Department of Revenue and Taxation
Real Property Taxes

Performance Audit
October 1, 2007 through September 30, 2012

OPA Report No. 13-03
August 2013

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Our audit of the Department of Revenue and Taxation's (DRT) real property taxes identified $15.7 million (M) in unrealized, lost and forgone tax revenues, comprised of $14M from the outdated valuation system, $1.6M in escaped assessments, and $57 thousand (K) due to a lack of interface between the Department of Public Works (DPW) and Department of Land Management (DLM). Additionally, there were $858K in questioned costs based on our testing and review. Specifically, we identified:

- Tax assessments were based on a valuation system completed in 1993, or 20 years ago, thus current market values are not used and instead were adjusted downward to reflect the 1993 values, resulting in unrealized and lost tax revenues estimated at $14M over the past five years;
- Guam's property tax rates are among the lowest in the 50 United States and District of Columbia while property values are the lowest;
- Real property tax exemptions and reduced tax rates for senior citizens and home exemptions represent $2.6M annually of exempted tax revenues, or $13.2M in the past five years;
- 1,605 real properties accounted for 9,480 escape assessments, resulting in foregone property tax revenue totaling $1.6M;
- A lack of interface between the DPW Building Permits and Inspection Section and the DLM to recognize a change in real property values as well as sales of real property, updated renovations, and changes in lien resulting in $57K in unrealized and lost tax revenues;
- $858K in questioned costs based on our testing and review. The largest was the Board of Equalization's approval of a major reduction in hotel value, resulting in $574K in questioned costs; and
- All real property tax division staff have the ability to input into DRT's database, i.e. home values, exemptions, abatements, etc., without secondary controls and review

Real Property Tax Assessments Adjusted Downward to 1993 Values
DRT is not using current market values to assess residential property values, resulting in an estimated loss of $14M in tax revenues between 2007 and 2011. Guam's tax code mandates that all real property be reappraised every five years to ensure that values are current. However, it is commonly known that the last appraisal was completed in 1993. DRT does not update property records to reflect current market values, even when properties are transferred, newly constructed, or sold. Instead, current values are adjusted downwards to reflect 1993 valuations for assessment purposes.

Guam has one of the Lowest Property Tax Rate and Among Lowest in Property Values
Guam's effective real property tax rate, which is the average annual property tax calculated as a percentage of the median property value per the 2011 Assessment Tax Roll, was 0.29%. When compared to the 50 United States' effective tax rates, Guam has the second to the lowest real property tax rate followed by Alabama at 0.40%, then by Louisiana at 0.48%, and West Virginia at 0.51%. From 2007 to 2011, Guam was one of the lowest property-taxed locations.

Between 2007 and 2011, Guam's property values ranked the lowest in the 50 United States and the District of Columbia. Specifically, Guam's average median property value in 2008 was $91,145 and in 2010 was $92,792. The average assessed property value in Guam for 2011 was $137,250.

Senior Citizen and Home Exemptions Comprise in Largest of Forgone Revenues

We found real property tax exemptions and reduced tax rates have increased steadily over the last five years, rising from 20,435 exemptions totaling $3.3M in 2005 to 23,592 totaling $4.1M in 2011. The earliest data provided by DRT was from 1999, and has shown increases since then. Due to the various exemptions and reduced tax rates, foregone (exempted) revenues from 2007 through 2011 amounted to $20M. The two largest exemptions stem from senior citizens and home exemptions, which represent 66% of total exemptions, or $13.2M. The largest exemption was senior citizens, averaging 9,515 properties and $1.7M, or 43%. The second largest exemption was home exemptions, averaging 5,411 properties and $925K, or 23 %. Senior citizens, at age 55, are eligible for a reduction in real property tax rates. This was allowed by Public Law (P.L.) 24-267, which lowered the eligibility from age 60 to 55. Medicare and Medicaid eligibility is age 65. These exemptions amounted to an average of $181 for senior citizens and $171 for home exemptions for each eligible taxpayer.

Foregone Revenue Due to Escape Assessments

We identified 1,605 real properties that accounted for 9,480 escape assessments from tax years 1981 through 2010, resulting in forgone property tax revenues totaling $1.6M. Escape assessments are a correction in DRT's tax rolls for taxable property that were not previously assessed. Based on DRT's records, the earliest escape assessment was from 1981.

Interface with Department of Public Works and Department of Land Management

In a previous audit on DPW's Building Permits & Inspection Section (OPA Report No. 11-05), we found that DRT and DPW do not compare existing values for new construction projects that require document submission to both entities. Taxpayers are not required to provide documentation to DLM for residential renovations or upgrades and with the exception of a change or acquirement of property, DLM does not provide additional information to DRT. DRT has no way of knowing when renovations occur or what effect they have on property values, since DRT does not conduct inspections.

Recommendations

To improve real property tax revenues, we recommend the DRT Director work with the Guam Legislature and Governor of Guam (1) enact legislation that allows DRT to utilize current market values for new construction, renovations, and current sales rather than adjusting downward to 1993 values, (2) place a moratorium on senior citizens and home exemptions until the reappraisal is updated, and (3) increase the eligibility for senior citizens for reduced tax rates from age 55 to 65. We also recommended the DRT Director issue the request for proposal for the valuation reappraisal, establish a communication protocol with DLM and DPW to include the updated assessment of real properties, and conduct reviews on exemptions.

DFBrooks

Doris Flores Brooks, CPA, CGFM
Public Auditor

Introduction

This report presents the results of our audit of the Department of Revenue and Taxation's (DRT) real property taxes. The audit was initiated as part of the Office of Public Accountability's (OPA) Annual Audit Work Plan. Our objectives were to determine (1) Guam's effective real property tax as a percentage of property value and where Guam ranks in comparison to the United States' effective property tax rates, (2) whether real property taxes are accurately assessed, and (3) whether taxpayers afforded property tax exemptions are in fact eligible. The scope, methodology, and prior audit coverage are detailed in Appendices 2 and 3.

Background

DRT is responsible for enforcing the income and general tax laws of Guam and for collecting tax revenues, as well as revenues from other sources such as licensing and registration. DRT's stated mission is to "promote quality service to all taxpayers, increase voluntary compliance by helping taxpayers understand and meet their responsibilities, and apply the tax law with integrity and fairness to all." DRT consists of five divisions: Regulatory Division, Motor Vehicle Division, Real Property Tax Division, Tax Enforcement Division and the Taxpayer Service Division. The Real Property Tax Division is responsible for the administration and enforcement of the real property tax laws mandated by Title 11, Guam Code Annotated, Section 24101. Within the Real Property Tax Division, there are two branches, Appraisal and Assessment.

Real Property Tax Appraisal Branch

The Real Property Tax Appraisal Branch is responsible for the identification, appraisal and development of property record cards for all taxable improvements and land for the island of Guam. This Branch likewise, acts as the compliance arm of the Division and is staffed by the Branch Supervisor, Tax Appraisers II and Tax Appraisers I.

Real Property Tax Assessment Branch

The Real Property Tax Assessment Branch is obligated to the conservation and updating of all property tax records, the development of the annual tax assessment roll and delinquent list, issuing annual tax statements and arranging tax sales and tax deeds for recordation at the Department of Land Management. The Assessment Branch functions as the taxpayer service and collection arm of the Division and is staffed by the Branch Supervisor, Tax Technicians I, Tax Appraiser II and Tax Technician III support staff.

As of September 30, 2012, DRT RPT's Division had 15 employees, seven in the Appraisal Branch, seven in the Assessment Branch, and one Administrator.

Real Property Taxes

Property taxes are generally computed by applying a levy amount to a taxable base. Governmental legislative bodies must approve the levy rate. U.S. nationwide, real property is generally assessed on a continuing basis – every two or three years – which allows the government to collect increased total dollars without increasing the tax levy rate. Taxes levied on real estate are a primary revenue source for many local governments. Guam's tax code mandates that all real property be reappraised every five years. It is common knowledge that periodic reappraisals of all real property on Guam required by law have not been performed since 1993.

Assessment of Real Property Taxes

Guam's real property taxes (RPT) are outlined in Chapter 24, Title 11 of the Guam Code Annotated. On or before September 1 of each tax year, the RPT Division is mandated to make available a tax roll listing identifying all taxable properties and corresponding tax assessments levied. By October 31 each year, the tax assessment roll is to be certified and real property taxes become due and payable on December 15. The tax levy is divided into two installments: the first installment is due February 20; the second installment is due April 20. Real property taxes become a lien on the property as of noon the first Monday in March each year. To secure the payment of all taxes, penalties and interest is ultimately imposed on the property. For example, an assessment done in October 2012 is due in two installments, one in February 2013 and the second and final installment in April 2013.

The assessed value of the property is a percentage of the appraised value. Starting in 2007, several public laws increased the assessed value for real property taxes from 70% to 90% to 100%. Correspondingly, the property tax rates were reduced with each increase, resulting in no net increase in real property taxes. The increase in assessed value, however, did increase the debt ceiling limitation. Taxes for land and improvements have different rates.

Debt Ceiling Calculation

Real property values have a direct impact on the debt ceiling limitation for the Government of Guam. In accordance with Section 1423a of the Organic Act, the debt ceiling limitation or public indebtedness must not exceed 10% of the aggregate tax value (assessed value) of property in Guam, which was $1.1 billion (B) in FY 2011.

Since 2007, the Guam Legislature has updated the assessed value of real property as follows:

- Public Law 29-19, increased the assessed value from thirty-five (35%) to seventy percent (70%) of the appraised value and decreased the tax rates from 1/4% to 1/8% or .00125 (for land) and from 1% to ½% or .005 (for improvements).
- Public Law 30-7 updated the value from seventy percent (70%) to ninety percent (90%) and reduced the tax rates to 7/72% or .00097222 (for land), and 7/18% or .00388889 (for improvements).
- Public Law 31-196 updated the value from ninety percent (90%) to one hundred percent (100%) and further reduced the tax rates to 7/80% or .000875(for land) and 7/20% or .0035 (for improvements) effective tax year 2012. The fixed tax rates apply to all types of building structures and land property, whether residential, commercial, agricultural or other.

Results of Audit

Our audit of the Department of Revenue and Taxation's (DRT) real property taxes identified $15.7 million (M) in unrealized, lost, and forgone real property tax revenues comprised of $14M from the outdated valuation system, $1.6M from escape assessments, and $57 thousand (K) due to a lack of interface with the Department of Public Works (DPW) and Department of Land Management. Additionally, there were $858K in questioned costs based on our testing and review. Specifically, we identified:

- Tax assessments were based on a valuation system completed in 1993, or 20 years ago, thus current market values are not used and instead were adjusted downward to reflect the 1993 values, resulting in unrealized and lost tax revenues estimated at $14M over the past five years;
- Guam's property tax rates are among the lowest in the 50 United States and District of Columbia and property values are the lowest;
- Real property tax exemptions and reduced tax rates for senior citizens and home exemptions represent $2.6M annually of forgone tax revenues, or $13.2M in the past five years;
- 1,605 real properties had 9,480 Escape Assessments (EA) resulting in foregone property taxes totaling $1.6M;
- A lack of interface between DPW Building Permits & Inspection Section and the DLM to recognize a change in real property values as well as sales of real property, updated renovations, and changes in lien resulting in $57K in unrealized and lost tax revenues;
- $858K in questioned costs based on our testing and review. The largest was the Board of Equalization's approval of a major reduction in hotel value, resulting in $574K in questioned costs; and
- All real property tax division staff have the ability to input into DRT's database, i.e. home values, exemptions, abatements, etc., without secondary controls or review.

We were unable to test tax rolls and tax exemptions provided by DRT for completeness and accuracy.

Current Market Values Not Being Used

DRT is required to re-ascertain the value of all property on Guam every five years. DRT's last comprehensive reappraisal was completed in March 1993 and updated valuations took effect in tax year 1995. DRT has acknowledged they have not reappraised the value of property as mandated by Guam's tax code. As a result, DRT's real property tax assessments are based on valuations that were last updated 20 years ago. Further, current market values based on actual sales, new constructions, and renovations are not being used to assess real property taxes resulting in unrealized revenues of approximately $14M for a four-year period. See Table 1 for a summary of estimated forgone property taxes and Appendix 2 for details on OPA's methodology and calculation.

Table 1: Summary of Estimated Foregone Property Taxes

Estimated Lost Property Taxes due to Lack of Reappraisals	
FY 2011	$ 4,689,464
FY 2010	$ 3,541,734
FY 2009	$ 2,633,492
FY 2008	$ 3,222,923
FY 2007	Not Available
TOTAL	**$ 14,087,613**

According to Cornerstone Valuation Guam, Inc., a local real estate valuation and advisory services company, the average home sale values as of 2011 was $243K; a difference of $90K from the DRT listed value of $153K (see Table 2 below). If DRT assessed real property taxes based on market value, the appraised value on 57,083 properties would have been $13.9 billion (B), a difference of $5.2B. Tax assessments would have been $25M. When compared to DRT's assessments of $16M, the difference is $9.5M. However, due to possible overstatement of market value, we provided a conservative 50% allowance resulting in an estimated difference of $ 4.7M See Table 2 below for 2011 and Appendices 8, 9, and 10 for 2008–2010.

Table 2: 2011 Summary of Estimated Lost Property Taxes

	Tax Year 2011			
	Per DRT	**Market Based Value**	**Difference**	**50% Allowance**
Property Count-Residential	57,083	57,083		
Total Appraised Home Value	$ 8,705,182,595	$ 13,858,439,491	$ 5,153,256,896	$ 2,576,628,448
Average Appraised Value	$ 152,500	$ 242,777	$ 90,277	$ 45,138
Total Assessed HomeValue	$ 7,834,664,329	$ 12,472,595,542	$ 4,637,931,213	$ 2,318,965,603
Average Assessed Value	$ 137,250	$ 218,499	$ 81,249	$ 40,624
Land -Assessed Value	$ 5,039,552,218	$ 7,982,461,147	$ 2,942,908,929	$ 1,484,137,986
Building -Assessed Value	$ 2,795,112,110	$ 4,490,134,395	$ 1,695,022,285	$ 834,827,617
Land -Tax	$ 4,899,542	$ 7,760,724	$ 2,861,182	$ 1,442,912
Building Tax	$ 10,869,898	$ 17,461,639	$ 6,591,741	$ 3,246,553
Total Tax	$ 15,769,440	$ 25,222,363	**$ 9,452,923**	**$ 4,689,464**

DRT-Based Valuations 2007-2011

Based on the data obtained, the average appraised price on residential properties was $153K while the assessed price was $125K. The average assessed value was calculated by taking the total assessed value per year, then dividing it by the property count per year. On average, tax assessments between the years 2007 through 2011 were based on the value of $125K per residential property. See Table 3 below for DRT's appraised and assessed values.

Table 3: DRT's Appraised and Assessed Values

Year	Property Count	Appraised Values Land	Appraised Values Building	Appraised Values Total	Average per Property Count	Assessed Values Land	Assessed Values Building	Assessed Values Total	Average per Property Count
2011	**57,083**	5,599,502,472	3,105,680,123	8,705,182,595	152,500	5,039,552,218	2,795,112,110	7,834,664,328	137,250
2010	**55,346**	5,589,617,322	2,918,596,662	8,508,213,984	153,728	5,030,655,590	2,626,736,995	7,657,392,585	138,355
2009	**54,709**	5,511,133,330	2,859,491,376	8,370,624,706	153,003	4,960,019,997	2,573,542,238	7,533,562,235	137,702
2008	**54,012**	5,445,027,051	2,764,544,779	8,209,571,830	151,995	3,811,518,935	1,935,181,345	5,746,700,280	106,397
2007	**53,379**	5,439,892,693	2,684,470,862	8,124,363,556	152,201	3,807,924,885	1,879,129,603	5,687,054,488	106,541
Total:	274,529	27,585,172,869	14,332,783,802	41,917,956,670		22,649,671,625	11,809,702,292	34,459,373,917	
Average	**54,906**	**5,517,034,574**	**2,866,556,760**	**8,383,591,334**	**152,686**	**4,529,934,325**	**2,361,940,458**	**6,891,874,783**	**125,249**

We confirmed that DRT-RPT is also utilizing the factor/formula used in 1993 re-appraisal of real properties even for new properties acquired, constructed and renovated and did not use the current appraised values utilized by financial institutions. DRT has cited budgetary constraint as the main factor for the non re-appraisal of real properties for 20 years.

Market-Based Valuations 2008~2011

Market-based home average values from 2008 to 2011 ranged from \$207K to \$243K for an average of \$224K, \$71K more than the average appraised value calculation used by DRT. Average market-based assessed values based on DRT's property count per year ranged from \$154K to \$218K for an average of \$191K per year, \$65K more than the averaged assessment calculation used by DRT. Table 4 below summarizes market based appraised and assessed values with land and building calculations based on DRT's calculation formulas and rates. See Appendix 2 for calculation and methodology.

Table 4: Market Based Average Home Values Calculated by OPA

Calendar Year	Property Count	Appraised Values Land	Appraised Values Building	Appraised Values Total (Property Count x Average Value)	Average Value	Assessed Values Land	Assessed Values Building	Assessed Values Total (Property Count x Average Value)	Average Value
2011	57,083	8,869,401,274	4,989,038,217	13,858,439,491	242,777	7,982,461,147	4,490,134,395	12,472,595,542	218,499
2010	55,346	8,260,450,274	4,255,383,474	12,515,833,748	226,138	7,434,405,246	3,829,845,127	11,264,250,373	203,524
2009	54,709	7,491,350,420	3,859,180,519	11,350,530,939	207,471	6,742,215,378	3,473,262,467	10,215,477,845	186,724
2008	54,012	7,825,253,159	4,031,191,021	11,856,444,180	219,515	5,477,677,211	2,821,833,715	8,299,510,926	153,661
Total:	221,150	32,446,455,126	17,134,793,232	49,581,248,358		27,636,758,982	14,615,075,704	42,251,834,686	
Average	55,288	8,111,613,782	4,283,698,308	12,395,312,090	**223,975**	6,909,189,746	3,653,768,926	10,562,958,672	**190,602**

Real Property Tax Assessments Adjusted Downward to 1993 Values

The current assessment of real property taxes for new property sales, construction, and renovations are adjusted downward to reflect 1993 values. DRT stated that due to fairness and equal protection issues, they adjust new properties sold today downward to 1993 values. For example, if a taxpayer builds a house this year, DRT calculates the tax assessment based on the formulas provided in the 1993 valuation, not on current values. DRT is required by law to use the most recent valuation study to determine tax rates for all properties on Guam.

To confirm this condition, OPA acquired information on two home purchases in 2011 as examples and compared and calculated the appraised value and assessed value.

Example 1: In November 2011, a home sold for $946K, but was adjusted downward by DRT to $549K, a difference of $397K in appraised value. DRT's assessed value was $494K and the property taxes due was $1,662. If the property had been assessed at 90% of its sales value of $946K, the assessed value would have been $851K and taxes due would have been $2,864, a difference of $1,201 or 72% more.

Example 2: In April 2011, a home sold for $505K, but was adjusted downward by DRT to $232K, a difference of $273K in appraised value. DRT's assessed value was $209K and the property taxes due was $716. If the property had been assessed at 90% of its sales value of $505K, the assessed value would have been $455K and taxes due would have been $1,556, a difference of $840, or 117% more.

Utilizing current market values based on current property sales could generate an approximate average of 95% more on property tax assessments which in turn would generate far more property tax revenue. See Table 5 for an illustration on the differences of tax assessments between current market values and the 1993 valuation.

Table 5: 2011 Sample Residential Home Sales

2011 Property Sales		DRT Formulated Calculation			DRT Information			Variances			
Sale Date	Selling Price	Appraised Value	Assessed Value	Total Tax	Appraised Value	Assessed Value	Tax Assessment	Appraised Value	Assessed Value	Tax Assessment	Percentage
11/3/2011	$ 945,840	$ 945,840	$ 851,256	$ 2,864	$ 548,593	$ 493,724	$ 1,662	$ 397,247	$ 357,532	$ 1,201	72%
4/4/2011	$ 505,100	$ 505,100	$ 454,590	$ 1,556	$ 231,924	$ 208,732	$ 716	$ 273,176	$ 245,858	$ 840	117%

Based on the data obtained from the Guam Statistical Yearbook 2011, for fiscal years 2007-2011, the permits issued to new residential constructions totaled 1,554 with total construction costs amounting $292M, which would represent $516K in total tax assessments. See Table 6 below.

Table 6: Residential New Construction Building Permits Issued FY 2007 ~ 2011[1]

Guam Statistical Yearbook 2011 Data			DRT Formula Calculations					
Fiscal Year	Property Count	Construction Cost/Appraised Value	Total Assessed Value	Assessed Value-Land	Assessed Value-Building	Land Tax	Building Tax	Total Tax
2011	199	$ 40,455,000	36,409,500.0	23,302,080.00	13,107,420.00	22,654.79	50,973.31	73,628.11
2010	371	$ 60,808,000	54,727,200.0	36,119,952.00	18,607,248.00	35,116.61	72,361.54	107,478.15
2009	287	$ 42,404,000	38,163,600.0	25,187,976.00	12,975,624.00	24,488.30	50,460.77	74,949.08
2008	357	$ 62,636,000	43,845,200.0	28,937,832.00	14,907,368.00	36,172.29	74,536.84	110,709.13
2007	340	$ 85,863,000	60,104,100.0	40,269,747.00	19,834,353.00	50,337.18	99,171.77	149,508.95
	1554	**$ 292,166,000**	**233,249,600.0**	**153,817,587.00**	**79,432,013.00**	**168,769.18**	**347,504.23**	**516,273.42**

The construction costs were used as the basis for OPA's calculated assessment due to unavailability of data on appraised value. We believe that the construction cost is a conservative amount to use since an appraised value of a property is as an approximate market value established by independent & certified professionals. Presumptively, this data should be inclusive within DRT's tax rolls but because of the lack of interface between DLM, DPW, and DRT, we could not confirm it.

[1] Real property taxes are calculated on a tax year basis; however, the Guam Statistical Yearbook data we used to estimate taxes on new construction was presented on a fiscal year basis.

Guam Among Lowest in Property Tax Rates in the United States

Guam's effective real property tax rate, which is the average annual property tax as a percentage of the median property value per the 2011 Assessment Tax Roll, was 0.29%. When compared to the rest of the 50 States and District of Columbia's average individual effective tax rates, Guam, has the second lowest real property tax rate followed by Alabama at .40% then Louisiana at 0.48% and West Virginia at 0.51%. From 2007 to 2011, Guam maintained being among the lowest property-taxed locations. See Table 7 for the top 10 lowest property tax rates in 2011. See Appendix 4 for a complete listing and ranking of 2011 property tax rates.

Table 7: Top 10 Lowest Property Tax Rate in 2011

State/Jurisdiction	Effective Tax Rate	Ranking
Hawaii	0.28%	1
Guam	0.29%	2
Alabama	0.40%	2
Louisiana	0.48%	4
West Virginia	0.51%	5
Delaware	0.52%	6
South Carolina	0.54%	7
District of Columbia	0.58%	8
Wyoming	0.58%	8
New Mexico	0.60%	10

Guam has the Lowest Property Values in the United States

Between 2007 and 2011, Guam's average median property values in which taxes were assessed amounted to $92,014. Based on the most recent data available, in 2010, Guam ranked the lowest with median property valued at $92,792. In 2008, Guam was again the lowest with a median property value of $91,145. See Table 8 below for the 15 lowest median home values in 2008 and 2010 in the 50 United States, District of Columbia, and Guam. See Appendix 5 and 6 for a complete list and rank of the lowest property values in 2008 and 2010 in the United States, District of Columbia, and Guam.

Table 8: 2008 and 2010 Lowest Property Values in US, District of Columbia, and Guam[2]

2008			2010		
State	Median Home Value	Rank	State	Average Median Home Value[3]	Rank
Guam	**$ 91,145**	**1**	**Guam**	**$ 92,792**	**1**
West Virginia	$ 95,900	2	West Virginia	$ 118,686	2
Mississippi	$ 99,700	3	Arkansas	$ 122,618	3
Oklahoma	$ 105,500	4	Oklahoma	$ 122,982	4
Arkansas	$ 105,700	5	Texas	$ 125,513	5
North Dakota	$ 112,500	6	Mississippi	$ 125,850	6
Kentucky	$ 118,400	7	Alabama	$ 127,176	7
Iowa	$ 120,700	8	Indiana	$ 130,452	8
Alabama	$ 121,500	9	Michigan	$ 131,759	9

[2] For 2010, the average median home value was derived for each state as the data from the tax foundation was based on a median value by county level.

2008 State	Median Home Value	Rank
Indiana	$ 125,200	10
Kansas	$ 125,700	11
South Dakota	$ 126,200	12
Nebraska	$ 126,500	13
Texas	$ 126,800	14
Louisiana	$ 132,400	15

2010 State	Average Median Home Value[3]	Rank
Ohio	$ 134,774	10
Kentucky	$ 135,338	11
Louisiana	$ 140,012	12
South Carolina	$ 140,138	13
Missouri	$ 143,535	14
Iowa	$ 145,440	15

Real Property Tax Exemptions and Reduced Tax Rates

Exemptions and reduction in real property taxes with certain criteria are available for taxpayers who apply to receive these authorized benefits. Based on current laws, exempted properties include (1) all properties titled to the United States or Government of Guam, except lessees or licensees of Chamorro Land Trust properties, (2) public roads or easements, (3) educational, religious, or other eleemosynary purposes, (4) cemeteries, (5) active farms used at least eight months in any tax year, and (6) fallout shelters. Other properties that are eligible for credits or reduced tax rates include (1) senior citizens who are heads of household, (2) persons with disabilities and heads of households with dependents with disabilities, and (3) homeowners within their principal residence. See Appendix 7 for requirements for exemptions.

Based on the data obtained, exemptions issued annually rose steadily from $3.7M for 21,760 properties in FY 2007 to $4.1M for 23,592 properties in FY 2011. This upward trend in the quantity and total property exemptions did not just begin in the last five years, but instead originated in 1999, the earliest data provided by DRT. The total amount of all exemptions from FY 2007 to FY 2011 is $20M. See Table 9 below for forgone taxes based on exemptions and reduction in taxes.

Table 9: Forgone Taxes Based on Exemptions and Reduction in Taxes

Assessment Year	Count	Sum of Exemptions	Cost per Count: Senior Citizen	Cost per Count: Home Exemption	Cost per Count: Total	Count of Exemption Types
2011	23,592	$ 4,148,560	$ 181	$ 171	$ 176	18
2010	24,180	$ 4,170,042	$ 181	$ 171	$ 172	18
2009	23,442	$ 4,046,304	$ 181	$ 171	$ 173	19
2008	22,732	$ 3,881,469	$ 180	$ 171	$ 171	19
2007	21,760	$ 3,652,445	$ 180	$ 171	$ 168	18
Total	**115,706**	**$ 19,898,820**				

Total exemptions from 2007 to 2011 amounted to $20M. The largest exemption is the Senior Citizens exemption, totaling $8.6M or 43%, followed by the homeowner's exemption totaling $4.6M or 23%. Government exemptions totaling $3.1M or 16% represents the third largest exemption category followed by farm exemptions for $1.8M or 9%; and church exemptions for $998K or 5%. See Appendix 11 for details of exemptions by fiscal year.

Senior citizens and home exemptions represented the largest exemptions, with average count of 14,926, at an average amount of $2.6M, or 66%. Senior citizen exemptions are given to taxpayers who have reached the age of 55. P.L. 24-267 lowered eligibility from the original age 60 to 55. Senior citizens are eligible for Medicare and Medicaid at age 65. Senior citizen exemptions have increased from 8,568 in 2007 to 10,195 in 2011, or an average of 9,515 in five years. The exemption amount also increased from $1.5M in 2007 to $1.8M in 2011, or an average amount of $1.7M. The amount of the senior citizen exemption is an 80% tax credit. The average senior citizen tax exemption amounted to $181 per eligible taxpayer.

Home exemptions are granted to all property owners who are currently residing in their properties. The amount of the homeowner's exemption is a tax credit of $175 per eligible taxpayer. The homeowner's exemption has increased from 5,384 in 2007 to 5,469 in 2011, or an average of 5,411 in five years. The exemption amount has increased from $920K to $934K or an average of $925K per year.

Until such time that a comprehensive reappraisal is completed, we recommend a moratorium be placed on senior citizen and home exemptions and the eligibility for senior citizens be raised to age 65.

Foregone Revenue due to Escape Assessments

The 2011 Tax Assessment Roll included 1,605 real properties accounting for 9,480 escape assessments ranging from tax years 1982 thru 2010. These escape assessments resulted in foregone revenue totaling to $1.6M. Escape Assessment (EA) is a correction made on a tax roll for a taxable property that should have been assessed but no assessment was previously made thus tax were not collected. According to DRT, the government has not conducted a public auction on any real property which had been in tax arrears for several years.

No Interface Between the Department of Public Works and Department of Land Management

In a previous audit on the Department of Public Works Building Permits & Inspection Section (OPA Report No. 11-05), we found that DRT and DPW do not compare appraisal values for new construction projects that are required to submit documents to both entities. Specifically, DPW does not communicate with DRT on new construction and renovations when building permits are issued and that construction cost estimates on building permit applications do not factor into property tax assessments. Thus, DRT has no way of knowing when renovations occur or what effect they have on property values, since they do not conduct inspections. Based on the data obtained from the Guam Statistical Yearbook 2011, there were 700 residential additions with total construction costs amounting $32.1M. See Table 10 for the building permits issued for residential additions/renovations.

Table 10: Residential Additions/Renovations Building Permits Issued 2007 ~ 2011[4]

	Guam Statistical Yearbook 2011 Data			DRT Formula Calculated				
				Assessed Value		Tax Assessment		
Tax Year	Property Count	Construction Cost	Average	Land	Building	Land Tax	Building Tax	Total Tax
2011	110	$ 4,948,000	$ 44,982	$ 2,850,048	$ 1,603,152	$ 2,771	$ 6,234	$ 9,005
2010	127	$ 6,239,000	$ 49,126	$ 3,705,966	$ 1,909,134	$ 3,603	$ 7,424	$ 11,027
2009	161	$ 8,015,000	$ 49,783	$ 4,760,910	$ 2,452,590	$ 4,629	$ 9,538	$ 14,167
2008	167	$ 7,054,000	$ 42,240	$ 3,258,948	$ 1,678,852	$ 4,074	$ 8,394	$ 12,468
2007	135	$ 5,843,000	$ 43,281	$ 2,740,367	$ 1,349,733	$ 3,425	$ 6,749	$ 10,174
	700	$ 32,099,000		$ 17,316,239	$ 8,993,461	$ 18,502	$ 38,340	**$ 56,841**

Between 2007 and 2011, DPW issued 700 building permits, with a value of $32.1M, for residential additions and home upgrades. Had DRT used these current assessments, an additional $57K in real property taxes would have been assessed. Taxpayers are not required to provide documentation to DLM and DLM does not provide information to DRT. DPW has a requirement of obtaining clearance from DRT in order to issue an occupancy permit within the permit issuance process. However, DRT's only process in completing this step is to ensure that there are no real property taxes delinquent and does not collect information on the renovation nor change the value of the property. Moreover, DPW does not require building permits for renovations with costs of less than 25% of the value of the structure.

Establishing a communication protocol between DRT and DPW would provide DRT additional information to verify the validity of its existing values which then can be updated accordingly. OPA has previously recommended DPW establish a communication protocol with DRT to ensure proper assessment of real properties in OPA Report No. 11-05, issued in August 2011. As of this report date, this protocol has yet to be established.

DLM's Deputy Civil Registrar confirmed that DLM's only role with respect to property is the recording of all pertinent documents such as ownership, land subdivision, transfers, and liens, and are not concerned with the valuation of properties. The documents that DLM forwards to DRT are properties involved with any kind of conveyances that result in an acquirement or change of ownership. DLM prepares documents for DRT to retrieve on a monthly basis but stated that the monthly pickup has been inconsistent.

The land recordings at DLM are a means for DRT to verify updated sales, new construction and renovation. With interfaces at DPW and DLM, DRT could then conduct real property reviews based on this interface and then update the real property tax base accordingly.

Increase in Overall Assessments, Exemptions, Taxes & Collections

There has been an overall steady increase in the number of real properties of 4,132 from 62,293 in 2007 to 66,425 in 2011 or 7%. This was followed by a corresponding increase in appraised values from $11.4B to $12.2B and assessed values from $8B to $11B. Additionally, tax

[4] Real property taxes are calculated on a tax year basis. However, the Guam Statistical Yearbook data to estimate taxes on additions/renovations was presented on a fiscal year basis. The construction costs were used as the basis for OPA calculated assessment due to unavailability of data on appraised value. We believe that the construction cost is a conservative amount to uses since an appraised value of a property is as an approximate market value established by independent & certified professionals.

assessments rose from $23.1M to $25M or 8% with corresponding increase in exemptions from $3.7M to $4.2M or 13%. RPT collections have been averaging $20M annually in the past five fiscal years for an average of 64,090 properties. See Table 11 for more details of the RPT assessments, exemptions, taxes due, and revenues collected.

Table 11: RPT Assessments, Exemptions, Net Tax Due and Revenue Collection, Adjusted

Assessment/ Collection Year	Count of Properties	Appraised Value	Assessed Value	Total Tax Assessment	Exemptions	Net Tax Due	Revenue	Variance
2011/2012	66,425	$ 12,252,517,247	$ 11,027,265,514	$ 25,005,619	$ 4,188,626	$ 20,816,992	$ 19,225,091	$ (1,591,901)
2010/2011	64,701	$ 12,053,176,473	$ 10,847,858,824	$ 24,403,750	$ 4,208,689	$ 20,195,060	$ 20,577,294	$ 382,234
2009/2010	63,906	$ 11,818,604,606	$ 10,636,744,143	$ 23,963,993	$ 4,096,137	$ 19,867,856	$ 19,452,108	$ (415,748)
2008/2009	63,125	$ 11,597,998,615	$ 8,118,599,028	$ 23,422,374	$ 3,921,300	$ 19,501,074	$ 20,310,866	$ 809,792
2007/2008	62,293	$ 11,440,155,753	$ 8,008,109,025	$ 23,123,365	$ 3,704,586	$ 19,418,779	$ 21,031,708	$ 1,612,929
Total	**320,450**	**$ 59,162,452,694**	**$ 48,638,576,533**	**$ 119,919,100**	**$ 20,119,339**	**$ 99,799,761**	**$ 100,597,067**	$ 797,306
Average	**64,090**	**$ 11,832,490,539**	**$ 9,727,715,307**	**23,983,820**	**$ 4,023,868**	**$ 19,959,952**	**$ 20,119,413**	

Information provided by DRT was adjusted to exclude duplicated property assessments in prior years that remain unpaid.

Questioned Costs from Results of Audit Tests

We tested 100 real property accounts which represented .15% of the total property count of 66,425 in 2011. We were unable to test the tax rolls and tax exemptions provided by DRT for completeness and accuracy. Based on our 100 testing samples, we found questioned costs of $93K as follows:

- Of the 37 properties with exemptions selected for review, 15 properties, totaling $88K in questioned costs from 2007 to 2011, did not have evidence to support eligibility. According to DRT-RPT, they did not have hard or soft copies of documents for exemptions granted prior to 1995. According to 11 GCA §24409, once a claim is filed, it shall have continuing effect as a new claim for the exemption for each subsequent year, unless it is disallowed or voided. We urge DRT to contact these taxpayers to provide proof of eligibility.

- A business owned hotel was misclassified as a Guam Economic Development Authority (GEDA) qualified recipient for Qualifying Certificate, resulting in 100% exemption on their real property taxes totaling $5K from 2007 to 2011. DRT confirmed this business was not qualified to receive this exemption and stated they will look into the matter.

- We found the Affidavit for Tax Credit (for Senior Citizen Exemption) and Application for Home Exemption were not reviewed and approved by management. Additionally, senior citizen and home exemptions were not reviewed periodically to determine if the taxpayer is still eligible for the exemptions presently availed. Although exemptions have a continuing effect for each subsequent year, we recommend DRT conduct random reviews of all exemptions to determine if there has been change in the claims. According to 11 GCA §24409, it is the duty of every person to report any change. Failure to do so is subject to legal sanctions.

- We found two privately owned properties with significant land areas that were appraised for only $1.00 each, resulting in no property taxes collected. According to DRT-RPT these properties are still under research to determine the appraisal. However, we were not able to quantify the financial impact of these findings.

DRT should follow up on these questioned cost items to correct its database.

Anomalies Found in Tax Roll Database Review

In addition to our testing, we reviewed the 2011 tax roll data base provided. Based on our analytical review of the data, we found questioned costs totaling $765K as follows:

- A hotel property which had a total appraised value of $117M (for three towers) in tax year 2007 reduced its appraised value to $76M during tax years 2008 to 2011. Due to the reduction of the appraised value, the tax assessment was reduced from $410K to $266K, or a total tax reduction of $574K for the four years reviewed. Although the reduction of appraised values had approval from the Board of Equalization (BOE), we could not verify with the documents provided what factors led to the significant reductions in the appraised value to warrant the approval. Because of the significant reduction, we question the Board's due diligence in the approval of this reduction. Accordingly, the DRT Director should review this matter further.

- A hotel property which had a total appraised value of $26M in tax years 2007 to 2010 reduced its appraised value by $20M in tax year 2011. Due to the reduction of the appraised value, tax assessment was reduced by $70K. DRT has yet to provide the BOE letter of approval for the reduction of tax assessment for 2011. Accordingly, a questioned cost of $70K arises. We were informed that they have been unable to locate the document.

- In the 2011 tax roll, there were 7,506 real properties given 100% tax exemption or no property tax was collected. These properties have a total appraised value of $1.2B and total assessed value of $1.1B. Tax assessments which were uncollected for these properties amounted to $1.5M. Based on the data provided by DRT-RPT, if we are to deduct qualified 100% exemptions such as government lands, farm, church, rights of way, non-profit, ponding basin and return of federal lands (ancestral lands) totaling $1.3M, there are still exemptions that cannot be identified amounting to $121K in questioned costs. Additionally, although, ancestral lands are subject to real property tax moratorium per Public Law 29-88, DRT needs verify if landowners have access to the property so taxes could be assessed retroactively.

- There are 5,353 real properties that are owned by taxpayers who do not have or have not provided a mailing address to DRT. Ninety-two of these real properties had escape assessments from one to 14 years totaling $77K[5]. According to DRT, in the old system, to input a new data without mailing address is acceptable thus some taxpayers opted to pick up the statement instead of being mailed and DRT deleted its address on the system. According to RPT Administrator, the issue regarding mailing address will be corrected in the tax year 2013.

[5] The calculation for this $77K was already included in the $1.6M foregone revenue due to escape assessment.

- The 2011 tax roll included 16 building properties with an appraised value of $1.00 each, which according to DRT-RPT were demolished/abated /abandoned since 1995. It also included four building properties of a business account with building areas of 5,800 sq m and 2,548 which according to DRT –RPT were duplicated records or incorrect assessment. DRT has not done an inspection to determine if in fact these 16 properties remain unimproved and have no real property tax values. DRT should conduct an inspection on these properties.

- We found several properties that were not classified in accordance with the classification provided to OPA by DRT. According to DRT-RPT, real properties were classified and can be identified by the initial number of their account number or PIN as follows:
    - Code 1 – Residential (1 to 4-plex)
    - Code 2 – Condominium
    - Code 3 – Hotel
    - Code 4 – Town homes
    - Code 5 – Multi-Family (5+unit apartments)
    - Code 6 – Commercial/Special Purpose
    - Code 7 – Agricultural/Farm Building
    - Code 8 – Churches
    - Code 9 – Government-Owned

As an example, several government and business properties were classified under residential. There were 502 properties included under hotel classifications, although there are only 47 hotels specifically identified. Banks and investment houses were classified as condominiums; and churches or religious organizations were classified as town homes.

DRT should update its tax roll based on the anomalies found. Further, DRT should conduct periodic reviews of its tax rolls to ensure accuracy and current values.

Access to DRT's Database

Based on our discussions with the Real Property Tax Division Administrator, Appraisal and Assessment staffs have the ability to update, change, or delete data in their database, also known as Manatron GRM /Proval System, without a secondary control, review, or approval. The system does generate a production report which summarizes daily transactions; however, there is no review by management to determine if the changes, additions, or subtractions are authorized. We recommend DRT place controls in their database to limit input access and ensure a secondary review by management.

Request for Proposal for Appraisal and Revaluation Services

DRT did issue a request for proposal (RFP) in March 2013 for appraisal and revaluation services. The intent of the RFP was to enlist professional services to assist the Administrator of the Real Property Tax Division with the revaluation process. Specifically, the bidder was required to (1) conduct a valuation of all taxable and exempt land, improvements, building, residential, commercial, industrial, special use and leased land property parcels on the Guam Property Assessment System, (2) provide training for RPT division staff so that, at the end of the project, they will be knowledgeable in the development of new valuations, and (3) defend valuations and methodologies (if necessary). However, only one bidder submitted a proposal and negotiations were terminated because the bidder could not meet the delivery requirements established in the

RFP. We recognize that DRT has had challenges in issuing this RFP. However, we recommend that the RFP be issued forthwith.

Lack of Technical Assistance on Computer Systems
Between November 2012 and December 2012, RPT records were converted from the Legacy System (AS400) into the Manatron GRM/Proval System. There was no access to AS 400 during the one month period. RPT went live under Manatron effective January 2012 covering tax year 2012 for Fiscal Year 2013. Annual Tax Statements for tax year 2012 were generated under GRM/Proval system. The maintenance agreement for the Manatron GRM/Proval System which was implemented January 2012, had expired in January 2013, thus RPT is working on the system using the Help Center to troubleshoot. DRT has cited budgetary constraint as the main factor for the non renewal of maintenance agreement. DRT RPT staff has said that without the assistance of the contract, they will continue to have challenges in operating the system.

Board of Equalization
We found that 2012's tax assessment roll has yet to be certified by BOE, which should have been done in October 2012. According to the DRT Director, the BOE lacked a quorum; however, tax statements were still mailed out even though the 2012 tax roll was not certified. According to the DRT-RPT Administrator, the Board last met in October 2011 to certify the 2011 Tax Roll.

Conclusion and Recommendations

Guam's property tax rates are among the lowest in the nation while property values are the lowest. Real property tax assessments are based on valuations that were last updated 20 years ago. Guam's tax code mandates that all real property be reappraised every five years to ensure that values are current. As a result of noncompliance with our tax code, a significant revenue leakage of approximately $14M in unrealized revenues has occurred over the last five years. This is primarily due to GovGuam's decision not to use current market values for the real property tax assessments and additional $1.6M in escaped assessments. An additional $57K in foregone revenues was due to a lack of interface between DPW and DLM.

Additionally, we found $858K in questioned costs based on deficiencies identified in our audit. The largest questioned cost of $574K in real property taxes was from the Board of Equalization's approval of a major reduction in hotel value. We questioned the Board's due diligence in the approval of this reduction. An additional $191K in questioned costs arose from the reduction of appraised values/tax assessments without approval documents and undetermined 100% exemptions. Lastly, $93K in questioned costs was from a lack of exemption documentation.

As a result, there are significant unrealized and lost tax revenues that could be returned in the form of vital services such as education for our children, fire and police protection, street maintenance and repair, and other public services.

To reduce revenue leakage and enhance collections in real property taxes, we recommended that the DRT Director work with the Guam Legislature and the Governor of Guam to:

1. Amend 11 GCA §24306 to authorize DRT to utilize current values for real property tax assessment for new construction, renovations, and current sales rather than adjusting downward to 1993 values;

2. Place a moratorium on senior citizen and home exemptions until the 1993 valuation is updated;

3. Amend 11 GCA §24110 by raising eligibility for senior citizens from age 55 to 65 to receive a reduction in real property taxes;

Director of the Department of Revenue and Taxation

4. Issue the request for proposal for appraisal and revaluation services; and

5. Establish a communication protocol with DPW and DLM to include the updated assessment of real properties.

6. Conduct random reviews periodically of all exemptions to determine if there has been change in the claims.

7. Place controls on DRT's database to limit input access and ensure a secondary review by management.

Management Response and OPA Reply

A draft of this report was transmitted to DRT's in August 2013 for review and response to our recommendations. We met with the Director, Deputy Tax Commissioner, and RPT Administrator in August 2013 and briefed them on our report findings and recommendations.

Based on DRT's response, they generally agree with the findings and recommendations. See Appendix 12 for their response.

The legislation creating OPA requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress in implementing the recommendations, and to endeavor to have implementation completed no later than the beginning of the next fiscal year. Accordingly, we will be contacting DRT to provide target dates and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation shown by the Department of Revenue and Taxation during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY

Doris Flores Brooks, CPA, CGFM
Public Auditor

Appendix 1:
Classification of Monetary Impact

	Finding Description	Foregone/Unrealized Revenues	Questioned Costs	Total
1	**Current Market Values Not Being Used**	**$ 14,087,613**[6]	$ -	**$ 14,087,613**
	DRT-Based Values 2007-2011	$ -	$ -	$ -
	Market-Based Valuations 2008-2011	$ -	$ -	$ -
2	**Real Property Tax Assessments Adjusted Downward to 1993 Values**	**$ -**	**$ -**	**$ -**
	Foregone Revenues due to Escape Assessments	**$ 1,551,791**	**$ -**	**$ 1,551,791**
	No Interface with Department of Public Works and Department of Land Management	**$ 56,841**	**$ -**	**$ 56,841**
3	**Increase in Overall Assessments, Exemptions, Taxes & Collections**	**$ -**	**$ -**	**$ -**
4	**Questioned Costs from Results of Audit Tests**	$ -	**$ 93,195**[7]	**$ 93,195**
5	**Anomalies Found in Tax Roll Database Review**	$ -	**$ 765,045**[8]	**$ 765,045**
	Access to DRT's Database	$ -	$ -	$ -
	Request for Proposal for Appraisal and Revaluation Services	$ -	$ -	$ -
	Lack of Technical Assistance on Computer Systems	$ -	$ -	$ -
	Board of Equalization	$ -	$ -	$ -
	Total	**$ 15,696,245**	**$ 858,240**	**$ 16,554,485**

[6] Of the $14,087,613 in foregone/unrealized revenues, $4,689,464 was for FY 2011, $3,541,734 was for FY 2010, $2,633,492 was for FY 2009, and $3,222,923 was for FY 2008.
[7] Of the $93,195, $88,471 was from senior citizen and home exemptions without documentation and $4,724 was from GEDA exemptions without documentation.
[8] Of the $765,045, $574,456 was from the reduction in hotel appraised value, $69,585 was from the reduction of appraised values/tax assessments without approval documents and $121,004 was from undetermined 100% exemptions.

Objectives, Scope, and Methodology

Our audit objectives were to determine (1) Guam's effective real property tax as a percentage of property value and where Guam ranks in comparison to the United States' effective property tax rates, (2) whether real property taxes are accurately assessed, and (3) whether taxpayers afforded property tax exemptions are in fact eligible. The scope of this engagement is from October 1, 2007 to September 30, 2012 (FY 2008 to FY 2012).

Scope Limitation
We were unable to test the tax rolls and tax exemptions provided by DRT for completeness and accuracy. As a result, we relied DRT's information provided for FY 2007 through FY 2011.

Audit Methodology
Our audit methodology included a review of pertinent Government of Guam laws, rules and regulations, policies, prior audit findings, and other relevant information pertaining to real property tax assessments and collections. We also performed the following:

- Assessed internal controls for the assessment of real property taxes and identified problems within the RPT Division related to the management of these taxes;
- Obtained reports from DRT RPT and analyzed data to determine the number of properties assessed real property taxes, number of exemptions and/or abatements issued, and the amount of taxes collected;
- Selected and tested a limited sample of transactions for compliance on whether real property tax exemptions were correctly applied;
- Selected and tested a limited sample of transactions to determine whether the taxes were accurately assessed based on the tax rates provided in law.
- Performed walkthroughs and physical observations to gain an understanding of the real property tax process at DRT's RPT branch.
- Obtained from DRT RPT Tax Assessment Rolls and records of tax exemptions for tax years 2007 thru 2011.
- Analyzed the data in the rolls, summarized it and established trends of increase and decrease and variances.
- Adjusted the overstated tax roll amounts by deducting data corresponding to real properties with Escape Assessments (EA)
- Recalculated assessed values and tax assessments on all (100%) properties for tax years 2007 to 2011 to determine if assessed value percentage and tax rates prescribed law were correctly applied
- Using a judgmental random selection, we chose 100 real properties or .15% of the total 66,425 properties for tax year 2011. Out of the 100 samples, we chose 37 properties which were granted with exemptions or abatements to document approvals and determine if they are in fact eligible.
- We searched for the effective tax rate of the 50 US states and average median home values to determine Guam's rank compared to the states.

- We searched for market based average home value in Guam and compared it with DRT data to determine the foregone/lost revenue due to non-reappraisal of Guam properties to update current values

Methodology for determining assessments based on residential real properties average market values:

- We calculated the average appraised value of a residential property by taking the total appraised value and divided it by the total property count per year.
- We calculated the average assessed values of a residential property by taking the total assessed value and divided it by the total property count per year.
- We obtained the market value of residential properties by extracting the sales volume data from 2008 to 2011 provided by a local real estate advisor. Cornerstone Valuation Guam, Inc. The real estate advisor does not have available data for residential sales volume in 2007.
- Based on the total sales/market volume of each year, we calculated the market-based average value of residential properties by dividing the total sales by the total count of residential sales. Then we calculated the average market based total appraised value by multiplying the market based appraised average value by the total residential property count taken from DRT data.
- We took the sum and multiplied it by 90% for 2009, 2010, and 2011, and 70% for 2008, to determine the assessed value which is the basis for property tax assessment
- We took the assessed value and broke it into 64% for land and 36% for building (for tax year 2011), 66% (for land) and 34% (for building) for 2010, 2009, and 2008. Based on the actual ratio of land and building per DRT data.
- To obtain the amount of taxes for land, we multiplied the assessed value by the prevailing land tax rate of .000972222 (for 2009~2011) and .00125 (for 2008). To obtain the amount of taxes for building, we multiplied the assessed value by the prevailing building tax rate of .00388889 (for 2009~2011) and .005 (for 2008).
- We added the totals for the land taxes and building taxes to come up with the estimated tax assessments for market based appraised real property values.
- To arrive at a conservative estimate of foregone tax revenue, we provided a 50% allowance for possible overstatement of the average market value. Then, we multiplied the difference by property count. We computed the assessed value and applied the applicable tax rate.

We conducted this audit in accordance with the standards for performance audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America. These standards require that we plan our audit objectives and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Except for the scope limitation noted above, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Appendix 3:

Prior Audit Coverage

Office of Public Accountability Report No. 11-05, Department of Public Works (DPW) Building Permit and Inspection Section (2011)

In August 2011, the OPA issued an audit report on DPW's building permit and inspection section. This report identified no communication link between DPW and DRT in that DPW did not communicate with DRT on new construction and renovations and that construction cost estimates on building permit applications do not factor into property tax assessments.

Department of Interior, Office of Inspector General – Guam's Tax Collection Activities (2008)

In November 2008, the DOI-OIG issued an audit report on Guam's tax collection activities. This report identified the poor conditions at DRT for the past 20 years which include the agency not using current market values to develop tax assessments for privately owned real property, resulting in significant lost tax revenues. Guam's tax code mandates that all real property be reappraised every five years to ensure that values are current. Periodic reappraisals of all real property on Guam required by law have not been performed since 1993, and Real Property does not update property records to reflect current value, even when the ownership of a piece of property is transferred or sold.

Appendix 4:

2011 Effective Property Tax Rates

State	Effective Tax Rate	Rank
N.J.	1.98%	1
Ill.	1.91%	2
N.H.	1.90%	3
Tex.	1.74%	4
Wis.	1.74%	5
Nebr.	1.72%	6
Mich.	1.60%	7
Vt.	1.57%	8
Ohio	1.52%	9
Conn.	1.49%	10
Pa.	1.41%	11
R.I.	1.41%	12
N.Y.	1.38%	13
Iowa	1.36%	14
Kans.	1.32%	15
N.D.	1.23%	16
S.D.	1.21%	17
Maine	1.11%	18
Minn.	1.09%	19
Fla.	1.08%	20
Mass.	1.07%	21
Alaska	1.01%	22
Mo.	1.00%	23
Md.	0.99%	24
Ga.	0.97%	25
Ore.	0.97%	26

State	Effective Tax Rate	Rank
Wash.	0.95%	27
Nev.	0.90%	28
Ind.	0.88%	29
Okla.	0.83%	30
Va.	0.82%	31
Calif.	0.80%	32
N.C.	0.80%	33
Ariz.	0.77%	34
Idaho	0.77%	35
Ky.	0.76%	36
Tenn.	0.74%	37
Mont.	0.72%	38
Utah	0.66%	39
Miss.	0.63%	40
Ark.	0.62%	41
Colo.	0.62%	42
N.M.	0.60%	43
Wyo.	0.58%	44
D.C.	0.58%	45
S.C.	0.54%	46
Del.	0.52%	47
W.Va.	0.51%	48
La.	0.48%	49
Ala.	0.40%	50
Guam	**0.29%**	**51**
Hawaii	0.28%	52
U.S.[9]	1.12%	-

[9] The U.S. effective tax rate does not factor in Guam's rate.

Appendix 5:
2008 Real Property Values

2008

State	Average Median Home Value	Rank	State	Average Median Home Value	Rank
Guam	**$ 91,145**	**1**	Montana	$ 180,300	27
West Virginia	$ 95,900	2	Idaho	$ 183,700	28
Mississippi	$ 99,700	3	Wyoming	$ 188,200	29
Oklahoma	$ 105,500	4	Minnesota	$ 213,800	30
Arkansas	$ 105,700	5	Vermont	$ 214,700	31
North Dakota	$ 112,500	6	Illinois	$ 214,900	32
Kentucky	$ 118,400	7	Florida	$ 218,700	33
Iowa	$ 120,700	8	Arizona	$ 229,200	34
Alabama	$ 121,500	9	Utah	$ 236,000	35
Indiana	$ 125,200	10	Alaska	$ 237,800	36
Kansas	$ 125,700	11	Colorado	$ 242,200	37
South Dakota	$ 126,200	12	Delaware	$ 250,900	38
Nebraska	$ 126,500	13	New Hampshire	$ 264,700	39
Texas	$ 126,800	14	Virginia	$ 269,600	40
Louisiana	$ 132,400	15	Nevada	$ 271,500	41
Tennessee	$ 138,600	16	Oregon	$ 273,300	42
South Carolina	$ 138,700	17	Rhode Island	$ 286,000	43
Ohio	$ 140,200	18	Connecticut	$ 306,000	44
Missouri	$ 141,500	19	Washington	$ 308,100	45
Michigan	$ 151,300	20	New York	$ 318,900	46
North Carolina	$ 154,500	21	Maryland	$ 341,200	47
Pennsylvania	$ 164,700	22	Massachusetts	$ 353,600	48
New Mexico	$ 165,100	23	New Jersey	$ 364,100	49
Georgia	$ 169,100	24	California	$ 467,000	50
Wisconsin	$ 173,300	25	District of Columbia**	$ 474,100	51
Maine	$ 180,200	26	Hawaii	$ 560,200	52
			United States[10]	$ 197,600	-

[10] The U.S. median value does not factor in Guam's median value.

Appendix 6:

2010 Real Property Values

2010

	State	Average Median Home Value[11]			State	Average Median Home Value
1	**Guam**	**$**	**92,792**	27	Idaho	$	164,467
2	West Virginia	$	118,686	28	Florida	$	167,768
3	Arkansas	$	122,618	29	Maine	$	170,167
4	Oklahoma	$	122,982	30	Wisconsin	$	173,774
5	Texas	$	125,513	31	Wyoming	$	177,500
6	Mississippi	$	125,850	32	Nevada	$	192,900
7	Alabama	$	127,176	33	Minnesota	$	211,033
8	Indiana	$	130,452	34	Montana	$	211,400
9	Michigan	$	131,759	35	Utah	$	212,200
10	Ohio	$	134,774	36	Oregon	$	225,540
11	Kentucky	$	135,338	37	Washington	$	234,532
12	Louisiana	$	140,012	38	Delaware	$	234,533
13	South Carolina	$	140,138	39	New York	$	234,636
14	Missouri	$	143,535	40	Alaska	$	234,667
15	Iowa	$	145,440	41	New Hampshire	$	235,883
16	Kansas	$	148,375	42	Colorado	$	237,709
17	North Carolina	$	149,141	43	Vermont	$	271,800
18	Arizona	$	150,330	44	Virginia	$	276,490
19	Nebraska	$	151,633	45	Connecticut	$	287,125
20	South Dakota	$	151,800	46	Rhode Island	$	288,825
21	Tennessee	$	153,985	47	Maryland	$	288,831
22	New Mexico	$	154,975	48	Massachusetts	$	305,883
23	Pennsylvania	$	154,995	49	New Jersey	$	320,871
24	Georgia	$	155,359	50	California	$	349,533
25	North Dakota	$	156,867	51	District of Columbia	$	426,900
26	Illinois	$	162,630	52	Hawaii	$	495,925
					United States[12]	$	179,900

[11] The average media was derived for each state as data from the Tax Foundation was based on median values by county-level.
[12] The U.S. median value does not factor in Guam's median value.

Appendix 7:

Real Property Exemptions

Tax exemptions afforded to tax payers are a form of credit that either reduce or entirely eliminate an obligation to pay real property taxes. DRT RPT's division has four tax credits available for a taxpayer's primary home and seven others. Property tax credit, if approved, applies only to that part of the building claimed as the primary home. The four tax credits are:

1. Home Exemption: The applicant must be the property owner and is currently residing on the property. The maximum amount of this credit is $175.
2. Senior Citizen Tax Credit: The applicant must be:
    a. Fifty-five (55) years of age by application due date of March 15,
    b. Lives in Guam for the five (5) preceding consecutive years,
    c. Is the property owner and currently residing on the property,
    d. Tax credit is 80%.
3. Citizen With Disability: The applicant must be a U.S. Citizen that is:
    a. Eighteen (18) years of age by application due date,
    b. Lives in Guam for the preceding five (5) consecutive years,
    c. Meets the definition of "Permanent Disability" established by the Department of Integrated Services for Individuals with Disabilities (DISID) and,
    d. Letter of confirmation from DISID must be attached to the application for tax credit.
4. Head of Household of Dependent with Disability:
    a. Applicant must be a U.S. Citizen
    b. Eighteen (18) years of age by application due date,
    c. Lives in Guam for the preceding five (5) consecutive years,
    d. Property owner and dependent must both be currently residing on the property,
    e. Dependent must meet the definition of "Permanent Disability" established by DISID and,
    f. Letter of confirmation from DISID must be attached to the application for tax credit.

Appendix 8:

Summary of Estimated Lost Property Taxes 2010

Tax Year 2010				
	Per DRT	Market Based Value	Difference	50% Allowance
Property Count-Residential	55,346	55,346		
Total Appraised Home Value	$8,508,213,984	$ 12,515,833,748	$ 4,007,619,764	$ 2,003,809,882
Average Appraised Value	$ 153,728	$ 226,138	$ 72,410	$ 36,205
Total Assessed Home Value	$7,657,392,585	$ 11,264,250,373.20	$ 3,606,857,788	$ 1,803,428,894
Average Assessed Value	$ 138,355	$ 203,524	$ 65,169	$ 32,585
Land -Assessed Value	$5,030,655,590	$ 7,434,405,246	$ 2,403,749,656	$ 1,190,263,070
Building -Assessed Value	$2,626,736,995	$ 3,829,845,127	$ 1,203,108,132	$ 613,165,824
Land -Tax	$ 4,890,895	$ 7,227,892	$ 2,336,997	$ 1,157,200
Building Tax	$ 10,215,104	$ 14,893,843	$4,678,742	$ 2,384,534
Total Tax	$ 15,105,999	$ 22,121,735	**$ 7,015,740**	**$ 3,541,734**

Appendix 9:

Summary of Estimated Lost Property Taxes 2009

Tax Year 2009				
	Per DRT	**Market Based Value**	**Difference**	**50% Allowance**
Property Count-Residential	54,709	54,709		
Total Appraised Home Value	$8,370,624,706	$ 11,350,530,939	$ 2,979,906,233	$ 1,489,953,117
Average Appraised Value	$ 153,003	$ 207,471	$ 54,468	$ 27,234
Total Assessed Home Value	$7,533,562,235	$ 10,215,477,845	$ 2,681,915,610	$ 1,340,957,805
Average Assessed Value	$ 137,702	$ 186,724	$ 49,021	$ 24,511
Land -Assessed Value	$4,960,019,997	$ 6,742,215,378	$ 1,782,195,381	$ 885,032,151
Building -Assessed Value	$2,573,542,238	$ 3,473,262,467	$ 899,720,229	$ 455,925,654
Land -Tax	$ 4,822,222	$ 6,554,930	$ 1,732,708	$ 860,448
Building Tax	$ 10,008,235	$ 13,507,136	$ 3,498,897	$ 1,773,045
Total Tax	$ 14,830,457	$ 20,062,066	**$ 5,231,605**	**$ 2,633,492**

Appendix 10:

Summary of Estimated Lost Property Taxes 2008

	Tax Year 2008			
	Per DRT	Market Based Value	Difference	50% Allowance
Property Count-Residential	54,012	54,012		
Total Appraised Home Value	$8,209,571,830	$ 11,856,444,180	$ 3,646,872,350	$ 1,823,436,175
Average Appraised Value	$ 151,995	$ 219,515	$ 67,520	$ 33,760
Total Assessed Home Value	$5,746,700,281	$ 8,299,510,926	$ 2,552,810,645	$ 1,276,405,323
Average Assessed Value	$ 106,397	$ 153,661	$ 47,264	$ 23,632
Land -Assessed Value	$3,811,518,935	$ 5,477,677,211	$ 1,666,158,276	$ 842,427,513
Building -Assessed Value	$1,935,181,345	$ 2,821,833,715	$ 886,652,370	$ 433,977,810
Land -Tax	$ 4,764,413	$ 6,847,097	$ 2,082,684	$ 1,053,034
Building Tax	$ 9,675,921	$ 14,109,169	$ 4,433,248	$ 2,169,889
Total Tax	$ 14,440,334	$ 20,956,265	**$ 6,515,931**	**$ 3,222,923**

Appendix 11:
Exemptions by Category[13]

	2007			2008			2009			2010			2011							
Type:	**Count**	**Amount**	**% to Total**	**Count**	**Amount**	**% to Total**	**Count**	**Amount**	**% to Total**	**Count**	**Amount**	**% to Total**	**Count**	**Amount**	**% to Total**	**Total Count**	**AverageCount**	**Total Amount**	**Average**	**Percentage**
Senior Citizen	8,568	$1,541,547	42%	9,075	$1,631,498	42.03%	9,594	$1,735,289	42.89%	10,143	$1,833,897	43.98%	10,195	$1,846,187	44.50%	47,575	9,515	$8,588,418	$1,717,684	43%
Home	5,384	$920,121	25%	5,401	$923,584	23.79%	5,394	$922,136	22.79%	5,405	$924,092	22.16%	5,469	$934,168	22.52%	27,053	5,411	$4,624,101	$924,820	23%
Sub-Total:	13,952	$2,461,668	67.40%	14,476	$2,555,082	65.83%	14,988	$2,657,425	65.68%	15,548	$2,757,989	66.14%	15,664	$2,780,355	67.02%	74,628	14,926	$13,212,519	$2,642,504	66%
Government	2,101	$599,786	16.42%	2,145	$614,756	15.84%	2,167	$628,183	15.52%	2,195	$654,959	15.71%	1,473	$625,847	15.09%	10,081	2,016	$3,123,531	$624,706	16%
Farm	1,679	$314,281	8.60%	1,870	$351,840	9.06%	1,947	$368,372	9.10%	2,030	$381,868	9.16%	2,024	$383,336	9.24%	9,550	1,910	$1,799,697	$359,939	9%
Church	275	$189,098	5.18%	298	$197,544	5.09%	309	$203,047	5.02%	309	$205,890	4.94%	302	$202,352	4.88%	1,493	299	$997,931	$199,586	5%
Public Law (Return of Federal Lands)	-	-		80	$90,406	2.33%	97	$114,609	2.83%	88	$96,064	2.30%	87	$85,692	2.07%	352	70	$386,771	$77,354	2%
Disability	229	$39,124	1.07%	240	$40,774	1.05%	235	$40,809	1.01%	232	$40,193	0.96%	221	$38,840	0.94%	1,157	231	$199,740	$39,948	1%
Rights of Way	3,499	$12,284	0.34%	3,602	$14,259	0.37%	3,678	$16,810	0.42%	3,756	$20,710	0.50%	3,797	$19,748	0.48%	18,332	3666	$83,812	$16,762	0%
Non-Profit	23	$36,130	0.99%	17	$16,515	0.43%	18	$16,877	0.42%	14	$12,017	0.29%	14	$12,017	0.29%	86	17	$93,555	$18,711	0%
Ponding Basin	2	$74	0.00%	4	$292	0.01%	3	$171	0.00%	8	$352	0.01%	10	$375	0.01%	27	5	$1,264	$253	0%
Total	21,760	$3,652,445	100%	22,732	$3,881,469	100%	23,442	$4,046,304	100%	24,180	$4,170,042	100%	23,592	$4,148,560	100%	115,706	23,141	$19,898,820	$3,979,764	100%

[13] The information provided by DRT on the tax rolls is not the same as this table, where this information was provided directly by DRT personnel.

Appendix 12:
Management Response

Dipåttamenton Kontribusion yan Adu'ånå
DEPARTMENT OF
REVENUE AND TAXATION
GOVERNMENT OF GUAM Gubetnamenton Guåhan

EDDIE BAZA CALVO, Governor Maga'låhi
RAY TENORIO, Lt. Governor Tiñente Gubetnadot

JOHN P. CAMACHO, Acting Director
Actot Direktot
MARIE M. BENITO, Deputy Director
Segundo Direktot

August 27, 2013

Doris Flores Brooks, CPA, CGFM, Public Auditor
Office of Public Accountability
Suite 401, DNA Building
258 Archbishop Flores Street
Hagatna, GU 96910

RE: Management Response – Draft Audit Report on the Department of Revenue & Taxation's Real Property Taxes for the Periods October 1, 2007 through September 30, 2012

Buenas Yan Saludas:

While this audit report highlights issues that are of great concern, the Department of Revenue & Taxation (DRT) has been fully aware of these issues and has already begun to address most concerns a few years prior to this audit by the implementation of its new Guam Property Assessment System, which includes the use of a commercial-off-the-shelf (COTS) computer assisted mass appraisal system (CAMA) and the use of pictometry technology. While this is still a work-in-progress and has met many challenges, this also is in line with the goal of the quinquennial (every 5 years) revaluation of all properties as amended by law (prior law required triennial revaluations). DRT notes that the last revaluation was completed in 1995 for the tax year 1993 as funding has since been a tremendous barrier to conduct it. As discussed, the challenges of procuring the expertise for the revaluation along with satisfying the statutory dates have prolonged the project and the issuance of a contract.

DRT also recognizes that it has not exercised its enforcement ability to auction delinquent properties due to that fact that many properties of that nature involve undivided interests of unsettled estates (some over 10 – 20 years), ownership disputes, "land-rich" but "money-poor" owners, the lack of a current property revaluation, etc. Upon completion and full implementation of the GPAS and property revaluation project, the concerns in recommendations 4 and 5 of this audit will be addressed. The results will lead to improving DRT's real property tax system and its ability to effectively and equitably administer the property tax laws of Guam.

DRT would like to note that recommendations 1, 2 and 3 would require statutory changes from our island legislature.

Should you have any concerns on this matter, feel free to contact me at 635-1815.

Senseramente,

JOHN P. CAMACHO
Director

Post Office Box 23607, Guam Main Facility, Guam 96921 • Tel. / Telifon: (671) 635-1817 • Fax / Faks: (671) 633-2643

Department of Revenue and Taxation
Real Property Taxes
Report No. 13-03, August 2013

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
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Jocelyn Untalan, Auditor-in-Charge
Maria Thyrza Bagana, Audit Staff
Doris Flores Brooks, CPA, CGFM, Public Auditor

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