



Audit of the City Assessor Real
Estate Tax Exemption Process

W. MARTIN MORICS
City Comptroller
City of Milwaukee, Wisconsin

February, 2002

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Office of the Comptroller

February 5, 2002

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Comptroller

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Anita W. Paretti, C.P.A.
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To the Honorable
The Common Council, City of Milwaukee

Council Members:

We are pleased to submit for your review and consideration this Audit of the Real Estate Tax Exemption Process as administered by the City Assessor. The Audit sought to determine whether the Assessor's practices were sufficient to provide reasonable assurance that property tax exemption status is granted to or retained by only those properties meeting State Statutory requirements. The detailed Audit objectives are described in the Audit Scope and Objectives Section – page three of this Report.

The Audit focused on policies and procedures used by the Assessor in granting new property tax exemptions and continuing existing exemptions. The Audit also included an examination of the Assessor's property files and computer database; other City department procedures used in the sale or transfer of City real estate; and the exemption practices of five cities similar to Milwaukee.

The Audit determined that the Assessor's Office maintains and operates a system adequate to properly classify real estate as tax-exempt consistent with State Statutory requirements. Supporting this conclusion, a test of the Assessor's real property database compared to official County Registrar of Deeds records found no errors as to property tax exemption status.

The Audit also concluded that practices in other City departments in selling or transferring City property to private entities may at times defer the timely taxation of such real estate. Finally, the Audit concluded that governmental property records are not regularly updated including periodic revaluation. As such these governmental property records in most cases substantially understate the true market value of government property located within the City. Up-to-date identification and valuation of government owned property would be useful when the sale of such property is being negotiated and in assessing the impact of tax exemption Statutes and policies. Audit recommendations are made to address these issues.

Appreciation is expressed for the co-operation extended to the auditors by the Office of the Assessor, the Department of City Development and the graphics assistance provided by the Information & Technology Management Services Division of the Department of Administration.

Sincerely,

W. Martin Morics
Comptroller

Cc Mary P. Reavey
Julie A. Penman
Randolf A. Gschwind

AUDIT SCOPE AND OBJECTIVES

Audit Scope and Objectives

This is an audit of the real estate tax exemption process as administered by the Office of the City Assessor. The audit included:

- A review of procedures used by the Assessor regarding properties exempt from real estate taxes.
- A review of the City Assessor's property database (Assessordb) for accuracy of information therein.
- A review of other City department procedures, i.e. the Department of City Development – Real Estate Section, related to the sale and disposal of City real estate.
- A review of individual property tax files for compliance with the above mentioned procedures.
- A survey of five cities similar to Milwaukee to compare Milwaukee's property tax exemption policies and procedures with other cities' practices.

The Audit did not include review or comment on the professional judgement of the Assessor's staff regarding decisions made to grant or deny a specific property tax exemption application. Further, the Audit did not include a review of the assessment of taxable property or any personal property.

The objectives of this Audit were to:

- Determine whether procedures used by the City of Milwaukee Assessor's Office (Assessor) to evaluate applications for new tax exemptions are adequate to insure that only properties that meet State statutory requirements will receive exemptions (See: Appendix 1. Definitions).
- Determine whether procedures used by the Assessor's Office to monitor existing tax-exempt properties (including mandatory State report filings) are adequate to insure that properties no longer meeting the statutory requirements for exemption are promptly returned to the tax roll.
- Determine whether the Assessor's computer database accurately reflects as exempt only those properties properly exempt from such taxes;
- Determine whether procedures used by other City departments selling or otherwise transferring City property to private entities assure the accurate and timely placement of such properties on the City tax roll.

**GENERAL BACKGROUND,
ORGANIZATION AND FISCAL IMPACT**

General Background, Organization and Fiscal Impact

An Annual Report of the Assessor for the year 2000 revealed that there were in excess of 157,000 parcels of real estate within The City of Milwaukee with a value of over \$20.9 billion. A substantial portion of real estate within the City is exempt. Included were 7,559 parcels valued at \$3.4 billion (16% of the total City value) exempt from property tax. Since tax exempt properties are not regularly re-valued, these numbers are likely to significantly understate actual market value of tax exempt property within in City. A total of 1,431 exempt properties were owned by non-governmental exempt entities (less than six percent of all properties in the City).

The Assessor also reported on personal property for 2000. The City has 14,424 personal property tax accounts with a value of \$936 million, including 2,624 exempt personal property accounts that are not valued.

The Assessor tracks all real estate in the City by means of a computerized database (Assessordb). This database is updated daily including tax key code, address and ownership. A change in ownership, improvement or other physical change in the property causes an assessment database update. Under contract with the City, Chicago Title Company provides an electronic listing of all real property ownership changes by way of deed filings with the County Registrar of Deeds. The Assessor's staff provides other change information. Ownership changes to the Assessordb are made only upon receipt of deed information. The Assessor has assigned one fulltime and one-half time position to monitor exempt property and make changes to the exempt property database for real and personal property.

The value of exempt property represented on the Assessor's database is not consistently recorded at either market or assessed value because:

- Government owned property value is recorded at its reported acquisition cost.
- Non-governmental exempt real estate is valued by its owner on a required biennial report whose value is not reviewed by the Assessor's staff.

Property is exempt from property taxes if its ownership and/or use fall under provisions of the State Statutes (Chapter 70). According to the Assessor's Office, most statutory exemption provisions are clearly defined. However, certain of these provisions are but generally defined in the Statutes, allowing for disputes to arise.

- Some of the definitions are quite specific (i.e. the Bradley Center, a project specific exemption).

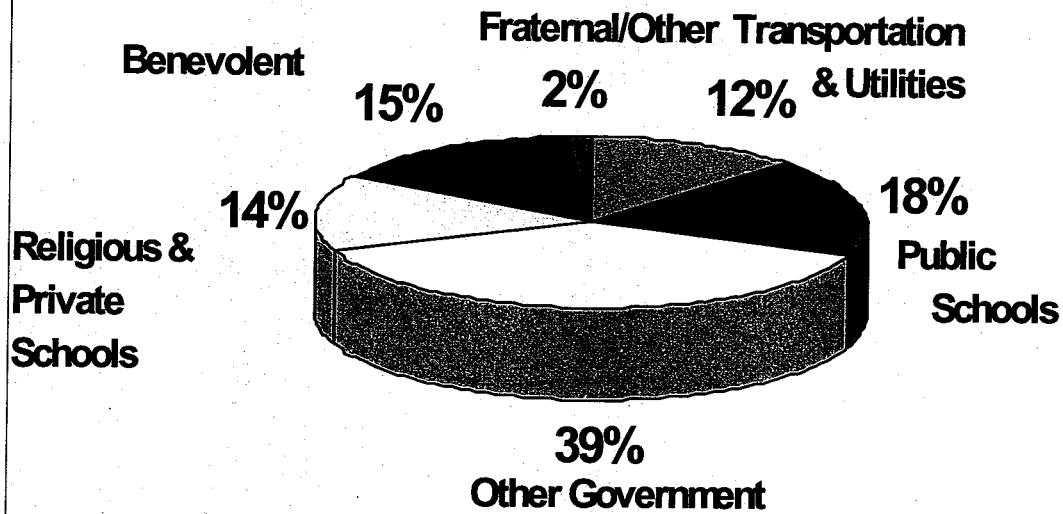
- Other Statutory definitions including those for religious and benevolent institution exemptions are less clear.
- While some progress has been made by the City to clarify the definitions, certain Statutory exemption definitions remain somewhat unclear.
- Because some of the exemptions are unclear and subject to interpretation, Court decisions have expanded exemptions beyond the apparent original intent of the State legislature.
- A portion of a real property parcel may be exempt from property taxes while another portion is taxable. These parcels are granted "partial exemptions" (See Appendix 1 Definitions).

Even though changes to the Statutes and special exemptions are made frequently by the State Legislature, the standard type of exemption does not change frequently. The burden of proof of exemption falls upon the property owner. When applying the exemption Statutes to a given property, the Assessor often seeks the advice of the City Attorney.

All non-governmental owners of real property seeking a property tax exemption must apply for an exemption with the City Assessor. The Assessor's Office performs a formal review of the organization seeking the exemption including its use of the subject property. A site visit is normally included in this review. Owners of currently exempt property must also file a Biennial State Valuation and Utilization Report on even numbered years. This Report updates the Assessor's Office on the current usage of the property along with any physical improvements or other changes occurring since the prior Report filing. Again, a site visit by the Assessor's staff may accompany their review of the Report. Further, all exempt property owners are required to file a Non-Related Business or Trade Report annually when non-exempt activities are conducted on the property (example: a fraternal clubhouse with a restaurant open to the public).

The City has a substantial portion of real estate that is exempt from real estate taxes (See: Appendix 2). As shown in the pie chart below, non-school purpose government facilities comprise the largest portion of exempt property, at nearly 40 percent of total Milwaukee City exempt property value. Public Schools are next at 18 percent followed by benevolent (charitable) uses (15 percent) and religious uses and private schools (14 percent). Since government owned property values are not updated, their share of total exempt property value is likely to be substantially understated.

2000 Property Value by Land Use



As mentioned above, assessment records indicate that exempt properties comprise only 16 percent of the City's value. However, the landmass consumed by tax exempt properties is equal to nearly one-third of the total landmass within the City of Milwaukee. Non-school governmental uses alone occupy nearly 16 percent of the City's total landmass, but account for only six percent of the City's value.

Appendix 2 includes a City-wide map of tax exempt land uses as well as maps of the tax exempt uses for four aldermanic districts whose assessor records were examined during the Audit.

**AUDIT QUESTIONS, CONCLUSIONS
AND RECOMMENDATIONS**

Audit Questions, Conclusions and Recommendations

- 1. Are procedures used by the Assessor's Office to evaluate the applications for new tax exemptions adequate to insure that only properties that meet State statutory requirements receive exemptions?**

Conclusions

Current procedures to evaluate applications for exemption from property tax are adequate to ensure that the properties meet statutory exemption requirements. A random sample of 27 such exempt property files found no exceptions to the Statutory requirements.

The audit disclosed the following important control procedures associated with the granting of new property tax exemptions:

- Property tax exemptions are not granted immediately when the property is acquired. Rather, it is the responsibility of the organization to apply for the exemption in writing (Property Tax Exemption Application). In 2000 there were 114 new exemption applications.
- Owners of newly purchased property are required to file additional documentation to support the requested exemption. Such support documentation includes: property use documentation, articles of incorporation, corporate by-laws, national or international affiliation documents, financial records and IRS determination letters.
- The application and support documentation must be filed by March 1 of the tax levy year to be considered for exemption. If not filed by March 1, the property owner must wait until the following year to file and receives no exemption for the current levy year.
- The Supervising Assessor Assistant (SAA) in charge of exempt properties performs a thorough, well-documented review of the applications and support documentation for appropriateness. The SAA may also perform a site visit and an accompanying Exemption Investigation Report, a formal Determination Letter is sent to the applicant. In addition, the property file containing the above information, Property Tax Exemption Application, etc. is reviewed by the Chief Assessor before the Determination Letter is mailed to the property owner.
- No formal report or application is required for governmental agency acquired property. However, the SAA will review the records of each property to verify its government ownership before approving the property as "exempt." This process is

known as an "Automatic Exemption." In 2000 there were 880 Automatic Exemptions granted for newly owned governmental properties.

- Under State Statutes, it is the tax status of the property at January 1 that determines whether an exemption exists for the entire levy year. This criterion greatly simplifies the determination of property tax liability for newly exempt property.

2. Are procedures used by the Assessor's Office to monitor existing tax exempt properties adequate to insure that properties no longer meeting the statutory requirements for exemption are promptly returned to the tax roll?

Conclusions

Generally the procedures used by the Assessor's Office to monitor ongoing tax-exempt properties are adequate. However some exceptions have been noted.

The Audit disclosed the following strengths to support this conclusion:

- A State Valuation and Utilization Report (Biennial Report) is required from all owners of existing non-governmental tax-exempt property in each even-numbered year. This report provides the Assessor with appropriate information to determine for each exempt property: 1) whether the Biennial Report information was provided, 2) whether any change in ownership or use has occurred since the last Biennial Report was filed, and 3) a basis for field audit.
- The SAA reviews all Biennial Reports. Those reports with changes will trigger a site visit and a documented investigation report.
- Those agencies failing to submit a Biennial Report will receive a warning letter, and given no further response, a full investigation. In 2000, there were 1,440 Biennial Reports mailed out. Of that number, 151 or 11 percent were non-responsive. The SAA reviewed each of those "non-responsive" parcels to estimate their value and determine current use/function.
- State Statutes require all exempt properties having both exempt and non-related business activities to file an annual Non-Related Business Activity Report to the Assessor for examination. As in the case of the Biennial Report, those properties that have changes or whose owners are non-responsive are investigated by the Assessor.

- The Assessor also conducts site visits of about 100 non-governmental exempt properties annually where non-related business related activity may be occurring. These site visits are the result of information provided by field assessors, citizen complaints and other sources of information.

A significant weakness was also noted:

- The Audit found that properties classified as "governmental" are not reviewed on a regular basis, and owners of these properties are not required to file the State Report by Statute. Without some form of notification from these owners, changes in use (railroads & utilities), ownership and potentially tax status could occur without the knowledge of the Assessor. The filing of deeds with the County Registrar of Deeds generally mitigates this weakness assuming the government seller indeed files the deed.

In addition, if valued at all on the Assessordb, governmental properties are valued at their original acquisition cost. Generally, no updates to this original cost are made to the Assessor's real estate database.

The Audit selected five cities comparable to Milwaukee to determine their respective procedures related to exempt property inventories. Three of five cities surveyed revalue exempt properties on a regular basis, and two of the cities require property inventories from other governments on a regular basis. It should be noted that each state has different exemption laws and procedures.

Recommendation

Based on the above observations and conclusions the audit makes the following recommendation:

Recommendation 1.

The Audit recommends that the Assessor's Office prepare an inventory of governmental exempt properties by classification, and present these inventories to each affected governmental agency to confirm and update ownership, use and value. Such inventory confirmations will provide a check to assure that all and only property eligible for exemption as governmental is on the database as exempt. Updated valuations should be made based on an estimate of current market value. This update should occur annually.

This procedure will:

- a. Validate ownership and assist the Assessor's Office in maintaining accurate database of exempt property information;
- b. Assist the affected governmental agencies in maintaining their individual property inventories;
- c. Assist governmental units in deriving a sale price when contemplating sale of an exempt property at some future date.
- d. Help all governmental agencies as well as the City of Milwaukee comply with new accounting rules (GASB 34), and
- e. Assist in assessing the overall fiscal impact of current and proposed tax exemption Statutes and policies.

3. **To what extent does the Assessor's Database (Exempt Properties portion) accurately reflect exemption status where no sale or property transfer has occurred in recent years?**

Conclusions

The Audit concludes that the Assessordb accurately reflects the tax status of properties where no sale or property transfer has occurred. Recent procedural improvements implemented by the Assessor's Office together with audit tests of the Assessordb database support this conclusion. However, a comprehensive "in house" examination of the Assessor's database (Assessordb) is recommended to assure that no tax exempt property is classified improperly.

Background

During the 1960's, manual property records were computerized on a mainframe computer for assessment purposes. These computerized files included all exempt property records at that time. Since then there have been numerous property information system upgrades and system changes. For many exempt property records, ownership and use information has not been updated or verified in the last 20 to 30 years. Without the examination of the entire exemption portion of the Assessordb, the possibility exists that ownership and or use of certain of these exempt properties may have changed to a taxable purpose without the Assessor's Office knowledge.

As described in response to question 2 above, current procedures for recording the purchase, sale or change in use of existing property tax exempt properties are adequate. This Audit question focuses on those exempt properties reporting no purchase, sale or change in use over the past 5 to 10 years to verify that all such properties reported as exempt property are correctly reported.

Detail Conclusions

The Audit randomly sampled 1,053 properties recorded in the Assessordb for accuracy of tax status by ownership. The sample included 180 exempt properties. Of that sample, no errors of tax status were found. However some exceptions are noted.

A property included as exempt on the Assessordb was found to be improperly classified prior to the Audit. This was a formerly government owned property sold to a private developer in 1996. Investigation into this issue indicates that the property tax status was not changed because of a data entry omission in the Assessor's Office at the time the ownership change was recorded. Records were being recorded manually at that time, without a review process in place to identify properties whose ownership code was omitted. With the advent of the electronic data transfer from Chicago Title in mid 1997, (See: Section A Fiscal Impact and Background) the Assessor put controls in place to prevent such an error. The property has since been placed on the assessment role and back taxes have been billed to the property owner for the last two years.

The Audit sample of 1,053 properties recorded in the Assessordb noted that there were three properties with legal descriptions that varied from those available from legal property records. This information was passed on to the Assessor, who is taking corrective action. These variances do not affect the tax exempt status.

Ownership and tax data coding of the exempt property information on the Assessordb was examined. The Audit identified certain "Clean-up" issues requiring follow-up by the Assessor's Office:

- There are typographical errors of ownership information throughout the Assessordb. The Assessor's staff corrects these errors when identified.
- Exemption Class codes on many properties are incorrect. Such codes were developed by the Assessor to help identify the type of exemption and utilization of property and are not required by State Statutes. When these mis-codings were identified to the Assessor's Office during the course of the Audit, actions were taken to correct the errors. These errors in Exemption Class codes do not affect tax exempt status.
- The Assessor's Office asserted that the coding will soon be changed to better reflect the type of exemption and property use. The Assessor's Office indicated that these improvements will be implemented once budgeted funds are made available. Such changes would include an operational change requiring field assessors being responsible for all properties (exempt and assessable) within their respective districts and a major system upgrade requiring a detailed review of each and every property record on the Assessordb.

Recommendation

Based on the above observations and conclusions the audit makes the following recommendation:

Recommendation 2.

Once the Assessor's Office is able to perform its system upgrade including new coding and classification number revisions, each exempt property record included in the Assessordb database should be reviewed and as necessary corrected for appropriate coding, ownership and address.

- 4. Do the procedures used by other City departments selling or otherwise transferring City property to private entities assure the accurate and timely placement of such properties on the City tax rolls?**

Conclusions

The Audit found that certain practices by other City departments selling or transferring City property may defer taxation of real estate sold by these government agencies.

The filing of deeds on the sale of exempt property is sometimes delayed until after January 1, the assessment date. Such delays provide an undisclosed one-year property tax exemption to a purchaser who may not qualify for such an exemption. This type of delay was noted in the sale of certain City property to private purchasers. For example, an exempt property is sold in October 2001 (closing), but the deed is not filed until January 6, 2002. The new property owner still has "exempt" property on January 1, 2002 according to the Assessor's database and therefore, will not receive a tax bill until December 2003. Further, such delays may cause the City to be liable for damages and/or legal expense should something happen on or to the property before the deed has been filed.

Interviews with the Department of City Development (DCD) have indicated that generally DCD will file deeds when a sale of City real estate to a private purchaser takes place. However, DCD has delegated this responsibility on occasion to the purchaser. The purchaser has no incentive to file the deed on a timely basis.

The Audit determined that the City transferred 22 properties (8 in 1999 and 14 in 2000) to NIDC (Neighborhood Improvement Development Corporation), a related City agency that is not tax exempt. These 22 deeds were not recorded until 2001, thus allowing NIDC an undisclosed property tax exemption on these properties for one to two years.

The Audit also noted that other City transfers of real estate to various private developers, non-profit agencies and individuals have also extended the exemption status. The Audit found no disclosure by the City departments involved in the transfer indicating the amount of tax deferral the purchasers were receiving from the delayed filing of the deed. Upon recording of transfer documents, the staff of the City Assessor will process a correction per section 70.44 of the Statutes, which allows assessors to add omitted property to the tax roll. The correction is limited to a two calendar year correction. Depending on the length of non-recording, there could be multiple years of missed taxation. In these cases there may be another problem. For instance, if

the original buyer happens to sell the property, tax liability may pass to the next unsuspecting buyer, depending on the timing of the re-sale.

Further, late recordings have the potential of delaying processing proper ownership. If for instance, an owner attempts to sell a property for which a document has not been filed, processing by both the title company and the ownership records of the assessor's office is complicated and time-consuming.

There is no standard method of entering ownership names on deeds and transfer documents. These names are used to update the Assessordb. (Example. "City of Milwaukee Redevelopment Authority", "Rev Del City of Mil", "Redevelopment Authority", "City of Mil Rev Dev," etc.). Non-standardized nomenclature leads to the potential of miscoding and discourages meaningful reporting and analysis. However, this issue does not affect the tax exempt status of the property.

Recommendations

Based on the above observations and conclusions the audit makes the following recommendation:

Recommendation 3.

All City Departments and related City agencies (i.e. NIDC, MEDC etc.) selling City real property be required to file deeds within three (3) business days of closing. Delays effecting a one or more years "tax break" to the new property owner should be granted only by a Common Council resolution at the time the offer to purchase is accepted and/or amended.

Recommendation 4.

The responsible City department should file all deeds related to the sale or transfer of City property by that department. The responsible City department is the custodian department selling the property. No delegation of this responsibility should occur.

Recommendation 5.

A standard nomenclature for City government owned real estate be used on all real estate documents. The Assessordb should be corrected and employ the use of the standard data names.

Additional Items:

The audit noted that in 2000, there were over 50 property sales (31 to NIDC & 21 to others) that had signed deeds transferring the property to new owners dated from 2 months to 2 years prior to the actual closing date or deed filing. According to staff at DCD, these delays in closing usually occur when purchaser financing has not been secured, or when agencies such as NIDC do not have final board approval or funding to purchase the properties. The effect of these delays is to make such properties unsaleable to any other purchaser, with the City providing upkeep on the properties until sold. While "on hold" these properties also are exempt from property taxes.

Recommendation

Based on the above observations the audit makes the following recommendation:

Recommendation 6.

Should the City desire to continue its practice of "holding" City property for sale to a prospective purchaser, it should do so only under the following conditions:

1. Continue to attempt to market or sell the subject City property.
2. Provide the prospective buyer with a right of first refusal to a competing offer for a period of time not to exceed six months.

DEPARTMENT RESPONSE



ASSESSOR'S OFFICE

Mary P. Reavey
Assessment Commissioner

Peter C. Weissenfluh
Chief Assessor

February 1, 2002

Mr. W. Martin Morics, Comptroller
200 East Wells Street
Milwaukee, WI 53202

Re: Audit of Assessor Real Estate Exemption Process

Dear Mr. Morics,

My staff and I have had the opportunity to review the document that was prepared by you relative to the audit on exemptions entitled "Audit of the City Assessor Real Estate Tax Exemption Process." As you requested please find with this letter the Assessor's Office response to be included with the report. Please feel free to contact me if you have any questions regarding this.

Sincerely,

Mary Reavey
Assessment Commissioner
City of Milwaukee

Department Response to "Audit of the City Assessor Real Estate Tax Exemption Process" as prepared by City Comptroller

The City Assessor's Office has had the opportunity to review this report and appreciate this opportunity to respond. Although the Assessor's Office generally agrees with most points made in the report we feel some clarification is in order to make the report thoroughly understandable.

Audit Question 2 "Are procedures used by the Assessor's Office to monitor existing tax exempt properties adequate to insure that properties no longer meeting the statutory requirements for exemption are promptly returned to the tax roll?"

On page 8 the report mentions a significant weakness regarding property classified as "governmental" in that the exemptions are not reviewed or valued on a regular basis. It is important to understand the reason behind this. Without exception, a property owned by a governmental agency qualifies for exemption. For that reason, the legislature decided it is not productive to require a Biennial Report form from them. Secondly, we cannot change ownership without a recording of a deed through Register of Deeds. This filing alerts assessors to ownership changes and thus the possible changes in taxability. It would not be productive to have the assessor's office manually check each governmental exemption to see if somehow a deed was filed that we missed. Typically these are found during the normal course of business. Regarding non-governmental property, they already file a biennial report. These reports cause audits where necessary.

Secondly, on this same page, the report notes as a weakness that governmental property is valued at its original acquisition cost. Although this is true, it is also true that there are no other known municipalities in Wisconsin that attempt to put any value on exempt property, government or otherwise. Since, by the very nature of exempt property, no revenue is generated, its valuation for assessment purposes is not of any importance. Therefore, if the Common Council desires our office to comply with Recommendation 1, extra funds would be required as that is not part of the current budget in the Assessor's Office.

Audit Question 3 "To what extent does the Assessor's Database (Exempt properties portion) accurately reflect exemption status where no sale or property transfer has occurred in recent years?"

Recommendation 2 relating to upgrading the coding and classification is in process. However, it will take some time as we have only 1.5 positions dedicated to the exemption section at this time. As further office reorganization occurs this may change.

Audit Question 4 "Do the procedures used by other City departments selling or otherwise transferring City property to private entities assure the accurate and timely placement of such properties on the City tax rolls?"

Although most of this section of the audit does not actually apply to the assessor's office, it is important to understand that implementing Recommendation 5 (the development of a standard nomenclature for City government owned real estate) would require the filing of a quitclaim deed for each property the City owns in the standard nomenclature that is determined. So, it is important that the Common Council understand that the implementation of this recommendation will require funds to the appropriate department to complete such standardization.

Final Comments and General Summary of the Audit Report

I appreciate the time and effort made by the Comptroller's Office regarding the audit. They were unbiased, responsive and cooperative at all times during the audit. I feel that the audit was conducted in a professional manner.

During the audit we noted additional ways to discover and find taxable property using reports we can easily develop through our database. These improvements will be enacted and procedures will be monitored so that the likelihood of taxable property being misclassified is minimal. The Assessor's Office continually attempts to find ways to make our operations more efficient and more accurate.

The exemption process and legislation concerning exemptions is an important part of our strategic plan. It is important to the local community and local government that exemption decisions are made fairly and in accordance with the law. In general, the audit validated my previous conclusions that assessment procedures used in the City of Milwaukee, which includes the issuance of exemptions, exceeds standards mandated by the state. This assures public confidence in local government.



Department of City Development

Housing Authority
Redevelopment Authority
City Plan Commission
Historic Preservation Commission

Julie A. Penman
Commissioner

Michal A. Dawson
Deputy Commissioner

February 5, 2002

W. Martin Morics
City Comptroller
City Hall - Room 404

Attn.: Mr. Dennis Smith

Dear Mr. Morics:

Subject: Assessor's Office Audit

Thank you for affording us an opportunity to review and comment on certain portions of your audit regarding real estate recording and data entry.

The Department of City Development uses standard language in all deeds, and has done so for quite some time. "City of Milwaukee," Redevelopment Authority of the City of Milwaukee" and "Housing Authority of the City of Milwaukee" are our only acceptable means of identifying these entities. If the City's records indicate otherwise, it would appear to be due to data entry performed by other departments.

The audit raised questions about recording procedures. For the Department of City Development to not promptly record deeds would be contrary to a goal of returning property to the tax roll as quickly as possible.

All surplus vacant lot deeds and all deeds to nonprofit organizations for improved property are recorded by Chicago Title Insurance Company. These sales are closed directly by staff. Chicago Title will pick up deeds from the Department on a weekly basis for delivery to the County Register of Deeds. These 2 buyer groups are not given deeds for recording on their own, with the exception being the Neighborhood Improvement Development Corporation (NIDC). NIDC chooses to record its own deeds since their transactions typically involve the subsequent conveyance of the real estate to a 3rd party for new home building or for housing rehabilitation. We are not in a position to explain NIDC's recording methods.

Chicago Title also records all deeds given to private parties purchasing tax foreclosures. Chicago Title is presently under contract to handle all aspects of these closings, and the deeds are to be recorded as soon as practicable after the closing date. This recent process improvement permits us to increase both sales volume and revenue for the City.

COMPTROLLER
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The audit contained some discussion about the practice of holding property. The Department of City Development routinely holds a limited number of properties in inventory for non-profit organizations. However, as a condition precedent to doing so, staff will investigate whether these nonprofits have the capability to perform. It seems to us to be in the City's interest to continue this practice. The City encourages (and in some cases funds) these organizations to acquire and rehabilitate tax foreclosures. Unfortunately, it will oftentimes take nonprofits many months to find a qualified purchaser and/or to package adequate financing. With a new signatory procedure, deeds are only signed just prior to closing.

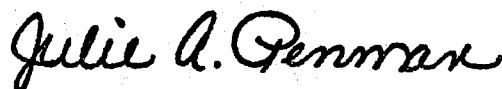
In cases where we hold property for a private purchaser, that occurs only when there is a specific and acceptable financing contingency in an offer to purchase, or, when a closing is delayed for legitimate reasons outside of the buyer's control. We do in fact accept secondary offers to purchase in the event a primary offer is canceled for any reason.

We have reservations about placing a requirement on all City departments to record property within 3 business days after closing. Our complex transactions could involve bond documents, mortgages, subordination and escrow agreements, etc. that are typically handled by the attorneys representing all parties to the transaction. In more straightforward tax deed transactions, the 3-day requirement would involve increased time (and cost) for an already streamlined staff. Since Chicago Title is getting deeds to the County in approximately one week, it would appear to be of no real benefit to the City to change that practice. An underlying issue seems to be interpretation of closing and recording dates. It is our understanding the Assessor's Office has the discretion to review transaction dates with respect to exemptions, and to make changes after the fact.

Although referred to in your audit, liability does not seem to be an issue related to recording. Title effectively transfers on the day of closing.

If we can provide any additional information or assistance, please don't hesitate to Greg Shelko at Ext. 5820.

Sincerely,

A handwritten signature in cursive script that reads "Julie A. Penman".

Julie A. Penman
Commissioner

APPENDICES

Definitions

Board of Appeals (Board of Review)

A creation of the City Charter, the board consists of five citizens appointed by the mayor. The Board hears all appeals to property valuation issues. If a property owner is dissatisfied with the results of the Board's findings, they may appeal the results to the Circuit Court. The Board has no jurisdiction over the granting or denial of exemptions.

Exempt Property

Property Real and Personal that is exempt from property taxes under Wisconsin Statutes Chapter 70.

Governmental Exempt Property (Automatic Exemption)

Property which receives a statutory exemption automatically where the owner, governments (Federal, State and Municipalities), utilities and working rail roads do not have to file for an exemption.

Non-Governmental Exempt Property

Properties that can be exempt from property taxes under State Statutes, but where the burden of proof of eligibility (through ownership and use) is upon the owner. The specific tax exempt uses permitted under State Statutes are: churches, religious orders, schools, universities, cemeteries, benevolent societies, labor unions and other benevolent organizations.

Partial Exemption

An exempt property may receive a partial exemption from property taxes if a portion of the property is used for non-related trade or business activity. As an example of a non-related business activity a benevolent society has a clubhouse with a restaurant that is open to the public. The portion of the clubhouse used for restaurant activities would be taxable the other portion that the society uses for its tax-exempt purposes would be exempt from taxes.

Property Tax Exemption Application (Application)

An application form required by the City Assessor to be completed before a property tax exemption will be considered. This Application provides the identification of the owner, the property involved, its use and the qualifications for exemption under State Statutes. Also required are articles of incorporation, national/international affiliation documentation, IRS determination of charitable status letters and financial statements. This completed Application and supporting documentation must be filed by March 1st for exemptions to be changed in the next tax levy year.

Assessor's Determination Letter

A letter generated by the Assessor's Office which either approves or denies a change of status from assessable to exempt. After a through investigation of the application, this letter is mailed.

Exemption Investigation Report

A report prepared by staff of the Assessor's Office, upon completion of an investigation of exemption status. The receipt of the Application, internal notification from other appraisers in Office the Assessor's or receipt of citizen complaints regarding the exempt status of property starts the investigation.

Non-Related Business or Trade Activity Report (Annual Report)

This report is obtained from the Assessor's Office, and is to be filed by any exempt organization that has non-related trade or business activities on the exempt property. This report is required by the State and is due by March 1st of each year. Changes in activities may result in a re-evaluation of the property's status as exempt.

State Valuation and Utilization Report (Biennial Report)

This biennial report (that is due to the Assessor by March 31st of even numbered years) is mailed to all Non-Governmental Property Owners in January of those years. This report provides information regarding the exempt utilization, changes in leasing activity if any and an estimated market value of the property. If the property owner does not file the biennial report, the Assessor is required to complete the form. The Assessor can charge the property owner to have an outside appraiser provide the information. Information for these reports is used to produce a report to the State Department of Revenue regarding non-governmental exempt properties.

APPENDIX 2

Maps and Map Data

Maps

The following is a list of the Maps included in this appendix:

Tax Exempt Property in the City of Milwaukee

Tax Exempt Property in the 2nd Aldermanic District

Tax Exempt Property in the 6th Aldermanic District

Tax Exempt Property in the 8th Aldermanic District

Tax Exempt Property in the 17th Aldermanic District

Map Data

Religious/Educational

These properties are comprised of churches, parsonages, church schools, miscellaneous church properties, convents/sister's homes, colleges/universities, private educational institutions and (not for profit) day care centers.

Government

These properties are comprised of all properties owned by the Federal, State, County or City, except for highways airport and water utility properties.

Transportation/Utilities

These properties include all highway, airport, and utility properties

Other

These properties include properties owned by fraternal, veterans and benevolent (i.e. community groups, hospitals, boys clubs, YMCA's, etc.) organizations, cemeteries, women's clubs and labor temples.