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# Review of Montgomery County Commercial Property Tax Assessments

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Presentation of Final Report to the Montgomery County Council  
Government Operations & Fiscal Policy Committee

March 18, 2013



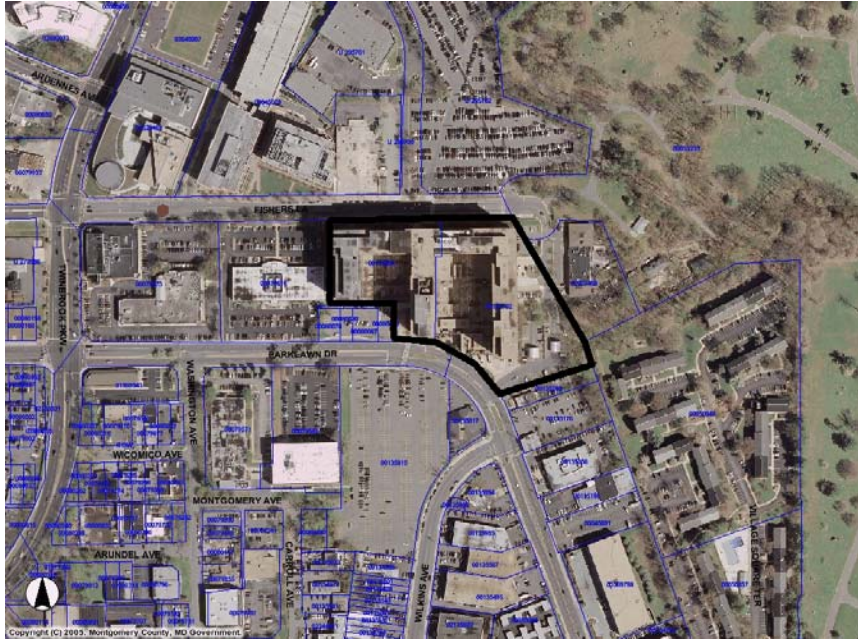
MONTGOMERY COUNTY MARYLAND


**OFFICE OF THE INSPECTOR GENERAL**



## Review of Montgomery County Commercial Property Tax Assessments

### Parklawn Building and Surrounding Properties in Common Ownership



 Parklawn Building

	<u>2007</u>	<u>2009</u>	<u>% Change</u>
Assessments of 10 Properties	\$163 million	\$90 million	-45%
Parklawn Bldg Assessments	\$121.6 million	\$54.5 million	-55%
DC area office property prices			-34%

## Review of Montgomery County Commercial Property Tax Assessments

### **Finding 1: SDAT files for Parklawn Building did not support assessed values**

- The final assessed values for the Parklawn Building resulted from a settlement between the property owner and SDAT.
- Regarding the Parklawn settlement, the SDAT Montgomery County Supervisor of Assessments wrote on July 16, 2009 that

*“The adjustment was made utilizing petitioners income and expense information.”*
- The information we reviewed in SDAT files did not clearly reflect how SDAT determined that the settlement amount was reasonable in the case of the Parklawn Building.
- Using available information and the methods required by statute and by the Maryland Assessment Procedures Manual, we calculated assessment numbers for the Parklawn Building that were significantly different from the final assessed values.
- The report does not show our specific calculations, because we used confidential data.

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### State Department of Assessments & Taxation Letters

**In July 2011, a Maryland Assistant Attorney General wrote about the Parklawn Building that:**

- *“the federal government did give notice in the latter half of 2008 that it would not renew the lease and that it would vacate the property.”*
- *“once notice is given by the tenant and an actual move out seems reasonably foreseeable, that reality must be recognized by the assessment office.”*
- the current Supervisor inspected the building and found its condition poor and that it would require major expenditures to be upgraded to a multi-tenant facility.

**Supervisor’s Response to our Draft:**

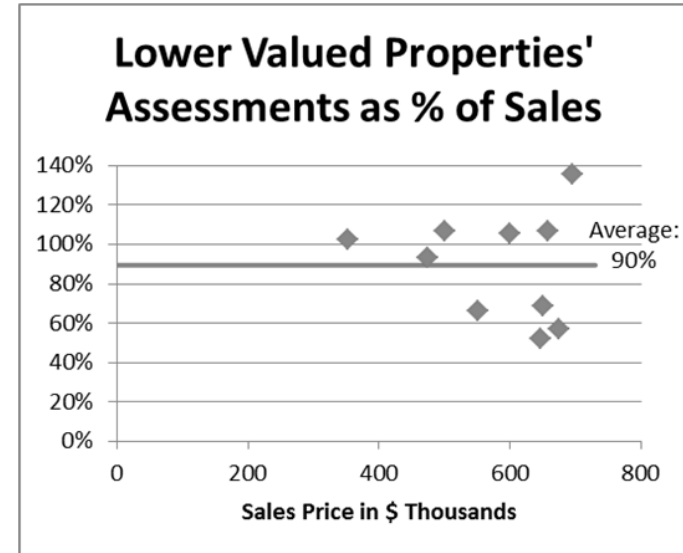
- We provided the Supervisor of Assessments a draft with our formulas; what we understood to be the capitalization rates and expenses; and a discussion of what we found in SDAT files. We requested to be advised of any inaccuracies. We were given no specific corrections.
- The Supervisor wrote us that *“While your letter does recognize the income approach as the proper valuation method, it seems to describe it as a fill-in-the-blank methodology. That perspective is incorrect because it overlooks the expertise and experience needed to correctly apply this methodology in the valuation of commercial property, especially the Parklawn Building which was very difficult to value.”*

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**Finding 2: In our sample of 20 properties, assessed value was not a good indicator of market value, especially for high value properties**



High value properties = sales price > \$10 million



Low value properties = sales price < \$700,000

- SDAT's 2011 Assessment Ratio Report states, *"We are continually striving for higher quality in assessment uniformity... A measurement of quality is the assessed value/sale price ratio."*
- For the subset of these sales that occurred within one year after assessment, 3 higher valued properties had an assessed value/sale price ratio of 66%, while 2 lower valued properties had an assessed value/sale price ratio of 115%.



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### **Determination of Assessments**

- 1) State Department of Assessments and Taxation – unilateral decision
  - 2) Property Tax Assessment Appeals Board
  - 3) Maryland Tax Court decision, and possible appeals
  - 4) Negotiated settlement
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### SDAT Response to Final Draft

- The Director of SDAT wrote, *“Your report’s emphasis on the Parklawn Building is symptomatic of the fundamental problems with your underlying analysis. The assessment of the Parklawn property and the appeal of that assessment was clearly a difficult assignment and represented an anomaly in the assessment process. That unusual situation should not have been used in any comprehensive review of the normal assessment process for commercial properties in Montgomery County. With all due respect, it is readily apparent to us that your office does not include a licensed appraiser and you did not consult with one on this particular property.”*
- He also stated that *“With regards to your sample of the twenty commercial properties, you are making the same fundamental error that County Stats did in its earlier study that does not recognize the significance of the law’s January 1 date of finality. One does not compare a recent sales price with a three year old assessment that would have been the product of a data base of sales that are now three to five years old. Similarly, you must take into account for each property whether there has been a reduction in value by the Maryland Tax Court or the Montgomery Property Tax Assessment Appeals Board that the Department legally has to recognize.”*

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**Finding 3:** The County Dept. of Finance devotes significantly fewer resources to the implementation of §20-41A of the County Code than it did during the 1990s and early 2000s, and consequently it is significantly less active in carrying out its responsibilities under §20-41A.

County Code Section 20-41A:

*“The Director of Finance or designee **must**...protect the public interest by acting on behalf of the taxpayers and the County to:*

- (1) intervene in tax and assessment proceedings before administrative agencies and the courts;*
- (2) appeal decisions in tax and assessment proceedings; and*
- (3) take any other action permitted by law to review and challenge inaccurate property tax assessments.”*



## Review of Montgomery County Commercial Property Tax Assessments

**Recommendations: The County Department of Finance should be more active in fulfilling the requirements of §20-41A of the County Code**

### **Chief Administrative Officer Response**

The CAO agreed to implement the report's recommendations.

- The CAO is identifying an additional, dedicated resource to enhance the Dept. of Finance's ability to track and strategically analyze SDAT's commercial assessments and, in certain cases, determine if an assessment value is consistent with SDAT's procedures and standards.
- The Dept. of Finance will work to develop a consistent process for tracking and analyzing changes in commercial assessment values.
- If the County determines it is cost-effective, the Dept. of Finance will appeal assessments to the Supervisor, the Property Tax Assessment Appeals Board, and the Maryland Tax Court and will participate in taxpayer appeals.
- The Dept. of Finance will track the status of its appeals.
- CountyStat, in collaboration with the Dept. of Finance, will conduct a more comprehensive review of SDAT's commercial property tax assessments, and the CAO will take appropriate action based on that review.