APPENDIX C

TAX DEPARTMENT PROCEDURAL CHANGES

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As a result of Commissioner's actions at their meeting on March 7th, this document's purpose is to clarify the procedures and budget ramifications as the Tax Department moves forward. In addition, Commissioners Eckler and Richard went to the Tax Department to clarify changes and the staff needs to verify that all Commissioners concur.

County Commissioners have voted to take the following three actions:

1. Cease sending tax bills for less than $5.00
2. Change garnishment procedures on motor vehicles
3. Cease listing personal property on tax listing forms

(1) Cease sending tax bills for less than $5.00

In 2005, the Board of Commissioners passed a resolution that allowed the Tax Office to cease billing for bills that were less than $5, in accordance with GS 105-321(f). Handling these bills in house at that time involved the Tax Department personnel printing, sorting, and mailing tax bills on postcards at an estimated cost of $5 per bill. Based on our current cost of $.435 per bill, the average number of bills and revenues lost for this 5 year period are indicated below:

Tax Yrs.	Periods Covered	Avg. No. Bills/Yr	Avg. Annual Revenue Loss
2005-2010	Jul 2005-Jun 2010	9,395	$28,413

Currently this billing process is outsourced and the cost to provide a letter type bill with a return envelope has been reduced to approximately $.435 per bill (printing and postage). Because of this reduction in costs, the Board of Commissioners decided during the 2010 budget process to reduce the minimum bills to $1 in order not to lose these revenues.

For the current year real, motor vehicle and personal property bills less than $5 have been billed as follows:

Property Type	No. of Bills	Revenue Gained
2010 Motor Vehicles	7,445 (8 mos)	$21,171
2010 Estimated MV	3,722 (4 mos)	$10,585
2010 Real/Personal	1,480	$ 3,184

On March 7, 2011, the Board of Commissioners passed a motion to return to not billing less than $5.00. Upon the board adopting a resolution in accordance with GS 105-321(f) this change is to be effective with the 2011 budget year. The attached resolution is recommended to effect this change. This will equate to an approximate revenue loss of $34,940.

RESOLUTION

DIRECTING THE TAX ADMINISTRATOR NOT TO COLLECT MINIMAL AD VALOREM TAXES

WHEREAS, North Carolina General Statute 105-321(f) authorizes the governing body of a taxing unit that collects its own taxes to direct, by resolution, its tax administrator not to collect minimal taxes charged on the tax records and receipts; and

WHEREAS, minimal taxes are the combined taxes and fees of the taxing unit and any other units for which it collects taxes, due on a tax receipt or on a tax notice in a total original principal amount that does not exceed an amount, up to $5.00, set by the governing body; and

THEREFORE BE IT RESOLVED by the Rutherford County Board of Commissioners that the Tax Administrator is directed not to collect the combined taxes and fees of Rutherford County and any other unit of government for which it collects taxes, due on a tax receipt prepared pursuant to G.S. 105-320 or on a tax notice prepared pursuant to G.S. 105-330.5, when the total original principal amount is $5.00 or less; and

BE IT FURTHER RESOLVED that pursuant to N.C.G.S. 105-321(f) the Tax Administrator shall not bill the taxpayer for, or otherwise collect, such minimal taxes but shall keep a record of all such minimal taxes by receipt number and amount and shall make a report of the amount of these taxes to the Rutherford County Board of Commissioners at the time of settlement; and

BE IT FURTHER RESOLVED that this resolution shall be in effect with respect to fiscal year 2011/12 and shall remain in effect until amended or repealed by resolution of the Rutherford County Board of Commissioners.

ADOPTED this the ____ day of _____, 2011.

_____

William Eckler, Chairman

Rutherford County Board of Commissioners

ATTEST:

_____

Hazel Haynes

Clerk to the Board

(2) **Change garnishment procedures on delinquent motor vehicles**

Garnishments will no longer be issued against motor vehicles that are not delinquent past their renewal date. No other changes are being made to garnishment procedures. The Tax Department will continue to garnish for delinquent expired plate vehicles, real property, and personal property at any time after these bills become delinquent. This became effective on garnishments issued after March 7, 2011.

Registered motor vehicles are currently due the first day of the third month following issue or renewal. A block notice is prepared in the eighth month and sent to the vehicle owners and Department of Motor Vehicles (DMV). Taxpayers who do not pay timely will receive this block notice. Once DMV is notified of the block, they will not receive an invitation to renew their license plate from the DMV which could result in more late renewals. There will also be an increased cost in printing block notices, receipts and MAV-2s as well as an increase in employee's time required to handle the increased foot traffic.

Approximately 43% of garnishments currently issued are for motor vehicles whose plates have not yet expired. Based on an estimated annual revenue of $60,000 in fees, this will result in a revenue loss of $25,800. At this time, 70% of taxpayers pay their vehicle on time. Last year a total of 83% paid after enforced methods were implemented. If this 13% (83% - 70%) remains uncollected there will be an approximate 9 month lag in these collections, and could result in a loss of $308,155 in total revenue (all jurisdictions) in the first year the process is implemented. We are unsure how much of the $308,155 per year will be lost in future years and not be recaptured.

With the implementation of this procedure change, the Tax Department will be able to enforce collections on delinquent real and personal property once it is delinquent, but will have a delay of up to nine months in collecting delinquent registered motor vehicles.

(3) **Cease listing personal property on tax listing forms**

Beginning in 2009, abstracts were mailed to personal property owners and real property owners who also owned previously listed personal property or received an exemption. This practice equated to approximately 52,499 abstracts that did not need to be mailed for the FY 2010. The county mailed 9,340 abstracts (6,043 personal property only and 3,297 exempt or owned both real and personal property) in 2010. The Personal Property Manual states allowing the taxpayer to not list as required by law places an unfair tax burden on the citizens which do list each year as required. Without a compliance program in place the county assessor is not fulfilling his/her duties as required by GS 105-296. The assessor should use all reasonably necessary power to list property in accordance with law. Pre-listing of personal property is a convenience to property owners who do not necessarily know the model number, age, or size of their personal property, such as boats, airplanes, and mobile homes. In addition, the ability to carry this forward eliminates time consuming manual listing of personal property and helps eliminate listing errors. It requires an employee approximately 10 minutes to manually list a personal property abstract. To process the increased returned forms and list the property manually will require 2 additional personnel at a cost of $77,534 (salary and benefits), as well as 2 part time employees (cost of $18,570) to handle the increased listing traffic.

Since no historical data will be published or retained by the tax computer system, each taxpayer will be required to fill in a blank form and taxpayers will not be able to fill in the form with "same as last year." 36 counties out of 39 responding to a recent survey conducted by the Tax Office reported that they conduct personal property listing by using pre-printed forms. The North Carolina Department of Revenue has verbally supported Rutherford County's current procedure as best practice. The School of Government's property tax expert stated the following:

> "The Machinery Act does not discuss the procedure. It is certainly not required by the Machinery Act. My view is that such an approach doesn't violate the Act, although I am sure there are some assessors who believe the approach is inappropriate because it is not specifically authorized by the Machinery Act. I think it is a policy question that can be decided by each assessor or county board."

This new procedure will be effective for property listings effective January 1, 2012. This will require taxpayer education such as newspaper advertising, radio announcements, website updates, etc. at an undetermined cost.

In 2010, 41% of personal property listing forms were not returned. If this number continues into the future, based on this year's penalty ($29,143) there could be a potential loss of revenue of $291,430. (all jurisdictions). In addition, we do not have a way to quantify additional losses that may occur due to those who will not list

This information is presented to you as county staff prepares the FY 2011-2012 budget. We will need to incorporate some of the following calculations into the FY 2011-2012 budget process and others will begin affecting the FY 2012-2013 budget. In addition, we will need to make the Towns and Fire Departments aware of their possible revenue losses as they prepare their budgets.

As the chart below depicts, even though the personal property listing change will not begin to affect revenues until FY 2012-2013, the estimated net annual cost to the County due to these procedural changes, including all jurisdictions, could potentially be at least $818,439 (increased expenditure $128,971 and revenues lost $689,468).

New Procedure	Increased Expenditure	Revenue Loss/Gain	Impact on Rutherford County	Impact on Cities	Impact on Fire Districts
Minimum Tax Bill	($3,882) Printing/Postage	($34,940)	($27,952)	($5,241)	($1,747)
Garnishments Fees		($25,800)	($25,800)		
Garnishments Uncollected/Lag Time in Collecting		($308,155)	($244,321)	($44,196)	($19,638)
Personal Property Listing (loss just includes levy and penalty)	$77,534 – 2 Full Time Emp $18,570 – 2 Part Time Emp $36,749 Printing/Postage	Levy- ($291,430) Penalty- ($29,143)	($201,300) ($20,130)	($79,160) ($7,916)	($10,970) ($1,097)
Programming for All Changes	TBD		TBD		—
Totals	$128,971	($689,468)	($519,503)	($136,513)	($33,452)

Comments on Tax Issues

. Carryover of Personal Property

Attached is some information on Personal Property value of the county. When tax listing forms are mailed in January, Rutherford County lists the historic information we have collected on prior listing forms for businesses and individuals. Of the 30 counties that responded to our survey, our listing practices are similar to theirs. The North Carolina Department of Revenue confirms that Rutherford uses best practices. By listing this information it saves business and individuals the task of confirming sizes and model year of mobile homes, farm equipment etc. Because of changing trends, fewer people come in to list taxes and depend on the listing form to represent their real and personal property. Years of research and data are comprised on the forms. The value of the business and personal property listed in Rutherford County as of this report dated 12/15/10 was $628,526,737 which reflects $3,331,192 of tax dollars.

G. Liens and Garnishments on Property Tax

In 2010 budget discussions were held with the Board of Commissioners concerning lowering the tax bills the county seeks to collect from $5.00 minimum per bill to $1.00 minimum per bill. On the following pages is information on the number of motor vehicle written off and the tax dollars of those vehicles. There is also a certain amount of real property that would be subject to this reduction. The estimate that was given to the Board of Commissioners in 2010 was that the county would collect approximately $35,000 in additional taxes if the threshold was lowered which was calculated into the budget.

H. Refunds and Releases

If the Board wishes to separate the personal and real listing, the Tax Department will need to have some outside reprogramming done on our current system or it will be need to be done manually in the department.