Report to Board of Supervisors

Ad Hoc Tax Committee

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The Northampton County Board of Supervisors
16404 Courthouse Road
Eastville, Va. 23347

Dear Members of the Board of Supervisors:

The tax Committee was asked to review and recommend changes to the taxes charged and collected for Northampton County. We have now completed that review and would respectfully propose a number of recommendations to the Board of Supervisors on how some taxes should be assessed and collected.

Committee Principles:

The Committee had a strong consensus that taxes should be collected on as broad a base of activities as practical. Clearly today the County is too reliant on residential property taxes. A broader base would allow a lower tax rate with reduced disruption to economic activity and fewer unforeseen consequences from tax avoidance. We also felt strongly that taxes on comparable activities or property should be consistent. For example, two properties with equal valuations should be taxed consistently and two businesses with similar claims on County resources and similar resources should be taxed consistently. Finally we recognized the value of predictable and consistent taxation. This allows businesses to better plan and expand activity in the County and reduces the likelihood of personal hardship created when taxes change rapidly and unpredictably for specific businesses or individuals.

Broadening Tax Base:

In terms of broadening the tax base, we noted that one of the central problems for our County is that two of its primary economic activities, Agriculture and Aquaculture, are predominantly wholesale operations where Virginia does not permit local taxation. Tourism has a number of applicable taxes which is particularly appropriate given the County services required by that sector. Agriculture is taxed primarily through land taxation and generally has limited demand for County services. But because its output is only weakly linked to tax through assessment valuations, we noted the potential for unfair taxation since wholesale agriculture output has no local tax.

Particularly problematic is aquaculture. Given its importance to the County in providing employment and pulling in resources from sales outside the state, we would not recommend any tax that could

jeopardize that sector. We note that the industry is somewhat mobile in moving County to County or to Maryland. That said, today there is almost no tax collected by the County in this sector (limited today to equipment taxes and boat taxes and limited real estate holdings of the processing facilities). We would recommend that the Board of Supervisors begin a conversation with our state representatives to see if any adjustment to local taxation of wholesale operations would be appropriate, and in particular on aquaculture's local activities. We recognize the unlikelihood of much progress at the state level. But clearly taxing appropriately the major economic sectors locally is key to broadening and stabilizing tax rates to support required County services.

AFD and Land Use Taxation

We reviewed the tax on agricultural and forested lands. There were three issues considered in this discussion. The first is whether AFD's and/or land use taxation make sense for Northampton County. The second was whether the rate of taxation was appropriate. Finally, we reviewed whether the implementation of the AFD process resulted in equitable tax treatment of land taxation.

The consensus of the Committee was that the use of AFD's (Agricultural Forestry Districts) was appropriate in Northampton County. The use of AFD's reflects the importance of this economic sector for our County. It also supports the apparent desire of a majority of residents to maintain open land in the County. Since the tax valuation is based on SLEAC values by the assessor’s office, the property assessment is from an independent third party and theoretically reflects the value proposition from its use in agriculture. That means that taxes collected are loosely linked to the productivity of this segment.

The Committee also discussed the merits of returning to an annual land use taxation scheme. The consensus was that, while this had merits in terms of fairness and predictability, without a time commitment and the other considerations proposed for AFD applications, it was not well targeted to lands that should qualify for tax reduction. We also discussed shortening the AFD commitment period as a compromise between the two approaches. However, the Committee largely felt that the ten-year period indicated a high level of commitment and also enabled longer term planning for farmers.

The current tax rates appear to be broadly normal with rates/acre in other jurisdictions (see attached note’s) although it was noted that many jurisdictions do not charge taxes on agricultural equipment . We also discussed at length what relationship we should recognize between services required by this economic sector versus what taxes are collected. We noted that some forms of farming such a industrial tomato farming may well make higher demands on County expenses and services than other types of farming such as grain farming. This may be appropriate to factor into the application process for reduced taxation.

While we felt that AFD tax approach was appropriate, the Committee was concerned by the unpredictable nature of the AFD application process. We suggest that the process could be improved if the BOARD OF SUPERVISORS began a more strategic assessment by targeting an overall acreage for inclusion in the combination of Conservation Easements and the AFD. We would like to reduce the emphasis on the timing of the application and focus more on long term County needs and strategy in

awarding the tax reduction. It is relatively common that one property in an AFD is taxed lower than another property that is not in an AFD but is equally qualified and desirous to join an AFD. We noted that Northampton County's application fee is unusually high and felt that in the current environment; the imposition of the fee is unfair unless the process can be made more predictable. We recommend that the Board consider formalizing the application process with a rating system (see attached proposed rating system as an example to be modified by the Board as necessary) and that the Board publicize both its target acreage for inclusion and the approximate number of acres that would be considered for addition each period. We would recommend that the assessor's office provide the score for each parcel already in the AFD so that parcels can be ranked within the current allocated acreage totals. That way renewal parcels can understand clearly where they are ranking and what is the likelihood of their renewal being approved. Properties containing residential subdivisions should not be renewed. New applicants would provide the information for scoring and the AFD Committee would review for accuracy. Applications above the BOARD OF SUPERVISORS target would be moved to a waiting list and no fee would be charged until the application was taken off the waiting list and was moving towards BOARD OF SUPERVISORS approval. We felt that, over time, this process would help move the AFD program towards the constituencies and targets that the Board of Supervisors has expressed interest in – specifically towards owner operated farms that have lower County service demands and towards properties that contribute best to County goals of open space and good agricultural practices (eg. Drainage management, soil quality, etc..). It would also help dispel the perception that the award of an AFD is more linked to politics than to a consistent County policy or goals.

Other Taxes and Fees:

The Committee also completed a summary review of all other taxes and fees. Overall the Committee was somewhat troubled by the admittedly common practice of commingling fees and taxes by the County. We would like to recommend again that fees be minimized and be limited to covering incremental expenses incurred by the County for managing a service. This current practice of high fees creates a fairness issue where radically different applications or operations pay the same fee. For example, the BPOL should be a small license fee ($30) that encourages the largest number of businesses to register and pay their fee. The remaining charge would be more clearly a tax and should be assessed as a percentage of gross receipts. This would eliminate the possibility of a lemonade stand paying the same BPOL to the County as our largest businesses. Again, this tax is a minor source of revenue today. This is the area where state relief is needed to enable the County to assess a higher proportion of the businesses operating in the County so as to keep the tax competitive and supportive. We did feel that the machinery and tool tax could be returned to its level prior to 2013's reduction. This reduction appears to have been made to provide relief to one local business, which may not need that level of subsidy any longer. In general, we felt that the County should continue to review those tax rates to make sure they are comparable to surrounding comparable tax jurisdictions.

After much discussion and analysis, below is a list of our finding and recommendation to the areas of study requested by the Board.

Board Charge

1. Review the existing taxes adopted by the Board of Supervisors

    a. evaluate the rate imposed for each tax

    b. Determine its competiveness to our comparable communities as provided by the Finance Director and the County's Financial Advisors

Committee Finding

After reviewing the existing tax rate adopted by the Board of Supervisors, the Committee felt that the current rates appear to be competitive to our comparable communities. In FY 13, the tax rate for machinery and tools was decreased from $2.25 to 2.00 per 100 assessed values. This is one possible area the Board could increase if the Board needed additional revenue to balance the budget this Fiscal Year. Note: The reason this was decreased in FY13 was one of the largest businesses in Northampton County was facing very hard times to stay in business and had a large volume of machinery and tools. Now this business has recovered.

Board Charge

2. To examine personal property categories that are available pursuant to the Code of Virginia but that the County has not currently adopted as part of its tax structure and provide a comprehensive review and recommendation to the Board whether it should consider or not consider adding any additional personal property categories to the County's tax structure.

Committee Finding

It is the Committee's recommendation to implement the full Business Professional and Occupational License (BPOL) tax instead of the modified BPOL tax that is currently adopted by the Board of Supervisors. The full BPOL tax would be based on gross receipts as well as the $30 license fee.

Board Charge

3. To examine and review the valuation methodology utilized for agricultural property that receives Land Use valuation through the Agricultural Forestall Districts and provide a comprehensive review and recommendation to the Board whether it should consider implementing a revised valuation methodology currently employed by the County

Committee Finding

The Committee studied the number of possible acres that are not currently in an AFD and would qualify as an AFD. The estimate given to the Committee was 24,857 acres. The total tax loss to the County if all 24,857 acres were put into the AFD program was estimated to be $691,819. After much discussion, the consensus of the Committee was that not all acres would apply to become an AFD and a more realistic potential revenue loss would be less than $300,000. The Committee consensus was to set a maximum annual number of acres to be allowed in the AFD. Once the maximum acres had been met, the County is not to accept any more applications and application fees. The County is to maintain a waiting list of those who wish to enter into the program. (*** note, fees are due when the application is submitted***)

Board Charge

4. To examine and review whether One Year Land Use, pursuant to the Code of Virginia Section58.1 -3230, which the County rescinded in 2009, should be reinstated and provide a comprehensive review and recommendation of this matter.

Committee Finding

The consensus of the Committee was not to reinstate the One Year Land Use program. The Committee felt that one needed to make a longer commitment to the program that just one year.

Said reviews shall consider the impact of each recommendation to the base revenue that the County historically drives form said tax source and the potential impact to future revenues based upon any proposed/recommended changes to the tax identified.

Improving County Services Efficiency

Finally the Committee would like to again reiterate that taxation is much more agreeable when there is confidence that it is well spent to provide services to tax payers. We would recommend that a similar Ad Hoc Committee also assist the Board of Supervisors in examining expenses and spending at the County level with an eye toward increasing the efficiency with which those services are provided for County residents. Clearly there is a perception that there have been resource misallocations and poor investments across all sectors and it would be helpful for the School Board, County Administration, Constitutional Offices and the Board of Supervisors to all support efforts to improve efficiency across all County functions.