



Office of the City Manager

INFORMATION CALENDAR

November 27, 2007

To: Honorable Mayor and
Members of the City Council

From: *PK* Phil Kamlarz, City Manager

Submitted by: Robert Hicks, Director, Finance Department

Subject: Parcel Based Special Taxes, Fees and Assessments Audit – Status Report

SUMMARY

The City Auditor's Office performed an audit in 2004 related to preparation of the City's parcel-based special taxes, fees, and assessments. The audit involved the Finance Department – Revenue Collection Division, Information Technology, and the Planning Department. In addition, some recommendations also involve the City Manager's Office for implementation. The purpose of the audit was to evaluate internal controls and identify risk for the parcel-based assessment processes, and to determine whether:

- Parcel/property data used for assessments is materially accurate and complete;
- Assessments are computed correctly.

The Audit Report was submitted to Council on March 15, 2005. The complete Parcel-based Special Taxes, Fees, and Assessment Audit can be found on the City's website at: <http://www.cityofberkeley.info/auditor/currentaudits.htm>. The Finance Department provided status reports on January 24, 2006 and November 28, 2006, which can be found at: http://www.cityofberkeley.info/citycouncil/agenda_main.htm. This third report provides an update on those recommendations that were not implemented as of the date of the November 28, 2006 report. The next report will come to Council on July 2008.

CURRENT SITUATION AND ITS EFFECTS

Of the 18 recommendations outstanding from the original Audit, 12 are fully implemented, another 5 partially implemented and, are expected to be completed by July 2008, and 1 to be implemented by 2010. Outstanding or partially implemented recommendations are largely due to additional evaluation and procedures needed for the new tax billing system. Information Technology and Finance completed the initial phase of the process in July 2005, and final implementation of this new system was scheduled for July 2006. However, since the necessary IT programming resources weren't secured until June 2007, staff has delayed the implementation of an updated tax system until July 2008.

Finding 3: There is likelihood that the taxable BSFT¹ for some parcels might have been understated or overstated, resulting in improper assessments.

Recommendation for Finance (3): Allocate some resources to start a limited scope project to explore the opportunities for identifying under assessed properties. Based on results from the project, evaluate the costs and benefits and determine whether the project should be continued. We further recommend involving staff other than the Land Management Analyst so that they can be cross-trained to backup the Land Management Analyst in his absence.

City Manager's Response: Partially Implemented July 2005. To be completed by July 2008. A formalized process for systematically identifying potentially under and over assessed properties has been developed. This process is initiated by generating reports that rank an individual property's likelihood of over and under assessment based on varying criteria. Properties are investigated and, if necessary, adjustments are made to building square footage. Properties that undergo reviews are marked as validated for future reference. The tax/assessment system will be further evaluated to determine if the lead generation reporting can be integrated in the revised tax billing system.

Planning Department staff was being cross-trained to backup the Land Management Analyst but due to staffing turnover, Finance is evaluating other options to backup the Land Management Analyst.

Finding 4: \$1.2 million could be gained by the City and \$0.8 million could be gained by the Berkeley Unified School District (BUSD) if BSFT based special taxes were assessed on non-public exempt entities.

Recommendation for City Manager (4.2): Consider placing a measure on the ballot to extend legally allowable parcel-based special taxes to non-public exempt entities.

City Manager's Response: Partially Implemented November 2006. As explained in a 1990 opinion from the City Attorney, while the California Constitution allows the City to impose certain types of special taxes on nonprofits, the City has never interpreted its special tax ordinances as doing so. Thus, in order to impose these taxes on nonprofits would require amendments to those ordinances, which in turn would require 2/3-voter approval. A final decision will be made by July 2008 and reported to Council.

Finding 5: There are concerns over internal controls.

Recommendation for Finance (5.1): On a quarterly basis, the Revenue Collection Manager should perform, on a sample basis, a review and verify that the BSFT posted to the Land Management System is supported and accurate. This review should be documented.

¹ BSFT refers to Building Square Footage used to calculate all special taxes, assessments, and fees except for the Clean Storm Water fees.

City Manager's Response: Implemented June 2007. A set of reports has been developed that show every change made to critical assessment attributes (lot square footage, building square footage, land use, etc.). The reports show the original data, the changes made, time of change and the person who made the change. These reports are available to anyone with FUND\$ access. The Revenue Collection Manager will print and review the report at the end of every quarter and randomly select items from the report for review with the Land Management Specialist.

Recommendation for Finance (5.2): Formalize and document the review procedures performed by the Land Management Analyst. Procedures should include a comparison of the BSFT and lot square footage (LSFT) to the County's assessed values. When a property of high assessed value is assigned a zero square footage or low square footage value, it should trigger a concern that the property may not be properly taxed.

City Manager's Response: Partially Implemented July 2005. Automation of this procedure will be incorporated into the new tax assessment system, scheduled to be operational by July 2008. Meanwhile, IT created a report that lists properties with zero BSF but have improvement valuations. The parcels listed are investigated by the Land Data Analyst to determine if there is BSF missing in the land database or if the County's data is incorrect. If the error lies with the City's data, then it is corrected and a tax bill is generated; if the County data is incorrect, the Revenue Collection Manager contacts the County Assessor for resolution. Also, a formalized process for reviewing tax-related property information was developed, and supporting automation has been implemented. The entire process is currently being evaluated and refined. Documentation for these procedures will be completed by July 2008.

Recommendation for Auditor (5.4): A limited scope audit of the new BSFT procedures should be performed within two years to ensure that the procedures are fully implemented and the intended objectives are achieved.

City Manager's Response: Not Implemented. Finance and IT recommend that any audit recommendations be deferred until after the new assessment software has been used for two tax seasons, which would be in 2010. A limited scope audit could provide useful feedback on the new procedures; however, it would be more productive after completion of both its initial implementation and likely revisions to the new assessment software.

Finding 6: There are opportunities for inadvertent failure to assess properties.

Recommendation for IT and Planning (6): On an annual basis, we recommend IT provide Planning with a report listing all expired building permits indicating additional BSFT but lacking a final inspection. Planning should follow up on these permits through site visits on a sample basis to prevent or to discourage property owners from escaping assessments advertently or inadvertently.

City Manager’s Response: Implemented December 2006. IT worked with Planning to design and implement an Expiring Permits Report that can be run by any FUNDS\$ user from a menu and has been operational since January 2007.

Major Findings Identified In Prior Year Audits That Remain Unresolved

Finding 9: Clean Storm Water (CSW) Assessment Audit: Public agencies and the City of Berkeley are not assessed Clean Storm Water Fees.

Recommendation for the City Manager (9): Re-consider negotiating CSW Fees with each public agency. Develop a strategy for billing these agencies. If the City Council decides not to assess parcels owned by other public agencies, amend the Ordinance to specify such intent.

City Manager’s Response: Partially Implemented May 2007. On May 31, 2007, the City and the Berkeley Unified School District (BUSD) entered into a “Mutual Release and Waiver and Agreement for Payment of Municipal Charges” whereby BUSD will pay the City \$180,440.98 annually to retire outstanding debt which includes CSW fees. The Finance Department will continue to bill BUSD \$56,189 annually in CSW fees and BUSD has agreed to pay these fees. No discussions are underway with East Bay Regional Park District, East Bay Municipal Utility District (EBMUD), or Bay Area Rapid Transit (BART) regarding the billing and payment of CSW fees. Lost revenue for each agency is approximately \$55,400, \$7,500, and \$1,400, respectively. A final decision on whether to pursue these lost revenues, considering both costs and benefits, will be made by June 2008 and reported to Council.

Finding 10: Clean Storm Water (CSW) Assessment Audit: Parcel square footage used to calculate the Clean Storm Water Fees was not always correct.

Recommendation for Finance (10): Employ a systematic and documented approach to correct LSFT² inaccuracy in the Land Management database. To narrow the area of investigation, we recommend using the LSFT reflected on the parcel layer of the City’s Geographical Information System (GIS) as a tool to identify significant discrepancies. We further recommend focusing on large parcels or parcels that currently have a comparatively high land value per square footage.

City Manager’s Response: Partially Implemented July 2005. A formalized process for correcting LSFT was developed in which comparisons are made between lot square footage data in the Land Management database and the City’s GIS. Within this platform, properties found to have discrepancies outside a given threshold are reviewed and, if necessary, updated in Land Management. This data will be integrated into the new assessment system. Documentation outlining this process will be completed by July 2008.

² LSFT refers to the Lot Square Footage used to calculate Clean Storm Water fees

Finding 11: Landscape and Park Maintenance Assessment Fund Review: The City does not know if all assessments data sent to the County is included on the County's property tax bills.

Recommendation for Finance (11): We recommend the Revenue Collection division take a more proactive role in monitoring payments or collections from the County and, on a quarterly basis, compare them to the assessment amounts submitted to the County. Timely resolve significant or unexpected discrepancies with the County once they are identified.

City Manager's Response: Implemented January 2007. The Revenue Collection Manager maintains a spreadsheet to monitor the progressive payments received from the County and if by May the payment ratio to charges submitted (less adjustments) is lower than expected, the Finance Director is notified with a follow up to the County Treasurer.

Also, the County Auditor maintains control worksheets by tax legend of the total tax amount and number of parcels submitted to them for inclusion on the tax roll and the total amount and number of parcels successfully extended to the tax roll. Therefore, if the County Auditor's office does not notify an agency that there were errors with the submission(s) or rejected items, then whatever was submitted to the County Auditor is extended to the tax roll.

Finally, The County Auditor can provide a payment file annually after the second tax installment due date of April 10th. This payment data will be integrated into the new tax system, scheduled to be operational by July 2008, so that payment data can be displayed by parcel in addition to the existing tax and assessment data already available by parcel.

BACKGROUND

Finance – Revenue Collection is responsible for preparing the annual parcel-based special taxes, assessments, and fees, in coordination with Information Technology, and submits this data to the Alameda County Auditor to be included with Property Tax Statements. Steps in this process include:

1. Receive parcel data from the County Assessor's Office in early July.
2. Reconcile the County parcel data with the City's parcel data; combine parcels, split parcels, retire parcels, lot line adjustments, and land use changes.
3. Update tax rates in the tax/assessment system.
4. Run reports and queries to: correct any land data/parcel errors that affect tax calculations, and; validate rates are entered into the tax system correctly.
5. Prepare preliminary tax reports for approval by fund managers.
6. Reconcile changes in taxable building and lot square footage from prior to current tax year; reconcile number of parcels from prior year to current year.

7. Reconcile the number of parcels exempted from taxation due to non-profit tax status and/or exempt agency tax status; validate taxation of partially exempt non-profits.
8. Create tax files.
9. Transmit tax files to the County Auditor no later than August 10th.
10. Calculate and submit the Utility Tax Roll no later than August 10th.

In FY 2008 the Secured parcel-based taxes and assessments account for \$39,374,000 in annual special fund revenue to the City of Berkeley, and \$25,829,000 in annual special fund revenue for the Berkeley Unified School District (BUSD). The Utility Tax roll presents another \$81,600 and \$52,800 in annual revenue for the City of Berkeley and BUSD respectively.

POSSIBLE FUTURE ACTION

Finance and Information Technology continue to redesign the tax/assessment system to incorporate recommendations from this audit, including those to formalize and document building and lot square footage reviews; and improve the flow of permit information from Planning to Finance and IT. Finance and Information Technology expect the redesign of the tax/assessment system to be complete by July 2008.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

The estimated annual increase in revenue to all special funds, including those for BUSD, based on the un-assessed and under-assessed parcels identified in Finding 1, 2, and 10 of the Audit, is approximately \$17,000. The increase in revenue will be offset by an annual general fund expenditure of approximately \$800 to procure the tax payment file from Alameda County.

Additionally, there will be a 1-time cost to the general fund to redesign and implement an updated tax/assessment system. The estimated cost of this effort is approximately \$120,000 in combined personnel expenses. The new system will be a more adaptable, efficient, and effective system that will require less staff time to maintain and update.

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