

Special Report

Property Tax Limits – Ten (Plus) Years Later

Have They Worked?

Nearly 15 years ago, the candidates for Governor faced an electorate that was very angry about property taxes. Both candidates promised tax relief and, just over a decade ago, a system was put into place to deliver immediate relief to residential and agricultural taxpayers. The system used growth in assessed values to drive down mil levies for school general funds, thereby taking away an inflationary gain. The system put in place a process known as “state aid” and balanced the statewide funding of schools between local taxpayers and the state of South Dakota.

Beyond dramatically changing school funding, the property tax reforms limited the amount of revenue local governments could get from property taxes. Local governments are only allowed to increase revenues from their current tax base by 3% or inflation, whichever is lower. This calculation sets the mil levy for the local government, and the new mil levy is then applied to new properties. It is an often omitted fact that the limits on local governments are not the inflation factor alone, but include revenues from new buildings each year.

If you want a full explanation of how the property tax system works, begin by asking yourself “Why?” If a moment of self-reflection doesn’t change your mind, then this link <http://www.sdchamber.biz/default.asp?pageid=8> will take you to a Capitol-ism Special Report on the property tax system first published in 2008.

The question explored here is direct, have these reforms done the job? Have they been effective and can taxpayers see the benefits even now?

The answer is yes.a

This is easiest to see when examining real properties and the actual taxes paid by those properties. The Chamber takes a small sample of properties every couple of years to track the actual taxes being paid by each property since the reforms were passed in 1995. It is not an extensive list, it is not done statewide and it is not done each year. There are limits to even the Chamber’s appetite for a bland diet that’s all starch. Unless the properties sampled over the

years are a fluke, a general conclusion can be reached that tax payments are only now returning to levels they were thirteen years ago.

These taxes are the same in direct dollar terms, which gives added credibility to the claimed success of the limits. The real value of taxes paid this year will reflect several factors that make today's dollar less valuable than the taxes paid in 1995. These differences include:

- Inflation - \$100 in 1995 is the same as \$144 today (calculator www.dollartimes.com). Inflation averaged 2.47% throughout the 15 years
- Opt outs – Minnehaha County has passed two opt out levies for \$500,000 each
- Fees/Charges – The City of Sioux Falls has increased street and drainage fees

Caveats, conditions, pre-apologies and other limitations. To help with your analysis, it should be noted that all of these addresses are within the city limits of Sioux Falls. Not all cities are like Sioux Falls (and some of them don't even like the state's largest city). **Sioux Falls is a growth area.** This is an area where growth is putting downward pressure on mil levies. The Chamber will continue to do this analysis in communities that are not experiencing growth and also look at small communities that are experiencing a declining tax base.

Finally, the data - in the raw. Below you find tax payments and market values for the following sampled properties:

- Several small homes
- An intermediate home
- One “honker” home (million dollar plus)
- A small business
- A “big box” type retail outlet
- A manufacturing business (several hundred workers).

Property: Small House

Taxes Paid:

- 94 – \$1,457
- 08 - \$1,459 Includes \$41 more than 94 for streets/drainage

Market Value:

- 94 –\$53,104 - taxes as percent of value 2.6%
- 08 –\$99,109 - taxes as percent of value 1.47%

Full Tax History:

- 94 - \$1,457
- 95 - \$1,198
- 96 - \$1,174
- 97 - \$1,241
- 98 - \$1,167
- 99 - \$1,223
- 00 - \$1,170
- 01 - \$1,315
- 02 - \$1,362
- 03 - \$1,368
- 04 - \$1,392
- 05 - \$1,397
- 06 - \$1,433
- 07 - \$1,430
- 08 - \$1,459

Property: Small House

Taxes Paid:

- 94 – \$1,353
- 08 - \$1,317 - Includes \$52 more than 94 for streets/drainage

Market Value:

- 94 – \$49,273 - taxes as percent of value 2.7%
- 08 – \$88,033 taxes as percent of value 1.5%

Full Tax History:

- 94 - \$1,353
- 95 - \$1,115
- 96 - \$1,094
- 97 - \$1,154
- 98 - \$1,085
- 99 - \$1,127
- 00 - \$1,082
- 01 - \$1,200

- 02 - \$1,243
- 03 - \$1,230
- 04 - \$1,253
- 05 - \$1,258
- 06 - \$1,292
- 07 - \$1,290
- 08 - \$1,317

Notes: *Taxed out of a home - A look at political claims and rhetoric.* As the Sioux Falls City Council debated whether to take the allowed 3% revenue increase (see above), a council member reported talking to a person living in a 900 sq ft home who was worried about being taxed out of their home. This is a popular and often heard comment. The home in this example would be a similar home.

City taxes are 12% of total taxes, the rest are sent to the county and schools (and assorted others). If one removes the total street/drainage fee of \$71 from this property, the taxes are \$1,246. The amount of these taxes that goes to the city would then be roughly \$150.

The 3% revenue increase will not mean a 3% increase in the taxes, because the revenue will be received from more properties than the previous year. But even if the increased revenue caused a 3% increase in taxes, that would be an additional \$4.50 for the year or 38-cents a month.

Property: Intermediate Home

Taxes Paid:

- 94 – \$3,207
- 08 - \$2,773 Includes \$50 more than 94 for streets/drainage

Market Value:

- 94 – \$118,020 taxes as percent of value 2.7%
- 08 – \$189,628 taxes as percent of value 1.46%

Full Tax History:

- 94 - \$3,207
- 95 - \$2,622
- 96 - \$2,578
- 97 - \$2,460
- 98 - \$2,311

- 99 - \$2,424
- 00 - \$2,269
- 01 - \$2,555
- 02 - \$2,649
- 03 - \$2,653
- 04 - \$2,692
- 05 - \$2,698
- 06 - \$2,763
- 07 - \$2,750
- 08 - \$2,773

Notes: Records indicate that this house was built in 1993 so the taxes in 1994, the base year for this report, was the first year the property paid taxes with a building.

Property: High Value Home

Taxes Paid:

- 94 – \$11,673
- 08 - \$22,187** Includes \$170 more than 94 for streets/drainage

Market Value:

- 94 – \$432,514 - taxes as percent of value **2.69%**
- **08 – \$1,551,890 - taxes as percent of value 1.42%**

Full Tax History:

- 94 - \$11,673
- 95 - \$ 9,141 – first year of tax reductions
- 96 - \$10,251
- 97 - \$ 9,340
- 98 - \$ 9,819
- 99 - \$13,195 – first year of remodel
- 00 - \$18,494 – second year of remodel
- 01 - \$20,671
- 02 - \$21,650 – effects of tax limits evident from here forward
- 03 - \$21,476
- 04 - \$21,589
- 05 - \$21,673

- 06 - \$22,005
- 07 - \$21,982
- 08 - \$22,187

Notes: ** Records indicate a jump in building value in 1999 from \$472,222 to \$665,502 and then to \$1,101,853 in 2000. This is most likely the result of a remodeling (that must have bordered on a complete rebuilding). The net effective tax rate (see above) shows result of tax reform efforts.

Property: Small Business (Drive through restaurant with limited seating)

Taxes Paid:

- 2001** – \$8,365 (first year for business)
- 2008 - \$8,957 Includes \$400 more than 2000 for streets/drainage

Market Value:

- 00 – \$353,708 taxes as percent of value 2.36%
- 08 – \$466,342 taxes as percent of value 1.92%

Full Tax History:

- 01 - \$8,365
- 02 - \$8,552
- 03 - \$7,916
- 04 - \$7,977
- 05 - \$8,045
- 06 - \$8,576
- 07 - \$8,821
- 08 - \$8,957

Notes: This business was not built in the base year. Capitol-ism included this business in the study as it still demonstrates the basic principles involved in the tax reforms.

Property: Large Box Retail (Kmart, Wal-Mart, Target, Sears ...)

Taxes Paid:

- 94 – \$74,318

- 08 - \$81,083 Includes \$2,084 more than 94 for drainage fee

Market Value:

- 94 – \$2,710,527 taxes as percent of value 2.74%
- 08 – \$4,085,444 taxes as percent of value 1.98%

Full Tax History:

- 94 - \$74,318
- 95 - \$74,484
- 96 - \$87,260
- 97 - \$86,303
- 98 - \$87,563
- 99 - \$86,981
- 00 - \$92,328
- 01 - \$91,578
- 02 - \$91,640
- 03 - \$86,659
- 04 - \$75,527 – decline may reflect an appeal of value
- 05 - \$77,796
- 06 - \$83,343
- 07 - \$78,315
- 08 - \$81,082

Notes: This property shows the same trend as other properties. The decline of net tax rate (taxes as percent of market value) from 2.7% back to nearly 2%, which is .5% higher than the rate for homeowners and agriculture.

Property: Industrial/Manufacturer (In an industrial park)

Taxes Paid:

- 1998** – \$109,492 Amount for drainage not known
- 2008 - \$110,320 Includes \$6,000 total for streets/drainage

Market Value:

- 94 – \$4,044,825 taxes as percent of value 2.70%
- 08 – \$5,589,055 taxes as percent of value 1.97%

Full Tax History:

- 98 - \$109,492
- 99 - \$111,524
- 00 - \$106,881
- 01 - \$106,956
- 02 - \$109,609
- 03 - \$103,974
- 04 - \$104,172
- 05 - \$111,104 – increase in building value may indicate some remodeling.
- 06 - \$108,720
- 07 - \$102,962
- 08 - \$110,320

Notes: ** This business was first on tax records in 1994 but was granted a phase-in of property taxes that brought the assessed value to be taxed over 5 years. 1998 is the year when the full value of this facility is being taxed.

Thank you for your support of the South Dakota Chamber of Commerce and Industry.