



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

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property taxes identified \$15.7 million (M) in unrealized, lost and forgone tax revenues, comprised of \$14M from the outdated valuation system, \$1.6M in escaped assessments, and \$57 thousand (K) due to a lack of interface between the Department of Public Works (DPW) and Department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

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

Real Property Tax Assessments Adjusted Downward to 1993 Values

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

Guam has one of the Lowest Property Tax Rate and Among Lowest in Property Values

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

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

Senior Citizen and Home Exemptions Comprise in Largest of Forgone Revenues

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

Foregone Revenue Due to Escape Assessments

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

Interface with Department of Public Works and Department of Land Management

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

Recommendations

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



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