Department of Revenue and Taxation
Real Property Tax
Assessments and Exemptions

Performance Audit
Tax Years 2012 through 2017 and
October 1, 2011 through September 30, 2017

OPA Report No. 18-03
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EXECUTIVE SUMMARY

Department of Revenue and Taxation Real Property Tax Assessments and Exemptions

OPA Report No. 18-03, May 2018

Based on data provided by the Department of Revenue and Taxation (DRT), the average assessed property value in Guam for 2016 was $196,281 (after the mass revaluation in 2014), which is an increase of $59,031 or 43% from 2011. However, Guam's average residential home value of $196,737 in 2016 is among the lowest in the United States. Coupled with the lowest effective tax rate of 0.17%, Guam collects far less in real property taxes in comparison with the 50 states and the District of Columbia. According to the Tax Foundation, property taxes were the largest source of state and local tax collections in the United States, comprising 31.3%. However, Guam's real property taxes accounted for only 3.4% of all tax revenues.

With the lost opportunity of increased revenues resulting from low property tax rates, the Government of Guam (GovGuam) also had unrealized revenues of $40.2 Million (M) in real property taxes for tax years 2012 through 2016, or an average of $8.5M per year. The unrealized revenues stemmed from revenue leakages totaling $18.8M due to uncollected/delinquent property taxes, unassessed and or unbilled John Doe properties, unpaid escaped assessments, unassessed and/or unbilled Chamorro Land Trust Commission (CLTC) leased properties, untaxed condominium units, and questionable decline in taxable values of hotel properties. GovGuam also had unrealized revenues totaling $21.3M from exemptions, credits and abatements, which are granted by existing laws. See table below for details.

Real Property Tax Unrealized Revenues for Tax Years 2012 to 2016

Type of Property Tax Revenue Loss	Total Amount (2012 – 2016)	Average Per Year	Percentage to Category
A. Revenue Leakage			
1. Uncollected/Delinquencies	$ 10,507,541	$ 2,101,508	56%
2. Unbilled John Doe Properties	$ 2,800,734	$ 933,578[1]	15%
3. Unpaid Escape Assessments	$ 2,311,021	$ 462,204	12%
4. Unbilled and unassessed CLTC Properties	$ 1,926,067	$ 385,213	10%
5. Unassessed Condo, Townhomes	$ 862,249	$ 172,450	5%
6. Questionable Taxable Value Reduction	$ 445,740	$ 148,580[2]	2%
Total Revenue Leakage	**$ 18,853,352**	**$ 4,203,534**	**100%**
B. Foregone Revenues			
1. Primary Home Exemption	$ 9,897,175	$ 1,979,435	46%
2. Senior Citizen Credits	$ 6,644,651	$ 1,328,930	31%
3. A-F Exemptions (Government, Religious, Farm, etc.)	$ 3,810,566	$ 762,113	18%
4. Tax Abatements for Qualifying Certificates	$ 824,086	$ 164,817	4%
5. Citizens with Disability Credits	$ 169,134	$ 33,827	1%
Total Foregone Revenues	**$ 21,345,612**	**$ 4,269,122**	**100%**
Total Unrealized Revenues	**$ 40,198,964**	**$ 8,472,656**	

We also noted anomalies in the 2016 tax rolls with $186K in questioned costs.

Revenue leakages occurred as: (1) DRT did not effectively monitor uncollected property taxes or aggressively collect on delinquent property taxes; (2) DRT systems' inability to identify all owners of new properties (John Does) added after the 2014 mass re-appraisal; (3) The existing systems do not have the

[1] A three-year average was calculated for the John Doe properties since these only started to appear in TY 2014.

[2] A three-year average was calculated since the reduced taxable property values took effect in TY 2014.

ability to create Parcel Identification Numbers (PINs); (4) DRT, Department of Land Management (DLM), and Department of Public Works (DPW)'s systems do not interface; and (5) DRT and DLM did not strictly adhere to the Memorandum of Agreement (MOA).

Collection Efforts of Uncollected/Delinquent Property Taxes Continue
Based on DRT's collection report, for taxes assessed from 2012 to 2016, unpaid property taxes totaled $17.2M as of September 30, 2017. For the top 50 delinquent taxpayers alone (inclusive of CLTC and John Doe properties), unpaid property taxes amounted to $6.7M. Some of these taxpayers have been consistently delinquent for three to five years.

DRT Systems' Inability to Identify Property Owners After 2014 Mass Re-appraisal (John Does)
John Doe properties started to appear in the tax assessment rolls after the mass re-appraisals in 2014. We found that these are properties with new PINs added to the 2014 tax rolls. Without knowing the names of the property owners and due to the system, DRT is unable to collect taxes from these properties.

Fatal Flaw in PIN Creation within DRT and DLM Systems
According to DRT-RPT and DLM personnel, the conversions to the Aumentum and LandWeb systems in 2012 led to an inability to create PINs, which are necessary to add properties into the tax rolls to be assessed and billed. Since then, several new multi-family dwelling properties (i.e., condominiums and townhouses) and other constructions were not taxed or had escaped assessments. The exact number of untaxed units cannot be determined, resulting in incomplete tax rolls. There is a lack of aggressive follow-up by DRT and DLM to correct this fatal flaw in the system, which has been known since 2012.

DRT, DLM, DPW Real Property Information Do not Interface
DRT's Aumentum system does not interface with DLM's LandWeb system. Additionally, DPWs data on new construction and additional construction to existing units does not interface with DRT. Consequently, the exact number of condominium units constructed since 2012 could not be determined and neither DRT nor DLM has a complete inventory of all real properties in Guam. With the absence of system interface among these agencies, DRTs annual tax rolls will continue to be incomplete, resulting in a significant amount of unrealized property tax revenues.

Memorandum of Agreement (MOA) between DRT and DLM Not Strictly Enforced
In May 2016, DRT and DLM executed an MOA to define their responsibilities in providing mutual assistance and cooperative sharing of real property information each agency collects. However, DLM did not provide a list of CLTC and GALC properties with leases and DRT did not regularly provide DLM the certified tax roll for property taxes assessed for CLTC and GALC properties.

Conclusion and Recommendation
While Guam has the lowest effective tax rates among the United States, GovGuam also had unrealized revenues from property taxes due to inefficiencies in their system and assessment and collection processes. We recommend that DRT/DLM settle the PIN issue with the system provider and aggressively collect and enforce remedies provided by law for delinquent property taxes. We also recommend that DRT, DLM, and DPW ensure that real property information interfaces and adhere to the MOA. As even more revenues are forgone due to credits, exemptions, and abatements, we urge the Legislature to review these benefits. For example, over 5,000 homes are not assessed any tax and 25,000 homeowners pay less than $100.

DRT disagreed with several findings and stated that DRT has been effective in administering the Real Property tax laws of Guam. DLM agreed with our findings and recommendations.

Doris Flores Brooks, CPA, CGFM
Public Auditor

Introduction

This report presents the results of our audit of Real Property Tax Assessments and Exemptions for Tax Years (TY) 2012 through 2017 and Fiscal Years (FY) 2012 through 2017. Our review of the Department of Revenue and Taxation's (DRT) annual tax assessment rolls used TY, which encompasses the period after the 1st Monday of March of the current year to the 1st Monday of March of the following year. Our review of tax collections and property tax revenues used FY.

The audit was conducted as part our 2017 Audit Plan and partly addresses a request from a Senator of the 34th Legislature regarding possible tax revenue leakages. Our objectives were to determine:

1. The effect of the 2014 mass revaluation on Guam's property values and Guam's ranking of its tax rate in comparison with the United States;
2. Determine revenue leakages due to uncollected property taxes, escaped assessments, and other billing issues; and
3. Determine foregone revenues due to tax exemptions, credits, and abatements.

The scope, methodology, and prior audit coverage are detailed in Appendices 1 and 2.

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 has the authority to assess tax and collect real property taxes as authorized by law. DRT's mission is to "provide quality service in helping [the] island community to understand and meet tax licensing responsibilities by applying the Tax Laws and Business Regulations with fairness and integrity to all."

The Real Property Tax (RPT) Division of DRT is responsible for the administration and enforcement of the real property tax laws mandated by Title 11, Guam Code Annotated (GCA), Chapter 24. There are two branches within RPT, the Appraisal Branch and the Assessment Branch. The Appraisal Branch is responsible for capturing and maintaining the ProVal system for all taxable improvements on land, while the Assessment Branch is responsible for updating the tax assessment records via the Guam Property Tax Assessment System "Aumentum".

As of September 30, 2016, the RPT Division had 15 employees: 8 in the Appraisal Branch, 5 in the Assessment Branch, 1 Administrator, and 1 Deputy Tax Commissioner. There is no staff assigned to collections within the division. According to DRT Director, the mechanism is in place for collection so there is no need for a collection staff. See DRT RPT Functional Chart in Appendix 3. As of the 2nd quarter of FY 2018, DRT-RPT's total personnel increased to 16.

2012 Conversion to the Aumentum and LandWeb Systems

Prior to January 2012, RPT's Real Property Tax System was the legacy AS 400 system, which was used to process real property tax assessments, billing, and other property-related transactions.

The Department of Land Management (DLM) used the "Uniface" system to process all information and transactions relative to real properties.

In January 2012, DRT converted the AS 400 system to the Government Revenue Management (GRM), which was subsequently changed to the web-based Aumentum system. Concurrently, DLM converted its "Uniface" system to the "LandWeb" system, which serves as a database of all transactions related to real properties that DRT can access to prepare and update real property tax assessments. The Aumentum and the LandWeb systems were installed at DRT and DLM, respectively, without a maintenance contract with the local service provider. DLM's LandWeb system is a proprietary software locally developed, which has no similar clients prior to its installation.

Appraised Value, Assessed Value, and Property Tax Rates

Property means land and improvements on land, and includes the interest of a lessee or licensee of land owned by the Chamorro Land Trust Commission. *Appraised value* of a property means the amount at which "property would be taken in payment of a just debt from a solvent debtor as determined by the last completed valuation" conducted pursuant to 11 GCA § 24306, Title 11, Guam Code Annotated. Simply put, the appraised value is the current worth of a property based on factors, such as area, location, improvements, and amenities.[3] *Assessed value* is a percentage of the appraised value. From 2007 to 2016, the Guam Legislature has changed the assessed value rates from 70% to 90% to 100% and back to 90% in 2016.

Property taxes are computed by applying a levy amount to a taxable base, which is the assessed value less nontaxable assessments or exemptions. Governmental legislative bodies must approve the levy rate. Taxes are applicable to all types of real properties (land and building improvements), which have different tax rates. During the period of our review, Land tax rates increased from 7/80% (.000875) to 7/72% (.0009722) and Building tax rates increased from 7/20% (.0035) to 7/18% (.0038889).

However, we found that with each increase or decrease of the assessed value rate, tax rates were reduced or increased, respectively, resulting in no substantial increase in real property taxes. See Table 1 for the changes in Assessed Value rates and the Land and Building tax rates over the years.

Table 1: Assessed Value Rate and Tax Rate-Tax Year 2008 -2016

Public Law	Public Law Enactment Date	Effective Tax Year	Assessed Value Rate	Land Tax Rate	Building Tax Rate	Average Tax Rate
29-19	9/29/07	2008	70%	1/8% (0.00125)	1/2 % (0.005)	0.31% (0.003125)
30-7	4/2/09	2009	90%	7/72% (0.00097222)	7/18% (0.00388889)	0.24% (0.002431)
31-196	3/28/12	2012 - 2015	100%	7/80% (0.000875)	7/20% (0.0035)	0.22% (0.002188)
33-185	8/29/16	2016	90%	7/72% (0.0009722)	7/18% (0.00388889)	0.24% (0.002431)

[3] http://www.businessdictionary.com/definition/appraisal-value.html

Bill No. 261-34 proposes to increase the building/improvements tax rate from the present 7/18% (0.003888889) to 7/9% (0.00777778) which would generate approximately $22M provided the Assessed Value rate would remain at 90%. As of the issuance of this report, no action has been taken by the Guam Legislature on this bill.

The increase or decrease in assessed values correspondingly increases or decreases the government's debt ceiling limitation, which is 10% of the total assessed value of real properties. See Table 2 for the Debt Ceiling from 2012 to 2016.

Table 2: GovGuam Debt Limit Based on Certified Assessed Value

Tax Year	Total Assessed Value	Debt Ceiling Limit (10%)	Increase (Decrease)
2012	$11,391,887,986	$1,139,188,799	N/A
2013	$11,588,588,866	$1,158,858,887	$ 19,670,088
2014	$16,973,805,644	$1,697,380,564	$538,521,677
2015	$14,899,838,025	$1,489,983,803	($207,396,761)
2016	$13,886,639,588	$1,388,633,959	($101,349,844)

During the period of our review, we found that GovGuam's debt did not exceed the debt ceiling.

Assessment of Real Property Taxes

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. This covers all real properties recorded from after the first Monday of March of the previous tax year to the first Monday of March of the current tax year. Real property taxes become a lien on the property as of noon the first Monday of March of each year. By October 31 each year, the tax assessment roll has to be certified by the Board of Equalization (BOE) and real property taxes become due and payable on December 15. Property taxes are payable in two installments, on February 20 and April 20 of the following year. A delinquent penalty at 9% (minimum of $5.00) is imposed if taxes are not paid on the installment due dates. DRT is mandated by law to serve a 90-day notice letter for delinquent tax assessments, then process and record the deed for non-payment of taxes. Delinquent taxes are included in the Delinquent List, which are published in a newspaper of general circulation.

Property Valuation and Mass Appraisal

DRT is required by law to re-ascertain the value of all properties in Guam every five years. The last mass appraisal of the real property in Guam was effective retrospectively as of March 4, 2013. Utilizing the data provided by DRT, which covered over 66,176 parcels of real property, the contracted Appraiser issued its report in June 2015. After this re-appraisal, several "John Doe" or unidentified property owners appeared in the 2014 tax roll. While Guam's real properties are due for another re-appraisal effective March 2018, no determination has been made if this re-appraisal will proceed, since, according to DRT Director, the legislature did not approve the estimated revaluation cost of $2.7M.

Exemptions and Credits

1. **General Exemption -** Per 11 GCA § 24401, certain real properties are exempted from real property taxes; thus, are not assessed. These properties are:

   a. Owned by the United States or Government of Guam, except for the interest of a lessee or licensee in land owned and leased or licensed by the Chamorro Land Trust Commission;
   b. Public roads or easements;
   c. Properties used for educational, religious or other eleemosynary purposes;
   d. Cemetery in use and not conducted for profit;
   e. Property prohibited for the construction of buildings;
   f. Property used in active farming for at least eight months in any tax year;
2. **Home Tax Exemption -** A reduction of up to $50,000 from the appraised value of the improvements is allowed to one home for any owner.
3. **Fallout Shelter Exemption -** An exemption is granted in addition to a home exemption, to any structure used as fallout shelter. This equates to the first $750 of the appraised value of the improvements.
4. **Reduced Tax Rates for Senior Citizens -** 11 GCA § 24110 states that any person 55 years of age or older and has lived in Guam for five preceding consecutive years shall pay only 20% of the yearly tax rate for his or her place of primary residence.
5. **Government-Used Land not Taxed to Owner -** 11 GCA § 24111 states that any private property that is used as sites of government roadways or utility assessments shall be removed from the taxpayer's taxable property after verification of a proof or affidavit showing that part of his property is occupied by the government.
6. **Reduced Tax Rates for US Citizens with Disabilities and Heads of Households with Dependents with Disabilities** - 11 GCA § 24112 states that a US citizen 18 years old and above with permanent disabilities or a head of household with dependents with disabilities and who lived in Guam for five preceding consecutive years, shall pay only 20% of the yearly real estate tax on his primary residence.

The powers, duties, and authority to formulate operational procedures relating to the assessment and collection of Real Property Tax are codified in Title 11 GCA Chapter 24 - Real Property Tax Law. See Appendix 4 for more laws.

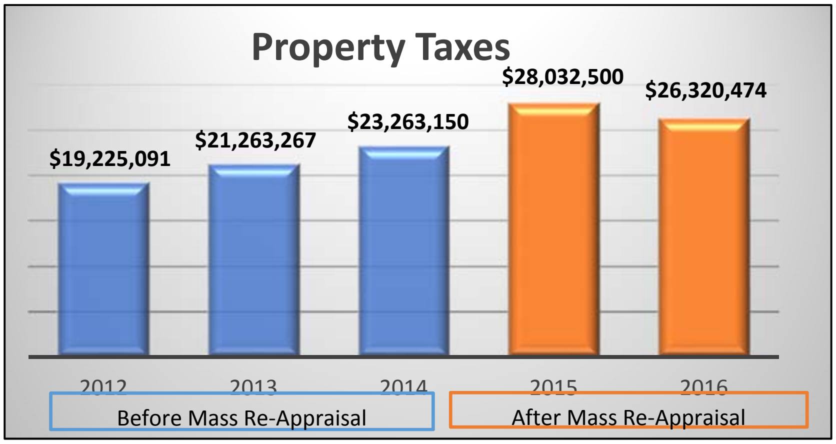
Board of Equalization (BOE)

The BOE is composed of five members appointed by the Governor with a term of four years. The Board shall certify the Tax Rolls for any year on or before October 31 of that year. The BOE, upon showing unreasonableness, may increase or reduce any assessment on the roll in order to equalize assessments throughout Guam.

Real Property Revenues

FY 2016 property tax revenues of $26.3M increased by $3.1M or 13% from $23.3M in FY 2014 (revenues are collected in 2015) after the 2014 mass revaluation of real properties. Property tax revenues averaged $23.6M and comprised 3% of the entire Government of Guam (GovGuam) revenues, which averaged $700.8M per year. See Chart 1 for the trend of property taxes.

Chart 1: Guam Property Tax Revenues for FY 2012 to 2016



Results of Audit

Based on the DRT-provided certified tax rolls for 2012 to 2016, we found that although levied property taxes increased by an average of $7.0M after the 2014 mass re-appraisal, GovGuam had unrealized revenues averaging $8.5M per year due to revenue leakages and foregone revenues.

Revenue leakages are defined as unnoticed losses of revenues due to complications and loopholes in the tax system or business processes, too much discretionary powers of officials, or lack of infrastructure.

Foregone revenues are the difference between earnings actually achieved and earnings that could have been achieved due to authorized tax expenditures, such as exemptions, deductions, offsets, credits, abatements, and deferral of tax liabilities.

The 2016 average assessed value of all property in Guam for 2016 was $196,281, which is a $59,031 or 43% increase from 2011's average assessed value of $137,250. Guam's 2016 average residential home value of $196,737 is slightly higher than Guam's overall average assessed value of $196,281. We found that Guam's $196,737 average residential home value is among the lowest in the United States. Coupled with the lowest effective tax rate[4] of 0.17%, Guam's real property tax revenue collections is far less in comparison to the 50 states and the District of Columbia (D.C.). According to the Tax Foundation, property taxes were the largest source of state and local tax collections in the United States, comprising 31.3%. However, Guam's real property tax revenues accounted for only 3.4% of all tax revenues.

With the lost opportunity of increased revenues resulting from low property tax rates, we identified GovGuam's unrealized revenues of $40.1 Million (M) in real property tax revenues for tax years 2012 through 2016, or an average of $8.5M per year, consisting of $18.8M in revenue leakages and $21.3M in foregone revenues. See Table 3 for a summary of the lost revenues identified between tax years 2012 and 2016.

[4] OPA Report No. 13-03 defined Guam's effective real property tax rate as the average annual property tax calculated as a percentage of the median property value per the 2011 Assessment Tax Roll based on the Tax Foundation data. The 50 states' effective tax rates were no longer available in the Tax Foundation website. According to Constance Brinkley-Badgett's article entitled "Comparing average property taxes for all 50 states and D.C.", published in April 2017 on Credit.com, the effective tax rate is calculated as the average property tax rate as a percentage of average home value for single family homes.

Table 3: Real Property Tax Unrealized Revenues - Tax Years 2012 - 2016

Type of Property Tax Unrealized Revenue	Total Amount (2012 – 2016)	Average Per Year	% to Category
A. Revenue Leakage			
1. Uncollected and/or Delinquent Property Taxes	$ 10,507,541	$ 2,101,508	56%
2. Unassessed and/or Unbilled John Doe Properties	$ 2,800,734	$ 933,578[5]	15%
3. Unpaid and/or Unbilled Escaped Assessments	$ 2,311,021	$ 462,204	12%
4. Unassessed and/or Unbilled CLTC Properties	$ 1,926,067	$ 385,213	10%
5. Unassessed and/or Unbilled Condo Units and Townhomes	$ 862,249	$ 172,450	5%
6. Questionable Taxable Value Reductions of Properties	$ 445,740	$ 148,580[6]	2%
Total Revenue Leakage	**$ 18,853,352**	**$ 4,203,534**	**100%**
B. Foregone Revenues			
1. Primary Home Exemption	$ 9,897,175	$ 1,979,435	46%
2. Senior Citizen Credits	$ 6,644,651	$ 1,328,930	31%
3. A-F Exemptions (Government, Religious, Farm, etc.)	$ 3,810,566	$ 762,113	18%
4. Tax Abatements for Qualifying Certificates	$ 824,086	$ 164,817	4%
5. Citizens with Disability Credits	$ 169,134	$ 33,827	1%
Total Foregone Revenues	**$ 21,345,612**	**$ 4,269,122**	**100%**
Total Unrealized Revenues	**$ 40,198,964**	**$ 8,472,656**	

The revenue leakages totaling $18.8M, or an average of $4.2M annually, were due to: uncollected or delinquent property taxes; unassessed and/or unbilled John Doe properties, unpaid and/or unbilled escaped assessments; unassessed and/or unbilled Chamorro Land Trust Commission (CLTC) leased properties; unassessed and/or unbilled condominium units (condo) and townhomes; and questionable taxable value reductions of certain hotel properties.

Based on our analysis of the DRT-provided 2016 tax assessment rolls, we also found anomalies that may further add to the revenue leakages, such as minimal appraised values for land and buildings, land with "zero" appraised values in the tax rolls, and government exemptions granted to properties under named persons or businesses. Additionally, we found information on new residential homes and additional units or renovations to existing homes at the Bureau of Statistics and Plan (BSP) website based on data provided by the Department of Public Works (DPW). Since DPW and DRT systems do not interface, we could not ascertain if these properties are included in DRT's tax assessment rolls, and is another potential source of revenue leakage.

We also identified foregone revenues totaling $21.3M, or an average of $4.3M per year, from exemptions, credits, and abatements, which were allowed by existing laws. Some of the claimed exemptions or credit amounts did not have descriptions as to the type of exemption or credit.

Mass Re-Appraisal Increased Tax Assessment Values by an average of $7.0M

DRT is required by law to re-ascertain the value of all properties in Guam every five years. In the independent Appraiser's June 2015 report, the mass re-appraisal of over 66,176 parcels of Guam real properties was completed and was made effective retrospective as of March 2013. Prior to this mass re-appraisal, tax assessments were based on a valuation system completed in 1994, which was over 20 years old.

[5] A three-year average was calculated for the John Doe properties since these only started to appear in TY 2014.
[6] A three-year average was calculated since the reduced taxable property values took effect in TY 2014.

After the mass re-appraisals in 2014, cumulative property values increased by an average of $3.1 Billion (B) or 25% from $12.4B to $15.5B. This consequently resulted in an increase in levied property taxes by an average of $7.0M or 33%. To arrive at the 2014 figures, we adjusted the overstated values for 12 hotel properties by $2.2B and property tax receivable by $7.8M. See Table 4 below for a summary of the 2012 through 2016 Certified Tax Rolls. [7]

Table 4: Summary of Certified Tax Rolls for 2012 - 2016

Tax Year	Appraised Values	Taxable Appraised *(Appraised Value Less Exemptions)*	Assessed Values *(90% or 100% of Appraised Value based on law)*	Taxable Assessed Values *(Assessed Value Less Primary Home Exemption)*	Property Tax Receivable *(Taxable Assessed Value x Land and Building Rate)*
2012	$12,290,407,617	$11,391,887,986	$11,391,887,986	$10,271,408,621	$21,076,609
2013	12,520,524,170	11,588,588,866	11,588,588,866	10,384,314,757	21,568,272
Average *(Prior to mass reappraisal)*	**$12,405,465,894**	**$11,490,238,426**	**$11,490,238,426**	**$10,327,861,689**	**$21,322,441**
2014[8]	15,258,030,461	16,973,805,644	16,973,805,644	15,628,456,069	27,893,194
2015	15,427,589,709	14,899,838,025	14,899,838,025	13,478,202,779	28,145,931
2016	15,830,291,466	15,429,599,543	13,886,639,589	12,285,047,530	29,074,011
Average *(After mass reappraisal)*	**$15,505,303,879**	**$15,767,747,737**	**$15,253,427,753**	**$13,797,235,459**	**$28,371,045**
Dollar Increase	**$3,099,837,985**	**$4,277,509,311**	**$3,763,189,327**	**$3,469,373,770**	**$7,048,605**
Percentage Increase	**25%**	**37%**	**33%**	**34%**	**33%**

Guam is Among the Lowest in Property Values and has the Lowest Effective Property Tax Rates in the United States

Based on DRT-provided data, Guam's 2016 average assessed value of all property in Guam was $196,281, which is a $59,031 or 43% increase from 2011's average assessed value of $137,250. Guam's 2016 average property tax was $325 and the average residential home value of $196,737, which is slightly higher than Guam's overall average assessed value of $196,281. We found that the average residential home value of $196,737 is among the lowest in the United States, ranking the 16th lowest. See Appendix 5 for details.

Guam's 2016 effective property tax rate, which is the average annual property tax divided by the average value of residential properties is 0.17%. When compared to the 50 states within the United States and the District of Columbia (D.C.), Guam's effective property tax rate ranks the lowest, followed by Hawaii at 0.32%. We found that the very low effective tax rate is a result of over 5,000 residential properties that are not assessed any property tax and over 25,000 homeowners paying less than $100 in property taxes. These low tax amounts are attributed to credits and exemptions granted, and potential processing errors that are discussed later in this report. See Appendix 6 for a comparison of effective tax rates within the United States, D.C., and Guam.

[7] Subsequent to the release of OPA Report No. 18-03 on May 16, 2018, a modification was made to this paragraph on June 15, 2018.

[8] The TY 2014 appraised value was reduced by $2.2B and Property Tax Receivable by $7.8M. Based on DRT-provided data, the taxable appraised value, assessed value, and taxable assessed value remained unadjusted.

According to the Tax Foundation, property taxes were the largest source of state and local tax collections in the United States, comprising 31.3%. However, Guam receives an average of 3.4% from property tax revenues in comparison to total tax revenues. See Table 5 for comparison of GovGuam's annual revenues.

Table 5: Comparison of Tax Revenues for FY 2012 to FY 2016

	2012		2013		2014		2015		2016		
Category	**Tax Revenue**	**% of Total**	**Tax Revenue**	**% of Total**	**Tax Revenue**	**% of Total**	**Tax Revenue**	**% of Total**	**Tax Revenue**	**% of Total**	**Avg.% of Total Taxes**
Income	$284,823,341	45%	$261,854,651	39%	$296,186,624	41%	$324,402,392	45%	$343,836,465	45%	43%
Gross Receipts	$221,443,640	35%	$221,672,983	33%	$238,249,400	33%	$226,592,159	31%	$238,304,786	31%	33%
Section 30	$53,125,949	8%	$96,104,113	14%	$87,998,215	12%	$71,446,424	10%	$78,467,450	10%	11%
Hotel Occupancy	$26,054,476	4%	$29,331,058	4%	$34,362,256	5%	$36,988,454	5%	$40,864,063	5%	5%
Property	**$19,225,091**	**3%**	**$21,263,267**	**3%**	**$23,263,150**	**3%**	**$28,032,500**	**4%**	**$26,320,474**	**3%**	**3%**
Tobacco	$17,055,970	3%	$19,615,319	3%	$20,960,702	3%	$19,722,736	3%	$20,104,227	3%	3%
Liquid Fuel	$9,831,039	2%	$9,825,967	1%	$9,791,970	1%	$9,931,635	1%	$10,051,209	1%	1%
Alcoholic Beverages	$2,485,550	0%	$780,319	0%	$2,207,886	0%	$2,778,336	0%	$2,895,727	0%	0%
Excise	$2,459,927	0%	$2,725,994	0%	$3,462,817	0%	$2,690,851	0%	$2,937,715	0%	0%
Limited Gaming	$0	0%	$0	0%	$0	0%	$0	0%	$1,505,520	0%	0%
Total	**$636,504,983**	**100%**	**$663,173,671**	**100%**	**$716,483,020**	**100%**	**$722,585,487**	**100%**	**$765,287,636**	**100%**	**100%**

Fatal Flaw with PIN Creation in DRT and DLM Systems

DRT's Real Property Tax System was converted from the Legacy System (AS 400) to the Guam Property Assessment System Aumentum in January 2012. Similarly, DLM's old Uniface system was converted into LandWeb System.

Typically, DLM inputs a map for a certain property into the LandWeb system, which will automatically create a PIN and interface with DRT's Aumentum system. However, since January 2012, DLM is unable to input any new land instruments pertaining to multi-family dwelling (i.e., condominium units, townhomes, etc.) properties into the LandWeb system, because the system is unable to generate PINs for these properties. According to RPT personnel, PINs are necessary to add a property into the tax assessment roll so that the property could be assessed and billed. According to DLM personnel, the provider was supposed to prepare for the entry of condominiums on the LandWeb, but it was halted because neither DRT nor DLM has an existing maintenance contract with the provider. There was a lack of aggressive follow up by DRT and DLM to correct this fatal flaw in the system that has been known since 2012.

In OPA Report No. 13-03, we noted that the maintenance agreement for the system had expired in January 2013. Subsequently, at our exit meetings with both DRT and DLM, it was agreed that

DLM is primarily responsible for executing a maintenance contract with the local provider. To reiterate, the LandWeb system is a proprietary software, locally developed with no similar clients prior to its installation. Since there is no existing service contract, the system has not been updated since its installation.

Until the issue of creating PINs is resolved, tax assessment rolls will be incomplete and inaccurate and GovGuam will continue to lose property tax revenues.

$18.8M in Property Tax Revenue Leakages or $4.2M Annually

We found six primary sources of potential and quantifiable revenue leakages from tax years 2012 to 2016:

(1) Uncollected and/or Delinquent Property Taxes
(2) Unassessed and/or Unbilled John Doe Properties
(3) Unpaid and/or Unbilled Escaped Assessments
(4) Unassessed and/or Unbilled CLTC Properties
(5) Unassessed and/or Unbilled Condominium Units and Townhomes
(6) Questionable Taxable Value Reductions of Certain Hotel Properties

More than half of the revenue leakages were due to uncollected and/or delinquent property taxes. See Table 6 below.

Table 6: Property Tax Revenue Leakages for Tax Years 2012 to 2016

Category	2012	2013	2014	2015	2016	Total Amount	% of Total	Average
1. Uncollected Property Tax	$892,281	$1,180,962	$2,240,352	$2,312,637	$3,881,309	**$10,507,541**	**56%**	**$2,101,508**
2. Unidentified Owners (John Doe)	$ -	$ -	$951,186	$956,436	$893,112	**$2,800,734**	**15%**	**$933,578**[9]
3. Escaped Assessments	$111,224	$13,493	$3,672	$89,933	$2,092,699	**$2,311,021**	**12%**	**$462,204**
4. CLTC Properties	$128,741	$126,046	$101,217	$824,554	$745,509	**$1,926,067**	**10%**	**$385,213**
5. Condo Units	$123,869	$123,869	$123,869	$128,311	$362,331	**$862,249**	**5%**	**$172,450**
6. Taxable Value Reductions	$ -	$ -	$148,580	$148,580	$148,580	**$445,740**	**2%**	**$148,580**[10]
Total Revenue Leakage	**$1,256,115**	**$1,444,370**	**$3,568,876**	**$4,460,451**	**$8,123,540**	**$18,853,352**	**100%**	**$4,203,534**

$10.5M in Uncollected /Delinquent Property Taxes

Property taxes become due and payable every December 15, with installment payments due on February 20 and April 20 of the following year. Failure to pay on the due dates results in the taxes becoming delinquent.

Per 11 GCA § 24809 (Notice) to § 24810 (Auction of Unpaid Real Property Taxes), a 90-day notice shall be given before the tax collector shall deed the property to the government pursuant to 11 GCA § 24813. By April 1 of each year, the tax collector shall notify the listed owner, his representative, and all of its known heirs by publication by placing a Delinquency Notice and

[9] A three-year average was calculated for the John Doe properties since these only started to appear in TY 2014.
[10] A three-year average was calculated since the reduced taxable property values took effect in TY 2014.

Termination of the Right of Redemption in a public area in each municipality and indicating the date of termination and the right of redemption. If the taxes remain unpaid and the upon expiration of the redemption period, the property should become sold to the government every July 6 and deeded in favor of the government or the property may be placed for public auction for sale. However, this was not enforced by DRT due to improvements needed in statute to enforce collections. Therefore, many taxpayers have not promptly paid their property taxes.

One of DRT's short-term goals is to efficiently serve the 90-day notice letters, as well as process and record deeds for non-payment of taxes. According to 11 GCA §24204, property taxes which remain unpaid after ten years will "conclusively be presumed to have been paid."

DRT-RPT personnel acknowledged that there was limited monitoring of unpaid property taxes including unpaid escaped assessments and no extensive collection effort has been exerted because the division does not have a collection staff. In OPA Report No. 13-03, DRT replied that it has not exercised its enforcement ability to auction delinquent properties due to: undivided interest of unsettled estates, ownership disputes, and "land rich" but "money poor owners". During our discussion, DRT emphasized that their auction process was halted because a law requires DRT to first promulgate rules and regulations pursuant to the Administrative Adjudication Law to auction properties. OPA noted that P.L. 32-218 authorizes DRT to administratively take action to collect and resolve delinquent property taxes subject to duly adopted regulations.

Based on the DRT-provided collection report, of the assessed taxes for tax years 2012 to 2016, unpaid property taxes totaled $17.2M as of September 30, 2017. However, this figure differed by $2.9M from a separately provided Delinquent List, which reported $14.3M (inclusive of CLTC and John Doe properties). See Tables 7 and 8 below.

Table 7: Uncollected Property Taxes per Collection Report

Tax Year	Tax Receivable (Tax Due) per Certified Roll	Collected for Tax Years as of 9/30/17	Unpaid Tax as of 9/30/17
2012	$ 21,076,609	$ 19,261,651	$ 1,814,958
2013	$ 21,568,272	$ 19,197,208	$ 2,371,064
2014	$ 27,893,194	$ 24,172,306	$ 3,720,888 [11]
2015	$ 28,145,931	$ 24,393,637	$ 3,752,294
2016	$ 29,074,004	$ 23,488,499	$ 5,585,505
Total	**$ 127,758,010**	**$ 110,513,301**	**$ 17,244,709**

Table 8: Uncollected Property Taxes per Delinquent List

Tax Year	Inclusive of John Does & CLTC Properties	Exclusive of John Does & CLTC Properties
2012	$ 1,021,068	$ 892,281
2013	$ 1,307,055	$ 1,180,962
2014	$ 3,030,796	$ 2,240,352
2015	$ 3,700,848	$ 2,312,637
2016	$ 5,280,429	$ 3,881,309
Total	**$ 14,340,196**	**$ 10,507,541**

[11] This excludes the $7.8M overstatement of tax receivable due to the overstatement of appraised values of 12 hotel properties, which DRT subsequently adjusted in the 2015 tax rolls.

The Delinquent List as of September 30, 2017, involved 11,737 taxpayers. For the top 50 delinquent taxpayers alone (inclusive of CLTC and John Doe properties), unpaid property taxes amounted to $6.7M, or 47% of the total delinquent amount. Some of these taxpayers were consistently delinquent for three to five years.

One taxpayer provided a copy of a billing of $0.38 in delinquent taxes from 1991; however, we could not locate the taxpayer's property on the delinquent list provided by DRT nor any of the tax assessment rolls from 2012 to 2016.

$2.8M in Unbilled/Unidentified Property Owners (John Doe)

From Tax Years 2014 to 2016, DRT identified an average of 6,684 properties with unknown taxpayers, which are tagged in the Tax Rolls as "John Doe". The average appraised value of these properties amounted to $1B, which resulted in total tax due of $3.3M in three years. The John Doe properties started to appear in the tax rolls after the mass re-appraisals in 2014, resulting from the new Parcel Identification Numbers (PIN) that were added to the 2014 tax assessment rolls. As a result, DRT staff has been reviewing accounts individually with actual physical land management documents. See Table 9 below for the summary of John Doe properties identified in the 2014 to 2016 tax rolls.

Table 9: Properties with John Doe Taxpayers –Tax Year-2014-2016

Tax Year	Property Count	Total Assessed Value	Total Tax Due Per Roll
2014	7,006	$1,137,016,941	$1,122,833
2015	6,789	$1,067,494,518	$1,156,209
2016	6,256	$897,977,517	$1,069,773
Total	**20,051**	**$3,102,488,976**	**$3,348,815**
Average	**6,684**	**$1,034,162,992**	**$1,116,271**

While the 2014 to 2016 tax rolls identified $3.3M in taxes due from John Doe properties, we noted that the tax rolls were not reliable, as some John Doe properties appeared to be non-taxable properties. However, when we compared the listing of John Doe properties in the separate DRT-provided Delinquency List with those in the tax rolls, we identified additional John Doe properties with taxes amounting to $726K in the tax rolls that did not appear to have been assessed property taxes.

With DRT's Aumentum system unable to identify property owners, DRT is unable to send billings and collect taxes due for these properties, if taxable. See Table 10 below lost revenues from John Doe properties.

Table 10: Unbilled and Unassessed John Doe Properties for Tax Years 2014 to 2016

Tax Year	DRT Delinquency Lists		DRT Tax Rolls		TOTAL	
	No. of PIN	Total Uncollected/ Tax Receivable	No. of PIN	Total Unassessed	No of PIN	Total Revenue Leakage
2014	3,608	$ 689,227	288	$ 261,959	3,896	$ 951,186
2015	3,627	$ 697,867	283	$ 258,569	3,910	$ 956,436
2016	3,528	$ 687,418	219	$205,694	3,747	$ 893,112
Total	**10,763**	**$ 2,074,512**	**790**	**$ 726,222**	**11,553**	**$ 2,800,734**

$2.3M in Unpaid Escaped Assessments (EA)

Per 11 GCA § 24314 (Property Not Previously Assessed), if a property has an escaped assessment (EA) in one or more prior years, the assessor shall assess the property at its value on the first Monday of March of every such year and entered on the roll followed with "escaped assessment" and the year(s) of such EA. Escaped Assessment is a correction made on a tax roll for a taxable property that should have been assessed, but no assessment was previously made and therefore, tax was not collected. We could not find any "EA" notations in the DRT-provided tax rolls, and we were instead provided supplemental EA listings.

We found escaped assessments for new buildings and multi-family dwelling properties (i.e., condominium units and townhomes) due to the Aumentum and LandWeb's inability to generate PINs since 2012.

DRT's inability to detect new properties is also due to the lack of interface with DLM and DPW's systems. The EAs for new buildings and condominium units were mostly detected when taxpayers applied for building permits or made an inquiry on properties. When EAs are detected, DRT calculates the assessment for prior years and separately bills the taxpayers.

Based on the DRT-provided EA listings for Tax Years 2012 - 2017, 1,600 new buildings were constructed with a total appraised value of $1.1B and a corresponding building tax of $3.9M. Of the total new buildings constructed, 174 had EAs from 2012 to 2016. However, as of September 30, 2017, 174 properties had EAs from 2012 to 2016, and 141 had a remaining unpaid balance of $2.3M. We did not calculate EAs from 1995 to 2011, as this is not within the scope of the audit. See Table 11 below.

Table 11: Unpaid Escaped Assessments for Tax Years 2012 to 2016

Tax Year	EA Years	No. of New Bldgs.	Appraised Value	Assessed Value	Building Tax	No. of EA Properties	No. of Unpaid EA	Total Unpaid EA as of 9/30/17
2013	2012	386	$145,680,433	$145,680,433	$509,882	85	55	$111,224
2014	2012-2013	359	$105,824,307	$105,824,307	$370,407	5	5	$13,493
2015	2012-2014	249	$110,469,232	$110,469,232	$385,570	3	1	$3,672
2016	2012-2015	179	$177,618,067	$159,856,260	$621,278	11	10	$89,933
2017	2012-2016	427	$563,737,796	$507,223,634	$1,972,536	70	70	$2,092,699
Total		**1,600**	**$1,103,329,835**	**$1,029,053,866**	**$3,859,673**	**174**	**141**	**$2,311,021**[12]

The data at Table 11 does not include the 2016 EAs for multi-family dwelling properties, which is discussed separately below.

$1.9M in Unbilled and Unassessed Chamorro Land Trust (CLTC) Real Property Inventory

Title 11 GCA § 24101 (a) (Exemptions) exempts real properties owned by the United States and GovGuam, except for the interest of a lessee or licensee in land owned and leased or licensed by the Chamorro Land Trust Commission (CLTC).

Per 21 GCA § 75108(g), (Condition in Leases) original leases shall be exempt from all taxes for the first seven years from the date of the lease. Some CLTC properties have agricultural, residential, and commercial leases.

In May 2016, the DRT and DLM directors executed an MOA to define the responsibilities of the two agencies about providing mutual assistance and cooperative sharing of real property information each agency collects. The MOA requires DLM to provide a weekly update of all recorded land property transactions to DRT, which shall be accompanied by a listing of information. The listing includes among others, 1) survey map (containing the basic and new PIN, parcel description, and owner's name); 2) CLTC and GALC leases and licenses; and 3) horizontal property regime registers (including parcel description, PIN, owner's name and address). Per DRT, they only receive documents that are not accompanied with the listing of information and they were not provided with updated lists of leased CLTC and GALC properties.

The MOA requires DRT to provide DLM a certified tax roll in an electronic format for all properties assessed including CLTC and GALC properties. In addition, DRT has to provide DLM monthly payment updates on all CLTC and GALC properties including the respective PINs. According to DLM, these requirements were not provided by DRT. Based on our interviews with the two agencies, most provisions of the MOA were not enforced by both agencies.

Based on the DRT-provided Tax Rolls, there is an average of 2,197 properties with an average appraised value of $280.3M that are registered under the Chamorro Land Trust Commission. The

[12] This is a conservative amount because credit balances were not considered in the calculation. Credit balances may have resulted in payments applied to the principal unpaid balance, which includes interest and penalties, but no breakdown was provided for these payments.

total property taxes per DRT's tax rolls amounted to $1.5M. According to DRT, a portion of these property taxes are included in the exemption amounts discussed later in this report. Refer to Table 12 for a summary of CLTC properties.

Table 12: CLTC Real Properties per Tax Rolls for Tax Years 2012 to 2016

Tax Year	Property Count	Appraised Value	Assessed Value	Total Tax
2012	2,187	$ 23,205,866[13]	$ 194,013,305	$ 216,588
2013	2,237	$ 239,124,704	$ 239,124,704	$ 215,768
2014	1,177	$ 166,735,083	$ 164,370,245	$ 159,609
2015	1,200	$ 164,560,093	$ 161,795,255	$ 155,536
2016	4,184	$ 550,782,266	$ 493,026,694	$ 758,599
Total	**10,985**	**$ 1,144,408,012**	**$ 1,252,330,203**	**$ 1,506,100**
Average	**2,197**	**$ 280,300,537 [14]**	**$ 250,466,040**	**$ 301,220**

In comparison, the DRT-provided Delinquency Report as of September 30, 2017 reflected $1.8M or $252K more, in total unpaid/delinquent property taxes for CLTC properties. Therefore, the tax roll does not appear to be complete. DLM claimed that they were not regularly provided with tax assessment rolls and updates of tax payments by DRT as provided in the MOA. Therefore, DLM is unable to follow-up with the Lessee of the property for the unpaid taxes.

Additionally, based on the DLM-provided data, there were leased properties for Residential (53), Commercial (6), and Agricultural (116) purposes, which DRT confirmed were not included in the Aumentum system and therefore, were not assessed and billed. This amounted to an additional revenue leakage of $168K. Our calculation is based on the data and project values provided by DLM as there is no available appraised values for these properties on DRT's tax rolls. DRT still has to appraise the properties to determine the true taxable value.

DRT claimed that DLM did not provide them a listing of CLTC leased properties and that DLM merely sends documents to DRT, which DRT reviews and inputs into their system. DRT considered the process inefficient, as there is a duplication of efforts. This process could be avoided if DLM and DRT's systems interfaced. See Table 13 for the breakdown of revenue leakages from CLTC properties.

Table 13: CLTC Property Tax Revenue Leakages for Tax Years 2012 to 2016

Tax Year	Property Count	Total Unpaid/ Delinquent Tax	Residential Lease	Commercial Lease	Agricultural Lease	Total Revenue Leakage
2012	1,687	$ 128,741	$ -	$ -	$ -	$ 128,741
2013	1,685	$ 126,046	$ -	$ -	$ -	$ 126,046
2014	822	$ 101,217	$ -	$ -	$ -	$ 101,217
2015	3,440	$ 690,345	$ 13,348	$ 6,315	$ 114,546	$ 824,554
2016	3,611	$ 711,702	$ 3,421	$ 1,626	$ 28,760	$ 745,509
Total	**11,245**	**$ 1,758,051**	**$ 16,769**	**$ 7,941**	**$ 143,306**	**$ 1,926,067**

[13] The appraised value provided in the 2012 tax assessment roll was for building only.
[14] The average appraised value is calculated for tax years 2013 to 2016 only, because the 2012 appraised values is for building only.

$862K in Untaxed Multi-Family Dwelling Properties

According to RPT staff, several multi-family dwelling properties (i.e., condominium units and townhomes) and additions to existing units since 2012 cannot be taxed due to the lack of PINs. The exact total number of multi-family dwelling properties constructed since 2012 could not be determined since DLM and DPW data on constructed properties do not interface with DRT's system. For example, for two condominium properties alone, 100 PINs are necessary to tax the properties in their entirety. Consequently, neither DRT nor DLM has a complete inventory of all real properties in the entire island of Guam. With the absence of system interface among these agencies, DRT's annual tax assessment rolls will be incomplete and inaccurate, which will result in significant loss of property tax revenues.

Based on the Horizontal Property Regime Register of condominiums and townhouses provided by DLM, there were 169 listed owners/developers. Of the 169 listed, 30 properties were found in the 2016 tax roll. Of the 747 units within these 30 properties, 639 units were not found in the 2016 tax roll.

Of the 639 units that could not be identified in the 2016 tax roll, RPT staff confirmed that 287 units were taxed and 189 units did not have assessed values from which to base revenue leakage calculations on. As a result, we could only estimate revenue leakage for 163 units. The total estimated property tax for the 163 units in 2016 alone amounted to $143K. In 2016, DRT identified two additional properties with 125 units and a total tax due of $219K. Altogether, we estimate revenue leakage of $862K for 288 units between tax years 2012 and 2016. See Table 14.

Table 14: Untaxed Condominium Units for Tax Years 2012 to 2016

Tax Year	No. of Untaxed Units	Tax Amount
2012	152	$ 123,869
2013	152	$ 123,869
2014	152	$ 123,869
2015	163	$ 128,311
2016	288	$ 362,330
Total		$ 862,249

With 30 of 169 properties found in the 2016 tax roll, the remaining 139 properties were referred to DRT for verification. Of the 139 properties, 15 properties with 707 units are still pending DRT's verification. If found to be untaxed, these will increase the revenue leakage amounts.

According to DRT, the remaining 124 properties were already taxed or duplicates. Through this verification process with DRT, we found that DRT-RPT could not establish the exact number of condominium units and other new constructions that remain untaxed due to the lack of interface with DLM and DPW systems. DLM's Horizontal Property Regime Register and DRT's tax rolls should be periodically reconciled, to ensure new condominium units, townhomes, and new constructions are captured in the tax rolls and assessed accordingly. DRT stated that it will crosscheck their appraisal listings with the ProVal and Aumentum systems to verify if they are taxing all new constructions since 2012.

$446K in Significant Taxable Value Reductions

After the mass re-appraisals in 2014, but prior to the adjustments due to overstated appraised values, property values on average increased by $3.8 Billion (B) or 31% and property taxes increased by an average of $9.6M or 45%. The DRT certified appraised values in 2014 was adjusted by $2.2B and the tax receivable by $7.8M due to the overstated values for 12 hotel properties. The overstatements were adjusted in the 2015 and subsequent tax assessment rolls. However, for three hotel properties, instead of upward adjustments from their previously recorded appraised values, there were significant reductions to their property values. These reductions reduced the property taxes by $446K from 2014 to 2016. See Table 15 below. [15]

Table 15: Reduced Appraised Values for Hotels

Taxpayer	Appraised Values			Tax Amount			Total Tax Reduction (2014-2016)
	2013	2014-2016	Reduction Per Year	2013	2014-2016	Reduction Per Year	
Hotel 1	$12,240,000	$8,357,860	$3,882,140	$89,536	$29,253	$60,283	$180,848
Hotel 2	36,231,130	27,969,146	8,261,984	126,809	97,892	28,917	86,751
Hotel 3	28,648,734	11,683,275	16,965,459	100,271	40,891	59,380	178,140
Total	**$77,119,864**	**$48,010,281**	**$29,109,583**	**$316,616**	**$168,036**	**$148,580**	**$445,740**

DRT-RPT was unaware of the reduction in values. Reduction in values should be subject to review and approval of the BOE.[16]

Other Possible Revenue Leakages

In addition to the revenue leakages identified above, we found other possible areas where GovGuam may be losing property tax revenues, which should be further investigated by DRT. These areas are:

- Guam Ancestral Lands Commission (GALC) properties not included in DRT's Aumentum system;
- New residential house constructions and additions to existing units;
- Current market values not being used to assess real property taxes; and
- Anomalies in the 2016 tax rolls.

From tax years 2012 through 2016, we estimated total revenue leakage of $2.8M, primarily from new home constructions and additions/renovations to existing units. The total revenue leakage may be greater; however, as information is not available to estimate the revenue leakage from GALC properties. See Table 16 below.

[15] Subsequent to the release of OPA Report No. 18-03 on May 16, 2018, a modification was made to this paragraph on June 15, 2018

[16] Subsequent to the release of OPA Report No. 18-03 on May 16, 2018, a modification was made to this paragraph on June 15, 2018

Table 16: Summary of Other Possible Revenue Leakages

Areas of Possible Revenue Leakage	Estimated Revenue Leakage 2012 -2016
A. Guam Ancestral Land Commissions (GALC) properties not included in DRT's Aumentum System	Unknown
B. New Residential House Constructions and Additions to Existing Units	$2,573,074
C. Current Market Values Not Being Used to Assess Real Property Taxes	Unknown
D. Anomalies in the 2016 Tax Rolls	$ 185,843
Total Other Revenue Leakages	**$ 2,758,917**

GALC Properties not Included in DRT's Aumentum System

Public Law No. 29-88 granted real property tax immunity to the original landowners, their estate or their heirs on the return of federal excess lands. The immunity immediately ceases when free and direct access or use of returned property is acquired by the landowners and is officially recorded with the DLM.

Per the 2016 tax rolls, there are 45 GALC properties with total appraised value of $59.8M, all of which were exempted. However, DLM provided a list of eight properties with commercial leases with a projected value of $11.4M, which are not in DRT's Aumentum system. DRT will determine if there are commercial buildings in these properties, which are privately owned, which will then be taxed.

$2.6 M in New Residential Home Constructions and Additions to Existing Units

In the previous audit (OPA Report No.13-03), we reported that DRT has no way of knowing when new constructions and renovations occur. According to DRT staff, DRT's system does not interface with DPW's data for new constructions and additions/renovations to existing units. Previously, DRT viewed permits for new construction in the AS 400, but that access is no longer possible with the Aumentum system.

We learned from DPW that they issue an annual report to the Bureau of Statistics and Plan on construction permits issued for new construction and additions to existing units. Data gathered showed that from 2012 to 2016, there were 1,224 new units constructed and 1,116 additional units constructed. This translates to approximately $2.6M in property taxes. However, we could not ascertain if these properties were included in the tax rolls due to the problem with PIN creations since 2012 and the lack of interface between DRT and DPW. See Table 17 below.

Table 17: New and Additions to Existing Residential Homes

Tax Year	New		Addition		Total Value	Estimated Property Tax
	Number of Units	Construction Value	Number of Units	Construction Value		
2012	224	$ 35,732,000	93	$ 4,406,000	$40,138,000	$ 702,415
2013	303	$ 51,628,000	116	$ 4,938,000	$56,566,000	$ 791,924
2014	210	$ 36,088,000	155	$ 7,294,000	$43,382,000	$ 455,511
2015	206	$ 42,349,000	333	$10,692,000	$53,041,000	$ 371,287
2016	281	$ 60,768,000	419	$11,214,000	$71,982,000	$ 251,937
Total	**1,224**	**$226,565,000**	**1,116**	**$38,544,000**	**$265,109,000**	**$2,573,074**

The Bureau of Statistics and Plan's annual report did not reflect any condominium units constructed since 2012, which conflicts with DLM's Horizontal Property Regime Register.

Current Market Values Not Being Used to Assess Real Property Taxes

Consistent with our prior audit (OPA Report No. 13-03), current market values based on the actual sales, new constructions, and renovations are not being used to assess real property taxes, resulting in unrealized revenues. Per our discussion with DRT, they are unable to implement the adjustments of property values to current market values because DRT is required to use the last completed valuation per 11 GCA § 24306 to calculate property taxes.

Anomalies in the 2016 Tax Roll

Based on our assessment of the 2016 tax rolls we also found anomalies that may further add to the revenue leakage, such as the following:

a. Of 573 properties with minimal land-appraised values ranging from $1 to $150, 13 belong to individuals or corporations.
b. We found 96 buildings owned by individuals and businesses having minimal appraised values ranging from $26 to $9,984. Of the 96 properties, 32 have no or "$0" appraised values of the land where the building is constructed and four properties are owned by businesses.
c. There were 1,176 properties granted exemptions as "government properties". Of the total, 392 were private properties owned by individuals, businesses, and financial institutions with total exemptions of $21M and tax credits of $13K. However, there was no explanation as to how these individuals, businesses, and financial institutions can be classified as government properties. In addition, we were unable to calculate the potential property tax of the exempted amounts without a breakdown of how much of the exemptions applied to land and building. Therefore, we can only conservatively include the $13K as possible revenue leakage. See Table18 below.

Table 18: Private Properties with Government Exemptions

Property Type Owners	Property Count	Total Assessed Value	Total Tax Amount	Total Exemptions	Total Credits
Individuals	304	$ 10,631,604	$676	$10,417,328	$8,379
Businesses/Corporations	85	$11,098,349	$1,627	$10,529,562	$4,767
Financial Institutions	3	$15,085	$0	$15,085	$0
Total	**392**	**$21,745,038**	**$2,303**	**$20,961,975**	**$13,146**

d. There were 816 properties in the 2016 tax roll with tax credits, but without corresponding details as to the types of credit taken. Of the 816 properties, 714 properties are owned by individuals, businesses, and financial institutions, while the government owns the remaining 102. We found possible revenue leakage of $173K for the properties owned by individuals, businesses, and financial institutions without a description of the type of credit taken. See Table 19 below.

Table 19: Tax Credits without Description of Type of Credit Taken

Property Type Owners	Property Count	Total Assessed Value	Total Tax Due	Total Exemptions	Total Credits
Individuals	696	$126,728,107	$345,067	$2,194,195	$167,731
Businesses/Corporations	13	$5,083,957	$10,608	0	$4,158
Financial Institutions	5	$658,356	$1,993	0	$807
Total	**714**	**$132,470,420**	**$357,668**	**$2,194,195**	**$172,697**

e. Similar to the properties without details on the type of credit taken, we also found 989 properties in the 2016 tax roll with exemption amounts, but no details as to the type of exemption taken. Of the 989 properties, we found 849 are John Does, right of ways/government easements, and CLTC properties; which were excluded from our analysis. The remaining 140 properties, however, were owned by individuals and a corporation with total exemptions of $16.9M. We were unable to calculate the potential property tax of the exempted amounts without a breakdown of how much of the exemptions applied to land and building. See Table 20 below.

Table 20: Tax Exemptions without Description of Type of Exemption Taken

Type of Ownership	Property Count	Total Assessed Value	Total Tax Due	Total Exemptions
Individual	139	$34,256,199	$58,063	$16,858,301
Corporation	1	$451,389	$1,402	$29
Total	**140**	**$34,707,588**	**$59,465**	**$16,858,330**

Efficiencies in System and Assessment Collection Process Needed

As mentioned previously, revenue leakages occurred due to the following:

1. DRT did not effectively monitor uncollected property taxes or aggressively collect on delinquent taxes including EAs due to the absence of collection staff and improvement needed in statute to enforce collections.
2. Inability of DRT systems to identify all owners of new properties (John Does) added after the 2014 mass revaluation;
3. The existing systems' inability to create PINs, especially for multi-family dwelling properties due to the absence of a maintenance contract with the systems provider;
4. DRT, DLM, and DPW's systems do not interface; and
5. DRT and DLM did not strictly adhere to the MOA.

Therefore, we make the following recommendations for DRT and DLM.

For the DRT Director To:

1. Immediately settle the PIN issue with the systems provider and strive to identify, correct, and update tax assessment records of all real properties on Guam.
2. Enforce remedies provided by law particularly on deeding and auctioning of delinquent properties. If needed, DRT should submit legislation to allow them to auction properties.
3. Request BOE to review and approve the reduction in values of real property.
4. Strictly enforce the MOA by providing DLM the certified tax roll for property taxes assessed for CLTC properties.

5. Establish an MOA with DPW pertaining to the coordination of information for new constructions and renovations.
6. Coordinate a solution to ensure that information on real properties interface with each other to capture all taxable properties and levy taxes on them.

For the DLM Director To:
1. Immediately settle the PIN issue with the service provider.
2. Strictly enforce the MOA by providing DRT information pertaining to CLTC leases.

$21.3M in Foregone Property Tax Revenues or $4.3M Annually

In addition to the $18.8M in revenue leakages identified, property tax exemptions, credits, and abatements further reduced GovGuam property tax revenues by $21.3M for tax years 2012 through 2016. These foregone revenues allowed by law were: $9.9M in home exemptions, $3.8M in exemptions for government owned properties, public roads and educational and religious properties, farm, etc. (11 GCA § 24401(a) through (f)); $6.6M in tax credits for senior citizens; $169K in exemptions for citizens with disabilities; and $824K in tax abatements for GEDA Qualifying Certificates (QC). See Table 21 below for details.

Table 21: Foregone Property Tax Revenues for Tax Years 2012 to 2016

Category	2012	2013	2014	2015	2016	Total	Average	%
A. Primary Home	$1,726,439	$1,821,808	$2,312,773	$2,003,589	$2,032,566	**$9,897,175**	**$1,979,435**	**46%**
B. A-F Exemptions	940,311	976,988	632,948	684,662	575,657	**3,810,566**	**762,113**	**18%**
Total Exemptions	2,666,751	2,798,796	2,945,720	2,688,251	2,608,222	**13,707,740**	**2,741,548**	**64%**
C. Senior Citizens Credits	1,078,039	1,201,474	1,405,564	1,495,018	1,464,556	**6,644,651**	**1,328,930**	**31%**
D. Citizens w/ Disabilities Credits	21,191	23,299	39,638	42,876	42,130	**169,134**	**33,826**	**1%**
Total Credits	1,099,229	1,224,773	1,445,202	1,537,895	1,506,686	**6,813,785**	**1,362,757**	**32%**
E. Total Tax Abated	255,361	166,792	133,987	133,987	133,959	**824,086**	**164,817**	**4%**
Total Foregone Revenues	**$4,021,340**	**$4,190,362**	**$4,524,909**	**$4,360,133**	**$4,248,868**	**$21,345,612**	**4,269,121**	**100%**

The primary home exemptions and senior citizens credits comprised 77% of the total foregone revenues, 46% and 31%, respectively. This was followed by A-F exemptions (18%), Tax abatements (4%), and Citizens with Disabilities Credits (1%). See below for more details on the various exemptions and credits.

$9.9M in Primary Home Exemptions

11 GCA §24402 granted each homeowner a $50,000 exemption from the appraised value of improvements. For tax years 2012 to 2016, total home exemptions totaled $9.9M. See Table 22 below.

Table 22: Primary Home Exemptions for Tax Years 2012 to 2016

Tax Year	Assessed Values			Tax Amount		
	Land	Building	Total	Land Tax	Building Tax	Total Tax Exemptions
2012	$8,516,845	$491,026,613	$499,543,458	$7,453	$1,718,987	$1,726,439
2013	8,136,725	518,363,593	526,500,318	7,120	1,814,688	1,821,808
2014	7,145,202	658,854,890	666,000,092	6,252	2,306,521	2,312,773
2015	7,330,869	570,490,545	577,821,414	6,415	1,997,174	2,003,589
2016	6,443,322	521,048,922	527,492,245	6,264	2,026,301	2,032,566
Total	**$37,572,963**	**$2,759,784,563**	**$2,797,357,527**	**$33,504**	**$9,863,672**	**$9,897,175**
Average	**$7,514,593**	**$551,956,913**	**$559,471,505**	**$6,701**	**$1,972,734**	**$1,979,435**

The primary home exemptions, which comprised 46%, or the largest of the total foregone revenues, has been steadily increasing, from $1.7M in 2012 to $2.0M in 2016.

$6.6M in Senior Citizen Credits

11 GCA §24110 provides that Senior Citizens shall pay real property tax on personal residential property at twenty percent (20%) of the yearly real estate tax based on the latest five year tax assessment. For Tax Years 2012-2016 total tax credits granted to senior citizens totaled $6.6M.

According to DRT, the appraised values of these properties remain frozen pursuant to 11 GCA § 24113, despite the increase in values after the 2014 mass re-appraisals and any improvement constructed on the properties. In addition, DRT has not done a mass reverification to determine if the owners of these properties are still alive or there has been a change of ownership. See Table 23 below.

Table 23: Senior Citizen Credit for Tax Years 2012 to 2016

Tax Year	Assessed Values			Tax Amount			
	Land	Building	Total	Land Tax	Building Tax	Total Tax	Senior Credits (80%)
2012	$299,080,024	$ 310,169,941	$ 609,249,965	$ 261,705	$ 1,085,844	$ 1,347,548	$ 1,078,039
2013	$321,086,260	$ 348,743,509	$ 669,829,769	$ 280,961	$ 1,220,882	$ 1,501,843	$ 1,201,474
2014	$369,208,282	$ 409,587,883	$ 778,796,165	$ 323,069	$ 1,433,886	$ 1,756,955	$ 1,405,564
2015	$383,726,063	$ 437,899,734	$ 821,625,797	$ 335,772	$ 1,533,000	$ 1,868,773	$ 1,495,018
2016	$322,798,484	$ 390,050,515	$ 712,848,999	$ 313,832	$ 1,516,863	$ 1,830,695	$ 1,464,556
Total	**$1,695,899,113**	**$1,896,451,582**	**$ 3,592,350,695**	**$ 1,515,339**	**$ 6,790,475**	**$ 8,305,814**	**$ 6,644,651**
Average	**$339,179,823**	**$379,290,316**	**$718,470,139**	**$303,068**	**$1,358,095**	**$1,661,163**	**$ 1,328,930**

The senior citizens credit totaling $6.6M is the second largest exemption or 31% of the total foregone revenues allowed in law. Similar to the primary home exemptions, this credit continues to increase, going from $1.1M in 2012 to $1.5M in 2016.

$3.8M in Exemptions Granted to Government Properties, Public Roads, Religious and Educational Purposes, Cemetery, Farm, Etc. (A-F Exemptions)

Based on 11 GCA § 24101 (a) through (f), exemptions are granted for real properties owned by the United States and GovGuam, public roads and easements, properties used for educational, religious and eleemosynary purposes, cemetery not used for profit, lands where construction of buildings is prohibited and property used for farming for at least eight months. This law also granted exemptions to private lands used by the government. For tax years 2012-2016. Total exemptions granted for these properties amounted to $3.8M, which comprised 18% of the total foregone revenues. See table 24 below for a summary of the A-F exemptions provided by DRT.

Table 24: Exemptions for Government, Public Roads, Religious & Educational, Farm Properties (A-F Exemptions) for Tax Years 2012 to 2016

Tax Year	Assessed Land	Assessed Building	Assessed Total	Land Tax	Building Tax	Total Tax Exemption
2012	$839,840,612	$ 58,679,019	$898,519,631	$734,887	$205,424	$940,311
2013	$870,423,823	$ 61,511,481	$931,935,304	$761,649	$215,340	$976,988
2014	$410,249,657	$ 78,258,098	$488,507,755	$358,982	$273,966	$632,948
2015	$442,876,577	$ 84,875,107	$527,751,684	$387,531	$297,131	$684,662
2016	$283,462,315	$ 77,160,416	$360,622,731	$275,588	$300,068	$575,657
Total	**$2,846,852,984**	**$360,484,121**	**$3,207,337,105**	**$2,518,637**	**$1,291,929**	**$3,810,566**
Average	**$569,370,597**	**$72,096,824**	**$641,467,421**	**$503,727**	**$258,386**	**$762,113**

We requested a detailed breakdown of the A-F exemptions summary provided by DRT, however, as of the date of this report, the data was submitted, but we are unable to reconcile.

$824K in Tax Abatements for GEDA QCs

From tax years 2012 through 2016, DRT granted tax abatements totaling $824K to two QC beneficiaries. Per documents submitted by DRT, the abatement granted to Beneficiary 1 in February 2007 had expired in 2012. The property tax abatement granted to Beneficiary 2 in September 2007 is for a period of ten years, which will expire in 2017. See Table 25 below.

Table 25: Property Tax Abatements for Tax Years 2012 to 2016

Tax Year	Assessed Land	Assessed Building	Assessed Total	Land Tax	Building Tax	Total Tax Abated	Beneficiary 2	Beneficiary 1
2012	$22,482,194	$67,324,000	$89,806,194	$19,673	$235,688	$255,361	$166,792	$88,569
2013	12,082,194	44,624,000	56,706,194	10,572	156,220	166,792	166,792	N/A
2014	16,907,920	34,047,060	50,954,980	14,795	119,192	133,987	133,987	N/A
2015	16,907,920	34,047,060	50,954,980	14,795	119,192	133,987	133,987	N/A
2016	15,217,128	30,642,354	45,859,482	14,794	119,165	133,959	133,959	N/A
Total	**$83,597,356**	**$210,684,474**	**$294,281,830**	**$74,629**	**$749,457**	**$824,086**	**$735,517.30**	**$88,569**

$169K in Citizens with Disability Credits

According to 11 GCA §24112, U.S. citizens with disabilities and heads of households with dependents with disabilities shall pay a real property tax for family residential property at twenty percent (20%) of the yearly real estate tax based on the latest five year tax assessment. Similar to senior citizens, property values remain frozen from the first year of eligibility until the taxpayer passes away. For tax years 2012 to 2016, total tax credits amounted to $169K. Like with the senior citizens credits, there has been no determination as to the current condition of taxpayers granted this credit or change of ownership. See Table 26 below.

Table 26: Citizens with Disability Credits for Tax Years 2012 to 2016

Tax Year	Assessed Values			Tax Amount			
	Land	Building	Total	Land Tax	Building Tax	Total Tax	Disability Credits (80%)
2012	$6,148,474	$6,029,559	$12,178,033	$5,380	$21,108	$26,488	$21,191
2013	6,339,580	6,734,546	13,074,126	5,547	23,576	29,124	23,299
2014	7,347,313	12,316,611	19,663,924	6,429	43,118	49,547	39,638
2015	7,857,639	13,345,414	21,203,053	6,876	46,720	53,595	42,876
2016	6,870,789	11,824,109	18,694,898	6,680	45,983	52,663	42,130
Total	**$34,563,795**	**$50,250,239**	**$84,814,034**	**$30,912**	**$180,505**	**$211,417**	**$169,134**
Average	**$6,912,759**	**$10,050,048**	**$16,962,807**	**$6,182**	**$36,101**	**$42,283**	**$33,826**

As these foregone revenues were allowed by law, we urge the Legislature to review the cost-benefit of the various exemptions, credits, and abatements. The U.S. Government Accountability Office (GAO) has recommended greater scrutiny of tax expenditures (credits, exemptions, abatements, etc.) because periodic reviews could help determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of programs with similar goals. We found there is no official reporting of tax expenditures (such as tax exemptions, deductions, credits, or exclusions) to allow policymakers to ascertain the cost-benefit of such preferential tax provisions as called by best practices identified by the National Conference of State Legislature (NCSL). See Appendices 7 and 8 for best practices. Therefore, we also urge the Legislature consider the GAO and NCSL best practices for tax expenditure review, budgets, and reports.

Additionally, we suggest a review of existing laws to consider:

a. Removal of the provision to keep property valuations frozen at their current levels for senior citizens and citizens with disabilities;
b. Setting a cap on the appraised values for which primary home exemptions may apply; and
c. Setting an expiration on all property exemptions and credits so that eligibility determination may be re-evaluated.

Conclusion and Recommendations

Although levied property taxes increased by an average of $7.0M after the 2014 mass re-appraisal, Guam is still among the lowest in property values and has the lowest effective property tax rate in the nation. In 2016, Guam's average residential home value was $196,737 and ranked 16th lowest among the 50 states. Guam's effective property tax rate was 0.17% the lowest among the states where the second lowest was Hawaii at 0.32%.

According to the Tax Foundation, property taxes were the largest source of state and local tax collections in the United States, comprising 31.3%. However, Guam's real property tax revenues accounted for only 3.4% of all tax revenues. Despite the lost opportunity of increased revenues, resulting from low property tax rates, GovGuam could have generated more revenues from property taxes with efficient systems and assessment and collection processes.

We found that the Government of Guam had unrealized property tax revenues of $40.2M in real property tax revenues due to revenue leakages and foregone revenues for tax years 2012 through 2016, or an average of $8.5M per year.

The unrealized revenues of $18.8M stemmed from:

- Unpaid/delinquent property taxes of $10.5M (56%);
- Unassessed and or unbilled unidentified (John Doe) property owners of $2.8M (15%);
- Unpaid Escape Assessments of $2.3M (12%);
- Unassessed and or unbilled property taxes for CLTC leased properties of $1.9M (10%);
- Unassessed and or unbilled new and or additional construction of condominium units of $862K (5%); and
- Questionable reduction in taxable values of hotel properties of $446K (2%).

GovGuam also has foregone revenues of $21.3M from tax exemptions, credits, and abatements allowed per law. Of the amount, 77% or $16.5M were due to allowable exemptions claimed for a taxpayer's primary home ($9.9M) and credits granted to senior citizens ($6.6M).

There are also other possible revenue leakages from:

- GALC properties not included in DRT's Aumentum system;
- New and additional constructions and additions of residential houses since 2012; and
- Anomalies noted in the tax assessment rolls.

The above should be further investigated by DRT as we estimated revenue leakage of $2.6M from tax years 2012 through 2016, of which $186K is considered questioned costs. This amount may be greater; however, as information is not available to estimate the revenue leakage from GALC properties.

Revenue leakages occurred due to the following:

1. DRT did not effectively monitor uncollected property taxes or aggressively collect on delinquent property taxes due to improvements needed in statute and lack of collection staff.

2. Inability of DRT's system to identify all owners of new properties (John Does) added after the 2014 mass revaluation;
3. The existing systems do not have the ability to create PINs, especially for multi-family dwelling properties, such as condominiums and townhomes;
4. DRT, DLM, and DPW's systems do not interface; and
5. DRT and DLM did not strictly adhere to the MOA.

Therefore, to reduce revenue leakage and enhance collections, we recommend the following:

For the DRT Director To:
1. Immediately settle the PIN issue with the systems provider and strive to identify, correct and update tax assessment records of all real properties on Guam.
2. Enforce remedies provided by law particularly on deeding and auctioning delinquent properties. If needed, DRT should submit legislation to allow them to auction properties.
3. Request BOE to review and approve the reduction in values of real property.
4. Strictly enforce MOA by providing DLM the certified tax roll for property taxes assessed for CLTC properties.
5. Establish an MOA with DPW pertaining to the coordination of information for new constructions and renovations.
6. Coordinate a solution to ensure that information on real properties interface with each other to capture all taxable properties and levy taxes on them.

For the DLM Director To:
1. Immediately settle the PIN issue with the service provider.
2. Strictly enforce the MOA by providing DRT information pertaining to CLTC leases.

In addition, as even more revenues were unrealized due to credits, exemptions, and abatements, we urge the Legislature to:
- ➢ Review the cost-benefit of these foregone revenues.
- ➢ Consider the GAO and NCSL best practices for tax expenditure review, budgets, and reports.
- ➢ Additionally, we suggest a review of existing laws to consider:
  - Removal of the provision to keep property valuations frozen at their current levels for senior citizens and citizens with disabilities;
  - Setting a cap on the appraised values for which primary home exemptions may apply; and
  - Setting an expiration on all property exemptions and credits so that eligibility determination may be re-evaluated upon submission of renewal application.
- ➢ Consider the use of market value for new sales, construction and renovations to assess real property.

We caution the Legislature that with each increase or decrease of the assessed value rate, tax rates were also adjusted, resulting in no substantial increase in real property taxes.

Classification of Monetary Amounts

	Finding Description	Questioned Costs	Potential Savings	Unrealized Revenues	Other Financial Impact	Total Financial Impact
1	**Mass Re-Appraisal Increased Tax Assessment Values**	$ -	$ -	$-	$-	$-
	Guam is Among the Lowest in Property Values and has the Lowest Effective Property Tax Rates in the United States	$ -	$ -	$-	$-	$-
	Sub-Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
2	**Property Tax Revenue Leakage**					
	Uncollected/Delinquent Property Taxes	$ -	$ -	$10,507,541	$-	$10,507,541
	Unidentified Property Owners (John Doe)	$ -	$ -	$ 2,800,734	$-	$ 2,800,734
	Escape Assessments	$ -	$ -	$ 2,311,021	$-	$ 2,311,021
	Chamorro Land Trust Properties	$ -	$ -	$ 1,926,067	$-	$ 1,926,067
	Untaxed Condominium Properties	$ -	$ -	$ 862,249	$-	$ 862,249
	Reduction in Values	$ -	$ -	$ 445,740	$-	$ 445,740
	Other Possible Revenue Leakages				$-	
	GALC not Included in DRT's Aumentum System	$ -	$ -	$-	$-	$-
	New Residential Home Construction and Additions to Existing Units	$ -	$ -	$-	$-	$-
	Anomalies in the 2016 Tax Roll	$185,843[17]	$ -	$-	$-	$185,843
	Efficiencies in System, Assessment, and Collection Process Needed	$ -	$ -	$-	$-	$-
	Sub-Total	**$185,843**	**$ -**	**$18,853,352**	**$ -**	**$19,039,195**
3	**Foregone Property Tax Revenues**					
	Primary Home Exemption	$ -	$ -	$ 9,897,175	$ -	$ 9,897,175
	Senior Citizen Credits	$ -	$ -	$ 6,644,651	$ -	$ 6,644,651
	A-F Exemptions	$ -	$ -	$ 3,810,566	$ -	$ 3,810,566
	Tax Abatements for GEDA QC	$ -	$ -	$ 824,086	$ -	$ 824,086
	Citizens with Disability Credits	$ -	$ -	$ 169,134	$ -	$ 169,134
	Sub-total	**$ -**	**$ -**	**$21,345,612**	**$ -**	**$21,345,612**
	Totals	**$185,843**	**$ -**	**$40,198,964**	**$ -**	**$40,384,807**

[17] We excluded $2.6M in estimated revenue leakage pertaining to new residential house constructions and additions to existing units because we cannot ascertain

Management Response and OPA Reply

A draft was transmitted to DRT in April 2018 for their official response. We also met with DRT officials in April 2018 to discuss our findings and recommendations where DRT generally concurred. However, we revised our draft report based on this discussion:

- References to "lost revenues" were changed to "unrealized revenues" based on DRT's explanation.
- The statement "DRT inability to identify property owners after the 2014 mass re-appraisal" to "DRT *Systems' inability* to identify property owners after the 2014 mass re-appraisal" due to the lack of interface and as DRT staff are still reviewing accounts for an estimated remaining 6,700 John Doe properties.
- References to DRT's Aumentum system not allowing the creation of PINs was changed to reflect the DLM Director's acknowledgement and agreement that the maintenance contract should be maintained by DLM for the LandWeb system.

In May 2018, DRT provided their official response wherein management disagreed with certain findings and provided the following comments:

1. **Guam is Among the Lowest in Property Values and has the Lowest Effective Property Tax Rate in the United States**

    a. **DRT Response:** DRT questioned why OPA compared Guam's property home values and tax rates to the United States as "there are many factors that determine the value of homes, and rates imposed…" DRT was also not clear as to the statement regarding Guam's residential home values being the lowest in the nation and its relevance to Guam having the lowest tax rates.

    OPA Reply: The United States' property home values and tax rates were merely used as benchmarks to compare Guam's property home values and taxes. Our audit points out that Guam collects far less than the 50 states and the District of Columbia and opportunities to increase revenues were lost from these low tax rates. Therefore, these statements remain.

    b. **DRT Response:** The audit claims that "…According to the Tax Foundation, property taxes were the largest source of state and local tax collections comprising 31.3%." DRT's research from the same source indicates the largest source of tax revenues comes from individual income tax at 40.5 and property taxes made up only 10.3%.

    OPA Reply: According to the Tax Foundation (https://taxfoundation.org/property-taxes-percent-collections/):

    > "Property taxes are an important revenue source for state and local governments. In fiscal year 2014 (the most recent data available), property taxes were the largest source of state and local tax collections, comprising 31.3 percent."

We requested additional supporting documentation pertaining to DRT's response for this section. However, DRT did not provide the requested information as of report issuance. Therefore, these statements remain.

2. **$18.8M in Property Tax Revenue Leakages or $4.2M Annually**

   DRT Response: DRT disagreed that $18.8M was property tax revenue leakage as the taxes have been identified, assessed and still collectible. DRT can assess prior year taxes through escaped assessments.

   OPA Reply: We determined revenue leakage to be uncollected, delinquent, unassessed, and unbilled property taxes, and questionable reductions in taxable values. We agree the amounts are still collectible but found that DRT did not aggressively pursue these taxes due to improvements needed to statues, lack of collection staff, system setbacks, and not adhering to the MOA with DLM. Therefore, this finding remains.

3. **$2.8M in Unbilled/Unidentified Property Owners (John Does)**

   DRT Response: DRT disagreed that $18.8M was property tax revenue leakage as the taxes have been identified, assessed and still collectible. DRT can assess prior year taxes through escaped assessments.

   OPA Reply: We determined revenue leakage to be uncollected, delinquent, unassessed, and unbilled property taxes, and questionable reductions in taxable values. We agree the amounts are still collectible but found that DRT did not aggressively pursue these taxes due to improvements needed to statues, system setbacks, and not adhering to the MOA with DLM. Therefore, this finding remains.

4. **MOA between DRT and DLM Not Strictly Enforced**

   DRT Response: DRT disagreed with this finding stating that DRT publishes the certified tax rolls and maintains the rolls on its website, emails it to DLM and provides the information on electronic medium adhering to the requirements of the MOA.

   OPA reply: According to DLM, emails were not regularly provided and only done upon DLM's request. DRT also did not provide to DLM monthly payment updates on all CLTC and GALC properties, including the respective PINs. Therefore, this finding remains.

In summary, DRT stated that they have been effective in administering the Real Property Tax laws of Guam.

See Appendix 9 for DRT's management response.

We also met with DLM officials in May 2018 to discuss our findings and recommendations. During the meeting, DLM generally concurred with the findings and recommendations. In May

2018, DLM provided their official response wherein management agreed with the findings and recommendations.

See Appendix 10 for DLM's management response.

The legislation creating the Office of Public Accountability requires agencies to prepare a corrective action plan to implement audit recommendations, to document the progress of implementing the recommendation, and to endeavor to complete implementation of the recommendations no later than the beginning of the next fiscal year. We will be contacting DRT to provide the target date and title of the official(s) responsible for implementing the recommendations.

We appreciate the cooperation given to us by the staff and management of DRT and DLM during the course of this audit.

OFFICE OF PUBLIC ACCOUNTABILITY

Doris Flores Brooks, CPA, CGFM
Public Auditor

Objective, Scope, and Methodology

Our audit objectives were to determine:

1. The effect of the 2014 mass revaluation on Guam's property values and Guam's ranking of its tax rate in comparison with the United States;
2. Determine revenue leakages due to uncollected property taxes, escaped assessments, and other billing issues; and
3. Determine foregone revenues due to tax exemptions, credits, and abatements.

The scope of this engagement encompassed Fiscal Years 2012 through 2016 and Tax Years 2012 to 2017.

Scope Limitation

We did not test the tax rolls and the tax credits, exemptions, and abatements for completeness and accuracy. As a result, we relied on the information provided by DRT for tax years 2012 through 2016. We reviewed the 2016 tax roll to assess its reasonableness and found several anomalies, which we noted may be indications of revenue leakages.

Audit Methodology

Our audit methodology included a review of pertinent laws, rules and regulations, policies and procedures, prior audit findings, hotline tips, and other information pertinent to RPT and its exemptions. We also performed the following:

- Conducted interviews and walk-throughs with DRT-RPT officials and staff to obtain an understanding of the RPT assessment, billing and collection processes and its present Aumentum system.
- Conducted interviews and walk-throughs with DLM officials and staff to obtain an understanding of GovGuam inventory of real properties, assessment and billing of CLTC-owned leased and licensed properties and DLM property-related systems, such as the LandWeb.
- Obtained and analyzed RPT data received from DRT for tax years 2012 through 2016 for trends and calculations of possible revenue leakages and foregone revenues.
- Determined the effect of the 2014 mass-revaluations on real property values and tax receivables. Due to the contracted Appraiser's errors in hotel property valuations, we also reviewed subsequent adjustments for propriety.
- Reviewed and recalculated the 2016 tax rolls certified by the BOE to determine reasonableness.
- Reviewed and analyzed the 2016 tax rolls for CLTC properties, John Does and other possible anomalies.
- Obtained data from DRT on property tax collections and delinquent and unpaid property taxes as of September 30, 2017 since the 2016 tax assessments are paid in FY 2017. We then determined the top 50 delinquent taxpayers.

- Verified if DRT enforced the law relative to the deeding of delinquent properties.
- Obtained data for properties that escaped assessments in prior years, recalculated taxes due and obtained confirmation from DRT if paid. Determined the process and the cause for the uncollected taxes. However, we did not verify and calculate escape assessments for 2011 and prior years, as this is not within the scope of our audit.
- Obtained, analyzed and referred to DRT, the DLM-provided data on leased properties and calculated property tax leakages.
- Obtained from DLM, data on condominiums and other constructions since 2012 and referred them to DRT to determine the un-taxed properties. Calculated revenue leakages for condominium units based on values available. However, the exact number of untaxed multi-family dwelling properties (i.e., condominiums and townhomes), as well as new and additional constructions since 2012, cannot be determined.
- Researched information on effective property tax rates and property values in the U.S., and compared and determined Guam's ranking based on home value data provided by DRT.
- Researched data on new and additional construction from 2012 to 2016 from the Bureau of Statistics and Plan (BSP) to determine possible new constructions not included in DRT's tax assessment rolls. Per DPW, they annually provide this report to BSP.
- Obtained data on property tax exemptions, credits and abatements to determine the total amount of foregone revenues. However, we did not verify the completeness of the data provided versus the tax assessment rolls.
- Obtained a copy of the signed MOA between DRT and DLM and verified if it was enforced.

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 objective.

Appendix 2:
Prior Audit Coverage

OPA Report No. 13-03-Real Property Taxes, August 2013

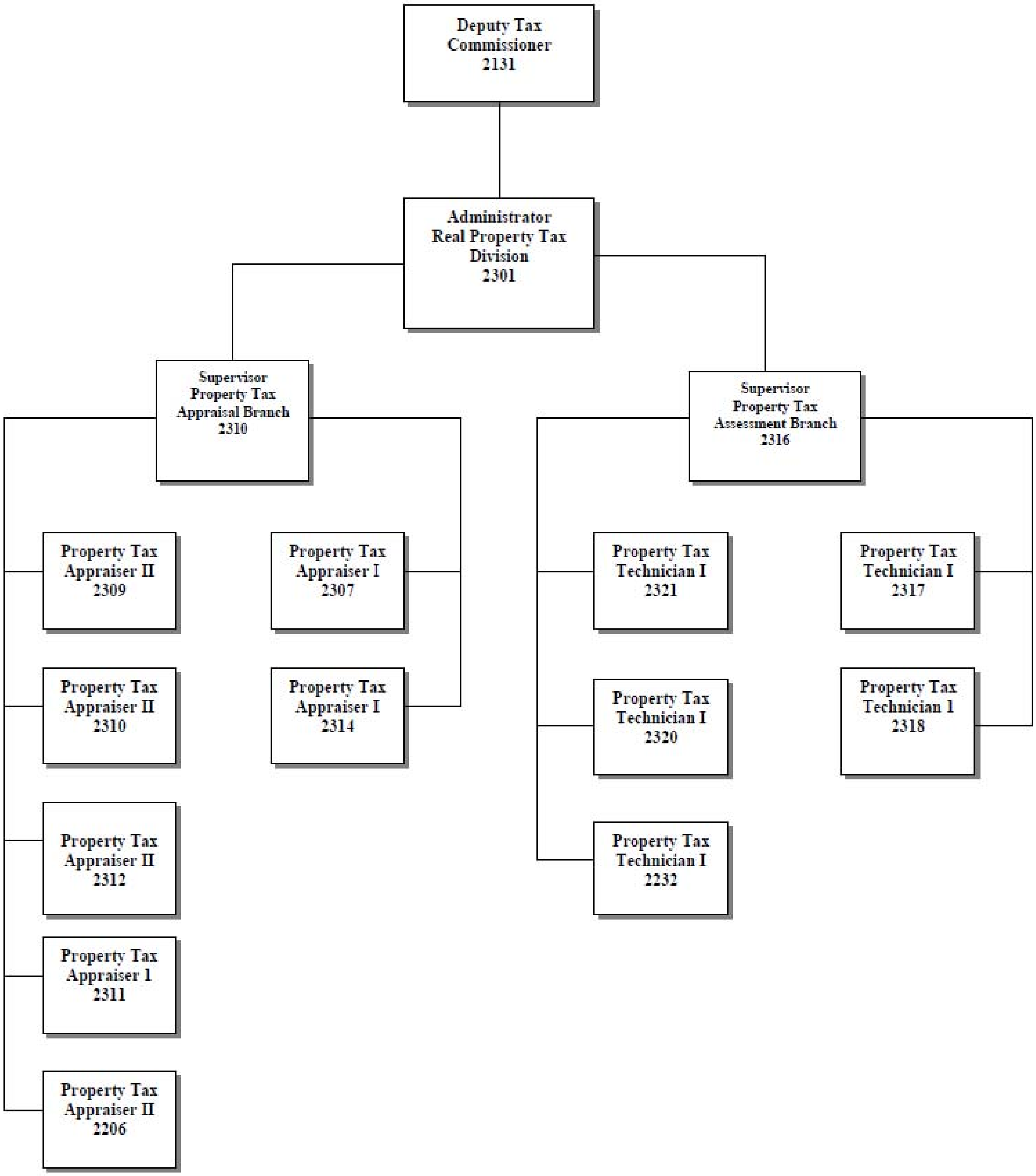
- Tax assessments were based on a valuation system completed in 1993, or over 20 years ago, thus current market values are not used resulting in an estimated $14.0M over the past five years of unrealized and lost tax revenues;
- Appraised values for new residential property sales and constructions were being adjusted downward to reflect the 1993 values instead of current values;
- Guam’s property tax rates were among the lowest in the 50 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 represented $2.6M annually of forgone tax revenues, or $13.2M from 2007 to 2011;
- 1,605 real properties accounted for 9,480 escaped assessments, resulting in foregone property tax revenues totaling $1.6M;
- A lack of interface with 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.

Of the seven recommendations made:

- One recommendation was closed involving the issuance of a proposal for appraisal and revaluation services;
- Three recommendations were deemed not implementable as they involved amending laws; and
- Three remain open:
  - Establish a communication protocol with DPW and DLM to include the updated assessment of real properties.
  - Conduct random reviews of exemptions to determine if there has been change in claims
  - Place controls on DRT’s database to limit input access and ensure secondary review by management.

Appendix 3:

DRT-RPT Organizational Chart



Excerpts from Title 11 GCA Chapter 24, Real Property Tax Law

- § 24601 states that DRT shall be responsible for the enforcement and collection of property taxes.
- § 24110 states that Senior Citizens shall pay real property tax on personal residential property at twenty percent (20%) of the yearly real estate tax based on the latest five year tax assessment.
- § 24112 states that US citizens with disabilities and heads of households with dependents with disabilities shall pay a real property tax for family residential property at twenty percent (20%) of the yearly real estate tax based on the latest five year tax assessment.
- § 24413 states that the senior citizen, citizen with disabilities or a head of household with dependents with disabilities is entitled to have a valuation of his residential property fixed at the amount assessed in its first year of eligibility until his death or he no longer owns or resides in the property.
- § 24411 states when a taxpayer's claim for an exemption has been denied, the applicant may file his copy of notice of disapproval with the Board of Equalization on or before September 15 of the same year. The Board shall review the claim and may reverse the decision of the assessor and grant claim for exemption or affirm the decision of the assessor.
- § 24512 states that no assessment shall be reduced unless either the person assessed or his agent files with the Board a written application showing the facts claimed to warrant a reduction, or the assessor recommends in writing that a reduction be made.

Relevant Public Laws

- **P. L. No. 29-019 – September 29, 2007**

  Redefined assessed value as 70% of the appraised value. The real property tax rates were decreased to 1/8 percent (0.00125) for land and ½ percent (0.005) for improvements.

- **P. L. No. 30-07 – April 8, 2009**

  Redefined assessed value as 90% of the appraised value. The real property tax rates were decreased to 7/72 percent (0.00097222) for land and 7/18 percent (.00388889) for improvements.

- **P.L. No. 31-76 – September 19, 2011**
  - Property means land and improvements on land, and includes the interest of a lessee or license of land owned by CLTC.
  - Redefined assessed value as 90% of the appraised value. The appraised value of the interest of a lessee or licensee of land owned CLTC shall be the appraised value of the land not including improvements.
  - The holder of any lease or license for the occupation or beneficial use of Chamorro Homelands shall be subject to all applicable taxes on the lessee's or licensee's interest in the land and on any improvements to any land leased or licensed.

- Assessed taxes shall be collected by DRT, which shall maintain record for all such taxes collected.

- **P.L. No. 31-196 - March 28, 2012**
  Redefined assessed value as 100% of the appraised value. The real property tax rates were decreased to seven-eightieth percent (7/80% or 0.000875) for land and seven-twentieth percent (7/20% or 0.0035) for improvements.

- **Public Law 32-218 - December 29, 2014**
  - For tax years prior to 2014 after 30 years succeeding the time heretofore and for tax years after 2013, after 10 years succeeding the time, hereafter, if the lien has not been removed, then the lien ceases to exist and the tax is conclusively presumed to have been paid.
  - For the 2014 Real Property Tax Year only, the preliminary assessment roll shall be issued on or before February 2, 2015, appeals may be filed from February 16, 2015 to March 16, 2015. The BOE shall certify the tax roll on or before March 31, 2015.
  - The DRT Director shall be authorized to administratively take action to collect and resolve delinquent property taxes subject to duly adopted regulations.

- **P.L. No. 33-185 – September 10, 2016**
  Redefined assessed value as 90% of the appraised value. The real property tax rates were decreased to seven seventy-second percent (7/70% or 0.000972222) for land and seven-eighteenths percent (7/18% or 0.003888889) for improvements.

Appendix 5:

2016 Average Home Values (Low to High)

State/Jurisdiction	Average Home Value	Rank	State/Jurisdiction	Average Home Value	Rank
Oklahoma	$ 142,683	1	Idaho	$ 236,120	27
Indiana	$ 143,016	2	Montana	$ 242,342	28
Mississippi	$ 143,357	3	Vermont	$ 255,242	29
Arkansas	$ 150,742	4	Minnesota	$ 260,373	30
Ohio	$ 155,415	5	Delaware	$ 271,585	31
Iowa	$ 158,691	6	West Virginia	$ 271,585	32
Alabama	$ 161,853	7	Maine	$ 274,961	33
Kentucky	$ 165,285	8	Florida	$ 278,629	34
Michigan	$ 165,584	9	Arizona	$ 282,423	35
Kansas	$ 172,654	10	New Hampshire	$ 292,452	36
Missouri	$ 173,044	11	Nevada	$ 293,432	37
Nebraska	$ 174,731	12	Utah	$ 300,245	38
Tennessee	$ 181,331	13	Rhode Island	$ 316,486	39
Louisiana	$ 183,591	14	Virginia	$ 321,992	40
South Dakota	$ 195,438	15	Maryland	$ 326,151	41
Guam	$ **196,737**	**16**	Alaska	$ 336,088	42
Wisconsin	$ 199,072	17	Oregon	$ 342,488	43
South Carolina	$ 204,349	18	Connecticut	$ 348,513	44
Georgia	$ 204,399	19	New Jersey	$ 367,036	45
Pennsylvania	$ 206,280	20	New York	$ 372,854	46
North Carolina	$ 217,560	21	Colorado	$ 394,604	47
Wyoming	$ 222,449	22	Washington	$ 406,602	48
Texas	$ 226,553	23	Massachusetts	$ 455,642	49
Illinois	$ 227,242	24	California	$ 619,491	50
New Mexico	$ 227,540	25	District of Columbia	$ 772,008	51
North Dakota	$ 227,882	26	Hawaii	$ 784,583	52

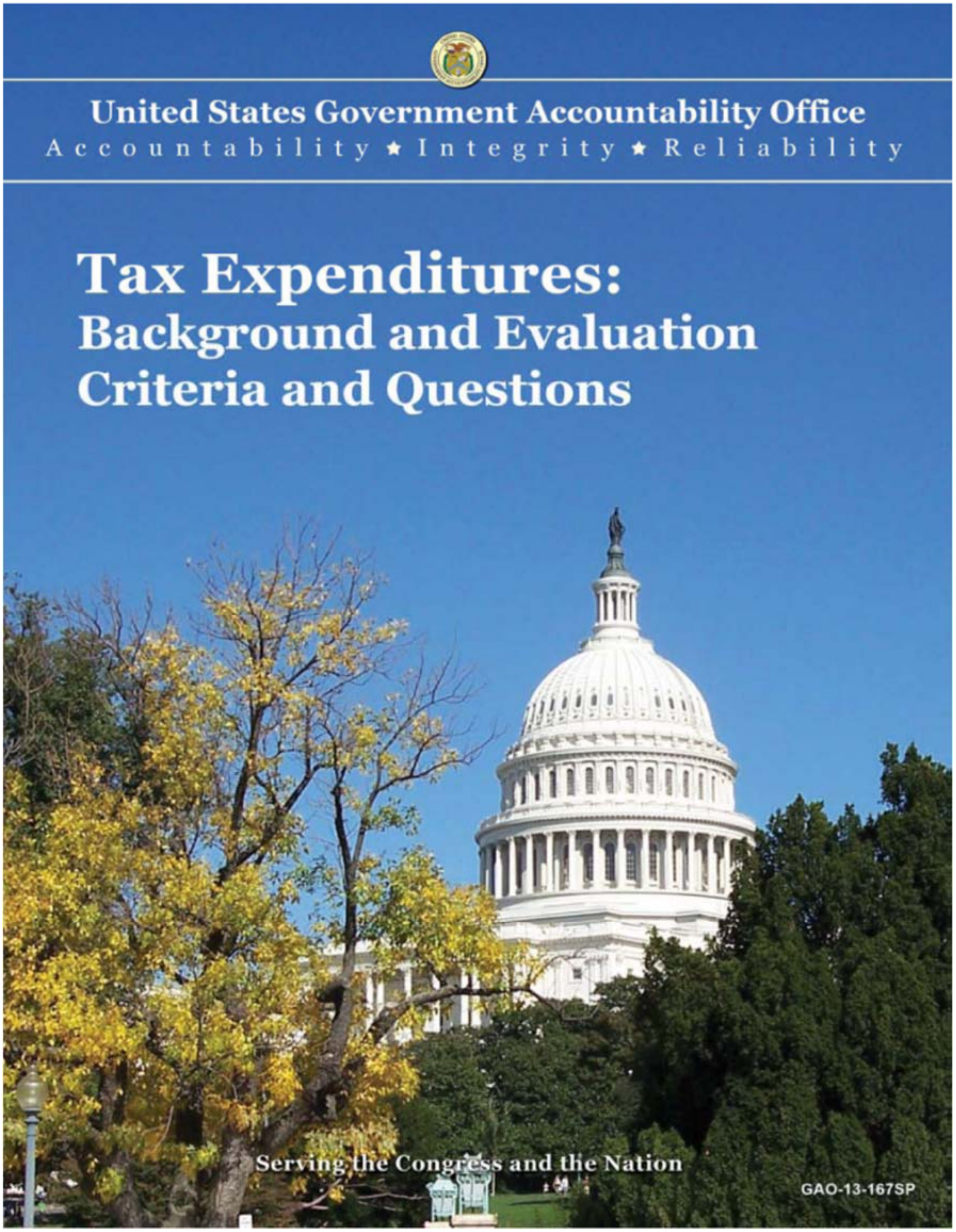
Appendix 6:

2016 Effective Property Tax Rates (Low to High)

State/Jurisdiction	Effective Tax Rate	Rank
Guam	**0.17%**	**1**
Hawaii	0.32%	2
Alabama	0.48%	3
Colorado	0.52%	4
Tennessee	0.54%	5
Delaware	0.56%	6
West Virginia	0.57%	7
South Carolina	0.63%	8
District of Columbia	0.64%	9
Nevada	0.64%	10
Utah	0.65%	11
Arkansas	0.67%	12
Arizona	0.68%	13
Louisiana	0.71%	14
Kentucky	0.74%	15
Wyoming	0.76%	16
California	0.77%	17
North Carolina	0.78%	18
Montana	0.80%	19
Georgia	0.86%	20
Mississippi	0.86%	21
Washington	0.88%	22
Oklahoma	0.89%	23
Indiana	0.94%	24
Alaska	0.96%	25
New Mexico	0.97%	26

State/Jurisdiction	Effective Tax Rate	Rank
Virginia	0.99%	27
Oregon	1.02%	28
Idaho	1.02%	29
Florida	1.05%	30
Maryland	1.05%	31
Minnesota	1.06%	32
Missouri	1.11%	33
North Dakota	1.11%	34
Massachusetts	1.21%	35
South Dakota	1.38%	36
Iowa	1.43%	37
Maine	1.43%	38
Kansas	1.47%	39
Nebraska	1.50%	40
Michigan	1.52%	41
Wisconsin	1.61%	42
Rhode Island	1.64%	43
Ohio	1.68%	44
New York	1.88%	45
Pennsylvania	1.89%	46
Connecticut	2.00%	47
Vermont	2.02%	48
New Hampshire	2.03%	49
Texas	2.06%	50
Illinois	2.13%	51
New Jersey	2.31%	52

Appendix 7:
GAO Best Practices Excerpt[18]



[18] The full version may be viewed online at https://www.gao.gov/assets/660/650371.pdf.

TAX EXPENDITURES: BACKGROUND AND EVALUATION CRITERIA AND QUESTIONS

Tax expenditures are provisions, such as special credits and deductions, that reduce taxpayers' tax liability. If well designed and implemented, tax expenditures can provide incentives for taxpayers to engage in particular activities or adjust for their ability to pay taxes. However, tax expenditures represent a substantial financial commitment—if Department of the Treasury estimates are summed, an estimated $1 trillion in revenue was forgone for fiscal year 2011. Since 1994, GAO has recommended greater scrutiny of tax expenditures. This guide (GAO-13-167SP) describes criteria for assessing tax expenditures and develops questions, as summarized below, that Congress can ask about a tax expenditure's effectiveness.

1 What is the tax expenditure's purpose and is it being achieved?

- **What is the tax expenditure's intended purpose?**
- **Have performance measures been established to monitor success in achieving the tax expenditure's intended purpose?**
- **Does the tax expenditure succeed in achieving its intended purpose?**

2 Even if its purpose is achieved, is the tax expenditure good policy?

- **Does the tax expenditure generate net benefits in the form of efficiency gains for society as a whole?**
  - o What is the benefit to society of the activity the tax expenditure encourages?
  - o Do any performance measures established for the tax expenditure measure these benefits to society?
  - o What are the costs of the resources used to generate the tax expenditure's benefits?
  - o Do the benefits of the tax expenditure exceed its costs?
- **Is the tax expenditure fair or equitable?**
  - o Does the tax expenditure result in different benefits for similarly situated taxpayers?
  - o Do taxpayers with different abilities to pay receive different benefits from the tax expenditure?
  - o Who actually benefits from the tax expenditure?
- **Is the tax expenditure simple, transparent, and administrable?**
  - o What are planning, recordkeeping, reporting, and other compliance costs for taxpayers in using the tax expenditure?
  - o Can taxpayers understand how the tax expenditure works?
  - o What are the costs to IRS and third parties in administering the tax expenditure?

3 How does the tax expenditure relate to other federal programs?

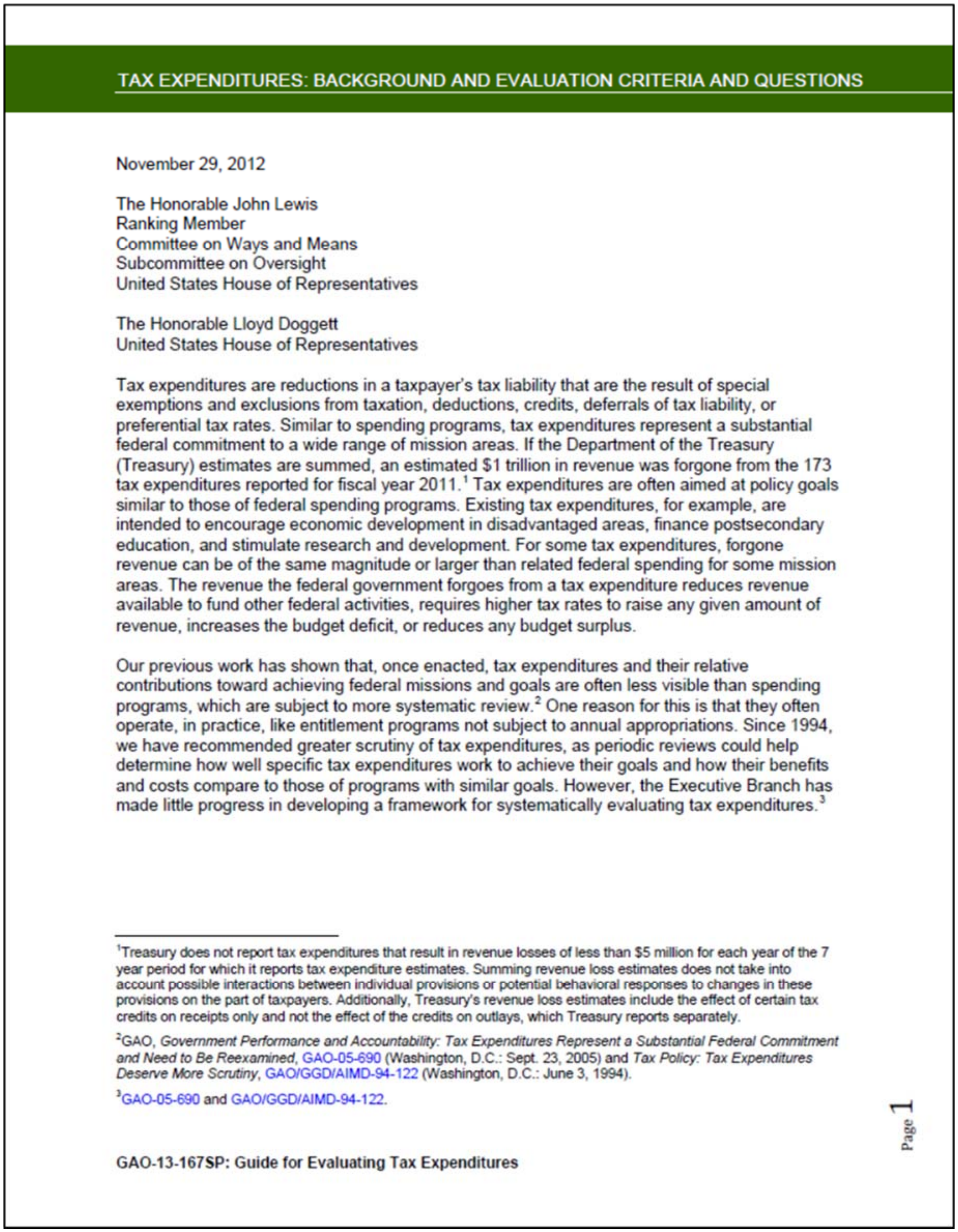
- **Does the tax expenditure contribute to a designated cross-agency priority goal?**
- **Does the tax expenditure duplicate or overlap with another federal effort?**
- **Is the tax expenditure being coordinated with other federal activities?**
- **Would an alternative to the tax expenditure more effectively achieve its intended purpose?**
  - o Is a different tax expenditure design preferable?
  - o Is a spending or other non-tax policy tool preferable to the tax expenditure?

4 What are the consequences for the federal budget of the tax expenditure?

- **Are there budget effects not captured by Treasury's or the Joint Committee on Taxation's tax expenditure estimates?**
  - o Would eliminating or creating the tax expenditure affect revenue loss estimates for other tax expenditures?
  - o Would eliminating or creating the tax expenditure affect other federal taxes, such as the payroll tax?
  - o Would eliminating or creating the tax expenditure change taxpayer behavior in ways that affect revenue?
  - o Would eliminating or creating the tax expenditure affect the amount the government spends on other programs?
- **Are there options for limiting the tax expenditure's revenue loss?**
  - o Can the aggregate amount that taxpayers claim for the tax expenditure be capped?
  - o Can taxpayers' eligibility for the tax expenditure be restricted?
  - o For eligible taxpayers, can the value of the tax expenditure be reduced?

5 How should evaluation of the tax expenditure be managed?

- **What agency or agencies should evaluate the tax expenditure?**
- **When should the tax expenditure be evaluated?**
- **What data are needed to evaluate the tax expenditure?**



TAX EXPENDITURES: BACKGROUND AND EVALUATION CRITERIA AND QUESTIONS

November 29, 2012

The Honorable John Lewis
Ranking Member
Committee on Ways and Means
Subcommittee on Oversight
United States House of Representatives

The Honorable Lloyd Doggett
United States House of Representatives

Tax expenditures are reductions in a taxpayer's tax liability that are the result of special exemptions and exclusions from taxation, deductions, credits, deferrals of tax liability, or preferential tax rates. Similar to spending programs, tax expenditures represent a substantial federal commitment to a wide range of mission areas. If the Department of the Treasury (Treasury) estimates are summed, an estimated $1 trillion in revenue was forgone from the 173 tax expenditures reported for fiscal year 2011.[1] Tax expenditures are often aimed at policy goals similar to those of federal spending programs. Existing tax expenditures, for example, are intended to encourage economic development in disadvantaged areas, finance postsecondary education, and stimulate research and development. For some tax expenditures, forgone revenue can be of the same magnitude or larger than related federal spending for some mission areas. The revenue the federal government forgoes from a tax expenditure reduces revenue available to fund other federal activities, requires higher tax rates to raise any given amount of revenue, increases the budget deficit, or reduces any budget surplus.

Our previous work has shown that, once enacted, tax expenditures and their relative contributions toward achieving federal missions and goals are often less visible than spending programs, which are subject to more systematic review.[2] One reason for this is that they often operate, in practice, like entitlement programs not subject to annual appropriations. Since 1994, we have recommended greater scrutiny of tax expenditures, as periodic reviews could help determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of programs with similar goals. However, the Executive Branch has made little progress in developing a framework for systematically evaluating tax expenditures.[3]

[1]Treasury does not report tax expenditures that result in revenue losses of less than $5 million for each year of the 7 year period for which it reports tax expenditure estimates. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's revenue loss estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately.

[2]GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005) and *Tax Policy: Tax Expenditures Deserve More Scrutiny*, GAO/GGD/AIMD-94-122 (Washington, D.C.: June 3, 1994).

[3]GAO-05-690 and GAO/GGD/AIMD-94-122.

Page 1

GAO-13-167SP: Guide for Evaluating Tax Expenditures

More recently, the Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA)[4] established a framework for providing a more crosscutting and integrated approach to focusing on results and improving government performance, including for tax expenditures. GPRAMA makes clear that tax expenditures are to be included in identifying the range of federal agencies and activities that contribute to crosscutting goals. Moving forward, GPRAMA implementation can help inform tough choices in setting priorities as policymakers address the rapidly building fiscal pressures facing our national government.[5]

Given your interest in tax expenditures' effectiveness, you asked us to develop a framework that could be used to evaluate their performance. In response, this guide describes criteria for assessing tax expenditures and develops questions Congress can ask about a tax expenditure's performance.

As agreed with your offices, unless you publicly announce the contents of this guide earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to interested congressional committees, the Director of the Office of Management and Budget (OMB), Secretary of the Treasury, Commissioner of Internal Revenue, and other interested parties. In addition, the guide will be available at no charge on the GAO website at http://www.gao.gov. If you or your staffs have any questions about this guide, please contact me at (202) 512-9110 or whitej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this guide are listed in appendix II.

Sincerely,

James R. White
Director
Strategic Issues

[4] Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

[5] For more information on GPRAMA, see GAO, *Managing for Results: A Guide for Using the GPRA Modernization Act to Help Inform Congressional Decision Making*, GAO-12-621SP (Washington, D.C.: June 15, 2012).

NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

Tax Expenditure Budgets and Reports: Best Practices

What is a "tax expenditure"?

A tax expenditure is an exemption, deduction, credit, exclusion, or other deviation from the normal tax structure. Tax expenditures may be used to economically benefit taxpayers who the government has identified as needing assistance. They may also serve as an incentive for certain economic or social behavior.

Until recently, tax expenditures were largely invisible to the public and even to policymakers. Some states still have no accounting of tax expenditures and, even in states where reports are issued, these preferential tax provisions have largely escaped the annual or periodic review considered normal and essential for direct appropriations. Increasingly, the public and policymakers agree that an accounting and review of tax expenditures should be part of regular sound budget practices.

What is a tax expenditure report?

More than two-thirds of the states now prepare regular tax expenditure budgets or reports to provide the public and policymakers with up-to-date information on the impact of preferential tax provisions (both "tax expenditures" and elements of "normal" taxation) in the tax code. In many states, tax expenditure reports simply list statutory exemptions, credits, and exclusions without identifying those provisions that are part of the normal tax structure. This is one reason why, in many states, tax expenditure reports have not been effective tools to help legislators review and improve the tax code. **In order for it to be effective, a complete and frequently updated tax expenditure report is essential for good policymaking.**

What are best practices for defining a "normal" tax provision?

While tax expenditure reports have become increasingly common, the absence of standard definitions for "tax expenditure" and "normal" tax structure has made reading tax expenditure reports complicated. The absence of a clearly identified and articulated definition of where the normal tax code ends and tax expenditures begin can lead to unsound policy choices. It has also made state-to-state comparisons exceedingly difficult.

There is no single definition of what is meant by a normal tax structure. Both within a state and across state lines, there is much debate about which provisions of a state's tax code are tax expenditures and which are part of the normal tax structure. Deductions for ordinary and necessary business expenses and sales tax exemptions for purchases of business inputs are generally considered part of the "normal" tax structure but in some states are listed as tax expenditures. Sales tax exemptions for food and clothing or property tax circuit breakers, similarly, may be considered part of the "normal" tax structure or tax expenditures.

Each state needs to determine what provisions of the tax code are foundational elements of the tax system and not deviations from it, and this requires judgment calls by policymakers. In order to create effective and useful tax expenditure reports, state legislators must play an integral role in defining the normal tax base. To assist in this effort, the Executive Committee Task Force on State and Local Taxation (SALT) has developed this list of questions for legislators to consider in developing a process to define the normal tax base:

1. Who should determine the normal tax structure? Should the normal tax structure be determined by a special legislative committee, a created commission, or some other authority?
2. Depending on the authority making the determination of the normal tax structure, what other procedures or controls should be built into the overall process. For example, if a commission has authority, should unelected stakeholders be included in the process? If the executive branch has authority, what is the role of the legislature in reviewing and approving executive branch recommendations?
3. How often should the "normal" tax structure definition be reviewed?
4. Which taxes should be included under the scope of the review? Should the review be limited to only taxes that are major state revenue sources, such as personal income, corporation income/franchise, sales and use, special industry, etc.? Should local taxes, such as the property tax, be included?

What are "best practices" for tax expenditure reports?
State tax expenditure reports should include information on all major state and local taxes (personal and corporate income taxes, sales and use taxes, real and personal property taxes, excise and gross receipts taxes, etc.)

To ensure that reports are accurate, informative, and transparent, there should be a protocol, codified in statute, which specifies the elements of the tax expenditure report.

It should:

1. Be easily accessible and available on-line;
2. Be completed in time for budget and policy decisions;
3. Define or describe the normal tax structure for each tax included in the report and identify deviations, both those that benefit and those that penalize a class of taxpayers;
4. Include, for each tax expenditure
    a. the date the tax expenditure was enacted,
    b. the statutory citation or federal law reference,
    c. the tax policy rationale and desired outcome, including, where specified in law and as appropriate for each tax expenditure, clearly identified metrics for assessing the effectiveness of the expenditure (e.g. number of jobs created, low-income citizens served, conflicts with federal tax policy avoided, etc.),
    d. information regarding the categories of taxpayers that benefit,
    e. an updated estimate of the revenue impact (positive or negative) of the tax expenditure,
    f. categorization of tax expenditures both by tax type and, as appropriate, budget category, and
    g. a review schedule and/or, as desired or specified in law, an expiration or sunset date;
5. Make clear the methodology and limits of estimates provided in the report.

What are "best practices" for evaluating tax expenditures?

While better tax expenditure reports are a critical first step, the data in these reports must be reviewed and evaluated in order to produce better public policymaking. Here, too, there are some "best practices":

1. Tax expenditures should be an integral part of the state's budgeting process, subject to a comparable regular review and approval process as other expenditures. Each tax expenditure should be reviewed regularly, with a frequency of review taking into account the trade-off between available resources to undertake the review and the cost of the tax expenditure.
2. There should be clarity about who is responsible for this review. Should it be done by a special legislative committee, a created commission, or some other authority (such as the executive branch)?
3. Evaluations should be based on measurable goals and draw clear conclusions on the effectiveness of each tax expenditure.
4. Rigorous evaluations should determine costs and benefits of each tax expenditure, and allow policymakers to ask critical questions, including:
   a) Is the purpose, cost and benefit of each tax expenditure clear?
   b) Are there clear metrics to determine the tax expenditure's effectiveness?
   c) If no readily available data exists to measure a tax expenditure, how should it be evaluated?
   d) To what extent did the tax expenditure affect choices made by taxpayers?
   e) Did the expenditure achieve its purpose?
   f) Who was affected by the tax expenditure?
   g) Did the benefits of the tax expenditure outweigh the effects of the tax increases or spending cuts needed to offset it?
5. The Governor and appropriate legislative committees should review the reports to determine whether tax expenditures should be continued, modified or eliminated. This should be part of the state's normal budgeting process.

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

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

JOHN P. CAMACHO, Director Direktot
MARIE M. BENITO, Deputy Director Sigundo Direktot

May 1, 2018

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

Re: Real Property Tax Assessment and Exemptions Revised Draft Audit Responses

Buenas yan Saludas Ms. Brooks:

The Department of Revenue & Taxation (DRT) hereby submits an official response to the Real Property Tax Assessment and Exemptions Audit:

It is unclear as to why Guam's median residential home values and Guam's property tax rate is being compared to the United States. There are many factors that determine the value of homes, and the rates imposed, to include proximity to business, industrial and developments as well as commercial and financial hubs which dictate supply and demand of homes. These drive home values up as well as corresponding property taxes. The purpose of the comparison is questionable as it leads to irrelevant conclusions about Guam's tax structure and home values. Moreover, the audit states that Guam's median residential values are the lowest in the United States and Guam's property tax rate is the lowest in the U.S. resulting in lost opportunity of increased revenues. Again, it is unclear as to the statement regarding Guam's residential home values being the lowest in the nation, and its relevance to Guam having the lowest tax rate.

Secondly, the audit claims that, "...According to the Tax Foundation, property taxes were the largest source of state and local tax collections in the United States, comprising 31.3%. However, DRT research from the same source, indicates the largest source of tax revenues for the United States comes from individual income taxes at 40.5% and property taxes made up only 10.3%.

The Executive Summary states that, "With the lost opportunity of increased revenues resulting from low property tax rates, the Government of Guam also **lost revenues of $40.1 million in real property taxes** from 2012 through 2016, or an average of $8.6M per year". It is incorrect to synonymously use "lost opportunity" and "lost revenues". **There are NO lost revenues attributable to DRT** as existing statutes mandate provision of tax exemptions and tax credits. $21.3 million of the $40.1 million are tax exemptions and tax credits mandated by law. The balance of $18.8 million is NOT "Property Tax Revenue Leakage" as noted in the audit. This amount is **NOT** a tax leakage as these taxes have been identified, assessed and is still collectible. In addition, the law mandates DRT to assess prior year taxes through the "escaped assessment" provision.

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All real property taxes are assessed with a previous statute of limitation of thirty (30) years. It should be noted that DRT does have the authority to have the delinquent properties deeded to the government. However, P.L. 32-218, introduced by Sen. Michael San Nicolas, reduced the statute of limitation to ten (10) years. This in effect, prohibits DRT from collecting taxes assessed beyond ten years of assessment prospectively from 2014. In this same statute, "When any tax becomes a lien, if the lien has not been otherwise removed, then the lien ceases to exist and the tax is conclusively presumed to have been paid...". This provision ignores issues such as bankruptcies, probate, or cases in litigation that may have prohibited prompt payment of taxes within that period but could have been paid subsequent to resolution of those issues.

1. Lack of Monitoring Uncollected/Delinquent Property Taxes:

   - This finding is wrong at all levels and undermines the commitment of the Real Property staff who administers the program. First of all, "Lack of Monitoring" is false. DRT maintains a system which monitors all property tax assessments, payments and delinquent accounts. DRT issues a new property tax roll annually identifying tax assessments for each calendar year and monitors the amounts paid after each delinquent due date which are February 20 and April 20 of each year. Management has been aware that there are some properties that are delinquent for several years. Some of these delinquencies are a result of undivided interest in properties undergoing probate or some with heirs that cannot afford the expense to close the probate or estate and settle unpaid taxes. Others as mentioned are CLTC properties that must be identified by DLM/CLTC whether or not they are exempt from property taxes for the 7 year period allowed by law if they paid out-of-pocket costs for mapping and surveying. DRT has recognized that a portion of the annual Real Property Tax receivable will remain uncollectible due to the aforementioned. Furthermore, as discussed in the exit meeting, DRT's Real Property Tax laws do not necessarily require collection staff but support of the lawmakers to allow DRT to proceed with the auctioning of delinquent property taxes. During the last revaluation, DRT publicly announced it would be aggressive in enforcing property tax collections by auctioning properties to instill compliance. By operation of law, delinquent properties become tax deeded to the Government of Guam after the required time period and notices. That news was widespread and caught the attention of Sen. San Nicolas who mandated that DRT hold off on the auctioning process of properties until rules and regulations were written and adopted through the administrative adjudication laws. DRT contends that the law pertaining to the auctioning of delinquent properties was very specific and afforded all taxpayers the opportunity to satisfy all taxes including their rights of redemption without new rules and regulations. Again, it must be made clear that this is another unfunded mandate which is the primary reason that DRT has not issued the rules and regulations. This requirement has impeded DRT's prior ability to auction unpaid property taxes to satisfy delinquent obligations.

2. DRT's Inability to Identify Property Owners After 2014 Mass Re-appraisal (John Does):

   - DRT vehemently disagrees with this "finding" as DRT does have the ability to identify property owners after the property revaluations of 2014. The issue of the "John Doe" properties is not the *inability* to identify the taxpayer, but the need to improve the current computer system to interface with the records at the Department of Land Management and the Department of Public Works. DRT staff has been reviewing accounts individually with actual physical land management documents to insure that properties are indeed taxable and not a parent lot that may have been subdivided and accounted for in the tax roll.

3. Guam Property Assessment System "Aumentum" Lacks the Capability to Create PINs:

   - DRT's Aumentum system does not allow for the creation of PINs since the PINs are related to the identification of property owners under the purview of DLM.

4. DRT, DLM, DPW Real Property Information Do Not Interface:

   - DRT is fully aware of the need to interface information from DLM and DPW. This project requires additional funding in order to address this situation. Until such time as funding is secured, this interfacing of information remains pending at this time.

5. Memorandum of Agreement (MOA) between DRT and DLM Not Strictly Enforced:

   - DRT disagrees with this finding. DRT publishes the certified tax rolls and maintains the rolls on its website, emails it to DLM and also provides the information on electronic medium, thus adhering to the requirements of the MOA.

It should be noted that DRT has been effective in administering the Real Property tax laws of Guam. DRT has been identifying ways to insure that all taxes are appropriately assessed and that taxpayers who apply for exemptions or credits are indeed qualified for them.

If you have any questions, please contact me at 635-1815 or email at john.camacho@revtax.guam.gov.

Senseramente,

John P. Camacho
JOHN P. CAMACHO
Director

Appendix 10:
DLM Management Response

DIPÅTTAMENTON MINANEHAN TÅNO'
(Department of Land Management)
GUBETNAMENTON GUÅHAN
(Government of Guam)

EDDIE BAZA CALVO
Governor

RAY TENORIO
Lieutenant Governor

MICHAEL J.B. BORJA
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E-mail Address:
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671-649-5383

May 7, 2018

TO: Doris Flores Brooks
Public Auditor, Office of Public Accountability

FROM: Director

SUBJECT: Real Property Tax Assessment & Exemptions Performance Audit

Buenas yan Hafa Adai!

The Department of Land Management (DLM) has been making concerted efforts to address the problems the department has been plagued with regarding the LandWeb system. At the onset, DLM has worked with the vendor to resolve the issues of interfacing with the Department of Revenue and Taxation (DRT) and with Property Identification Numbers for approved Horizontal Property Regimes (HPR).

On May 3, 2016, DLM and DRT entered into a Memorandum of Agreement with the confidence that the two agencies would develop a solution to address the problems that DLM and DRT are encountering related to Property Identification Numbers (PIN), information interfacing and unassessed properties and condo units.

Today, DLM met with the Office of Technology (OOT) to discuss the technical issues regarding the LandWeb. In that meeting I expressed our concerns regarding DLM's inability to create PINs for certain properties and condo units and information interfacing. DLM and OOT have agreed to work together to find a solution to the problems that plague DLM's LandWeb system. Our specific concerns were expressed and both OOT and DLM are confident that we should resolve these issues in the short term while also seeking greater long term ways to completely improve the system and process.

If you should have any questions please do not hesitate to contact me at 649-5263 ext.612.

Senseramente,

MICHAEL J.B. BORJA
Director

Department of Revenue and Taxation
Real Property Tax Assessments and Exemptions
Report No. 18-03, May 2018

ACKNOWLEDGEMENTS

Key contributions to this report were made by:
Vanessa Valencia, Staff Auditor
Maria Thyrza Bagana, Auditor-In-Charge
Llewelyn Terlaje, CGAP, CGFM, Audit Supervisor
Doris Flores Brooks, CPA, CGFM, Public Auditor

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- **Visit us at Suite 401, DNA Building in Hagåtña**

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