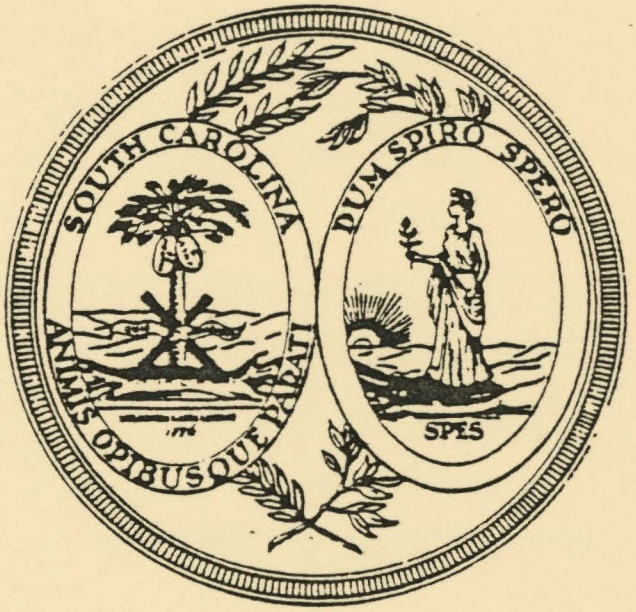
South Carolina General Assembly



Legislative Audit Council

South Carolina General Assembly
Legislative Audit Council
Analysis of Problems and
Possible Abuses in Implementing
Act 208 of 1975
May 8, 1979

STATE OF SOUTH CAROLINA

GENERAL ASSEMBLY

LEGISLATIVE AUDIT COUNCIL

ANALYSIS OF PROBLEMS AND

POSSIBLE ABUSES

IN

IMPLEMENTING ACT 208 OF 1975

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INTRODUCTION

Scope of Audit

The Concurrent Resolution of the General Assembly S.64, January 11, 1979 (see Appendix 1) directed the Tax Study Commission to investigate possible abuses by the political subdivisions in implementing Act 208 of 1975 (Section 12-43-210 through 320, 1976 Code). The Resolution directed the Legislative Audit Council to assist the Tax Study Commission in examining compliance with Act 208.

The Tax Study Commission requested that a report be presented to them prior to the close of the current legislative session, recognizing that this would constrain the scope of the review. It was felt that even a limited review would help alert the General Assembly to major problems if any were found and corrective measures could be initiated.

Statewide, there are over 400 political subdivisions with taxing authority. These include counties, school districts, municipalities, and special service districts. Ten counties had attempted to complete implementation of Act 208 by tax year 1978 and meet the standards established by the State Tax Commission. Therefore, these ten county administrations and their eighteen school districts, a total of twenty-eight tax jurisdictions, were examined. The examination focused on four major areas of compliance. The areas of compliance relate, generally, to the limitations on the amount of increase in revenues from real and personal property taxes which can be received due to implementation of the Act. They are explained in detail in Chapter One. Appendix 2 is a copy of the Act.

Method

The method of analysis was intended to identify possible accumulations of excessive revenues, instances of non-compliance, and problems in carrying out the Act which could be resolved through legislative action.

Each of the twenty-eight taxing districts was asked to complete a questionnaire prepared by the Audit Council. Jasper County, after several contacts by Audit Council staff, failed to comply with the Joint Resolution by not cooperating with the audit. After repeated contacts with Charleston County, the Audit Council received part of the requested data on April 10. Each of these counties contains only one school district. These two school districts attempted to supply the data requested from them by the Audit Council. However, their information was incomplete because much of the school districts' tax related data is maintained at the county level. The eight other county governments and their sixteen school districts (a total of twenty-four tax jurisdictions) attempted to cooperate and comply to the best of their ability within the time allowed.

The questionnaire requested fiscal information for the years 1975 through 1978. Copies of financial reports prepared by Certified Public Accountant firms for each fiscal year from 1975 to 1978 also were requested.

The Audit Council staff visited Berkeley, Beaufort, McCormick and Lexington Counties to review in detail their annual financial reports, assessment procedures, and the questionnaire. In addition, extensive telephone interviews were held with the other tax districts (excepting Jasper and Charleston Counties) discussing the questionnaire and their financial reports.

A senior official from the Property Tax Division of the South Carolina Tax Commission was assigned to provide technical advice and assistance to the Audit Council staff. This assistance was very helpful in conducting the review.

Summary of Audit

Chapter One presents a simplified explanation of the property taxation process, an explanation of the requirements of Act 208, and an analysis of problems revealed during the course of the Audit Council's review. In the course of the audit, a series of technical problems were revealed which directly affect the ability of a tax jurisdiction to comply with the law. Each of the problems that was identified is discussed in detail in Chapter One. A glossary of technical terms is included after the appendices.

In addition, other problems related to Act 208 were revealed during the audit which appear to have a significant impact on taxpayers. Because of their significance and their relationship to the existing system for property taxation, they are included in Chapter Two.

Chapter Three summarizes the problems into three categories and lists the recommendations made for each.

CHAPTER ONE

ANALYSIS OF FOUR AREAS OF COMPLIANCE WITH ACT 208

Background

Prior to the passage of Act 208, the assessment of property taxes for property appraised under county jurisdiction showed little uniformity within the State. The assessment ratios applied to different types of property varied among the counties. The level of appraisal of the property ranged from a low of 37 percent of fair market value to a high of 88 percent of fair market value. In some counties there was no appraisal base and assessments were made based on data other than current fair market value appraisals. During this period approximately 55 percent of the tax base (the property appraised by the State Tax Commission) was being appraised at nearly 100 percent of fair market value.

Act 208 states that, "all property shall be uniformly and equitably assessed throughout the State." In Act 208, all property that is subject to taxation is classified and the assessment ratios are mandated for each class. The classifications are defined in the law and any specific exceptions and qualifying circumstances which affect assessment are outlined.

The Act requires all counties to map the entire county area for tax purposes, reappraise all property, and adjust all county assessment ratios to the levels mandated by Act 208. The appraisal level of the county property must be within the range of 80 to 105 percent of fair market value and must be equitable within each classification of property, or the State Tax Commission is empowered to take the county to court.

Any county wilfully failing to comply with these requirements will lose twenty percent of the allocation from State Aid to Subdivisions.

While counties are adjusting to the statewide assessment ratios, Act 208 places restrictions on any additional revenues that might be collected due to the adjustment of the ratios. Restrictions also apply to additional revenue that might be raised during reappraisal but certain exceptions to the restrictions are outlined. Should any millage be increased to obtain revenues to provide an increase in services or new services, a county is required to state the purpose on the tax notice so taxpayers will know the change is not due to Act 208.

Introduction

This chapter explains the types of property that comprise the property tax base and reviews the steps involved in the real property taxing process. The specific limits on the increases in revenues from property taxes that can be received by political subdivisions due to the mandates of Act 208 are discussed in detail. These were the areas of compliance which were the focus of the audit.

The Cycle of Taxing of Property

Taxes paid on property are a major source of annual revenue for the operation of local governments and for services provided to the public such as sewage treatment, water, refuse collection, hospitals, and fire and police protection. The property tax base is composed of two major types of property, real property, which is commonly considered to be the land and anything firmly attached to it, and personal property,

which is generally anything movable and not fixed to the land. All personal property that is non-business is assessed by county officials. While individuals are required to file personal property with the county, the tax rolls of personal property are also maintained with the aid of the list of registered motor vehicles supplied by the State Department of Highways and Public Transportation. The list of registered boats is provided by the Wildlife and Marine Resources Department.

Real property is divided into several classifications, but for the purposes of this report only the five main classifications will be discussed. Three of the classifications, residential, agricultural, and commercial/ rental, are assessed by county officials while the other two classifications, manufacturing and utilities, are assessed by the State Tax Commission. Although the assessment on these latter two properties is made by the Commission, the taxes are collected by the county for local purposes.

The property taxing process is referred to as a cycle because it is continuous and the same steps are repeated. However, there are many variations among counties in their methods of implementing these steps. The following is a highly simplified review of the basic process.

The taxing process begins with the appraisal of individual pieces of property. Step one: an appraiser, often from the County Tax Assessor's Office, estimates the value of each piece of property based on what it would sell for on the current market. After a few years if the property is not reappraised and the value of the property on the open market increases, the property may then be described as being under-appraised, under-valued, or appraised at less than fair market value. Step Two: the County Assessor, based on the use of the

property, determines the legal classification of the property. This classification, such as agriculture or rental, determines the percentage of the value of property to be taxed. In other words it determines which assessment ratio is to be applied. For example, residential property is assessed at four percent and business property is assessed at six percent of its appraised value. The appraised value multiplied by the assessment ratio determines the assessed value.

Once all appraisals and assessments are completed within a taxing jurisdiction, all the assessed values of each piece of property are summed to yield the property tax base for real property for the tax district. This amount is added to the property tax base for personal property and the tax base for manufacturers and utility companies to produce the total property tax base of the district.

Having determined the property tax base the final steps of the property tax cycle take place. The total property tax base is added to any other sources of revenue (such as fines, fees, etc.) to calculate the total available "wealth" of a district. The next step in the tax cycle is to determine exactly what portion of the property tax base actually must be collected and added to the other revenue sources in order to meet the budgetary needs of the tax district. The actual amount of tax to be levied against individual property-owners will be determined by this need.

The tax levy is represented in mills. One mill equals $.001 or one-tenth of a cent. A typical tax bill may be calculated in the following manner:

$40,000 (appraised property value) x 4% (assessment ratio) =
$1,600 (assessed value)

$1,600 x 100 mills (tax levy) = $160 (the property tax bill)

The number of mills is determined from two sources. First, some millage rates are established by State law or local ordinance. Second, rates are established by officials of local government based on budgetary needs and the available resources including the assessed tax base and any other sources of revenue.

The Legislative Audit Council looked at revenues from property taxes from tax year 1975 to tax year 1978 and other pertinent information in order to ascertain whether the following restrictions had been met by the counties and their school districts during the implementation of Act 208:

(1) If an increase or decrease over the 1975 property taxes occurs due to the adjustment of assessment ratios to the State mandated levels, the increase or decrease can be no more than two percent each year (Section 12-43-270).

(2) If the adjustment of the ratios takes a number of years, the restriction on the cumulative increase or decrease of taxes from 1975 taxes can not exceed seven percent (Section 12-43-270).

(3) When equalization of all property taxes is completed and the tax bill is based on the equalization, if there is an increase in revenues due to the equalization, it cannot exceed the last year's taxes by more than one percent (Section 12-43-280).

(4) However, an increase in revenue is not restricted if it was due to property or improvements which have not been taxed before (found property), new construction, or renovations which occurred during the reassessment period (Section 12-43-280).

The Council, in the course of the audit found that, with few exceptions, revenues increased during the time period examined at a rate which exceeded the restrictions. In examining for wilful noncompliance and allowable increases in revenues, it became apparent that

evidence of wilful non-compliance could not be compiled. Accounting and record-keeping practices of the counties and school districts examined would not allow for verification that the increases were not in excess of the restrictions of the law. The following paragraphs will discuss the problems noted by the Audit Council in the course of reviewing for compliance with Act 208.

Windfalls In Revenues From Implementation of Act 208 May Be Accumulating And Are Undetectable

As discussed previously, assessments added for found property, improvements, new construction, renovations, and new or increased services, are exempt from the limits on increases in tax revenues. However, the increases in revenues due to these exempt areas, in general, have not been documented and monitored in a manner that separates them from other increases in tax revenues. Therefore, alternative methods had to be employed in attempting to determine whether excessive revenues were being accumulated as a result of implementing Act 208.

The total revenues cited from general property taxes from FY 76 through FY 78, were examined as part of the alternative evaluation methods. The Audit Council noted increases in property tax revenues from year to year which in almost every case greatly exceeded the percentage limits in the Act. In addition, it was observed that revenues in the General Funds of counties tended to exceed the expenditures for the year leaving a surplus. There is a distinct observable trend for the surplus to grow larger each year. This can be seen in Table 1, page 10.

TABLE 1

GENERAL FUND

DOLLAR AND PERCENT CHANGE IN GENERAL FUND BALANCES OVER FOUR FISCAL YEARS

County and School Districts	June 30, 1975	% Change FY 75-76	June 30, 1976	% Change FY 76-77	June 30, 1977	% Change FY 77-78	June 30, 1978
Beaufort County	$ 755,646	(53.2)	$ 353,489	3.6	$ 366,147	62.9	$ 596,330(1)
Beaufort Schools	(389,511)	59.4	(158,028)	449.9	552,939	25.4	693,610(2)
Berkeley County	(134,798)	417.7	428,252	39.4	597,033	102.3	1,208,064
Berkeley Schools	(513,318)	153.3	273,438	526.3	1,712,406	(20.3)	1,364,736
Charleston County	Information not received in time						
Charleston Schools	1,537,894	(7.6)	1,420,275	(11.4)	1,258,353	93.5	2,435,431
Greenwood County	126,994	62.9	206,823	46.4	302,810	69.3	512,594
Greenwood #50	662,380	7.5	711,824	6.7	759,798	4.4	793,056
Greenwood #51	112,927	16.7	131,771	15.3	151,985	3.3	156,973
Greenwood #52	225,316	(38)	139,757	(16.7)	116,397	2.5	119,256
Hampton County	Information not received						
Hampton #1	133,859	29.6	173,471	1.7	176,371	(53.2)	82,478
Hampton #2	(25,010)	(35.3)	(33,836)	106.4	2,179	(2,242)	(46,673)
Jasper County	199,927	8.5	216,858	(41.7)	126,484	93.5	244,695
Jasper Schools	74,974	80.7	135,459	24.2	168,222	37.4	231,199
Kershaw County	454,439	(14.4)	388,970	(9.3)	352,950	19.6	422,113
Kershaw Schools	434,088	50.8	654,606	(6.8)	609,787	N/A	N/A
Laurens County	263,820(3)	(20)	211,020(4)	31.5	277,574(4)	(29.4)	195,840(4)
Laurens #55	Information not received						
Laurens #56	26,583	77.9	47,282	86.3	88,096	3.6	91,245
Lexington County	(512,128)	50.8	(252,072)	02.9	7,350	13,791.5	1,021,025
Lexington #1	772,989	7.8	833,569	19.5	996,027	22	1,214,827

GENERAL FUND (CONTINUED)

County and School Districts	June 30, 1975	% Change FY 75-76	June 30, 1976	% Change FY 76-77	June 30, 1977	% Change FY 77-78	June 30, 1978
Lexington #2	1,026,234	(16.1)	861,221	26.4	1,088,770	(8.2)	999,874
Lexington #3	338,864	4.2	353,138	(18)	289,486	(17.6)	238,463
Lexington #4	201,822	(48.6)	103,704	69.8	176,125	6.9	188,236
Lexington #5	1,479,774	33	1,967,518	(60.7)	772,897	4.2	805,636
McCormick County	52,073	69.8	88,432	74.8	154,562	Not received	
McCormick Schools	(23,605)	153.7	12,683	401	63,538	53	97,182

( ) indicate a deficit when shown around dollar figures. They indicate a percentage decrease from the previous year when placed in the columns showing % Change.

Notes:

(1) Beaufort County Council has restricted $400,000 of the General Fund balance from appropriation each year as a means of preventing the borrowing of monies in anticipation of property tax revenues. Thus, only $196,330 is considered by Beaufort to be a true surplus.

(2) Beaufort School officials note that the increase in fund balance was due to the change from modified accrual to the full accrual basis of accounting. Part of the increase may be included in their FY 79-80 budget, however, they recommend maintenance of a $500,000 fund balance for the schools.

(3) In addition to the designated amount, a surplus of $97,266 has been appropriated for FY 75-76.

(4) Additional surpluses of $100,418; $670,217; $141,924 were noted for fiscal years 1976, 1977, 1978, respectively. The surpluses consisted of funds held by the Treasurer for the hospitals, public service employment and a Law Enforcement Center. The surpluses were also balances left unspent in the year of appropriation which County Council felt would be spent during the next fiscal year.

The surplus or deficit, at the end of the fiscal year is added to the previous year's balance and is called the "cumulative fund balance." The guidelines published by the American Institute of Certified Public Accountants (AICPA) specify that the component parts of the fund balance should be disclosed in financial statements indicating whether they are appropriated or unappropriated in the succeeding year's budget. Among the seventy-two observations of three fiscal years and twenty-four tax jurisdictions for which data were available, only twenty-eight instances (38.8%) were found where all or a portion of fund balances were shown as being appropriated or unappropriated. Only two counties and eleven school districts comprised these twenty-eight cases. Further, of these thirteen tax jurisdictions only three cited specific uses for the fund balances.

Several causes were cited by county and school district officials for the carrying forward of surpluses. The most frequent explanation among counties was that the budget cycle does not lend itself to precise estimation of the revenues and expenditures in a fiscal year. (A detailed discussion of the budget and tax cycles is in Chapter Two.) Another reason cited for carrying surpluses was that so many taxpayers are late in their payments that officials must either borrow money or carry surpluses to meet expenses while late taxes are being collected.

Until the Education Finance Act was implemented, school districts had a similar justification for maintaining large surpluses. School districts had to meet payrolls and operating expenses from July to December during the fiscal year. They did not receive their allocations from local property tax revenues until November or December of each fiscal year. Also prior to the Education Finance Act, the State Department of Education did not provide revenues until August or September.

Finally, the need for surpluses was attributed to readiness for possible contingencies. The possible contingencies cited were in addition to the contingent fund accounts which the local tax jurisdictions also maintain in accordance with generally accepted accounting practice. However, the only contingencies cited by officials that have occurred since 1975 were related to the ice storm of 1979.

In a telephone survey of the county and school officials none advocated maintenance of a cumulative fund balance in excess of nine percent over expenditures for the year. Most stated that a fund balance of five percent would be adequate. There is a marked contrast between their statements of what size fund balance is desirable and prudent and the actual observed sizes of their fund balances. For example, eighty-four percent of the observed fund balances were above five percent. Graphs 1A, 1B, and 1C (p. 14-15) display the fund balances as a percent of total expenditures for twenty-five tax jurisdictions in each of three consecutive fiscal years. The average among the fund balances carried forward was 11.3%. Three counties and three school districts carried fund balances of 10% or more over expenditures from the General Fund consecutively for each of the three fiscal years.

Because of the mingling of the different kinds of revenues in the General Funds, it cannot be determined clearly whether the restrictions on property tax revenue increases in Act 208 have been violated without conducting a more comprehensive, detailed analysis of each county's tax records. However, the review does show 1) large increases in <u>total</u> property tax revenues going into the General Funds, 2) the carrying forward of fund balances which appear to be excessive, 3) the frequent failure to specify the purposes for which the fund balances are to be

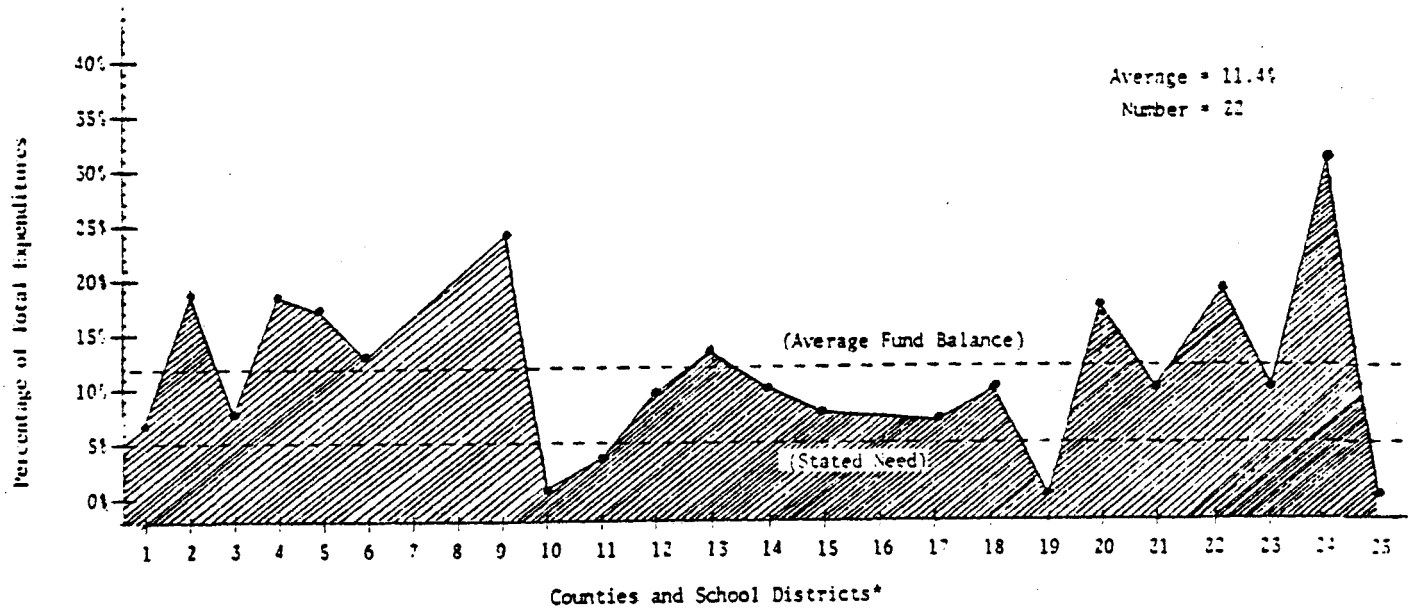
GRAPH 1

GENERAL FUND

FUND BALANCES AS PERCENTAGES OF TOTAL FUND EXPENDITURES

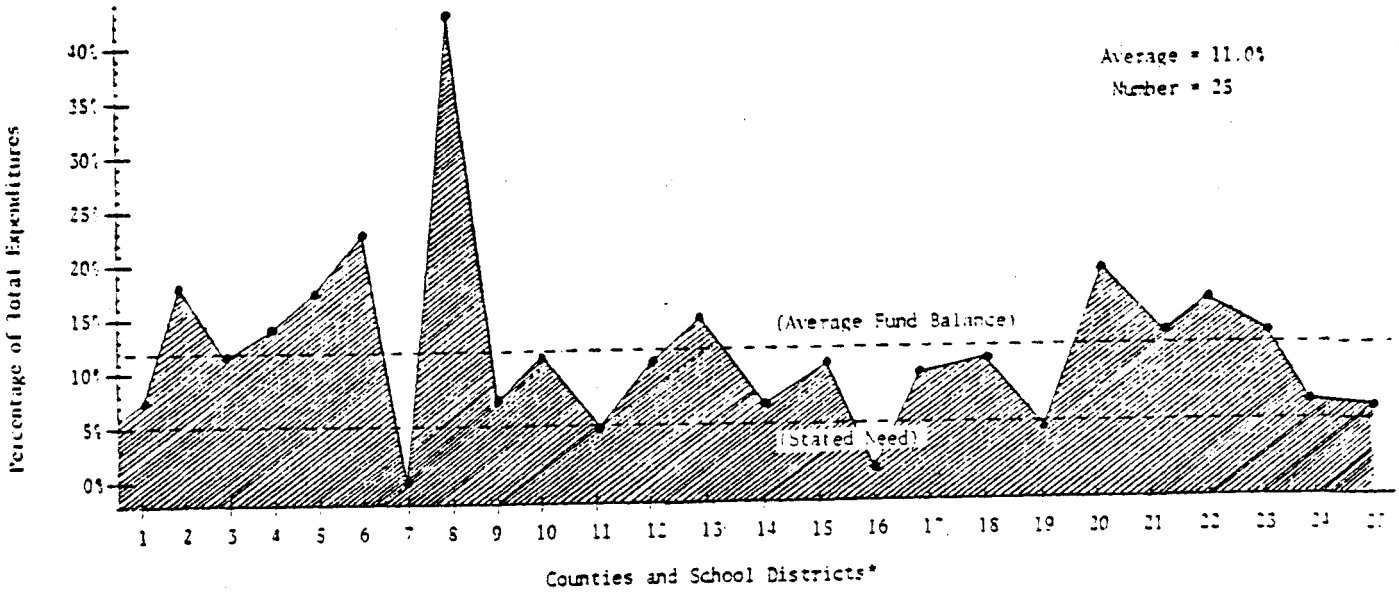
FISCAL YEAR 1975-1976

GRAPH A



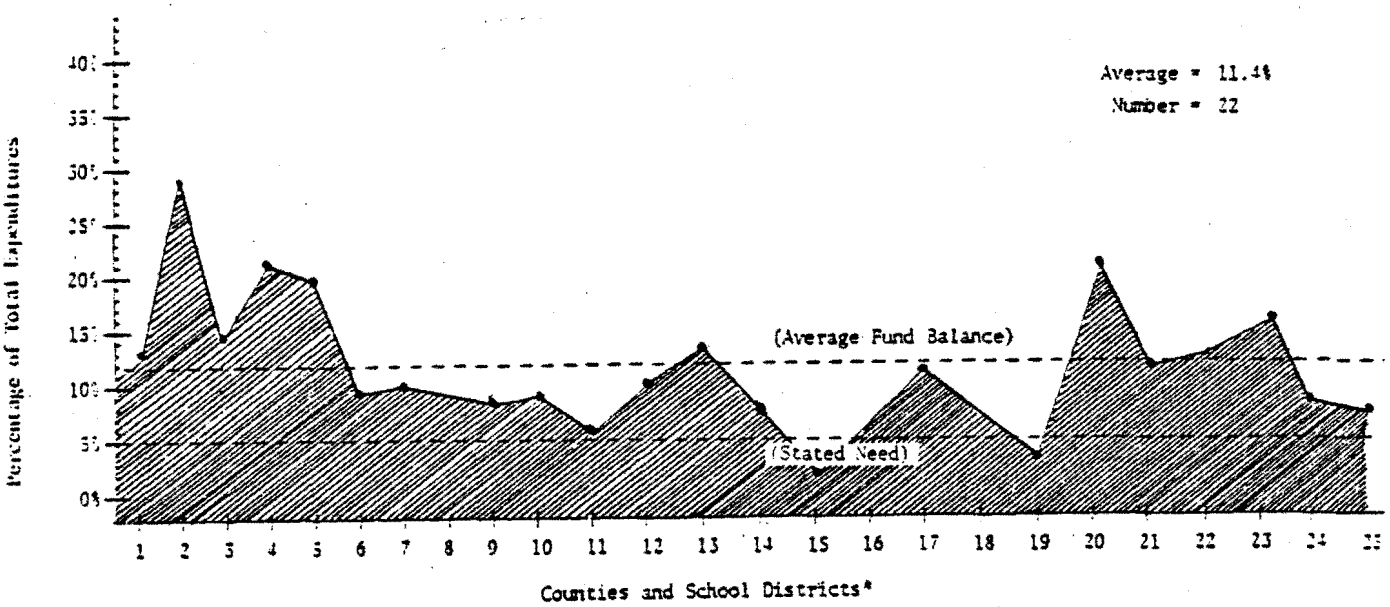
FISCAL YEAR 1976-1977

GRAPH B



FISCAL YEAR 1977-1978

GRAPH C



*The numbers indicate the following counties and school districts:

1. Beaufort County
2. Berkeley County
3. Greenwood County
4. Jasper County
5. Kershaw County
6. Laurens County
7. Lexington County
8. McCormick County
9. Beaufort School District
10. Berkeley School District
11. Charleston School District
12. Greenwood School District #50
13. Greenwood School District #51
14. Greenwood School District #52
15. Hampton North District #1
16. Hampton School District #2
17. Jasper School District
18. Kershaw School District
19. Laurens School District #56
20. Lexington School District #1
21. Lexington School District #2
22. Lexington School District #3
23. Lexington School District #4
24. Lexington School District #5
25. McCormick School District

Notes

The following counties and school districts were not included in the analysis because the information either was not received or was received too late for analysis: Charleston County, Hampton County, and Laurens School District #55.

Missing percentages are due to (1) no audit reports were received for the particular year, or (2) negative fund balances.

utilized, and 4) the frequent failure to appropriate all or a portion of the surpluses in the operating budgets for succeeding years.

One of the effects of carrying forward large surpluses can be to undermine the public's confidence in their local government officials. It can also cause the public to pay higher property taxes than are actually needed for the operation of government.

RECOMMENDATIONS

CONSIDERATION SHOULD BE GIVEN TO IMPLEMENTING THE FOLLOWING STEPS AS STATEWIDE STANDARDS.

1) AD VALOREM TAX REVENUES SHOULD BE EARMARKED IN A MANNER THAT ALLOWS EXCESS REVENUES TO BE IDENTIFIED AND CONTROLLED.

2) EXCESS REVENUES FROM AD VALOREM TAXES SHOULD BE APPROPRIATED INTO THE BUDGET FOR THE SUCCEEDING YEAR SO THAT APPROPRIATE REDUCTIONS IN MILLAGE CAN BE MADE WHENEVER POSSIBLE.

3) FINANCIAL STATEMENTS SHOULD FULLY DISCLOSE THE APPROPRIATED AND UNAPPROPRIATED SURPLUSES.

4) CUMULATIVE SURPLUSES IN GENERAL FUNDS SHOULD BE LIMITED TO 5% OVER EXPENDITURES FROM THE GENERAL FUND.

Accounting Practices and Audit Procedures in Political Subdivisions Lack Statewide Standardization

The Audit Council found a lack of uniformity in accounting practices and audit procedures among the twenty-four political subdivisions examined. There was also a lack of uniformity in the types of data available in both of these areas across the four fiscal years that were reviewed. This means that one county's detailed fiscal data can seldom be directly compared with data from another county. Also, precise comparisons are prevented by a lack of uniformity over time.

The lack of uniformity and statewide standards has four major undesirable effects which, together, tend to hinder efficiency and limit the accountability of government officials to the public for the management of public funds.

The first effect noted is that only thirteen of the twenty-four political subdivisions examined had financial statements which distinguished between appropriated and unappropriated surpluses in the fund balance at the end of the fiscal year. That such distinctions should be made is a standard recommended by the AICPA. Additionally the Audit Council feels that a statement of the amounts and the intended uses of surpluses should be included in the annual audit reports.

It was also found that only one of the twenty-four political subdivisions offered an explanation in their financial statements for the revenues that were collected in excess of expenditures. It cannot be

determined whether a budget has been violated unless there exists a regulation or a law which requires adherence to a budget and defines specifically, what standards are to be followed in spending from the budget. Without such standards it cannot be determined conclusively whether unauthorized over-expenditures or under-expenditures have occurred.

There is a third undesirable effect of the lack of statewide standards. There is limited incentive to provide basic statistical data to the public which offers them the opportunity to be fully informed about the fiscal status and general operations of their local government. For example, only three of the twenty-four tax jurisdictions included information in addition to the basic reconciliation of accounts in their annual financial reports. The types of data included in their reports were, the basis of accounting for each fund group; the assessed value of taxable property and the millage rates for the prior ten years; statements of the collection of current and delinquent taxes; and the source of revenues applied to new projects.

A fourth undesirable effect of the lack of standards is that local governments are permitted to run on a cash basis of accounting. The American Institute of Certified Public Accountants recommends that for a governmental accounting system to incorporate the accounting information necessary to present fairly the financial position of the respective funds, a modified accrual basis of accounting should be utilized.

The Audit Council feels that inclusion of additional explanatory information in annual reports is an effective way of keeping the public informed, maintaining public confidence in government, and enhancing the accountability of government managers to the taxpayers.

RECOMMENDATIONS

THE AUDIT COUNCIL RECOMMENDS THAT CONSIDERATION BE GIVEN TO:

(1) IMPLEMENTING STATEWIDE STANDARDS FOR ACCOUNTING PRACTICES AND AUDIT REPORTS IN LOCAL GOVERNMENT.

(2) REQUIRING THAT THE ANNUAL AUDIT REPORTS AND FINANCIAL STATEMENTS OF POLITICAL SUBDIVISIONS INCLUDE A DESCRIPTION OF THE AMOUNTS AND USES OF APPROPRIATED AND UNAPPROPRIATED SURPLUSES.

(3) REQUIRING THAT THE ANNUAL AUDIT REPORTS AND FINANCIAL STATEMENTS OF POLITICAL SUBDIVISIONS INCLUDE AN EXPLANATION FOR REVENUES THAT EXCEED EXPENDITURES OR FOR EXPENDITURES IN EXCESS OF REVENUES.

(4) REQUIRING ALL POLITICAL SUBDIVISIONS TO ADOPT THE MODIFIED ACCRUAL SYSTEM OF ACCOUNTING.

Records Inadequate for Identifying Exemptions for Found Property, Improvements, New Construction, and Renovations

Section 12-43-280 states that increases in revenues due to equalization are limited to 1% between the tax year when equalization is completed

(regardless of the number of years equalization takes to complete) and the next tax year when the changes are applied to the tax notices. There are four exceptions to this restriction cited in the law. The 1% limitation may be exceeded as a result of assessments added for property or improvements not before taxed, for new construction or for renovations "taking place during the reassessment period." The Audit Council and the Tax Commission have understood the term "reassessment period" to mean the one year period between completion of the program and the application of the changes to the property tax bills.

The authority for determining the tax assessment base for the entire county, including the school district(s) and other taxing districts within the county, rests with the County Auditor. The Auditor's Office combines and reviews assessments of county property and the list of certified property that has been assessed by the State Tax Commission. None of the eight county officials who completed the Legislative Audit Council survey were able to supply the amounts of revenues received due to assessments in all four areas, satisfactorily. Five of the eight who returned surveys cited the amount of increase in tax assessment due to new construction. Two of the surveys indicated amounts for assessments for renovations, and only one survey indicated assessment amounts added for found property. None of the eight counties identified additional assessments for improvements.

Because of the limitations of the data supplied, the Audit Council was unable to document whether increases in revenues in excess of 1% between tax years were attributable to the exemptions allowed by Section 12-43-280.

One county official who supplied estimated amounts in response to the survey noted that for found property and new construction "...a running tally was not kept as it did not appear to be necessary and would have required much more work on the already heavily burdened staff." No other counties indicated the problems or reasons for not supplying this data.

Compilation of the value of new construction or renovations should not pose a problem as building permits are required by law or ordinance for the projects. Section 12-43-240 of Act 208 requires that "the county shall furnish a copy of the building permit to the assessor within ten days after such issuance." Monitoring the status of building permits should allow tax assessors to calculate the tax value of new construction or renovations soon after construction is completed. With this information, county assessors should be able to determine the value of most of the construction or renovation projects that have been completed in the same year equalization is completed.

For example, one rural county has a simple and effective computer system to record and monitor the status of projects undertaken for new construction, renovations, or additions, where the cost is greater than $100. The Tax Assessor files the required building permits according to the month completion of the project is expected. Field auditors take the monthly lists of completed projects and appraise the properties. With some minor programming changes, their computer system could provide separate computations of yearly assessments for construction, additions, and renovations.

The inability of counties to supply the additional assessment amounts for found property, improvements, new construction, and renovations is

a result of a combination of factors. The foremost reason is that established local governmental accounting practices are not compatible with the reporting requirements of Act 208. No specific clause in the law directs county authorities to maintain such records, and the eight counties and eighteen school districts reviewed displayed little interest in initiating record-keeping changes. Also, many officials pointed out that no technical assistance was provided for by the General Assembly for implementation of Act 208.

Current local government record-keeping procedures do not allow accurate monitoring of compliance with Act 208. As a result neither the General Assembly nor the public can detect illegal increases in property tax revenues received by county governments.

RECOMMENDATION

SECTION 12-43-280 SHOULD BE AMENDED TO SPECIFY THAT COUNTIES MUST MAKE PROVISIONS IN THEIR ACCOUNTING SYSTEMS TO RECORD THE INCREASES IN REVENUES DUE TO ASSESSMENTS FOR NEW PROPERTY, IMPROVEMENTS NOT BEFORE TAXED, NEW CONSTRUCTION, AND RENOVATIONS EACH TAX YEAR.

Problems With Identification of New or Increased Services

New or increased services as specified in Act 208, cannot be identified from the records maintained in most of the tax jurisdictions reviewed. Only seven of twenty-four political subdivisions could enumerate and identify the cost of new or increased services each tax

year. Another seven of the respondents only listed the new services with no explanation of funding source. Ten of the entities returned no information regarding new or increased services.

The limitations on tax revenue increases set forth in Sections 12-43-270 and 12-43-280 do not apply to property tax revenues derived for new or increased services. Section 12-43-290 allows political subdivisions to obtain additional ad valorem tax revenues for new or increased services and no limits are placed upon the amount that can be received.

Although seven political subdivisions completed this question on the survey as requested, the Council is not satisfied that new or increased services provided from ad valorem tax revenues are completely identifiable. Two reasons exist for this doubt. Confusion regarding a uniform definition of a new or increased service is apparent from discussions with county and school officials. Also, records of expenditures from property tax revenues are not maintained under the current accounting practices of the political subdivisions.

The many questions from officials regarding which services qualify as "new" or "increased" may partially account for the limited response received. For example, the inclusion of additional pupil enrollment as a new or increased service was debated. One official argued that increased pupil enrollment was neither a new nor increased service because the same program was being offered to the same community, while another official concluded just the opposite. Another frequently asked question was whether the addition of a reading supervisor is a new or increased service, or maintenance of an old service, if the school district previously had a remedial reading course.

The types of new and increased services listed included: additional teachers, aides, janitors; new programs; tort liability coverage; unemployment compensation; an ambulance service; trash collection; Title IX funding; reduction of the teacher/pupil ratio; purchase of athletic and musical equipment; pay increases for teachers; increases in travel allowances and utility costs; increased student enrollment; increased reporting requirements; increased administrative duties for implementation of the Education Finance Act of 1977; increased capital outlay allocations; and mandated sick leave policy expenses.

Another complicating factor in auditing for compliance to revenue restrictions was an Attorney General's opinion rendered in 1976. The opinion (No. 4323) (see Appendix 3), stated that the restrictions on tax revenue increases stipulated in Sections 12-43-270 and 12-43-280 did not limit a tax revenue increase related "to increased costs necessary to furnish the same level of services or to meet existing contracts or commitments." [Emphasis Added] Many of the county and school district officials interpreted the opinion as allowing an automatic "inflation factor" in revenue increases. When asked why the increase in revenues was needed the most frequent reply was, "inflation." The Audit Council staff found that the increase in costs for the continuation of the same services could not be documented without an extensive audit.

In addition, records linking expenditures to the ad valorem tax revenues are not maintained by counties and schools. Ad valorem tax revenues are commonly maintained in both the General and Debt Service Funds. Other State and Federal revenue funds are also maintained in the General and Debt Service Funds. Expenses for new or increased services or for continuation of services at a higher cost, in most cases,

will be paid out of General Fund revenues. Because the multiple sources of revenue for the General Fund are pooled, the payments made from this "pool" cannot be specifically attributed to property tax revenues. Since the current record-keeping procedures of counties and school districts do not link new or increased service expenditures to property tax revenues, the General Assembly and taxpayers cannot be certain that millage increases actually will be utilized for the new or increased services.

RECOMMENDATIONS

SECTION 12-43-290 SHOULD BE AMENDED TO INCLUDE A MORE PRECISE DEFINITION FOR A NEW OR INCREASED SERVICE.

THE GENERAL ASSEMBLY SHOULD DIRECT POLITICAL SUBDIVISIONS TO CHANGE THEIR ACCOUNTING SYSTEMS SO THAT EXPENDITURES CAN BE TRACED AND DOCUMENTED TO PROPERTY TAX REVENUES.

If the Transition to Required Assessment Ratios is Accomplished in One Year, is a 7% Increase in Revenues Allowed?

The limitations are cited as follows:

> This seven percent limitation shall be the total increase or decrease over the 1975 taxes due to the adjustment of ratios regardless of the number of years involved in the transition; provided, however, that the increase or decrease over the 1975 taxes due to the adjustment of ratios may not exceed two percent in any one taxable year during the transition period (Section 12-43-270).

One school district, in a county which completed the required ratio adjustment changes in a one year period, attempted to demonstrate for the Audit Council that its revenue increase complied with the law. However, the increase in the district's property tax revenues exceeded the previous year's revenues by more than seven percent. There were two problems apparent in their methodology. First, they did not use the 1975 tax year in computing the seven percent limitation. The 1975 tax year, for all political subdivisions, must be the base year from which calculations regarding the size of increases or decreases are made. Secondly, the clause prohibiting more than a 2% increase or decrease in one tax year appears to have been violated.

The section has been interpreted as allowing no more than a 2% increase or decrease in property tax revenues due to ratio adjustment, even if the adjustment occurred in only one tax year. The officials of this school district argued that the second clause in the section did not apply to a one year transition. Interviews with county officials about this problem indicated that there is the likelihood that similar incidents will occur among many of the other 36 counties unless the seven percent limitation is more precisely defined prior to implementation of the Act in the other counties.

RECOMMENDATION

THE SEVEN PERCENT RESTRICTION IN SECTION 12-43-270 NEEDS CLARIFICATION FROM THE GENERAL ASSEMBLY AS TO ITS APPLICABILITY WHEN THE ADJUSTMENT OF RATIOS IS CARRIED OUT IN ONE YEAR.

Lack of Clarity in the Term "Reassessment Period" (Section 12-43-280)

Another problem of interpretation concerns the use of the term "reassessment period." Some tax officials understand the term to mean that the assessments for found property, improvements, new construction or renovations may be exempted from the limits on tax revenue increases during each year of the entire period it takes for the county to complete reassessment and equalization.

As understood by the State Tax Commission, and in the context of Section 12-43-280, the exemptions can be made only for the last year of the assessment and equalization period regardless of how many years are involved. For example, if a county takes the three years, 1975-1977, to carry out implementation of the Act, the exemptions to the limits on revenue increases for found property, improvements, new construction, or renovations, could be applied only for 1977. The strong possibility of misinterpretation exists because Act 208 does not provide a clear definition of the term.

Those counties that allow exemptions to the limits on property tax revenue increases for each year of the period of conversion will receive proportionately more revenues than those counties that allow the exemptions only for the final year of the reassessment and equalization period. If the exemptions are allowed for each year of the change, this would seem to permit the accumulation of windfall revenues in contradiction to the intent of the Act.

In addition, since the vagueness in interpretation may provide more revenues to local governments, it may serve as an incentive to "drag out" the reassessment and equalization program.

RECOMMENDATION

SECTION 12-43-280 OF ACT 208 SHOULD BE AMENDED TO INCLUDE A PRECISE DEFINITION OF THE TERM "REASSESSMENT PERIOD."

Does the One Percent Restriction Apply Beyond 1981?

For property to have an appraisal level that is close to fair market value as required by Act 208, it must be reappraised from time to time since the value of property can change each year. The reappraisal mandated by the Act is not a one time occurrence as some officials seem to think. Reappraisal should be a systematic activity which does not allow any taxable property within a tax jurisdiction to fall behind reasonably current market values in appraisal.

The regulations of the State Tax Commission and Section 12-43-250 require counties to implement county-wide reappraisal programs when the level of appraisal falls outside the range of 80 to 105 percent of fair market value. Section 12-43-280, as cited previously, limits the amount of total tax revenue increase caused by a reassessment program to one percent over the prior year's total ad valorem taxes. Several differing interpretations have been given to the Legislative Audit Council as to whether or not the one percent restriction applies only to the reassessment program required by 1981 or applies to all subsequent reassessment programs necessary to continued compliance to the "fair market" level of appraisal mandated by Act 208.

RECOMMENDATION

CONSIDERATION SHOULD BE GIVEN BY THE GENERAL ASSEMBLY TO STIPULATING THAT THE ONE PERCENT RESTRICTION CURRENTLY IN SECTION 12-43-280 BE A CONSTANT PART OF REAPPRAISAL PROGRAMS IN ALL COUNTIES.

CHAPTER TWO

ANALYSIS OF LOCAL GOVERNMENT PROBLEMS RELATING TO ACT 208, THE TAX CYCLE, AND THE BUDGET CYCLE

Introduction

Fiscal management in local government has had increasing demands placed on it in recent years. This has been a result of the reappraisal program directed by Act 208, the legal restrictions on property tax revenue increases, and the rapid growth in the population and the economy of the State. The ability of local officials to respond to these demands is hampered by the lack of coordination between the State's tax cycle and the fiscal planning needs of local governments. The first part of this chapter reviews the taxing cycle and examines the information on the tax assessment base available to local government officials during the budgeting cycle and at the time millage levels are put into law.

The second part of the chapter reviews two areas in which current county policies apparently prevent compliance to the requirements of Act 208 and discusses the potential impact of Act 208 on the property tax base of the counties and school districts.

The Tax Cycle and Budget Cycle

Budgets are not prepared solely on the estimated needs of a political subdivision. The local government budget process also requires simultaneous consideration of the estimated amount of revenues expected for the coming fiscal year. For example, Federal and State mandates or guidelines may require the expenditure of funds for compliance to a new regulation. If the amount of revenue the mill generates goes up due to

an increase in the assessment base, it may be possible to meet the requirements and still provide basic services at the same level as in the previous year without increasing millage.

If the amount of revenue a mill generates decreases or remains the same, a decision must be made either to raise the millage level or to cut back on services. County officials in planning the budget for the coming fiscal year need to be aware of the possible fluctuations in both revenue sources and planned expenditures.

Budget preparation begins as early as January and it is not uncommon for school budgets to go to the County Council the first of April and for county budgets to be presented in early May. There are several factors that must be considered when projections are made about the tax bases of the county and the school district. These factors influence the degree of accuracy with which the tax assessment base can be estimated and, therefore, influence the ability of county officials to set the millage rates at the level required by the county and the school budgets.

During the implementation of Act 208 a lack of knowledge as to the amount of the tax base at the time the millage levy is being decided, can have a significant effect on the accuracy of estimated revenues. The experience of seven of the ten counties that have completed reassessment was that the tax base increased by an average of 30 percent over the prior year. Three counties did not provide the information requested. Four of the counties reporting also cited a large number of appeals filed with the Assessor's Office and an increase in the number of appeals continuing on to the Appeals Board. This can cause further uncertainty in estimating the tax base.

The following sections review and compare the tax cycle to the budgeting cycle of the State in order to examine the types and amount of information about the tax base available to county officials at the time budgets are written and approved and decisions on millage levels are made. Table 2 (p. 33) presents the major points of each cycle.

The upper portion of the table relates to the steps in the tax process and presents the various deadlines important in assessing property, determining the tax base, and collecting taxes. The bar lines indicate the taxing deadlines. The budget timetable reviews the general process of financial planning for the fiscal year and the time constraints placed on the process. The X's in the lower portion of the table denote the timing of budget preparation and millage setting.

The State's taxing deadlines and budget demands as they affect local government are not coordinated with each other. On July 1 counties, school districts and other political subdivisions must have an approved budget, for all are prohibited by law from operating without an approved budget (Table 2, row 19). Generally, the millages calculated to generate revenues for the counties and school districts are written into law at the same time as a part of the budget ordinance. In other words, the amount of millage needed by counties and school districts to generate revenue for their general operating expenses must be projected early in the spring and are a part of the law by July. This means that county officials set into law the millage rates for collection of taxes with only partial knowledge of their county's tax base.

TABLE 2

THE TAX CYCLE COMPARED TO THE BUDGET CYCLE

	Dec. 31	Jan. 1	Jan. 15	Feb. 1	Feb. 15	Mar. 1	Mar. 15	Apr. 1	Apr. 15	May 1	May 15	June 1	June 15	July 1	July 15	Aug. 1	Aug. 15	Sept. 1	Sept. 15	Oct. 1	Oct. 15	Nov. 1	Nov. 15	Dec. 1	Dec. 15	Dec. 31	Apr. 15
TAXING TIMETABLE																											
1)Taxability of Property Determined	■																										
2)Personal Property Filing with County		■	■	■	■	■																					
3)Manufacturing Property Filing with Tax Comm.[a]		■	■	■	■	■	■	■	■																		
4)Residential, Agricultural Ratio Filing with County		■	■	■	■	■	■	■	■	■																	
5)Registered Vehicles Lists to County		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
6)Registered Boats List to County			■	■																							
7)Tax Exempt Status Filing		■	■	■	■																						
8)Assessment Appeals[b]										■	■	■	■	■	■	■	...										
9)Certification by Tax Commission of:																											
a) Business Inventory														■	■	■	■										
b) Manufacturing														■	■	■	■										
c) Utilities												■		■	■	■	■										
d) Exempt Properties																											
10)Assessor Certifies County Property Assessments																	■										
11)Tax Notices Sent																		■	■	■	■						
12)Taxes Due[c]																										■	
13)Enforced Collection of Taxes																											■
14)Original Tax Base Set																					■						
BUDGETING TIMETABLE																											
15)Budget Preparation By:																											
County Governments		X	X	X	X	X	X	X	X																		
School Districts		X	X	X	X	X	X	X																			
16)Public Hearings on Budgets & County Council Review										X	X	X	X														
17)School General Fund & Special Reserve Fund Budget Due Department of Education														X													
18)EFA Appropriations Approved by General Assembly[d]										X	X	X	X														
19)County and School Budgets and Millage Rates Set by Ordinance[e]													X	X													
20)Budget Preparation by Special Tax Districts		X	X	X	X	X	X	X	X	X	X																
21)Special Tax Districts Budget Approved by Legislative Delegation[f]												X	X														
22)Millage Set by County Auditor for:																											
Bonds (Debt Service)																	X	X									
Special Tax Districts																	X	X									

[a] The real and personal properties of manufacturing and utilities, as well as, business inventories are filed with the Tax Commission.

[b] Property owners may appeal the assessment made on their property. The appeal is first made to the assessor's office. If still unsatisfied the property owner may continue the appeal with the Appeals Board. The length of time these appeals take can vary.

[c] Taxes are to be paid by December 31 according to State statute, however, some counties have special legislation allowing different due dates. The majority of counties follow the State statute.

[d] The Education Finance Act (EFA) sets the base student cost and, therefore, can affect the amount of funds needed by school districts for their local share.

[e] Some school districts are fiscally independent and their budgets are not approved by the County Council. Essentially the same procedure is followed with budget and millage being approved by the school board.

[f] The legislation on individual special taxing districts varies as to procedure, but generally the budgets must be approved by the delegation.

Accuracy of Tax Revenue Estimates

The Audit Council compared the projected to the actual tax revenues in twenty-four tax jurisdictions across four fiscal years. The available data allowed a total of sixty-five comparisons to be made. The purpose of these comparisons was to evaluate the accuracy of tax revenue projections made by the political subdivisions since 1975.

The average of the percentage differences between estimated revenues and actual revenues was 6.74%. However, seventeen (26%) of the observed estimates were inaccurate by more than 10%. Only two of the taxing entities showed consistency over the four fiscal years in their ability to estimate tax revenues accurately.

The estimates of tax revenues ranged from an over-estimation of 38.6% to an underestimation of 21.25%. In dollar amounts, the 38.6% represents an estimate of $124,780 more than was actually received in tax revenues in one tax jurisdiction. The 21.25% meant an income of $102,192 more than was projected in another tax jurisdiction.

Graphs 2A, 2B, 2C, and 2D, pages 36 and 37, show the frequency and the distribution of the percentage differences between actual and estimated revenues for each of the four fiscal years examined. Over time, there is an increase in the number of tax jurisdictions which underestimate their revenues as opposed to the number which overestimate their revenues. There is also a growing tendency over the four year period for the number of underestimations in excess of ten percent to increase: 2, 3, 3, 5 respectively.

This slight trend has important implications for the achievement of the goals cited in Act 208 when the following factors are taken into consideration.

(1) The several definitional problems in Act 208 discussed in this report which inhibit the accuracy of revenue and expenditure projections.

(2) The uncertainty surrounding the combined fiscal impact of the Education Finance Act and Act 208.

(3) The recent conversion to a modified accrual accounting system in all school districts.

(4) The State's rapid growth rate.

These factors tend to cause government officials to be very cautious and very conservative in their approach to estimating revenues and budgetary needs. Part of the impact of these factors can be the accumulation of fund balances from tax revenues which are larger than are necessary for the effective operation of government.

From observation, research, and interviews with officials from State and local government, it is clear that local government officials need more complete and more accurate information about the tax assessment base in order to reduce the trend toward accumulating surplus revenues. This is a problem that should be addressed in a comprehensive, long-range study.

RECOMMENDATION

METHODS FOR IMPROVING THE ACCURACY OF REVENUE ESTIMATES SHOULD BE ADDRESSED IN A COMPREHENSIVE, LONG-RANGE STUDY OF THE IMPACT OF ACT 208 ON LOCAL GOVERNMENT.

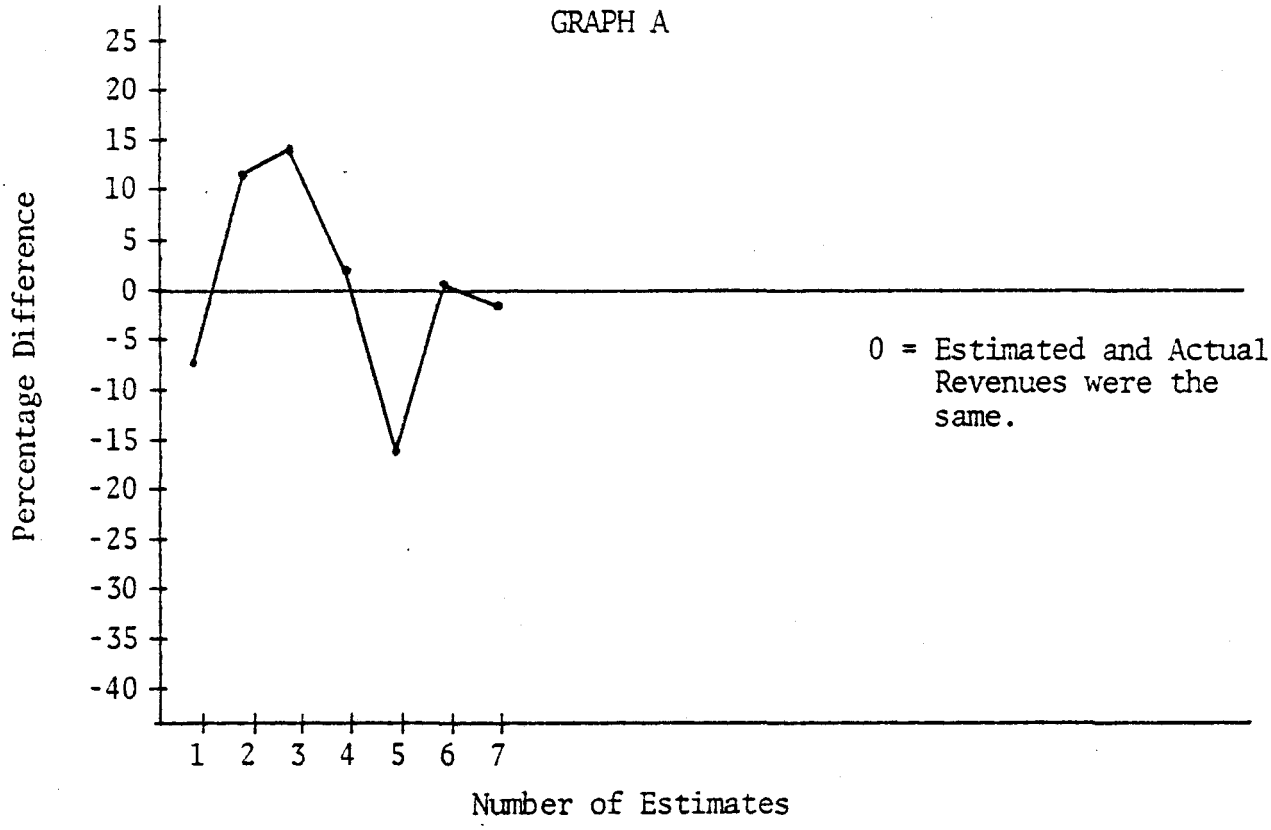
GRAPH 2

ESTIMATED PROPERTY TAX REVENUES

COMPARED TO ACTUAL PROPERTY TAX REVENUES

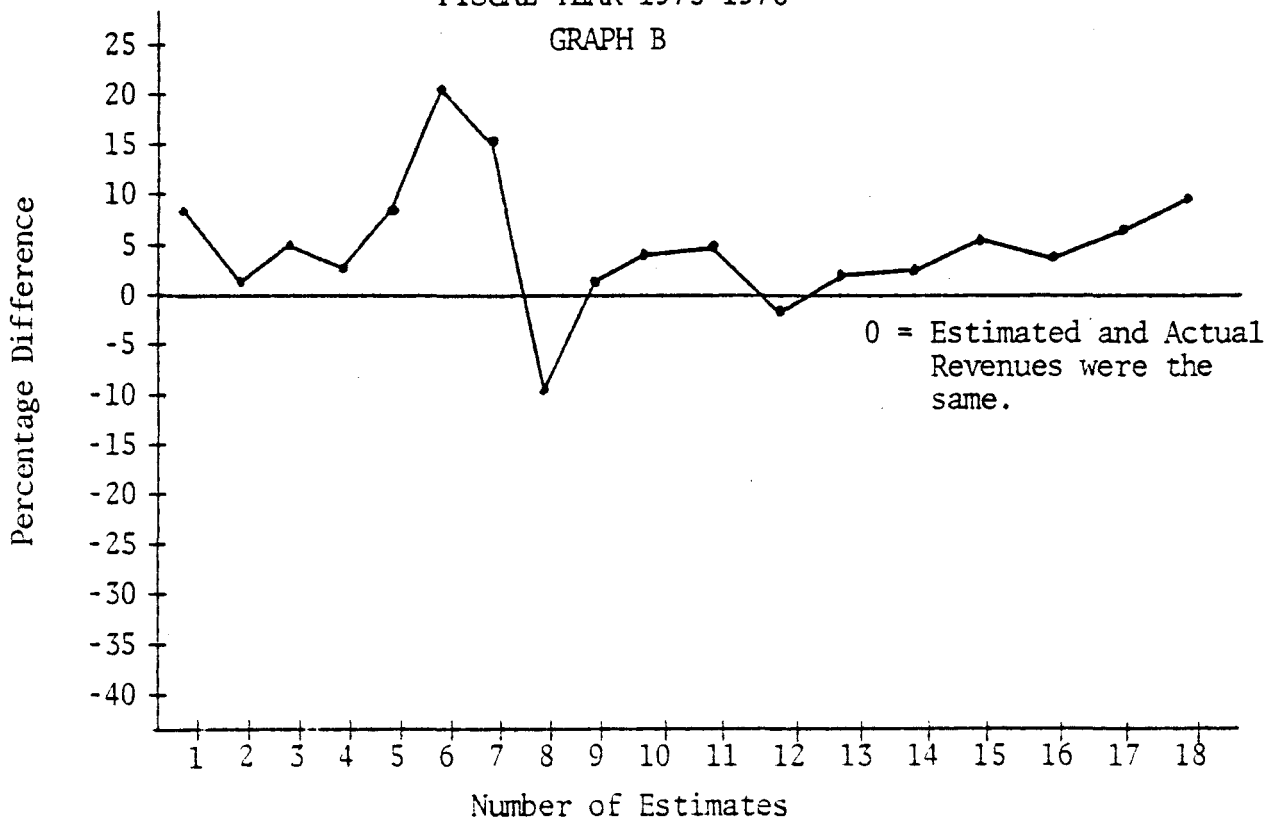
FISCAL YEAR 1974-1975

GRAPH A



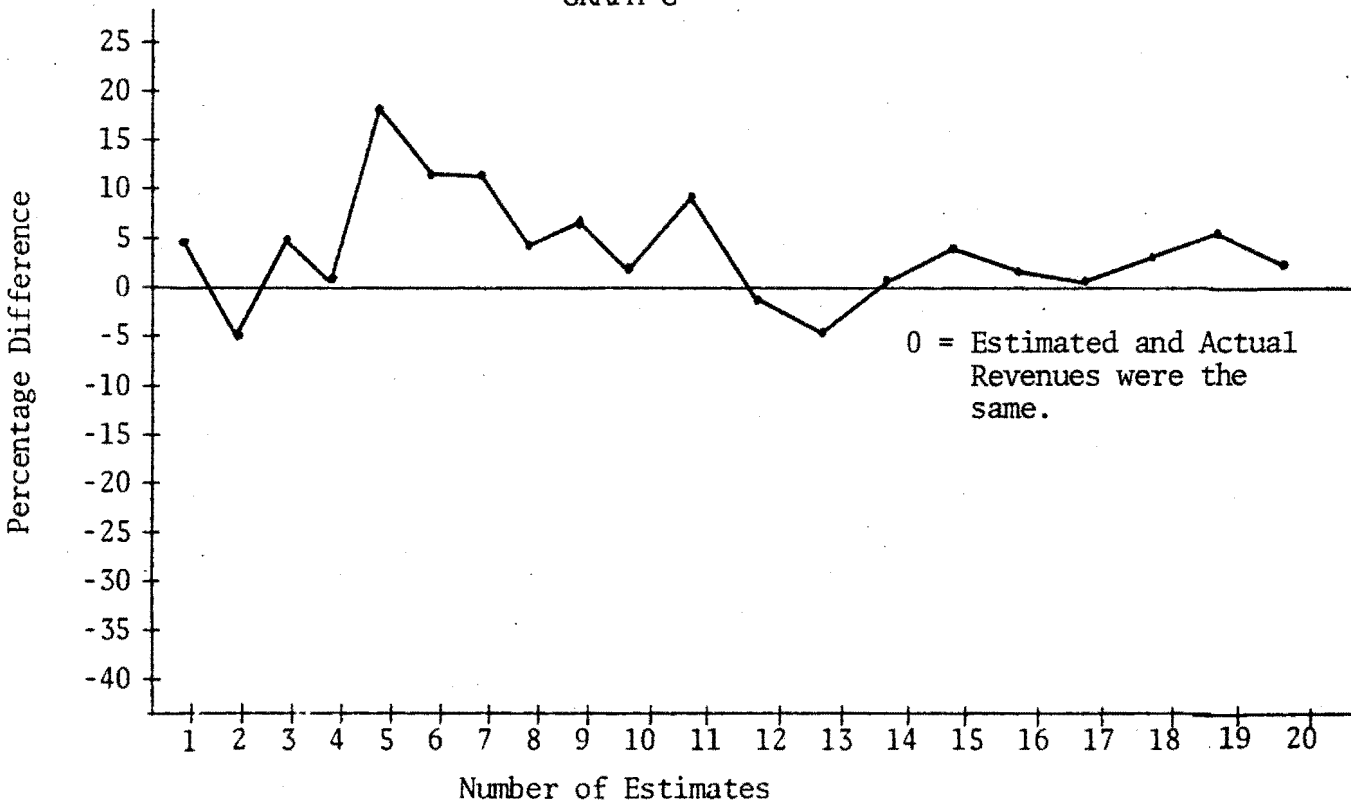
FISCAL YEAR 1975-1976

GRAPH B



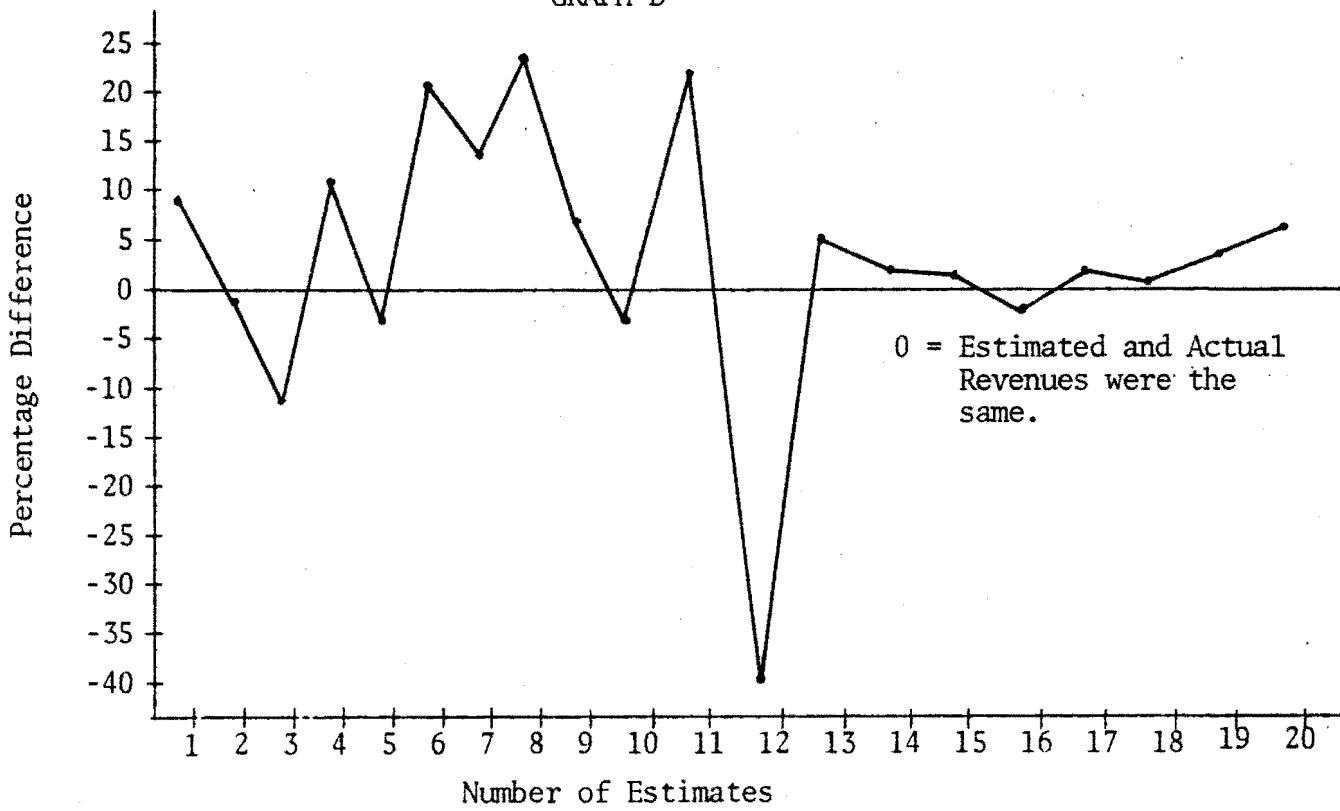
FISCAL YEAR 1976-1977

GRAPH C



FISCAL YEAR 1977-1978

GRAPH D



Problems in Projecting the Amount of Revenue Generated by a Mill

All of the components of the tax base, for example, the amount of property qualifying for the four percent ratio, the amount of industrial tax abatement, the rate of tax collection, and the level of appraisal must be considered in projecting the amount of revenue a mill will generate.

From interviews with county and school district officials, discussions with State officials, and review of annual financial statements, it became apparent that there are several problems in collecting adequate information about the tax base in time for use in setting millage rates for county and school operations.

Historically, in South Carolina changes in the tax assessment base of non-manufacturing properties of a county were gradual and took place slowly over time. County officials could rely on historical tax data and still obtain a fair degree of accuracy in estimating the value of a mill. With the rapid economic and industrial growth in South Carolina, the impact of the Education Finance Act, the increased accountability now required by the General Assembly in Act 208, and with increased taxpayer demands for accuracy, county officials can no longer rely solely on previous years' tax data for fiscal planning.

The four month long application period for homeowners and agricultural property (Table 2, row 4) limits the information available to county officials as to the amount of revenue that these properties will generate. The application period for the four percent assessment ratio is open to change throughout the budgetary cycle up to the time when millage is set. Owners may file for the four percent ratio to be applied to owner occupied residences and agricultural property until May 1.

Until application is made for the four percent ratio, a six percent ratio is expected to apply to all non-manufacturing property (including agricultural property). How much this lowered assessment will affect the tax base cannot be calculated with accuracy until after the May 1 closing. In looking at Table 2 (row 16), it can be seen that in May budgets are generally already before the County Council for consideration. Complete figures on the effect of this lowered assessment may not be available to county officials until a month after the budget has been reviewed. If many assessments are under appeal, the final amount may not be known for several months. This means that millage is set for county and school operations before the amount of revenue generated by real property is known. The timing of this information creates a constraint on the accuracy with which mill value can be estimated.

The Act (Section 12-43-220) permits counties to decide how often application for the four percent ratio must be made. The period can be set so application is made annually or at intervals up to five years. A five year filing period would provide uniformity across the State, ease requirements on the taxpayer, and provide more complete figures to local officials on the amount of this assessment during budgeting.

RECOMMENDATION

CONSIDERATION SHOULD BE GIVEN TO REDUCING THE APPLICATION PERIOD FOR THE FOUR PERCENT RATIO AND TO SETTING A UNIFORM REAPPLICATION REQUIREMENT. THE FOUR MONTH FILING PERIOD REDUCES THE KNOWLEDGE OF THE ASSESSMENT BASE AVAILABLE TO COUNTY

OFFICIALS AT A KEY TIME IN PREPARING FOR THE COMING FISCAL YEAR. CONSIDERATION SHOULD BE GIVEN TO SHORTENING THE RATIO APPLICATION CLOSING DATE TO MARCH 1.

CONSIDERATION SHOULD BE GIVEN TO SETTING A FIVE YEAR VALIDITY PERIOD FOR RATIO APPLICATIONS EFFECTIVE IN 1981.

Confusion Due to Differing Tax Deadlines

Based on interviews with county officials, the different filing periods for personal property and for the reduced ratio appear to be confusing to taxpayers. Currently there are several tax deadlines occurring in early spring which involve large numbers of taxpayers. Personal property must be filed with the County Auditor's Office by March 1. Property qualifying for tax exemption must be filed with the State Tax Commission by February 28. The ratio application period and the Homestead Exemption period both end on May 1.

RECOMMENDATION

CONSIDERATION SHOULD BE GIVEN TO SETTING MARCH 1 AS THE DEADLINE FOR FILING FOR PERSONAL PROPERTY, EXEMPTED PROPERTY, HOMESTEAD EXEMPTIONS AND RATIO APPLICATION. THIS WOULD REDUCE TAXPAYER CONFUSION ON REPORTING REQUIREMENTS AND ALERT THEM TO THE TIME FOR FILING.

Insufficient Knowledge of Industrial Tax Assessment and Its Effect on Revenue Generated by a Mill

As can be seen from Table 2 (row 9), the certified amount of the industrial tax base is not received by county officials from the Tax Commission until July, after budgets and, often, after millage has been set by law. Property classified as manufacturing and utilities, both real and personal property as well as business inventories, are appraised, by law, by the State Tax Commission. The filing date for these properties with the Tax Commission does not close until April 15 (Table 2, row 3) and an automatic thirty-day extension is granted upon application, therefore, some industries do not file until May 15. The Property Division of the State Tax Commission has explained that the April 15 deadline corresponds to the accounting cycle for many industries and it corresponds to the timetable for collection of similar information for Federal tax purposes. This filing period, particularly with the thirty-day extension means the assessment base from industry cannot be verified by the Commission until July or, in some instances, August.

Industry has an assessment ratio of 10.5 percent. The effect of placing a large industry on the tax rolls can be a large increase in the county's assessed tax base. The accuracy of projecting the value of a mill would be improved if the industrial assessment was known prior to July. However, the provisions for abatement of industrial taxes also affect the estimations of the tax base.

The industrial abatement provision means that all new manufacturing plants established in the State are exempted from county taxes for five years, but not from school or municipal taxes. Also, additional construction, or additional machinery and equipment installed in the plant costing

$50,000 or more is exempted from county taxation for five years. Manufacturing real property is reappraised by the State Tax Commission at least every two to three years and personal property every year, therefore, the assessment changes accordingly. For counties, the changes in appraisal and the amount of additional construction or equipment to be exempted must be known for each plant before the complete effect of the industrial abatement can be projected.

The Tax Commission certification regarding the amount of exemption from county taxes on construction or additions valued at over $50,000 is not sent to the county until July (Table 2, row 9). The "construction" abatement reduces the amount of taxes assessed to an industry and in counties with a large amount of industry or with one major industry, the difference can alter the value of a mill significantly.

Earlier knowledge of the industrial assessment would be particularly useful for the setting of school millages since industrial taxes are not abated for schools as they are for county taxes. Therefore, a new industry on the tax rolls has an immediate and significant impact on the amount of revenue one mill will generate in school districts.

The Property Tax Division of the State Tax Commission sends an exemption worksheet that is included in the July certification for industrial taxes. The worksheet gives the amount of the abatement for an industry and also gives the investment amount so the county officials will know if an industry has qualified for the "construction" abatement. State officials stated that with this data the effect of the end of an abatement on the assessment base for the next year could be estimated within 10 to 15 percent of the actual base. County officials, however, have stated that they feel that the historical value of the industrial tax base is inadequate for estimating the effect it will have on a mill.

RECOMMENDATION

CONSIDERATION SHOULD BE GIVEN TO SHORTENING THE FILING PERIOD FOR MANUFACTURING, UTILITIES, AND BUSINESS INVENTORIES TO MARCH 1. THIS SHOULD PERMIT THE TAX COMMISSION TO COMPLETE THE TAX CERTIFICATIONS PRIOR TO JULY, THUS ENABLING COUNTY OFFICIALS TO HAVE MORE COMPLETE ASSESSMENT INFORMATION, INCLUDING ABATEMENTS, ON HAND BEFORE MILLAGE IS SET.

Problems Encountered When Millage Levels Are Reset

In addition to the problems faced by officials in determining the tax assessment base in July, the postponement of millage setting creates further difficulties. For example, an attempt by a county to reset its millage rates just prior to the mailing of tax notices (usually sent in September, Table 2, row 11) can result in a cash flow problem for the county and the school district because a late August or September millage change can cause a delay in the mailing of tax notices. The longer the periods between assessment date, billing date and the date taxes are collected, the more difficult it is for counties and school districts to have on hand adequate revenues for the expenditures made at the beginning of the fiscal year. Taxpayers cannot begin to pay their taxes until the tax notice is received, therefore, the later tax notices are sent, the later tax collection can begin. This further decreases the ability to have tax revenues relate to planned expenditures within a fiscal year.

RECOMMENDATION

IN ORDER TO REDUCE OR ELIMINATE PROBLEMS STEMMING FROM THE LACK OF COORDINATION BETWEEN BUDGET CYCLES AND TAX CYCLES, CONSIDERATION SHOULD BE GIVEN TO IMPLEMENTING A FISCAL YEAR FOR THE POLITICAL SUBDIVISIONS RUNNING FROM OCTOBER 1 TO SEPTEMBER 30. THE NEW FISCAL YEAR WOULD ALLOW BUDGETS AND MILLAGES TO BE SET BY COUNTY OFFICIALS WITH A MORE COMPLETE KNOWLEDGE OF THE TAX BASE. EVEN IF TAX DEADLINES WERE NOT SHORTENED AS RECOMMENDED, MORE INFORMATION ON THE FOUR PERCENT RATIO ASSESSMENTS, THE PERSONAL PROPERTY BASE, AND THE INDUSTRIAL BASE WOULD BE AVAILABLE DURING BUDGET PREPARATIONS AND MILLAGE SETTING. THIS RECOMMENDATION NEEDS A MORE THOROUGH IMPACT ANALYSIS PRIOR TO IMPLEMENTATION.

The Impact on Act 208 of Exceptions to State Tax Laws

Exceptions to State tax laws granted to political subdivisions and the lack of uniformity in taxing authority granted in Special and Local Laws passed by the General Assembly, undermine the goal of establishing statewide equalization and uniformity in taxing intended in Act 208.

In the course of the audit for compliance to Act 208 the Audit Council staff was made aware of the large number of exceptions from

State tax laws granted to counties. For example, by State statute (S. C. Code 12-45-70) the deadline for paying taxes is December 31, but many counties have Special Law which allows another deadline. In addition, many different bodies are given the authority to approve budgets and levy millage and the amount of leeway given these bodies varies greatly within the Local Laws.

RECOMMENDATION

THE NEED FOR STANDARDIZATION AND UNIFORMITY IN TAXING PROCEDURES AMONG THE POLITICAL SUBDIVISIONS SHOULD BE INCLUDED IN A LONG-RANGE STUDY.

Does the Restriction on Tax Revenue Increase Apply to Millage for Notes and Bonds?

Section 12-43-280 states:

> Notwithstanding any other provisions of law, upon completion of an equalization and reassessment program as required by this article, the total ad valorem tax, for any county, school district, municipality or any other political subdivision, shall not exceed the total ad valorem tax of such county, school district, municipality or any other political subdivision for the year immediately prior to such completion by more than one percent, provided, such increase in total taxes was caused by the equalization and reassessment provided by this article.

Many taxing districts in this State have issued notes and bonds for various reasons and separate millages have been imposed to cover their payment. In the course of its audit, the Audit Council was made aware that interpretations differ as to whether the tax revenue raised for notes and bonds falls under the one percent restriction. It is also

unclear whether the revenue for notes and bonds is to be included in "the total ad valorem tax" for taxing districts referred to in Section 12-43-280.

RECOMMENDATION

THE GENERAL ASSEMBLY SHOULD SPECIFY ITS INTENT AS TO THE TREATMENT OF TAX REVENUES FOR NOTES AND BONDS IN ACT 208.

Non-compliance with Reporting Requirements

The current widespread practice of stating only the total millage levy on the tax bill is not in accordance with the requirements of Section 12-43-290 and does not conform to the spirit of Act 208. This section of the Act stipulates that a tax notice must state the purpose of an increase in millage rates in order to distinguish between a millage change due to Act 208 and a millage change to obtain additional monies for increased or new services.

One county audited for compliance to Act 208 raised the millage levels for both the school district and for county operations without indicating on the tax bill that such an increase had taken place and the purpose of the millage increase was not stated. In this case, when a school note was paid off, the seven mills levied for school debt service were reallocated by the County Council, four mills going to county operations and three mills going to school operations. Only the total number of mills levied was given on the tax notice. Since the total millage remained the same, it was impossible to tell from the tax bill that the millage increases had taken place.

The information that is given on tax bills varies greatly within the State and only local ordinance or policy determines what is put on the bill. It is not uncommon for counties to report only the total levy. Included in this single figure, will be the millage levies for schools, county operations, and debt service. When this occurs the taxpayer cannot determine from the bill what amounts from the tax dollar are going to support which services. In addition to not conforming with the requirements of Section 12-43-290 of Act 208, this practice inhibits accountability of government officials to the public for the expenditure of tax revenues.

Three of the counties reviewed by the Legislative Audit Council stated on their tax notices the millage levied for county operations, county notes and bonds, school operations, school notes and bonds, any special levy, bonds for special purposes, and municipalities. The detailed statement of the millage levy on the tax bill informs the individual taxpayer as to actual taxation rates and also prevents the appearance that the county is the sole recipient of the entire tax levy. This specificity on the tax bill conforms to the requirements of Act 208 and is an important means of keeping the public informed.

RECOMMENDATION

STATEWIDE STANDARDS SHOULD BE ESTABLISHED FOR THE DATA TO BE SUPPLIED ON COUNTY TAX BILLS. THE STANDARDS SHOULD, AS A MINIMUM, REQUIRE A STATEMENT OF MILL VALUE AND THE NUMBER OF MILLS LEVIED FOR EACH POLITICAL SUBDIVISION WITHIN THE COUNTY, SPECIFYING

MILLS FOR NOTES, BONDS, AND EACH OPERATIONAL AREA.

Non-compliance by 1981

Of the thirty-six counties which do not meet the minimum requirements of Act 208 and the requirements of the Tax Commission, it is estimated that fourteen are not making sufficient progress to achieve completion of reassessment by the 1981 deadline. Another eighteen counties possibly will not have their levels of appraisal within the range required by Tax Commission regulations. These conclusions were drawn from a study made by the Property Tax Division of the State Tax Commission (see Appendix 4).

Officials in counties judged to be behind schedule already have been sent "strong letters" several times warning them that they are judged by the Tax Commission to be making an insufficient effort toward implementing Act 208. These counties have been advised by the staff of the Tax Commission what manpower is needed by each county to complete reappraisal and what actions they need to undertake. The Property Tax Division believes it has given the counties adequate technical aid and suggestions to get their programs ready for 1981.

It is important to note that similar situations in other states have resulted in lawsuits against local governments.

RECOMMENDATION

THE TAX COMMISSION IN SECTION 12-43-250 IS EMPOWERED TO TAKE ANY COUNTY TO CIRCUIT COURT FOR A DETERMINATION OF WHETHER

THAT COUNTY MEETS THE REQUIREMENTS OF ACT 208. IT IS RECOMMENDED THAT THE TAX COMMISSION BE FURTHER EMPOWERED TO TAKE COUNTIES TO CIRCUIT COURT FOR A DETERMINATION OF INSUFFICIENT EFFORT IN MEETING THE REQUIREMENTS OF ACT 208 AND THAT THE SAME PENALTY APPLY AS THAT FOR NON-COMPLIANCE.

Inequitable Distribution of Tax Burden Within School Districts

In school districts geographically situated in more than one county, the tax burden is spread inequitably among the district's residents when only one county experiences equalization. Each school district has its own tax assessment base for the purpose of levying taxes for school operations. The millage level for the schools is set on this school district tax base and county lines make no difference in the millage level. When one part of a school district located in one county experiences reappraisal as a part of equalization, and another part of the district situated in a different county does not, the tax burden shifts to the taxpayers living in the equalized county.

To illustrate this problem, suppose School District 1 has two counties in its area and the millage is set at 6 mills. Both counties have an appraisal base of 50 percent of fair market value. A $40,000 home will be taxed at the rate of $4.80 in either county.

$40,000 x 50% appraisal base = $20,000

$20,000 x 4% assessment ratio x 6 mills (or $.006) = $4.80 tax bill

County A equalizes and its property becomes appraised at 100 percent of fair market value. If the millage rate is lowered to 3 mills, the house in County A will continue to be taxed at $4.80 but in County B the tax bill will have been lowered to $2.40 for school purposes.

County A
$40,000 x 100% appraisal = $40,000
$40,000 x 4% assessment ratio x 3 mills ($.003) = $4.80 tax bill

County B
$40,000 x 50% appraisal = $20,000
$20,000 x 4% x 3 mills ($.003) = $2.40 tax bill

If the millage remains at 6 mills, the County A homeowner's tax bill will increase to $9.60, while the County B resident will have no change.

The millage rate of a school district is set for all counties within a district regardless of the difference in the level of appraisal in the various counties. This means that counties complying with Act 208 will have an inequitable share of the tax burden in these multicounty school districts until all the counties have been reappraised.

RECOMMENDATION

THE MILLAGE LEVELS SHOULD BE VARIED WITHIN A SCHOOL DISTRICT WHEN THE DISTRICT IS COMPRISED OF MORE THAN ONE COUNTY AND NOT ALL THOSE COUNTIES HAVE IMPLEMENTED ACT 208, UNTIL SUCH TIME AS ALL COUNTIES IN THE DISTRICT HAVE IMPLEMENTED THE ACT.

Effect of Act 208 on the Distribution of the Tax Burden

The proportion of taxes derived from locally assessed property (residential, commercial/rental, and agricultural property classifications)

has increased relative to the share contributed by other classes of property with the implementation of Act 208. According to a study made by the State Tax Commission of every county in the State, this shift to locally assessed property will occur during equalization in all but two counties. For the counties experiencing the shift, the average net tax increase on locally assessed property (residential, commercial/ rental, and agriculture) will average 38 percent (see Appendix 5).

In interviews with county officials and with officials from the State Tax Commission two major factors have been cited in accounting for the shift. The historically low appraisal level for county assessed property kept the taxes contributed by these properties low relative to other classifications. Also, the methods of appraisals and depreciation and exemptions allowed for certain types of business personal property and agricultural equipment lower the proportion they contribute to the tax assessment base.

Three classifications of property, manufacturing, utilities, and personal property, historically, have been appraised at nearly 100 percent of fair market value. Residential, commercial/rental, and agriculture were appraised at a statewide average of 66 percent of market value. Together, these categories made up a large part of the tax assessment base (see Appendix 4). After the reappraisal of the county assessed property, the proportion of the tax assessment base came to more closely reflect the proportions of relative market values of each property classification.

The effect of this shift in the local tax assessment base from personal property and industrial classifications to county assessed real property is illustrated by the experience described by one county official in a letter to the Audit Council.

LETTER FROM COUNTY EXPLAINING TAX BURDEN SHIFT

A source of a significant part of the public protest and distrust in the reevaluation process is the shift in the local tax base from personal property to real property. We did not anticipate the impact of this shift until we started getting the protests, and once we had them we found it almost impossible to explain to the average taxpayer. The problem is best understood by looking at the simplified mathematical example.

Consider a county with the following tax base and revenues:

	Tax Assessment Base	Tax Revenues
Personal Property	$ 50,000	$ 50
All Real Property	50,000	50
TOTAL	$100,000	$100

Like most counties in South Carolina the personal property in the county is appraised at close to its market value. The real property, on the other hand, is dramatically undervalued. Assume that on the average the county's assessor has its real property appraised at 1/4 its market value.

If the county completes a reassessment program its real property value will go up four times to $200,000. If the County Council complies religiously with the millage roll-back provisions so that it enjoys no increase in revenues, the county's tax base and revenues the year after the reappraisal will be as follows:

	Tax Assessment Base	Tax Revenues
Personal Property	$ 50,000	$ 20
Real Property Increase Due to Local Reappraisal	200,000	80
TOTAL	$250,000	$100

After the reappraisal, the fellow who owns a house in the country sees his tax bill increase 60%. No matter how the County Council tries to explain their millage roll-back, the taxpayer with his own home will believe that the politicians have lied to him. The manufacturer or utility company which finds its tax bill on personal property cut by more than half will be happy and quiet.

The shift in the tax assessment is further affected, according to many county officials, by the use of "cost less depreciation" and "use value" in assessing some properties. For example, business personal property is listed at original cost and then depreciated annually down to a floor of 10 percent of original cost. Agricultural equipment (except self-propelled machinery) is exempted altogether. This exemption does not distinguish between small independent family operated farms and large corporate agricultural enterprises. Also, the current method used in deriving "use value" for assessing agricultural lands is conservative, according to the State Tax Commission. These factors lessen the appraisal value placed on agricultural lands and business personal property and reduces the assessments made on these classifications of property.

The full implication of the change in the proportions of the tax assessment base derived from the various classifications of property could not be reviewed conclusively by the Audit Council staff due to time constraints. However, two long-range effects are apparent. First, a shift in the tax burden on to owners of homes is taking place. Second, the use of "cost less depreciation" for business personal property, the exemptions granted for most farm equipment, and assessment based on "use value" affects the distribution of education funds to school districts because the funding formula of the Education Finance Act is based on the "index of taxpaying ability." The "index" is a comparison of the tax assessment base "wealth" of the counties and their school districts. Relative to the tax base of other counties, "cost less depreciation" can lower the tax base of largely industrial counties, and the current "use value" can reduce the tax base of counties that are primarily agricultural.

RECOMMENDATION

A COMPREHENSIVE LONG-RANGE STUDY OF THE TREND IN THE SHIFT IN THE PROPERTY TAX BURDEN ON TO OWNER-OCCUPIED RESIDENCES AND AGRICULTURAL LAND SHOULD BE MADE IN ORDER TO PREVENT AN INEQUITABLE PORTION OF THE TAX BURDEN FROM BEING PLACED ON HOMEOWNERS.

CHAPTER THREE

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Summary of Findings

In the conduct of the review of compliance with Act 208, several specific problems were found to exist. They are difficult to describe because in some cases they stem from various interpretations given to portions of the Act. These problems can be further aggravated by the ways a misinterpretation in one area may affect an interpretation in another area. Partly for this reason three general categories of problems have been defined.

The first group of problems centers around portions of the Act which need clarification or a statement as to legislative intent. The second problem group is related to the lack of standardization and uniformity in accounting, audit, and reporting practices among political subdivisions. The third group involves the impact of Act 208 on other tax related laws and established procedures.

The recommendations which were discussed in Chapters One and Two are summarized below in an order which roughly corresponds to the three categories of problems.

I. RECOMMENDATIONS REGARDING PROBLEMS RELATING TO NEED FOR CLARIFICATION AND STATEMENT OF INTENT.

A. THE SEVEN PERCENT RESTRICTION IN SECTION 12-43-270 NEEDS CLARIFICATION FROM THE GENERAL ASSEMBLY AS TO ITS APPLICABILITY WHEN THE ADJUSTMENT OF RATIOS IS CARRIED OUT IN ONE YEAR (SEE P. 25).

B. SECTION 12-43-280 OF ACT 208 SHOULD BE AMENDED TO INCLUDE A PRECISE DEFINITION OF THE TERM "REASSESSMENT PERIOD" (SEE P. 27).

C. CONSIDERATION SHOULD BE GIVEN BY THE GENERAL ASSEMBLY TO STIPULATING THAT THE ONE PERCENT RESTRICTION CURRENTLY IN SECTION 12-43-280 IS TO BE A CONTINUING PART OF REAPPRAISAL PROGRAMS IN ALL COUNTIES (SEE P. 28).

D. CONSIDERATION SHOULD BE GIVEN TO STIPULATING THE INTENT OF THE GENERAL ASSEMBLY AS TO THE TREATMENT OF TAX REVENUES FOR NOTES AND BONDS IN ACT 208 (SEE P. 45).

E. SECTION 12-43-290 SHOULD BE AMENDED TO INCLUDE A MORE PRECISE DEFINITION FOR A NEW OR INCREASED SERVICE (SEE P. 22).

II. RECOMMENDATIONS REGARDING PROBLEMS RELATED TO THE LACK OF STANDARDIZATION AND UNIFORMITY IN ACCOUNTING, AUDIT, AND REPORTING PRACTICES.

A. THE AUDIT COUNCIL RECOMMENDS THAT CONSIDERATION BE GIVEN TO: (SEE P. 17-19.)

(1) IMPLEMENTING STATEWIDE STANDARDS FOR ACCOUNTING PRACTICES AND AUDIT REPORTS IN LOCAL GOVERNMENT.

(2) REQUIRING THAT THE ANNUAL AUDIT REPORTS AND FINANCIAL STATEMENTS OF POLITICAL SUBDIVISIONS INCLUDE A DESCRIPTION OF THE AMOUNTS AND USES OF APPROPRIATED AND UNAPPROPRIATED SURPLUSES.

(3) REQUIRING THAT THE ANNUAL AUDIT REPORTS AND FINANCIAL STATEMENTS OF POLITICAL SUBDIVISIONS INCLUDE AN EXPLANATION FOR REVENUES THAT EXCEED EXPENDITURES OR FOR EXPENDITURES IN EXCESS OF REVENUES.

(4) REQUIRING ALL POLITICAL SUBDIVISIONS TO ADOPT THE MODIFIED ACCRUAL SYSTEM OF ACCOUNTING.

B. CONSIDERATION SHOULD BE GIVEN TO IMPLEMENTING THE FOLLOWING STEPS AS STATEWIDE STANDARDS (SEE P. 9-17).

(1) REVENUES FROM AD VALOREM TAXES SHOULD BE EARMARKED IN A MANNER THAT ALLOWS EXCESS REVENUES TO BE IDENTIFIED AND CONTROLLED.

(2) EXCESS REVENUES FROM AD VALOREM TAXES SHOULD BE APPROPRIATED INTO THE BUDGET FOR THE SUCCEEDING YEAR SO THAT APPROPRIATE REDUCTIONS IN MILLAGE CAN BE MADE WHENEVER POSSIBLE.

(3) FINANCIAL STATEMENTS SHOULD FULLY DISCLOSE THE APPROPRIATED AND UNAPPROPRIATED SURPLUSES.

(4) CUMULATIVE SURPLUSES IN GENERAL FUNDS SHOULD BE LIMITED TO 5% OVER EXPENDITURES FROM THE GENERAL FUND.

C. CONSIDERATION SHOULD BE GIVEN TO ESTABLISHING STATEWIDE STANDARDS FOR THE DATA TO BE SUPPLIED ON COUNTY TAX BILLS. THE STANDARDS SHOULD, AS A MINIMUM, REQUIRE A STATEMENT OF MILL VALUE AND THE NUMBER OF MILLS LEVIED FOR EACH POLITICAL SUBDIVISION WITHIN THE COUNTY, SPECIFYING MILLS FOR NOTES, BONDS, AND EACH OPERATIONAL AREA (SEE P. 46).

D. AD VALOREM TAX REVENUES AND EXPENDITURES SHOULD BE EARMARKED (TO SET ASIDE OR RESERVE FOR A SPECIAL PURPOSE OR RECIPIENT) IN THE ACCOUNTING SYSTEMS OF POLITICAL SUBDIVISIONS (SEE P. 19-22).

III. RECOMMENDATIONS REGARDING PROBLEMS RELATED TO THE IMPACT OF ESTABLISHED PROCEDURES AND OTHER TAX RELATED LAWS ON ACT 208.

A. CONSIDERATION SHOULD BE GIVEN TO CONSOLIDATING THE DEADLINES FOR FILING FOR EXEMPTED PROPERTY, HOMESTEAD EXEMPTIONS, THE FOUR PERCENT RATIO, AND THE DEADLINE FOR PERSONAL PROPERTY FILING TO MARCH 1 (SEE P. 40).

B. CONSIDERATION SHOULD BE GIVEN TO SETTING A UNIFORM FIVE YEAR PERIOD FOR REAPPLICATION FOR THE FOUR PERCENT ASSESSMENT RATIO TO BECOME EFFECTIVE IN 1981 (SEE P. 38).

C. CONSIDERATION SHOULD BE GIVEN TO SHORTENING THE FILING PERIOD FOR MANUFACTURING, UTILITIES, AND BUSINESS INVENTORIES TO MARCH 1. THIS SHOULD PERMIT THE TAX COMMISSION TO COMPLETE THE TAX CERTIFICATIONS PRIOR TO JULY, THUS ENABLING COUNTY OFFICIALS TO HAVE MORE COMPLETE ASSESSMENT INFORMATION, INCLUDING ABATEMENTS, ON HAND BEFORE MILLAGE IS SET (SEE P. 41).

D. CONSIDERATION SHOULD BE GIVEN TO VARYING THE MILLAGE LEVELS WITHIN A SCHOOL DISTRICT WHEN THE DISTRICT IS COMPRISED OF MORE THAN ONE COUNTY AND NOT ALL THOSE COUNTIES HAVE IMPLEMENTED ACT 208, UNTIL SUCH TIME AS ALL COUNTIES IN THE DISTRICT HAVE IMPLEMENTED THE ACT (SEE P. 49).

E. SECTION 12-43-280 SHOULD BE AMENDED TO SPECIFY THAT COUNTIES MUST MAKE PROVISIONS IN THEIR ACCOUNTING SYSTEMS TO RECORD THE INCREASES IN REVENUES DUE TO ASSESSMENTS FOR NEW PROPERTY, IMPROVEMENTS NOT BEFORE TAXED, NEW CONSTRUCTION, AND RENOVATIONS EACH TAX YEAR (SEE P. 19).

F. THE TAX COMMISSION IN SECTION 12-43-250 IS EMPOWERED TO TAKE ANY COUNTY TO CIRCUIT COURT FOR A DETERMINATION OF WHETHER THAT COUNTY MEETS THE REQUIREMENTS OF ACT 208. IT IS RECOMMENDED THAT THE TAX COMMISSION BE FURTHER EMPOWERED TO TAKE COUNTIES

TO CIRCUIT COURT FOR A DETERMINATION OF INSUFFICIENT EFFORT IN MEETING THE REQUIREMENTS OF ACT 208 AND THAT THE SAME PENALTY APPLY AS THAT FOR NON-COMPLIANCE (SEE P. 48).

IV. RECOMMENDATIONS FOR SUBJECTS TO BE INCLUDED IN A COMPREHENSIVE LONG-RANGE STUDY OF THE IMPACT OF ACT 208 ON THE EXISTING PROPERTY TAXATION PROCESS IN LOCAL GOVERNMENT.

A. IN ORDER TO REDUCE OR ELIMINATE PROBLEMS STEMMING FROM THE LACK OF COORDINATION BETWEEN BUDGET CYCLES AND TAX CYCLES, CONSIDERATION SHOULD BE GIVEN TO IMPLEMENTING A FISCAL YEAR FOR THE POLITICAL SUBDIVISIONS WHICH RUNS FROM OCTOBER 1 TO SEPTEMBER 30. THE NEW FISCAL YEAR WOULD ALLOW BUDGETS AND MILLAGES TO BE SET BY COUNTY OFFICIALS WITH A MORE COMPLETE KNOWLEDGE OF THE TAX BASE (SEE P. 38-43).

B. CONSIDERATION SHOULD BE GIVEN TO INCLUDING IN A LONG-RANGE STUDY THE NEED FOR STANDARDIZATION AND UNIFORMITY IN TAXING PROCEDURES AMONG THE POLITICAL SUBDIVISIONS (SEE P. 48).

C. CONSIDERATION SHOULD BE GIVEN TO CONDUCTING A LONG-RANGE STUDY OF THE EFFECTS THE STATE'S CURRENT METHODS OF PROPERTY TAXATION HAVE ON THE MAKEUP OF THE TAX ASSESSMENT BASE (SEE P. 50).

D. METHODS FOR IMPROVING THE ACCURACY OF REVENUE ESTIMATES SHOULD BE ADDRESSED IN THE COMPREHENSIVE, LONG-RANGE STUDY OF THE IMPACT OF ACT 208 ON LOCAL GOVERNMENT (SEE P. 34).

E. A COMPREHENSIVE LONG-RANGE STUDY OF THE TREND IN THE SHIFT OF THE PROPERTY TAX BURDEN TO OWNER-OCCUPIED RESIDENCES AND AGRICULTURAL LAND SHOULD BE MADE IN ORDER TO PREVENT AN INEQUITABLE PORTION OF THE TAX BURDEN FROM BEING PLACED ON HOMEOWNERS (SEE P. 50).

APPENDICES

APPENDIX 1

AMENDED

January 11, 1979

Calendar No. S. 64

By SENATORS GRESSETTE, DENNIS and WADDELL

S. Printer's No. 69—S. Introduced January 9, 1979.

A CONCURRENT RESOLUTION

To Request the Tax Study Commission to Investigate Possible Abuses by Local Governments, School Districts and Special or Public Service Districts in Raising Revenue in Violation of Chapter 43 of Title 12 of the 1976 Code (Generally Referred to as Act 208 of 1975) and Recommend Legislation to Correct and Control Such Abuses. Amend title to conform.

Whereas, there have been frequent reports to members of the General Assembly and in the news media of alleged abuses by local taxing entities in the raising of revenue in violation of the provisions of Chapter 43 of Title 12 (Act 208 of 1975); and

Whereas, these allegations indicate that substantial tax increases have resulted from the reassessment of property and the application of specified assessment ratios mandated by that legislation without an adjustment of millage rates sufficient to adjust total revenue in accordance with the limitations prescribed in Act 208; and

Whereas, it is the responsibility of the General Assembly to determine if these alleged abuses have in fact occurred and the Tax Study Commission is the appropriate legislative agency to make that determination. Now, therefore,

Be it resolved by the Senate, the House of Representatives concurring:

That the General Assembly, by this resolution, requests the Tax Study Commission to investigate possible abuses by local governments, school districts and special or public service districts in raising revenue in violation of Chapter 43 of Title 12 of the 1976 Code (generally referred to as Act 208 of 1975) and recommend legislation, if necessary, to correct and control such abuses. The Legislative Audit Council shall, upon request of the Commission, provide technical and staff assistance in the conduct of the investigation.

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APPENDIX 2

ACT 208

PROGRAMS; UNIFORM ASSESSMENT RATIOS

12-43-210. Uniform and equitable assessment; promulgation of rules and regulations. - All property shall be uniformly and equitably assessed throughout the State. The South Carolina Tax Commission (commission) shall promulgate rules and regulations to insure such equalization which shall be adhered to by all assessing officals in the State.

12-43-220. Classifications shall be equal and uniform; particular classifications and assessment ratios; procedures for claiming certain classifications; rollback taxes.-Except as otherwise provided, the ratio of assessment to value of property in each class shall be equal and uniform throughout the State. All property presently subject to ad valorem taxation shall be classified and assessed as follows:

(a) All real and personal property owned by or leased to manufacturers and utilities and used by the manufacturer or utility in the conduct of such business, shall be taxed on an assessment equal to ten and one-half percent of the fair market value of such property.

(b) All inventories of business establishments shall be taxed on an assessment equal to six percent of the fair market value of such property and all power driven farm machinery and equipment except motor vehicles registered with the South Carolina Department of Highways and Public Transportation owned by farmers and used on agricultural lands as defined in this act shall be taxed on an assessment equal to five percent of the fair market value of such property; provided, that all other farm machinery and equipment and all livestock and poultry shall be exempt from ad valorem taxes.

(c) The legal residence and not more than five acres contiguous thereto, when owned totally or in part in fee or by life estate and occupied by the owner of such interest, shall be taxed on an assessment equal to not less than two and one-half percent or not more than four percent of the fair market value of such property for a period of four years as determined by the governing body of the county concerned; provided, that at the completion of the four-year period the property shall be taxed on an assessment of four percent of the fair market value; provided further, that until the expiration of the four-year period the transition provisions of this section shall not apply; provided, further, that the governing body of any county may exempt such county from the immediate requirement of assessing such property at not less than two and one-half percent or not more than four percent for a period of four years at the fair market value and provide for the transition to such four percent of the fair market value as provided in this section; provided, further, that when the legal residence is located on leased or rented property and the residence is owned and occupied by the owner of a residence on leased property, even though at the end of the lease period the lessor becomes the owner of the residence, the assessment for the residence shall be at the same ratio as provided herein. If the lessee of property upon which he has located his legal residence is liable for taxes on such leased property, then the property upon which he is liable for taxes, not to exceed five acres contiguous to his legal residence, shall be assessed at the same ratio herein provided. In the event this property shall have located on it any rented mobile homes or residences which are rented or any business for profit, this four percent value shall not apply to those businesses or rental properties.

This subsection (c) shall not be applicable unless the owner of such property or his agents make written application to the county assessor on or before May first of the tax year in which the initial assessment under this act is made and certify to the following statement: "Under the penalty of perjury I certify that I meet the qualifications for the special assessment ratio for a legal residence as of January first of the current tax year"; provided, however, for the tax year 1976 only, the date for filing of such application shall be extended to June 1, 1976. After initial application, the assessor shall annually mail an application, approved by the Commission, to the owner at his last

indicated mailing address.

The assessor shall have printed in the local newspaper during the period January through April at least five notices calling to public attention the provisions of filing the application as a prerequisite for claiming this classification for the current tax year. Failure to file within the prescribed time shall constitute abandonment of the owner's right for this classification for the current tax year. Provided, however, the local taxing authority may extend the time for filing upon a showing satisfactory to it that the person had reasonable cause for not filing on or before May first.

If a person signs the certification and is not eligible or thereafter loses eligibility and fails to notify the county assessor, a penalty of ten percent and interest at the rate of one-half of one percent per month shall be paid on the difference between the amount that was paid and the amount that should have been paid.

Notwithstanding the provisions for application herein set forth, the governing body of the county concerned as an alternative may elect, determine and direct that the tax assessor shall determine and designate the various properties to be subject to the special assessment ratio provided in this subsection. Upon such determination by the governing body of the county concerned no publication of notice shall then be required and no application or other certification shall then be required.

Provided, however, that notwithstanding the application requirements established in this item (c), the governing body of any county may by ordinance or administrative act provide that property owners shall apply for the residential assessment of property annually or at intervals of two years, three years, four years or five years so long as the use of the property concerned is not changed during such prescribed period.

(d) (1) Agricultural land which is actually used for such agricultural purposes shall be taxed on an assessment equal to (A) Four percent of its fair market value for such agricultural purposes for owners or lesses who are individuals or partnerships and certain corporations which do not:

(i) Have more than ten shareholders.

(ii) Have as a shareholder a person (other than an estate) who is not an individual.

(iii) Have a nonresident alien as a shareholder.

(iv) Have more than one class of stock.

(B) Six percent of its fair market value for such agricultural purposes for owners or lessees who are corporations, except for certain corporations specified in (A) above.

(2) "Fair market value for such agricultural purposes" is defined as the productive earning power based on soil capability to be determined by capitalization of typical cash rents or by capitalization of typical net annual income of like soil in the locality or a reasonable area of the locality, not including the agricultural products thereon. Soil capability means the capability of the soil to produce typical agricultural products of the area considering any natural deterrents to the potential capability of the soil as of the current assessment date.

After average net annual earnings have been established for agricultural lands, they shall be capitalized to determine use-value of the property based on a capitalization rate which includes:

1. An interest component.
2. A local property tax differential component.
3. A risk component.
4. An illiquidity component.

Each of these components of the capitalization rate shall be based on identifiable factors related to agricultural use of the property. The interest rate component will be the average coupon (interest) rate applicable on all bonds which the Federal Land Bank of Columbia, which serves South Carolina farmers, has outstanding on July first of the crop-years being used to estimate net earnings and agricultural use-value. Implementation of the provisions contained in this section shall be the responsibility of the Commission.

(3) Agricultural real property shall not come within the provisions of this section unless the owners of such real property or their agents make written application therefor on or before May first of the tax year in which the special assessment is claimed. The application for the special assessment shall be made to the assessor of the county in which the agricultural real property is located, upon forms provided by the county and approved by the Commission and a failure to so

apply shall constitute a waiver of the special assessment for that year; provided, however, for the tax year 1976 only the date for the filing of such application shall be extended to June 1, 1976.

(4) When real property which is in agricultural use and is being valued, assessed and taxed under the provisions of this act, is applied to a use other than agricultural, it shall be subject to additional taxes, hereinafter referred to as roll-back taxes, in an amount equal to the difference, if any, between the taxes paid or payable on the basis of the valuation and the assessment authorized hereunder and the taxes that would have been paid or payable had the real property been valued, assessed and taxed as other real property in the taxing districts, in the current tax year (the year of change in use) and each of the five tax years immediately preceding in which the real property was valued, assessed and taxed as herein provided. If in the tax year in which a change in use of the real property occurs the real property was not valued, assessed and taxed under this act, then such real property shall be subject to roll-back taxes for each of the five tax years immediately preceding in which the real property was valued, assessed and taxed hereunder. In determining the amounts of the roll-back taxes chargeable on real property which has undergone a change in use, the assessor shall for each of the roll-back tax years involved ascertain:

(A) The fair market value of such real property under the valuation standard applicable to other real property in the same classification;

(B) The amount of the real property assessment for the particular tax year by multiplying such fair market value by the appropriate assessment ratio provided in this act;

(C) The amount of the additional assessment on the real property for the particular tax year by deducting the amount of the actual assessment on the real property for that year from the amount of real property assessment determined under (B) hereof;

(D) The amount of the roll-back for that tax year by multiplying the amount of the additional assessment determined under (C) hereof by the property tax rate of the taxing district applicable for that tax year.

Provided, however, that notwithstanding the application requirements established in this item (d), the governing body of any county may by ordinance or administrative act provide that property owners shall apply for the agricultural assessment of property annually or at intervals of two years, three years, four years or five years so long as the use of the property concerned is not changed during such prescribed period.

(e) All other real property not herein provided for shall be taxed on an assessment equal to six percent of the fair market value of such property.

(f) Except as specifically provided by law all other personal property shall be taxed on an assessment of ten and one-half percent of fair market value of such property except that commercial fishing boats shall be taxed on an assessment of five percent of fair market value. As used in this item 'commercial fishing boats' shall mean boats licensed by the Department of Wildlife and Marine Resources pursuant to Article 3, Chapter 15 of Title 50 which are used exclusively for commercial fishing, shrimping or crabbing.

Notwithstanding any other provision of this act, on the effective date thereof, if it is found that there is a variation between the ratios being used and those stated in this section, the county may provide for a gradual transition to the ratios as herein provided for over a period not to exceed seven years; provided, however, that all property within a particular classification shall be assessed at the same ratio; provided, further, however, that all property enumerated in subsection (a) shall be assessed at the ratio provided in such section unless the governing body of any county shall affirmatively declare that it shall not be immediately assessed at such ratio, in which event it shall be assessed in the manner provided for in the following sentence. The property enumerated in subsections (b), (c), (d), (e), (f) and (g) shall be increased or decreased to the ratios set forth in this article by a change in the ratio of not less than one half of one percent per year nor more than one percent per year. Provided, however, that notwithstanding the provisions of this section, a county may, at its discretion, immediately implement the assessment ratios contained in subsections (b), (c), (d), (e) and (f). Provided, however, that all livestock and poultry shall not be subject to ad valorem taxes. Provided, that this section shall not apply to any farm equipment in use on a farm in those counties which do not tax such property as of June 3, 1975.

(g) All real and personal property owned by or leased to companies primarily engaged in the transportation for hire of persons or property and used by such companies in the conduct of such business and required by law to be assessed by the Commission shall be taxed on an assessment equal to nine and one-half percent of the fair market value of such property.

12-43-225. Further provisions for applications for special assessments; exceptions.-Notwithstanding the provisions of subsection (c) of Section 12-43-220, as further amended herein, the initial application for the special assessment ratio which is the subject of such subsection shall be mailed by the tax assessor to the applicant during the 1976 tax year only; provided, that notwithstanding the foregoing provision or any other provision of law, the governing body of the county concerned as an alternative may elect, determine and direct that the tax assessor shall determine and designate the various properties to be subject to the special assessment ratio provided in said subsection (c) of Section 12-43-220. In the event the governing body of the county concerned makes such election and determination, no mailing by the tax assessor shall be required under this subsection (c) or any other provision of law relating to said section (c) of Section 12-43-220 and no application or other certification shall then be required, without regard to the application procedure set forth in such subsection (c) or any other provision of law relating to such subsection (c) of Section 12-43-220.

12-43-230. Treatment of agricultural real property and mobile home; Commission shall prescribe regulations.-(a) For the purposes of this article, unless otherwise required by the context, the words "agricultural real property" shall mean any tract of real property which is used to raise, harvest or store crops, feed, breed or manage livestock, or to produce plants, trees, fowl or animals useful to man, including the preparation of the products raised thereon for man's use and disposed of by marketing or other means. It includes but is not limited to such real property used for agriculture, grazing, horticulture, forestry, dairying and mariculture. In the event at least fifty percent of a real property tract shall qualify as "agricultural real property" the entire tract shall be so classified, provided no other business for profit is being operated thereon.

The Commission shall provide by regulation for a more detailed definition of "agricultural real property" consistent with the general definition set forth in this section, to be used by county assessors in determining entitlement to special assessment under this article. Such regulations shall be designed to exclude from the special assessment that real property which is not bona fide agricultural real property for which the tax relief is intended.

(b) For the purpose of this article all mobile homes in this State and all improvements to leased real property made by the lessee shall be considered real property and shall be classified and assessed for ad valorem taxation in accordance with the provisions of Section 12-43-220. "Mobile homes" is defined as a portable unit designed and built to be towed on its own chassis, comprised of a frame and wheels, connected to utilities, and designed without a permanent foundation for year-round residential use. A mobile home may contain parts that may be folded or collapsed when being towed, and expanded on site to provide additional space. The term "mobile home" shall also include units in two or more separately towable components designed to be joined into one integral unit for use, and capable of being again separated into the components for repeated towing. It may also include two units which may be joined, on site, into a single residential unit.

(c) The Commission shall further provide by regulation for definitions not inconsistent with general law for real property and personal property in order that such property shall be assessed uniformly throughout the State.

12-43-235. Transition period.-Notwithstanding the provisions of subsection (f) of Section 12-43-220, the assessing authority shall apply a transition period with respect to real property leased to utility companies. The transition period shall be seven years. The ratio used on real property leased to utility companies prior to the 1976 tax year shall be increased ratably over the period until the ratio of ten and one-half percent is implemented in the seventh year. Provided, that the provisions of this section will apply only to leases of real property to utility companies in effect on June 3, 1975.

12-43-240. Counties shall require building permits; copies shall be furnished to assessor.-All counties shall require by law or ordinance that building permits be issued to persons engaging in new construction or renovation and such permits shall correspond to minimum requirements of the Commission. The county shall furnish a copy of the building permit to the assessor within ten days after such issuance.

Every municipality in the county requiring building permits shall furnish copies of said permit to the county assessor within ten days after such issuance.

12-43-250. Sales ratio studies; reassessment or remapping.-The Commission shall make sales ratio studies in all counties of the State and when, in the judgement of the Commission, a county needs to reassess or remap property, the Commission shall make application to the circuit court in which the county is located for a determination of whether or not the county shall be required to commence reassessment or remapping. If the circuit court determines that the county needs reassessment or remapping, such county shall be required to commence the reassessment or remapping within thirty days of such determination.

12-43-260. Counties wilfully failing to comply with article shall not be entitled to certain State aid; certification of compliance.-Any county which wilfully fails to comply with the provisions of this article shall not be entitled to twenty percent of the allocation of the taxes as provided for in the General Appropriations Act for State Aid to Subdivisions. The Commission shall make application to the circuit court for a determination as to whether or not such county meets the requirements of this article. The Commission shall then, based on this determination, certify to the State Treasurer that such county meets the requirements of this article before any tax allocation is made to the county.

12-43-270. Adjustments restricted to seven percent; exception for transition period.-Notwithstanding any other provision of law, no county, school district, municipality or any other political subdivision may increase or decrease the total ad valorem tax of such county, school district, municipality or any other political subdivision by an amount exceeding seven percent of total ad valorem taxes for such county, school district, municipality or any other political subdivision for the 1975 tax year due to the adjustment to the ratios set forth in this article. This seven percent limitation shall be the total increase or decrease over the 1975 taxes due to the adjustment of ratios regardless of the number of years involved in the transition; provided, however, that the increase or decrease over the 1975 taxes due to the adjustment of ratios may not exceed two percent in any one taxable year during the transition period.

12-43-280. Total tax shall not be increased more than one percent as a result of equalization and reassessment.-Notwithstanding any other provisions of law, upon completion of an equalization and reassessment program as required by this article, the total ad valorem tax, for any county, school district, municipality or any other political subdivision, shall not exceed the total ad valorem tax of such county, school district, municipality or any other political subdivision for the year immediately prior to such completion by more than one percent, provided, such increase in total taxes was caused by the equalization and reassessment provided by this article. This shall not prohibit an increase in the total ad valorem tax as a result of the assessments added for property or improvements not heretofore taxed, for new construction or for renovation of existing structures taking place during the reassessment period.

12-43-290. Political subdivisions may increase millage for certain purposes.-The limitations set forth in Sections 12-43-270 and 12-43-280 shall not prohibit any county, school district, municipality or any other political subdivision from increasing the millage on all taxable property for the purpose of obtaining additional monies for increased or new services provided for the taxpayers of the county, school district, municipality or any other political subdivision. In the event of an increase of this nature, the tax notice shall state the purpose of such increase so as to distinguish between a millage change pursuant to Sections 12-43-270 or 12-43-280 and a millage change made under this section.

12-43-300. Owner or agent shall get tax notice of increase; contents and service of notice; objections; conference; appeal.-Whenever the market value estimate of assessed value of any property is fixed by the assessor at a sum greater by one hundred dollars or more than the amount returned by the owner or his agent, or whenever any property is valued and assessed for taxation which has not been previously returned or assessed, the assessor shall, on or before the third Monday in June, or as soon thereafter as may be practicable, in the year in which the valuation and assessment is made give written notice thereof to the owner of such property or his agent. The notice shall include the total market value estimate, the assessment ratio, the total new assessment and other pertinent ownership and legal discription data shown on the county auditor's records.

The notice may be served upon the owner or his agent personally or by mailing it to the owner or his agent at his last known place of residence which may be determined from the most recent listing in the applicable telephone directory, South Carolina Highway Department Motor Vehicle Registration List, county treasurer's records or offical notice from the property owner or his agent. The owner or his agent, if he objects to the valuation and assessment, shall serve written notice of such objection upon the assessor within thirty days of the date of the mailing of such notice. The assessor shall then schedule a conference with the owner or his agent within twenty days of receipt of such notice. If the assessor requests it, the owner shall within thirty days after such conference complete and return to the assessor such form as may be approved by the South Carolina Tax Commission relating to the owner's property and the reasons for his objection. Within thiry days after such conference, or as soon thereafter as may be practicable, the assessor shall mail written notice of his action upon such objection to the owner. The owner or his agent, if still aggrieved by the valuation and assessment, may appeal from such action to the Board of Assessment Appeals by given written notice of such appeal and the grounds thereof to the assessor within ten days from the date of the mailing of such notice. The assessor shall promptly notify the Board of Assessment Appeals of such appeal.

12-43-310. Article shall not affect certain contracts.-In those counties which have a nondevelopment contract, those contracts which have been executed as of June 3, 1975 shall be valid for the period for which they were executed.

12-43-320. Rules and regulations may be repealed.-Any or all rules and regulations promulgated by the South Carolina Tax Commission for the implementation of the provisions of this article may be declared null and void by passage of a joint resolution expressing such intention. Such rules and regulations declared null and void will be considered repealed on and after the date of passage of the joint resolution.

APPENDIX 3

OPINION NO. 4323 April 12, 1976

Sections 12A, 12B and 12C of Act 208, Acts of 1975, do not prohibit a tax increase or decrease except where levied by reason of a change in ratios, an equalization or reassessment program.

TO: Deputy Attorney for Charleston County

BY: Joe L. Allen, Jr.
Deputy Attorney General

You present three questions which however are, for the purpose of the opinion, consolidated. The question considered is whether Sections 12A, 12B and 12C of Act 208 prohibit an increase in property taxes when such increase is necessary to fund the same level of services furnished by a county, school district, municipality, or other political subdivision that were furnished in the year preceding a change in the assessment ratios or the completion of an equalization and reassessment program.

It may be necessary that a county or other political subdivision, because of inflation, existing contracts or commitments, increase its taxes to furnish the same level of services that were furnished in the year preceding a ratio change or the adoption of an equalization and reassessment program. If such is necessary, does therefore the above referred to sections prohibit the tax increase?

It should be noted that Act 208 was adopted to secure uniform and equal taxation of property by classes throughout the State. It was obvious that in some counties the ratio applied to the fair market value of property to ascertain its tax value would increase while in others it would remain the same or be reduced. The purpose of Section 12A of the Act was to mandate an adjustment in the millage applied to such tax value so that a county would not receive an increase or suffer a loss in revenue solely by reason of the change in the ratios. The section limits any tax increase "due to the adjustment of assessment ratios as set forth in this Act", however. it does not apply to any tax increase or deduction not caused by the change in ratios.

Section 12B limits any tax increase "caused by the equalization and reassessment provided by this Act", however, it does not apply to a tax increase or reduction not caused by the equalization or reassessment program provided by the Act. The purpose of this section was to prohibit a tax increase simply by reason of increased values brought about by equalization and reassessment. The section does not relate to increased costs necessary to furnish the same level of services or meet existing contracts or commitments.

Section 12C merely provides an exception to Sections 12A and 12B when the added tax is needed to fund increased or new services, and further requires notice when the increase is for such purposes. The section likewise does not relate to an increase or decrease in taxes necessary to fund the same level of services and relates only to an increase in taxes by reason of a change in ratios, the equalization or reassessment program or for increased or new services.

In reaching the conclusion above stated, we relied upon the following:

The general rule of construction that:

(1) "Intention of the Legislature is first rule of construction of statutes, and full effect must be given to each section and words must be given their plain meaning." *McCollum v. Snipes*, 213 S. C. 254, 49 S. E. 2d 12. See also 17 S.C.D., *Statutes*, Key 187.

(2) "A statute should be interpreted both as a whole and in the light of its general scope, terms, and purpose." *Berry v. Atlantic Greyhound Lines*, 114 F. 2d 255. See also 17 S.C.D., *Statutes*, Key 184.

(3) Article 7, Section 17 of the Constitution that provides: "The provisions of this Constitution and all laws concerning local government shall be liberally construed in their favor. Powers, duties, and responsibilities granted local government subdivisions by this Constitution and by law shall include those fairly implied and not prohibited by this Constitution."

(4) The existence of laws that direct a tax levy sufficient to meet certain costs, in example, Richland-Lexington Airport District.

It is the opinion of this office that Sections 12A, 12B and 12C of Act 208, Acts of 1975, do not prohibit a tax increase or decrease except where levied by reason of a change in ratios, an equalization or reassessment program.

APPENDIX 4

PROGRESS REPORT

STATEWIDE EQUALIZATION

FROM PROPERTY TAX DIVISION, STATE TAX COMMISSION

NOVEMBER 1978

Act 208 of 1975 mandated that the Tax Commission should enforce all of the provisions of the law relative to statewide equalization. In compliance with this Act, the Tax Commission set up certain criteria that all counties must meet relative to tax mapping, record keeping and level of appraisal along with equity. The Tax Commission made a detail study of all equalization programs in the State to determine what would be a reasonable timetable for all counties to be in full compliance to all laws and regulations relative to statewide equalization. After analyzing the study of the counties, it was determined that all counties could be in full compliance by the tax year 1981. All counties have been put on notice that they must be in full compliance by the tax year 1981 or be subject to the penalties provided for in Act 208.

The following is a brief outline of the situation in each county:

Abbeville County initially completed their equalization program in the mid 1960's. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 55% of fair market value. The County is now updating their mapping program and appraisals to be in compliance by the tax year 1981.

Aiken County initially completed their equalization program in the mid 1960's. Since that time, the program has eroded to such a state that the level of appraisal had dropped to only 66% of fair market value. The County is now updating their mapping and appraisals to be in full compliance by the tax year 1981.

Allendale County started an equalization program in 1976 as a result of Act 208. In Allendale County there is no appraisal base, only assessments which have no practical basis, and the ratio study done by this office indicates that the typical piece of property is assessed at 3.3% of fair market value.

Anderson County started an equalization program in 1976 as a result of Act 208. In Anderson County there is no appraisal base, only assessments which have no practical basis, and the ratio study done by this office indicates that the typical piece of property is assessed at 1.9% of fair market value.

Bamberg County started an equalization program in 1976 as a result of Act 208. In Bamberg County there is no appraisal base, only assessments which have no practical basis, and the ratio study done by this office indicates that the typical piece of property is assessed at 3.3% of fair market value.

Barnwell County started an equalization program in 1976 as a result of Act 208. In Barnwell County there is no appraisal base, only assessments which have no practical basis, and the ratio study done by this office indicates that the typical piece of property is assessed at 3.7% of fair market value.

Beaufort County updated their reassessment program for the tax year 1978. The ratio study indicated that the typical piece of property is appraised at 100% of fair market value, except for bonafide agricultural property which is appraised at a use value. In addition, the County is preparing to update their mapping program using aerial photography.

Berkeley County implemented their initial equalization program for the tax year 1977. The ratio study made by this office indicated that the typical piece of property is appraised at 97% of fair market value, except for bonafide agricultural property which is appraised at a use value.

Calhoun County started an equalization program in 1976 as a result of Act 208. In Calhoun County there is no appraisal base, only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 3% of fair market value.

Charleston County initially completed their program in the early 1970's and has been updated one time since the program was implemented. The ratio study made by this office indicates that the typical piece of property is appraised at 79% of fair market value, except for bonafide agricultural property which is appraised at a use value. Charleston County plans to update their program once again for the tax year 1979.

Cherokee County started an equalization program in 1976 as a result of Act 208. In Cherokee County there is no appraisal base, only assessments which have no practical basis, and the ratio study made by this office indicates that the typical of property is assessed at 1.2% of fair market value.

Chester County completed their initial program in the mid 1970's, the ratio study made by this office indicates that the typical piece of property is appraised at 81% of fair market value, except for bonafide agricultural property which is appraised at a use value. Chester County is moving as rapidly as possible to be in full complicance by the tax year 1981.

Chesterfield County initially completed their equalization program in the late 1960's. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 45% of fair market value. The County is now updating their mapping program and appraisals to be in full compliance by the tax year 1981.

Clarendon County initially completed their equalization program around 1970. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 76% of fair market value. The County is now updating their mapping and appraisals to be in full compliance by the tax year 1981.

Colleton County started an equalization program in 1976 as a result of Act 208. In Colleton County there is no appraisal base, only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 1.4% of fair market value.

Darlington County completed their equalization program in the mid 1960's. Since that time, they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is being appraised at 87% of fair market value, except for bonafide agricultural property which is appraised at a use value. Darlington County plans to update their program to be in full compliance by the tax year 1981.

Dillon County initially completed their program in the mid 1960's. Since that time, the program had eroded to such a state, that the level of appraisal had dropped to only 44% of fair market value. The County is now updating their mapping program and appraisals and is moving as rapidly as possible in order to be in full compliance by the tax year 1981.

Dorchester County started an equalization in 1976 as a result of Act 208. In Dorchester County there is no appraisal base only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 2.9% of fair market value.

Edgefield County initially completed their program in the mid 1960's. Since that time, the program had eroded to such a state, that the level of appraisal had dropped to only 46% of fair market value. The County is now updating their mapping program and appraisals to be in full compliance by the tax year 1981.

Fairfield County started an equalization program in 1976 as a result of Act 208. In Fairfield County there is no appraisal base only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 2.1% of fair market value.

Florence County initially completed their program in the mid 1960's. Since that time, the program had eroded to such a state, that the level of appraisal had dropped to only 50% of fair market value. The County is now updating their mapping program and appraisals to be in compliance by the tax year 1981.

Georgetown County initially completed their program in the mid 1960's. Since that time, the program had eroded to such a state, that the level of appraisal had dropped to only 54% of fair market value. The County is now updating their mapping program and appraisals to be in compliance by the tax year 1981.

Greenville County has had tax mapping for many years but just recently started an equalization program relative to actually appraising property. The ratio study made by this office indicates that the typical piece of property is assessed at only 3% of fair market value. In Greenville County there is no appraisal base only assessments which have no practical basis.

Greenwood County completed their equalization program in the mid 1960's. Since that time, they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is being appraised at 36% of fair market value, except for bonafide agricultural property which is appraised at a use value.

Hampton County completed their initial program in the mid 1960's. Since then they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is appraised at 80% of fair market value.

Horry County started an equalization program in 1976 as a result of Act 208. In Horry County there is no appraisal base, only assessments which have no practical basis, and the ratio study done by this office indicates that the typical piece of property is assessed at 2.5% of fair market value.

Jasper County implemented their initial equalization program for the tax year 1977. The ratio study made by this office indicates that the typical piece of property is appraised at 100% of fair market value, except for bonafide agricultural property which is appraised at a use value.

Kershaw County completed their initial program in the mid 1960's. Since then they have updated their program several times. The ratio study made by this office indicates that they typical piece of property is appraised at 88% of fair market value.

Lancaster County initially completed their equalization program around 1970. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 78.7% of fair market value. The County is now updating their mapping program and appraisals to be in compliance by the tax year 1981.

Laurens County implemented their initial equalization program for the tax year 1977. The ratio study made by this office indicates that the typical piece of property is appraised at 86% of fair market value, except for bonafide agricultural property which is appraised at a use value.

Lee County started an equalization program in 1976 as a result of Act 208. In Lee County there is no appraisal base only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 3.2% of fair market value.

Lexington County is implementing their initial equalization program for the tax year 1978. The ratio study made by this office indicates that the typical piece of property is appraised at 92% of fair market value.

McCormick County implemented their initial equalization program for the tax year 1977. The ratio study made by this office indicates that the typical piece of property is appraised at 100% of fair market value, except for bonafide agricultural property which is appraised at a use value.

Marion County initially completed their equalization program around 1970. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 79% of fair market value. The County is now updating their mapping and appraisals to be in compliance by the tax year 1981.

Marlboro County initially completed their equalization program in the mid 1960's. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 53% of fair market value. The County is now updating their mapping and appraisals to be in compliance by the tax year 1981.

Newberry County initially completed their equalization program in the mid 1960's. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 55% of fair market value. The County is now updating their mapping and appraisals to be in compliance by the tax year 1981.

Oconee County completed their initial program in the mid 1970's, the ratio study made by this office indicates that the typical piece of property is appraised at 84% of fair market value, except for bonafide agricultural property which is appraised a use value. Oconee County is moving as rapidly as possible to be in compliance by the tax year 1981.

Orangeburg County completed their initial program in the mid 1970's, the ratio study made by this office indicates that the typical piece of property is appraised at 81% of fair market value, except for bonafide agricultural property which is appraised at a use value. Orangeburg County is moving as rapidly as possible to be in compliance by the tax year 1981.

Pickens County initially completed their equalization program in the mid 1960's. Since that time, the program had eroded to such a state that the level of appraisal had dropped to only 57% of fair market value. The County is now updating their mapping and appraisals to be in compliance by the tax year 1981.

Richland County completed their equalization program in the early 1960's. Since that time, they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is appraised at 61% of fair market value. Richland County plans to update their program to be in compliance by the tax year 1981.

Saluda County completed their initial program in the mid 1960's, the ratio study made by this office indicates that the typical piece of property is appraised at 37% of fair market value, except for bonafide agricultural property which is appraised at a use value. Saluda County is moving as rapidly as possible to be in compliance by the tax year 1981.

Spartanburg County initially completed their program in the early 1970's. The ratio study made by this office indicates that the present level of appraisal of a typical piece of property is 75% of fair market value. Spartanburg County is moving as rapidly as possible to be in compliance by the tax year 1981.

Sumter County completed their initial program in the mid 1960's. From that time to 1976, the program had eroded to such a state that there was not a direct correlation between market value and appraised value; therefore, the practice of using appraisals was

discontinued, property at the present time is assessed as best possible at the same rate as comparable property. Sumter County is in the process of updating their equalization program to be in full compliance by the tax year 1981.

Union County started an equalization program in 1976 as a result of Act 208. In Union County there is no appraisal base, only assessments which have no practical basis, and the ratio study made by this office indicates that the typical piece of property is assessed at 4.9% of fair market value.

Williamsburg County completed their equalization program in the mid 1960's. Since that time, they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is appraised at 65.3% of fair market value, except for bonafide agricultural property which is appraised at a use value. Williamsburg County plans to update their program to be in full compliance by the tax year 1981.

York County completed their equalization program in the mid 1960's. Since that time, they have updated their program several times. The ratio study made by this office indicates that the typical piece of property is appraised at 69% of fair market value, except for bonafide agricultural property which is appraised at a use value. York County plans to update their program to be in full compliance by the tax year 1981.

This is a summary of the progress of the equalization program throughout the State. Fourteen counties do not have an appraisal base at the present time. Eight counties meet the standards set forth by the Commission. The Tax Commission is monitoring the counties constantly with a detailed study annually, along with a constant monitoring by sales ratio studies. These studies are published on an annual basis.

APPENDIX 5

IMPACT STUDY SUMMARY
UPGRADED EQUALIZATION PROGRAMS
PROPERTY TAX DIVISION
STATE TAX COMMISSION

COUNTY	CURRENT MILLAGE	PROJECTED MILLAGE	PER CENT OF NET TAX INCREASE ON LOCAL ASSESSMENTS*
ABBEVILLE	154	133	32.6
AIKEN	126	104	26.7
ALLENDALE	130	113	15.6
ANDERSON	143	101	84.4
BAMBERG	117	101	15.9
BARNWELL	118	107	10.7
BEAUFORT	107	109	(.3)
BERKELEY	100	98	2.8
CALHOUN	82	79	36.8
CHARLESTON	180	155	10.1
CHEROKEE	189	129	159.4
CHESTER	135	127	10.5
CHESTERFIELD	153	112	67.0
CLARENDON	77	67	10.0
COLLETON	160	97	89.1
DARLINGTON	128	123	9.4
DILLON	155	121	43.2
DORCHESTER	162	118	35.1
EDGEFIELD	103	87	20.4
FAIRFIELD	149	111	56.8
FLORENCE	145	110	43.7
GEORGETOWN	146	107	30.8
GREENVILLE	180	143	34.1

GREENWOOD	130	123	8.6
HAMPTON	123	117	6.0
HORRY	130	83	22.2
JASPER	120	119	0.3
KERSHAW	125	119	8.2
LANCASTER	198	184	10.8
LAURENS	118	111	7.7
LEE	108	85	20.5
LEXINGTON	213	203	4.5
McCORMICK	65	65	0.0
MARION	136	128	10.3
MARLBORO	137	115	46.8
NEWBERRY	135	110	32.3
OCONEE	135	131	11.1
ORANGEBURG	144	135	7.4
PICKENS	132	108	39.8
RICHLAND	243	185	22.2
SALUDA	139	102	41.2
SPARTANBURG	210	184	19.4
SUMTER	111	116	(4.1)
UNION	148	149	(0.9)
WILLIAMSBURG	94	80	18.6
YORK	187	164	23.8

*Local assessment base factored so appraisal level at market value = projected local assessment base.

Projected local assessment base x projected millage = projected tax.

Current local assessment base x current millage = actual tax.

$\frac{\text{Projected Tax}}{\text{Actual tax}} - 1$ = percent of increase on local assessments.

GLOSSARY OF TERMS USED IN THIS REPORT

abatement: A decrease or a reduction in taxes. In South Carolina industrial taxes are abated (exempted) for five years from county tax levy.

accrual basis: A method of keeping accounts that shows expenses incurred and income earned for a given fiscal period, even though such expenses and income have not been actually paid or received in cash.

ad valorem tax: A tax levied in the form of a percentage on the value of a piece of property.

appraisal value: The estimated value of property.

appropriated fund balance: A portion of the fund balance in the General Fund set aside for a specific use in the succeeding year's budget.

assessed value: The calculated value of property for tax purposes - appraised value multiplied by the assessment ratio.

assessor: The person who keeps records of real property and estimates the market value of all property under county jurisdiction.

assessment ratio: A percentage of the appraised property value on which a tax can be levied. The percentage varies in South Carolina from 4 percent for legal residences to 10.5 percent for manufacturing and utilities.

auditor: The person who keeps records of personal property, sends out tax notices, and conducts audits. The county auditor, by law, sets the millage levied for debt service for notes and bonds.

class, classification: For the purposes of taxation, real property is divided into categories based on the use to which the property is put, for example, agricultural, legal residence, manufacturing.

equalization: A process of equalizing assessments or taxes to bring about a uniform and equal ratio between appraisal value and the market value for all property within a class.

found property: Property that has not been placed on tax rolls because it was not discovered in previous appraisals or because ownership of the property could not be established.

fund balance: For a particular fund is the excess of revenues over operating costs. It often has been built up over a number of years, and annual budget surpluses increase its size. (See "surplus.")

improvement: A change or addition to real property, such as a sewer or fence, making it more valuable.

market value: The highest price property would bring in a typical sale where both the buyer and seller are willing and with neither one acting under compulsion, commonly known as "Arms Length Sale."

mill: A tax of one dollar per $1,000 of assessed value or $.001.

millage: A term used to describe the rate of taxes levied. (Market value x assessment ratio = assessed value x millage rate = tax)

modified accrual system of accounting: A system whereby

1. revenues are recorded as received in cash except for
   (a) revenues susceptible to accrual and
   (b) material revenues that are not received at the normal time of receipt.

2. expenditures are recorded on an accrual basis except for
   (a) disbursements for inventory type items, which may be considered expenditures at the time of purchase or at the time the items are used;
   (b) prepaid expenses, which normally are not recorded;
   (c) interest on long-term debt, which should normally be an expenditure when due; and
   (d) the encumbrance method of accounting, which may be adopted as an additional modification.

personal property: Generally, anything movable and not fixed to the land.

political subdivision: A geographic boundary set by State law over which some governmental body is given taxing authority (for example, a school district).

real property: Generally considered to be the land and anything firmly affixed.

reassessment: Synonymous with reappraisal. For Act 208, denotes the mass appraisal of all property within an assessment jurisdiction accomplished within or at the beginning of an assessment cycle.

renovation: To clean up or replace worn or broken parts.

special tax district: Special purpose or service district for the purpose of providing electricity, water, fire protection, sewage collection or sewage treatment.

surplus: An excess of revenues over expenditures which is generally appropriated in the following year's budget. A surplus might reduce the amount raised through future taxes and other means to finance operations.

tax assessment base: The assessed value of all property within a political subdivision.

taxability of property: Property subject to taxation. In South Carolina property owned on or before December 31 is taxed the following tax year.

transition: The act of passing from one stage to another. For Act 208 denotes the time taken to change from county assessment ratio levels to State assessment ratios mandated in S. C. Code Section 12-43-220.

unappropriated fund balance: A portion of the fund balance in the General Fund available for future budget financing and in most jurisdictions it is not restricted as to use.

use value: A subjective value of property, having in view its profitableness for some specific purposes. Property classified as agricultural is appraised at use value in South Carolina.