



Town of Chapel Hill

Revenue Neutral Tax Rate Calculation

May 13, 2009

Kenneth C. Pennoyer
Business Management Director

Revenue Neutral Tax Rate

- A statement of the revenue neutral tax rate must be published in the budget after a revaluation.
- The revenue neutral rate is defined as: *“the rate that is estimated to produce revenue for the next fiscal year equal to the revenue that would have been produced for the next fiscal year by the current tax rate if no reappraisal had occurred”*

Revenue Neutral Calculation

The revenue neutral tax rate is calculated as follows:

1. Determine a rate that would produce revenues equal to those produced for the current year
2. Increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to growth since the last reappraisal
3. Adjust the rate to account for annexation, merger or similar events.

Calculation of the Tax Levy

- The tax levy is the amount of property taxes that will be billed based on the assessed valuation and the tax rate

<u>YR</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>
08-09	5,821,775,337	X 0.581	= \$ 33,824,515

The Revaluation Assessed Values

- The starting point for the calculation of the revenue neutral rate is the assessed values provided by the tax assessors (Orange & Durham).
 - Orange County provided the following with respect to the assessment numbers for 2010:
 - Real Property - \$6,000,000,000*
 - Personal – 10% reduction
 - Motor Vehicle – 10% reduction
 - Public Utilities – 10% reduction
 - Homestead Exemption – Plus 28%

*** Subject to change per Tax Assessor**

Assessed Values for FY2009-10

	Orange County Pre-revaluation	Orange County Est. FY2009-10	Durham	Total Est. FY2009-10
Real	4,816,455,775	6,000,000,000	386,222,157	6,386,222,157
Commercial			106,060,165	106,060,165
Personal	161,324,556	145,192,100	1,189,948	146,382,048
Motor Vehicle	279,263,045	251,336,741	22,977,729	274,314,470
Public Utilities	60,933,383	54,840,045	1,784,386	56,624,431
Homestead Exemption	(9,661,348)	(12,366,525)	(287,605)	(12,654,130)
Total Valuation	5,308,315,411	6,439,002,360	517,946,780	6,956,949,140

Estimated Post-revaluation
Assessment for Orange County

Assessed value used to
calculate revenue neutral rate

Step One of Revenue Neutral Calculation

1. Determine a rate that would produce revenues equal to those produced for the current year

<u>YR</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>
08-09	5,821,775,337	X 0.581	= \$ 33,824,515
09-10	6,956,949,140	X 0.486	= \$ 33,824,515

Solving for tax rate

Step One of Revenue Neutral Calculation

1. Determine a rate that would produce revenues equal to those produced for the current year

<u>YR</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>
08-09	5,821,775,337	X 0.581	= \$ 33,824,515
09-10	6,956,949,140	X 0.486	= \$ 33,824,515

Revaluation assessment

Calculation of Growth Rate

2. Increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to growth since the last reappraisal

<u>YR</u>	<u>Assessed Valuation</u>	<u>Valuation Increase</u>	<u>% Change</u>
05-06	5,299,402,374		
06-07	5,472,958,888	173,556,514	3.28%
07-08	5,659,756,385	186,797,497	3.41%
08-09	5,821,775,337	162,018,952	<u>2.86%</u>
Average Growth			3.18%

Calculation of the Tax Levy

- Applying growth rate to calculation of revenue neutral tax rate

<u>YR</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>
09-10	6,956,949,140	X 0.486	= \$ 33,824,515
Average Growth		<u>3.18%</u>	
Revenue Neutral Rate		0.502	

Official Declared Revenue Neutral Rate

Calculation of Growth Rate

2. Increase the rate by a growth factor equal to the average annual percentage increase in the tax base due to growth since the last reappraisal

Orange County Only

<u>YR</u>	<u>Assessed Valuation</u>	<u>Valuation Increase</u>	<u>% Change</u>
05-06	5,031,525,995		
06-07	5,190,663,017	159,137,022	3.16%
07-08	5,265,287,763	74,624,746	1.44%
08-09	5,290,251,382	24,963,619	<u>0.47%</u>
		Average Growth	1.69%

Calculation of the Tax Levy

- Applying growth rate to calculation of revenue neutral tax rate

<u>YR</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>
09-10	6,956,949,140	X 0.486	= \$ 33,824,515
Average Growth		<u>1.69%</u>	
Recommended Rate		0.494	

Based on Orange County Growth Only