

A TALE OF TWO TAXES

RE-CALCULATION OF MILL RATE

AFTER PROPERTY VALUE RE-ASSESSMENT

Theory: In order to prevent a County from obtaining a “windfall” as a result of a property value re-assessment, the County’s Mill Rate must be adjusted (“rolled back”) such that the amount of total revenue collected using the adjusted Mill Rate when applied to the new assessed values will be the same as the amount of revenue collected under the old Mill Rate and the old assessed values.

Example 1: Current : Assume Total Commercial Property in County X is worth \$100,000,000; Mill Rate is 102.6, so total tax revenue (assuming 100% collection) is \$615,600. [\$100,000,000 times 6% times Mill Rate (.1026) = \$615,600.]

New: Re-Assessed Value is \$120,000,000. In order to obtain the same revenue total of \$615,600, the adjusted or “rolled back” Mill Rate must be 80.55. [\$120,000,000 times 6% times Adjusted Mill Rate (.0855) = \$615,600.]

Actual: State law prescribes the manner in which the adjusted or “rolled back” rate must be calculated. In determining “total tax revenue” it only includes taxes actually collected up to a certain point in time. In reality, some people pay their taxes late, but they do pay them. Thus, the calculated adjusted rate under the formula does not come out to be the same number as in theory.

Example 2: Current: Same as Example #1. So, total tax revenue is \$615, 600.

New: Re-Assessed value is \$120,000,000. Assume, however, that because of state law, the adjusted or “rolled back” Mill Rate is set at 78.50. The result is that the total tax revenue that would be collected under the new rate is only \$565,200. The County just lost \$50,400!

Beaufort County School District: Last year’s school operations mill rate was 102.6. As a result of the re-assessment, the County announced the adjusted or “rolled back” rate as 90.26.

The tax on a \$100,000 home last year was \$615.60. [\$100,000 times 6% times 102.6 = \$615.60.] Under the new adjusted rate, which is based on an average property re-assessment increase of 11.4%, that same house, now worth \$111,400, will only generate a tax of \$603.30, a decrease of \$12.30. When the School Board initially voted not to raise the mill rate, it was based on an estimate of what the new adjusted mill rate would be. The school’s budget was prepared, adopted, had three readings before County Council, and passed based on that estimate. Last week, the County revised its estimate and as a result, the schools were out \$2.4 million dollars.

A TALE OF TWO TAXES - THE SAGA CONTINUES...

Increase in TAX RATE does not always mean an increase in TAX OWED:

To make up the \$2.4 million dollar short-fall, the School Board had three options: (1) Raise the Mill Rate to account for the difference; (2) cut an additional \$2.4 millions dollars from the budget; or (3) a combination of the two.

For sure, the **tax rate** went up. The School Board voted 8-3 to raise the Mill Rate from 90.26 to 92.10. That's an increase in the Mill Rate of 1.84. Based on the County's latest estimates, one operating mill is worth about \$1,265,000 to the School District and a 1.84 mill rate increase would raise a tax bill by approximately \$11 per \$100,000 in valuation. [$\$100,000 \times 6\% \times \text{Mill Rate Increase of } 1.84 \text{ (.00184)} = \$11.04.$] However, did your **taxes** go up?

Last year, a \$100,000 property paid \$615.60. If the re-assessed value of that property went up by the same amount as the County average (11.4%), then that same property's new tax bill would still be 615.60 - the same amount as the property owner paid last year! [$\$111,400 \times 6\% \times \text{Mill Rate of } 92.10 \text{ (.09210)} = \$615.60.$] In other words, your taxes did NOT go up!

By raising the TAX RATE, the School Board recouped the \$2,400,000 short fall; however, the **average** TAX BILL should be about the same as last year.

Will everybody's property taxes be the same as last year? No. Remember, the adjusted or "rolled back" rate is based on the County's **total** tax revenue and the **average** increase in assessed value. Each individual's circumstances may be different.

Example 3: Assume two commercial properties each worth \$100,000 last year. As a result of the re-assessment, the first property was re-assessed at \$110,000 and the second property was re-assessed at \$115,000. Under the mill rate just passed by the School Board, the new tax on the first property will be \$607.86, a slight decrease. The new tax on the second property will be \$635.49, a slight increase. On average, however, the overall total revenue generated for the School District will not change from the amount originally projected in the budget approved by County Council in June.

Whose to blame? No one. The County finance team gave the best estimate it could based on the information available to it at the time. As new information became available, the County Finance team informed the School District's CFO of the new revised, lower estimate. The School Board raised the mill rate just enough to cover the revenue shortfall created by the revised estimate.

*Presented by:
Robert J. (Bob) Arundell, Vice-Chairman
Beaufort County School Board*