City of Asheville
Preliminary Revenue Neutral Tax Rate Calculation
FY 2013-2014

State law requires local governments to publish a revenue-neutral tax rate in the budget immediately following the completion of the reappraisal of real property. The purpose of the revenue-neutral tax rate is to provide citizens with comparative information on tax rates before and after revaluation. The revenue-neutral tax rate, as defined by G.S. 159-11(e), is the rate that is estimated to produce revenue for the next fiscal year equal to the revenue for the current fiscal year if no reappraisal had occurred.

The purpose of this bulletin is to explain how the revenue neutral tax rate will be calculated for the City of Asheville for the upcoming fiscal year 2013-2014. As of February 2013, the calculation presented in this bulletin is a **preliminary estimate** and will change once the appeals process deadline passes and more accurate estimates can be made about how much Asheville's tax base may decline after appeals. The final revenue-neutral rate must be published in the city's budget document.

Definitions

Before diving into the calculation, here are some defined terms that are used throughout the document:

- **Real Property**: Real property includes land, buildings, structures, improvements, and permanent fixtures on the land, and all rights and privileges belonging or in any way appertaining to the property.

- **Tax Base**: The value of all real, personal, and public service property within a jurisdiction.

- **Tax Levy**: The total dollar amount of property taxes that optimally would be collected (100% collection rate) based on tax rates and the assessed value of all real, personal, and public service property within a jurisdiction.

Calculating Revenue-Neutral

The formula for calculating the Revenue-Neutral Tax Rate is:

Revenue-Neutral Tax Rate = Tax Levy adjusted for natural growth / (Property Tax Base adjusted for appeals loss/100)

The three steps outlined below walks you through how to make this calculation.

Step 1. The first step is to determine the growth factor, which is the average annual percentage increase in the tax base due to improvements since the last general reappraisal, adjusting for growth from annexations. ***Table 1 on page 4 shows that the average annual percentage increase for the City of Asheville since FY 2007, excluding annexation growth, is 1.75%.***

Why? When calculating the revenue-neutral tax rate, the City estimates how much growth would have naturally occurred absent revaluation. This "natural growth" is driven by changes to the real property tax base from construction of new homes and businesses, improvements to existing structures, divisions and conveyances of land, rezoning, and other occurrences unrelated to economic conditions affecting the taxing unit in general. Annexation is not considered "natural growth," and so it is adjusted out. Changes in the personal property base occur each year because personal property is valued on an annual basis. State law provides that the growth factor used in calculating the revenue-neutral rate is based upon the average increase in the tax base "due to improvements since the last general reappraisal." The term "improvements" includes both real and personal property improvements.

Step 2. The second step is to increase the current year FY 2013 estimated property tax levy by the growth factor from Step 1 to determine a projected FY 2014 tax levy. This calculation shows what the tax levy would have been for the following year had revaluation not occurred. Table 2 illustrates this calculation. For the City of Asheville, the current year FY 2013 estimated levy is $46,883,819*.* ***Increasing the current estimated tax levy by the growth factor of 1.75% yields a projected FY 2014 tax levy of $47,706,013***. Here's the formula:

$46,883,819 x 1.0175 = $47,706,013

Step 3. The third statutorily prescribed step is to use the post-revaluation FY 2014 tax base projection provided by the County tax assessor to calculate a tax rate that would produce the levy that was determined in Step 2. The Buncombe County tax assessor's early projection for the post-revaluation FY 2014 City of Asheville tax base is $11,358,701,082. This early projection was done prior to completion of the statutorily required appeals process. The tax assessor estimates that the FY 2014 real property tax base will be reduced by approximately 2.5% once the appeals process is complete. ***Adjusting the early FY 2014 tax base projection to account for 2.5% appeals loss reduces the projected post-revaluation FY 2014 City of Asheville tax base to $11,110,483,582. The revenue neutral tax rate that would have to be applied to this tax base to produce the levy from Step 2 is 43 cents per $100 of assessed valuation. Table 3 illustrates this calculation.*** Here are the formulas:

Tax Base adjusted for appeals loss:
$11,358,701,082 – ($9,928,700,000 x .025) = $11,110,483,582

($11,110,483,582/100) x Revenue-Neutral Tax Rate = $47,706,013

Estimated Revenue-Neutral Tax Rate = $47,706,013 / ($11,110,483,582/100)

THE REVENUE NEUTRAL TAX RATE WILL NOT BE FINALIZED UNTIL THE CITY RECEIVES FINAL ESTIMATES ON APPEALS LOSSES FROM THE BUNCOMBE COUNTY TAX ASSESSOR'S OFFICE IN EARLY MARCH. The City of Asheville will recalculate it's the revenue-neutral tax rate once the total value of appeals is known.

Analysis

Why is Asheville's estimated revenue-neutral tax rate higher than its current tax rate?

When calculating revenue neutral, the property tax levy is increased by the growth factor (calculated in steps 1 and 2) to account for improvements in real and personal property over the last year. Since the property tax levy would have theoretically increased by this growth from improvements regardless of revaluation, it is included prior to determining the revenue neutral rate. The net effect of increasing the tax base by the growth factor (1.75%) and then decreasing it by projected impact of appeals (2.5%) results in a tax base that was smaller than the previous year. In order to generate the equivalent property tax levy, a higher tax rate (43 cents per $100 of tax value) is required.

Historically in revaluation years, the City of Asheville's total tax base increased 30-40%, which was well above the average increase in the growth factor. As a result, the revenue neutral tax rate in those revaluation years was substantially lower than the rate in place prior to the revaluation. Due to the recent economic recession and its impact on home values, this suggests that nearly all of Asheville's growth was due to property improvements over the last year as opposed to an economic improvement in value of the existing the tax base.

Table 1

Step 1: Determine the growth factor, which is the average annual percentage increase in the tax base due to improvements since the last general reappraisal, adjusting for annexations				
FY	Assessed Value*	Value of Annexations**	Adjusted Assessed Value	Annual Percent Increase
2007	$9,746,647,000	N/a	$9,746,647,000	
2008	$9,884,023,000	$3,840,600	$9,880,182,400	1.37%
2009	$10,307,404,000	$104,242,600	$10,203,161,400	3.23%
2010	$10,771,020,000	$109,628,000	$10,661,392,000	3.43%
2011	$10,902,131,000	$1,516,300	$10,900,614,700	1.20%
2012	$11,061,338,000	$52,472,100	$11,008,865,900	0.98%
2013 (est.)	$11,126,842,000	$31,579,900	$11,095,262,100	0.31%
Average annual increase in adjusted assessed value since 2007 revaluation				**1.75%**

* Source: City of Asheville CAFR's, except FY 2013 estimate based on TR-2.

** Source: City of Asheville Planning Department

Table 2

Step 2: Increase this year's tax levy estimate by the growth factor	
FY 2013 estimated tax levy (Per TR2 Report)	$46,579,958
FY 2013 late listings & discovered properties (Per TR2 Report)	$303,861
FY 2013 total estimated tax levy ($46,579,958 + $303,861)	$46,883,819
Increase the FY 2013 total estimated tax levy by growth factor = $46,883,819 x 1.0175	$47,706,013

Table 3

Step 3: Divide the result from step 2 by the FY 2014 newly reappraised tax base	
FY 2014 revalued tax base projection	$11,110,483,582
Tax rate that would produce revenue equal to FY 2013 = $47,706,013/$11,110,483,582 x 100	**0.43**