for the City to unilaterally take steps that could detrimentally alter the playing field and penalize Baltimore's economic development interests over time.

EXHIBIT 1

STATE OF MARYLAND
Property Tax Assessment Appeals Board

The Towne Centre Building
6 West Washington Street, Suite 308
Hagertown, Maryland 21740

Robert L. Ehrlich, Jr.
Governor
Michael S. Steele
Lt. Governor
Ronald L. Bowers
Administrator
Julie M. Greene
Executive Associate

May 13, 2003

TO: **The Honorable LeRoy Myers**

FROM: **Ronald L. Bowers, Administrator**

RE: **Property Under-Assessments**

Since becoming the Administrator of the Property Tax Assessment Appeal Boards and talking with the Supervisors of Assessments in the 23 counties and Baltimore City, I have identified a serious loss of revenue that I feel needs immediate attention of appropriate State Officials. In my opinion, we can no longer afford to loose revenue that is within existing regulations and the annotated code of the State of Maryland.

The following is an outline of facts and figures stating how property under assessments is a significant problem. This affects not only State revenues, but also local counties and municipalities.

Executive Summary

Property *under-assessments* are a significant problem facing the State of Maryland. Many properties in the state are *under-assessed* at between 10 and 80 percent of the actual market value. This translates into inequitable taxes for similar properties and lost revenue for the State and local governments.

This problem has grown in recent years due to an increase in the competition for assessors from other Maryland entities and adjoining states. The problems of *under-assessments* has been further amplified by the increase in construction across the state and the downsizing of the staff at the Department of Assessments and Taxation.

The State of Maryland needs to seriously consider this potential source of additional revenue.

EXHIBIT 1 — *Continued*

Property Under-Assessments are Unfair to Property Owners and Hurt the Public Sector

It is estimated that most properties in Maryland are currently assessed at between 10 and 80 percent of the market values. These *under-assessments* create three significant problems.

1. **The wide variation in the ratio of assessed value to market value creates an unfair tax system for property owners. Individual property owners are paying a disproportionate amount of their actual tax burden.**
2. ***Under-assessments* result in lost revenue to the State of Maryland and its subsequent local governments. Raising assessed values to equal market values will result in increased funds for state and local governments without the need to increase taxes or tap new sources of funds.**
3. **This situation throws doubt on the soundness of our property tax system. As the State works diligently to maintain its AAA bond rating, this system must be corrected.**

Actions to Rectify the Problem of Property Under-Assessments

Three actions should be taken by the Department of Assessments and Taxation to rectify this problem.

The first action is to reassess properties at the time of sale to reflect the appropriate market value. Each year, more than 100,000 properties transfer ownership and more than 20,000 buildings are constructed. Any change in the market value should be reflected in the assessment rolls.

The next action is to hire additional assessors to help manage the ever-growing workload of the Department. Over the last 25 years, real property accounts have increased by 68 percent. Over the same period of time, the number of real property positions has decreased by 40 percent. This has resulted in the number of accounts handled by assessors to increase by nearly 80 percent since 1978.

The final action is to ensure that the Department retains and attracts quality assessors. Neighboring jurisdictions pay entry-level assessors at a starting wage 50 percent higher than Maryland. While other state agencies have reclassified assessors to provide higher salaries, the Department of Assessments and Taxation has not. Inequitable compensation has resulted in the loss of one-half of the commercial assessors in Anne Arundel, Montgomery and Prince George's Counties. In addition, with many current assessors in the Department approaching retirement, there is a significant need to retain and attract quality assessors.

To further expound on the workforce issue, current law requires that each property receive an exterior physical inspection during its assessment period, which is once every three years. It is currently estimated that, due to the staffing shortage, over one third of the properties up for assessment will not be inspected. Increasing the quantity and quality of the staff would help the State move towards correcting this omission.

These actions would not require any major changes to the law, but would result in enormous benefits for both the state and local governments.

EXHIBIT 1 — *Continued*

The Fiscal Effect of Eliminating Property Under-Assessments

More than $4.8 billion in revenue is collected from property taxes at the state, county and municipal levels each year. Correcting the problem of property *under-assessments* could allow government to realize a significant increase in revenue.

In Fiscal Year 2003, the State of Maryland is projected to receive $282,503,990 in revenue from property taxes. If property assessments were increased by a modest 15 percent statewide as a result of accurate market-rate assessments, the State of Maryland would have received an additional $42,375,599 in revenue. It should be noted that increasing assessments to the market value would most likely yield a greater increase than 15 percent.

Local government revenue from property taxes was $4,344,126,619 in Fiscal Year 2002. If property assessments were increased by the same 15 percent statewide, local governments would have realized an additional $651,618,993 in revenue. These funds could replace some revenues that the state has typically provided to local governments, freeing up additional dollars for state activities.

All of these revenues would have been achieved without an increase in the tax rate or an expansion of the taxable base.

The State Needs to Consider this Proposal to Eliminate Property Under-Assessments

As the State is searching for ways to balance its budget and deal with its structural deficit, this proposal presents an opportunity to increase state revenues and increase the funds available to local governments around the state. Also, this proposal may be more politically viable than other revenue enhancements, like a legislated increase in taxes.

This brief proposal serves as an introduction to a more detailed proposal on the widespread occurrences of under-assessments and the workforce shortage that is included with this outline.

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	TOTAL
APPRECIATION 8%/YEAR	$100,000	$108,000	$116,640	$125,971	$136,049	$146,933	$158,687	$171,382	$185,093	
ASSMT W/HOMETEAD CREDIT 4% CAP	$100,000	$100,000	$100,000	$104,162	$108,324	$112,486	$117,168	$121,849	$126,530	
ASSMT NON-RESID PROPERTY	$100,000	$100,000	$100,000	$108,657	$117,314	$125,971	$136,876	$147,781	$158,687	
CITY TAX ON SF RESID. PROPERTY	$2,328	$2,328	$2,328	$2,425	$2,522	$2,619	$2,728	$2,837	$2,946	
TAX ON NON-RESIDENTIAL PROPERTY	$2,328	$2,328	$2,328	$2,530	$2,731	$2,933	$3,186	$3,440	$3,694	
RESID. PROPERTY TAXES COLLECTED			$0			$7,565			$8,510	$16,075
NON RESID. PROPERTY TAXES COLLECTED			$0			$8,193			$10,321	$18,514
									Differential	15%
CITY PROPERTY TAX RATE	0.02328									

EXHIBIT 3

METHODOLOGY AND SCOPE OF WORK

To prepare this report, the author studied the legal and procedural framework governing the assessment of real property in Maryland by reviewing the Tax Property Article of the Maryland Annotated Code, the Code of Maryland Regulations, the Assessor's Valuation Manual, SDAT Annual Reports, descriptive data presented on the SDAT website, and various pamphlets and brochures published and issued by SDAT.

To understand the processes, procedures and data systems employed by assessors when valuing commercial property in Baltimore City interviews were conducted with SDAT personnel including Ronald Weinholt, Director of Assessments and Taxation, Laura Foussekis, Special Assistant to the Director of SDAT, Owen Charles, Supervisor of Assessments for Baltimore City, Richard Lottman, Chief of Commercial Property Assessments for the Baltimore Office of SDAT, Jere Daneher, David McCann, Rick Sause and Rene Mierczak, commercial property assessors for the Baltimore City SDAT office.

To understand the professional standards and best practices governing the assessment of commercial real properties, interviews were conducted with Wayne Trout, ASA, Assessor for the City of Roanoke Virginia, who is the IAAO representative to the Appraisal Foundation Advisory Council. The Standard on Property Tax Policy, Standard on Ratio Studies, and the Standard on the Mass Appraisal of Real Property published by The International Association of Assessing Officers (IAAO), and the Uniform Standards of Professional Appraisal Practice Standard 6: Mass Appraisal, Development and Reporting issued by the Appraisal Foundation were also reviewed.

To gain insight into current state-of-the-art technology (data management systems, automated valuation models, etc.) interviews were conducted with John Thomas and Al Ales of Manatron, Inc. a company that designs and develops client/server application software products and provides mass appraisal services for city and county governments. Mr. Ales is the Project Manager who is presently overseeing the installation and implementation of Manatron software that is replacing the existing property tax information systems in Baltimore City.

To pinpoint possible factors that might have caused or contributed to an underassessment of commercial properties in Baltimore City, this study sought to identify specific examples of significantly under-assessed, non-residential properties. The purpose of this exercise was two-fold: first to find tangible examples to corroborate the foregoing inference from the analysis of SDAT computed ratios that non-residential properties in Baltimore City have been under-assessed, and second, to identify properties whose case files could be evaluated for clues about the causes of the valuation shortfalls.

EXHIBIT 3 — *Continued*

First, a total of 399 sales of non-residential properties in Baltimore City that occurred during the period July, 2000 to July, 2001 were identified using the transfer data reported by SDAT on its website. The search parameters requested commercial properties and arm's-length transactions that included multiple accounts. From the total non-residential property transfers identified, 121 properties with sale prices of $200,000 or more (summarized on the accompanying table) were selected for evaluation.[29] The then-current assessments and sale prices for each of the transferred properties were obtained from the information presented on the SDAT website, and thereafter were manually entered into a spreadsheet to be compared and contrasted.[30] Although these research protocols precluded making any statistically valid inferences from the data, some anecdotal observations are nonetheless worth noting.

The 121 transactions represented slightly more than $98 million in sale consideration with a corresponding taxable assessed value of just under $77 million. In the aggregate, the assessments represented about 79 percent of the reported sale prices. The weighted average for the data not only corresponded with the experience of the two major office properties discussed in the Introduction of this report, but also with the 83 percent aggregate weighted average[31] for non-residential properties in Baltimore City reported by SDAT during the six-year period from 1997 to 2003. Closer scrutiny of the individual data revealed that 43 percent had assessments at the time of sale that were 70 percent or less of their sale prices.

Of the 121 properties, 20 had sold for less than their assessed values at the time of sale, three at prices equal to their assessed values at the time of sale, and 98 at prices above their assessed values at the time of sale. The number of properties selling at prices greater than their assessed values at the time of sale (suggesting possible instances of under-assessment) was five times greater than the number of properties that had sold at prices below the assessed values (suggesting possible instances over-assessment).

The incidence and extent of the discrepancies between commercial property assessments and sale prices that were observed for the 121 selected properties yielded results similar to the commercial ratio studies that have been published by SDAT over time. In the absence of analyses to demonstrate statistical correlation (which transcended the scope of this assignment) such deviations could be purely coincidental. However, they might also be indicative of problems inherent in assessment procedures, and not merely anomalies.

It should also be noted that this study and its conclusions have explicitly assumed that the data obtained from the SDAT information system conformed to the parameters input during the data-retrieval process – that is, arm's-length transactions involv-

ing commercial properties that included multiple accounts. To the extent that the SDAT data retrieved failed to comport with the input parameters, ratios and other conclusions could be inaccurate or skewed. However, such inaccuracies would underscore the findings of this report concerning SDAT data system shortcomings.

Seventy-nine properties were thereafter targeted for further investigation, including an exterior inspection of each. After meeting with SDAT officials, the list was subsequently culled to 25 properties of varying types, sizes and locations, the individual case files of which were to be later reviewed and scrutinized in search of the causes of the apparent under-valuation. Such a review intended to focus on the appropriateness of the valuation techniques employed; the source, accuracy and applicability of the data used in the valuation analyses; the suitability of the assumptions and the financial projections used; the supporting information used in the valuation; and the influence of the property tax appeals process on the final assessment conclusion.

Upon completion, all of the results were to be analyzed to discern the probable cause of the valuation inaccuracies. With this knowledge, it was intended that corrective actions could be developed and recommended to mitigate the problem.

Privacy provisions of the Tax Property Article precluded direct access to information contained in the individual case files of the 25 properties targeted for detailed review and analysis, as discussed above. Instead, an SDAT representative, in the presence of the researcher, inspected the individual case file and responded to questions posed by the researcher about the techniques or data employed by the assessor who valued each property.

SDAT officials often contended that information about the application of valuation techniques and the data, projections and assumptions employed was confidential or that the information was not contained in the file. SDAT officials also often replied that they were not in a position to answer such questions because they had not personally performed the assessment under consideration or were not familiar with the property or the valuation procedures performed. The author's access to assessors directly responsible for value conclusions for the 25 cases was limited.

To gauge the influence of the property tax assessment appeals process on the level of commercial property assessments in Baltimore City, interviews were conducted with Ronald Bowers, the Administrator of the Maryland Property Tax Assessment Appeals Board; Bernadette James, Clerk of the Baltimore City PTAAB; and Robert Zouck, Clerk, and John Hearn, Deputy Clerk, of the Maryland Tax Court.

To understand Baltimore City's current role and responsibilities, interviews were conducted with George Winfield, Director of Public Works; John Huculak, Management

EXHIBIT 3 — *Continued*

Information Systems (MIS); Andrew Lauland, CitiStat; Dorreya Elmenshawy and James Wayland, Bureau of Permits; Louise Green, Bureau of Treasury Management; Joseph Wesolowski and Tom Jacobs, Department of Real Estate; and Doug Brown, Department of Finance.

Finally, to understand the function and effectiveness of a local government property tax advocacy program, an interview was conducted with the Property Tax Advocate for Montgomery County, Timothy Jones.

EXHIBIT 3 — *Continued*

SAMPLE OF NON-RESIDENTIAL SALES
JULY, 2000 - JULY, 2001

	PROPERTY	SALE DATE	SALE PRICE	FCV	DIFFERENCE	AV AS % OF SALE PRICE
1	12 S. CALVERT STREET	7/26/01	$1,100,000	$296,500	$803,500	27.0%
2	723 ST. PAUL STREET	7/24/01	$650,000	$315,020	$334,980	48.5%
3	3410 ANNAPOLIS RD.	7/19/01	$1,761,452	$1,793,700	($32,248)	101.8%
4	3539 BELAIR ROAD	7/13/01	$225,000	$171,000	$54,000	76.0%
5	4601 LIBERTY HEIGHTS AVE	7/11/01	$630,000	$325,000	$305,000	51.6%
6	231 ST. PAUL STREET	7/10/01	$1,156,000	$317,900	$838,100	27.5%
7	532 LAFAYETTE STREET	7/10/01	$325,000	$78,000	$247,000	24.0%
8	930 WOLFE STREET	6/26/01	$325,000	$187,200	$137,800	57.6%
9	827 CHARLES STREET	6/20/01	$240,000	$122,000	$118,000	50.8%
10	5 CALVERT STREET	6/20/01	$2,200,000	$437,000	$1,763,000	19.9%
11	1301 CONKLING STREET	6/13/01	$459,130	$300,000	$159,130	65.3%
12	435 BROADWAY	6/11/01	$220,000	$170,000	$50,000	77.3%
13	819 PARK AVENUE	6/7/01	$250,000	$313,000	($63,000)	125.2%
14	5001-05 HARFORD RD.	5/25/01	$400,000	$346,400	$53,600	86.6%
15	3403 SINCLAIR LANE	5/18/01	$355,000	$262,800	$92,200	74.0%
16	1443 LIGHT STREET	5/18/01	$265,000	$54,900	$210,100	20.7%
17	1415 RUSSELL STREET	5/17/01	$1,670,000	$1,208,000	$462,000	72.3%
18	733 FORT AVENUE	5/17/01	$240,000	$214,000	$26,000	89.2%
19	1005 WATSON STREET	5/15/01	$350,000	$72,000	$278,000	20.6%
20	1300 RACE STREET	5/14/01	$765,000	$440,000	$325,000	57.5%
21	2101 VAN DEMAN STREET	5/11/01	$1,200,000	$676,000	$524,000	56.3%
22	2340 WARWICK AVENUE	5/10/01	$250,000	$300,000	($50,000)	120.0%
23	601 CHARLES STREET	5/7/01	$800,000	$545,000	$255,000	68.1%
24	3601 DOLEFIELD AVENUE	5/7/01	$980,000	$162,750	$817,250	16.6%
25	6501 ERDMAN AVENUE	5/2/01	$1,540,000	$1,209,000	$331,000	78.5%
26	900 CATHEDRAL STREET	5/2/01	$2,890,000	$1,224,480	$1,665,520	42.4%
27	1000 LIGHT STREET	5/1/01	$242,500	$162,800	$79,700	67.1%
28	1007 PRATT STREET	4/25/01	$425,000	$251,600	$173,400	59.2%
29	6709 HARFORD ROAD	4/19/01	$575,000	$567,000	$8,000	98.6%
30	3601 O'DONNELL STREET	4/17/01	$500,000	$524,000	($24,000)	104.8%
31	1019 CALVERT STREET	4/12/01	$220,000	$138,540	$81,460	63.0%
32	5000 PULASKI HIGHWAY	4/11/01	$344,122	$308,800	$35,322	89.7%
33	708 BOND STREET	4/9/01	$270,000	$136,600	$133,400	50.6%
34	2701 FRANKLIN STREET	4/4/01	$642,032	$352,600	$289,432	54.9%
35	101 MCCOMAS STREET	4/3/01	$9,983,000	$7,837,200	$2,145,800	78.5%
36	407 SARATOGA STREET	3/30/00	$500,000	$500,000	$0	100.0%
37	7 BALTIMORE STREET	3/30/01	$1,409,669	$1,981,600	($571,931)	140.6%
38	2930 WASHINGTON BLVD	3/28/01	$945,000	$846,000	$99,000	89.5%
39	211 CHASE STREET	3/20/01	$400,000	$265,500	$134,500	66.4%
40	401 WARWICK AVENUE	3/19/01	$600,000	$171,000	$429,000	28.5%
41	2125 MARYLAND AVENUE	3/16/01	$225,000	$190,000	$35,000	84.4%
42	329 HOWARD STREET	3/16/01	$275,000	$214,000	$61,000	77.8%
43	16 FREDERICK	3/13/01	$312,500	$197,200	$115,300	63.1%
44	321 CALVERT STREET	3/13/01	$800,000	$447,500	$352,500	55.9%
45	6639-55 BELAIR ROAD	3/6/01	$2,156,000	$1,600,100	$555,900	74.2%
46	11 20TH STREET	2/28/01	$450,000	$1,960,000	($1,510,000)	435.6%
47	2918 GLENMORE AVENUE	2/28/01	$350,000	$350,000	$0	100.0%
48	3020 NIEMAN AVENUE	2/27/01	$800,000	$808,100	-$8,100	101.0%
49	2701 WASHINGTON BLVD	2/26/01	$260,000	$202,500	$57,500	77.9%
50	2301 NORTHERN PKWY	2/21/01	$350,000	$338,600	$11,400	96.7%
51	1000 DUNDALK AVENUE	2/21/01	$300,000	$75,120	$224,880	25.0%
52	4619 EASTERN AVENUE	2/20/01	$200,000	$101,980	$98,020	51.0%
53	1830 ALICEANNA STREET	2/15/01	$339,000	$300,000	$39,000	88.5%

EXHIBIT 3 — *Continued*

SAMPLE OF NON-RESIDENTIAL SALES
JULY, 2000 - JULY, 2001

54	1728 THAMES STREET	2/15/01	$375,000	$304,800	$70,200	81.3%
55	400 FORT AVENUE	2/9/01	$265,000	$112,100	$152,900	42.3%
56	1007 CALVERT STREET	2/7/01	$217,500	$203,550	$13,950	93.6%
57	2711 FOSTER AVENUE	2/5/01	$1,200,000	$452,200	$747,800	37.7%
58	1735 WASHINGTON BLVD	2/1/01	$345,000	$234,100	$110,900	67.9%
59	5730 PENNINGTON AVENUE	2/1/01	$305,000	$200,300	$104,700	65.7%
60	1801 WASHINGTON BLVD.	1/26/01	$550,000	$438,000	$112,000	79.6%
61	15 CHARLES STREET	1/25/01	$180,000	$669,300	($489,300)	371.8%
62	1000 CHARLES STREET	1/17/01	$1,990,767	$753,500	$1,237,267	37.8%
63	100 BROADWAY	1/12/01	$7,650,000	$6,090,640	$1,559,360	79.6%
64	326 EUTAW STREET	1/12/01	$272,500	$87,400	$185,100	32.1%
65	3622 CAIRNES LANE	1/12/01	$400,000	$351,870	$48,130	88.0%
66	1400 JOHN STREET	12/29/00	$1,000,000	$685,000	$315,000	68.5%
67	2800 CHARLES STREET	12/28/00	$3,800,000	$3,399,760	$400,240	89.5%
68	2825 MARYLAND AVENUE	12/28/00	$1,200,000	$550,230	$649,770	45.9%
69	300 CHARLES STREET	12/22/00	$380,220	$1,205,800	($825,580)	317.1%
70	1517 CATON AVENUE	12/22/00	$464,456	$374,700	$89,756	80.7%
71	1712 RUSSELL STREET	12/2/00	$989,396	$808,100	$181,296	81.7%
72	4594 EDMONSON AVENUE	12/22/00	$243,462	$354,800	($111,338)	145.7%
73	5501 FALLS ROAD	12/22/00	$316,596	$279,000	$37,596	88.1%
74	1200 CHESAPEAKE AVENUE	12/22/00	$750,000	$698,100	$51,900	93.1%
75	6831 HARFORD ROAD	12/21/01	$600,000	$338,400	$261,600	56.4%
76	2224 CHARLES STREET	12/18/00	$200,000	$195,000	$5,000	97.5%
77	2104 MARYLAND AVENUE	12/15/00	$375,000	$491,900	($116,900)	131.2%
78	317 FORT AVENUE	12/14/00	$241,500	$49,300	$192,200	20.4%
79	5701 BOWLEYS LANE	12/13/00	$285,000	$37,400	$247,600	13.1%
80	3520 WILKENS AVENUE	12/13/00	$305,000	$235,000	$70,000	77.0%
81	1000 FELL STREET	12/12/00	$280,000	$103,600	$176,400	37.0%
82	823 PARK AVENUE	12/112/00	$255,000	$395,000	($140,000)	154.9%
83	3925 GOUGH STREET	12/12/00	$403,000	$319,000	$84,000	79.2%
84	4903 YORK ROAD	12/5/00	$1,070,000	$780,900	$289,100	73.0%
85	3701 KOPPERS STREET	11/22/00	$3,166,000	$2,982,200	$183,800	94.2%
86	1920 PORTAL STREET	11/20/00	$1,100,000	$820,020	$279,980	74.5%
87	107 MONUMENT STREET	11/20/00	$675,000	$450,000	$225,000	66.7%
88	1426 FLEET STREET	11/17/00	$280,790	$95,700	$185,090	34.1%
89	314 HAVEN STREET	11/14/00	$200,000	$143,500	$56,500	71.8%
90	1828 ALICEANNA STREET	11/14/00	$285,000	$270,000	$15,000	94.7%
91	603 DUNDALK AVENUE	11/14/00	$600,000	$457,500	$142,500	76.3%
92	1208-26 WICOMICO/901 OSTEND	11/9/00	$900,000	$913,400	-$13,400	101.5%
93	509 WASHINGTON STREET	11/9/00	$103,000	$86,400	$16,600	83.9%
94	1039 ST. PAUL STREET	11/2/00	$225,000	$138,680	$86,320	61.6%
95	5910 FALLS ROAD	11/2/00	$255,000	$103,900	$151,100	40.7%
96	306 FRANKLIN STREET	11/1/00	$570,000	$250,070	$319,930	43.9%
97	815 CHARLES STREET	11/1/00	$400,000	$284,000	$116,000	71.0%
98	800 CATON AVENUE	10/24/00	$556,418	$390,700	$165,718	70.2%
99	18 EAGER STREET	10/24/00	$250,000	$119,000	$131,000	47.6%
100	3 CENTRAL AVENUE	10/12/00	$400,000	$211,000	$189,000	52.8%
101	4825 FRANKFORD AVENUE	10/12/00	$325,000	$434,700	($109,700)	133.8%
102	2920 ELLIOTT STREET	10/11/00	$345,000	$146,600	$198,400	42.5%
103	3901 GREENSPRING AVENUE	10/3/00	$1,300,000	$1,400,000	($100,000)	107.7%
104	1400 EASTERN AVENUE	9/26/00	$1,000,000	$542,800	$457,200	54.3%
105	4201 MENLO DRIVE	9/19/00	$525,000	$460,400	$64,600	87.7%
106	213 ST. PAUL PLACE	9/13/00	$325,000	$321,300	$3,700	98.9%
107	2203 HAMBURG STREET	9/6/00	$250,000	$38,000	$212,000	15.2%
108	1019 CHARLES STREET	8/31/00	$290,000	$224,000	$66,000	77.2%
109	310 CHARLES STREET	8/30/00	$425,000	$163,800	$261,200	38.5%
110	4400 PULASKI HIGHWAY	8/30/00	$220,000	$42,000	$178,000	19.1%

EXHIBIT 3 — *Continued*

SAMPLE OF NON-RESIDENTIAL SALES
JULY, 2000 - JULY, 2001

111	2 WICKHAM ROAD	8/23/00	$1,399,410	$806,800	$592,610	57.7%
112	2701 ANNAPOLIS ROAD	8/17/00	$900,000	$649,200	$250,800	72.1%
113	16 EAGER STREET	8/15/00	$240,000	$147,250	$92,750	61.4%
114	2010 LITTLE MKT;2221 BERLIN	8/15/00	$945,000	$937,200	$7,800	99.2%
115	2025 INVERNESS AVE.	8/11/00	$565,000	$1,347,400	($782,400)	238.5%
116	3200-30 REISTERSTOWN RD	8/9/00	$350,000	$280,000	$70,000	80.0%
117	1215 FORT AVENUE	8/8/00	$1,950,000	$2,191,500	($241,500.00)	112.4%
118	4601 MOUNT HOPE DRIVE	7/28/00	$3,375,000	$3,385,700	($10,700.00)	100.3%
119	2220-50 REISTERSTOWN RD	7/27/00	$480,000	$512,900	($32,900.00)	106.9%
120	113-131 NORTH AVENUE	7/24/00	$575,000	$939,340	($364,340.00)	163.4%
121	1600-10 CATON AVENUE	7/20/00	$325,755	$543,300	($217,545.00)	166.8%
			$96,106,175	$76,799,000	$21,307,175	79.37%
				78.26%		

EXHIBIT 3 — *Continued*

Properties for Further Investigation

AV/SP Ratio	Address	Property Type
63%	16 S. Frederick St.	Redeveloped small office
61%	16 Eager St.	Small Office - Midtown
47%	18 Eager St.	Small Office – Midtown
68%	801 N. Charles	Retail with apts. Above
71%	815 N. Charles	Storefront with apts. above
50%	827 N. Charles	Storefront with apts. above
42%	900 Cathedral St.	Apartments – Mt. Vernon
67%	107 W. Monument St.	Apartments – Mt. Vernon
49%	723 St. Paul Street	Rooming House
65%	5730 Pennington	Freestanding Small Industrial
56%	2101 Van Deman St.	Industrial Park Flex/Whse
75%	1920 Portal St.	Industrial Park Flex/Whse
57%	1300 Race St.	Free Standing Industrial
19%	4400 Pulaski Hghwy facility	Specialty – scrap metal processing
77%	3520 Wilkens Avenue	Free Standing small indust.
68%	1000-02 Dundalk Ave.	Strip retail center
38%	6639-55 Belair Rd.	Strip retail center
76%	3539 Belair Rd.	Bar/Restaurant bldg.
37%	2711 Foster Ave.	Vacant Shop Cntr
41%	5901 Falls Road	Freestanding Retail
34%	1426 Fleet St.	Small Indust – IH East
16.6%	3601 Dolefield Avenue	Gasoline Station
51%	4601 Liberty Heights Ave.	Vacant Supermarket
19.9%	5 N. Calvert	Office Building Shell
34%	131 E. Redwood	Office Building Shell
44%	306 W. Franklin Street	Building Shell

Commercial and Industrial Sales Listing

~~5/08/18~~003

Address		Property Type	Zoning	Year Built	Enclosed Area	Land Area	Sale Date	Sale Price	Account No.
35 S	ANN			0	0	0.00	06/15/2000	94,390	0302031735 002
35 S	ANN			0	0	0.00	04/25/2001	30,000	0302031735 002
1705 E	LOMBARD			0	0	0.00	06/12/2001	475,000	0302031744 050
3110	CRITTENTON		0R07	0	0	1.00	03/02/2000	225,000	0313123504C001
1004 E	PATAPSCO	Retail Store	0B02	1955	3,685	11,100.00 Sq Ft	10/19/2001	170,000	0325067274 011
700	KANE	Manufacturing	0M02	1958	13,000	1.00 Acres	08/14/2001	360,000	0326016699 012
3402	EASTERN			0	0	0.00	06/26/2001	117,000	0326106314 019
5700	RADECKE			0	0	0.00	04/18/2001	500,000	0326446072M005
3428	BELAIR	Retail Store	0B02	1924	0	0.00	01/04/2000	40,000	0327014153 014
3325	CLIPPER MILL	Manufacturing	0M02	1958	3,600	1.00 Sq Ft	01/04/2000	93,000	0313033525B038
718	DEBELIUS	Warehouse	0M02	0	0	1.00 Sq Ft	01/04/2000	566,000	0326186242D014
3563	FAIRFIELD	Bar / Tavern	0M03	1920	2,096	0.31 Acres	01/04/2000	105,000	0325077369 002
3610 S	HANOVER	Shopping Center	0B02	1940	12,756	13,822.00 Sq Ft	01/05/2000	290,000	0325067027B002
270	FRESHILTON PASS	Funeral	0B03	1957	7,222	14,867.00 Sq Ft	01/05/2000	230,000	0320192243A033
215 S	BETHEL	Warehouse	0B02	1920	2,904	3,036.00 Sq Ft	01/05/2000	17,000	0303091419 087
868	PARK	Apartment	0B04	1920	12,108	1.00	01/05/2000	122,500	0311020503 036
212 W	READ	Retail Store	0B05	0	0	1.00	01/11/2000	125,000	0311020503 007
2501	MARYLAND	Retail Store	0Y02	1900	4,848	4,800.00 Sq Ft	01/11/2000	18,000	0312033636 031
28	LIGHT	Retail Store	0B04	0	13,000	2,606.00 Sq Ft	01/12/2000	425,000	0304110660 004
1100	MARYLAND	Bar / Tavern	0B05	1900	4,140	1.00	01/12/2000	50,000	0311020494 011
2 E	WHEELING			0	0	0.00 Sq Ft	01/12/2000	104,500	0323010918 131
2313	ESSEX	Manufacturing	0M02	1900	2,400	2,400.00 Sq Ft	01/12/2000	250,000	0301051849 004
3 W	BIDDLE	Residence on Zoned Land	0B04	1890	3,891	1.00	01/13/2000	125,900	0311020495 021
5713	HARFORD	Restaurant	BR22	1924	1,764	19,500.00 Sq Ft	01/13/2000	58,200	0327035765 001
3801	LIBERTY HEIGHTS	Shopping Center	0B02	2000	4,280	1.00	01/13/2000	1,600,000	0315262900 001
4018 W	STRATHMORE	Office Building	0B03	1953	1,330	4,051.00 Sq Ft	01/13/2000	120,000	0327234299 021
4909	BELAIR	Retail Store	0B02	0	17,064	13,350.00 Sq Ft	01/14/2000	170,000	0326435953A001
2117 N	HOWARD		0B03	1969	5,862	1.00	01/14/2000	275,000	0312073609 021
401	VENABLE	Parking Garage	0B02	1920	7,000	10,803.00 Sq Ft	01/19/2000	170,000	0312183883 011
505 W	MULBERRY	Parking Lot	0B05	0	0	1,232.00 Sq Ft	01/21/2000	1,858	0304030575 011
501	SAINT PAUL	Office Building	0B04	1928	189,000	1.00	01/21/2000	2,000,000	0311110553 031
428 N	CALVERT	Parking Garage	0B05	0	0	8,250.00 Sq Ft	01/21/2000	1,000,000	0304010583 021
4920	WALTHER		0R04	0	5,501	0.95 Acres	01/24/2000	300,000	0327025832D031
5345	REISTERSTOWN	Parking Lot	0B03	0	0	6,500.00 Sq Ft	01/24/2000	1,000	0327214511D051
5403	REISTERSTOWN	Restaurant	0B03	1948	12,040	31,500.00 Sq Ft	01/24/2000	1,000	0327214511E061
825 E	BALTIMORE	Office Building	0B03	1920	2,613	871.00 Sq Ft	01/24/2000	135,000	0303041356 021
9 S	HIGH	Warehouse	0B03	1920	5,900	5,251.00 Sq Ft	01/24/2000	135,000	0303041360 021
6151	METRO			0	0	0.00	01/27/2000	207,013	0328024285 021
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXHIBIT 4

EXHIBIT 4 — *Continued*

Address		Property Type	Zoning	Year Built	Enclosed Area	Land Area	Sale Date	Sale Price	Account No.
25	GOUGH			0	0	0.00	12/12/2000	403,000	0326166311 031
00	FELL			0	0	0.00	12/12/2000	280,000	0302061874A178
23	PARK			0	0	0.00	12/12/2000	255,000	0311090515 011
20	WILKENS	Office Building	OM01	1957	6,578	12,863.00 Sq Ft	12/13/2000	305,000	0325012500C019
12	ELDORADO			0	0	0.00	12/13/2000	323,750	0328028248 005
10	WINCHESTER			0	0	0.00	12/13/2000	93,000	0316030040 008
19 W	BALTIMORE			0	0	0.00	12/13/2000	35,000	0318060217 010
01	BOWLEYS			0	0	0.00	12/13/2000	285,000	0326276135 007
01	PORTAGE			0	0	0.00	12/14/2000	115,000	0327395208 009
01	PORTAGE			0	0	0.00	12/13/2000	127,000	0327395208 009
04	ALICEANNA			0	0	0.00	12/14/2000	150,000	0302051828 019
17 E	FORT	Residence on Zoned Land	OB02	1920	1,963	780.00 Sq Ft	12/14/2000	241,500	0324051934 045
17 E	FORT	Residence on Zoned Land	OB02	1920	1,656	780.00 Sq Ft	02/14/2000	211,000	0324051934 045
04	MARYLAND			0	0	0.00	12/15/2000	375,000	0312073609 003
06 W	SARATOGA			0	0	0.00	12/15/2000	50,000	0304020578 003
24 N	CHARLES			0	0	0.00	12/18/2000	200,000	0312073611 010
34	FAIRFIELD			0	0	0.00	12/18/2000	65,000	0325077364 017
02	CURTIS			0	0	0.00	12/18/2000	45,000	0325097183 036
32 W	BALTIMORE			0	0	0.00	12/18/2000	54,000	0319140197 025
34	FLEET	Bar / Tavern	OB02	1920	1,650	1.00	12/19/2000	65,000	0326106425A001
32 S	HIGHLAND		OM01	0	0	1,330.00 Sq Ft	12/19/2000	500,000	0326026491 018
51 S	CLINTON		OR08	0	0	1.00 Sq Ft	12/13/2000	500,000	0326026491 026
22	BELAIR			0	0	0.00	12/20/2000	240,000	0327025818 009
31	HARFORD			0	0	0.00	12/21/2000	600,000	0327045559 072
01 E	FAYETTE			0	0	0.00	12/21/2000	700,000	0305051336 001
12	RUSSELL			0	0	0.00	12/22/2000	989,396	0321090836 004
00	RUSSELL			0	0	0.00	12/22/2000	270,346	0321090837 020
00	RUSSELL	Service Station	OM03	1983	1,716	17,704.00 Sq Ft	01/28/2000	400,000	0321090837 020
01	FLEET			0	0	0.00	12/22/2000	200,613	0301071839 001
20	MORAVIA			0	0	0.00	12/22/2000	127,078	0326206060 006
17 S	CATON			0	0	0.00	12/22/2000	464,456	03250277031007
01	FALLS			0	0	0.00	12/22/2000	316,596	0327154820E018
94	EDMONDSON			0	0	0.00	12/22/2000	243,462	0328057958 029A
00	CHESAPEAKE			0	0	0.00	12/22/2000	750,000	0325067300 001
00 N	CHARLES	Office Building	OB04	1875	42,255	8,811.00 Sq Ft	12/22/2000	380,220	0304020580 021
08 N	CHARLES			0	0	0.00	12/26/2000	390,000	0312073610 008
14 W	21ST			0	0	0.00	12/26/2000	390,000	0312073610 013
19	FREDERICK			0	0	0.00	12/26/2000	66,000	0320042538 008
17 N	CHARLES			0	0	0.00	12/27/2000		

EXHIBIT 4 — *Continued*

Address		Property Type	Zoning	Year Built	Enclosed Area	Land Area	Sale Date	Sale Price	Account No.
5022	PENNINGTON	Bar / Tavern	0B02	1900	2,720	4,305.00 Sq Ft	07/12/2000	181,747	0325097182 01
313 W	MADISON	Retail Store	0B04	1900	1,785	1.00	07/12/2000	50,000	0311100521 03
2427	MARYLAND	Retail Store	0B02	1900	2,610	1.00	07/12/2000	120,000	0312063624 01
2427	MARYLAND			0	0	0.00	05/03/2000	65,000	0312063624 01
3201	EASTERN	Retail Store	0B02	1910	2,880	1.00 Sq Ft	07/12/2000	70,000	0326116421 00
3201	EASTERN			0	0	0.00	04/18/2000	68,090	0326116421 00
2200	PINEWOOD	Apartment	0R05	1963	128,280	321,037.00 Sq Ft	07/13/2000	2,745,538	032729528BE00
1512	FLEET			0	0	0.00	07/14/2000	280,000	0303071444 02
405	PARK			0	0	0.00	07/14/2000	45,000	0304020564 00
4101	FREDERICK	Bar / Tavern	0B02	1920	1,776	3,500.00 Sq Ft	07/17/2000	125,000	0320042537 00
321	PARK	Retail Store	0B04	1900	5,840	1,810.00 Sq Ft	07/18/2000	130,000	0304020579 00
1820 N	CALVERT		0B03	1950	5,200	1.00 Sq Ft	07/18/2000	165,000	0312090390 02
3300	KESWICK	Bar / Tavern	0B01	0	0	1.00	07/18/2000	159,000	0313123510 05
1534 W	BALTIMORE			0	0	0.00	07/19/2000	57,630	0319060196 03
1518 W	BALTIMORE			0	0	0.00	07/19/2000	57,630	0319060196 03
1600 S	CATON			0	0	0.00	07/20/2000	325,755	0325027727 00
1610 S	CATON			0	0	0.00	07/20/2000	325,755	0325027727 00
1550 N	MONROE			0	0	0.00	07/20/2000	170,000	0315380019 06
514	ENSOR			0	0	0.00	07/21/2000	65,000	0305031271 00
2601	GWYNNS FALLS			0	0	0.00	07/21/2000	130,000	0315183200 00
113 W	NORTH	Manufacturing	0M01	1900	115,200	1.00 Sq Ft	07/24/2000	575,000	0312070387 01
131 W	NORTH	Parking	0M01	1900	115,200	1.00	07/24/2000	575,000	0312070387 02
328	PARK			0	0	0.00	07/25/2000	8,500	0304020578 03
328	PARK			0	0	0.00	07/25/2000	8,500	0304020578 03
5112	PARK HEIGHTS			0	0	0.00	07/25/2000	45,000	0327214582 00
1109	FREDERICK			0	0	0.00	07/26/2000	100,000	0320100240 00
1220	REISTERSTOWN			0	0	0.00	07/27/2000	480,000	0315173227 05
1230	REISTERSTOWN			0	0	0.00	07/27/2000	480,000	0315173227 05
1246	REISTERSTOWN			0	0	0.00	07/27/2000	480,000	0315173227 05
1250	REISTERSTOWN			0	0	0.00	07/27/2000	480,000	0315173227 05
1417	THAMES			0	0	0.00	07/28/2000	1	0303071826 00
1601	MOUNT HOPE			0	0	0.00	07/28/2000	3,375,000	0328024284 00
1117 N	CALVERT			0	0	0.00	07/31/2000	92,500	0311120498 00
1218	OLD PENNINGTON			0	0	0.00	08/01/2000	6,000	0325097173A00
1910	HARFORD			0	0	0.00	08/01/2000	225,000	0309183942 00
1426	BELAIR			0	0	0.00	08/03/2000	68,000	0327025818 01
1226	EASTERN	Retail Store	0B03	1915	1,820	910.00 Sq Ft	08/07/2000	40,000	0301031776 02
1031	INVERNESS	Distribution Warehouse	0M02	0	9,556	2.40 Acres	08/07/2000	200,000	0325027841G00
312 E	MONUMENT	Retail Store							

EXHIBIT 5

Department of Finance
Treasury Division

Increases in Revenue from Public Advocate Activities
(July 1996-June 2001)

	Supervisor Level	PTAAB Level	Annual Totals
Fiscal Year 1997	$ 493,676	$ 476,593	$ 970,269
Fiscal Year 1998	823,044	578,576	1,401,620
Fiscal Year 1999	1,514,920	583,949	2,098,869
Fiscal Year 2000	1,046,559	728,837	1,775,396
Fiscal Year 2001	1,317,683	1,134,154	2,451,837
TOTALS (Last 5 yrs)	$5,195,882	$3,502,109	$8,697,991

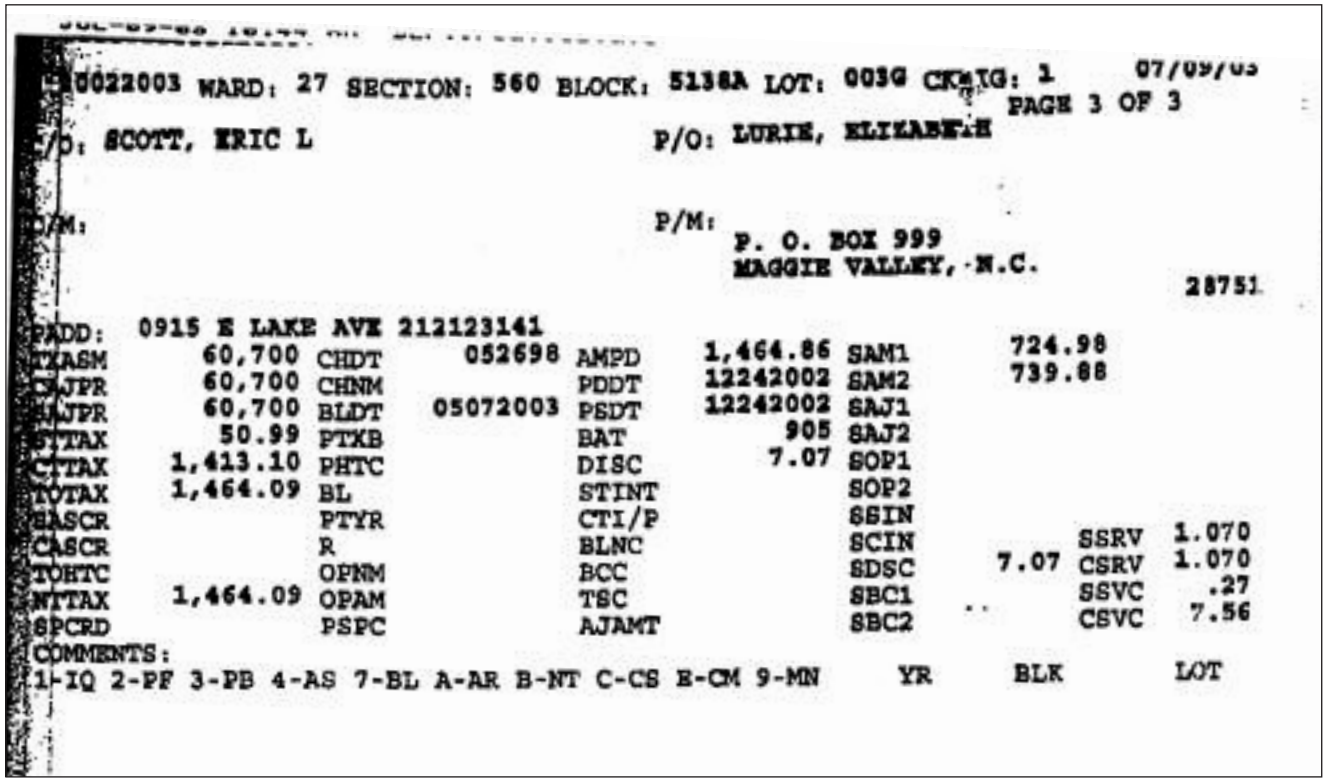
Average Per Year.....$1,739,598

EXHIBIT 6

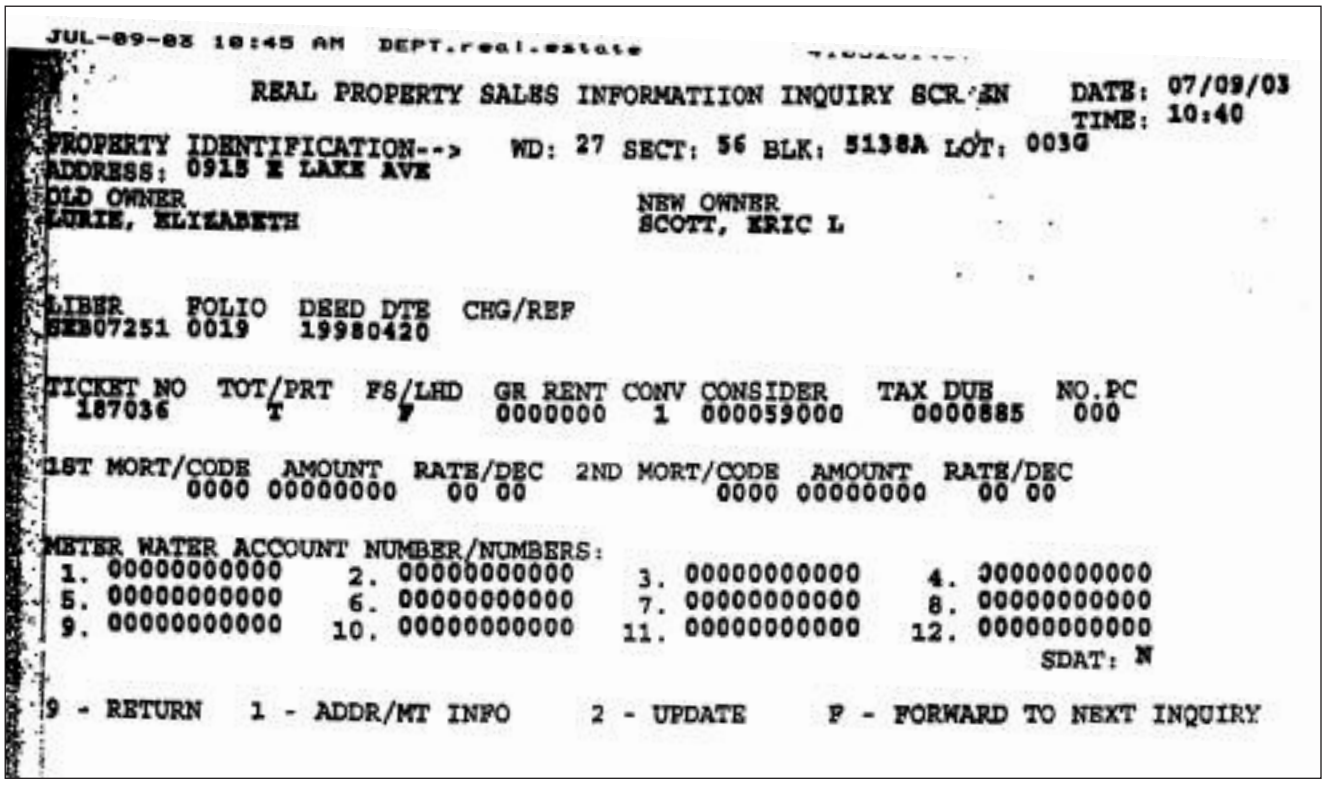
```
20022003        R E A L   P R O P E R T Y   F I L E          DATE: 07/09/03
                PROPERTY IDENTIFICATION AND DESCRIPTION      PAGE 1 OF 3
WARD: 27   SECTION: 56   BLOCK: 5138A   LOT: 003G   CHECK DIGIT: 1   DEL TAG:
CURRENT DEED REFERENCE--> LIBER: SEB07251 FOLIO: 0019 DEED DTE: 04/20/1998
CURRENT OWNER INFORMATION                          LOTSIZE: 20X108-7
1  SCOTT, ERIC L                                ZONING CODE: 0R050  LUC GROUP: R
2                                          ALUC: 11230 HLUC: 1123 0000 0000 0000
3                                             PW CHG SHEET: NO
PROPERTY ADDRESS:  0915 E LAKE AVE                                    DATE:
          UNIT:          ZIP CODE: 21212 - 3141 TYPE: A  STATE EXEMPT CODE: 00
CURRENT MAIL TO INFORMATION                      SDAT RECORD CHANGE DATA
M/T AGENT:                                            NUMBER:
  ADDR#1:                                          DATE MO:     DAY:     YR:
      #2:                                        SPBD ID:     B-SW:    RATE:
      #3:                                         CITY OWNERSHIP INFORMATION
 ZIP CODE:       -                          STATUS CODE: *
CURRENT DESCRIPTIVE LOCATION                    USE CODE: *
1:                                        OWNERSHIP MODE: **
2:                                          AGENCY/RESP: **  RPT: **
3:                                          DESCRIPTION: **********************
                                           NEXT FIS YR     BLOCK:          LOT:

1-NX IQ 2-PGFWD 3-PGBCK 4-ASMT 5-SPBD 7-TXBL A-A/R B-NOTE C-CASH D-DEED E-COMM
PF2-FYFWD PF3-FYBCK                                    9-RETURN TO MENU
```

```
20022003        R E A L   P R O P E R T Y   F I L E                07/09/03
                ASSESSMENT INFORMATION          PAGE 2 OF 3

        WARD: 27 SECTION: 560 BLOCK: 5138A LOT: 003G CHECK DIGIT: 1
                                          CURRENT FULL CASH VALUES
             ASSESSOR NO:        304                  LAND:      20,000
CT ADJUSTED PRIOR AMOUNT:     60,700          IMPROVEMENT:      40,700
ST ADJUSTED PRIOR AMOUNT:     60,700          LAND EXEMPT:           0
    CITY CIRCUIT BREAKER:                 IMPROVEMENT EXEMPT:        0
   STATE CIRCUIT BREAKER:          50 %       EXEMPT TYPE:
CT 104 PERCENT TAX CREDIT:                  AR EXEMPT TYPE:
ST 110 PERCENT TAX CREDIT:                CURR TAXABLE ASSMT:   60,700
 CT ASSESSMENT TAX CREDIT:
 ST ASSESSMENT TAX CREDIT:                   BASE FULL CASH VALUES
           HOLD HARMLESS:                          LAND:      19,000
         GROUP INDICATOR:        1         IMPROVEMENT:      49,940
      STATE EXEMPT CODE:        00          LAND EXEMPT:           0
   A/R STATE EXEMPT CODE:        00   IMPROVEMENT EXEMPT:        0
         PERM HOMEOWNER:         D     A/R TAXABLE ASSMT:   60,700
          A/R HOMEOWNER:         D   _ <--TRANSFER IND

1-INQ 2-NXTPG 3-PREVPG 4-ASMT 7-TXBILL A-A/R B-NOTE C-CASH E-COM 9 MENU
PF2-FYFWD PF3-FYBCK                    NEXT FIS YR:     BLK:        LOT:
```

EXHIBIT 6 — *Continued*

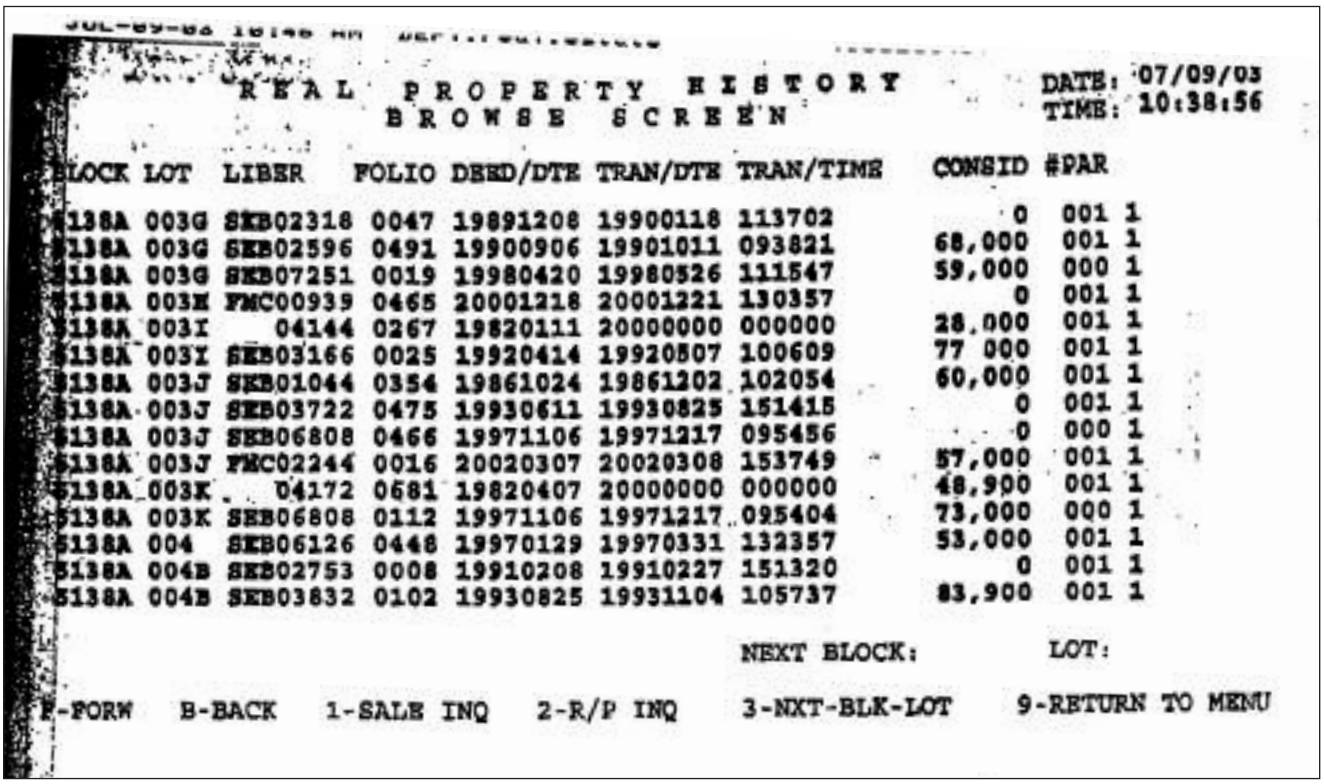


```
                                                                  07/09/03
0022003 WARD: 27 SECTION: 560 BLOCK: 5138A LOT: 003G CK DIG: 1
                                                          PAGE 3 OF 3
P/O: SCOTT, ERIC L                    P/O: LURIE, ELIZABETH

P/M:                                  P/M:
                                          P. O. BOX 999
                                          MAGGIE VALLEY, N.C.
                                                                  28751

PADD:  0915 E LAKE AVE 212123141
TXASM        60,700 CHDT      052698 AMPD      1,464.86 SAM1        724.98
CAJPR        60,700 CHNM             PDDT      12242002 SAM2        739.88
HAJPR        60,700 BLDT   05072003 PSDT      12242002 SAJ1
STTAX         50.99 PTXB             BAT           905 SAJ2
CTTAX     1,413.10 PHTC             DISC         7.07 SOP1
TOTAX     1,464.09 BL               STINT              SOP2
BASCR              PTYR             CTI/P              SSIN
CASCR              R                BLNC               SCIN          SSRV  1.070
TOHTC              OPNM             BCC           7.07 SDSC     CSRV  1.070
NTTAX     1,464.09 OPAM             TSC                SBC1          SSVC   .27
SPCRD              PSPC             AJAMT              SBC2          CSVC  7.56
COMMENTS:
1-IQ 2-PF 3-PB 4-AS 7-BL A-AR B-NT C-CS E-CM 9-MN      YR      BLK       LOT
```

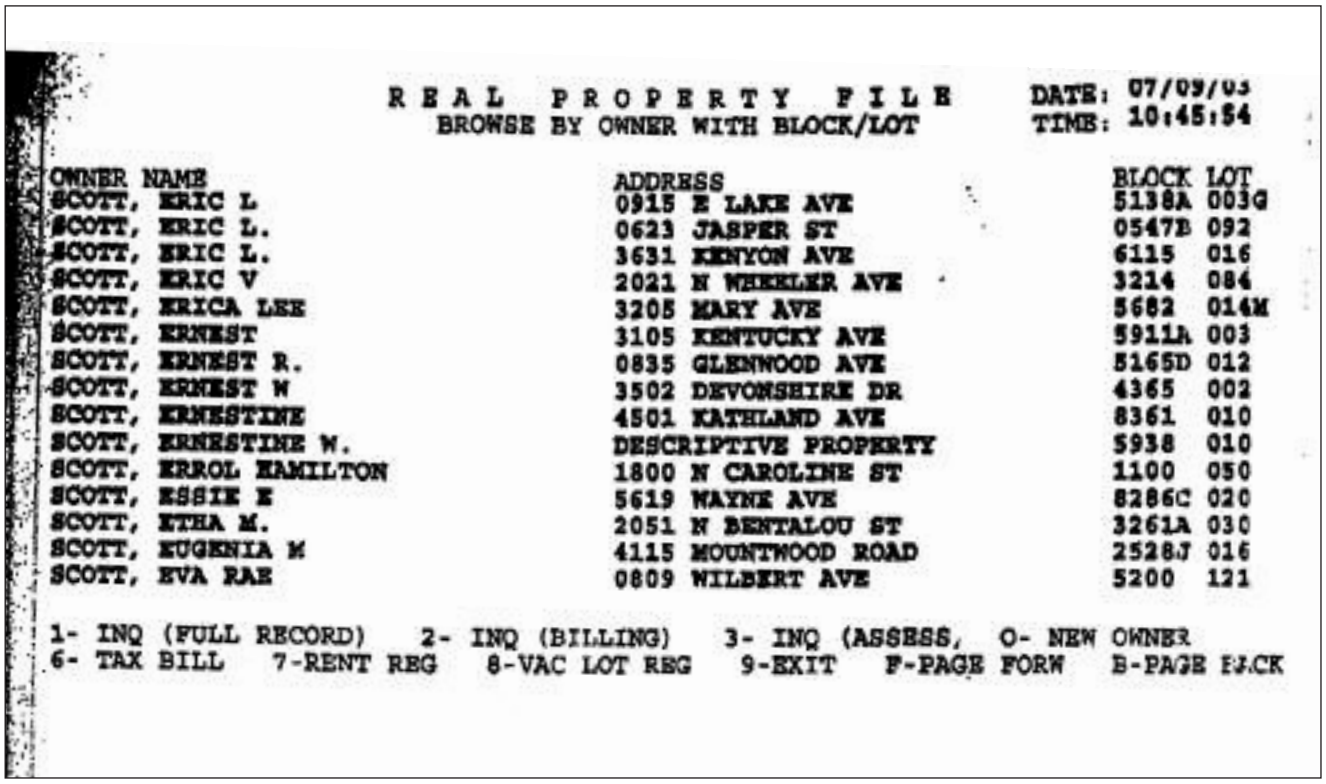


```
JUL-09-03 10:45 AM  DEPT.real.estate

          REAL PROPERTY SALES INFORMATIION INQUIRY SCR-SN     DATE: 07/09/03
                                                              TIME: 10:40
PROPERTY IDENTIFICATION-->   WD: 27 SECT: 56 BLK: 5138A LOT: 003G
ADDRESS: 0915 E LAKE AVE
OLD OWNER                             NEW OWNER
LURIE, ELIZABETH                      SCOTT, ERIC L


LIBER    FOLIO  DEED DTE  CHG/REF
SEB07251 0019   19980420

TICKET NO  TOT/PRT  FS/LHD  GR RENT CONV CONSIDER   TAX DUE    NO.PC
  187036      T       Y     0000000   1  000059000   0000885    000

1ST MORT/CODE  AMOUNT  RATE/DEC  2ND MORT/CODE  AMOUNT  RATE/DEC
         0000 00000000   00 00           0000 00000000   00 00

METER WATER ACCOUNT NUMBER/NUMBERS:
 1. 00000000000    2. 00000000000    3. 00000000000    4. 00000000000
 5. 00000000000    6. 00000000000    7. 00000000000    8. 00000000000
 9. 00000000000   10. 00000000000   11. 00000000000   12. 00000000000
                                                        SDAT: N

9 - RETURN   1 - ADDR/MT INFO     2 - UPDATE     F - FORWARD TO NEXT INQUIRY
```

EXHIBIT 6 — *Continued*

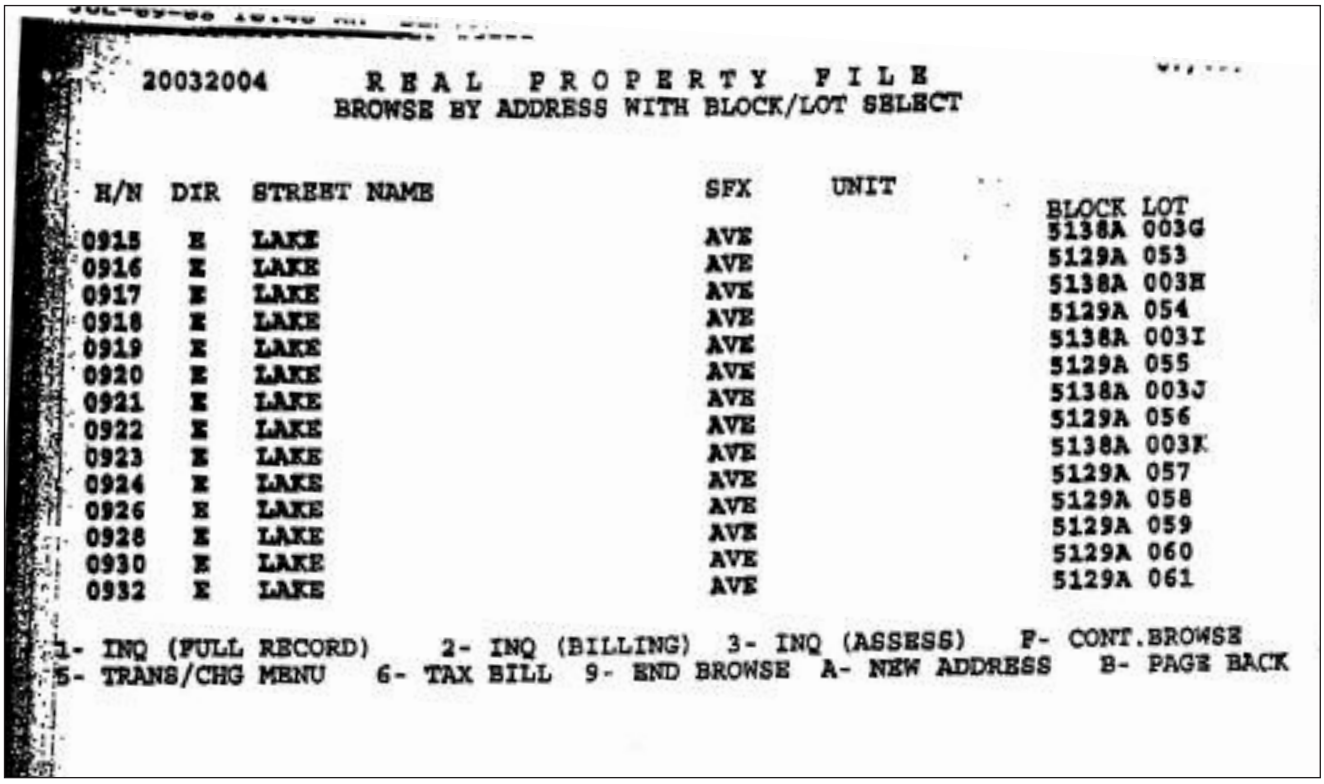


```
                    REAL PROPERTY HISTORY                    DATE: 07/09/03
                         BROWSE SCREEN                       TIME: 10:38:56

BLOCK LOT  LIBER    FOLIO DEED/DTE TRAN/DTE TRAN/TIME   CONSID #PAR

5138A 003G SEB02318 0047 19891208 19900118 113702          0  001 1
5138A 003G SEB02596 0491 19900906 19901011 093821     68,000  001 1
5138A 003G SEB07251 0019 19980420 19980526 111547     59,000  000 1
5138A 003K FMC00939 0465 20001218 20001221 130357          0  001 1
5138A 003I    04144 0267 19820111 20000000 000000     28,000  001 1
5138A 003I SEB03166 0025 19920414 19920807 100609     77,000  001 1
5138A 003J SEB01044 0354 19861024 19861202 102054     60,000  001 1
5138A 003J SEB03722 0475 19930611 19930825 151415          0  001 1
5138A 003J SEB06808 0466 19971106 19971217 095456          0  000 1
5138A 003J FMC02244 0016 20020307 20020308 153749     57,000  001 1
5138A 003K    04172 0681 19820407 20000000 000000     48,900  001 1
5138A 003K SEB06808 0112 19971106 19971217 095404     73,000  000 1
5138A 004  SEB06126 0448 19970129 19970331 132357     53,000  001 1
5138A 004B SEB02753 0008 19910208 19910227 151320          0  001 1
5138A 004B SEB03832 0102 19930825 19931104 105737     83,900  001 1

                                          NEXT BLOCK:      LOT:

F-FORW   B-BACK   1-SALE INQ   2-R/P INQ   3-NXT-BLK-LOT   9-RETURN TO MENU
```



```
                    REAL PROPERTY FILE                       DATE: 07/09/03
                  BROWSE BY OWNER WITH BLOCK/LOT             TIME: 10:45:54

OWNER NAME                      ADDRESS                      BLOCK LOT
SCOTT, ERIC L                   0915 E LAKE AVE              5138A 003G
SCOTT, ERIC L.                  0623 JASPER ST               0547B 092
SCOTT, ERIC L.                  3631 KENYON AVE              6115  016
SCOTT, ERIC V                   2021 N WHEELER AVE           3214  084
SCOTT, ERICA LEE                3205 MARY AVE                5682  014M
SCOTT, ERNEST                   3105 KENTUCKY AVE            5911A 003
SCOTT, ERNEST R.                0835 GLENWOOD AVE            5165D 012
SCOTT, ERNEST W                 3502 DEVONSHIRE DR           4365  002
SCOTT, ERNESTINE                4501 KATHLAND AVE            8361  010
SCOTT, ERNESTINE W.             DESCRIPTIVE PROPERTY         5938  010
SCOTT, ERROL HAMILTON           1800 N CAROLINE ST           1100  050
SCOTT, ESSIE E                  5619 WAYNE AVE               8286C 020
SCOTT, ETHA M.                  2051 N BENTALOU ST           3261A 030
SCOTT, EUGENIA M                4115 MOUNTWOOD ROAD          2528J 016
SCOTT, EVA RAE                  0809 WILBERT AVE             5200  121

1- INQ (FULL RECORD)   2- INQ (BILLING)   3- INQ (ASSESS,   O- NEW OWNER
6- TAX BILL   7-RENT REG   8-VAC LOT REG   9-EXIT   F-PAGE FORW   B-PAGE BACK
```

EXHIBIT 6 — *Continued*



20032004 REAL PROPERTY FILE
BROWSE BY ADDRESS WITH BLOCK/LOT SELECT

H/N	DIR	STREET NAME	SFX	UNIT	BLOCK	LOT
0915	E	LAKE	AVE		5138A	003G
0916	E	LAKE	AVE		5129A	053
0917	E	LAKE	AVE		5138A	003H
0918	E	LAKE	AVE		5129A	054
0919	E	LAKE	AVE		5138A	003I
0920	E	LAKE	AVE		5129A	055
0921	E	LAKE	AVE		5138A	003J
0922	E	LAKE	AVE		5129A	056
0923	E	LAKE	AVE		5138A	003K
0924	E	LAKE	AVE		5129A	057
0926	E	LAKE	AVE		5129A	058
0928	E	LAKE	AVE		5129A	059
0930	E	LAKE	AVE		5129A	060
0932	E	LAKE	AVE		5129A	061

1- INQ (FULL RECORD) 2- INQ (BILLING) 3- INQ (ASSESS) F- CONT.BROWSE
5- TRANS/CHG MENU 6- TAX BILL 9- END BROWSE A- NEW ADDRESS B- PAGE BACK

Endnotes

[1] *Assessment Ratios Survey Report*, SDAT, Table 1 Real Property Tax Base/Ratio By Subdivision
[2] *Ibid*, Table 7, Compliance With IAAO Ratio Study Performance Standards
[3] In a communication dated 5/13/03 to state Delegate LeRoy E. Myers Jr., Ronald Bowers, the Administrator of the Maryland Property Tax Assessment Appeals Board discusses the incidence of single family, owner-occupied residential properties that have sold at prices significantly exceeding their assessed values determined by SDAT. (See Exhibit 1)
[4] It is important to note that city officials estimate that roughly two-thirds of Baltimore's residential properties are not covered by the Homestead Tax Credit. These properties are either vacant, have been sold in the last year, are rental properties that are not owner-occupied, or have a use that is changing substantially.
[5] *Standard On Ratio Studies*, International Association of Assessing Officers, July, 1999
[6] IAAO, *Standard on Ratio Studies*, Section 2.3.3, July 1999
[7] The average of the reported weighted averages.
[8] Anecdotally, Wayne Trout of IAAO and John Thomas of Manatron indicated that, although the use of Automated Valuation Models employing statistical regression analysis is common for single-family residential properties, the technology has generally not been applied to non-residential property in taxing jurisdictions nationwide. For non-residential properties, automation has typically been confined to data base management (e.g. income and expense data, comparable sales data, etc.)
[9] *Uniform Standards of Professional Appraisal Practice*, The Appraisal Foundation
[10] For instance, research associates experienced considerable difficulty when seeking to retrieve data to compare and contrast present and prior property assessments within defined geographic areas.
[11] SDAT Assessment Ratios Survey Report, March 12, 2001
[12] SDAT pamphlet entitled *Assessment Appeal Process*
[13] State of Maryland PTAAB Board Members Manual, page 5
[14] Opinion of the Maryland Attorney General 85-014, May 14, 1985
[15] Ibid.
[16] Ibid
[17] Ibid
[18] "The officer of a county affected by the valuation record shall have access to the valuation records."
[19] *Radin v Supervisor of Assessments of Montgomery County (254Md294 (1968))*
[20] *Thames Point Associates v. Supervisor of Assessments of Baltimore City (68MdApp(1986))*
[21] *Thames Point Associates v. Supervisor of Assessments of Baltimore City (68MdApp(1986)*
[22] As an interagency effort, the expenses incurred by each city agency should be aggregated and tracked as a defined cost center.
[23] As presently worded, the Tax Property statute does not appear to distinguish between the interest of taxpayers and those of the state and local government in terms of assessment equity.
[24] Such a database would have multiple applications. A number of City agencies typically deal with real estate (e.g. HCD, Real Estate, Public Works, BDC) and routinely require and employ similar data. Each could contribute to and benefit from a centralized real estate information database for use in city property acquisitions, dispositions, rentals, etc. in addition to the tax base enhancement function contemplated herein.
[25] Detailed discussion about the application of these and other statistical analysis techniques transcends the scope of this study, but can be researched in any basic statistics textbook.
[26] Opinion of the Maryland Attorney General 85-014, May 14, 1985
[27] Except property owned by charitable, educational and religious organizations, and governments are exempt.
[28] *Includes all property types, i.e. residential and non-residential alike.*
[29] The 121 transferred properties were selected with the intent to target and screen potential candidates for closer scrutiny, not for statistical analysis. Ratio studies performed by SDAT for the purpose of statistical analysis intentionally limit the inclusion of properties to those within the current assessment cycle property grouping. But in selecting properties for closer scrutiny, all property sales that occurred, regardless of assessment cycle grouping, were considered, on the premise that the rate of commercial property appreciation in Baltimore City had not exceeded 10 percent per year for the three-year period preceding the date of analysis. Focusing only on those properties whose assessments were 70 percent or less of reported sale prices was intended to offset the

effect of having included properties from prior assessment cycles.

[30] The computation had to be performed manually since neither SDAT nor the commercial contract data provider had the data processing capability to retrieve a list of properties that would also simultaneously compute the differential between the sale price and the assessed value. The data was not available in a format that could be downloaded into a spreadsheet environment.

[31] The average of the reported weighted averages

About the Author

John J. Hentschel CRE, MAI, is founder and president of Hentschel Real Estate Services. For 30 years, he, has served as advisor and consultant to federal, state and local government agencies, counseled many of Maryland's most respected business, development and financial service organizations, and furnished real estate appraisals, expert testimony and litigation strategy and support services to some of Maryland's most prestigious law firms. From 1982 to 1992, as Real Estate Officer of the City of Baltimore, he led the City's Department of Real Estate, served as an advisor to the City's Board of Estimates, and later, worked as a special advisor to the Baltimore Development Corporation. He has earned a national reputation as a speaker and author in the area of public-sector real estate practices. Recently, he served as a member of the Maryland Department of Transportation Real Estate Advisory Group, and chaired a panel of experts who drafted strategic recommendations to improve asset and portfolio management practices, policies and procedures of the U.S. General Services Administration's Public Building Service. He has also served as an advisor to the Eastern European cities of Gdansk, Ungheni, and Cricova. A former member of the real estate faculty at the University of Baltimore, he has published numerous articles on real estate and valuation topics, and serves on the editorial board of the professional journal Real Estate Issues. As an industry leader, he served as Chairman of the Appraisal Committee of the Greater Baltimore Board of Realtors and as a Director of the Counselors of Real Estate and Chairman of its Capital Region Chapter. He currently serves on the National Association of Realtors Commercial Alliance Committee, and The Appraisal Foundation Advisory Council, where he was Co-Chairman of the Emerging Issues Committee. He is a Maryland Real Estate Broker, Certified General Appraiser, and holds the MAI designation from the Appraisal Institute, and the CRE designation from the Counselors of Real Estate.

Other members of Hentschel Real Estate Services who provided research assistance for this study included Jessica S. Hentschel and Jeremy D. Hentschel.