

## FINAL REPORT

The following is the final report of the Joint Study Committee on the Property Tax Digest Impact on Education Funding – Senate Resolution 875.

The Joint Committee studied the process of developing, evaluating, certifying, and reviewing the property tax digest for counties. This digest in its final form provides the basis for the Department of Education's calculation of Local Fair Share and Equalization funding.

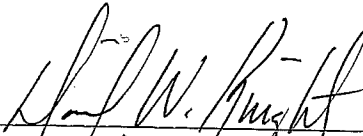
The three recommendations represent the Committee's ideas on improving the tax digest development process and preventing errors from causing additional funding after funds are distributed.

1. Enhance training - the Committee believes slightly adjusting existing training by DOR of local tax officials would insure the proper reporting of taxable and exempt lease hold arrangements.
2. The Committee finds that the Department of Revenue could improve the identification of an additional exemption code for exempt lease fee arrangements and a taxable code for taxable lease hold property classifications.
3. The Committee believes the present two year process, combined with enhanced training and identification aids like taxable codes, will give local education systems ample time to correct any errors that may accumulate, especially by the November 15 audit completion date each year. For that reason, the committee recommends no action by the Legislature on Educational funding that occurs after the Tax Digest is fully equalized and adjusted.

We appreciate the work of the House and Senate staff and are grateful for the involvement and participation of committee members.



\_\_\_\_\_  
Senator Jack Hill, Co-Chair  
District 4



\_\_\_\_\_  
Representative David Knight, Co-Chair  
District 130



# The General Assembly

Atlanta, Georgia 30334

## **FINAL REPORT OF THE JOINT STUDY COMMITTEE ON THE PROPERTY TAX DIGEST IMPACT ON EDUCATION FUNDING**

### **COMMITTEE MEMBERS**

Senator Frank Ginn  
District 47

Representative Mike Dudgeon  
District 25

Senator Freddie Powell Sims  
District 12

Representative Don Parsons  
District 44

Senator Lindsey Tippins  
District 37

Representative Ed Rynders  
District 152

Senator John Wilkinson  
District 50

Representative Al Williams  
District 168

## **Introduction**

Senate Resolution 875, passed during the 2014 Legislative Session, created the Property Tax Digest Impact on Education Funding Joint Study Committee. Senator Jack Hill and Representative David Knight served as the study committee's co-chairmen. Other members of the committee included: Senator Frank Ginn, Senator Freddie Sims, Senator Lindsey Tippins, Senator John Wilkinson, Representative Mike Dudgeon, Representative Don Parsons, Representative Ed Rynders, and Representative Al Williams.

The committee was established to study and evaluate the reporting of local tax revenues that impact the funding received by local school systems, specifically but not limited to equalization and local five mill share. The study committee held two meetings on October 23, 2014 and November 24, 2014 to hear testimony and make recommendations.

Although the study committee did hear information related to education funding, the focus was on correct and transparent reporting of local revenues.

## **Findings**

At its first meeting, the committee heard testimony from the following individuals:

- Ellen Mills, Director, Division of Local Government Services, Department of Revenue
- Todd Paschal, Director of Sales Ratio Division, Department of Audits and Accounts
- Scott Austensen, Deputy Superintendent for Finance and Business Operations, Department of Education
- Rachel Pruitt, Tax Commissioner, Lumpkin County
- Steve Pruitt, Chief Appraiser, Tax Assessor's Office, Gwinnett County

The purpose of the testimony was to understand, and ultimately document, how local governments assess and collect tax revenue and how that information is submitted, approved and utilized by various state agencies. The product of the tax digest is ultimately used by the state as the basis for calculating the equalization and local five mill share funding formulas and any errors in the data can impact school system earnings.

## **Roles and Division of Responsibilities in Tax Reporting**

As the study committee heard, the tax digest is the listing of all tangible and real and personal property that has been assessed for taxation for the current tax year in the county<sup>1</sup>. The Department of Revenue articulates the division of responsibility in their *Property Tax Digest 2014* tax commissioner procedures guide released in October of 2014, which is the basis for the information presented below. The tax commissioner, board of tax assessors, tax assessor and Department of Revenue responsibilities are set below. In addition, the county governing authority and the school board also have duties in taxation, and ultimately reporting, which are described as well.

---

<sup>1</sup> Department of Revenue. Local Government Services. *Property Tax Digest 2014*. Print.

### Tax Commissioner

The tax commissioner is responsible for the preparation and submission of the digest for each tax district within the county, assembling and submitting with the digest all necessary certification information, requesting an extension from the Department of Revenue if needed, and coordinating documentation accompanying the digest if questions arise.

Additionally, the tax commissioner ultimately bills and collects taxes for the county and other eligible jurisdictions.

### Tax Assessor and Board of Assessors

The tax assessor is responsible for determining what property is subject to taxation, determining the value of property, approving the work of appraisers, approving exemptions and special assessments and working through appeals made by taxpayers.

### County Governing Authority

The county commissioners are responsible for setting the budget, setting the millage rate, approving the correction of errors and authorizing refunds.

The governing authority is also known as a “levying authority” in the county and is required to publish in a county newspaper of general circulation the five-year history with the current year’s digest values and millage, in addition to advertising and holding public hearings regarding certain tax increases.

### School Board

The school board is responsible for setting the budget for the school system and recommending the millage rate to fund the school budget.

The school board is also known as a “recommending authority” because they do not have the power to actually levy a tax, rather they have the power to cause the levying authority to levy taxes. They are also required to publish in a county newspaper of general circulation the five-year history with the current year’s digest values and millage, in addition to advertising and holding public hearings regarding certain tax increases.

### Department of Revenue

The Department of Revenue (DOR) provides required training to officials involved. Pursuant to O.C.G.A § 48-5-268, DOR is required to instruct, operate, and administer courses of instruction to provide for the training of new appraisers and for the continuing education of experienced appraisers. In addition, pursuant to O.C.G.A § 48-5-126.1, county tax collectors and tax commissioners are also required to attend training. Finally, per DOR Regulation 560-11-2-.25 the agency provides required training for county appraisal staff.

DOR accepts the submission and examines and reviews the digest with accompanying documentation to ensure that the submission is complete. DOR also issues an order authorizing the Tax Commissioner to

proceed with the billing and collection of taxes. DOR may also grant extensions to the deadlines for submission.

#### Department of Audits and Accounts, Sales Ratio Division

The Department of Audits and Accounts (DOAA) is responsible for establishing and preparing an equalized adjusted property tax digest for each county in the state and for the state as a whole for the current calendar. The equalized adjusted property tax digest measures and evaluates the quality of the assessments made by the board of assessors.

### Process for Proper Tax Reporting

As noted above, there are a number of entities involved in producing and collecting a local tax digest. The following information documents the process from the creation of the digest to its actual utilization in school funding formulas.

#### Tax Commissioner

The tax commissioner is responsible for providing to the board of assessors the tax returns and exemptions filed by taxpayers for the current year. Included in materials is a comprehensive list of property owners and declared values, which the tax commissioner is to provide on or before April 11<sup>th</sup>.

The tax commissioner is required to compile the assessment data and submit the county property tax digest to the revenue commissioner by August 1<sup>st</sup>. If counties are unable to meet the deadline, an extension must be requested by the tax commissioner, which must contain a detailed explanation of the circumstances that warrant the consideration for the extension.

Finally, once the tax commissioner receives an order authorizing billing and collecting on the digest, the tax commissioner bills and collects taxes.

#### Tax Assessor and Board of Assessors

As stated earlier, the tax assessor is responsible for determining what property is subject to taxation, determining the value of property, approving the work of appraisers, approving exemptions and special assessments and working through appeals made by taxpayers. The board of assessors completes revisions to taxpayer returns in order to ascertain what property is subject to taxation and to see that all property is assessed at its fair and equitable burden.

There are certain circumstances, for the purpose of economic development, that a local development authority may negotiate an arrangement with a business where a property is removed from the taxable digest and a payment is made to the school system in lieu of taxes at the same rate that would have occurred if the property were not subject to an exemption. Payments in lieu of taxes (PILOT) are governed under O.C.G.A § 36-80-16.1. Payments in lieu of taxes can be paid for either in return for the issuance of revenue bonds for capital expenditures or in further consideration when a school system is impacted by an exemption to ad valorem valuation for such new capital projects within their jurisdiction.

The school board that has jurisdiction over the area in which the new capital project is to be built must consent to the PILOT in the form of a resolution that is to be supplied by the board. Funds derived from PILOTs can be paid directly to the governing body to which the payment is due or can be paid through another indirect source, such as a Development Authority. These arrangements do have an impact on school system funding as discussed below.

The board of assessors of each county is to complete the revision and reassessment of taxpayer returns in their respective counties by July 1<sup>st</sup> of each year.

#### Department of Revenue

Once the preliminary digest has been perfected and the local levying authorities have established tax rates, the digest is submitted by the tax commissioner to DOR for review by August 1<sup>st</sup> unless the Department has granted an extension.

DOR utilizes a review process that mostly involves interaction between the DOR and the board of tax assessors and once satisfied with a complete submission from the tax commissioner, issues an order authorizing the tax commissioner to proceed with the billing and collection process.

#### Department of Audits and Accounts

The Department of Audits and Accounts is responsible for producing the Equalized 100% Adjusted Property Tax Digest Report on or before November 15<sup>th</sup> of each year. In order to calculate the adjusted digest and produce the report, the DOAA relies on data provided by the DOR and county tax assessors. Data submitted to DOAA from DOR includes the approved property tax digest consolidation sheets, the tax allocation district exemption information, public utility and railroad equipment digest and other support data as requested. County tax assessors' offices submit a digital property tax digest that matches the one approved by the DOR. The Georgia Superior Court Clerks' Cooperative Authority submits the real estate transfer forms. DOAA uses this external data as well as internal data including real estate appraisals, county property records and sale qualification documentation to produce the Equalized 100% Adjusted Property Tax Digest Report as prescribed in O.C.G.A § 48-5-274.

Each summer (June or July), DOAA releases a preliminary Equalized 100% Adjusted Property Tax Digest Report. A copy of the report is provided to the governing authority of each county, the governing authority of each municipality having an independent school system, the local board of education of each school system, the tax commissioner or tax collector of each county, and the board of tax assessors. This information is also provided to the State Board of Education, the Governor's Office of Planning and Budget, the House Budget and Research Office and the Senate Budget and Evaluation Office. The document is also made available to the public on the Department of Audits and Account's website.

Upon review of the digest any of the governing authorities, including the local board of education, may within 30 days question the auditor as to the validity of the published digest. (The auditor must notify the State Board of Education if the digest of a local school system is being questioned and no education funding formula computations may be made until the digest has been corrected, if needed.) The auditor has 45 days from receiving the request to determine and notify all interested parties as to the

correctness of the published digest. If any of the parties are still dissatisfied with state auditor’s determination, they may refer to question of correctness to a board of arbitrators within 15 days of the auditor’s decision. The board of arbitrators has 15 days from the time of appointment to make a decision about the correctness of the digest. The auditor must correct the digest based on the board of arbitrators decision and notify all parties of any corrections. After any needed adjustments or corrections are made, the Department of Audits and Accounts produces the final Equalized 100% Adjusted Property Tax Digest Report by November 15<sup>th</sup> of each year.

Local governing authorities and local boards of education may request appeals. The following chart indicates the number of appeal requests over a six year period. Of the 10 appeals in 2013, two requested arbitration.

**Table 1. Annual Digest Appeals**

Digest Year	Number of Appeals
2013	10
2012	7
2011	4
2010	5
2009	13
2008	25

### Department of Education

By November 15<sup>th</sup> of each year, the DOAA must provide the State Board of Education with the equalized adjusted school property tax digest. This Equalized 100% Adjusted Property Tax Digest Report is utilized by the Department of Education in both the calculation of **local five mill share** (the required local contribution for Quality Basic Education earnings) and **equalization** (the state’s formula for providing additional financial assistance to school systems ranked below the statewide average of per pupil tax wealth).

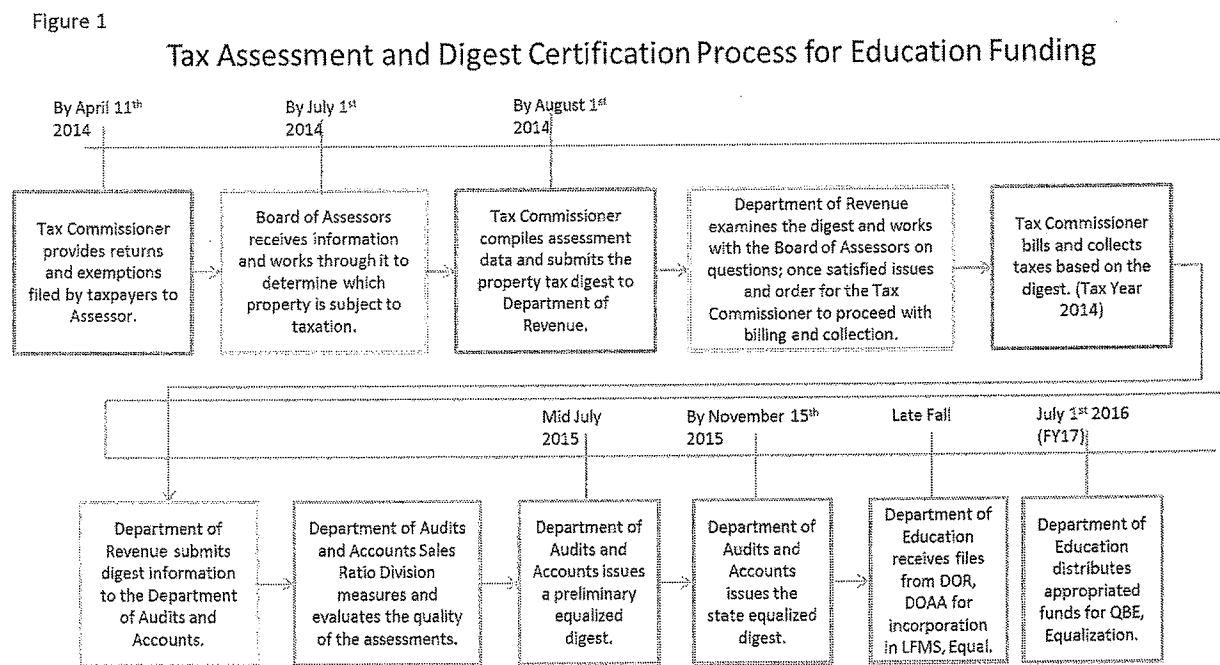
The most recent equalized adjusted school property tax digest becomes the basis for the calculation of each school system’s local five mill share calculation in accordance with O.C.G.A § 20-2-164. This same information is also used to help determine a school system’s wealth ranking for the Equalization calculation per O.C.G.A § 20-2-165.

Both local five mill share and equalization formulas involve multiple calculations with data including the equalized adjusted school property tax digest, school millage rates, local tax revenue, exemptions, and full-time equivalent (FTE) student counts provided by the Department of Audits, Department of Revenue, the Department of Education, the Governor’s Office of Planning and Budget and local school systems. Any error in reporting one of the data elements, including the equalized adjusted property tax digest, could have an impact on formula earnings for one or multiple systems. In addition, PILOT projects do have an impact on the formula earnings as removing property from the digest does make a system look poorer and could increase a system’s local five mill share and equalization earnings. At the same time, systems do receive revenue in the form of a PILOT payment so they can stand to benefit in two

ways from such arrangements. However, the purpose of this study committee is not to make a statement on the merit of those arrangements, but rather to understand the process.

## Timeline of Tax Assessment and Digest Certification Process

Figure 1 below illustrates the process of how digest data is collected, reported and utilized by various state and local entities.



## Recommendations

The joint study committee began its review hearing from the agencies and stakeholders involved in the process to understand the relationship and connectivity of reporting among and between entities. Although many items were discussed, the focus concerning the options for improvements in tax reporting led to three recommendations listed below.

1. **Enhance training.** The Department of Revenue as referenced above does currently provide training to several parties involved in the process as required in statute and regulation. One of the regular reoccurring opportunities in which training is provided is at a seminar immediately following the close of the Legislative session, where DOR expects over 600 attendees annually. It is the recommendation of this committee to request DOR incorporate specific training by qualified individuals on the proper reporting of taxable lease hold and exempt lease fee arrangements executed by eligible jurisdictions in the May of 2015 seminar, and also utilize the training material to incorporate a similar segment into other training opportunities as DOR sees fit.
2. **Create new code for reporting.** Additionally, the committee heard a recommendation that DOR add as acceptable classification/strata codes an additional exemption code for exempt lease fee arrangements and a taxable code for taxable lease hold property classifications including PILOT



projects. These additional classification/strata codes would provide clarity to the digest and allow for statewide reporting on these arrangements.

3. ***Set deadline for correcting errors.*** Current law already provides for an appeal and correction process involved in tax reporting by the entities involved, including school systems, and provides that the Department of Audits and Accounts must produce the final Equalized 100% Adjusted Property Tax Digest Report by November 15<sup>th</sup> of each year. The committee affirms the current process, which appears satisfactory to appropriately handle disagreements and errors. In addition, due to the inherent time lag between assessment and collection and incorporation into the Education funding formulas, it is the recommendation of this study committee that mistakes or error adjustments can no longer be reported for consideration by the General Assembly once the final digest report has been released.