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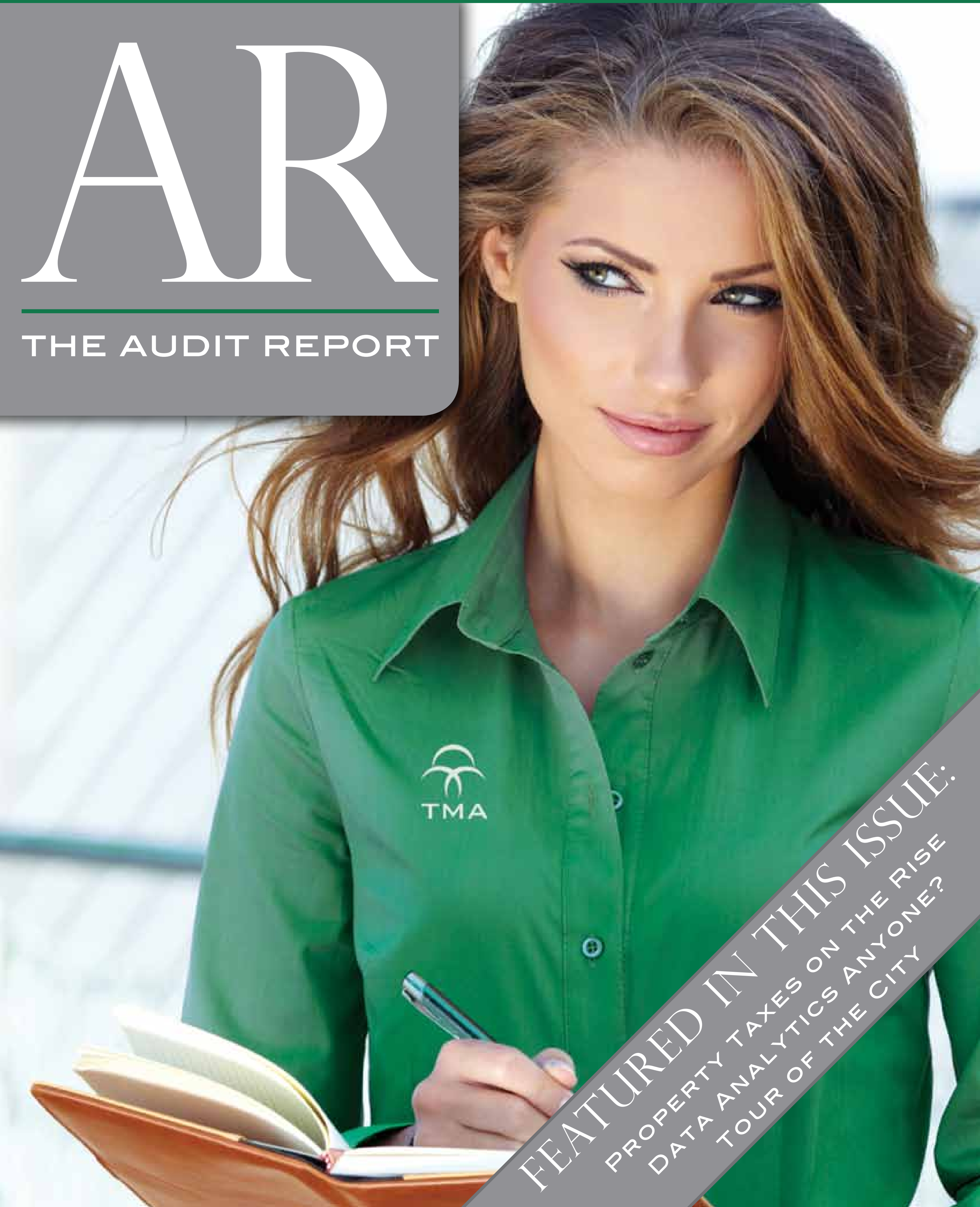

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PROPERTY TAXES ON THE RISE

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When Will It End?

Property Tax Rates continue to increase across the United States | *by Chip Cooke*

If you like, you can perform the same internet search I just completed using your favorite search engine. I went to mine and typed only two words – "property taxes." I then hit enter and selected the "news" option to narrow my results. I was very curious to see what made the headlines in our industry.

After twelve pages of reading various headlines from recent weeks from across the United States, the central theme became abundantly clear. We are still not out of the woods when it comes to property tax values and the corresponding property tax rates at the local level. I'm paraphrasing of course, but I saw, "County Set to Increase Property Tax Rate," "Taxpayers Unhappy with 1.7 Mill Increase," and "Commission Set to Vote on Increase." In only one instance did I see a rate drop in the coming year – a story from the state of North Dakota, which if memory serves, is still benefiting from domestic oil production and the corresponding rise in local option taxes.

For me, this was a sobering exercise. After all, I feel like I have heard my fair share of stories lately about the stabilization and even appreciation of the housing market. I expected at least half of the news articles to reflect some positive news – possibly even some local markets with tax decreases. At page thirteen, I quit looking.

> *"The real estate market has been involved in a massive loss of value that has essentially affected every part of American life."*

The truth of the matter is that since 2006, the housing and commercial real estate markets have been involved in an all encompassing correction. Much like the dot-com bubble burst during 2000-2001, the real estate market has been involved in a massive loss of value that has essentially affected every part of American life. Every single one of us knows at least one individual who has been affected through either soaring interest rates on adjustable rate mortgages, an inability to sell his/her property, an inability to fill vacant space, or outright foreclosure. I don't think it's getting worse, but it sure doesn't seem to be getting better.

So, let's talk about the obvious, and then some possible scenarios for a rise in property tax values, and hopefully a corresponding decrease in property tax rates:

First, we have to assume that housing values and commercial properties are driven by traditional supply and demand. We obviously have the supply – we just don't know if the supply is in the right markets. What powered

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the bubble in the first place? Well, for one thing, development in destination areas. The biggest areas of appreciation came in the coastal communities, mountain communities, and traditional vacation and retirement spots like Las Vegas, Phoenix, and Orlando. At one time, owning a home in one of these areas meant a nice vacation property for part of the year and a rental to offset the costs when not in use. Fueled by interest only loans and no-doc (no financial documentation needed) mortgages, these properties appreciated at breakneck speeds. So what happened?

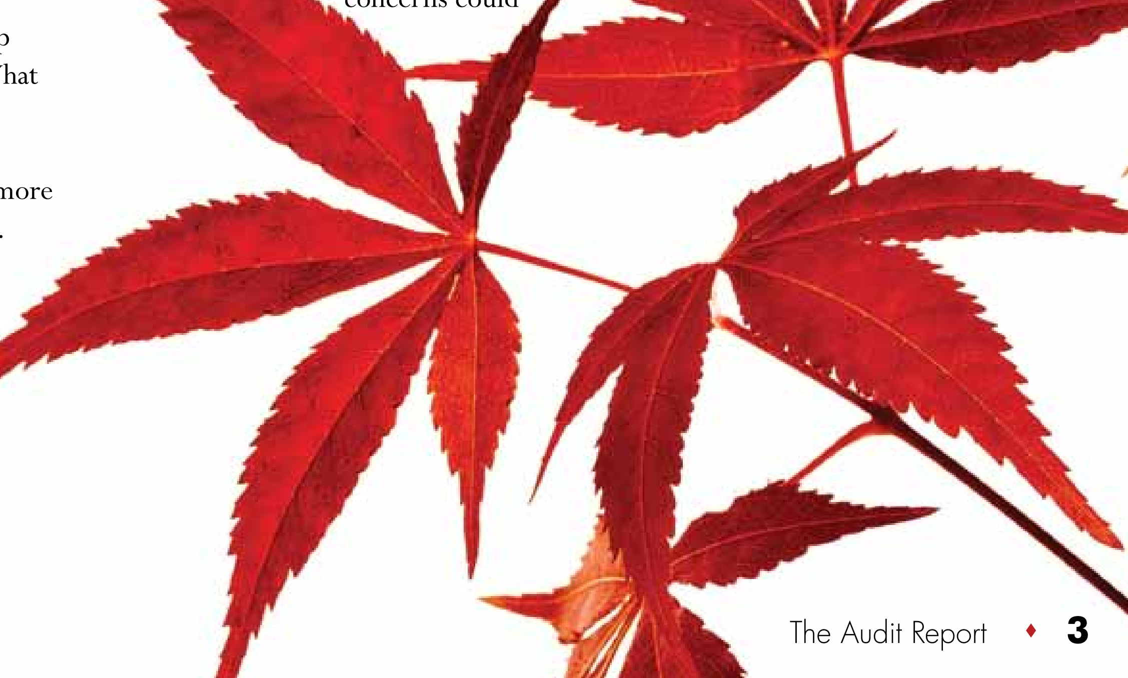
In late 2005 and 2006, many of the adjustable rate mortgages carrying very low initial rates saw their market rate adjustments come due. Taxpayers who were unable to refinance their loans found themselves with substantially higher monthly payments and a declining interest from renters or potential buyers. Many had taken the risky loans believing that they would never see the increased rate – they would simply “flip” the property before the note became due. Unfortunately, by this time interest in secondary home ownership was in decline and properties sat on the market causing a glut in inventory, and a corresponding drop in the real value of the property. What started as an equity rich retirement plan has ended with many of these properties “underwater,” or owing more to the bank than the home is worth.

Similar conditions were seen in the commercial markets. To this day we are still not sure that we have seen the bottom of the commercial values. Many prominent areas are still publishing vacancy rates as high as 25% - 30% as businesses have failed during the recession. So, with residential values still suffering and commercial values following suit, what are our options? I’ll have to preface this with, if I had that answer, this would certainly be my last newsletter article!

The reality is that as long as values remain low, one of two things must occur. One, we must raise the local property rates to reflect the drop in values, thereby keeping government service levels the same. Two, we can decrease the services provided by the government, reduce the overall budget, and reduce the tax rate to reflect the drop in necessary revenues. As both of these carry a heavy political consequence, elected officials are increasingly looking at gaining efficiencies instead.

The ultimate solution for increasing property values lies with the economy improving over the long run. Tax incentives for foreign businesses relocating to the United States, energy exploration and development, and new manufacturing concerns could all potentially jump start the economy, bringing more jobs into circulation and therefore more demand for additional housing. As housing supplies dwindle, prices and associated market values should rise. The lowering of tax rates would be the next logical step.

Until then, TMA will continue to assist your jurisdiction in maximizing the revenues allowed to it by statutes already in place. For more information on TMA’s services pertaining to revenue enhancement, please contact us at 1-800-951-5350, or find us on the web at www.tma1.com.



Data. Everywhere.

How Data Analytics should change the way you look at Government | *by Mark Cooke*

We are awash in data. Every service uses data to power its management and operations. We **intentionally** collect volumes of data; names, addresses, assets, qualities of the people, qualities of the assets, how much they should be billed, how much has been collected, etc.

We **unintentionally** collect even more. Dates and times, geo-locations, account numbers, notes, action codes, ip-addresses; these are traditionally the stuff that make the services work but they are now being seen as data themselves.

Left to the limitations of certain computing resources or without an understanding of how all this data can be valuable, being awash can quickly become drowning. With insight and the proper tools, though, we can channel that torrent into practical applications of discovery and actionable intelligence.

What is data? Data is a trace of a human event. When someone does something, it leaves a little electronic footprint of 0's and 1's. First, there is an event that needs to be recorded. Second, is the act of recording it. The latter also has qualities called "meta-data," but we will get to that below.

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Suffice that we now have our 0's and 1's, the meta-data represents the recording of an action in a way that our categories need to describe it, and through the systems we use to record it (and their limitations!).

So, someone buys a house (the human event). When they do so, there is a trickle of data that emerges. Registrars record deeds. Assessors update software to reflect the change in ownership. This creates an electronic record of buyers, sellers, the transaction price, the date it occurred, and so on. There might be codes for the transaction type, the property category (residential, commercial, etc), or applicable exemptions. Already, the data starts to fan out from one single event.

Let's say we change this example to someone who starts a business. Now in order to do so, they buy a commercial property, file incorporation papers with the state, get a local business or privilege license, file income taxes, pay real estate taxes, pay personal property taxes, and hopefully serve enough customers to stay afloat! In this example, it is not just an event that creates several layers of data, but a series of events related to the

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same action causing data to ripple out through multiple systems: local assessor, collector, state department of revenue, and secretary of state (depending on how your state is organized).

Meta-data and Inferential Connections. And, that's not it! Data has qualities which are referred to as meta-characteristics, and itself as meta-data. What this means is that data is input for a reason, already with certain qualities that are either defined by the reason, why the data is collected, or the system used to collect the data. For instance, native databases need to describe data in terms of what it is, like numbers, currency, or text.

Humans need to input data because that is how it "makes sense." It makes sense because it follows certain "rules." People have first names and last names. Names can infer marital status (First & First Name, Last Name). Addresses have numbers, street names, cardinal direction, and so on. Addresses also have an internal geo-reference to all other addresses. This "sense" is the meta-data that can be used to understand data across contexts, if we assume that we followed our own rules throughout the database.

What do I do with all that data? Seeing data as implicitly useful beyond its role in service lines is what has given rise to a process often referred to as Data Analytics or Data Mining. Data Warehousing is when you compile numerous large datasets into one single resource for the purpose of gleaning new insight. All of these techniques make use of relatively recent advancements in data storage and computing to allow tremendous insight…if you ask the right questions.

For example, a commonly applicable business insight might be to analyze where resources are being spent and how much revenue is derived from the same activity. If we took a business personal property database as an example, we might be interested in describing how many accounts cost more than they produce in revenue. Alternatively, you might also ask what the degree of change is year over year and produce a trend map to see if certain accounts have suspicious activity. Even better, you might take that trend map and overlay a social network analysis to see if reporting trends are related to a particular social network; like common owners, businesses by NAICS, or even common filers like representing organizations.

Use it. Whatever you do, use your data. Master it first: keep it clean, keep it standardized, and keep lots of it. However, you need to start asking questions that mean the most to your organization. Do you need to know the right questions to ask?

Tour of the City

Revenue Enhancement Services beyond Personal Property Audits | *by Taylor Ennis*

It's a pleasure to meet you. I'm Taylor Ennis, the Marketing Communications Specialist at Tax Management Associates. Here at TMA, I learn something new every single day. While I was aware of our prestigious reputation for conducting audits, I didn't fully realize the extent of our services. Let me be your tour guide as we explore a few services provided by our Special Project Division. Please keep in mind this is an overnight tour in the Charlotte area so there are a few things we'll have to plan for including: hotel, transportation, and of course, entertainment!

Before we begin our tour, here's a bit of background. Tax Management Associates works with more than 500 clients throughout the country, which gives us the unique opportunity to adapt our product lines to our clients' rapidly evolving needs. Our programs are strategically designed to provide your jurisdiction with access to under reported revenue, and we are committed to adapting our services to meet changing laws, as well as our clients' expectations. Due to shrinking government budgets, TMA is always looking for ways to locate value or money that may have been previously overlooked. I'll tell you more about our revenue enhancement services throughout our tour.

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Occupancy Tax

The first stop on our excursion brings us to the fabulous Ritz Carlton Hotel in Uptown Charlotte. Your suite overlooks the entire city, including the Bank of America Stadium, home of the Carolina Panthers.

An occupancy tax is included in the fees of this hotel. This tax is generally defined as a tax collected by facilities in which members of the public rent sleeping accommodations. For example, hotels, motels, tourist camps, and bed and breakfasts all fall under this tax. Occupancy tax is intended to capitalize on non-permanent residents who stay in a jurisdiction. The rate for occupancy tax in North Carolina is six percent (6%). However, the minimum amount of the rental cost and length of stay varies from state to state.

There are also several exemptions that include, but are not limited to, accommodations furnished by nonprofit, charitable, education, benevolent, or religious organizations when utilized for their nonprofit

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purpose. Typically, this tax is utilized to fund travel and tourism related expenditures that are designed to increase the use of lodging, meeting, or convention facilities. It is also used to attract tourists or business travelers to the area.

Some counties have specific amendments to this tax in order to support certain facilities or projects. For example, if we were at the beach or visiting a coastal jurisdiction, this tax may be used for beach replenishment projects. Since we've decided to stay Uptown, we will pay an additional two percent (2%) tax that supports the NASCAR Hall of Fame. We'll be sure to stop by the Hall of Fame for a tour before heading home.

I've shared with you a bit about occupancy tax to find out what facilities could be funded by the occupancy tax in your jurisdiction. Are you confident that all occupancy taxes are being properly reported? Perhaps Tax Management Associates can assist you to ensure your local government is receiving a fair amount.

Now that our hotel is squared away, let's explore a few Charlotte sites. One of my personal favorites is the National White Water Center.

Vehicle Rental Tax

The Charlotte Lynx system, or light rail, doesn't reach the White Water Center, so we'll have to rent a car. Not to worry, I'm a fantastic driver! When renting a car, we'll pay a vehicle rental tax. In conjunction with the occupancy tax, vehicle rental tax is intended for temporary residents of a jurisdiction.

According to the Triangle Transit Rental Vehicle Tax Division, a vehicle rental tax to support capital investments in transit was approved by the N.C. General Assembly and became effective January 1, 1998. The tax is imposed at the rate of five percent (5%) on the gross receipts derived by a retailer from the short-term or rental of U-drive-it vehicles and motorcycles in Durham, Orange, and Wake counties. Entities that fall under this tax may include: automobile rental agencies, truck rental agencies, trailer rental agencies, and equipment rental agencies.

In Charlotte, vehicle rental tax rate is one and one-half percent (1.5%) for the county and one and one-half percent (1.5%) for the City of Charlotte. This rate varies as do the exemptions, per the jurisdiction. Vehicle rental tax is used to assist with funding performing art centers, culinary institutes, and stadiums. By paying the vehicle rental tax, we've assisted with funding the Bank of America Stadium. Perhaps we can go to a game while we're in town. But let's not talk about the Panthers today: it's been a rough season.

So tell me, what does the vehicle rental tax fund in your jurisdiction? Tax Management Associates can assist you to ensure your local government is receiving the proper amount of Vehicle Rental Taxes in your city or county.

Privilege Tax

After a day of rafting at the White Water Center and a quick tour of the NASCAR Hall of Fame, I don't know about you, but I'm famished! I know a great place we can grab dinner and watch a movie. Actually, the MEZ Uptown serves dinner during movies, so let's head there.

Did you know that the movie and dinner will charge an additional tax? This is known as a privilege tax. A privilege tax is imposed on the gross receipts of a person who is engaged in an amusement event to which an admission fee is charged. This may include movies, dance performances, athletic events, or a circus, among other events. The minimum fee varies per state, as do the exemptions. With such a wide variety of applications for this tax, it may be cumbersome to verify that your jurisdiction is receiving the appropriate funds, but again, Tax Management Associates is here to assist you.

When viewing the larger picture of local economies, it is evident that many local governments are dependent upon tourists. These non-permanent residents assist with supporting restaurants, theaters, hotels, convention centers, and airports, among other facilities.

I hope you have enjoyed our tour as much as I have. You're always welcome in Charlotte. If you'd like more information about how Tax Management Associates can assist your jurisdiction with occupancy, vehicle rental, or privilege taxes, stop by our office at 2225 Coronation Blvd., Charlotte, NC 28227.

Revenue Enhancement | Audit | Fraud Detection

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