

San Joaquin County Grand Jury



County's "Most Wanted" – Delinquent Property Taxes

2012-2013 Case No. 0612

Summary

An investigation by the 2012-2013 San Joaquin County Civil Grand Jury (Grand Jury) discovered that over the past three years there has been an average of \$64,000,000 in defaulted tax revenues left uncollected each year. While this was due in part to the large number of foreclosures in San Joaquin County, there were many additional contributing factors. The Grand Jury was initially concerned about these foreclosed properties because most were not properly maintained and presented problems for neighbors. Also, regulatory agencies responsible for ensuring compliance with Stockton Municipal Code (SMC) Chapter 15.32, San Joaquin County Code Chapter 9-1905 and other Codes addressing vacant properties were unable to determine the identity of answerable parties for the up-keep of these parcels. The Grand Jury determined that a key element in both of these problems was the ineffective interdepartmental communication between the San Joaquin County Assessor-Recorder-Clerk and the San Joaquin County Treasurer-Tax Collector regarding updating of property ownership records. A second very important consideration was the reality that the Tax Collector held only one tax sale each year.

This ineffective communication was complicated by the fact that there was no legal owner tracking on foreclosed properties whose new owners had not filed a *Preliminary Change of Ownership* form with the County. Because there have been approximately 3,379 foreclosed properties throughout the County since January 2012, there is an untold number of properties without an accurate ownership record. For example, approximately 6,000 (3%) of the 2012-2013 tax bills were returned because of incorrect information. The use of two different computer programs that did not interact with each other further hindered the exchange of critical information among departments. Improvements in inter-departmental communications and methods for the collection of taxes by both the Tax Collector and the Assessor-Recorder would provide monies to the County in a more expeditious manner.

Glossary

Assessor	San Joaquin County Assessor-Recorder-Clerk
County	San Joaquin County
Defaulted Taxes	“If annual or supplemental taxes are unpaid after June 30, following the second installment due date, the taxes will be defaulted. Defaulted taxes are subject to delinquent penalties, costs, a state redemption fee, and redemption penalties (monthly interest) beginning July 1, as provided by law.” “If taxes remain unpaid five years after the date of default, the property will become subject to the Tax Collector’s power of sale and will subsequently be sold at public auction”. (Statement from San Joaquin County property tax bill)
Delinquent Tax	Delinquent Tax penalties are charged when property taxes are not paid by due date.
GIS	Geographical Information System – Used to assess properties
PICOR	Preliminary Change of Ownership
Tax Collector	San Joaquin County Treasurer-Tax Collector
Tax Sale	Public Auction of Defaulted Tax Properties - An auction or sale designed to return defaulted properties to private ownership

Background

The San Joaquin County Assessor-Recorder-Clerk and the San Joaquin County Treasurer-Tax Collector are jointly responsible for establishing, managing and maintaining the County’s property tax revenue system. Both offices are headed by elected officials and each office is responsible for different aspects of the taxing process. While both offices receive their operational funding allocations from the San Joaquin County Board of Supervisors, they have different tasks. The Assessor is responsible for valuing all taxable property in the County including land, buildings and other real property. The Assessor’s Office is governed by the California Administrative Code, the State Board of Equalization (under Article I, Sections 75 to 75-9 of the Revenue and Taxation Code) and Articles XIII and XIII A (Proposition 13) of the California State Constitution. Under these statutes and codes, residential property must be appraised when a change of ownership occurs and the new appraised value must be communicated to the Tax Collector for inclusion in formulating the annual tax bills.

The Tax Collector must follow the same set of regulations as the Assessor but has a different task. The office is divided into two divisions: The Tax Collector Division and the Treasurer Division, each with its own set of responsibilities. The division most pertinent to foreclosed and abandoned property is that of the Tax Collector; its duties include distributing tax bills, collecting property taxes, processing property tax redemptions and payments, enforcing property tax payments, auctioning defaulted tax properties and accounting for taxes collected. The Public Auction of Defaulted Tax Properties is an important source of County revenue. The purpose of the Auction is to collect unpaid taxes owed to the County and to convey the tax-defaulted property to a responsible owner. The Tax Collector Office is required to send out and record *Notices of Intent to Sell Properties* for defaulted taxes after a delinquency of five years on residential properties or three years on non-residential commercial properties. Currently, tax sales (auctions) are held once each year. The most recent County sale was held on November 7, 2012, for taxes owed for 2006 and prior years. The next auction will be conducted in the Fall of 2013 for taxes owed from 2007 and prior years.

Approximately 10 Tax Collector Office staff members prepare for and conduct the actual auction/sale of properties. If a property does not sell at its first scheduled auction, the opening bid price is generally reduced for the following auction. Before the tax sale occurs, the owner may pay the delinquent tax or opt for a payment plan authorized by the Tax Collector for payment of taxes owed. Many times, however, homeowners default on the payment plan and, under California law, the property can be placed on the sale list again. The County charges an 18% annual interest rate on delinquent taxes. If the property is sold for more than the taxes owed, the difference, less fees and costs, is remitted to the original owner if they submit the proper application.

The Office of Assessor-Recorder is responsible for the maintenance of approximately 245,000 property assessments and deeds which are stored in individual folders called *building files*. The Office has upgraded its computer network so these files may be entered electronically and maintained within the system. A staffing shortage has adversely impacted the success of this long-term project, leaving thousands of documents yet to be transferred from paper to electronic files.

The Assessor-Recorder department has 120 employees divided into four divisions: Valuation, Systems, Standards/Recorder and Administrative Divisions. In the Valuations Division, there are seven fewer appraisers than in 2008. However, the expanded use of computers and improved technologies by the mapping section has created greater efficiencies. The Systems Division is planning to replace the 1995 model hardware currently in use as funds become available. This Division has recently upgraded its data base software to maximize departmental productivity. Another computer program the Assessor's Office is considering is the Geographical Information System (GIS) which will benefit the appraisal process, especially for agricultural properties. With the addition of the GIS, the entire operation should be more effective.

At the present time, the transfer of *Preliminary Change of Ownership* (PICOR) information from the Recorder's office to the Assessor's office takes about three weeks; then there is a delay of another two to three months before the assessment process is completed and the updated information is sent to the Tax Collector. During this interoffice transfer of information period, it is difficult to identify the actual owner of a property (the State Code does not mandate the filing of a *Preliminary Change of Ownership* form when a property goes into a foreclosure/trustee sale).

The historically high number of property foreclosures in San Joaquin County during the past several years has significantly increased the workload of both the Assessor-Recorder and the Tax Collector Offices. Long term budget cuts have decreased staffing levels and much of the technology in use is outdated; yet the responsibilities remain constant and there is, at times, a significant delay between the date that a property is foreclosed upon and the date when the correct owner/s appear/s on the tax rolls.

Issues

An initial review of the defaulted tax lists in August, 2012 revealed there were 8,301 properties in San Joaquin County with more than \$75,146,000 owed in back taxes. The Grand Jury also learned the Tax Collector conducts one interactive public auction per year. The November, 2012 auction listed 125 properties. After the auction, the sales generated \$1,243,500 in new revenue for San Joaquin County. The Grand Jury was able to determine that these annual sales, along with other related practices and procedures have been in place for more than 40 years. Information obtained from other counties in California by the Grand Jury regarding tax sales indicate those who have adopted new technologies and implemented new strategies gained greater efficiencies with collection of delinquent taxes.

Finally, this investigation revealed the Offices of San Joaquin County Assessor-Recorder-Clerk and the San Joaquin County Treasurer-Tax Collector communicated infrequently as to the correct ownership of foreclosed properties creating difficulties for City and County code enforcement agencies in their ability to fulfill assigned responsibilities.

Method of Investigation

The 2012-2013 Grand Jury interviewed management and staff in the Assessor-Recorder's Office and the Tax Collector's Office to obtain information about their policies, procedures, operations, staffing and responsibilities as well as viewing their facilities. A survey of 32 California counties was performed by telephone and a website review was conducted to determine other counties' procedures for conducting defaulted tax sales. The Grand Jury also interviewed San Joaquin County Code Enforcement officials regarding problems they were experiencing with foreclosed/vacant properties.

Materials Reviewed:

California Revenue and Taxation Code
California State Controller 2012 Audit of the Office of San Joaquin County Assessor-Recorder-Clerk
Merced County Tax Sale Brochure
Preliminary Change of Ownership Forms
Report of Properties Sold, September 14, 2011
Report of Properties Sold, November 7, 2012
Reports of Taxes owed as of July 1, 2009-2012
Riverside Tax Sale Brochure
San Joaquin County Assessor-Recorder-Clerk and Treasurer-Tax Collector Office Organizational Charts
San Joaquin County Delinquent Tax Roll
San Joaquin County Tax Sale Procedures
Site Visits:
San Joaquin County Assessor-Recorder-Clerk's Office
San Joaquin County Treasurer-Tax Collector's Office
Attended and observed San Joaquin County 2012 Public Auction (Tax Sale)

Discussion, Findings and Recommendations

1.0 Public Tax Auction

The Tax Collector currently conducts a public tax auction once each calendar year for those tax-defaulted commercial properties with three years or more of taxes owed and residential properties with five years or more of taxes owed. During the most recent tax sale, November 7, 2012, there were 125 properties listed for sale. On the official *List of Offered Properties*, 41 properties were redeemed (had taxes paid by owner) just prior to the sale to avoid being offered at auction. A summary of the San Joaquin County Property Tax Sale is shown on Table 1:

DISPOSITION	PROPERTIES	TAX REVENUES
Removed from list due to errors or in probate	20	N/A
Offered for sale and not sold (no bids) (\$1,456,500 unpaid taxes still owed to County.)	42	\$ 0
Defaulted taxes paid prior to sale.	41	\$824,500
Sold at Tax Sale (\$824,000 bid price)	22	\$419,000
Total Tax Revenue Recovered	125	\$1,243,500

Table 1

As part of a survey conducted by the Grand Jury, Tax Collectors in 32 California counties with populations of 100,000 or more were asked to comment on their Defaulted Tax Sale practices.

Several counties conduct auctions twice or more per year and more than half surveyed use the Internet as a sales vehicle because it is more efficient and cost effective. Properties not sold also are offered at a lower price at the next auction.

Findings:

F1.1 By conducting a tax auction of defaulted properties only once each year, the San Joaquin County Treasurer-Tax Collector decreases the number of opportunities for the County to realize a more rapid recovery of revenue from defaulted property taxes.

F1.2 The San Joaquin County Treasurer-Tax Collector uses only face-to-face auctions as a means to conduct property sales thereby limiting the number of participants in tax auctions.

F1.3 The San Joaquin County Treasurer-Tax Collector has insufficient staff to manage an ever-increasing volume of delinquent property tax demands.

Recommendations:

R1.1 Beginning Tax Year 2013-2014, the Tax Collector conduct two tax sales each year.

R1.2 Beginning Tax Year 2013-2014, the Tax Collector implement an on-line tax sale and use its website to describe properties offered at the sale.

R1.3 Prior to December 31, 2013, the Tax Collector request additional funds to augment office staffing to better manage the high rate of tax defaults and facilitate a more rapid collection of tax revenues.

2.0 Inter-Departmental Communications

The San Joaquin County Assessor-Recorder-Clerk and the San Joaquin County Treasurer-Tax Collector are jointly responsible for establishing, managing and maintaining the County's property tax revenue system. There are often complex or complicated tax issues that must be resolved in a timely, knowledgeable and efficient manner in order to best serve the public. Even the most mundane of operations requires regular interaction among all branches of the department. Interviews with management and staff revealed there was inconsistent, infrequent and unclear communication regarding foreclosed and/or abandoned properties. It was also revealed that the affected offices used different computer programs for their daily operations. While all offices had access to each other's data, the use of one common program would be a more efficient means to fulfill responsibilities.

The Assessor-Recorder's Office does not automatically notify the Tax Collector of a foreclosure. This results in the return of many bills that have been sent by the Tax Collector to the incorrect owner. When this was brought to the attention of management, there was a positive response with an indication that the matter would be investigated and resolved.

Findings:

F2.1 There is no regular, scheduled communication between the Tax Collector's office and the Assessor-Recorder's office regarding foreclosed and/or abandoned properties which contributes to the inaccuracy of affected records.

F2.2 The use of two different computer programs within the tax valuation/collection structure hinders the daily exchange of critical information among departments charged with overseeing public assets.

Recommendations

R2.1 By December 31, 2013, the Assessor-Recorder and the Tax Collector develop, revise and/or refine departmental policies and procedures that will facilitate meaningful, timely and accurate communications between and among all parties to ensure the accuracy of all records shared by both offices.

R2.2 The Assessor-Recorder and the Tax Collector evaluate the computer systems used in their respective offices to create sufficient computer linkage to support compatible, efficient communication throughout both departments and implement action necessary to achieve mutual effectiveness within both offices by November 30, 2013.

R2.3 By November 30, 2013, the Assessor-Recorder create and formalize an interoffice communication system to relay information regarding foreclosed properties to the Tax Collector identifying owner address changes.

3.0 Delays Between Change of Ownership Filing and Property Reassessment

A major focus of the Grand Jury was the recording and assessment of real property in San Joaquin County for the purpose of tax collection. The Assessor-Recorder's Office has accumulated approximately 245,000 property assessments, stored as individual *building files*. The Assessor-Recorder's Office currently uses its existing staff during slower times to enter these *building files* into its data base system to create a paperless system. Given current staffing, the completion date for this task is far into the future and may never be fully accomplished. The existing computer hardware used by the Department to manage these files was installed in 1995. While viewed as the best system available at the time, it is now several generations out of date.

A modern system would streamline the operation and make the transition to paperless easier and enable the Department to gather and store more information in a shorter time span. Since budget constraints have reduced staffing levels to an already understaffed department, a modern computer system would greatly improve departmental efficiency.

Interviews with staff and management revealed the processing of *Change of Ownership* information in the Assessor-Recorder's office requires three weeks. When the deeds or other documents are recorded, they are delivered to the Systems Division where they are evaluated for accuracy, properly identified and entered into the data base. Next, the Transfer Section receives the documents for ownership verification and other input. Documents that reflect map and ownership changes are sent to the Mapping Section for any needed up-dates then returned to the Transfer Section for changes in ownership and change in Assessor Parcel Numbers, if necessary. Finally, the documents are given to a staff member in the Appraising Department for reappraisal. The documents are divided into their respective categories: Agricultural, Commercial or Residential for accurate valuation according to their classification.

The entire process generally takes two to three months before the required changes to the documents are finalized and given to the Tax Collector for preparing the new billing. However, there can be a greater time lag of up to six months between change of ownership and reassessment. Currently, the data entry of recorded deeds, including foreclosures, is approximately two months behind due to staff shortages and the hiring freeze. The loss of seven appraisers due to budgetary concerns also may be a contributing factor to the length of this last procedure. Under California state law, the Assessor-Recorder is mandated to deliver the complete tax roll to the Tax Collector by the first day of July each year.

The length of time between filing a *Change of Ownership* until it reached the Tax Collector's Office ranged between two to six months based on estimates received by the Grand Jury. All persons interviewed agreed that these time estimates had been the norm for quite some time. Any delay in this process is critical because, dependent on the timing, it may mean a year's interruption in the receipt of tax revenue owed to the County. The Assessor-Recorder's Office is currently considering using a new program, Geographical Information System (GIS) that will accelerate the appraisal process, especially agricultural properties.

Findings

F3.1 There is no time frame established for processing changes of ownership to expedite tax collection.

F3.2 The back-log of documents requiring processing is mounting due to staff shortages.

F3.3 The computer technology currently used by the Assessor-Recorder's Office is insufficient to keep pace with the demand on processing time, especially of agricultural properties.

F3.4 While not totally obsolete, the aging 18 year-old computer hardware system in use at the Assessor-Recorder's Office does not provide for the most efficient use of staff time or effort.

Recommendations

R3.1 The Assessor-Recorder establish defined timelines for the processing of regular changes of property ownership by December 31, 2013 and conduct training for all staff on methods to achieve established timelines.

R3.2 The Assessor-Recorder explore all options available to reduce the data entry back-log and fulfill current and proposed administrative projects. This plan is to be implemented by December, 2013.

R3.3 The Assessor-Recorder and the Tax Collector work collaboratively to identify and apply new technology that will accelerate the valuation to collection process and improve operation within both departments by December 31, 2013.

Conclusion

The San Joaquin County Assessor-Recorder-Clerk's Office and the San Joaquin County Treasurer-Tax Collector's Office each provide a valuable service to the citizens of San Joaquin County. Along with other departments, these offices have faced many staff reductions while experiencing an increase in their workload. The Grand Jury is concerned with the overall efficiency of these offices relative to other Assessors and Tax Collectors in the state. A statement heard more than once during the interviews was: "We have done it that way for 40 years." Given the current number of property transfers within San Joaquin County, the Grand Jury urges the Assessor and Tax Collector to investigate methods to upgrade their procedures while complying with the California Tax Code. Improvements will not only help promote productivity but will expedite the receipt of much needed tax revenue and better serve the citizens of San Joaquin County.

Disclaimer

Grand Jury reports are based on documentary evidence and testimony of sworn and admonished witnesses, not conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court or another such Judge appointed by the Presiding Judge (Penal Code Sections 911, 924.1 or 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Response Requirements

California Penal Code Sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to Presiding Judge of San Joaquin County Superior Court by (within 60 days).

San Joaquin County Treasurer-Tax Collector respond within 60 days to Findings: F1.1, F1.2, F.1.3, F2.1, F2.2 and Recommendations: R1.1, R1.2, R1.3, R.2.1, R2.2

San Joaquin County Assessor-Recorder-Clerk respond within 60 days to Findings: F2.1, F2.2, F3.1, F3.2, F3.3, F3.4 and Recommendations: R2.1, R2.2, R2.3, R3.1, R3.2, R3.3

Mail or hand-deliver a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
222 East Weber Avenue, Room 303
Stockton, CA 95202

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury, at grandjury@sjcourts.org