Planning for a Sustainable Future

Union County, North Carolina, Administrative Services

Budget Focus Area #3:

Revaluation and Revenue Neutral Tax Rates

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During the budget process, the Board of County Commissioners (BOCC) chooses to focus on several specific issues, versus working across the whole of County services. This process allows a focus on specific, timely issues, and working deeply on single topics. For the FY 2016 process, the BOCC has chosen to focus on three specific areas.

- Bond Elections
- Sustainable Volunteer Fire Department Funding
- Revaluation and the Revenue Neutral Tax Rate

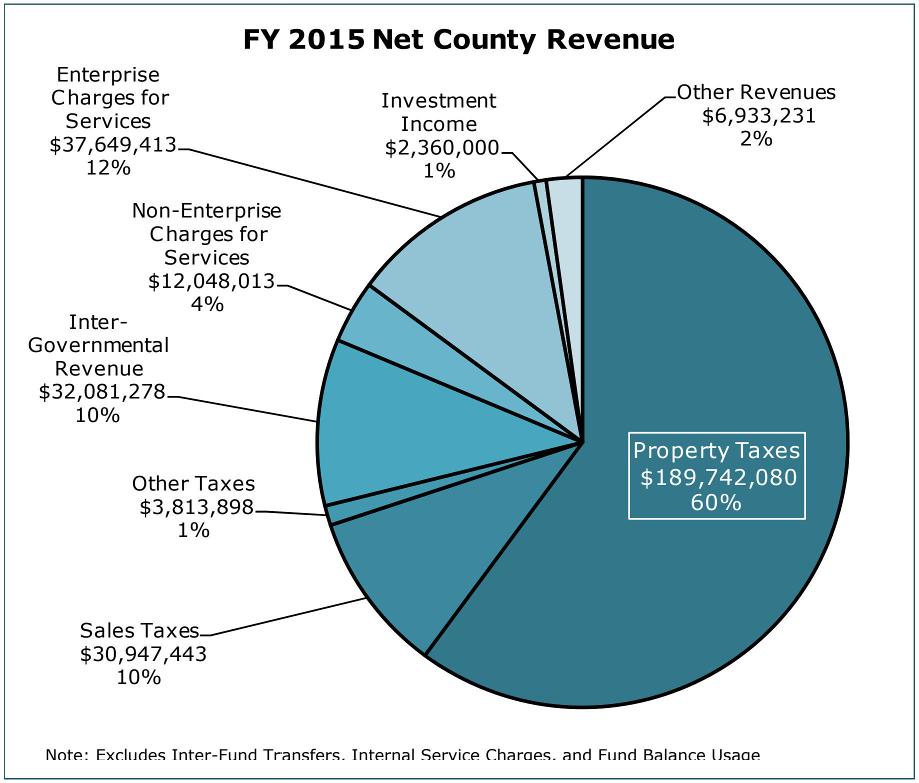
These areas have been specifically discussed during public work sessions and additional information is provided through Budget Focus Areas Working Papers. These working papers provide issue-specific analysis and discussions related to the topic, and identify the significant related issues.

When discussing the revaluation and revenue neutral tax rates, it is significant to take a step back and understand the foundational concepts that define the taxation system, the nature of Ad Valorem Taxes, and their relationship to the County. It is through this understanding, coupled with a technical explanation of the revaluation process and the revenue neutral calculation, the Board of County Commissioners can make an informed and educated decision concerning tax rates.

This budget focus area working paper examines the role of Ad Valorem Taxes in the County as the primary funding source, the valuation process and the revenue neutral concepts, the results of the 2015 revaluation process, the revenue neutral calculations, and then lastly some strategies to move forward with during the development of the FY 2016 Operating Budget.

The Role of Ad Valorem Taxes in the County

Ad Valorem Taxes are taxes that are charged in proportion to the estimated value of the item being taxed. In reference to Ad Valorem Taxes in Union County, this relates to the taxation of real property, business personal property, and motor vehicles. Ad Valorem Taxes are commonly referred to as property taxes.



The property tax is often expressed as cents or a "penny". A cent is value of 1/100 of a penny (.0001) multiplied by the assessed value, and is also referred as a penny per $100 of assessed value.

In FY 2015, property taxes provide about sixty-percent of the County's total revenue (excluding inter-fund transfers, internal service charges, and fund balance usage). In FY 2015, the property taxes were allocated between Union County Public Schools (57 percent), the County General Operations (40 percent), and the specific Volunteer Fire Department Tax Districts (3 percent).

The table on the following page provides an analysis of the allocation of the County's General Operating Tax rate. This analysis is useful to understand the limitations on certain funding sources and understanding how the various sources the County collects are applied to service delivery. In addition, it provides a clear picture of where each penny of the tax rate is allocated.

General Fund Allocation of Current Property Taxes

Service Area	General County Operating Tax In Cents	FY 2015 Original Budget	Current Ad Valorem Taxes	Non-Current Ad Valorem Taxes	Local Option Sales Tax	Other Taxes	Inter-Governmental	Non-Enterprise Charges for Services	Investment Income	Other Revenues
Administrative Services	0.60	$ 1,435,519	(1,434,934)	-	-	-	-	(585)	-	-
Board of Elections	0.48	1,138,215	(1,137,315)	-	-	-	(400)	(500)	-	-
Community Partners	0.16	7,252,551	(381,123)	-	-	-	(657,255)	(30,270)	-	(6,183,903)
Community Services	2.93	8,079,765	(6,987,986)	-	-	-	(240,099)	(663,573)	-	(188,107)
Emergency Services	4.95	12,481,228	(11,777,828)	-	-	-	(62,500)	(488,900)	-	(152,000)
General County Administration	(0.06)	14,280,359	138,233	(3,410,400)	-	(2,383,000)	(5,997,492)	(700)	(500,000)	(2,127,000)
Growth Management	(0.22)	2,752,995	529,705	-	-	-	-	(3,282,700)	-	-
Human Services	6.96	39,958,089	(16,567,514)	-	-	-	(19,971,699)	(3,267,085)	-	(151,791)
Public Works	(0.19)	(447,617)	447,617	-	-	-	-	-	-	-
Register of Deeds	(0.07)	982,192	166,008	-	-	-	-	(1,148,200)	-	-
Sheriff's Office	9.88	26,363,100	(23,523,027)	-	-	-	(2,199,832)	(640,241)	-	-
UCPS Debt Service & Facilities Charges	5.23	45,306,578	(12,453,261)	-	(30,093,981)	-	(2,759,336)	-	-	-
Total	30.64	$ 159,582,974	(72,981,425)	(3,410,400)	(30,093,981)	(2,383,000)	(31,888,613)	(9,522,754)	(500,000)	(8,802,801)

The largest property tax expenditure in the County is the Union County Sheriff's Office; this is reflective of the Board of County Commissioner's prioritization of public safety.

The second highest use of the property tax is the Department of Human Services, which provides for Social Services, Public Health, Veteran's Services, and the Transportation and Nutrition Programs for the Elderly. It is important to note that the Department of Human Services is primarily funded through revenues from the state and federal governments and user fees. Fifty-nine percent of the funding for the Department of Human Services comes through non-local sources.

Looking beyond those two areas and including the dedicated Local Option Sales Taxes and the Lottery Proceeds, the funding for UCPS Debt Service and Maintenance of the Central Administration facility, comprises 5.23 cents or 17 percent of the General County Operating Tax. This is in addition to the 45.5 cents directly funded through the Schools Tax. When added together the total funding in FY 2015 for Schools and School Debt (excluding the school resource officer program) was 50.73 cents of the total 76.14 county-wide property taxes. This equates to 66.6 percent of the total.

With this understanding of the role of property taxes in Union County and their allocation, it is important to understand why the annual budget process centers on the property tax rates. The property tax rates, as outlined by North Carolina General Statutes Chapter 153A, are the primary source of funding, whereas charges for services are the primary discretionary source of funding. Essentially, this means that if the Board of County Commissioners increase funding for any service in the County, the primary way this is done is through property taxes.

Charges for Services:

Charges for Services, whether in the General Fund or the Enterprise Funds, are the fees paid by the users of the services to offset or fully fund the cost of the service provided. This includes the recreation fees, Water and Sewer charges, permitting, and other sources. Generally, these charges are used to offset the cost of the programing. This offset ranges from 100 percent, in cases such as the Utility, to 8.2 percent for Community Services, which includes the Libraries, Parks and Recreation, Agricultural Extension, and Soil and Water Conservation.

The Bifurcated Tax Process

In FY 2015, the Board of County Commissioners established the "bifurcated" tax and budget process as a means to set the property tax rate. This process yields two property tax rates in the County; the first for General County Operations, as discussed previously, and the second being the School's Tax Rate. The School's Tax Rate funds current expense and capital funding for Union County Public Schools (UCPS). This rate in FY 2015 is 45.5 cents.

As discussed, the property tax is the only discretionary source of funding that the Board of County Commissioners has that is not tied in some form to the cost of service provision. Because of this limitation, the BOCC has focused on providing a greater transparency in the process and separated the UCPS's funding from the County operations, allowing for a full consideration of both organizations needs versus a competitive funding environment.

UCPS Funding and BOCC:

The relationship between the Board of Education and the Board of County Commissioners is, to some degree, unique. While the Board of Education (BOE) is responsible for providing a free basic education, the Board of County Commissioners is responsible for providing the local portion of the funding for that education.

Historically, the funding from the County has been used for capital and operations, and the State has funded the instructional aspects. In recent years this segregation of funding has become opaque, to the extent that in FY 2015, the County funded $47.8 million in instructional programming, or about 18.6 percent of the total instructional budget.

The Board of Education has very limited revenue raising abilities. As such, they are subject to appropriations from the State, the Federal Government, and the Board of County Commissioners. While the BOE and BOCC are often mentioned as "co-equal" boards, the fact is that the BOCC maintains, within certain limitations, the power of the purse related to local funding and debt issuances.

The BOCC's discretionary authority over tax rates places the responsibility on the BOCC to represent the tax payer in the determination of tax rates and local school funding. This process of checks and balances is well established in the NC General Statutes, and when the two boards cannot agree the judicial system is the arbiter.

The BOCC is responsible for providing funding, through tax rates and other sources for a full spectrum of services, ranging from public safety, human services, and parks and recreation. Education is only one of those services. The notion that any single service area has the "right" to all other funding sources or that any other service area should be reduced in favor of that single service is a disservice to the residents of Union County.

The Board of County Commissioners has the responsibility to allocate resources across the spectrum of services, including education. If this were not the case, then the General Assembly would have provided direct taxing authority to the Board of Education.

Understanding the role that property taxes play in the funding of services within the County, the focus can now shift to the process of determining the valuations and tax rates.

The Valuation Process

The revaluation process is a review of the value of all real property, meaning a review of the value of land and buildings in the County. The process of valuation excludes personal property, motor vehicles, and business personal property because these items are valued annually through various other processes.

The process of revaluation of real property is done to make the values more reflective of current market conditions. In a market where the values are climbing significantly, this revaluation process helps to adjust the tax rates to reflect this value growth and establish equity among property owners. This process works similarly in a declining market to ensure that there is equity and to essentially "true-up" the tax values against the current market values.

In many states, the process of revaluation occurs annually, however in North Carolina, in accordance with NC General Statute 105-286, this process occurs at a minimum of every eight years. There are specific reasons that this process can and does occur more frequently than every eight years.

The Board of County Commissioners may determine the need for a more frequent valuation cycle. In addition, North Carolina General Statutes will trigger revaluation if the sales to assessment ratio are greater than 115% or less than 85%. In Union County, exceeding 115% of sales to assessment ratio was the trigger for the 2015 revaluation.

As the chart below indicates, a regular revaluation is necessary to maintain accuracy in the valuation to sales ratios.

Sales to Assessment Ratio:

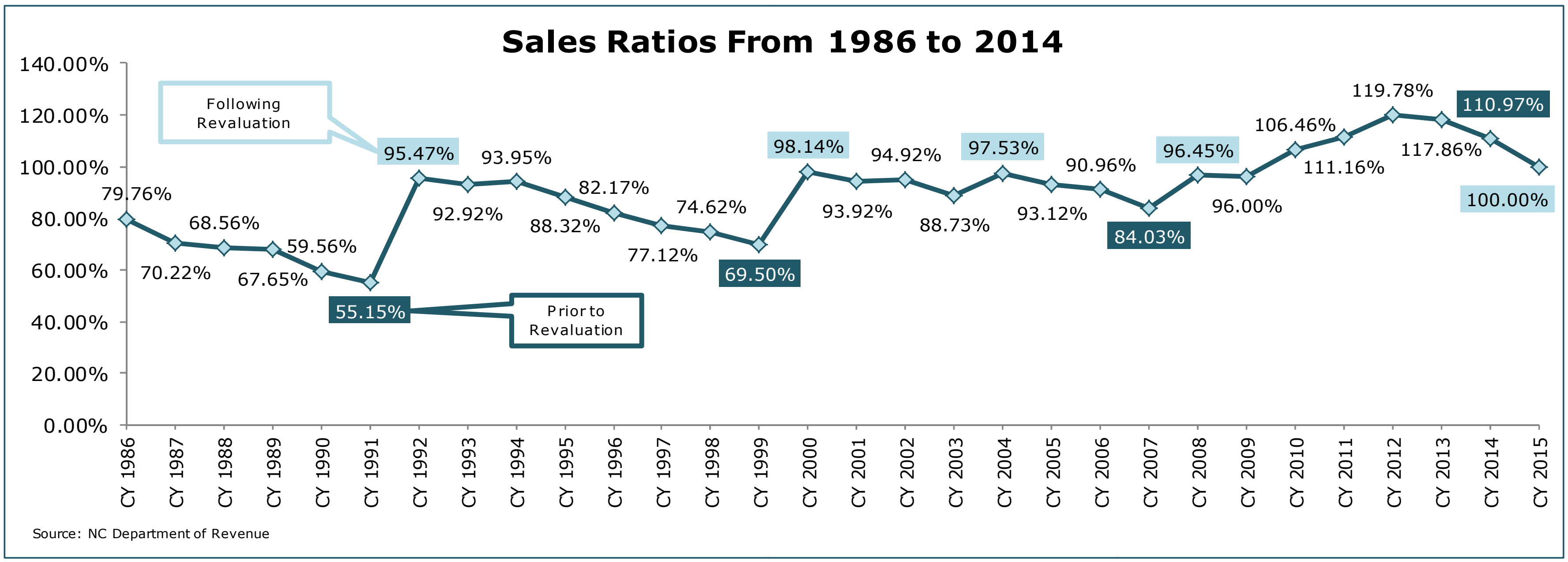
The sale to assessment ratio is a measure of the market values against the assessed valuation, specifically the ratio between the property's assessed value and its sales price. A sampling of transactions is used to compare the most recent sales compared to the most recent valuation. Based on the samples, when the valuation is greater than 15 percent above or below, then a revaluation, within three years, is necessary.

Conceptually, when the valuation is thought to reach 15 percent greater or less than the real value, then it is necessary to correct the values and re-establish the valuation.

Property is valued based on what is considered to be the "Fair Market Value", based on the status of the property as of January 1, 2015. The common definition of Market Value is the price which a property should bring in a competitive and open market, all else being equal. The Tax Administrator's Office uses recent real estate transactions to analyze and establish a system of comparable pricing.

Having triggered the revaluation, there are six specific steps that are undertaken to conduct the process.

Step 1: The first step in the process is quality assurance. During the quality assurance process the Tax Administrator's Office reviews its available data and sources to ensure that the foundational information is correct. In Union County this includes the evaluation of 80,000 residential parcels, 4,000 commercial and industrial parcels, 5,000 agricultural parcels, 6,000 exempted and



other parcels, for a total of about 95,000 parcels. Union County uses mass appraisal. Mass appraisal is the process of valuing a group of properties using common data, standardized methods, and statistical testing. The validity of the recent real estate transactions is critical to the process of mass appraisal.

Step 2: The second step in the process is to establish appraisal neighborhoods. These neighborhoods provide the grouping of similar properties for the purpose of the mass appraisal process. In 2015, the County determined that there were about 800 appraisal neighborhoods.

Computer Assisted Mass Appraisal System (CAMA):

During the discussion of the County's assessment process the use of the CAMA system is often mentioned. CAMA refers to the computer software package used by the County to model the data necessary to provide appraisals.

The proper use and administration of a CAMA system will result in a valuation system that is characterized by accuracy, uniformity, equity, and reliability. Except for completely unique properties, individual analysis and appraisals of properties are not practical for ad valorem tax purposes.

- *International Association of Assessing Officers*

Step 3: The third step in the process is the develoment of the "Schedule of Values" (SOV). This schedule of values, as approved by the Board of County Commissioners, establish the base rates for differing types of properties. The schedule of values is developed using standard appraisal methods.

The SOV is typically established through the cost approach for industrial property, the comparative sales approach for residential property, and the income approach for commercial property. Values typically established through these methods are the basis for the specific appraisal based on where the parcel falls in the schedule. This standardized approach provides for uniformity and fairness in the process.

Step 4: The fourth step in the process is to review and qualify the sales of real property. Using the data, the Tax Administrator's Office reviews all of the real property sales. This sales data is used to help determine the market values in the County.

Step 5: The fifth step in the process is to pull all the tools together and establish the final market values. Using the schedule of values, staff establishes an initial appraisal value for the parcel, then using the valid sales data in each of the 800 neighborhoods, localized adjustments are made. The result is the establishment of the final market value. This established market value becomes the new appraised value, and unless otherwise adjusted will become the value which is taxed.

Motor Vehicles and Business Personal Property:

The revaluation process is focused only on real property, meaning real estate and buildings. Motor vehicles and business personal property are valued annually using detailed schedules and depreciation methods. Because this type of property is valued annually, it is not included in the calculations for revenue neutral or the sales ratio calculation.

Step 6: The final step in the process, is the notice to the property owners. Notices were sent in late March and include the new appraised values. The purposes of the notice is to allow property owners the opportunity to request a more detailed review. The process for review and appeals can be found on the County's website.

The revaluation process is used to establish the valuation component for the tax calculation. The general statutes establish a structure of internal controls that segregate the responsibility for recommending tax rates from the responsibility for establishing the values.

In Union County the process for establishing values is done in the Tax Administrator's Office. The process for calculation of the revenue neutral tax rate is done in the Department of Administrative Services and the final process for recommendation of the tax rate is done by the County Manager. This segregation ensures the integrity of the valuation process and that the revenue neutral calculation occurs independently.

Revenue Neutral Tax Rates and Process

The Revenue Neutral Tax Rate, conceptually, is the tax rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. Simply stated, in isolation, if the revaluation had not occurred, establishing what the revenue to the County would be, excluding new construction, and then based on the new valuation, establish the necessary tax rate to yield the same amount of revenue.

NC GS §159-11(e):

In each year in which a general reappraisal of real property has been conducted, the budget officer shall include in the budget, for comparison purposes, a statement of the revenue-neutral property tax rate for the budget. The revenue-neutral property tax rate is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred. To calculate the revenue-neutral tax rate, the budget officer shall first determine a rate that would produce revenues equal to those produced for the current fiscal year and then increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to improvements since the last general reappraisal. This growth factor represents the expected percentage increase in the value of the tax base due to improvements during the next fiscal year. The budget officer shall further adjust the rate to account for any annexation, deannexation, merger, or similar event.

The theory behind this calculation is to normalize or smooth the revenue to the government and the impact to the tax payer. It is important to note that this type of legislation is designed to protect the tax payer during an increasing value environment. If the County left the tax rates unadjusted, and the value continued to grow, it would result in a real tax increase without a rate increase. Simply stated, in a growing value environment, rates left the same would yield more revenue to the government and increased tax bills.

Conversely, as we will see in 2015, <u>in a declining value environment the unadjusted tax rate would result in a de facto tax rate reduction and result in lower tax bills.</u>

Whether in a rising value environment or a decreasing value environment, the purpose of the revenue neutral calculation is to adjust the rate such that the average tax payer is paying a similar amount, regardless of the rate, and that the government is collecting a similar amount to provide services. The principle behind the Revenue Neutral Calculation is adjusting the rate so that the change in value does not negatively impact the tax payer or the County's ability to provide services.

The calculation based on NC General Statutes 159-11(e) is done in four steps.

Step 1: The first step in the process is to establish the levy for the current fiscal year. For the purposes of the calculation the staff uses the County Certification Form (TR1) for the preceding year, in this case 2014, to establish the tax levy. The TR1 is the report provided to the North Carolina Department of Revenue reflecting the certified values, including exemptions and other adjustments. It represents the most accurate base value for the calculation.

Using the value and the current tax rate, the revenue yield is calculated. This revenue yield becomes the "revenue neutral" amount, excluding growth.

Step 2: The second step in the process is to calculate the new tax rate that will yield the same amount of levy based on the new tax base. It is important to note that in this process, the collection rate is not taken into consideration. The collection rate changes from year to year, so the use of the levy establishes an apple to apples comparison for this process.

Step 3: The third step in the process is to determine an average growth factor. This average growth factor establishes the estimated new construction amount. This factor is calculated by using the average annual percentage growth in the tax base as a result of improvements since the last general revaluation, in this case 2008.

Step 4: The final step in the process is to establish the final revenue neutral tax rate. The final revenue neutral tax rate is calculated by using the rate established in step two, which is the tax rate on the current levy that yields the same revenue as the year before, and then adding to that the growth rate as determined in step three. This is done to give both the tax payer and the government the benefits of the growth in the community.

Revenue Neutral ≠ the Same Revenue

The revenue neutral tax rate will not result in exactly the same amount of revenue to the government, nor will it result in the same tax bill to the tax payer. The concept of revenue neutral is applied to the entire county on a macro basis, while individuals will be impacted based on a number of localized factors.

Conversely the County will not collect the same amount of revenue due to the changes in collection rates, business personal property, and changes in vehicle values.

The goal of the calculation is fairness to the tax payer by limiting the impact from a tax bill perspective, but limiting the service reductions that will result from a significant loss in revenue to the government.

Revenue neutral calculations balance the impact of revaluations to ensure tax payers are protected from significantly higher tax bills and a significant loss in services.

Based on this calculation, the new “revenue neutral” rate is established. It is important to note that conceptually, maintaining the same rate, particularly in 2016, will yield a reduction in revenue to the County and will result in service reductions.

FY 2016 Revaluation Results

As the sales ratio table indicated, since 1986, revaluations were typically undertaken to bring the sales ratio up to 100 percent. With the 2015 revaluation, this was not the case; the revaluation was triggered by the sales ratio being greater than 115 percent and was undertaken to bring the valuation down to 100 percent.

Across the entire County the taxable value declined by 4.64 percent. As the table below indicates, the largest loss came in agricultural parcels, with 91 percent seeing a decrease in value, with a median loss of 29.2 percent. The agricultural parcels represent about 5.26 percent of the total parcels in the County.

Changes in Taxable Values by Parcel Type

Parcel Type	Increased	Decreased	Median Change
Residential	31%	69%	-5.40%
Commercial	45%	55%	-2.30%
Industrial	35%	65%	-6.00%
Agricultural	9%	91%	-29.20%

The largest segment of parcels (residential) represents 84.21 percent of the total, and during the revaluation 69 percent saw reductions with a median loss of 5.4 percent.

Changes in Taxable Values by Municipality

Municipalities	2014 Taxable Total	2015 Taxable Total	Change In Valuation
Countywide	**$ 20,960,953,533**	**19,987,936,104**	**-4.64%**
Fairview	369,144,372	342,895,340	-7.11%
Hemby Bridge	87,458,535	77,414,273	-11.48%
Indian Trail	3,167,132,792	3,155,022,794	-0.38%
Marshville	134,235,217	128,022,131	-4.63%
Marvin	1,026,037,078	998,034,632	-2.73%
Mineral Springs	244,711,398	220,396,353	-9.94%
Monroe	2,487,283,625	2,385,601,538	-4.09%
Stallings	1,426,598,400	1,432,834,887	0.44%
Unionville	448,931,642	427,270,679	-4.83%
Waxhaw	1,448,762,450	1,410,629,784	-2.63%
Weddington	1,976,543,814	1,863,429,586	-5.72%
Wesley Chapel	882,150,158	824,856,440	-6.49%
Wingate	110,084,607	108,035,089	-1.86%

*Excludes motor vehicle and personal property values.

Based on the latest numbers, and as illustrated in the table, the average loss of value in the municipalities was 4.73 percent. The municipality that lost the most value, on a percentage basis was Hemby Bridge, losing 11.48 percent of its taxable total. Stallings faired the best with a gain of .44 percent.

There are a number of reasons for the declining values. It is safe to say that there is a confluence of factors which include, but not limited to: reduced speculative value of vacant land, UCPS redistricting, recessionary devaluation, and other factors. Pinpointing the exact factors impacting the changes will vary by neighborhood.

County General Tax Revenue Neutral Calculation

With the results of the 2015 revaluation, the revenue neutral calculation can be done, in accordance with NC GS §159-11(e).

The calculation is shown on the table below.

Revenue Neutral Tax Rate Calculation			
(1)	2014 Tax Value	$	20,950,609,921
(2)	FY 2015 Tax Rate		0.3064
(3)	Tax Revenue Yield	$	64,192,669
(4)	2015 Tax Value	$	19,983,124,713
(5)	New Tax Rate Before Growth		0.3212
(6)	Growth Factor		1.4%
(7)	Revenue Neutral Tax Rate		0.3257

The calculation is broken into seven specific pieces:

(1) Based on the 2014 County Certification Form provided to the North Carolina Department of Revenue the 2014 Tax Value was $20,950,906,921.
(2) The FY 2015 Tax rate, for the General County Tax was .3064.
(3) The tax revenue yield, based on lines (1) and (2) is $64,192,669. (this is not adjusted for collections and does not include motor vehicles, business personal property or public service companies).
(4) Based on the 2015 revaluation, the Tax Value is $19,983,124,713.
(5) The tax rate needed based on the same revenue yield in step (3) is .3212.
(6) The Growth factor based on history, 1.4 percent is calculated based on the following table:
(7) Applying the growth factor to the new tax rate, the Revenue Neutral Tax rate is .3257 or 32.57 cents.

This revenue neutral tax rate, when combined with the estimated motor vehicle tax and the new growth, including the estimated collection rates result in a total increase of $2 million in revenue for General County Operations. This increase is 1.45 percent in

Calendar Year	Taxable Value	Change
2008	19,290,938,252	
2009	19,703,707,725	2.1%
2010	19,860,204,041	0.8%
2011	20,012,708,795	0.8%
2012	20,192,945,312	0.9%
2013	20,456,546,253	1.3%
2014	20,950,609,921	2.4%
	Average Change	**1.4%**

revenue from real property taxes, approximately the new growth. The new rate is meant to approximate a neutral tax bill for the average tax payer.

It is important to note that leaving the same rate as in 2015 will result in a decline in revenue of $2.4 million or 3.26 percent loss, which will result in reduced services.

Schools Tax Revenue Neutral Calculation

The calculation is shown on the table below.

Revenue Neutral Tax Rate Calculation - Schools			
(1)	2014 Tax Value	$	20,950,609,921
(2)	FY 2015 Tax Rate		0.4550
(3)	Tax Revenue Yield	$	95,325,275
(4)	2015 Tax Value	$	19,983,124,713
(5)	New Tax Rate Before Growth		0.4770
(6)	Growth Factor		1.4%
(7)	Revenue Neutral Tax Rate		0.4837

The calculation is broken into seven specific pieces:

(1) Based on the 2014 County Certification Form provided to the North Carolina Department of Revenue the 2014 Tax Value was $20,950,906,921.
(2) The FY 2015 Tax rate, for the Schools Tax was .4550.
(3) The tax revenue yield, based on lines (1) and (2) is $95,325,275. (this is not adjusted for collections and does not include motor vehicles or business personal property).
(4) Based on the 2015 revaluation, the Tax Value is $19,983,124,713.

(5) The tax rate needed based on the same revenue yield in step (3) is .4770.
(6) The Growth factor based on history, 1.4 percent is calculated based growth table.
(7) Applying the growth factor to the new tax rate, the Revenue Neutral Tax rate is .4837.

When considering the Schools Tax, there is an additional layer to be calculated. Based on Session Law 2014-9, applying the growth factor of 1.34 percent student population growth (based on DPI estimates) and 1.60 percent based on year over year CPI-U increases, the current expense funding is estimated at $89.7 million. In addition, the specified capital funding is $19.8 million.

With the legislation in mind, the revenue neutral rate is not the key to setting the tax rate. Based on the legislative direction, using the rate smoothing reserve, the tax rate needed to fund the Schools tax is .4674 or 46.74 cents.

Legislation Based Calculation	
FY 2016 Est. Current Exp.	$ 89,658,562
FY 2016 Capital	19,786,024
Total Funding Needed	$ 109,444,586
Use of Smoothing Reserve	(1,746,998)
Tax Funding Needed	$ 107,697,588
Tax Rate Needed	**0.4674**

Funding in addition to the capital needed to satisfy the legislation would be outside of the required subsidy and would be at the discretion of the Board of County Commissioners.

Recommended Strategies Moving Forward

Changing the tax rates in any year is a challenge for an elected body. There are a number of factors to be considered including the service impacts and the impacts to economic development. The first inclination is to consider only the tax rate impact; however, the more meaningful consideration is the tax bill impact on the tax payer.

Based on the goals established by the Board of County Commissioners, staff is recommending two strategies moving forward.

1. While staff recognizes that the revenue neutral rate, based on the General Statutes, provides additional funding for County operations, it is important to note that the design of the revenue neutral tax rate may be flawed in its application during a declining value scenario.

   The purpose of the calculation, particularly the growth factor, is to protect the tax payer by giving credit for average growth. However, in a declining value environment, this protection actually increases the effective tax impact, essentially causing a real tax increase under the notion of revenue neutral.

   Because of this flaw in the design of the calculation and its application in this unique instance, staff is recommending that the growth portion of the equation be eliminated for the purposes of the budget. The impact on estimated revenue from this calculation change will provide an estimated year-over-year increase in budgeted real property tax revenue of $35,711, or .05 percent, essentially revenue neutral to the County.

   It is worth noting, that under this version the County is not afforded growth in revenue, but the tax payer is receiving the benefit of new growth by limiting the growth from real property. This is not the case as it relates to the motor vehicle portion of the tax, the growth in this revenue will follow it new value and the adjusted rate.

   The recommended tax rate for County Operations is .3145 per $100 of value. This rate excludes the countywide funding for Volunteer Fire Departments, which will be funded through a separate Countywide General Fire Tax.

2. Establish the Schools Tax Rate sufficient to meet the legislative requirements. While this is not the revenue neutral calculation it provides for an increase of just fewer than three percent for operations and provides for the existing capital needs.

   In addition, the use of the rate smoothing reserve is recommended. During the FY 2015 budget process, the tax rate was increased above the needed level to minimize the FY 2016 rate increase. Without this reserve, the increases would be .0076 more than the recommended level.

The recommended School's Tax Rate is .4674 per $100 of value. This rate, including the rate smoothing reserve, provides for an increase of $2.8 million from the FY 2015 funding or 2.64 percent.

With this change, excluding the conversion of the fire fee to a countywide Fire Tax, the combined rate of General County Tax Rate and the School's Tax Rate would be 78.19.

Based on the direction received from the Board of County Commissioners, concerning tax rates, the County Manager and staff will develop the proposed FY 2016 Operating and Capital Budget.