



***A Preliminary Analysis of
the Fiscal Impacts of
Alternative Reassessment Cap
Proposals***

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Introduction

This report is a preliminary analysis of the impact of two property reassessment cap system proposals currently being discussed in the State Legislature. One proposal is the proposal put forth by City of Charleston Mayor Joe Riley (“Riley Proposal”). The Riley Proposal would allow counties to implement a cap on the growth in assessed property value (APV) at the time of reassessment. The other proposal is a straight 15% cap on reassessed property values currently being considered by the Senate.

The Municipal Association of South Carolina sponsored this study in an effort to provide additional insight and understanding of the potential impact of these two proposals on property owners and local governments in South Carolina. Miley, Gallo & Associates, LLC was asked to review the two proposals and their possible impact on a selected group of counties.¹ This analysis attempts to estimate the impact of the cap on property owners in these counties.

Both proposals have the effect of capping assessed values – however they differ in how the cap would be established. The Riley Proposal establishes a cap on the maximum increase that a homeowner’s property could increase due to reassessment. The formula to set the cap would be determined by first determining the average increase in the assessed value of all real property (residential, commercial, industrial, etc.) in a county over the period of reassessment. The cap would be equal to this average, county-wide increase plus the total percent change in the Consumer Price Index (CPI) since the last reassessment. For example, if the increase in total assessed value of all property in the county was 20% and the change in the CPI was 12% during this period, the cap would be established at 32%. No homeowner could have their property value increase for purposes of reassessment by more than 32%.

The Senate proposal is for a straight 15% cap limit on the increase in value due to reassessment on property that has not changed ownership.

¹ If time permits during the current legislative session, it is recommended that a more complete analysis be conducted that evaluates the impact on a larger sample of counties.

The scope of this analysis does not include the legal issues concerning the Riley Proposal nor does it attempt to address the legality of any pending legislation. The scope of this analysis is limited to the potential fiscal impact on the relatively small group of selected counties. This analysis is preliminary in that it only includes analysis of small group of counties and does not include an analysis of all 46 counties in the state. However, based on the analysis of the study counties, the implications of this report can be interpreted as having substantial implications on all 46 counties.

Methodology

Data on property values was analyzed from four counties that recently completed reassessment: Beaufort, Berkeley, Florence, and Richland. Data from the counties was made available by the individual counties per a request by the County Association of South Carolina in 2004. The data consisted of property values for land and buildings from two time periods; 2003 and 2004. In most counties the prior reassessment had been completed in 1999.

For each county, each set of values was compared for the growth between the previous value and the most recent. The average increase in property value was determined for the county. Then the percent increase in value was calculated for each parcel of property for the time period. The parcels were grouped into those whose values had increased greater than the county average plus the change in the CPI from 1999 to 2004 (and therefore would be subject to the cap) and those that increased at or less than the cap (these parcels would be unaffected by the cap). Since the increase in the average property value is county-specific, the caps vary from county to county.

For those parcels that increased more than the cap, the value of each parcel was calculated as if it had only increased by the percentage increase allowed by the cap. The difference between its capped value and its actual value was then calculated. This difference would be the amount of property value in a county that would not be taxed under the proposed cap. These values were summed for each county. This resulted in an estimate of the total value of property in each county that would escape taxation under the proposed cap.

It is important to note that these values represent property values from 1999 to 2004. The impacts estimated in this analysis reflect the impacts that would have occurred if the caps had been imposed at that time. The actual impacts that would occur from a cap imposed in the future is unknown however, the estimated impacts based on the 1999-2004 period provide reasonable estimates of the impacts from any future caps.

Fiscal Impacts

The fiscal impact of any artificial cap on property values has important impacts on the vast majority of property owners. A cap will result in some property owners paying fewer taxes than they would have paid without a cap while others will pay more taxes relative to what they would have paid without cap. The cap will result in some owners being winners and some are losers. As a result, the overall tax burden is shifted within the county. In addition, all property owners will pay higher mill rates if a cap is imposed compared to the mill rates with no cap. This is due to the fact that the cap results in assessed property value being excluded from the tax base that would have otherwise been included in the base. The value of a mill is reduced.

The fiscal impact of the Riley Proposal on the four counties is discussed in this section and summarized in Table 1. The impact is generally the same in all counties. In every case, the imposition of the Riley Proposal would result in millions of dollars of property that would go untaxed. When reassessment occurs, it generally results in a rollback of the millage rate due to the state law prohibiting local governments from realizing any gains in revenues due to reassessment. However, when a cap is imposed and limits the growth in the tax base below what it would otherwise be under normal reassessment, the rollback of the millage rate is less than it otherwise would be.²

This would result in millage rates after reassessment having to be higher than they otherwise would be under normal reassessment with no cap. This results in a shift in the tax burden from property owners of rapidly increasing property to those with relatively slowly appreciating property.³

The impact of this shift in tax burden is that some property owners would pay less tax than they would without the cap and some tax payers pay more tax than they would without the cap. The magnitude of the impact varies by county but not the fundamental dynamics. Nonetheless, in all four counties (and most likely the vast majority of counties in the state), if the Riley Proposal were imposed, most tax payers would end up paying

² If time permitted, a more comprehensive analysis could estimate the impact on the millage rate in each county due to the impact of the proposed cap.

³ For additional discussion on the fiscal impacts of property tax assessment caps, see "The Fiscal Impact of the 2004 20% Reassessment Cap in South Carolina", South Carolina Chamber of Commerce, October 2004, by Miley & Associates, Inc.

higher taxes than they would without the cap imposed. The reason that they would pay higher taxes than normal is that due to property being excluded from taxation, the mill rate will have to be higher than it otherwise would need to be. Therefore, all property owners would have to pay higher millage rates than without the cap.

In general in South Carolina, municipal millage rates represent approximately 20% of the total millage rate burden on the taxpayer. County millage rates represent about 25% and school millage rates represent approximately 55% of the total property tax burden. The impact of the Riley Proposal would result in higher mill rates on municipalities, counties and school districts.

That is, with the Riley Proposal, many taxpayers will pay higher municipal, county and school taxes than would otherwise be required due to the lower assessed value that is taxable – due to so much assessed property value being excluded from taxation.

Beaufort County

The impacts of a 15% cap in Beaufort County have been evaluated elsewhere and are thoroughly documented. (See Clemson Study). The impacts of the Riley Proposal would be similar and clearly benefit some property owners at the expense of others.

Based on the present analysis using data supplied by Beaufort County, the Riley Proposal's cap would be approximately 83.3% (County Average = 69.9% + CPI = 13.4%). The actual cap would most likely be less than this level since this cap is based on the average of all residential property, not all property. However, the resulting impacts on property owners would only be greater, the lower the cap. Therefore, the estimates included here are most likely understated.

The Riley Proposal would lower assessments for about 24% of the property owners and it would not affect the assessment of about 76% of the property owners. The Riley Proposal would exclude and protect over \$3 billion of property from taxation in Beaufort County. However, since the cap only shifts the burden, the 76% of the property owners that would not be affected by the cap in terms of their property assessments, would be impacted by having to pay higher millage rates due to the cap they would have without the Riley Proposal.

Berkeley County

Based on the present analysis using data supplied by Berkeley County, the Riley Proposal's cap would be approximately 59.4% (County Average = 46.0% + CPI = 13.4%).

The Riley Proposal would lower assessments for about 29% of the property owners and it would not affect the assessment of about 71% of the property owners. The Riley Proposal would exclude over \$327 million of property value from taxation in Berkeley County. However, since the cap only shifts the burden, the 71% of the property owners that would not be affected by the cap in terms of their property assessments, would be impacted by having to pay higher millage rates due to the cap they would have without the Riley Proposal.

Florence County

In Florence County, the county-wide increase in assessed value was 6.3% which would result in the Riley Proposal's cap being approximately 19.7% (County Average = 6.3% + CPI = 13.4%).

This level of a cap would lower assessments for about 27% of the property owners and it would not affect the assessment of about 73% of the property owners. The Riley Proposal would exclude over \$349 million of property value from taxation in Florence County. However, since the cap only shifts the burden, the 73% of the property owners that would not be affected by the cap in terms of their property assessments, would be impacted by having to pay higher millage rates due to the cap they would have without the Riley Proposal.

Richland County

In Richland County, it is estimated that approximately \$324 million of property value would be excluded by the imposition of the Riley Proposal's cap. In Richland County, the county-wide increase in assessed value was 17% which would result in the Riley Proposal's cap being approximately 30.4% (County Average = 17% + CPI = 13.4%). It is estimated that the cap would result in only about 2% of the county's taxpayers paying less taxes while 98% would pay higher taxes and excluding approximately \$324 million in property value.

Table 1
Fiscal Impact of Riley Proposal on Selected Counties

County	Estimated Assessment Cap (1)	% of Parcels Above Cap	% of Parcels Below Cap	Estimated Value of Property Valuation Above Cap
Beaufort	83.3%	24.3%	75.7%	\$3,166 Million
Berkeley	59.4%	29.2%	70.8%	\$ 327 Million
Florence	19.7%	27.0%	73.0%	\$ 349 Million
Richland	30.4%	2.0%	98.0%	\$ 324 Million

(1) Estimate based on increase in total assessed value in County plus increase in the Consumer Price Index (CPI) All-item 1999-2004, Bureau of Labor Statistics.

Comparison of Riley Proposal to a straight 15% cap

Although the Riley Proposal results in a shift in tax burden and higher mill rates than would have existed without a cap, the Riley Proposal has considerably less impact than the Senate version of a 15% cap. In general, a 15% cap would result in far more property owners avoiding large increases in reassessments and would also exclude a larger amount of real property value from taxation.

Table 2 highlights the major differences in the estimated impact of the two proposals on a selected number of counties. For example, in Beaufort County the Riley Proposal results in 24% of property owners avoiding taxation of their full property value while three times as many would avoid full taxation under a straight 15% cap. However, the 15% cap would exclude more than \$10 billion of property from taxation -- roughly three times that of the Riley Proposal. The impact of the shift in the tax burden would be more profound with the 15% cap than with the Riley Proposal. Millage rates would be higher and the value of a mill would be lower with the 15% cap compared to the Riley Proposal.

Table 2
Fiscal Impacts of Riley Proposal vs. Straight 15% Cap
on Selected Counties

County	Estimated % of Assessment Cap		% of Parcels Above Cap		Estimated Parcels Below Cap		Estimated Value of Property Valuation Above Cap	
	Riley	15%	Riley	15%	Riley	15%	Riley	15%
Beaufort	83.3%	15%	24%	67%	76%	33%	\$3.2 Bil	\$9.2 Bil
Berkeley	59.4%	15%	29%	82%	71%	18%	\$0.3 Bil	\$1.2 Bil
Florence	19.7%	15%	27%	32%	73%	68%	\$0.3 Bil	\$0.4 Bil
Richland	30.4%	15%	2%	2%	98%	98%	\$0.3 Bil	\$0.4 Bil

Conclusions

The fiscal impact of any artificial cap on property values has important impacts on the vast majority of property owners. A cap will result in some property owners paying fewer taxes than they would have paid without a cap while others will pay more taxes relative to what they would have paid without cap. The cap will result in some owners being winners and some are losers. As a result, the overall tax burden is shifted within the county. In addition, all property owners will pay higher mill rates if a cap is imposed compared to the mill rates with no cap. This is due to the fact that the cap results in property value being excluded from the tax base that would have otherwise been included in the base. The value of a mill is reduced.

This preliminary analysis indicates that the imposition of the Riley Proposal on the growth of property values would limit the impact of reassessment on many homeowners. Based on this limited analysis on a selected group of counties, the percentage of homeowners avoiding full taxation would range from a low of 2% in Richland County to a high of 39% in Berkeley County. However, this lower tax liability comes at a price to many of the homeowners with reassessed property values increasing less than the cap. Since the cap would exclude a portion of property from taxation, such a cap would shift the tax burden from the “above the cap” class of property owners to those “below the cap”. It would shift the burden in varying degrees in counties across the state. However, it’s likely to have the same impact statewide as it does in all of the four counties evaluated in this review.

The magnitude of the impact varies by county. However, in all counties, the owners of rapidly increasing properties (those increasing in value more than the county-specific cap) would be able to shift some of their tax burden to property owners whose properties did not increase more than the cap.

The impact of these untaxed properties on other tax payers could be substantial. This would result in millage rates after reassessment having to be higher than they otherwise would be under normal reassessment with no cap. This results in a shift in the tax burden from property owners of rapidly increasing property to those with relatively slowly appreciating property. As Judge Rawl concluded in his decision regarding the earlier cap attempted to be implemented in Charleston County, “the revenues which would otherwise be “lost” due to the Cap are not forgone, but rather are recaptured by increasing the taxes paid on those properties not helped by the Cap (see Rawl p. 7)”.

However, when compared to the current proposal under consideration by the Senate of a straight 15% cap, it is clear that the Riley Proposal would result in less of a shift in the tax burden and lower millage rates for all property owners compared to those from a 15% cap. In general, under a 15% cap more property owners avoid full taxation from large increases in reassessments and would also exclude a large amount of real property from taxation. In just these four counties, it is estimated that over \$10 billion of property valuation would be excluded from taxation with a 15% cap.

And finally, the impact of any type of cap on reassessment would not necessarily be limited to a one-time impact. Rapidly growing property that would escape taxation in one period could possibly escape taxation in the next period. The exemption could be compounded year after year.

References:

- ¹ City of North Charleston v. Charleston County. The Honorable A. Victor Rawl, Judge, Ninth Circuit Court of Common Pleas, July 14, 2004.
- ² "The Fiscal Impact of A 15 Percent Reassessment Cap in Beaufort County, South Carolina", Ellen W. Saltzman, The Jim Self Center on the Future, The Strom Thurmond Institute of Government and Public Affairs, Clemson University, March 2004.
- ³ "The Fiscal Impact of the 2004 20% Reassessment Cap in South Carolina", South Carolina Chamber of Commerce, October 2004, by Miley & Associates, Inc.

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