



City of Austin

MEMO



Office of the City Auditor

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July 22, 2003

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Audit Report on Property Tax: Annexations

Attached is our audit report on Property Tax: Annexations, which is part of our office's ongoing focus on revenue accountability. The purpose of this audit was to determine whether properties in the City limits have been included in the property tax base, and whether property in areas annexed since 1998 were included in a timely manner.

In our testing we found no properties that were improperly omitted from the City's tax base. Further, we found that all properties we tested in newly annexed areas were included in the tax base in a timely manner.

While we found no properties improperly omitted from the City's tax base, our sample included several properties that are exempted from taxation under a 1986 ordinance affecting properties along Lake Austin. These properties were exempted from taxation because of the difficulty of serving them at that time. However, the costs and benefits of serving these properties have changed since 1986. Therefore, the City should reevaluate whether to tax and provide services to the exempt properties and the properties adjoining them that are now annexed for limited purposes only.

We appreciate the cooperation and assistance we have received from the Transportation, Planning, and Sustainability Department and the Travis Central Appraisal District during this audit.

A handwritten signature in black ink that reads "Stephen L. Morgan".

Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor



PROPERTY TAX: ANNEXATIONS

This audit is one of a series of audits conducted by the Office of the City Auditor (OCA) designed to ensure that revenue sources are maximized and protected against loss. This particular audit is the second part of a two-part audit of property tax revenues. The first report, presented in March 2003, addressed certain property tax exemptions and found that the majority of exemptions appeared to be legitimate. This second report addresses whether properties in the city limits have been included in the property tax base, and whether newly annexed properties were included in a timely manner.

These audits follow from a comprehensive assessment of the City's revenue streams. Property tax was selected as a focus for additional audit work because of the extent of the City's reliance on property tax to fund general government and because the City relies on other entities to identify and appraise properties and to collect revenues.

Objectives, Scope, and Methodology

We had the following objectives for this audit:

- To test the completeness of the property tax data used by TCAD; and
- To test the timeliness with which recently annexed properties have been added to the City's tax base.

To accomplish these objectives, we compared property tax appraisal records for 2002 from the Travis Central Appraisal District (TCAD) with data from the City's geographic information system (GIS). After modifying data to make the databases compatible, we performed an automated comparison of the two data sets. Through this step and subsequent analysis of the results, we matched addresses in GIS with

TCAD records. From the remaining unmatched addresses, we selected a sample of addresses for detailed research. These were researched on both TCAD and GIS to determine whether the properties at those addresses were accounted for in the tax base. This testing provides reasonable, but not absolute, assurance that the property tax base is complete.

Next, we determined whether annexed properties were included in the City of Austin's tax base in a timely manner. We selected annexations by the City of Austin that occurred between 1998 and 2001 for two reasons:

- Property valuation history on the TCAD website only goes back to 1998, and at the time we were conducting our fieldwork, 2002 property values (for annexations conducted in 2001) were the

most recent values on the TCAD website.

- We were using property tax data as of September 2002 and because properties annexed in one year do not appear on the tax rolls until the next year, properties from annexations occurring after 2001 would not yet be included in the data we were reviewing.

Using the TCAD property tax records, we identified street addresses that were located in recently annexed areas. From these properties, we selected a sample of records for more detailed review. Specifically, we compared the year the property should have been included in Austin's taxing jurisdiction with the date that the property actually appeared in TCAD records as within the City.

As a further test, we identified all of the GIS address points that fell within one entire annexation area. These addresses were also researched to determine the year in which the properties appeared on the tax rolls.

This audit was conducted in accordance with generally accepted government auditing standards.

AUDIT RESULTS

Our testing identified no property omitted from the property tax rolls without reason. Through automated matching of records, we were able to match 90 percent of the addresses in the City's GIS system with property records provided by TCAD. From the unmatched addresses, we tested a sample of 377 to verify that the property represented by these addresses was included in the tax rolls for 2002. The addresses in the sample did not originally match for many reasons. In some cases, properties were on the rolls at a slightly

different address or there was a minor error in one of the two databases that prevented the system from recognizing the match. In other cases, the GIS address was for a valve, meter, or other feature that fell in a street right-of-way, greenbelt, or on a lot with a different address. However, we found several properties that were not included on the tax rolls as the result of an ordinance exempting them from taxation.

We found six addresses for properties completely or partially within the city limits that are not taxed by the City.

These properties are all on Lake Austin and range in value up to \$1.3 million. They are exempted from taxation under ordinance 860130-A because of the difficulty and expense of providing municipal services to those areas at that time.

The exempted property represents a significant taxable value. An attachment to the ordinance lists over 860 parcels to which the ordinance originally applied in varying degrees. Although we do not yet know the full value that is exempt from taxation, it is certainly significant. Some of these parcels border areas that have since been annexed and served. Therefore, given the value of the properties and the changes in the City's ability to provide services over the past seventeen years, the City should reevaluate the costs and benefits of taxing those properties and providing services. Staff in Transportation, Planning, and Sustainability Department has indicated that such analysis would be prudent and have begun evaluating the costs and benefits.

Properties have been included in Austin's property tax base in a timely manner.

The State Property Tax Code states that real property is taxable by a taxing unit if it is located in that taxing unit on January 1. Therefore, when a property is annexed by

the City of Austin that property should be included in the City’s property tax rolls the following calendar year.

Our analysis found that 100 percent of the properties we sampled were included in Austin’s property tax jurisdiction in a timely manner. We sampled 574 addresses in areas annexed between 1998 and 2001 and were able to find on the tax rolls all the properties that included those addresses. We also checked one entire annexation of 248 parcels and were able to verify that all properties were on the rolls.

Recommendation

The Transportation, Planning, and Sustainability Department should evaluate the costs and benefits of providing services and taxing the properties near Lake Austin that are currently exempt, as well as evaluating annexing for full purposes the adjoining properties that are now in the City’s limited purpose jurisdiction.

Abbreviated Management Response:
Concur/Underway

Staff has initiated this reevaluation effort beginning with the West Rim area in the Lake Austin peninsula. It is expected that the reevaluation should be complete by the end of September. As you may know, annexation areas with more than 100 developed lots must be included in the three-year Municipal Annexation Plan prior to annexation.



**Office of the City Auditor
Austin, Texas**

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You may request a hard copy of this report or download a copy in PDF format from our website at <http://www.ci.austin.tx.us/auditor>. You may also contact our office by email at oca_auditor@ci.austin.tx.us. Please request Audit No. AU03305B.

Alternative formats are available upon request. Please call (512) 974-2805 or Relay Texas #711.

This report reflects a correction made since the initial release. The correction is immaterial.



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MEMORANDUM

TO: Stephen L. Morgan, CIA, CGAP, CFE, CGFM
City Auditor

FROM: Austan S. Librach, P.E., AICP
Director
Transportation, Planning & Sustainability Department

DATE: July 16, 2003

SUBJECT: Audit Report on Property Tax: Annexations

Thank you for giving TPSD an opportunity to work with your staff on the Audit Report on Property Tax: Annexations.

I concur with your recommendation that TPSD staff reevaluate the annexation status of property along Lake Austin. As you recommend, this reevaluation should include whether to tax and serve properties along Lake Austin below the 504.9 contour currently treated as if they are in the limited purpose jurisdiction as well as the conversion to full purpose status of adjacent property in the limited purpose jurisdiction.

Staff has initiated this reevaluation effort beginning with the West Rim area in the Lake Austin peninsula. It is expected that the revaluation should be complete by the end of September. As you may know, annexation areas with more than 100 developed lots must be included in the three-year Municipal Annexation Plan prior to annexation. If you need additional information, please contact Ben Luckens at 974-2695.

A handwritten signature in black ink that reads "Austan S. Librach".

Austan S. Librach, P.E., AICP
Director

c: Lisa Gordon, Assistant City Manager

A handwritten signature in blue ink, likely belonging to Lisa Gordon, located to the right of the distribution list.

TRANSPORTATION, PLANNING & SUSTAINABILITY DEPARTMENT