

H. 3272 — ATI/Point of Sale

- **H. 3272 undermines the key assumptions supporting the constitutional 15 percent cap on valuation.**

“Tax me on what I paid for my property, not on unrealized gains,” was the most often heard complaint which was addressed by adoption of a constitutional 15 percent cap on valuation increases.

Adopting the assessable transfer of interest (ATI) mechanism was the method by which purchasers of existing buildings or builders of new structures are put on the tax rolls at their purchase price. From the time of purchase forward, they receive the benefit of the 15 percent constitutional limit on valuation increases. This is the only mechanism by which every taxpayer is taxed upon 100 percent of the fair market value at least once in their ownership of property.

When the S.C. Association of Counties raised the issue of the revenue loss over the long term, we were told on numerous occasions that the impact would be minimal; because property changes hands every seven years on average, and that property would be uncapped and revert to the full fair market value at that point.

- **H. 3272 creates a permanent inequity among taxpayers.**

Without the ATI mechanism, some owners will never pay taxes based on the full value of their property.

Owners of fast-appreciating property will pay taxes on an ever-shrinking percentage of the FMV of their property. Owners receiving little or no benefit from the 15 percent cap pay on 100 percent of the fair market value of their property. Buyers of capped-value property, that does not get placed on the tax rolls at full fair market value at the time of purchase, will never be taxed at the fair market value of their property.

Those paying taxes based on 100 percent or a high percentage of their value will pay a disproportionate share of any future millage increase.

- **H. 3272 will result in tax increases for bonded indebtedness.**

The value of one mill of property tax will shrink as a result of the retroactive change in valuations. Many properties on the books for the sale price will be reduced to the former owner’s valuation. This will reduce the revenue which results from the levy of one mill, which will be lower than the year before adoption of H. 3272.

With bonded debt, there is no opportunity to reduce the payment due bond holders. Therefore, a higher millage rate is required to offset the loss in the value of each mill of tax used to pay bonds.

- **H. 3272 will result in either service cuts or millage rate increases for services.**

The reduction in the value of one mill of property tax will also have to be addressed—by either cutting existing services or increasing millage rates.

- **H. 3272 creates additional future revenue loss for counties, cities and schools, which compounds in the years after the initial drop in the value of a mill of property tax.**

The fiscal impact of H. 3272 upon counties is bigger than the House-passed budget with a \$50 million cut in the Local Government Fund. The BEA estimates the statewide fiscal impact to be \$52 million in a typical year. This \$52 million dollar impact is cumulative, increasing by \$52 million each year. First year—\$52 million, second year—\$104 million, third year—\$156 million, etc....

There are counties making significant cuts in basic services—such as closing ambulance stations, instituting furloughs, making across-the-board pay scale reductions, and other measures in FY 2008-09 to deal with mid-year cuts in the Local Government Fund and declines in other revenue streams.

- **H. 3272 creates a significant expenditure of money for reprogramming of property tax software.**

H. 3272 represents a significant change in the system the assessor's computer will have to implement in order to generate property tax notices and implement any reassessment. There are very few vendors for these software packages, and most counties have some degree of customization. With few vendors performing this work, there is very little competition in holding these programming costs in check. The software changes are expensive, and a Budget Office fiscal impact statement should be requested.

- **Assessors' staffs may not be able to implement in time for fall tax notices.**

The scarcity of vendors in the programming area also impacts the speed at which the programming changes can be implemented in each county. Each vendor typically has multiple client counties, and they cannot be on site in all counties at once. This delays implementation.

Another factor causing delay is that valuation records do not usually indicate why an ATI occurred. Every ATI will have to be pulled and reviewed individually to see whether it was caused by a transfer, a new structure, or improvement to an existing structure. There will be some properties which were sold, and then some substantial improvement was made. This will take longer to analyze.

At best, entities will have less certainty of the value of one mill of tax when millage rates are required to be set so that tax notices can be mailed. This risks a shortfall or surplus in revenue.

At worst, the value will not be able to be determined in time to get tax bills out in a timely manner. This would cause a significant disruption to both taxpayers and local governments.

H. 3272 will almost certainly delay reassessment in those counties scheduled to implement this year, not to mention the confusion which will result in any of the counties which have already sent reassessment notices.

- **Moody's put all S.C. school district bonds on a negative outlook as a result of Act 388. H. 3272 may lead to a systemic downgrading of that debt rating and place county bond ratings in a similar position.**

In 2006, Moody's cited the 15 percent constitutional valuation cap and stated their concern that it was expected to strain operations. Moody's also specifically noted that areas with a high property turnover rate due to the ATI should be in better shape than other areas.

Moody's was also concerned that the millage rate cap would strain operational revenues. They pointed out the lack of a direct relationship between the CPI plus population growth and expenditures, and the lack of a method to override the caps.

- **H. 3272 will reduce the bonded debt limit.**

The bonded debt limit is 8 percent of the assessed value of all property within the jurisdiction. The retroactive effective date of H. 3272 will reduce the values of the property tax base and, when multiplied by 8 percent, it will reduce the general obligation debt limit. This was a concern raised by Moody's, as well.

- **The change in assessed value will also affect school district distributions, because of the change in the Index of Tax Paying Ability and the distribution formula for Act 388.**

No data has been presented to show what the effect of H. 3272 will be on the distribution to individual school districts from the EFA because of the changes it will cause in the Index of Tax Paying Ability.

No data has been presented to show the effect of H. 3272 on the distribution of money from Act 388.

- **The scope of the complaints being addressed by H. 3272 is not known.**

The percentage of the parcels of taxable property statewide is relatively small—in Aiken County, approximately 4 percent of the 100,000 parcels of real property. That number includes ATIs caused by new construction, improvements to existing structures, and transfers; so the percentage of property being addressed by H. 3272 is certainly smaller than 4 percent. The revenue loss to the county is projected to be \$600,000, and the loss to the school district is \$1.2 million. To be sure, there are counties with a higher and lower percentage of affected properties, and higher and lower revenue impacts.

Perhaps there is a less disruptive way to address these concerns than is presented in H. 3272. There are other concerns mentioned above which should be looked at, as well.

- **H. 3272 was in the list of topics to be examined by the Tax Realignment Commission.**

H. 3272 has too many effects to be acted upon without considerable study, and the Tax Realignment Commission is probably the best approach. There was no testimony taken at the subcommittee meeting when the amendment to rewrite H. 3272 was adopted.