

CAPS: Creating A Political Swamp for Local Governments

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Three Kinds of Caps

- Assessment caps
- Millage caps
- Spending caps

Does South Carolina Have Runaway Government Spending?

- CPI plus population 2000-2006:
+3.8% a year
- Revenue from property taxes 2000-2006:
+6.5% a year
- Local government spending:
+6.9% a year

Does South Carolina Have Runaway Government Spending?

- Growth of personal income 2000-2006:
+6% a year
- Revenue from property taxes 2000-2006:
+6.5% a year
- Local government spending:
+6.9% a year

Does South Carolina Have Runaway Government Spending?

- Huge infrastructure needs in fast growing areas
- SC local government per capita revenue is only 76% of national average
- SC state and local government per capita revenue is only 90% of national average

The Logic of Caps

- Housing boom boosted the property tax base and created a revenue bonanza
- Solution: assessment caps

The Logic of Caps, cont.

- Assessment caps will encourage local governments to raise mill rates if base growth slows
- Solution: millage caps

The Logic of Caps, cont.

- Local governments will respond to millage caps by shifting to other revenue sources
- Solution: spending caps

Property Tax Base Growth

- 2000-2005 property tax base grew about 7.5% a year
- 2000-2005 housing units grew faster than population, 1.9% a year
- Average increase in assessed valuation for existing homes, about 7% a year
- Five year assessment sticker shock: 40% increase
- CPI grew only 13.4% over same period

A Case Study

- Homeowner, house worth \$150,000 in 2000
- Appreciates 7% a year
- Ignore local option sales tax

In 2000

- Mill rate of 124.2 for city and counties, total \$745
- Mill rate for schools 144.2, property tax relief, school taxes \$289
- Total tax bill is \$1,034

In 2005

- Home has appreciated 7% a year to \$210,000
- Mill rates went up because of reduced assessment on cars and depreciation of industrial property
- Mill rate of 129.4 for city and counties, total \$1,034
- Mill rate for schools 144.2, no new property tax relief, school taxes \$655
- Total tax bill is \$1,737, a whopping 67% tax increase

Impact is Very Uneven

Six counties with double digit average annual increases in owner-occupied residential property in their tax bases

Effects of Assessment Caps

- Slowdown in appreciation because of housing slump
- Increasing inequity between taxpayers within and among classes
- Effort to repeal market value provision

Effects of Millage Caps and Act 388

- Max out cap every year?
- Pressure to expand list of exceptions
- Shift to other revenue sources
- Uneven impact
- Pressure from business community to get relief
- ITA no longer works for school districts

Proposed Spending Caps

- Interfere between willing buyers and sellers
- Effect on capital spending?
- Definition of base?
- What happens in a recession?
- Look at Colorado!

A Legislative Agenda

- Resist spending caps
- Backup plan to minimize harm of spending caps
- Broaden exceptions to millage caps
- Work with school districts on ITA
- Broaden the base of the property tax
- Strengthen the sales tax
- Write on something bigger than a chicken box