

SC Taxation Realignment Commission ("TRAC")
MINUTES
Friday, March 26, 2010 at 10:00 AM

The meeting was called to order at 10:05

I. Welcome

In attendance:

- Ben Kochenower
- Ken Wingate
- Burnie Maybank
- Bob Steelman
- Kenneth Cosgrove
- Jack Shuler
- Jimmy Addison
- Charlie Way
- Ray Stevens

Not in attendance:

- Brian Moody
- Don Weaver

II. Adoption of Proposed Agenda

Commissioner Way moved to adopt the proposed agenda. Commissioner Steelman seconded the motion. The agenda was adopted by voice vote.

III. Adoption of Minutes

Commissioner Addison moved to adopt the minutes. Commissioner Way seconded the motion. Minutes adopted by voice vote and will be posted online immediately upon adjournment.

IV. Status of Extension Bills - *Staff*

S. 1034 was filed by Sen. Leatherman to extend the Commission's deadline to October 15, 2010. H. 4336 filed by Rep. Cooper extended the deadline November 15, 2010. H. 4585 - which extends the Commission's recommendation deadline to November 15, 2010, and allows the Commission to include Act 388 in its recommendation was taken up in the Senate Finance Subcommittee. As the bill passed out of subcommittee, it extends the Commission's deadline to November 15, 2010, however it did not include the Act 388 caveat included in the original House version of the bill. Once in full Senate Finance, the bill was amended to include the original language from S. 12.

V. Streamline Sales Tax Subcommittee Report by Bob Steelman

Commissioner Steelman reports that the Streamlined Sales Tax Subcommittee endorses the concept of Streamline Sales Tax and would like to see full TRAC pursue the idea. The meeting included the Dept. of Revenue and the Manufacturers Association. The United State's Work Department will provide to TRAC the parts of SC law that would need to be altered. The SC Department of Revenue will provide an estimate of the cost to change their current computer system. Commissioner Steelman projects that the Streamline Sales Tax Subcommittee will likely need to meet again to flesh out some of the needed changes and costs.

VI. *The Breach* by Mike Shealy, Budget Director, Senate Finance Committee

SC State budget summary, expenditures in FY 08-09: GF \$5.75 B; Fed Funds \$7.37 B; Other \$7.44 B. Total budget is \$20 B and SC Personal Income is \$140 B, about 1/7th of SC Economy. The General Fund is primarily individual income tax and sales tax.

Other fund revenue sources; Tuition is the largest source of other funds. Tuition grows an average of 10.3%/year since 1999.

Federal Funds: Highest receiver of federal funds is Medicaid assistance payments. That is a match that is \$3.2 B/year and grows an average of 5.8% a year.

30% of the General Fund is spent for education. Health and Human Services and Public Education are the largest portion of the General Fund budget. 39% of the budget for K12 is General Fund monies.

Breach: infraction or violation of a law, obligation, tie, or standard. (DEFINITION)

FY 10 – 11 General Fund Revenue forecast is flat (no growth), with the long range forecast for 2011-12 and beyond is an average 2.0% growth rate. SC is in this situation because: The national recession, the structure of our state revenue system, and taxation and spending policies. Current economic crisis can be referred to as the "Great Recession." This recession has lasted longer than any previous with most lasting an average duration of 10 months. Technically the current recession ended at 22 months. Unemployment in SC peaked at 310 K. Unemployment and under employment brings the national average to 16.8%, comparable in SC is 20.6%. It could be 2015 before returning to the level of employment in 2008.

Structure of our revenue system: Not every sale in SC is captured by sales tax. Less than half of sales are covered under sales tax. Now it is 40.8%. Total elimination of grocery tax: \$354 M, elimination of bottom income tax bracket: \$86 M, reduction of the tax on small businesses from a top marginal rate of 7% is 129 M.

Open ended appropriations: Life and Palmetto Fellow scholarships and the penny swap related to A 388. These bills must be paid.

The temporary plug in the breach: ARRA total of \$787 B, 2600 per capita. SC's portion of ARRA: \$7.86 B, Tax cuts in SC \$2.86 B, Total Spending in SC \$5 B. Of the \$5 B spent, \$3.4 B will be sent to state agencies: includes allocation received by state agencies and subsequently distributed to local governments, non-profits, etc. ARRA allocations: SDE received 53%, Colleges and Univ 29%, Public safety 13%, other state agencies 5%.

Budget gap of \$563 M for FY 2010-11 which amounts to about a 12.4% cut across the board. Exempting K12 pushes that cut percentage much higher on top of what they have previously been cut. The state will be facing cuts of 700-800 M next year which does not include the new health insurance bill which could have a 90M/year pricetag. None of these figures include the EFA. State Government will be forced to change or ignore funding statutes. The state budget's structural deficit will become more pronounced over time. Changes to address the structural deficit will be incremental and very difficult to attain. State government will not be able to afford continuing business as usual so benefits currently provided to citizens will diminish.

Commissioner Weaver inquires as to why state government tries to forecast what revenue is going to be instead of basing on previous years collections?

Mike Shealy: That process may have worked in most recessions, but this recession is completely different.

Commissioner Kochenower questions how long it typically takes for the Legislature to fix a problem? Such as the example with the Employment Security Commission problem.

Mike Shealy: In many cases with complex issues it can take multiple cycles.

Presentation will placed on website following adjournment.

VII. *Property Tax: A 50 State Comparison* by Harry Miley

Dr. Miley explains that 60-70% of property is exempt from taxation in Columbia.

The ratio of commercial to homestead effective tax rates, payable 2008, has SC ranked with the 5th highest ratio. Commercial Property is taxed much higher than residential. Commercial property can include second homes.

The ratio of Apartment Effective Tax Rates with Urban Homestead Property Taxes ranks SC 46 out of 53. Georgia is ranked 21st.

Urban Homestead Property Taxes for median family home has SC ranked 47th. Urban Commercial Property Taxes, SC ranks 12th. Urban Homestead Property Taxes for a media-value home has SC ranked 47th.

VIII. *Property Tax in SC: An Overview* by Sandy Houck

Available material will be provided to staffers to place on the TRAC website.

In 1915 a tax commission was formed to look at equal assessment of property tax in sc. This initially began the work of the DOR. The 1960's provided the legislature another reassessment unit with the DOR. This was designed to assist with the equalization of taxes throughout the counties as the counties were fearful of law suits. Between the years 1961-75, about 20 counties sought out help.

1972 brought changes on the manufacturer's side. Act 208 in 1975 was the property tax reform act of 1975 requiring statewide equalization, property classification, and mandated that all counties have full time assessors and appraise all real-estate except for properties of the DOR. The DOR was given the task to supervise assessors. Fair market value concept was established with Act 208 as it established ratios for various classes of property. In 1976 small changes were need in Act 208 and this was done with Act 618. This allowed for the locking of the ratios in the constitution and provided that any changes would now require a 2/3^{rds} vote from the legislative body.

In 1977 the Education Funding Act was tied to Act 208. Counties had to assume liability to pay their own education requirements accomplished through the index of taxpaying ability. Today, that fund is approaching about \$1B and measures the ability to generate tax dollars locally.

1989 brought a savings and loan problem. Appraisers must now be licensed and certified through LLR.

1990, local option sales tax: Some money must be set aside for property tax relief at county level.

1994 gave SC the name of the Department of Revenue. Chairman Maybank was appointed the first director in 1995. Property tax relief for residential properties was first seen in 1995. Legal residents received 100K exemption from school property tax bill. The first year the fund was at 195 M, in 3 years 250 M. The fund did not change because of Act 388, there was open ended funding initially.

1997- Act passed called fee in lieu of simplification: Fee properties in past had to transfer property ownership through counties and this did away with that.

1999 - Reassessment requirement. Every county must now complete a reassessment program every five years.

2001 - Personal vehicle class of property. Assessment ratio went from 10.5% to 6% over a six year period.

2005 - legislation passed that gave each county the option of capping properties at 15%. Charleston chose to do so and the legislation was then ruled unconstitutional.

2006 - Act 388. This added an additional 1% sales tax and brought grocery tax to 0%. The Homestead Exemption fund took school operating focus, sending money back to school districts based on the number of citizens in 2007, exempted school operated portions of citizen's property tax, gave limitations for millage in the counties. Counties could now take local option sales tax and redirect back to property tax relief.

IX. Schedule for Subcommittee Work

Commissioner Maybank will try to have all subcommittees he chairs to meet within the next three weeks. Commissioners Way, Weaver, Kochenower indicate they would like to participate on the Property Tax Subcommittee.

X. Other Business:

- Re-schedule May 7, 2010 Meeting

The meeting will be rescheduled for the 14th of May at 10 AM in Room 105.

- Future Meetings

Committee will wait until May 14th to schedule future meetings.

XI. Adjournment

Meeting adjourned at 12:00 PM.