



Office of Program Policy Analysis And Government Accountability



John W. Turcotte, Director

April 1997

Executive Summary Report No. 96-81 Program Evaluation and Justification Review: Property Tax Administration Program

Scope

OPPAGA is required to complete a Program Evaluation and Justification Review of each state agency program that is operating under a performance-based program budget. This report examines the performance of the Property Tax Administration Program and presents options for improving Program performance and producing savings.

Background

State law authorizes counties, school districts, municipalities, and some special districts to levy ad valorem taxes on real and tangible personal property. To ensure that taxpayers are treated equitably within and among counties, the Florida Constitution and state law require that county property appraisers assess property uniformly and at just value.¹ This requirement also helps ensure that state funds are distributed equitably among school districts through the Florida Educational Finance Program.

The Department of Revenue's Property Tax Administration Program provides state supervision of county appraisers' activities to ensure that all property is placed on county tax rolls and uniformly assessed at just value. For fiscal year 1996-97, the Property Tax Administration Program had 140 authorized positions and was appropriated \$9.2 million. The Program has three primary functional activities:

- **Analyzing and approving county tax rolls that meet state requirements.** Program staff review county tax

rolls annually and conduct in-depth reviews of county tax rolls for approximately half the counties each year. Program staff use ratio studies to assess county property appraisers' performance in assessing the value of real property uniformly and at just value. These studies compare property appraisers' assessed property values to Program staff estimates of the just value of property, which are based on either sale prices or independent appraisals;

- **Ensuring compliance with the statutory truth in millage (TRIM) provisions,** which require taxing authorities to disclose how the millage, tax, and budget are calculated and why tax increases are being sought; and
- **Approving ad valorem tax refunds** involving changes to the assessed value of property and all tax certificate corrections or cancellations.

Conclusions

The Property Tax Administration Program is an essential state function. Ad valorem taxes are administered by independent, elected officials in each of the state's 67 counties. State oversight is needed to ensure that taxpayers are treated equitably within and among counties and that state funds are distributed equitably among county school districts through the Florida Educational Finance Program.

The Property Tax Administration Program has improved its oversight of real property assessments, particularly during the past six years. The Program has implemented several initiatives to improve its analysis

¹ Florida courts have defined "just value" as the fair market value of property, reflecting the amount that an individual willing but not obligated to buy, would pay to someone who was willing but not obligated to sell.

of county tax rolls and its methodology for conducting ratio studies now compares favorably to national standards and to ad valorem oversight programs in other states. In addition, the Program has made progress in improving tax roll uniformity and the level of assessment and in reducing property appraisers' errors.

However, the Program has not demonstrated that its activities are effective for ensuring that tangible personal property (e.g., business equipment) is uniformly assessed at just value, although the Legislature has appropriated funds to the Department since 1991 to conduct studies of tangible personal property.

Incentives/Disincentives. Based on the Program's improved oversight of real property assessments, we recommend that the Governor and Legislature consider applying incentives to the Department as provided in s. 216.163, F.S. Such incentives could include allowing the Department to retain up to 50% of the unexpended and unencumbered appropriation balances, which the Program could use for productivity enhancements such as purchasing computer equipment.

However, given the Program has not demonstrated that its oversight of tangible personal property has been effective, the Governor and Legislature should also consider applying certain disincentives to the Department, such as mandatory quarterly appearances before the Legislature to report its progress towards improving the oversight of tangible personal property or reducing managerial salaries in the program area. If the Program is unable to demonstrate sufficient improvement, the Legislature could consider privatizing this function.

Options for Improvement: Opportunities for further improving performance and reducing costs exist in four areas.

1. **Oversight of Real Property Assessments** - Despite improvements in overall performance, some aspects of the Program's ratio studies do not conform to national standards and could adversely affect the reliability of ratio studies and other Program analyses of property appraiser performance. For example, the statistical standards Program staff use to measure tax roll uniformity allow greater variation than is recommended by national standards, which may mask problems with the equity

of property assessments within and among counties. In addition, the state spends almost \$5 million a year to obtain and process a form (DR219) intended primarily to provide the Program with property sales information for their analyses of tax rolls. However, Program staff have been unable to use information from this form effectively and could use other, less-costly methods for obtaining or processing property sales information.

2. **Oversight of Tangible Personal Property Assessments** - Although the Legislature has appropriated funds to the Department since 1991 to conduct studies of tangible personal property, the Program has not effectively performed this function and has limited its oversight efforts to providing aid and assistance to property appraisers. While useful, these activities do not ensure that tangible personal property is uniformly assessed at just value as required by the state constitution and law. In addition, the Program has not demonstrated the effectiveness or impact of its training and other aid and assistance activities.

3. **Oversight of Truth in Millage Requirements** - The Program improved its oversight of taxing authority compliance with the TRIM provisions. As a result, the number of taxing authorities in substantial compliance with these provisions on their initial submissions increased steadily between 1990 and 1994. However, in 1995 and 1996 fewer taxing authorities were in compliance with the TRIM requirements on initial submission. Program staff attributed this decline to several factors, including a 1996 legislative change to the TRIM provisions. Although Program staff conducted TRIM training in the spring and summer of 1996, the training was focused on reducing the types of errors detected during the prior budget cycle and did not address the new legislation.

4. **Review of Ad Valorem Tax Refund Requests** - The Program's timeliness in processing refund requests has slowed during the past two fiscal years. For example, the percentage of refunds processed in 30 days dropped from 92% in fiscal year 1993-94 to 64% in fiscal 1995-96. Since local governments already are responsible for processing such requests, the Program does not need to review and approve ad valorem tax refunds. The Department has identified this as a function that could be eliminated as a potential cost saving measure.

Recommendations

Table 1 includes our cost saving recommendations and Table 2 summarizes our recommended technical changes in Program activities.

Agency Response

The Executive Director of the Department of Revenue provided a detailed response to our preliminary and tentative findings and recommendations. The response describes actions the Department is taking to address our concerns.

**Table 1
Cost Saving Recommendations Could Save Up to \$5.1 Million Annually**

Cost Saving Issues	Cost Savings Options
Less costly options exist for obtaining or processing property sales information.	<ul style="list-style-type: none"> • Eliminate DR219 and use private vendor sales information instead, saving approximately \$5 million annually. • Retain DR219, but eliminate the fee currently paid to county clerks, saving approximately \$5 million annually. • Obtain DR219 information electronically from county clerks, reducing the \$172,000 annual data entry costs.
The Property Tax Administration Program's review and approval of local government ad valorem tax refunds is not needed.	<ul style="list-style-type: none"> • Eliminate the Program's current responsibilities for approving ad valorem tax refunds, saving approximately \$117,000 annually.

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

**Table 2
Recommendations for Technical Changes to Ensure That Property Is Uniformly Assessed at Just Value**

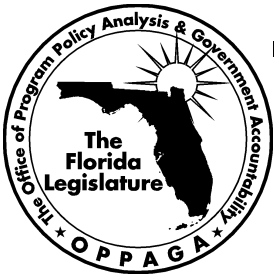
Program Area	Recommended Improvements
Oversight of Real Property Assessments	<p>The Property Tax Administration Program should:</p> <ul style="list-style-type: none"> • Use tests and standards recommended by the International Association of Assessing Officers for assessing whether sales samples used in the ratio studies are representative of property value and for assessing tax roll uniformity to improve the quality and reliability of its analysis of real property tax rolls. • Modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected. This should improve the usefulness of the procedural audits for providing reasonable assurance that real property is appraised uniformly at just value. • Monitor the types of errors made by field staff that have been detected by its quality control process and by Office of the Auditor General performance audits.¹ Use this information to help reduce future field staff errors (e.g., revising the Program ratio study guidelines and training) and improve the accuracy of ratio study data. • Develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value. Apply the actual cost-of-sale factor used by property appraisers during its ratio studies to ensure that the Program's estimates of property appraiser performance are accurate. <p>Contract with a private entity for the data entry of DR219 forms to improve the accuracy and timeliness of entering DR219 information into a database</p>

Program Area	Recommended Improvements
Oversight of Tangible Personal Property	<p style="text-align: right;"><i>(Continued)</i></p> <p>The Property Tax Administration Program should either:</p> <ul style="list-style-type: none"> • Contract with private entities (e.g., certified public accountant firms) to conduct fieldwork for periodic ratio studies of tangible personal property (e.g., once every four years) by shifting resources currently assigned to field staff to the contracts; or • Conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value. In addition, develop and disseminate materials to property appraisers about its aid and assistance services to provide the Program with opportunities to help improve county tangible personal property assessment practices.
Truth-in-Millage	The Property Tax Administration Program should conduct TRIM training in 1997, with an emphasis on the recent statutory changes to improve taxing authority compliance with the TRIM requirements.
Ad Valorem Refunds	The Property Tax Administration Program should monitor refund requests to ensure that it processes these requests in a timely manner.
<p>¹ Florida Office of the Auditor General, Performance Audit of the Florida Department of Revenue Ad Valorem Tax Program, Report No. 12408, October 18, 1994.</p>	

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

This project was conducted in accordance with applicable evaluation standards. Copies of the entire report may be obtained by telephone (904/488-1023 or 800/531-2477), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302). Web site: <http://www.state.fl.us/oppaga/>

Project Conducted by: Kathy Neill (904/487-9279), Brian Betters, Lee Cobb, and Debra Gilreath



Program Evaluation and Justification Review

Property Tax Administration Program
Administered by the
Department of Revenue

April 1997

The Florida Legislature established the Office of Program Policy Analysis and Government Accountability (OPPAGA) in 1994 to play a major role in reviewing the performance of state agencies under performance-based budgeting.

OPPAGA's mission is to provide objective, independent, professional analyses of state policies and services to assist the Florida Legislature in decision-making to ensure government accountability, and to recommend the best use of public resources.

OPPAGA conducts studies and issues a variety of reports, such as policy analyses, justification reviews, program evaluations, and performance audits. These reports provide in-depth analyses of individual state programs and functions. Reports may focus on a wide variety of issues, such as:

- Whether a program is effectively serving its intended purpose;
- Whether a program is operating within current revenue resources;
- What goals, objectives, and performance measures are used to monitor and report program accomplishments;
- What structures and designs of programs are used to accomplish their goals and objectives; and
- What alternative methods are available for providing program services or products.

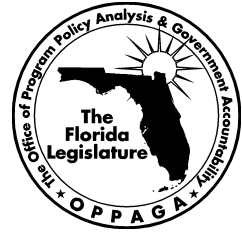
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The Florida Legislature

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY



John W. Turcotte, Director

April 1997

The President of the Senate,
the Speaker of the House of Representatives,
and the Legislative Auditing Committee

I have directed that a program evaluation and justification review be made of the Property Tax Administration Program as administered by the Department of Revenue. The results of the review are presented to you in this report. This is the first justification review OPPAGA has conducted under the Government Performance and Accountability Act of 1994. This review was conducted by Kathy Neill, Brian Betters, Lee Cobb, and Debbie Gilreath.

We wish to express our appreciation to the staff of the Department of Revenue for their assistance.

Respectfully yours,

John W. Turcotte
Director

Contents

Executive Summary	i
Chapter 1: Introduction	1
Chapter 2: Oversight of Real Property	6
Chapter 3: Tangible Personal Property	12
Chapter 4: Truth in Millage	16
Chapter 5: Ad Valorem Refunds and Tax Certificate Corrections and Cancellations	18
Chapter 6: Conclusions and Recommendations	20
Appendices	22
A. Statutory Requirements for Program Evaluation and Justification Reviews.....	23
B. Office of Program Policy Analysis and Government Accountability Survey of County Property Appraisers	26
C. Technical Analysis of the Property Tax Administration Program’s Oversight of Real Property Assessments and Recommendations to Improve Performance	31
D. Taxable Value of Tangible Personal Property by County	41
E. Response From the Department of Revenue.....	43

Executive Summary

Program Evaluation and Justification Review: Property Tax Administration Program

Scope

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Background

State law authorizes counties, school districts, municipalities, and some special districts to levy ad valorem taxes on real and tangible personal property. To ensure that taxpayers are treated equitably within and among counties, the Florida Constitution and state law require that county property appraisers assess property uniformly and at just value.¹ This requirement also helps ensure that state funds are distributed equitably among school districts through the Florida Educational Finance Program.

The Department of Revenue's Property Tax Administration Program provides state supervision of county appraisers' activities to ensure that all property is placed on county tax rolls and uniformly assessed at just value. For fiscal year 1996-97, the Property Tax Administration Program had 140 authorized positions and was appropriated \$9.2 million. The Program has three primary functional activities:

- **Analyzing and approving county tax rolls that meet state requirements.** Program staff review county tax rolls annually and conduct in-depth reviews of county tax rolls for approximately half the counties each year. Program staff use ratio studies to assess county property appraisers' performance in assessing the value of real property uniformly and at just value. These studies compare property appraisers' assessed property values to Program staff estimates of the just value of property, which are based on either sale prices or independent appraisals;
- **Ensuring compliance with the statutory truth in millage (TRIM) provisions,** which require taxing authorities to disclose how the millage, tax, and budget are calculated and why tax increases are being sought; and

¹ Florida courts have defined "just value" as the fair market value of property, reflecting the amount that an individual willing but not obligated to buy, would pay to someone who was willing but not obligated to sell.

- **Approving ad valorem tax refunds** involving changes to the assessed value of property and all tax certificate corrections or cancellations.

Conclusions

The Property Tax Administration Program is an essential state function. Ad valorem taxes are administered by independent, elected officials in each of the state's 67 counties. State oversight is needed to ensure that taxpayers are treated equitably within and among counties and that state funds are distributed equitably among county school districts through the Florida Educational Finance Program.

The Property Tax Administration Program has improved its oversight of real property assessments, particularly during the past six years. The Program has implemented several initiatives to improve its analysis of county tax rolls and its methodology for conducting ratio studies now compares favorably to national standards and to ad valorem oversight programs in other states. In addition, the Program has made progress in improving tax roll uniformity and the level of assessment and in reducing property appraisers' errors.

However, the Program has not demonstrated that its activities are effective for ensuring that tangible personal property (e.g., business equipment) is uniformly assessed at just value, although the Legislature has appropriated funds to the Department since 1991 to conduct studies of tangible personal property.

Incentives/Disincentives. Based on the Program's improved oversight of real property assessments, we recommend that the Governor and Legislature consider applying incentives to the Department as provided in s. 216.163, F.S. Such incentives could include allowing the Department to retain up to 50% of the unexpended and unencumbered appropriation balances, which the Program could use for productivity enhancements such as purchasing computer equipment.

However, given the Program has not demonstrated that its oversight of tangible personal property has been effective, the Governor and Legislature should also consider applying certain disincentives to the Department, such as mandatory quarterly appearances before the Legislature to report its progress towards improving the oversight of tangible personal property or reducing managerial salaries in the program area. If the Program is unable to demonstrate sufficient improvement, the Legislature could consider privatizing this function. (See page 4.)

Options for Improvement: Opportunities for further improving performance and reducing costs exist in four areas.

- 1. Oversight of Real Property Assessments** - Despite improvements in overall performance, some aspects of the Program's ratio studies do not conform to national standards and could adversely affect the reliability of ratio studies and other Program analyses of property appraiser performance. For example, the statistical standards Program staff use to measure tax roll uniformity allow greater variation than is recommended by national standards, which may mask problems with the equity of property assessments within and among counties. In addition, the state spends almost \$5 million a year to obtain and process a form (DR219) intended primarily to provide the Program with property sales information for their analyses of tax rolls. However, Program staff have been unable to use information from this form effectively and could use other, less-costly methods for obtaining or processing property sales information. (See pages 8-10.)
- 2. Oversight of Tangible Personal Property Assessments** - Although the Legislature has appropriated funds to the Department since 1991 to conduct studies of tangible personal property, the Program has not effectively performed this function and has limited its oversight efforts to providing aid and assistance to property appraisers. While useful, these activities do not ensure that tangible personal property is uniformly assessed at just value as required by the state constitution and law. In addition, the Program has not demonstrated the effectiveness or impact of its training and other aid and assistance activities. (See pages 12-13.)
- 3. Oversight of Truth in Millage Requirements** - The Program improved its oversight of taxing authority compliance with the TRIM provisions. As a result, the number of taxing authorities in substantial compliance with these provisions on their initial submissions increased steadily between 1990 and 1994. However, in 1995 and 1996 fewer taxing authorities were in compliance with the TRIM requirements on initial submission. Program staff attributed this decline to several factors, including a 1996 legislative change to the TRIM provisions. Although Program staff conducted TRIM training in the spring and summer of 1996, the training was focused on reducing the types of errors detected during the prior budget cycle and did not address the new legislation. (See pages 16-17.)
- 4. Review of Ad Valorem Tax Refund Requests** - The Program's timeliness in processing refund requests has slowed during the past two fiscal years. For example, the percentage of refunds processed in 30 days dropped from 92% in fiscal year 1993-94 to 64% in fiscal 1995-96. Since local governments already are responsible for processing such requests, the Program does not need to review and approve ad valorem tax refunds. The Department has identified this as a function that could be eliminated as a potential cost saving measure. (See pages 18-19.)

Recommendations

Table 1 includes our cost saving recommendations and Table 2 summarizes our recommended technical changes in Program activities.

Table 1
Cost Saving Recommendations Could Save Up to \$5.1 Million Annually

Cost Saving Issues	Cost Savings Options
<p>Less costly options exist for obtaining or processing property sales information. (See pages 8-10.)</p>	<ul style="list-style-type: none"> • Eliminate DR219 and use private vendor sales information instead, saving approximately \$5 million annually. • Retain DR219, but eliminate the fee currently paid to county clerks, saving approximately \$5 million annually. • Obtain DR219 information electronically from county clerks, reducing the \$172,000 annual data entry costs.
<p>The Property Tax Administration Program’s review and approval of local government ad valorem tax refunds is not needed. (See page 19.)</p>	<ul style="list-style-type: none"> • Eliminate the Program’s current responsibilities for approving ad valorem tax refunds, saving approximately \$117,000 annually.

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

Table 2
Recommendations for Technical Changes to Ensure That Property Is Uniformly Assessed at Just Value

Program Area	Recommended Improvements
<p>Oversight of Real Property Assessments</p>	<p>The Property Tax Administration Program should:</p> <ul style="list-style-type: none"> • Use tests and standards recommended by the International Association of Assessing Officers for assessing whether sales samples used in the ratio studies are representative of property value and for assessing tax roll uniformity to improve the quality and reliability of its analysis of real property tax rolls. (See page 10.) • Modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected. This should improve the usefulness of the procedural audits for providing reasonable assurance that real property is appraised uniformly at just value. (See page 10.) • Monitor the types of errors made by field staff that have been detected by its quality control process and by Office of the Auditor General performance audits.¹ Use this information to help reduce future field staff errors (e.g., revising the Program ratio study guidelines and training) and improve the accuracy of ratio study data. (See page 10.)

Program Area	Recommended Improvements
	<p style="text-align: right;"><i>(Continued)</i></p> <ul style="list-style-type: none"> • Develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value. Apply the actual cost-of-sale factor used by property appraisers during its ratio studies to ensure that the Program’s estimates of property appraiser performance are accurate. (See page 10.) <p>Contract with a private entity for the data entry of DR219 forms to improve the accuracy and timeliness of entering DR219 information into a database. (See page 11.)</p>
Oversight of Tangible Personal Property	<p>The Property Tax Administration Program should either:</p> <ul style="list-style-type: none"> • Contract with private entities (e.g., certified public accountant firms) to conduct fieldwork for periodic ratio studies of tangible personal property (e.g., once every four years) by shifting resources currently assigned to field staff to the contracts (see page 15); or • Conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value. In addition, develop and disseminate materials to property appraisers about its aid and assistance services to provide the Program with opportunities to help improve county tangible personal property assessment practices. (See page 15.)
Truth-in-Millage	<p>The Property Tax Administration Program should conduct TRIM training in 1997, with an emphasis on the recent statutory changes to improve taxing authority compliance with the TRIM requirements. (See page 17.)</p>
Ad Valorem Refunds	<p>The Property Tax Administration Program should monitor refund requests to ensure that it processes these requests in a timely manner. (See page 19.)</p>
<p>¹ Florida Office of the Auditor General, Performance Audit of the Florida Department of Revenue Ad Valorem Tax Program, Report No. 12408, October 18, 1994.</p>	

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

Agency Response

The Executive Director of the Department of Revenue provided a detailed response to our preliminary and tentative findings and recommendations. (See Appendix E, page 44.) The response describes actions the Department is taking to address our concerns.

Program Evaluation and Justification Review: Property Tax Administration Program Administered by the Department of Revenue

Chapter 1: Introduction

Purpose

This is the second of two reports presenting the results of our Program Evaluation and Justification Review of the Department of Revenue's Property Tax Administration Program, which began operating under a performance-based program budget in fiscal year 1995-96. State law directs OPPAGA to complete a Justification Review of each state agency program that is operating under a performance-based program budget. Pursuant to state law, our review of this Program is due no later than July 1, 1997. The law also requires Justification Reviews to be comprehensive, evaluate program performance, and identify policy alternatives for improving services and reducing costs. The law specifies that the reviews shall provide information about nine areas concerning a program and its performance. Appendix A lists these areas and provides a synopsis of our conclusions for each area.

This report examines the performance of the Property Tax Administration Program and presents options for improving Program performance and producing savings.¹ As part of our review, we surveyed all 67 county property appraisers about Program activities and to identify options for improving property valuation practices. We received responses from 62 property appraisers and the summarized results are in Appendix B.

Background

State law authorizes counties, school districts, municipalities, and some special districts to levy ad valorem taxes on real and tangible personal property. Ad valorem taxes represent a major source of funding for local governments and school districts. County property appraisers assess the value of property and local governments use these assessments to determine the ad valorem taxes property owners must pay. To ensure that taxpayers are treated equitably within and among counties, the Florida Constitution and state law require that county property appraisers assess property uniformly and at just value.²

¹ OPPAGA Report No. 96-55, dated February 18, 1997, addresses the Program's performance compared to its 1995-96 performance-based program budgeting measures and standards and makes recommendations for improving these measures and standards. Together, the two reports address the areas required by law.

² Florida courts have defined "just value" as the fair market value of property, reflecting the amount that an individual willing but not obligated to buy, would pay to someone who was willing but not obligated to sell.

This requirement also helps ensure that state funds are distributed equitably among school districts through the Florida Educational Finance Program (FEFP). The Legislature enacted FEFP in 1973 to ensure that, regardless of geographic differences and local economic factors, Florida students receive equal education opportunities. The program distributes state aid to counties using a formula based on school districts' ability to pay educational costs through local property taxes. The state guarantees a minimum funding level for each student and the district is required to contribute tax revenues based on the assessed value of property in the district. State aid to school districts is calculated by subtracting the required local effort from the minimum funding level. To ensure that counties do not assess property below just value in order to receive more state funds, FEFP adjusts the required local funding based on each county's level of assessment compared to the statewide level of assessment to just value.

The Department of Revenue's Property Tax Administration Program provides state supervision of county appraisers' activities to ensure that all property is placed on county tax rolls and uniformly assessed at just value.³ The Program's oversight extends to both real property and tangible personal property. The Program has three primary functional activities:

- Analyzing county tax rolls to ensure the just and uniform valuation of property within and among counties;
- Ensuring compliance with the statutory truth in millage provisions, which require taxing authorities to disclose how the millage, tax, and budget are calculated and why tax increases are being sought; and
- Approving ad valorem tax refunds involving changes to the assessed value of property and all tax certificate corrections or cancellations.⁴

The Program also provides several services designed to assist local officials in assessing and collecting ad valorem taxes. These include assessing the value of railroad property throughout Florida and apportioning such assessments among the counties, providing education and assistance to upgrade county officials' ad valorem tax assessment and collection skills, prescribing and furnishing at no charge all ad valorem tax-related forms to local government entities, furnishing at no charge aerial photographs and non-property ownership maps to property appraisers as needed to ensure all properties are listed on tax rolls, and reviewing and approving the budgets of county property appraisers and tax collectors so that these budgets will be neither inadequate or excessive.

³ The Property Tax Administration Program was formerly named the Division of Ad Valorem Tax. Chapter 95-272, Laws of Florida, eliminated references in state law to the Department's divisions and allowed the Department to reorganize into five programs: Property Tax Administration, General Tax Administration, Child Support Enforcement, Information Services, and Administrative Services.

⁴ Tax certificates are legal documents representing unpaid, delinquent real property taxes and related costs, which counties may sell to collect owed taxes.

For fiscal year 1996-97, the Property Tax Administration Program had 140 authorized positions and was appropriated \$9.2 million, funded primarily by the Intangible Tax Trust Fund.⁵ (See Exhibit 1.) Most of the Program's resources are devoted to the analysis and approval of property tax rolls.

Exhibit 1
Property Tax Administration Program Resources
Fiscal Years 1994-95 Through 1996-97

Appropriations by Expenditure Category	Final Appropriations (in Millions)		
	1994-95	1995-96	1996-97
Operating Expenses			
Salaries and benefits	\$5.942	\$5.927	\$5.954
Other personal services	.262	.257	.334
Expenses	1.217	1.175	1.151
Operating capital outlay	.023	.070	.008
Data processing services	.177	.190	.218
Total Operating Expenses	\$7.621	\$7.619	\$7.665
Aid to Local Government			
Certification program ¹	\$.300	\$.300	\$.300
Aerial photographic mapping	.423	.539	.525
County tax forms	.765	.715	.715
Total Aid to Local Government	\$1.488	\$1.554	\$1.540
Total Appropriations	\$9.109	\$9.173	\$9.205
Number of Full-Time Equivalent Staff Positions	150	141²	140²

¹ Property appraisers, tax collectors, and staff may obtain state certification if they obtain the required training and pass certification examinations.
² The Department of Revenue reduced the Program's authorized positions by nine in fiscal year 1995-96 and by one in fiscal year 1996-97 by shifting positions from the Property Tax Administration Program to other units within the Department.

Source: Department of Revenue Budget Office, January 23, 1997.

⁵ The revenue deposited in this trust fund comes from state-levied taxes on intangible personal property. Most of these tax revenues are used for revenue-sharing with counties or are transferred to the state General Revenue Fund. The Program also receives \$300,000 in annual appropriations from the Certification Trust Fund which is funded by the fees paid by officials for Program training and certification.

General Conclusions

The Property Tax Administration Program is an essential state function. Ad valorem taxes are administered by independent, elected officials in each of the state's 67 counties. Since these officials likely vary in their interpretation of constitutional and state law requirements for ad valorem taxation, central oversight is needed to ensure that taxpayers are treated equitably within and among counties and that state funds are distributed equitably among county school districts through the Florida Educational Finance Program.

Although some Program activities are privatized currently, further privatization of the Program's oversight of real property is unlikely to improve Program efficiency or effectiveness. For example, the Program has privatized state certification training and testing of property appraiser staff to a national professional organization. However, the Program has not privatized its field staff oversight of local appraisal of real property because privatizing would reduce Program efficiency. Oversight activities include collecting data for ratio studies, conducting procedural audits of property appraiser practices, and providing aid and assistance to property appraisers to improve their performance and inform them about changes in Program policies. All of these activities require similar data collection and knowledge about the local real estate market and market conditions within a county, which field staff typically collect during the months preceding the beginning of the ratio studies. Privatizing all field staff activities could be complicated given that the Program often changes its procedures and specific methods (e.g., sample sizes) for conducting the ratio studies. It could be difficult for the Program to effectively communicate these changes in a timely manner to private vendors. The Program's central staff would also need to devote more time to communicating Program policy changes to property appraisers, since field staff currently assist with this through their aid and assistance activities. Furthermore, since private appraisers generally are concerned with the appraisal of individual parcels of property, they may lack the expertise to do the analyses required to review and approve tax rolls.

The Property Tax Administration Program has improved its oversight of real property assessments, particularly during the past six years. Based on the Program's improved oversight of real property assessments, we recommend that the Governor and Legislature consider applying incentives to the Department as provided in s. 216.163, F.S. Such incentives could include allowing the Department to retain up to 50% of the unexpended and unencumbered appropriation balances, which the Program could use for productivity enhancements such as purchasing computer equipment.

However, the Program has not demonstrated that its activities are effective for ensuring that tangible personal property (e.g., business equipment) is uniformly assessed at just value. The Governor and Legislature should consider applying certain disincentives to the Department, such as mandatory quarterly appearances before the Legislature to report its progress towards improving the oversight of tangible personal property or reducing managerial salaries in the program area. If the Program is unable to demonstrate sufficient improvement, the Legislature could consider privatizing this function.

Opportunities for further improving performance and reducing costs exist in four areas:

- Oversight of real property assessments;
- Oversight of tangible personal property assessments;
- Oversight of truth in millage requirements; and
- Review of ad valorem tax refund and tax certificate correction and cancellation requests.

We identified potential cost savings of \$5.1 million in the Property Tax Administration Program. (See page 20.)

Chapter 2: Oversight of Real Property

Introduction

In providing oversight of real property assessments, Program staff review county tax rolls annually and conduct in-depth reviews of county tax rolls for approximately half the counties each year. These reviews assess county property appraisers' performance in assessing the value of real property uniformly and at just value as required by law. In Florida, approved tax rolls assess property at a level that meets or exceeds 90% of just value.

Program staff use ratio studies for their analysis of property appraiser performance. These studies compare property appraisers' assessed property values to Program staff estimates of the just value of property. These just value estimates are based on either sale prices or independent appraisals. During the in-depth reviews, field staff compare a sample of county property appraisers' assessments for real property to their estimated just value for these properties. For non-in-depth reviews, Program central office staff develop economic models that consider a county's sales data and the results of the prior year's in-depth study to estimate the level of assessments.

The Program has 81 field staff assigned to its four regional and five satellite offices throughout the state for the oversight of real property tax rolls. The Program also has 16 staff at central headquarters who conduct computer analyses on the data collected by field staff for the in-depth and non-in-depth tax roll reviews.

Program Performance

The Property Tax Administration Program's performance has improved over time. Although the Florida Constitution has required the just valuation of property for ad valorem tax purposes since 1868, concerns have historically been expressed about property on county tax rolls being assessed below just value. For example, in 1935, the state Supreme Court noted that property was generally assessed at 50% of just value.⁶ In 1979, the statewide level of tax assessment was approximately 74.3% of just value, but some counties had levels of assessments that were as low as 58.5% of just value. In 1979, the Governor and Cabinet directed the Department of Revenue to enforce the just valuation of property requirement and, by 1981, the statewide level of assessment had increased to 94.5%. During 1990, the Program was the subject of a statewide Grand Jury investigation, an Auditor General review, and an internal review. These highly critical reviews questioned the reliability of the Program's analysis of tax rolls and the sufficiency of Program activities for ensuring the just valuation of property.

⁶ State Supreme Court, 1935: *Henderson v. Leatherman*, 120 Fla. 496, 163 So. 310 (1935).

Since 1990, the Program has implemented a number of initiatives to improve its analysis of county tax rolls. For example, the Department hired a consultant affiliated with the International Association of Assessing Officers (IAAO) to review the Program and make recommendations for making Program studies more credible and accurate.⁷ As a result of this review, the Department sought and obtained statutory revisions designed to improve the quality of the in-depth studies, such as requiring Program staff to rely primarily on sales ratio studies as recommended by IAAO standards. In addition, the Program has modified its in-depth study procedures to better conform to the IAAO standards. The Program's methodology for conducting ratio studies now compares favorably to IAAO standards and to ad valorem oversight programs in other states.

As a result of these initiatives, the Program made progress in improving tax roll uniformity and the level of assessment and in reducing property appraisers' errors. For example, by 1996, the statewide levels of assessment rose to 97.4%, a 31% increase from the 1979 level of assessment. In addition, the Program's performance data shows that statewide tax roll uniformity improved in the past fiscal year and the portion of property tax refunds attributable to assessment errors declined. (See Exhibit 2.)

Exhibit 2
Statewide Level of Assessments and Tax Roll Uniformity Improved,
While the Portion of Refunds Attributable to Assessment Errors Declined

Performance Measure	Fiscal Year		
	1993-94	1994-95	1995-96
Statewide tax roll uniformity(less is better) ¹	Not available	12.7%	12.3%
Percentage of refunds due to assessment errors	90.0%	91.0%	82.8%

¹ Tax roll uniformity is measured by the coefficient of dispersion, which calculates the average percentage deviation of the property assessment ratios from the median property assessment ratio in a county. A smaller percentage indicates that the county property appraisers are assessing properties more consistently. This measure is one of the Program's performance-based program budgeting measures as noted in OPPAGA Report No. 96-55.

Source: Department of Revenue, Property Tax Administration Program records.

Options for Improving Performance

Despite improvement in overall performance, some aspects of the Program's ratio studies do not conform to national standards and could adversely affect the reliability of ratio studies and other Program analyses of property appraiser performance. We also identified several options that could reduce Program costs.

⁷ Florida Department of Revenue, Ad Valorem Tax Division, Review of In-depth Study Procedures, Final Report, June 1992, Almy, Gloudemans, & Jacobs.

Improvements in the following areas could improve Program staff's ability to detect problems with real property assessments:

- Program staff currently do not test the sample properties used in the in-depth studies to assess their representativeness of the tax roll properties. If the samples are not representative of tax roll properties, the ratio studies will tend to overstate property appraiser performance in assessing the value of property uniformly and at just value;
- Program staff have not used procedural audits for ensuring that property classes not analyzed in the in-depth studies are appraised uniformly at just value;
- The Program needs to develop an effective quality control system that systematically monitors the fieldwork done by Program staff and provides feedback, guidelines, and training to correct identified problems so that staff collect accurate and reliable data for the ratio studies;
- The statistical standards Program staff use to measure the uniformity of property assessments allow greater variation in the assessments than is recommended by IAAO standards, which may mask equity problems within and among counties; and
- When estimating the just value of property, Program staff do not always use the same cost-of-sale adjustment property appraisers use in assessing the property, which may reduce the accuracy of the Program's estimates of property appraiser performance. Although Florida law requires just valuation of property to consider the costs of selling property, making accurate cost-of-sale adjustments is difficult and the IAAO standards recommend against using such adjustments.

A technical discussion about these needed improvements is presented in Appendix C.

Cost Saving Options

The state spends almost \$5 million to obtain and process a form intended primarily to provide the Property Tax Administration Program with property sales information for their analyses of tax rolls. However, Program staff have been unable to effectively use information from this form and could use other, less-costly methods for obtaining or processing property sales information.

The transfer of interest in real property form (DR219) is intended to provide information, such as parcel identification number and sales price, about property being transferred to new owners. Section 201.022, F.S., requires real property sellers, buyers, or agents to fill out and file the DR219 with county clerks when they request that transfers of interest in real property be recorded. The county clerks send the DR219s to the Department's tax processing unit in Tallahassee that enters the information into a database and sends copies of the DR219s to county property appraisers.

County clerks retain a commission (1% of documentary stamp tax collections) for processing DR219 forms.⁸ According to Department records, county clerks retained \$4.1 million in commissions during fiscal year 1994-95 and \$4.5 million in fiscal year 1995-96. The Department's cost for printing the form, data entry, and computer processing was approximately \$250,000 in fiscal year 1995-96.

The Program had intended to use information from the DR219 in its analysis of tax rolls. Program staff rely on county property appraisers to provide sales information that is used in their sales ratio studies of county tax rolls, but have been concerned that this information may be incomplete and inaccurate. The DR219 was intended to enable staff to receive complete and reliable property sales information from an independent source.

However, the Program has been unable to use the DR219 effectively to obtain timely, accurate, and complete information about real property sales for two reasons. First, some county clerks have not ensured that the DR219s are completed correctly. Second, the Department's tax processing staff have not entered the DR219 information into a database in a timely, accurate manner. As a result, the DR219 database does not contain complete information about property sales, and Program staff have not used this database for analyzing county tax rolls.

We believe the Department may be able to use other, more cost-effective ways of obtaining or processing property sales information. These options include:

- **Use Private Vendor Sales Information in Lieu of the DR219.** In fiscal year 1996-97, the Department purchased property sales information for 29 counties from private vendors at a cost of approximately \$17,000. Program staff said that the information provided by these vendors contains useful and reliable sales information, which could be used for its tax roll analysis in lieu of property appraiser sales information or the DR219 database. Although the vendor information is not yet available in all counties, the Program could arrange cooperative information-sharing agreements with vendors to obtain sales database information from more counties.⁹ If this information could be obtained for other counties, the Legislature could amend the state law to eliminate the DR219 form and save almost \$5 million a year;
- **Eliminate the Fee Paid to County Clerks for Processing the DR219 Forms.** The Legislature could amend state law to eliminate the fee paid to county clerks for processing the DR219. If the Legislature wants to compensate the county clerks for accepting the DR219, the law could be amended to require the DR219 to be recorded as an additional page of the deed. This would allow county clerks to collect a \$4.50 recording fee on each DR219, which in 1995 would have generated \$2.9 million in fees. Alternatively, the law could be amended to require the DR219 be filed with the county property appraiser, which would not require a recording fee;

⁸ Since its inception in 1986, the DR219 has been required to be filed with the county clerks and provided to the Department. The DR219 has been revised several times to make the form more useful to the Department. In 1992 the law was revised to allow county clerks to retain 1% of the documentary stamp tax collections as compensation for the cost of processing the report. County clerks collect the state documentary stamp tax paid on recorded documents and remit these revenues to the Department of Revenue.

⁹ In 1996, Program staff agreed to provide a vendor with copies of deeds from two north Florida counties in exchange for a sales database.

- **Obtain DR219 Information Electronically From County Clerks.** At least two county clerks currently maintain DR219 information in a database and six other counties plan to do so. Amending state law to allow county clerks to remit DR219 information electronically to the Department would reduce the Department's data entry costs and help improve the accuracy of the DR219 database; and
- **Privatize Data Entry of DR219 Information.** The Department could contract for data entry with a private vendor to improve the accuracy and timeliness of entering DR219 information into a database.

Conclusions and Recommendations ---

The Property Tax Administration Program's performance in overseeing real property assessments has improved. However, Program staff use some procedures that do not conform to national standards and should be modified to ensure that their analyses of county tax rolls provide reliable indicators of whether real property is uniformly assessed at just value. We recommend that:

- Program staff use the tests and standards recommended by the IAAO for assessing whether sales samples used in the ratio studies are representative of property value and for assessing tax roll uniformity to improve the quality and reliability of its analysis of real property tax rolls;
- The Program modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected to improve the usefulness of the Program's procedural audits for providing reasonable assurance that real property is appraised uniformly at just value; and
- The Program monitor the types of errors made by field staff that have been detected by its quality control process and by the Office of the Auditor General performance audits of the Program and use this information to help reduce future field staff errors (e.g., revising the Program's ratio study guidelines and training) and improve the accuracy of ratio study data.

To ensure that taxpayers are treated equitably with regard to the cost-of-sale factor, we recommend that Program staff develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value. In addition, Program staff should apply the actual cost-of-sale factor used by property appraisers to ensure that their estimates of property appraiser performance are accurate. Given the difficulties in arriving at a cost-of-sale factor that accurately reflects the true costs of selling property, the Legislature alternatively could consider amending state law to remove the cost-of-sale as a factor to consider when determining just value. However, this change would require amending the state

constitution. A more detailed discussion about our analysis and recommendations for improving the Program's oversight of real property assessments is presented in Appendix C.

The state spends nearly \$5 million annually to obtain and process the DR219 forms that the Property Tax Administration Program has been unable to use effectively. If the Legislature wants to eliminate or reduce the state's costs for obtaining the DR219 forms, we recommend that it consider two options:

- Amend state law to eliminate the DR219, which could save almost \$5 million annually. This option would reduce income to county clerks and continue the Program's reliance on property appraiser sales data for its sales ratio studies. However, the Program could pursue the use of private vendor information on property sales in lieu of property appraiser information; and
- Amend state law to eliminate the county clerks' fee for processing the DR219, and require that it be recorded as an additional page of the deed (county clerks would collect a recording fee) or require that it be filed with the county property appraiser (which would not require a recording fee). This option would allow the Program to continue its efforts to use DR219 information for its sales ratio studies in lieu of property appraiser sales data. However, this would also reduce income to county clerks.

Alternatively, if the Legislature wishes to continue paying the current costs for obtaining the DR219 forms, we recommend that:

- The Legislature amend state law to allow county clerks to remit DR219 information electronically to the Department in order to reduce the Department's data entry costs and help improve the accuracy of the DR219 database; and
- The Department could also contract the data entry of DR219 forms with a private entity to improve the accuracy and timeliness of entering DR219 information into a database.

Chapter 3: Tangible Personal Property

Introduction

Ad valorem taxes are levied on tangible personal property as well as real property. Tangible personal property includes business equipment such as computers, machinery, or furniture but excludes vehicles, inventory, and household goods. Owners of tangible personal property are required to file annual tax returns estimating the property's fair market value. In 1996, the statewide taxable value of tangible personal property was \$71 billion, which was about 12.7% of the total taxable value of property listed on county tax rolls.

As with real property, county property appraisers are responsible for appraising tangible personal property uniformly at just value. The Program is authorized to perform the same functions for tangible personal property as it does for real property, including providing assistance and training to property appraisers, preparing guidelines for the valuation of property, conducting procedural audits, and analyzing whether property is assessed uniformly at just value. The Program currently has allocated approximately \$360,000 and assigned 11 full-time equivalent positions to tangible personal property, with 8 of these positions assigned to field offices.¹⁰

Program Performance

The Property Tax Administration Program has not been effective in ensuring that property appraisers assess tangible personal property at just value. Although Program staff review county tax rolls to ensure that the tangible personal property section is complete, they have not performed analyses needed to determine whether property appraisers assessed this property uniformly at just value.

The Program's past attempts to ensure that tangible personal property is assessed uniformly at just value have been controversial and were discontinued. The Legislature appropriated \$382,000 to the Department in 1982 to conduct in-depth studies of tangible personal property. However, before the studies were completed, the Legislature reduced the funding in 1983 and directed the Program to shift its focus to aid and assistance. In 1991 the Legislature appropriated \$295,000 to the Department for conducting in-depth studies of tangible personal property. Program staff said the appropriations were insufficient for conducting ratio studies to compare appraised value to just value, since they were appropriated funds for only 10 of the requested 22 positions. Instead, Program staff in 1994 began conducting procedural audits of county property appraiser practices for tangible personal property and planned to begin ratio studies of tangible personal property in 1995. However, Program staff said property appraisers objected to these audits. The Department

¹⁰ The Department has reduced the number of staff allocated to this function. The Program had 13 authorized positions assigned to tangible personal property, but transferred 2 of these positions to other units during fiscal year 1995-96. The Department's accounting system does not capture the costs of the tangible personal property function. Based upon available information, we estimated the annual costs of this function equals \$360,000.

did not publish the results of these studies and stopped conducting procedural audits of tangible personal property.

The Department's efforts to improve the assessment of tangible personal property are currently focused on providing training and assistance. Program staff provide training to county property appraisers on auditing taxpayers' tangible personal property accounts and basic accounting. Staff also provide information that can help property appraisers identify unreported property. The Department is also developing new guidelines for assessing the value of tangible personal property. These guidelines will include new life expectancy tables to help property owners report and property appraisers assess the value of tangible personal property. Program staff began working on the guidelines in 1994 and expect to complete the guidelines in 1997. While useful, these activities do not ensure that tangible personal property is uniformly assessed at just value.

In addition, Program staff will provide other aid and assistance, such as auditing taxpayers' personal property accounts, if the property appraiser provides a written request. Because of limited travel funds, the Program often requests that property appraisers defray some of the Program's staff travel expenses associated with providing such aid and assistance. However, the Department has not formally notified property appraisers of aid and assistance services that can be requested from the Program, explained its criteria for approving such requests, or identified how much these services may cost. Program staff said that few property appraisers have requested aid and assistance from the Property Tax Administration Program. In addition, the Program has not developed any measures or analyzed the performance and impact of its training and other aid and assistance activities, as noted in OPPAGA Report No. 96-55.

Due to the Program's limited oversight, it is likely that some tangible personal property may not be listed on county tax rolls or assessed at just value. For example, Program staff assisted property appraisers by conducting desk audits of approximately 90 personal property accounts during fiscal year 1995-96.¹¹ Dade county reported this assistance enabled them to add \$22 million in increased tax roll value, penalties, and back taxes for three years. Counties also used the audits to identify approximately \$8 million in back assessments and penalties for the 1993, 1994, and 1995 tax rolls. In addition, the Program's procedural audits identified some instances in which tangible personal property appeared to be assessed under just value and others in which it appeared to be assessed above just value. However, since Program staff do not calculate the level of assessments for tangible personal property, the extent to which tangible personal property is over- or under-assessed is unknown.

Program staff believe that property appraisers need more training on identifying tangible personal property that should be listed on county tax rolls and in assessing the value of that property. Other states appear to focus their tangible personal property oversight efforts on providing training, guidelines, and assistance to local property appraisers. While only two of eight states we contacted analyze the level of assessments for tangible personal property, seven of the eight states have developed guidelines and schedules of value that property appraisers can use for assessing tangible personal property. While Florida's Program provides training and assistance to property appraisers, it has not revised its guidelines or analyzed the level of assessments for tangible

¹¹ Program records do not indicate the completion dates for all desk audits.

personal property. Although most (57%) property appraisers who responded to our survey were satisfied with the Department’s oversight of tangible personal property, 26 property appraisers indicated they would like the Department to issue revised guidelines and provide more assistance and training in areas such as appraising tangible personal property.

Options for Appraising the Value of Tangible Personal Property

The valuation of tangible personal property has been controversial and resulted in litigation between taxpayers and county property appraisers. To identify options for improving performance and eliminating these problems, we surveyed property appraisers, interviewed property tax administration officials from other states, and reviewed national appraisal guidelines. Exhibit 3 identifies four options for changing the assessment of tangible personal property and the advantages and disadvantages of each option. Three options would require a change to state law or constitution, two options could reduce the taxable value of property on county tax rolls, and one option would require additional state appropriations.

Exhibit 3
Alternative Options for Appraising the Value of Tangible Personal Property (TPP) Pose Advantages and Disadvantages

Alternative Options for Appraising the Value of TPP	Advantages	Disadvantages
Eliminate tangible personal property from ad valorem taxation.	Simplify the property appraisers’ responsibility for assessing property value. Reduce business record keeping and taxes.	Requires constitutional change. Eliminates at least \$71 billion in taxable value from county tax rolls. (The impact varies by county, see Appendix D.)
Use federal tax information as the basis for identifying the value of TPP assets.	Simplify business record keeping and valuation by property appraisers, since the basis of federal income tax and TPP ad valorem taxes would be the same. Useful source for identifying unreported property and identifying original costs of property.	Requires constitutional change. The tax information identifies the depreciated value of property, not market or just value as required by the Florida Constitution. May reduce taxable value from county tax rolls.
Use the Public Service Commission data to identify tangible personal property.	Helps identify property owned by Public Service Commission regulated businesses.	Public Service Commission information does not identify property value. Most businesses are not regulated by the Public Service Commission.
Assign the Department of Revenue responsibility for assessing the value of tangible personal property owned by businesses that operate in multiple counties (e.g., utilities).	Helps ensure consistent valuation of tangible personal property owned by these businesses. More convenient to these businesses, since they would only have to work with one appraisal authority.	Requires a change in state law. Unless the Department charges counties for its services, this option would require additional funding (approximately \$380,000 annually). Could result in increased litigation of assessments.

Source: Department of Revenue, Office of Program Policy Analysis and Government Accountability surveys of Florida property appraisers and interviews with property tax administration officials from eight states (Idaho, Kansas, North Carolina, Oklahoma, Tennessee, Texas, Utah, and Washington).

Conclusions and Recommendations

Although the Legislature has appropriated funds to the Department since 1991 to conduct studies of tangible personal property, the Program has not effectively performed this function and has limited its oversight efforts to providing aid and assistance to property appraisers. While useful, these activities do not ensure that tangible personal property is uniformly assessed at just value as required by the state constitution and law. In addition, the Program has not demonstrated the effectiveness or impact of its training and other aid and assistance activities.

The Government Accountability Act of 1994 requires our Office to recommend alternative courses of action “when the state agency cannot demonstrate its efforts have had a positive effect, whether the program should be reduced in size or eliminated.” The Act, however, requires our Office to consider the consequences of discontinuing a program. If the Program’s oversight of tangible personal property was eliminated, then the state would be unable to assess whether county property appraisers appraise the value of tangible personal property uniformly at just value, as required by the Florida constitution and law. County compliance with these requirements is important for ensuring that state funds are distributed equitably among school districts through the Florida Educational Finance Program. As a result, we do not believe that this Program function should be eliminated. Instead, its performance should be improved.

We recommend that the Department consider contracting with private entities (e.g., certified public accounting firms) to conduct fieldwork for ratio studies of tangible personal property to ensure that counties appraise this property uniformly at just value. While conducting biennial ratio studies of county appraisal of tangible personal property could exceed the resources allocated to tangible personal property, these costs could be mitigated by conducting ratio studies less often (e.g., once every four years) and by shifting resources currently allocated to field staff. Alternatively, we recommend that the Program conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value. In addition, to help improve county tangible personal property assessment practices, we recommend that the Program inform property appraisers about its aid and assistance services.

We also recommend that the Governor and Legislature consider applying certain disincentives to the Department as provided in s. 216.163, F.S., due to its poor performance. Such disincentives could include requiring mandatory quarterly appearances before the Legislature, the Governor, or the Governor and Cabinet to report the Department’s progress towards improving the oversight of tangible personal property. If the Program is unable to demonstrate sufficient improvement, the Legislature could consider privatizing this function.

The valuation of tangible personal property is complicated and has been controversial. We identified four alternative options for appraising the value of tangible personal property (e.g., using federal income tax returns as the basis of value and central assessment of this property). As noted in Exhibit 3, each of these options would either require a change in the Florida Constitution, additional state appropriations, or could reduce local government revenues.

Chapter 4: Truth in Millage

Introduction

The state's truth-in-millage (TRIM) law is intended to ensure that local taxing authorities provide citizens information concerning local property taxes. All authorities that levy ad valorem taxes must hold two public hearings at which elected officials must explain how they compute millage, tax and budget figures and why they may be seeking a tax increase. Taxpayers are informed about these budget hearings through two notices. With the exception of school districts, local taxing authorities must annually notify taxpayers about the first hearing on their tentative budgets and millage rates by mail in August. The notice on the second hearing to adopt a final millage rate and budget must be published in a newspaper of general circulation in the county.

The Property Tax Administration Program is responsible for ensuring that local taxing authorities comply with TRIM requirements. The taxing authorities must submit records that document compliance with TRIM requirements to the Program on or before November 1 each year. Program staff have 30 days to notify tax authorities of noncompliance. The Program directs taxing authorities with minor infractions to correct the cited problems. The Program sends tax authorities found to have significant infractions noncompliance letters. These taxing authorities must re-publish their truth-in-millage notices and re-hold their final budget hearings in order to comply with TRIM provisions.

Program Performance

During the past eight years, the Program improved its oversight of taxing authority compliance with the TRIM provisions. In 1988 and 1989, Department managers directed Program staff not to cite taxing authorities with noncompliance with TRIM requirements, a practice criticized by a 1990 Grand Jury investigation of the Program. In response to this investigation, the Department revised the TRIM procedures to improve Program efficiency and effectiveness. It also developed guidelines and provided technical assistance to help taxing authorities comply with TRIM provisions. As a result, the number of taxing authorities in substantial compliance with these provisions on their initial submissions increased steadily between 1990 and 1994. This allowed the Program to reduce the number of positions devoted to reviewing TRIM notices from 25 to 3 between 1990 and 1996.

However, in 1995, the number of taxing authorities with minor violations of TRIM requirements on their initial submissions increased, indicating a decline in Program performance. (See Exhibit 4.) Program staff attributed this decline to several factors. For example, some local taxing authorities had problems complying with the TRIM notification requirements due to newspaper errors and to turnover in the local personnel responsible for ensuring taxing authorities' compliance. In addition, Program staff reported receiving more requests for assistance from taxing authorities in 1995 than in previous years. However, Program staff did not

provide the same level of assistance as they had in previous years because they kept a position vacant due to a budget shortfall.

In 1996, fewer taxing authorities were in compliance with the TRIM requirements on initial submission. Program staff attributed this decline to a 1996 legislative change to the TRIM provisions. Although Program staff conducted TRIM training in the spring and summer of 1996, the training was focused on reducing the types of errors detected during the prior budget cycle and did not address the new legislation. To address the drop in Program performance, we recommend the Department conduct TRIM training in 1997, with an emphasis on the recent statutory changes.

Exhibit 4
The Number of Taxing Authorities in Compliance With TRIM
Increased Between 1990 and 1994, but Dropped in 1995 and 1996

	Calendar Year						
	1990	1991	1992	1993	1994	1995	1996 ¹
Number of taxing authorities in compliance with TRIM on initial submission ²	305	398	469	491	533	487	458
Percentage in compliance	50%	65%	77%	80%	87%	80%	75%
Number of taxing authorities with minor infractions ²	248	194	117	95	67	108	135
Number of taxing authorities in non-compliance on initial submission	56	18	23	25	10	16	16
¹ The 1996 data is as of January 31, 1997, the results of three taxing authority submissions are still pending. ² These measures were included in the Program's performance-based budgeting measures for fiscal year 1995-96, as noted in OPPAGA Report No. 96-55.							

Source: Department of Revenue, Property Tax Administration Program reports.

Chapter 5: Ad Valorem Refunds and Tax Certificate Corrections and Cancellations

Background

The Program and county tax collectors share responsibility for approving ad valorem tax refunds. Tax collectors generally approve refunds that do not result from changes to the assessed property value, such as refunds resulting from overpayments or from changes or corrections in millage rates. The Department approves refunds in other circumstances, such as refunds resulting from material mistakes of fact made by the property appraiser and reductions in tax certificates due to property appraiser errors. County tax collectors forward refunds requiring Department approval to Program staff for review, and staff send tax collectors written notification of their decisions. This oversight helps to ensure that requested changes to the assessed value of property are handled consistently and in accordance with state guidelines.

Program Performance

The Program's performance in processing ad valorem tax refunds and tax certificate corrections or cancellations has declined during the past two years. Although the Program has not developed measures that assess its performance administering this function, it maintains information about Program staff's timeliness in processing refunds and tax certificate corrections or cancellations.¹² Program staff took longer to process refund requests in fiscal year 1995-96 than in the prior two years. (See Exhibit 5.) For example, the percentage of refunds processed in 30 days dropped from 92% in fiscal year 1993-94 to 64% in fiscal 1995-96. In addition, the number of refunds lacking final action at the end of the year increased from 111 in fiscal year 1993-94 to 273 in fiscal year 1995-96.

According to Program staff, several factors contributed to the drop in timeliness. For example, the Department is reconsidering its policy of denying certain types of refunds, which delayed the decisions on these refunds and reduced the overall timeliness of processing refunds. In addition, in 1995 the Department transferred some Program staff to the Department's Office of the General Counsel. Program staff said this transfer has slowed the processing of refunds requiring legal review because the staff transferred had been responsible for these reviews. Program staff plan to meet with Department legal staff periodically to expedite the review of refunds. The Program should monitor refund requests to ensure such requests are processed in a timely manner.

¹² The Program has established measures for this function that more directly assess the performance of property appraisers and tax collectors. For example, one outcome measure is the percentage of refunds attributable to appraisal errors, which provides some indication of the effectiveness of the Property Tax Administration Program in improving property appraiser performance. However, such measures do not indicate Program staff performance in processing requests for refunds or tax certificate corrections or cancellations.

Exhibit 5
The Program's Timeliness in Processing Refund Requests Has Slowed

Number of Days to Process a Refund	1993-94		1994-95		1995-96	
	Number of Refunds	Percentage	Number of Refunds	Percentage ¹	Number of Refunds	Percentage
0 to 30	5,062	92%	5,537	86%	3,572	64%
31 to 60	100	2%	229	3%	991	18%
61 to 90	46	1%	131	3%	218	4%
Over 90	166	3%	386	6%	512	9%
No final action	111	2%	182	3%	273	5%
Total	5,485	100%	6,465	101%	5,566	100%

¹ Does not equal 100% due to rounding.

Source: Department of Revenue, Property Tax Administration Program.

Cost Saving Options

The Property Tax Administration Program does not need to review and approve ad valorem tax refunds. The Department identified this as a function that could be cut from the Program's budget as a potential cost saving measure. In addition, 43% of property appraisers who responded to our survey felt the Program did not need to be involved in reviewing refunds. Amending state law to eliminate the Program's responsibility for reviewing and approving ad valorem tax refunds would save approximately \$117,000 annually and could improve the timeliness of refund processing. Although eliminating the state's involvement in reviewing ad valorem tax refunds creates a risk that refund requests may not be handled consistently among counties, the Program could mitigate this risk by expanding the scope of its procedural audits to assess the local officials' performance in processing these refunds. Exhibit 6 summarizes potential cost savings, advantages, and disadvantages of eliminating the Program's responsibilities for reviewing ad valorem tax refunds.

Exhibit 6
Eliminating the Property Tax Administration Program's Responsibilities Would Save \$117,000 Annually and Has Advantages and Disadvantages

Cost Savings	Property Appraiser Survey	Advantages	Disadvantages
\$117,000	55% support Program review of refunds, 43% oppose, 2% undecided.	Should allow taxpayers to receive refunds sooner. Eliminates refund processing by both local and state governments. Reduces Program costs.	Uniformity of refund approvals would be at risk, which could be mitigated by Program monitoring. Increases local tax collectors' workload to include approving refunds. Requires statutory revision.

Source: Department of Revenue records, Office of Program Policy Analysis and Government Accountability survey of county property appraisers and Interviews with Property Tax Administration Program and tax collector officials.

Chapter 6: Conclusions and Recommendations

The Property Tax Administration Program is an essential state function for ensuring that property is appraised by local officials uniformly at just value. Overall, the performance of the Program's oversight of real property has improved, particularly during the past six years. However, the Program has been unable to demonstrate the effectiveness of its efforts to ensure that tangible personal property is appraised uniformly at just value. In addition, we identified opportunities for reducing cost and for additional performance improvements by making technical changes in Program activities. Exhibit 7 includes our cost saving recommendations and Exhibit 8 summarizes our recommended technical changes in Program activities.

Exhibit 7 Cost Saving Recommendations Could Save Up to \$5.1 Million Annually

Cost Saving Issues	Cost Savings Options
Less costly options exist for obtaining or processing property sales information. (See pages 8-10.)	<ul style="list-style-type: none"> • Eliminate DR219 and use private vendor sales information instead. Cost savings: approximately \$5 million annually. • Retain DR219, but eliminate the fee currently paid to county clerks. Cost savings: approximately \$5 million annually. • Obtain DR219 information electronically from county clerks to reduce the Department's \$172,000 annual data entry costs.
The Property Tax Administration Program's review and approval of local government ad valorem tax refunds is not needed. (See page 19.)	Eliminate the Program's current responsibilities for approving ad valorem tax refunds. Cost savings: approximately \$117,000 annually.

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

Exhibit 8
Recommendations for Technical Changes Include Improving the Program’s Ability to Ensure That Real and Tangible Personal Property Is Uniformly Assessed at Just Value

Program Area	Recommended Improvements
Oversight of Real Property Assessments	<p>The Property Tax Administration Program should:</p> <ul style="list-style-type: none"> • Use tests and standards recommended by the International Association of Assessing Officers for assessing whether sales samples used in the ratio studies are representative of property value and for assessing tax roll uniformity to improve the quality and reliability of its analysis of real property tax rolls. (See page 10.) • Modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected. This should improve the usefulness of the procedural audits for providing reasonable assurance that real property is appraised uniformly at just value. (See page 10.) • Monitor the types of errors made by field staff that have been detected by its quality control process and by Office of the Auditor General performance audits.¹ Use this information to help reduce future field staff errors (e.g., revising the Program ratio study guidelines and training) and improve the accuracy of ratio study data. (See page 10.) • Develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value. Apply the actual cost-of-sale factor used by property appraisers during its ratio studies to ensure that the Program’s estimates of property appraiser performance are accurate. (See page 10.) <p>Contract with a private entity for the data entry of DR219 forms to improve the accuracy and timeliness of entering DR219 information into a database. (See page 11.)</p>
Oversight of Tangible Personal Property	<p>The Property Tax Administration Program should either:</p> <ul style="list-style-type: none"> • Contract with private entities (e.g., certified public accounting firms) to conduct fieldwork for periodic ratio studies of tangible personal property (e.g., once every four years) by shifting resources currently assigned to field staff to the contracts (see page 15); or • Conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value. In addition, develop and disseminate materials to property appraisers about its aid and assistance services to provide the Program with opportunities to help improve county tangible personal property assessment practices. (See page 15.)
Truth-in-Millage	<p>The Property Tax Administration Program should conduct TRIM training in 1997, with an emphasis on the recent statutory changes to improve taxing authority compliance with the TRIM requirements. (See page 17.)</p>
Ad Valorem Refunds	<p>The Property Tax Administration Program should monitor refund requests to ensure that it processes these requests in a timely manner. (See page 19.)</p>
<p>¹ Florida Office of the Auditor General, Performance Audit of the Florida Department of Revenue Ad Valorem Tax Program, Report No. 12408, October 18, 1994.</p>	

Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

List of Appendices

A. Statutory Requirements for Program Evaluation and Justification Reviews	23
B. Office of Program Policy Analysis and Government Accountability Survey of County Property Appraisers	26
C. Technical Analysis of the Property Tax Administration Program’s Oversight of Real Property Assessments and Recommendations to Improve Performance	31
D. Taxable Value of Tangible Personal Property by County.....	41
E. Response From the Department of Revenue	43

Appendix A

Statutory Requirements for Program Evaluation and Justification Reviews

Section 11.513(3), F.S., provides that the OPPAGA Program Evaluation and Justification Review shall be conducted on major programs, but may include other programs. As provided by law, our reviews address the following issues:

- The identifiable cost of each program;
- The specific purpose of each program, as well as the specific public benefit derived therefrom;
- Progress towards achieving the outputs and outcomes associated with each program;
- An explanation of circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes, as defined in s. 216.011, F.S., associated with each program; and
- Alternative courses of action that would result in administering the program more efficiently or effectively.

Table A-1 identifies the nine areas that the law requires we consider in our Program Evaluation and Justification Reviews and summarizes our conclusions pertaining to the Property Tax Administration Program. As appropriate, Table A-1 makes references to pages in this report and our earlier Performance Report (OPPAGA Report No. 96-55) where our analysis is discussed at greater length.

Table A-1
Summary of the Program Evaluation and Justification
Review of the Property Tax Administration Program

Issue	OPPAGA Conclusions
The identifiable cost of each program.	The Legislature appropriated \$9.2 million to the Program for fiscal year 1996-97. (See page 3.)
The specific purpose of the program, as well as the specific public benefit derived therefrom.	The Program's purpose is to ensure property is assessed uniformly at just value. This is an essential state government function for ensuring an equitable distribution of state funds for public schools through the Florida Educational Finance Program, which distributes state aid to public schools through a formula based on the ability of school districts to pay educational cost through property taxes. In addition, the uniformity of tax assessments is important for ensuring that taxpayers are treated equitably. (See pages 1 and 2.)
Progress toward achieving the outputs and outcomes associated with each program.	The Program's performance measures indicate the Property Tax Administration Program has made progress in improving the quality of real property tax rolls and reducing errors made by property appraisers. However, the Program's performance in ensuring local taxing authority compliance with truth in millage (TRIM) requirements has declined slightly. (See OPPAGA Report No. 96-55.)
An explanation of circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes, as defined in s. 216.011, F.S., associated with the program.	The number of taxing authorities with minor TRIM compliance problems has increased due to several factors. For example, some taxing authorities had problems with newspapers making errors in their TRIM advertisements. (See OPPAGA Report No. 96-55.)
<ul style="list-style-type: none"> • Alternative courses of action that would result in administering the program more efficiently and effectively: • Whether the program could be organized in a more efficient and effective manner, whether the program's mission or goals, or objectives should be redefined, or, when the state agency cannot demonstrate that its efforts have had a positive effect, whether the program should be reduced in size or eliminated. • Whether the program could be administered more efficiently or effectively to avoid duplication of activities and ensure that activities are adequately coordinated. • Whether the program could be performed more efficiently or more effectively by another unit of government or a private entity, or whether a program performed by a private entity could be performed more efficiently and effectively by a state agency. 	<ul style="list-style-type: none"> • The Property Tax Administration Program's efficiency and effectiveness could be improved by: • Changing the Program's procedures for reviewing the assessment of real property to better conform with national standards. (See pages 7-8.) • Modifying the process the Program uses to obtain property sales information, which could save up to \$5 million annually. (See page 9 and 10.) • Contracting the data entry of property sales forms (obtained from county clerks) with a private entity to improve the accuracy and timeliness of entering this information into a database. (See page 10.) • Improving the Program's oversight and aid and assistance activities for ensuring that property appraisers uniformly assess the value of tangible personal property at just value. (See page 15.)

Issue	OPPAGA Conclusions
<ul style="list-style-type: none"> • When compared to costs, whether effectiveness warrants elimination of the program or, if the program serves a limited interest, whether it could be redesigned to require users to finance program cost. • Whether the cost to administer the program exceeds license and other fee revenues paid by those being regulated. • Whether other changes could improve the efficiency and effectiveness of the program. 	<p style="text-align: right;">(Continued)</p> <ul style="list-style-type: none"> • Eliminating the Program’s responsibility for reviewing requests for ad valorem tax refunds and tax certificate corrections or cancellations, which would save the state approximately \$117,000 per year. Local governments could be assigned full responsibility for processing these requests. (See page 19.)
<p>The consequences of discontinuing such program.</p>	<p>Eliminating the Program would impair the state’s ability to ensure that property is assessed uniformly at just value, as required by the Florida Constitution. (See page 4.)</p>
<p>Determination as to public policy, which may include recommendations as to whether it would be sound public policy to continue or discontinue funding the program, either in whole or in part, in the existing manner.</p>	<p>The Program’s current responsibility for processing local government ad valorem tax refunds that affect assessed values could be assigned to local governments. This would allow the Program’s funding to be reduced by \$117,000. (See page 19.)</p>
<p>Whether the information reported pursuant to s. 216.031(5), F.S., has relevance and utility for the evaluation of each program.</p>	<p>Some of the Program’s performance-based program budgeting measures are not valid indicators of Program performance and should be changed. In addition, the Program’s performance measures cannot be used to evaluate some aspects of its performance, such as its oversight of tangible personal property and processing ad valorem tax refunds. (See OPPAGA Report No. 96-55.)</p>
<p>Whether state agency management has established control systems sufficient to ensure that performance data are maintained and supported by state agency records and accurately presented in state agency performance reports.</p>	<p>The Program reported accurate 1995-96 performance data to the Legislature for most of its 12 performance-based program budgeting measures. (See OPPAGA Report No. 96-55.)</p>

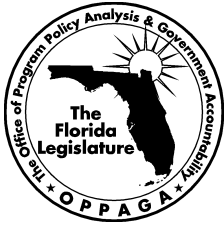
Source: Florida Legislature, Office of Program Policy Analysis and Government Accountability.

Appendix B

Office of Program Policy Analysis and Government Accountability Survey of County Property Appraisers

We surveyed property appraisers in Florida's 67 counties to obtain their opinions on whether the Department of Revenue's Property Tax Administration Program should be involved in its various functions, to obtain their opinions on alternatives to current operating practices, and to obtain staffing data from the county property appraisers. We received responses from 62 of the 67 county property appraisers, yielding a response rate of 92.5%.

The property appraisers strongly supported (i.e., over 90% of the respondents) the Program's involvement in most of its functions, such as analyzing and approving county tax rolls. However, almost half of the property appraisers felt the Program did not need to conduct procedural audits of property appraiser activities or to approve local government ad valorem tax refunds, which they felt could be handled by the local governments. Pages 27-30 of this report include a summary of the property appraiser survey results.



The Florida Legislature
Office of Program Policy Analysis and
Government Accountability

The Office of Program Policy Analysis and Government Accountability (OPPAGA), an Office of the Florida Legislature, is conducting a program evaluation and justification review of the Property Tax Administration Program of the Florida Department of Revenue. As part of our review, we are interested in your perspective on the role and functions performed by the Property Tax Administration Program. Please complete and mail/Fax this survey back to us by Wednesday, October 2, 1996. Thank you for your assistance

State law provides that the Office of Program Policy Analysis and Government Accountability (OPPAGA) program evaluation and justification reviews analyze the need for state programs and program activities. As a result, we are interested in your opinions about whether various functions performed by the Property Tax Administration Program are needed and, if not, could they be eliminated.

1. Should the Property Tax Administration Program Be Involved in These Functions? Please Ö and Give Us Your Comments			
FUNCTION	YES	NO	COMMENTS
a. Analyzing and approving tax rolls	95%	5%	n=62
b. Conducting procedural audits of Property Appraiser activities	55%	43%	Maybe - 2%, n=62
c. Approving budgets for Property Appraisers and Tax Collectors	98%	2%	n=61
d. Appraising the value of railroad property	90%	10%	n=62
e. Approving ad valorem tax refunds	55%	43%	Maybe - 2%, n=62
f. Providing property tax-related forms free to counties	95%	5%	n=62
g. Providing geographical information system (GIS) assistance mapping to counties	92%	8%	n=62
h. Providing technical assistance to county Property Appraisers	97%	3%	n=62
i. Providing training for Property Appraisers/staff	95%	5%	n=62

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2. Some state and local officials have raised questions regarding the DR-219 form, and the value and use of data obtained by the form. Do you use the DR-219 form and/or data?

- YES How is it used by your office?
 NO Why is it not used by your office?

Yes 72%
 No 24% (these individuals often felt the form was unreliable or not useful)
 Maybe 3%
 n=58

3. Questions have been raised regarding whether the use of the 15% cost-of-sale factor in determining "just value" is appropriate. Does your office use the 15% factor to reflect the cost of sale (the first and eighth criteria) in determining "just value" of *all* types of real property?

- YES
 NO (Please identify the factor(s) used and the type(s) of property to which the factor is applied.)

Yes 87%
 No 11% (the factor reported varied and sometimes considered the type/value of property, or the appraisal method used)
 Maybe 2%
 n=62

One of the objectives of the OPPAGA justification review of the Department of Revenue's Property Tax Administration (PTA) Program is to identify potential options for improving the program's oversight of the valuation of Tangible Personal Property (TPP) by county property appraisers. To gain a better understanding about the amount of resources used to evaluate TPP and your opinion about various policy options, we ask that you answer the following questions.

4. For fiscal year 1996-97 how many full-time equivalent (FTE) employee positions are authorized for your office overall, and how many full-time equivalent employee positions within your office are assigned TPP activities?

- a. Total office FTE employee positions: Mean: 39 n=60 (FTEs)
 b. FTE employee positions assigned to TPP: Mean: 5 n=59 (FTEs)

5. How satisfied are you with the Florida Department of Revenue’s oversight of the TPP appraisal process (e.g., training, guidelines, technical assistance)?

Please ✓

- Very satisfied 5%
- Satisfied 52%
- Dissatisfied 35%
- Very dissatisfied 0%

COMMENTS:

Somewhat satisfied / dissatisfied 8%
n = 60

6. Some state and local officials have suggested that alternative sources of information be used for establishing the value of TPP. In the table below, please give us your opinion about whether each alternative should be used for valuing tangible personal property:

Policy Options	Would You Recommend?		Comments
	Yes	No	
1. Use federal tax information as the basis for identifying the value of TPP assets.	31%	67%	1. Maybe 2%; n=61 (Cited as useful for identifying property, but not for establishing value.)
2. Use the Public Service Commission data on utility property appraisals to identify the value of TPP.	83%	14%	2. Maybe 3%; n=58 (Most felt it was useful for identifying unreported assets.)
3. Other suggestions			

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Some state and local officials have recommended other policy options for managing the valuation of TPP. Please give us your opinion about alternatives to Florida's current Tangible Personal Property system:

POLICY OPTIONS

- 7. Centralize, with the Department of Revenue, the responsibility for the valuation of tangible personal property of businesses that operate in multiple counties (e.g., utilities).

Would you recommend this option?

- YES 53% n = 62
- NO 44%
- Maybe 3%

COMMENTS:

- 8. Amend the Florida Constitution to eliminate TPP from ad valorem tax.

Would you recommend this option? n = 58

- NO 84.5%
- YES Should Florida therefore replace TPP taxes with a different revenue source (e.g., a gross receipts or other tax)? 15.5%

n = 8 NO n = 4

YES n = 4

What revenue source should replace TPP taxes?

COMMENTS:

- 9. Do you have further suggestions for how the Department of Revenue's Property Tax Administration Program's supervision of the ad valorem assessment of real property and tangible personal property can be improved? Please identify and discuss your suggestions.

Date Completed _____

County: _____

Property Appraiser: _____

(Signature)

Thank you for your help.

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Appendix C

Technical Analysis of the Property Tax Administration Program's Oversight of Real Property Assessments and Recommendations to Improve Performance

The Property Tax Administration Program's performance in overseeing assessments for real property improved, particularly during the last six years. As a result, the statewide level of real property assessment increased from about 74% of just value in 1979 to over 97% in 1996.¹³ In addition, property values are being assessed more uniformly and county property appraisers are making fewer errors. Despite improvement in overall performance, some aspects of the Program's ratio studies do not conform to the standards recommended by the International Association of Assessing Officers (IAAO) and could adversely affect the reliability of ratio studies and other Program analyses of property appraiser performance. Improvements in the following areas could enhance Program staff's ability to detect problems with real property assessments:

- Conducting tests recommended by the IAAO for ensuring that sale prices used in the ratio studies are representative of the properties being analyzed;
- Conducting procedural audits of property classes not analyzed by ratio studies to provide reasonable assurance that these properties are uniformly assessed at just value;
- Implementing an effective quality control system to ensure that Program field staff collect accurate and reliable data for the ratio studies;
- Using the statistical standards recommended by the IAAO to increase the uniformity of property assessments within and among counties; and
- Using cost-of-sale factors actually used by property appraisers may allow the Program to develop more accurate levels of assessment.

The Program needs to test for representativeness as recommended by the IAAO to ensure the accuracy of the ratio study results.

Property Tax Administration Program staff conduct in-depth studies to evaluate the performance of property appraisers in assessing the value of real property. In the in-depth studies, staff use ratio studies to compare property appraisers' assessed values for property to Program staffs' estimates of the just value. Program staff may use either property sales information or independent appraisals to estimate just value. However, state law requires them to use property

¹³ Level of assessment compares appraised values of property listed on county tax rolls to estimates of the just value of those properties.

sales information for those classes of property that have a sufficient number of sales upon which to estimate value. When they conduct sales ratio studies, Program staff select samples of property sold in a county at random from six value ranges.

For sales ratio studies to be valid, Program staff should conduct tests to ensure their samples of sold properties are representative of all properties in the county. The IAAO recommends two types of tests for representativeness. First, it recommends a test to determine whether sold and unsold parcels are appraised differently. For example, chi-square test can be used to compare the changes in value of sold and unsold properties over time and to determine whether any differences are significant. Second, the IAAO recommends that the characteristics of property in the sample be compared to the characteristics of the population of tax roll properties.

However, Program staff currently do not conduct either of the two tests recommended by the IAAO. Although staff screen the sales samples and discard those that are obviously not representative, such as sales between family members, they do not review the characteristics of the selected samples to ensure they are representative. This type of test is particularly important because Program staff frequently do not receive information on all the property sold in a county from which to draw their sample. In addition, the Program does not test whether sold and unsold properties are treated similarly before deciding whether to conduct sales ratio studies. However, Program staff maintain information that could be used for this purpose. Without these two tests, Program staff cannot be sure their sample properties are representative of all properties on the tax roll. If the sample properties are not representative, the Program's ratio study results could overstate county level of assessments compared to just value.

We recommend the Program use the tests recommended by the IAAO for ensuring that sales samples used in the ratio studies are representative of county property values. Program staff should compare profiles of the sample to county properties on key characteristics (e.g., location, age) and conduct tests to analyze whether sold and unsold properties are appraised similarly.

Procedural audits should analyze property classes not analyzed during the in-depth studies to assure these properties are uniformly assessed at just value.

State law provides that, during its in-depth studies of county tax rolls, the Program needs to conduct ratio studies only for classes of property that constitute 5% or more of the total assessed value of real property.¹⁴ As a result, in some counties, staff conduct studies on only two of the seven property classes for uniform valuation at just value. In 1996 the statewide cumulative taxable value of the almost 500,000 properties not covered by ratio studies exceeded \$19 billion. These properties accounted for between 1.42% to 44.9% of the taxable value of property in the 32 counties the Program analyzed in 1996. To allow analysis of the assessment of these properties, the law authorizes the Program to audit or review the procedures counties use to appraise these properties.

¹⁴ For the purpose of ratio studies, state law establishes seven property classes: single-family residential; multi-family residential; agricultural; vacant lots; undeveloped parcels; improved commercial and industrial property; and other taxable real property (e.g., institutional, utility, gas and mineral land).

The IAAO guidelines observe that procedural audits can be a practical means of evaluating performance in lieu of ratio studies. Procedural audits focus on how appraisals are performed. If the appraisal procedures comply with professional standards and guidelines, then the resulting appraised values are presumed to be accurate or at least acceptable. To provide reasonable assurance that properties not analyzed with ratio studies are being assessed uniformly at just value, procedural audit activities should collect sufficient, meaningful information to draw conclusions about appraisal practices, provide timely feedback to property appraisers, and improve appraisal practices.

The Program's practice for conducting procedural audits changed over the years. In fiscal years 1993-94 and 1994-95, Program staff conducted procedural audits of the appraisals of agricultural properties that were not analyzed by ratio studies. However, Program staff did not conduct procedural audits of the other classes of property, such as vacant lots or multi-family residential units, that were not analyzed by ratio studies. In fiscal year 1995-96, Program staff conducted procedural audits of properties not covered by ratio studies by selecting a random sample of these properties and reviewing county practices for appraising the selected properties.

However, the Program has not yet effectively used the procedural audits to ensure that property appraisers use reasonable procedures for ensuring property classes not analyzed through ratio studies are assessed uniformly at just value:

- Sufficient, conclusive information for each class of property excluded from ratio studies was not collected due to sampling methods;
- Feedback to the property appraisers was not timely; and
- No follow-up was conducted on past problems to ensure that appraisal practices have improved.

For example, the Department has not published the results of the procedural audits it conducted during fiscal years 1994-95 and 1995-96. According to Program staff, the Department has not established deadlines for completing the procedural audits and did not want the results to impact the 1996 property appraiser elections. However, if the Program does not provide timely feedback on needed changes, the ability of property appraisers to use this information in improving their appraisal practices could be impaired.

In addition, the Program's current procedures do not ensure that sufficient information is collected to draw conclusions about property appraiser practices. For the 1996 study, Program staff combined classes of property not analyzed by a ratio study into a single group and took a random sample of 50 properties from this group to analyze for the procedural audit. This sample was not stratified to ensure it contained properties from each class of property collapsed into the group, or contained enough properties from each class to allow conclusions about property appraiser practices. As a result, Program staff are considering changing how they sample properties for the 1997 procedural audit studies.

The Program also has not designed its procedural audits to include a follow-up step on past problems with appraisal practices. For example, procedural audit guidelines do not direct staff to determine the status of deficiencies cited in prior audits nor the actions staff should take if the deficiencies were not corrected. This limits the effectiveness of the audit in improving property appraiser practices.

To improve the usefulness of the Program's procedural audits, we recommend that Program staff: (1) analyze each class of property currently not analyzed by ratio studies; (2) provide timely feedback to property appraisers; and (3) analyze whether the procedural audits have an impact and improve county appraiser practices. If the Program determines that property appraisers have not adopted the procedures to comply with professional standards and guidelines, then the Program should consider conducting ratio studies in lieu of procedural audits for low-value property classes to ensure that these properties are uniformly appraised at just value.

Improved quality control methods are needed to ensure field staff collect accurate and reliable data for ratio studies.

A Department internal study, the Auditor General, and the external consultants hired by the Department determined the Program's quality control procedures were ineffective for detecting staff appraisal errors and noncompliance with Program policy and procedures.¹⁵ Although Program supervisory field staff and central office staff are responsible for reviewing ratio study fieldwork, they have not identified some significant problems. For example, Office of the Auditor General studies found that Program field staff have not used market-derived data to adjust sales prices or maintained sufficient records to support their appraisal conclusions.

The reliability of a ratio study depends on the accuracy of data collected and used in the study. Although the Program developed policies and procedures for conducting ratio studies that generally conform to national standards, if staff do not adhere to these guidelines the accuracy of the ratio study results may be compromised. A system for quality control should provide:

- Clear guidelines and training that identify how staff should conduct fieldwork for the ratio studies;
- Supervisory review of the fieldwork results to determine compliance with Program guidelines and to provide feedback to staff on areas for improvement; and
- Monitoring of the types of errors made by staff to determine if the guidelines and training should be modified or improved.

The Program improved in its quality control system. However, additional changes to the Program quality control system are needed to ensure the accuracy of ratio study data. In 1995 the Program developed a training program for field staff addressing appraisal methodology and the types of

¹⁵ Department of Revenue; Management Review of the Department of Revenue; April 1990. Florida Office of the Auditor General; Performance Audit of the Florida Department of Revenue Ad Valorem Tax Program; Report No. 12408, October 18, 1994. Almy, Gloudemans & Jacobs; Florida Department of Revenue, Ad Valorem Tax Division, Review of In-Depth Study Procedures; June 1993.

problems identified in Auditor General reports. For 1996 ratio studies, the Program assigned responsibility for reviewing field appraisal work to supervisors in the field offices. There are indications that these changes have had a positive impact on the quality of ratio studies. For example, the appraisal error rate per county decreased from 15 errors in 1995 to 4 errors in 1996, a reduction of 73%. However, Program staff were not satisfied with these results, so they plan to have central and field office supervisors review appraisal studies for the 1997 ratio studies to determine conformance with Program standards. Although some field offices track the types of staff errors, the Program does not track the types of errors made in all field offices and use the information to improve Program guidelines and training. We recommend that the Program use this information, as well as the results of the upcoming Office of the Auditor General study, to analyze needed changes for ensuring that the ratio studies produce accurate results.

The statistical standards recommended by the IAAO should be used to improve the uniformity of tax rolls within and among counties.

State law provides that property should be uniformly assessed at just value within and among the counties statewide. Uniformity refers to the degree the assessment levels are uniform between groups of properties (e.g., commercial verses residential) and within groups (e.g., based on age or value of properties). The IAAO recommends the use of two statistical measurements to test the uniformity of property assessment: the coefficient of dispersion, which identifies tax inequities between groups; and the price-related differential, which identifies tax inequities among high- and low-valued properties. The IAAO also recommends that performance standards should be used to determine tax roll uniformity. These standards may vary by property class.

Although the Program uses the two uniformity tests recommended by the IAAO to test for assessment uniformity, it uses less rigorous standards for evaluating whether tax rolls are appraised uniformly. (See Table C-1.) The Program's standards allow greater variation of assessments than recommended by the IAAO and, thus, allow less tax roll uniformity.

Table C-1
The Property Tax Administration Program's Standards for Tax Roll Equity
Allow Less Uniformity Than Recommended by National Standards

Type of Statistical Test for Tax Roll Uniformity	IAAO Standard	Standards Used by the Program
Coefficient of Dispersion		
Single-family residences:		20.0 or less
Newer, homogeneous area	10.0 or less	
Older, heterogeneous area	15.0 or less	
Income-producing properties:		25.0 or less
Larger, urban jurisdictions	15.0 or less	
Smaller, rural jurisdictions	20.0 or less	
Vacant land	20.0 or less	25. 0 or less
Price-Related Differential	.98-1.03	.90 to 1.10

Source: Standard on Ratio Studies (prepared by the International Association of Assessing Officers) and Property Tax Administration Program records.

In the early 1990s the Program's uniformity standard for the coefficient of dispersion was lower than it is now. Based on the recommendations of the consultant hired by the Department to analyze and identify needed improvements, the Program increased its uniformity standards for this measure.¹⁶ While this is an improvement, the standards are still lower and allow for less tax roll uniformity than recommended by the IAAO.

A potential problem using the IAAO recommended standards is that counties may have difficulty complying with these higher standards because of workload constraints, a lack of expertise, and budgetary limitations. However, Program records indicate that at least 20 counties are appraising the largest portions of their tax rolls well within the IAAO uniformity standards. The Program could provide training and technical assistance to county property appraiser staff to assist them in improving tax roll uniformity to the levels recommended by the IAAO. The Program also could develop a plan for increasing the uniformity standard over several years to allow county property appraisers more time to bring their tax rolls up to these uniformity standards.

To improve the uniformity of property assessments, we recommend that the Program increase the tax roll uniformity measures to IAAO recommended standards (e.g., use a coefficient of dispersion of 15 per single-family residences and 20 for all types of properties). The standards could be increased over several years to allow county property appraisers more time to bring their tax rolls up to these uniformity standards.

¹⁶ Although the consultant recommended that the standard for the price-related differential be tightened, the Program actually made the standard somewhat more lax by moving the standard from .95 - 1.10 to .90 -1.10.

The Program's cost-of-sale adjustment to sample sales prices may be higher than the percentage applied by property appraisers, which may overstate county levels of assessment.

Under state law, property appraisers and the Department must consider eight factors when determining the just value of a property, including a deduction to reflect the costs of selling real property.¹⁷ To determine just value, property appraisers may reduce the selling price or the market value of the property by brokerage fees and other costs property owners incur in selling the property. Department rules allow property appraisers to deduct 15% from the sale price of real property as the cost-of-sale. Property appraisers may use a different cost-of-sale factor, but they are directed by Department rule to justify any cost-of-sale in excess of 15%, and to report to the Program annually on the cost-of-sale factors used by property class. If the Program does not use the cost-of-sale reduction used by the property appraiser, it is likely to obtain inaccurate estimates of county level of assessments. We identified several problems with the use of the cost-of-sale adjustment that may reduce the accuracy of the Program's estimates of property appraiser performance:

- The 15% factor authorized by Department rule does not accurately reflect actual cost-of-sale;
- The Program has not developed guidelines for applying the cost-of-sale factor to ensure consistent and equitable treatment of taxpayers; and
- The Program's cost-of-sale adjustment is sometimes different than the adjustment used by the property appraiser, which affects the accuracy of the Program's estimates of property appraiser performance.

Since the actual cost of selling property varies between property classes and location, the 15% factor does not accurately reflect actual costs. In 1990, the Department conducted a statewide survey of the costs associated with the sale of property and found that the total cost-of-sale varied from less than 1% to more than 22%. The survey showed that the cost-of-sale of residential property was lower than 15%. The survey also showed higher cost-of-sale for commercial property than for residential property. According to real estate industry representatives, the cost-of-sale adjustment range is from 3% to 10% for residential property and from 10% to 20% for commercial property. According to our survey, some property appraisers use different cost-of-sale factors for residential and commercial properties.

The 1990 Grand Jury investigation of the Program concluded that the cost-of-sale factor causes inequities, especially as it relates to high value properties, and allows property assessments to fall between 76.5% to 85% of the fair market value. In 1991, the Program's IAAO consultant evaluated the 15% deduction and concluded that its use was arbitrary. The actual cost-of-sale percentage varies based on changes in market conditions and bargaining between individual sellers

¹⁷ Section 193.011, F.S., provides that in arriving at just valuation, the following factors shall be taken into consideration: present cash value of the property; highest and best use of the property; location of the property; quantity or size of the property; cost of the property; property condition; income from the property; and net proceeds of the sale after the deduction of all usual and reasonable fees and costs.

and buyers. Therefore, any annual cost-of-sale factor will not fully reflect the actual costs of selling individual properties, and the use of these factors will cause equity problems. However, prior to the inception of the 15% factor in 1982, it was difficult for property appraisers to determine the cost-of-sale when valuing property. For these reasons, the IAAO recommends against making deductions from sale prices for brokerage fees and closing costs.¹⁸ However, the state constitution, according to court interpretations, and state law authorize such deductions.

The Program has not developed guidelines to ensure that property appraisers consistently apply the cost-of-sale factor to ensure consistent and equitable treatment of taxpayers. Department rule allows the use of a 15% factor, but property appraisers may apply other cost-of-sale factors. While state law authorizes the Program to provide aid and assistance to counties in assessing property, the Program has no guidelines concerning the 15% cost-of-sale factor or the development of independent cost factors. Most of the property appraisers surveyed stated they used the 15% figure for their cost-of-sale deduction.

When property appraisers use cost-of-sale factors that do not reflect actual costs, they understate or overstate the assessed value of property. If a property appraiser applies the 15% deduction when the actual cost-of-sale is 10%, the taxpayers in this county may have their property under-assessed by 5% compared to counties where the 15% cost-of-sale has been reduced to better reflect the actual costs. If a property appraiser uses a cost-of-sale factor lower than the actual amount experienced in the area, the assessed values of property in this county will be higher compared to neighboring counties. Although not specified in Department rule or guidelines, Program staff said the 15% factor should not be applied to tangible personal property. However, the Program's procedural audits determined that a few counties were applying a 15% cost-of-sale to tangible personal property, which allows taxpayers in these counties to be assessed at a relatively lower amount.

Furthermore, the Program does not always use the same cost-of-sale factors as the property appraisers when determining whether appraisers are assessing property uniformly and at just value, which may affect the accuracy of the Program's conclusions about property appraiser performance. The Department requires property appraisers to report the cost-of-sale factors they applied in assessing the different classes of property. The Program uses these reported percentages in its ratio studies to determine a county's level of assessment. However, some of the property appraisers responding to our survey reported they do not always use the 15% cost-of-sale factor. The factor reported by these property appraiser varied based on property class, property value, or the appraisal method used. These property appraisers often use cost-of-sale deductions that are different than they are reporting to the Program because they are not required to report cost-of-sale factors used that are below 15%. When the Program estimates county levels of assessments, Program staff do not always know the actual cost-of-sale factors used by these property appraisers.

When Program staff do not know the actual cost-of-sale deductions that property appraisers use, this can affect the accuracy of their estimates about property appraiser performance and could

¹⁸ The IAAO acknowledges there may be a need to adjust sale prices for points paid by the seller or for other unconventional financing and recommends that such adjustments be based on market research and vary by type of property.

potentially result in incorrectly approving a tax roll. Table C-2 provides hypothetical examples that illustrate how Program staff could reach inaccurate conclusions if they do not use the same cost-of-sale factors as a property appraiser. As shown in the table, if the Program used the reported 15% deduction when the actual factor used was 10%, it would erroneously have concluded that the industrial class of property was over-assessed. When the cost-of-sale factors used by the property appraisers differs from the factors they report, the Program’s assessment of property appraiser performance may be inaccurate.

**Table C-2
Using a Cost-of-Sale Factor Different Than That Used by the Property Appraiser
Distorts the Department’s Estimate of Tax Roll Level of Assessments**

	Property Class	
	Single Family Residential	Improved Industrial
Department unadjusted (for cost-of-sale) measurement of average level of assessment	Property appraiser has assessed at 81% of the just value determinations of the Department	Property appraiser has assessed at 87% of the just value determinations of the Department
County actual average cost-of-sale used	8%	10%
Department measurement of average level of assessment using actual county cost-of-sale	89% of just value: tax roll would be rejected for under-assessment (less than 90%)	97% of just value: tax roll would be accepted (more than 90%)
If County reports maximum allowable average cost-of-sale	15%	15%
Department measurement of average level of assessment using reported cost-of-sale	96% of just value: tax roll would be accepted in error	102% of just value: tax roll would be accepted, but incorrect appearance of over-assessment

Source: Developed by the Office of Program Policy Analysis and Government Accountability based on information reported about cost-of-sale factors used by property appraisers.

Several steps could be taken to improve the use of cost-of-sale factors. We recommend that Program staff develop training materials on developing accurate cost-of-sale estimates and provide guidelines on using the cost-of-sale deduction. The Program could use these guidelines to develop reference manuals for property appraisers. To provide data for the above activities, the Department could request legislation that requires recording cost-of-sale information on the deed form or the DR219 form (see pages 8 to 10 of this report). This would make cost-of-sale information available to the property appraisers for property assessments and to the Program for level of assessment monitoring. In addition, we recommend that Program staff apply the actual cost-of-sale factor used by property appraisers for its ratio studies to ensure that the Program’s estimates of property appraiser performance are accurate.

Given the difficulties in arriving at a cost-of-sale factor that accurately reflects the true costs of selling property, the Legislature alternatively could consider amending state law to remove the cost-of-sale as a factor in determining just value. However, such a statutory change would require an amendment to the state constitution.

Summary of Recommendations

The Property Tax Administration Program's performance in overseeing real property assessments improved during the past 17 years. However, some of the procedures Program staff use to analyze property assessments do not conform to national standards and should be modified to ensure Program analyses of county tax rolls provide reliable indicators of whether real property is uniformly assessed by county property appraisers at just value. We recommend that:

- The Program use the tests recommended by the IAAO for assessing whether sales samples used in the ratio studies are representative of property value to improve the reliability of its analysis;
- The Program modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected to improve the usefulness of the Program's procedural audits;
- The Program monitor the field staff errors detected by its quality control process and by Auditor General performance audits and use this information to help reduce future field staff errors (e.g., revising the Program ratio study guidelines and training) and improve the accuracy of ratio study data; and
- The Program increase the tax roll uniformity measures to those recommended by national standards. The increased standards could be increased over several years to allow county property appraisers more time to bring their tax rolls up to these uniformity standards.

To ensure that taxpayers are treated equitably with regard to the cost-of-sale factor, we recommend that Program staff develop training and guidelines for applying the 15% cost-of-sale factor and developing independent estimates of these costs. In addition, Program staff should apply the actual cost-of-sale factor used by property appraisers for its ratio studies to ensure that the Program's estimates of property appraiser performance are accurate. Given the difficulties in arriving at a cost-of-sale factor that accurately reflects the true costs of selling property, the Legislature alternatively could consider amending state law to remove the cost-of-sale as a factor when determining just value. However, such a statutory change would require an amendment to the state constitution.

Appendix D

Taxable Value of Tangible Personal Property by County

County	Taxable Value All Property	Taxable Value Tangible Personal Property (TPP)	Percentage of Taxable Value-TPP
Alachua	\$ 4,467,591,409	\$664,357,743	14.9%
Baker	274,103,616	72,302,738	26.4%
Bay	4,326,652,806	662,851,413	15.3%
Bradford	384,375,450	81,018,289	21.1%
Brevard	14,223,813,299	1,550,458,316	10.9%
Broward	57,841,628,498	7,070,809,966	12.2%
Calhoun	194,217,947	57,187,963	29.4%
Charlotte	6,351,422,505	553,916,482	8.7%
Citrus	4,300,117,602	1,293,925,615	30.1%
Clay	3,130,727,219	402,386,930	12.9%
Collier	18,083,131,561	936,566,144	5.2%
Columbia	868,636,550	176,135,492	20.3%
Dade	78,684,518,380	8,123,148,083	10.3%
Desoto	637,450,547	87,942,406	13.8%
Dixie	186,185,053	27,338,093	14.7%
Duval	23,040,004,653	4,380,502,408	19.0%
Escambia	5,782,960,990	1,319,337,110	22.8%
Flagler	2,265,705,582	156,231,475	6.9%
Franklin	537,080,857	28,442,113	5.3%
Gadsden	599,629,082	149,011,079	24.9%
Gilchrist	204,969,917	48,228,421	23.5%
Glades	344,650,957	44,867,649	13.0%
Gulf	592,289,382	256,433,494	43.3%
Hamilton	456,655,382	230,521,880	50.5%
Hardee	729,804,047	256,665,894	35.2%
Hendry	1,114,876,940	254,026,690	22.8%
Hernando	3,635,510,212	520,064,645	14.3%
Highlands	2,359,183,372	355,897,460	15.1%
Hillsborough	27,255,664,740	4,924,588,253	18.1%
Holmes	209,576,287	47,789,059	22.8%
Indian River	5,940,864,817	433,392,258	7.3%
Jackson	658,065,054	127,473,955	19.4%
			<i>(Continued)</i>

County	Taxable Value All Property	Taxable Value Tangible Personal Property (TPP)	Percentage of Taxable Value-TPP
Jefferson	\$ 243,672,997	\$ 64,293,667	26.4%
Lafayette	113,566,554	32,380,862	28.5%
Lake	5,475,398,323	844,873,368	15.4%
Lee	21,300,171,610	1,582,341,490	7.4%
Leon	6,350,363,823	670,083,154	10.6%
Levy	744,973,315	126,703,699	17.0%
Liberty	108,391,332	42,308,186	39.0%
Madison	279,043,283	64,802,537	23.2%
Manatee	9,704,554,081	1,355,178,814	14.0%
Marion	5,626,766,280	781,651,592	13.9%
Martin	8,569,504,951	1,362,413,734	15.9%
Monroe	7,326,075,177	355,388,938	4.9%
Nassau	1,937,311,641	317,112,702	16.4%
Okaloosa	4,913,837,709	458,037,384	9.3%
Okeechobee	846,528,594	130,000,779	15.4%
Orange	37,206,664,619	5,822,375,318	15.6%
Osceola	5,828,923,862	712,855,990	12.2%
Palm Beach	57,134,332,783	4,684,549,917	8.2%
Pasco	7,606,876,334	1,120,967,252	14.7%
Pinellas	32,223,393,033	3,821,248,010	11.9%
Polk	12,541,468,245	3,599,321,860	28.7%
Putnam	2,101,352,152	835,443,890	39.8%
St. Johns	4,962,753,426	353,147,333	7.1%
St. Lucie	7,486,030,190	1,449,021,568	19.4%
Santa Rosa	2,978,474,816	383,280,578	12.9%
Sarasota	18,162,519,217	1,313,873,333	7.2%
Seminole	11,666,044,985	1,092,354,619	9.4%
Sumter	652,943,574	149,107,220	22.8%
Suwannee	558,328,565	155,076,067	27.8%
Taylor	634,661,307	273,048,164	43.0%
Union	103,668,616	27,034,355	26.1%
Volusia	13,161,252,388	1,478,608,791	11.2%
Wakulla	320,220,808	66,315,341	20.7%
Walton	2,100,955,492	169,791,028	8.1%
Washington	363,867,514	101,107,442	27.8%
Total	\$561,016,956,309	\$71,089,918,498	12.7%

Source: Department of Revenue, Property Tax Administration Program tax roll information as of February 4, 1997.

Appendix E

Response From the Department of Revenue

In accordance with the provisions of s. 11.45(7)(d), F.S., a list of preliminary and tentative review findings was submitted to the Executive Director of the Department of Revenue for his review and response.

The Executive Director's written response is reprinted herein beginning on page 44. Copies of the exhibits referenced in the response are available from OPPAGA upon request.

Original letter will replace this.
Department of Revenue

April 1, 1997

Mr. John W. Turcotte
Director
Office of Program Policy Analysis
& Governmental Accountability
Post Office Box 1735
Tallahassee, Florida 32302

Dear Mr. Turcotte:

Pursuant to the provision of Section 11.45(7)(d), Florida Statutes, attached is the Department's response to the findings and recommendations for the Justification Review of the Property Tax Administration Program.

I appreciate the professionalism displayed by your audit staff during the audit. If further information is needed, please contact Tom Berger, our Inspector General, at 488-4328.

Sincerely,

L.H. Fuchs

LHF/FMR/lh
Attachment

Oversight of Real Property

RECOMMENDATION: Use tests and standards recommended by the IAAO for assessing whether sales samples used in the ratio studies are representative of property value and for assessing tax roll uniformity to improve the quality and reliability of its analysis of real property tax rolls.

Representativeness: Testing for representativeness has been an ongoing point of disagreement with the Auditor General's Office since the early 1980s. Our statistician, Dr. Ke-tsai Wu, has consistently maintained that our stratified random sampling method produces representative samples which are statistically and legally defensible. As no two properties are alike in value due to factors such as location, effective age, condition, etc., it is impossible to verify that all properties in a geographic location will move exactly in proportion to the appraisal or sales ratio study samples. His opinion is also shared by the consulting firm of Almy, Gloudemans and Jacobs. Bob Gloudemans, a partner in Almy, Gloudemans and Jacobs, as well as a contributing editor to IAAO's *Property Appraisal and Assessment Administration*, has been a consultant to Florida's Property Tax Administration Program since the early 1990s. His recommendations over the years have been largely responsible for designing ratio studies which now compare favorably to IAAO standards. His written comments about OPPAGA's conclusions are made a part of this response and will be referenced throughout. Mr. Gloudemans states:

I believe that Florida's approach complies commendably with IAAO guidelines. Few other states take such a complete and well-crafted approach. I believe that additional improvements in representativeness lie, not in further statistical testing, but in increasing sample sizes through increased use of DR-219 forms.

Until these recommendations are found to be inconsistent with good assessment administration or Florida Statutes, we believe no adjustments should be made to our sample selection process. We also believe there is no discernible cost/benefit to conducting additional tests for sample representativeness. Mr. Gloudemans further comments on this under Uniformity measures on page 3 of his commentary.

OPPAGA's Comments:

Testing for representativeness is important for three reasons. First, contrary to the Department's response, the Program does not use a stratified random sample of sales for its sales ratio studies, since low and high value sales are removed from the sample. Second, the Program relies on sales information provided by the property appraisers, which the Department has determined is sometimes incomplete or inaccurate. Third, the sample sizes used by the Program declined from 9,418 in 1993 to 3,710 in 1997. The Department's consultant, Mr. Gloudemans, in June 1992 recommended that the Program

develop procedures"... for ensuring that sales used in ratio studies are typical and not overly biased in any particular way Profiles of sales and the population of properties can be compared to demonstrate representativeness."

Mr. Gloudemans' comments (Exhibit 1) indicate he mistakenly was under the impression that the Program currently conducts tests to ensure that sold and unsold properties are not appraised differently. Although the Program does maintain the information needed for such assessments (as noted on page 32 of our report), Program records and staff indicate the information is not used to conduct the tests recommended by national standards and by Mr. Gloudemans for ensuring that sales samples used in the ratio studies are representative of county property values. If sample properties are not representative, the Program's ratio study results may overstate county level of assessments compared to just value. OPPAGA recommends testing for representativeness to ensure the accuracy of the Program's ratio studies.

Uniformity Measures: The IAAO's COD and PRD parameters which OPPAGA suggests using reflect a diverse treatment of the population based on the general characteristics of a county and is not strata-specific, as required by Florida Statutes. Mr. Gloudemans has also provided us with specific recommendations on the reasonable parameters which should be used by the program to test for uniformity. See his discussion on this topic on page 2 of his commentary.

OPPAGA's Comments:

Contrary to the Department's comments, OPPAGA's recommendation that the Program's uniformity standards be increased over time to the national standards applies to its analysis of tax rolls at the strata-level (e.g., use a COD of 15 for residential properties and 20 for all other strata) and is consistent with state law. Mr. Gloudemans concurred with our conclusions that the Program's uniformity standards are too low and should be increased.

The in-depth study process is moving closer to our strategic plan's 1999 objective that all classes (strata) and subclasses (substrata's) of property studies have a level of assessment of at least 90 percent of just value as a roll approval requirement. Once this level of assessment is reached for the substrata, the consistency and uniformity of the tax rolls can be expected to move toward the standards recommended by the consultant because of the tendency by the property appraisers to avoid producing rolls which exhibit higher ratios.

Mr. Gloudemans addresses the essence of the roll approval process in his analogy on page 2, under the topic of uniformity measures:

IAAO does not recommend that rolls be disapproved for failure to achieve its uniformity standards. Roll disapproval in Florida has serious fiscal and other implications. It should be based on failure to achieve acceptable performance, as codified in DOR standards, not on inability to achieve high standards. To use a loose analogy, a student who does not obtain an "A" or "B" should not necessarily be failed.

He further points out that even ". . . Florida's education funding formula provides incentives/disincentives regarding the level of assessment."

RECOMMENDATION: Modify the procedural audit process to analyze each class of property currently not analyzed by ratio studies, provide timely feedback to property appraisers, and analyze whether identified problems are corrected.

While it is true that the statewide cumulative taxable value of almost 500,000 parcels of property not covered by ratio studies may exceed \$19 billion, this amount represents only 3-4% of a total taxable value of approximately \$507 billion. As a result, our program has, in the past, allocated minimal resources toward ratio study activities which impact the larger portion of tax rolls. We have provided procedural audit feedback through advisory letters and informal communications for agricultural properties and for those classes of real property which do not comprise five percent or more of any county's total taxable value.

OPPAGA's comments are worthy of attention and the Program fully intends to improve and standardize its procedural audit process. Program management and Mr. Gloudemans agree that the audits should focus on valuation methods and procedures, provide both feedback and guidance, and that the Department should monitor implementation of its recommendations. As with other process changes recommended in your report, this procedural change will be implemented during the 1998 in-depth review process.

With Mr. Gloudemans's direction, the Program will structure the procedural audit process to facilitate the uniform assessment of all property at just value. A process will be established for documented and timely communication to the property appraisers of observed deficiencies with clear expectations of corrective action and follow-up to evaluate improvements. This process will: (1) include analysis of classes of property currently not analyzed by ratio studies; (2) provide timely feedback to property appraisers; and (3) analyze whether the procedural audits have an impact and improve county appraiser practices.

RECOMMENDATION: Monitor the types of errors made by field that have been detected by its quality control process and by Office of the Auditor General performance audits. Use this information to help reduce future field staff errors (e.g., revising the Program ratio study guidelines and training) and improve the accuracy of ratio study data.

We concur with OPPAGA's comments regarding the importance of an effective quality control process in helping to reduce field staff errors, thereby improving the accuracy of ratio study data. As a result, the Program has been providing just-in-time training to field staff prior to each of the four major steps of the in-depth study. Area offices use a system of tracking the quality of each field appraiser's work products. Each appraiser is provided feedback and coaching by an appraiser specialist to help eliminate or reduce the occurrence of future errors.

Historical data indicates that the Program has been successful in reducing the quantity of errors and/or making Program changes based on observations during the mid-cycle and exit interviews conducted with the property appraisers during the in-depth studies. Appraisers now attend these meetings and their increased involvement is having a positive affect on personal accountability and ownership of the final product.

Upon the completion of each in-depth study, Program staff review the accuracy of field work and develop appropriate actions to improve the process and/or end product of our appraisers. Appraiser Specialists and supervisors address individual performance problems within each field office. The field training manual and guidelines are revised annually to address content or process deficiencies. Finally, adjustments in the training curriculum are made to address knowledge, skill, or attitude deficiencies observed.

We will continue to monitor and improve upon this process.

RECOMMENDATION: Develop training and guidelines for applying the 15% cost-of-sale factor and for developing independent estimates of these costs when appraising property value. Apply the actual cost-of-sale factor used by property appraisers during its ratio studies to ensure that the Program's estimates of property appraiser performance are accurate.

The cost-of-sale factor must be considered in deriving just value. As noted in OPPAGA's report, the State Constitution, according to court interpretations, and general law recognize the cost-of-sale factor must be considered in deriving just value. Additionally, this issue was considered in several recent meetings by the Governor's Task Force on Ad Valorem Taxes (July 1996 - February 1997). The task force came to no conclusion as to the soundness of using this factor on a statewide basis.

The Program's initial internal study on this issue concluded the costs of sales vary widely depending on the location of the property within the state, the class of property, the buyers and sellers ability to negotiate transfer prices, and tightness of local real estate markets, among other factors.

We have always recognized the need to develop solid evidence to validate use of the 15% factor. We also acknowledge the usefulness of identifying a supportable factor to use for each county. However, in 1990 and 1991, the Program issued an REP to study this issue. Bids received from vendors totaled anywhere from \$141,000 to \$449,000. The Program is currently without funding to undertake such a study, but will include an appropriate amount in the next LBR cycle.

Oversight of Real Property Assessments

RECOMMENDATION: Contract with a private entity for the data entry of DR-219 improve accuracy and timeliness of entering DR-219 information into a data base.

For the time being, Program staff continues to believe that data extracted from the DR-219 is the most independent source of sales activities in this state. We are supported in this position by Mr. Gloudemans who states that discontinuing its use is not a ". . . responsible option" and discontinuing use of the form would be a ". . . monumental mistake" See page 4 of his response under the topic DR-219.

OPPAGA's Comments:

The current annual costs of obtaining and processing the DR219 are almost \$5 million and the Program has been unable to use this information for its in-depth studies as intended for various reasons. For example, last year the Program's DR219 database included incomplete sales information for 35 counties. As a result, we believe the Legislature should evaluate the cost-effectiveness of this form.

We are currently working with several vendors on development of an alternative data base. The Program has a partnership arrangement with MetroMarket Media to capture the DR-219 and deed data in several north Florida counties. We should be able to measure the success of this Program after the 1997 in-depth study.

While the Department's data entry process has made great strides in improving the accuracy and timeliness of the data, the Program's need for an external data base in its sampling process and growth estimates for non-in-depth counties is immediate. However, OPPAGA's recommendation that we contract with private entities for data entry of information from the DR-219 is a reasonable suggestion to explore. The Program will need to seek additional

funding to implement the process. Once funded, we can use this method to obtain accurate data until such time as the Clerks of the Court are required to electronically submit DR-219 information to the State.

Oversight of Tangible Personal Property

RECOMMENDATION: Two alternative actions were recommended:

Contract with private entities (e.g., CPA firms) to conduct field work for periodic ratio studies of tangible personal property (e.g. once every four years) by shifting resources currently assigned to field staff to the contracts.

or

Conduct procedural audits of county tangible personal property appraisal activities to provide reasonable assurance that such property is uniformly assessed at just value. In addition, develop and disseminate materials to property appraisers about its aid and assistance services to provide the Program with opportunities to help improve county tangible personal property assessment practices.

In general, OPPAGA's justification review in this area fails to recognize the difficulty the Department has had in securing adequate funding from the Legislature to implement an effective oversight program, or even to improve upon the existing program. A brief look at some of the historical issue is necessary to put this in the proper context.

The TRIM bill passed by the 1980 Legislature required the Department to conduct in-depth studies of personal property tax rolls. Based on the best estimate of workload at that time, it was determined that 27 new positions would be required for this function. However, the 1983 Legislature felt it necessary to reduce the program to 6 positions which would only serve to provide aid and assistance to county property appraisers in assessing personal property. Based on our experience since 1982-83, the Department has estimated that 45 positions are necessary to adequately staff this function. We planned when to phase-in this program over a three year period with a request of 24 positions to staff the process during the first two years of the period. The legislature only funded 10 positions for the 1991/92 fiscal year. For FY 1992/93, 1993/94, 1994/95, and 1995/96, the Department continued to request an additional 10 FTE positions to put an in-depth study of the tangible personal property tax rolls in place. For all four budget years, the Legislature did not grant the Department's request. See the attached budget requests (FORM D-3a for the years noted).

The Department cannot effectively perform the oversight function and in-depth studies required of it by Florida Statutes under the funding conditions cited above. Without clear direction and adequate resources from the Legislature, the Department will continue to be limited in its oversight efforts.

We agree with OPPAGA's conclusion that there has not been effective performance in this area. Considering the constraints, and imbedded intent, from the Legislature we also believe that the Program made some progress in this area. The report fails to provide any commentary on the strides the Program has taken since 1993. We request OPPAGA review the activities outlined in Exhibit #2, titled "Tangible Personal Property Overview", before disincentives are recommended.

OPPAGA's Comments:

While the Program feels it did not receive all the funds it needed to conduct ratio studies, the Program did receive sufficient funds in 1991 to conduct procedural audits of property appraiser practices for tangible personal property. However, the Program failed to publish the results of these studies. During the past year, the Program has on its own elected to reduce the resources allocated to the oversight of tangible personal property (e.g., the Program was not directed by the Legislature to made these reductions). Program staff designed and conducted the procedural audits between 1991 and 1995, but have been unable to demonstrate the effectiveness of impact of these and other activities for ensuring that tangible personal property is uniformly appraised at just value. The information presented in the Department's Exhibit 2 does not demonstrate that Program activities are effective for ensuring that tangible personal property is uniformly appraised at just value.

In addition, the Program has not used the procedural audits effectively for improving property appraiser performance. The Program did not provide property appraisers with written results of audits that were completed, which would be helpful for assisting property appraisers better conform to state law and to identify needed improvements. The Program has also not conducted any follow-up to determine the status of identified problems. As a result, we believe that the Legislature should consider applying disincentives to the Program given its lack of demonstrated performance in this area.

Procedural Audits: Our response to your findings will first address OPPAGA's recommendation the Program conduct audits of procedures in place in the counties to assess tangible personal property and develop and disseminate materials to property appraisers about the aid and assistance services it currently has in place.

Procedural audits were conducted on all 67 counties for the 1994 and 1995 tax roll years. After providing the property appraisers with an overview of the finding of the first set of audits (not county specific), it became clear that the audit conclusions would be challenged. The lack of TPP specific training at the county level and the existence of guidelines that

offered obsolete information and suggested poor appraisal theory were reasons to discontinue the procedural audits.

However, with clear direction from the Legislature and some revision to the statutes, we can once again implement a procedural audit process which will provide some assurance that tangible personal property is uniformly assessed. To determine if tangible personal property is assessed at just value will entail OPPAGA recognizing the need to include in its report to the Legislature that the Program have the adequate resources to conduct in-depth ratio studies (e.g., determine a level of assessment). This process could be put in place for the 1998 tax roll approval process. As the report suggests, the audits can be designed to:

- Use sampling methods which will provide sufficient, conclusive information for some indication about the uniformity of assessment practices state-wide;
- Provide timely feedback to the property appraisers;
- Provide methods for subsequent follow-up by the Program to ensure appraisal practices have been improved.

However, we point out that the timing of putting a procedural audit process in place is directly dependent upon final promulgation of the tangible personal property standards of measures (guidelines). We have been working on this process since January 1994 and have assured that all parties expressing a desire are given the opportunity for input (two public workshops and six meetings of the government/industry task force). Today, we anticipate the guidelines will be successfully adopted in time for the 1998 in-depth study process.

OPPAGA's Comments:

The Program currently has sufficient statutory authority and resources to conduct procedural audits of property appraiser practices for tangible personal property. While the Program is in the process of developing guidelines, staff could conduct procedural audits to follow-up on problems identified in the prior audits (e.g., noncompliance with law) and to examine compliance with generally accepted practices (e.g., national standards, training provided by the Program).

Contract Auditing: We will explore this alternative and enter into a dialogue with the appraisal and/or accounting professions.

Truth-in-Millage

RECOMMENDATION: The Property Tax Administration Program should conduct TRIM training in 1997, with an emphasis on the recent statutory changes to improve taxing authority compliance with the TRIM requirements.

The statistical representations contained in OPPAGA's review (page 18, Exhibit 4), do not focus on the overall progress achieved by the TRIM compliance process during the past seven years. While 100% compliance is the optimum goal in any process, the report should alert the reader of the difficulty of extracting 100% compliance in a regulatory arena which monitors the actions of over 600 disparate taxing authorities.

Exhibit 4 identifies the number of taxing authorities not in 100% compliance with the law and consequently leads the reader to believe the process is overlooking its statutory responsibility in this area. The table does not clearly point out that substantial compliance in this process (full compliance and/or compliance with minor infractions) has increased from 91% in 1990 to 98% in 1994, with a drop of only one percentage point in the compliance level between 1995 and 1996. A minor decrease in full-to-substantial compliance is expected any time there is a statutory change, since taxing authorities have varying levels of sophistication in complying with the TRIM process. Understanding changes in the law requires extensive training to achieve full compliance with new requirements. Performance numbers were further negatively impacted by four (4) taxing authorities who did not even submit a TRIM package (0.65% of the 613 taxing authorities) for Departmental review in 1996.

Section 200.065(12)(b), F.S., requires the Department of Revenue to notify any taxing jurisdiction of its failure to comply with the certification required under section 200.068, F.S., within 30 days of a certification submission for each of the current 613 taxing authorities. If the TRIM sub-process was judged against a similar timeliness measure as recommended for the refund sub-process, they would have discharged their legal responsibility 100% of the time in each year since 1990.

To provide a more informative picture of our success, we suggest the table be revised to reflect a more accurate picture of the relative findings of your report. The fact that only 2-3% of 613 taxing authorities fail to comply with the Department's TRIM reporting standards on initial submission (i.e., no infractions on final submission) is a valid indicator of the success of the program.

Notwithstanding the above comments, Program management recognizes its responsibility to augment our ongoing training program to insure local taxing authorities are fully informed of their responsibilities under the law. We feel OPPAGA is correct in identifying the immediate need to deliver to the taxing authorities additional training focusing upon the impact of recent law changes.

CALENDAR YEAR	1990	1991	1992	1993	1994	1995	1996
Total Number of Taxing Authorities Reporting	609	910	609	611	610	611	609
Number of Taxing Authorities in Full Compliance with TRIM on Initial Submission	305	398	469	491	533	487	458
Number of Taxing Authorities with Minor Infractions	248	194	117	95	67	180	135
Total Number of Taxing Authorities in Substantial Compliance with TRIM	553	592	586	586	600	595	593
Percentage in Substantial Compliance or Better	91%	97%	96%	96%	98%	97%	97%
Number of Taxing Authorities in Non-Compliance on Initial Submission	56	18	23	25	10	16	16
Percentage of Taxing Authorities Not in Full Compliance on Initial Submission	8%	3%	4%	4%	2%	3%	3%

Ad Valorem Refunds and Tax Certificate Corrections and Cancellations

RECOMMENDATION: The property Tax Administration Program should monitor refund requests to ensure that it processes these requests in a timely manner.

We generally agree with this recommendation with the following exceptions:

The Program initially questions why only half our suppliers/customers affected by the recommendation were surveyed in the development of the justification review findings; e.g., only property appraisers and not tax collectors were surveyed.

OPPAGA's Comments:

OPPAGA contacted tax collectors and property appraisers. We interviewed tax collectors, including those that represent the state tax collectors association, to obtain their opinion about the need for the Program to approve ad valorem tax refunds. The primary purpose of surveying county appraisers was to obtain their opinions about alternative issues related to the appraisal of real and tangible personal property; as a result, this survey was not administered to county tax collectors.

In the PAM Report, an output measure titled, "Number of Property Tax Refund Requests Processed per 100,000 Parcels," was identified as an unreasonable standard. The PAM report recommends the Legislature include a performance measure identifying the Program's ability to process ad valorem tax refund requests within 30 days of receipt, to indicate how well Program staff respond to taxpayer refund and tax certificate cancellation and correction requests. A similar recommendation, calling for monitoring refund requests to ensure that the Program processes refunds in a timely manner, is included in the Justification Review. The

Justification Review also recommends elimination of the refund approval process as a Department responsibility.

In examining Program performance, Exhibit 5 of the Justification Review contains only raw numbers. However, the text offered provides no explanation for the increase in turnaround time over the last three years. First of all, our goal during this period was to implement quality improvement at the front end of the refund process, that is, identify for property appraisers the errors made at the local level prior to their **submission to** the Program. Secondly, our computer generated data retrieval system relates reconsideration back to the date of original refund submissions, and thereby skews the reported turnaround time downward. We will correct our process to reflect actual processing time.

OPPAGA's Comments:

Exhibit 5 shows that the Program's timeliness in processing ad valorem tax refunds has slowed. Contrary to the Department's response, pages 18-19 of our report do include Program staff's opinions about factors affecting the Program's drop in timeliness. The Program should ensure it processes taxpayer refund requests in a timely manner.

The savings associated with elimination of the refund approval process will likely be less than \$117,000 annually. We will continue to incur salary costs as DOR employees are called upon for opinions on the proper consideration by the property appraiser and tax collectors of refund related issues. This would could constitute a "disadvantage" as indicated in your Exhibit 6 should the Program be required to continue monitoring the refund process to insure uniformity in the approval process.

OPPAGA's Comments:

The \$117,000 cost savings estimate was based on the Department's 1997-98 legislative budget request that the Legislature eliminate funding for this function. The Program currently does not review tax collectors practices to ensure that they consistently review the refunds under their authority or that they remit all refunds requiring Department approval to the Program. Shifting the Program's responsibilities for approving ad valorem tax refunds to monitoring tax collectors practices in conjunction with the current procedural audits may provide greater assurance of statewide uniformity in the processing of refunds. In addition, this should allow taxpayer refunds to be processed more quickly.

We also point out that as a result of our current review process, actual tax dollar refunds exceeding \$2.09 million were denied in fiscal years 1995 and 1996. The program believes taxing authorities will lose the benefit of these significant tax dollars without uniform state level review of the refund process.

The program has submitted, as an outcome performance measure, a measure to report on the timely handling of refund applications to be included in the 1997-98 legislative budget request. This potentially will focus the Program's efforts on downstream corrections instead of upstream corrections. There is also a downside risk in meeting this measure. Individuals whose performance is evaluated by this measure may have a tendency to outweigh the importance of timely turnaround versus the identification and correction of errors by property appraisers, the goal of the process today.