

JUST ACCOUNTING

for Health in Western North Carolina

Executive Summary



1 Background

When discussing the transparency, accountability, and efficacy of local government, there is a tendency to focus on the expense side of the public finance ledger—that is, how public funds are spent and how effectively they accomplish their intended purpose.

Generally, however, less attention is given to the revenue side of the public finance ledger—that is, how well the mechanisms of public revenue production perform when compared to public benefit objectives. The mechanism most heavily relied upon by local governments to generate revenue is the property tax. Property taxes are the largest source of own revenue for local governments (e.g., counties, cities, school districts) in Western North Carolina and are used to fund a suite of core public services that directly influence the quality of life and health of residents in the region (table 1.1).

Annually, local governments in the 18 counties of Western North Carolina (fig. 1.1) collectively levy over a billion dollars of taxes from property owners in the region. In total, property taxes represent over 40% of county-level general fund revenue (fig. 1.2).

Property taxes in general are a function of the assessed value of property (i.e., tax base) and a locally determined millage rate (i.e., tax rate). In North Carolina, property tax rates are uniformly applied to all properties within a taxing jurisdiction. Therefore, the distinguishing factor between one homeowner’s tax bill and their neighbor’s is the assessed value of the property (tax base), not the tax rate. In other words, when calculating a tax bill, the tax rate is a constant and the assessed value is a variable.

In 2021, the total taxable value of real property in Western North Carolina exceeded \$120 billion dollars (table 1.2). Residential property accounted for a vast majority of this value, roughly 90% of the total property value (\$108 billion).

The evidence presented in this report suggests that there are long-standing inequities in the administration of the property tax that places unfair financial burden on those least able to withstand it. These disparities may have cascading impacts on housing affordability, gentrification, displacement, household economics, and may ultimately become a driver of community health disparities. We refer to these persistent, unjust disparities as “the assessment gap,” whereby homes of lower value are assessed at rates consistently higher than the rates applied to higher-valued homes. Alarming, our findings are not unique to Western North Carolina. There is a longstanding body of evidence which demonstrates the assessment gap is nearly ubiquitous in communities across the United States.

The Just Accounting program (a consortium of research, industry, and community organizations) examined how properties are assigned a value for the purpose of property tax collection and whether the policies, practices, and outcomes of property assessment align with community benefit objectives.

2 Policy Summary

According to NC GS 105, the assessed value of a property should be equivalent to its “true value,” defined as “the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used” (105-283 § 105-284, Uniform Assessment Standard).

Table 1.1: Municipal public services funded by property tax (NC GS 160A-209c).

| | |
|--|---------------------------------------|
| Administration | Jails |
| Air Pollution | Joint Undertakings |
| Airports | Libraries |
| Animal Protection and Control | Mosquito Control |
| Arts Programs and Museums | Off-Street Parking |
| Auditoriums, Coliseums, and Convention Centers | Open Space |
| Beach Erosion and Natural Disasters | Parks and Recreation |
| Cemeteries | Planning |
| Civil Defense | Police |
| Community Development | Ports and Harbors |
| Debts and Judgements | Public Education |
| Defense of Employees and Officers | Public Transportation |
| Economic Development | Railroad Corridor Preservation |
| Drainage | Senior Citizens Programs |
| Elections | Sewage |
| Electric Power | Solid Waste |
| Energy Financing | Streets |
| Gas | Traffic Control and On-Street Parking |
| Housing | Urban Redevelopment |
| Human Relations | Water |
| Hospitals | Water Resources |
| Industrial Development | Watershed Improvement |

“Although our results certainly do not rule out overt racial discrimination, such discrimination is neither a necessary element nor a central implication of the inequality we document.”

Avenancio-Leon, C. F., & Howard, T. (2022). *The Assessment Gap: Racial Inequalities in Property Taxation*. 8.

Figure 1.1: The 18 counties of Western North Carolina included in this study.

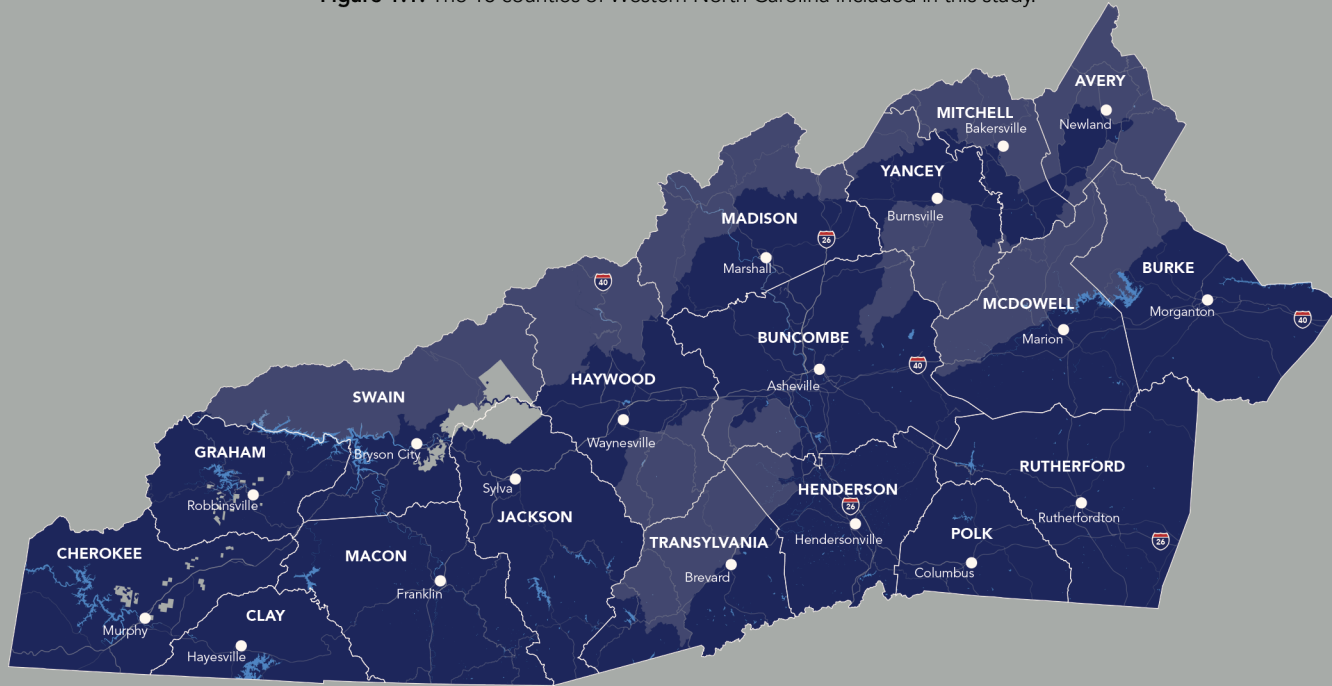


Figure 1.2: Aggregate flow of county-level public funds in 16 counties of Western North Carolina.

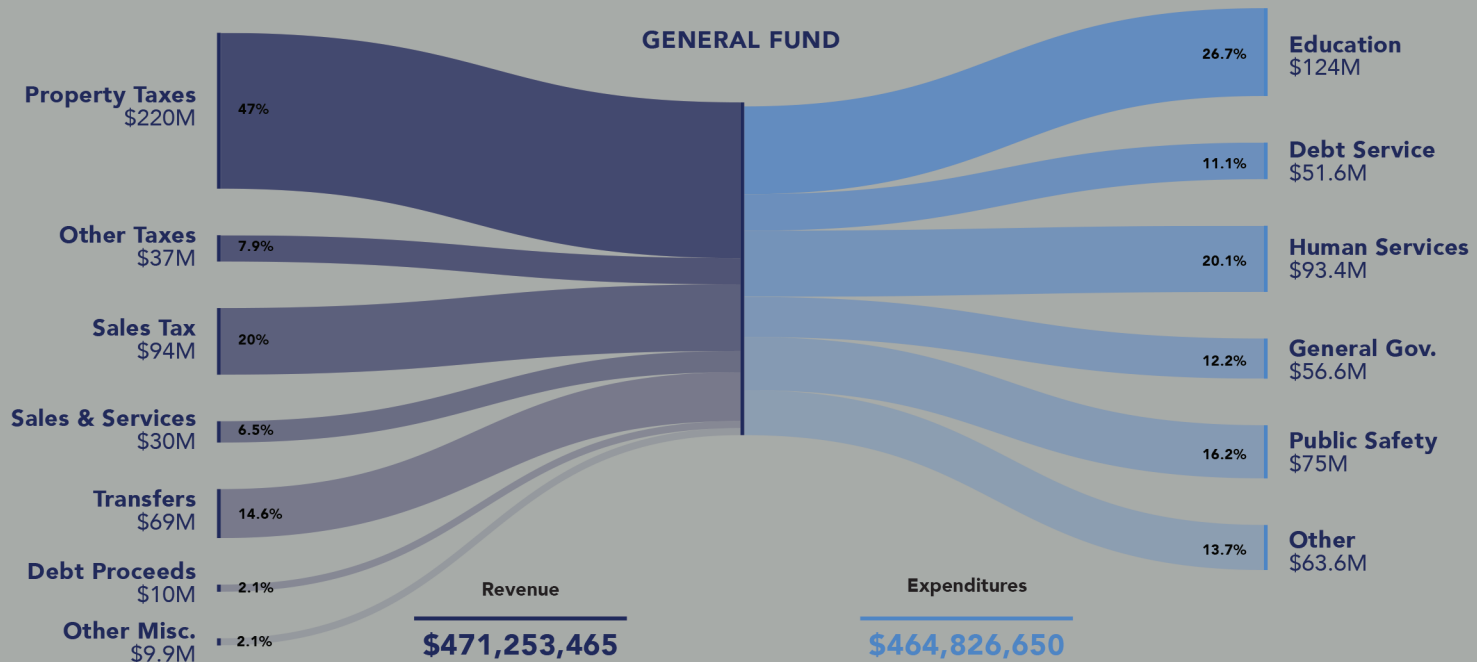


Table 1.2: Tax base, tax rate, and property taxes collected by local governments in Western North Carolina.

| County | Assessed Valuation ⁽¹⁾ | Total Taxable Value ⁽²⁾ | County Tax Rate ⁽³⁾ | Property Taxes Collected by All Local Jurisdictions ⁽¹⁾ | Year of Most Recent Appraisal ⁽²⁾ |
|--------------|-----------------------------------|------------------------------------|--------------------------------|--|--|
| Avery | \$4,284,448,439 | \$3,861,140,608 | 0.5500 | \$27,513,948 | 2018 |
| Buncombe | \$48,128,555,892 | \$41,746,596,495 | 0.4880 | \$374,145,143 | 2021 |
| Burke | \$7,570,780,134 | \$5,755,014,034 | 0.6950 | \$72,633,370 | 2019 |
| Cherokee | \$3,852,993,916 | \$3,315,964,345 | 0.5000 | \$22,993,805 | 2020 |
| Clay | \$2,068,316,496 | \$1,827,788,492 | 0.4300 | \$9,676,388 | 2018 |
| Graham | \$1,199,358,361 | \$1,017,280,320 | 0.7900 | \$8,373,710 | 2019 |
| Haywood | \$9,641,870,269 | \$8,126,875,449 | 0.5350 | \$70,461,418 | 2021 |
| Henderson | \$17,068,933,491 | \$14,044,166,897 | 0.5610 | \$130,785,692 | 2019 |
| Jackson | \$11,467,707,901 | \$10,559,583,792 | 0.3600 | \$45,961,446 | 2021 |
| Macon | \$8,378,824,566 | \$7,613,818,286 | 0.4000 | \$43,283,917 | 2019 |
| Madison | \$2,795,783,923 | \$2,393,650,710 | 0.5000 | \$17,443,490 | 2020 |
| McDowell | \$4,763,548,163 | \$3,376,964,788 | 0.5775 | \$35,675,273 | 2019 |
| Mitchell | \$1,873,496,483 | \$1,454,936,245 | 0.5800 | \$13,468,128 | 2018 |
| Polk | \$3,526,183,755 | \$3,053,899,864 | 0.5143 | \$24,005,841 | 2021 |
| Rutherford | \$7,992,825,625 | \$5,152,439,310 | 0.5970 | \$64,316,925 | 2019 |
| Swain | \$1,995,058,248 | \$1,727,174,706 | 0.3600 | \$8,026,269 | 2021 |
| Transylvania | \$6,959,672,775 | \$6,295,175,597 | 0.6033 | \$51,094,880 | 2021 |
| Yancey | \$2,397,909,369 | \$2,016,368,168 | 0.6000 | \$16,842,982 | 2016 |
| Total | \$145,966,267,806 | \$123,338,838,106 | | \$1,036,702,625 | |

(1) Data Source: NCDOR Total Property Taxes Levied by All Local Jurisdictions by County for Fiscal Year 2021-2022 (LG04).

(2) Data Source: NCDOR Fiscal Year 2021-2022 County Taxable Real Property Valuations (LG01B).

(3) Data Source: NCDOR County and Municipal Property Tax Rates and Year of Most Recent Reappraisal - FY 2021/2022.

3 Research Approach

The Just Accounting research team collected property assessment data directly from each county in Western North Carolina. Assessment departments in 14 out of the 18 counties provided the requested data, while four were unable to furnish all of the data needed to conduct the assessment gap analysis. For those counties that were unable to supply the necessary data, we relied on data provided by the North Carolina Department of Revenue's Property Tax Division in response to a records request (fig. 1.3). In total, we received residential property sales data for 397,387 unique residential transactions and parcel-level property assessment data for every property in the region (roughly 700,000 records in total). The assessment gap analysis compared the selling price of a home (i.e., market price) to its assessed value (see fig. 1.4 for examples from Buncombe County).

Figure 1.3: Residential sales data were retrieved directly from each County in North Carolina, supplemented with additional data provided by the North Carolina Department of Revenue's Property Tax Division.

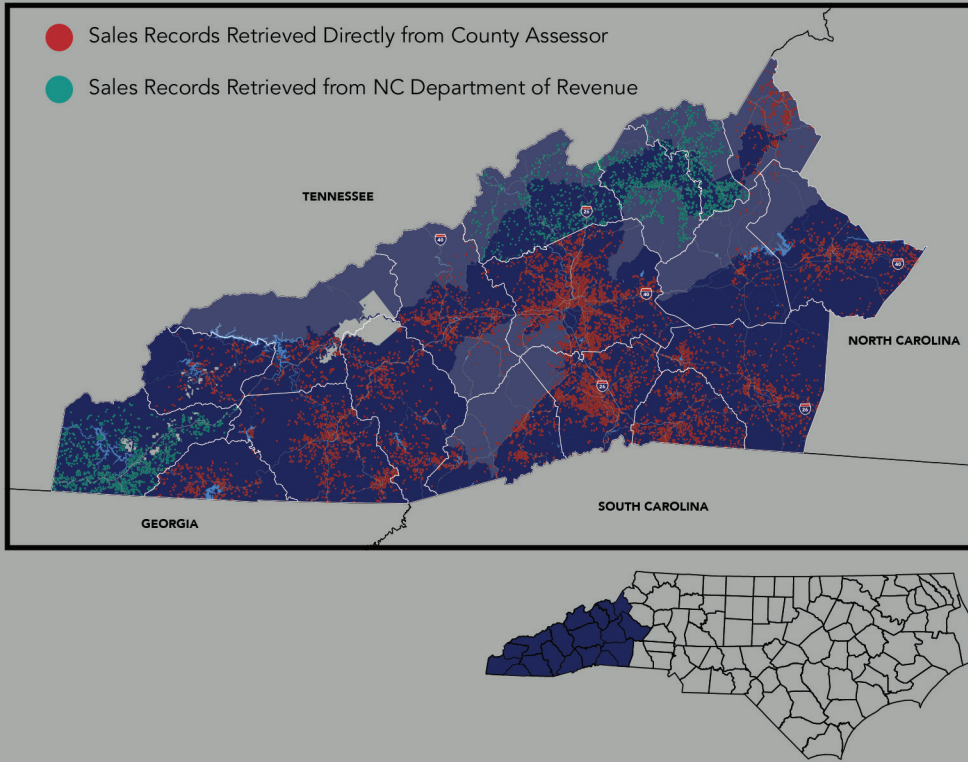


Figure 1.4: In North Carolina, homes should be assigned a taxable value equivalent to their market value. The accuracy of property assessment can be examined by comparing the assessed value of a home to its selling price the same year. When homes of higher value are consistently assessed at rates lower than less expensive homes, this could be an indication of biased assessments.

Assessment Gap Examples

The assessment gap can be measured by comparing a home's assessed value to its selling price in the same year. In a perfect assessment, these two numbers would be equal. The selection of homes below represents low and high value homes in Buncombe County with calculations of their respective assessment gaps from 2021.



4 Bed / 5 Bath 4,922 sq ft
 Selling Price: \$2,450,000
 Assessed Value: \$1,278,100
 Assessed Value as a % of Market Value: 52%



4 Bed / 5 Bath 5,357 sq ft
 Selling Price: \$2,213,000
 Assessed Value: \$1,294,500
 Assessed Value as a % of Market Value: 58%



4 Bed / 5 Bath 3,670 sq ft
 Selling Price: \$2,150,000
 Assessed Value: \$1,370,300
 Assessed Value as a % of Market Value: 64%



3 Bed / 1.5 Bath 1,326 sq ft
 Selling Price: \$144,000
 Assessed Value: \$223,500
 Assessed Value as a % of Market Value: 155%



3 Bed / 2 Bath 1,000 sq ft
 Selling Price: \$142,000
 Assessed Value: \$210,400
 Assessed Value as a % of Market Value: 148%



2 Bed / 1 Bath 736 sq ft
 Selling Price: \$85,000
 Assessed Value: \$105,100
 Assessed Value as a % of Market Value: 124%

4 Findings



Includes: The Assessment Gap, Frequency of Property Assessment, Appeals, Discovery of Unlisted Property, State Oversight, and Assessment Office Capacity & Funding

The Assessment Gap

Evidence of the assessment gap was observed in all 18 counties of Western North Carolina. Across the region, low-valued homes were on average assessed at a rate 1.4 times higher than expensive homes. This means that owners of lower-valued homes are carrying an unfair financial burden for the provision of public services in the region. The source(s) of the assessment gap are unclear, and not ubiquitous. Property appeals, minimal sales comparisons (thin markets), algorithmic bias, infrequency of valuations, policy choices, intentionally erring on the low side for high-valued properties to avoid litigation, the assumption that assessors seek to maximize political support, property and neighborhood characteristics, personnel shortage, and funding limitations all intersect to conditions that produce the observed assessment gap.

Frequency of Property Assessment

We conducted a longitudinal sales ratio study in Buncombe County across five reappraisal cycles. Results showed assessments were closest to true market value in reappraisal years (fig. 1.5). Though revaluation years did not on their own yield uniformity in assessment, more frequent revaluations, coupled with rigorous interrogation of performance across the housing market, would present more opportunities to act on findings of non-uniformity.

Figure 1.5: Assessment Gap analysis in Buncombe County across reappraisal cycles from 2002 to 2021.



Findings | Appeals

Our analysis revealed that in comparison to owners of less expensive homes, owners of more expensive homes are more likely to:

- Submit an appeal of their home’s assessed value.
- Be approved for a reduction in the home’s assessed value.
- Receive a comparatively larger reduction in their home’s assessed value.

We observed countless examples of homes that were granted a lower-assessed value after submitting an appeal, only to be sold the same year for a price that far exceeds the original assessed value (fig. 1.6). We cannot rule out the possibility that the appeals process, as currently administered, favors wealthy homeowners and is a factor contributing to the assessment gap.

Figure 1.6: One example of a home that sold for a price that exceeded an appealed value



Discovery of Unlisted Property

We received data from the Buncombe County Property Assessor on the 1,811 homes that were discovered to have unreported property characteristic data in 2021. These discoveries emerged from the sample of approximately 5,000 sold properties in 2021 (5,000 homes represent roughly 5% of the total housing stock).

- Therefore, in 2021, roughly 40% of sold properties were identified to have inaccurate or incomplete property characteristic data.
- Across these 1,811 homes, a total of \$101 million of additional property value was discovered. Table 1.3 shows the potential amount of back taxes that could be collected, if pursued to the extent required by state law.
- We found that the rate of discovery is higher among higher-valued properties (upwards of 60% of higher-valued properties with discovery).

Table 1.3: 2021 Property discovery by housing value in Buncombe County.

| Sale Price | Under \$250K | \$250K-\$500K | Over \$500K |
|---------------------|--------------|---------------|--------------|
| Number of Homes | 198 | 1054 | 559 |
| Total Untaxed Value | \$6,130,400 | \$42,299,400 | \$52,102,200 |

State Oversight

Under North Carolina General Statute 105-289, the Property Tax Division of the North Carolina Department of Revenue (NCDOR) is “charged with the duty to exercise general and specific supervision over the valuation and taxation of property by taxing units throughout the state.” This includes the administration of an annual sales ratio study to measure each county’s level of appraisal. In order to conduct this study, counties supply a sample of sales to NCDOR on an annual basis. The NCDOR then compares appraised values to respective sale values and establishes for each county a single median ratio. NCDOR uses this median value to understand assessment performance across the market.

- According to an NCDOR representative with whom we spoke, to conduct a sales ratio study, NCDOR requests from each county all qualified sales from a specific but randomly selected set of known sales that year. Which sales in each sample are considered qualified or disqualified is left to the discretion of the county that sends them.
- Buncombe County annually submits to the state just 10% of all residential property sales.
- In 2021, within the sample of sold, non-vacant residential transactions submitted to the NCDOR (n=475), 65% had their assessed value adjusted during a non-reappraisal year before being submitted to the state for review. The absolute change in assessed values for this small sample of homes (representing less than 1% of the housing stock) exceeded \$25 million dollars.
- On average, between 2014 and 2021, 7.3% of residential transactions submitted to NCDOR were listed as “unqualified transactions” in the assessors database.

Findings | Assessment Office Capacity & Funding

Interviews with assessors and data collection efforts across Western North Carolina exposed widespread budget, staffing, and data accessibility concerns. This has known implications for equity outcomes. According to the IAAO's Standard on Mass Appraisal of Real Property, "the object of mass appraisal is to produce equitable valuations at low costs. Improvements in equity often require increased expenditures."

- In January 2022, we reached 10 of the 18 county assessors for interviews. All 10 independently named budget and staffing as their office's most significant challenges. Five assessors also named outdated software or technology as a limitation in their work.
- As of the date of publishing this report, we received or were able to access online all data requested from just six of the 18 counties contacted.
- Fourteen of the 18 counties furnished the data necessary to conduct an assessment gap analysis. Work in Yancey County stopped after confirmation that sales and appeals data was unavailable. Work was also stopped in Madison County after multiple attempts over the last 10 months to contact the county by email and over the phone without reply.

We observed countless examples of homes that were granted a lower-assessed value after submitting an appeal, only to be sold the same year for a price that far exceeds the original assessed value (fig. 1.6). We cannot rule out the possibility that the appeals process, as currently administered, favors wealthy homeowners and is a factor contributing to the assessment gap.

Assessment - The dollar value assigned to a home or other piece of property for tax purposes. In North Carolina, it should be equal to 100% fair market value.

Assessor - In North Carolina, an assessor is a county official responsible for overseeing the county's property assessment process

Assessment Gap - The variations in relative difference between assessed value and selling price (i.e., market price) of properties across the spectrum of housing values whereby homes of lower value are assessed at rates consistently higher than the rates applied to higher-valued homes.

Sales Ratio - A property's assessed value divided by its sale price (i.e., market value).

For more information on Just Accounting for Health in Western North Carolina, including our final report set to publish June 2023, visit us at www.justaccounting.org.

Please leave all questions and comments at <https://www.justaccounting.org/contact>.