

Community Information Brief

The Muscogee County Property Tax Freeze

Part 4: An Analysis of a Proposed Alternative

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The property tax system currently in place in Muscogee County is commonly referred to as the “Property Tax Freeze”. The property taxes of residential homes receiving a homestead exemption are based upon the assessed value of a home at the time a home is purchased. This assessed value is then fixed or “frozen” until the property is sold or improved, at which time the value of the home is reassessed and then frozen at the newly reassessed value.

The Butler Center for Business and Economic Research was contacted by the Columbus Consolidated Government to provide an analysis of the fiscal effects of the freeze and possible reforms on the County and its residents. In a series of four information briefs we present a summary of our findings. In this, the fourth and last of the series, we provide an analysis of a proposed alternative to the existing property tax freeze entitlement. We analyze the effect on city and school system property tax revenues as well as the effect on an individual homeowner.

The Proposed Alternative

The property tax freeze is grandfathered for all homestead properties purchased prior to a date to be determined. For any homestead property purchased after that date and only for those purchased after that date, the tax freeze is sunset in return for an increase in the homestead exemption of \$6,500 for these properties.

In order to examine how this alternative would affect property taxes in the future, several assumptions have to be made. These assumptions are listed below.

- The proposed alternative was passed by voters in 2014.
- 1,890 residential properties will be sold and file a homestead exemption or will newly file the exemption annually. These include sales of new construction, sales of homes whose values were frozen prior to 2014, homes that are newly homesteaded, and resale of homes after the alternative was enacted.
- The average reassessed fair market value of homes purchased in 2014 is \$185,000 and this value increases each year at the expected rate of inflation, 2.3%.
- The fair market values of homes that are purchased under the sunset alternative are reassessed each year and their property taxes are adjusted annually to reflect any changes.

The following table compares the changes in city operating tax revenue and school system tax revenue under the proposal relative to tax collections under the current freeze. All dollar values are adjusted for inflation and represent purchasing power given 2014 prices.

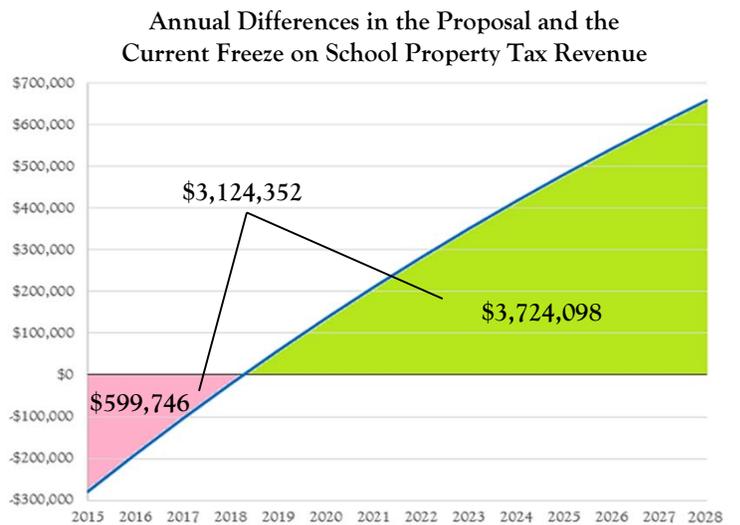
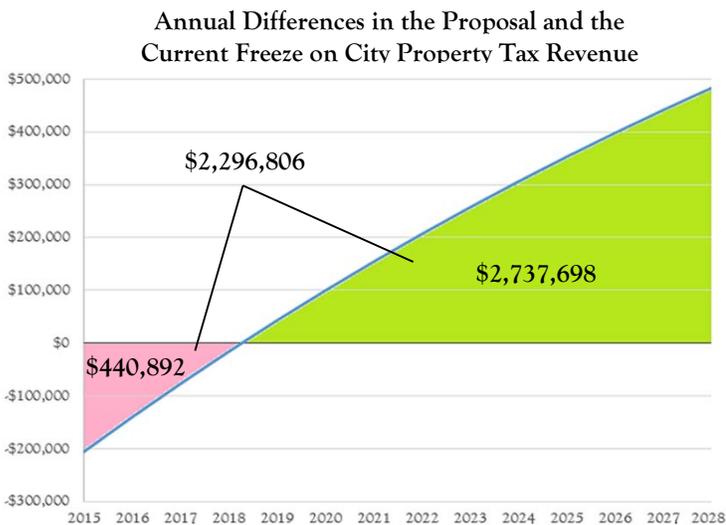
Comparison of the Proposed Alternative and the Current Freeze on City and School System Property Taxes 2014-2028. (2014 \$)

Year	Additions to Tax Revenue From Homestead Transactions				Annual Differences: (Proposal - Current Freeze)		Cumulative Differences: (Proposal - Current Freeze)	
	Current Freeze		Proposal		City Taxes	School Taxes	City Taxes	School Taxes
	City Taxes	School Taxes	City Taxes	School Taxes				
2014	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2015	\$825,245	\$1,122,582	\$618,933	\$874,660	-\$206,311	-\$280,646	-\$206,311	-\$280,646
2016	\$826,859	\$1,124,778	\$686,153	\$941,448	-\$140,706	-\$191,402	-\$347,017	-\$472,048
2017	\$827,100	\$1,125,107	\$749,665	\$1,005,278	-\$77,436	-\$105,336	-\$424,452	-\$577,384
2018	\$826,043	\$1,123,668	\$809,603	\$1,065,095	-\$16,439	-\$22,363	-\$440,892	-\$599,746
2019	\$823,757	\$1,120,559	\$866,098	\$1,121,607	\$42,341	\$57,596	-\$398,551	-\$542,150
2020	\$820,795	\$1,116,529	\$919,737	\$1,174,928	\$98,942	\$134,592	-\$299,609	-\$407,559
2021	\$816,279	\$1,110,386	\$969,812	\$1,225,949	\$153,533	\$208,851	-\$146,076	-\$198,707
2022	\$810,745	\$1,102,859	\$1,016,904	\$1,273,336	\$206,159	\$280,439	\$60,083	\$81,731
2023	\$804,252	\$1,094,027	\$1,061,056	\$1,317,872	\$256,804	\$349,331	\$316,887	\$431,062
2024	\$796,866	\$1,083,979	\$1,102,467	\$1,360,526	\$305,601	\$415,710	\$622,488	\$846,772
2025	\$788,639	\$1,072,787	\$1,141,148	\$1,399,774	\$352,510	\$479,520	\$974,998	\$1,326,292
2026	\$779,628	\$1,060,530	\$1,177,303	\$1,436,585	\$397,675	\$540,959	\$1,372,673	\$1,867,250
2027	\$769,891	\$1,047,285	\$1,211,041	\$1,471,758	\$441,150	\$600,098	\$1,813,823	\$2,467,348
2028	\$759,479	\$1,033,121	\$1,242,462	\$1,503,853	\$482,983	\$657,004	\$2,296,806	\$3,124,352

The proposal to sunset the tax freeze on all new transactions and increase the homestead exemption on these properties by \$6,500 would

- result in lower annual city tax revenues for 4 years by a total of approximately \$440,000
- result in an increase in annual city tax revenues each year after the fifth year
- result in an additional \$2.3 million in city tax revenue over 15 years
- result in lower annual school tax revenues for 4 years by a total of approximately \$600,000
- result in an increase in annual school tax revenues each year after the fifth year
- result in over \$3.1 million additional school tax revenues over 15 years

The figures below illustrate the changes to annual property tax revenues under the proposal relative to the current freeze.



How Does the Proposed Alternative Affect an Individual Homeowner?

The analysis above describes the effect of the proposed alternative on city and school system property tax revenues. We now illustrate the effect of the proposal on an individual homeowner using two simple examples.

Example 1: The Smith Family

The Smiths purchased their home in 2002 and currently pay \$2,500 in city and school property taxes.

Under the proposed alternative, the Smith’s tax freeze entitlement would be grandfathered. They would keep their tax freeze. The property taxes paid by the Smiths would not change.

For any home purchased prior to the enactment of the proposed alternative, property taxes under proposed alternative = property taxes under current freeze.

Example 2: The Jones Family

The Jones purchase a home with a fair market value of \$200,000 in 2014 (after the proposed alternative has been passed), file the standard \$13,500 homestead exemption and receive the additional \$6,500 homestead exemption.

Under the proposed alternative, the Jones would receive an additional \$6,500 in homestead exemption and their property taxes would be adjusted each year to reflect changes in the fair market value of their home. The table below compares their city and school system property taxes under the proposal to what their taxes would have been under the property tax freeze. All dollar values are adjusted for inflation and represent purchasing power given 2014 prices.

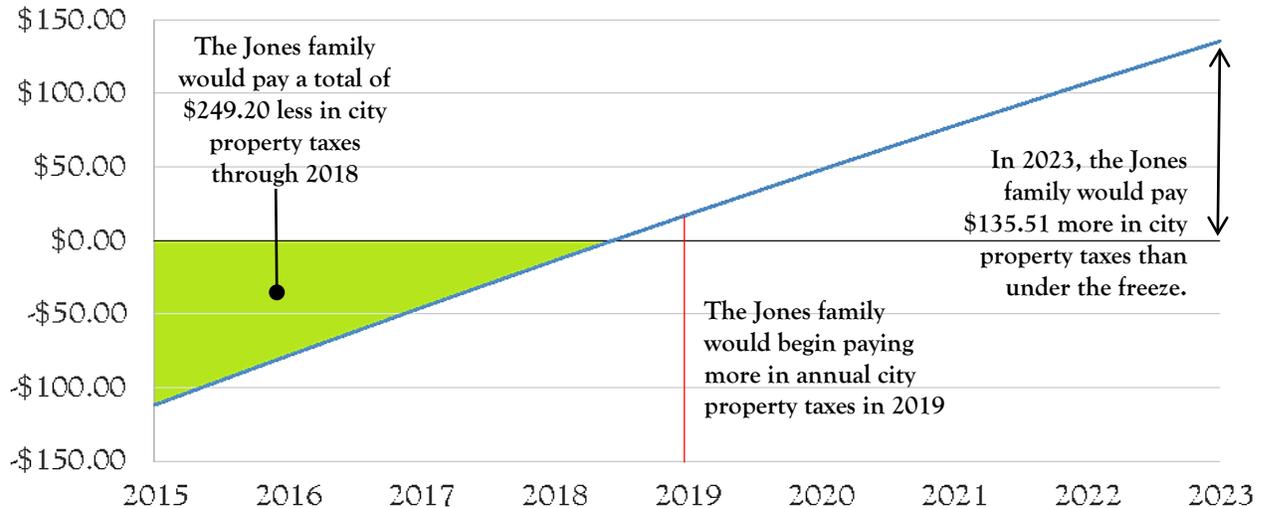
Year	Property Taxes Owed				Annual Differences: (Proposal - Current Freeze)		Cumulative Differences: (Proposal - Current Freeze)	
	Current Freeze		Proposal		City Taxes	School Taxes	City Taxes	School Taxes
	City Taxes	School Taxes	City Taxes	School Taxes				
2015	\$1,142.47	\$1,554.11	\$1,030.80	\$1,402.20	-\$111.67	-\$151.91	-\$111.67	-\$151.91
2016	\$1,116.78	\$1,519.16	\$1,038.53	\$1,412.71	-\$78.26	-\$106.46	-\$189.93	-\$258.36
2017	\$1,091.68	\$1,485.01	\$1,046.08	\$1,422.98	-\$45.60	-\$62.03	-\$235.53	-\$320.39
2018	\$1,067.13	\$1,451.62	\$1,053.46	\$1,433.02	-\$13.67	-\$18.60	-\$249.20	-\$338.99
2019	\$1,043.14	\$1,418.99	\$1,060.67	\$1,442.84	\$17.53	\$23.85	-\$231.67	-\$315.14
2020	\$1,019.69	\$1,387.08	\$1,067.73	\$1,452.43	\$48.04	\$65.35	-\$183.63	-\$249.79
2021	\$996.76	\$1,355.90	\$1,074.62	\$1,461.81	\$77.86	\$105.92	-\$105.76	-\$143.87
2022	\$974.35	\$1,325.41	\$1,081.36	\$1,470.98	\$107.01	\$145.57	\$1.25	\$1.70
2023	\$952.44	\$1,295.61	\$1,087.95	\$1,479.94	\$135.51	\$184.33	\$136.75	\$186.03

Comparing the property taxes owed under the proposed new tax system to those owed under the freeze, the Jones would

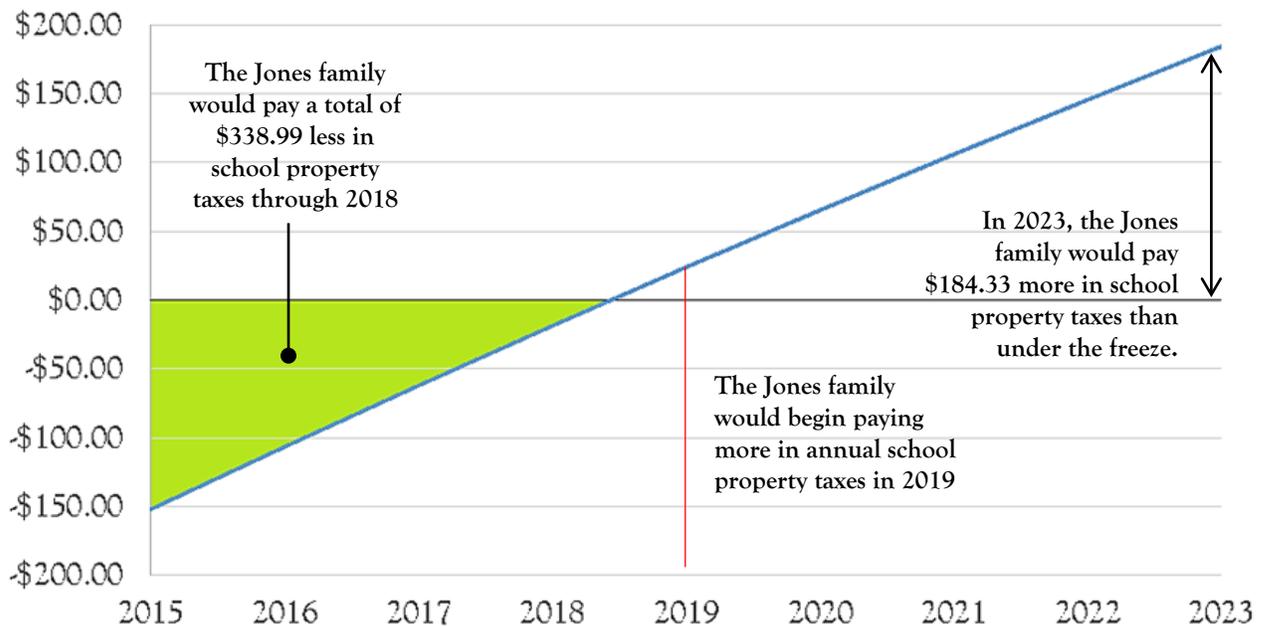
- Pay nearly 10% less in city and school system property taxes in the first year. \$111.67 less in city taxes and \$151.91 in school taxes.
- Pay lower city and school taxes than under the freeze through 2018.
- Pay a total of \$136.75 more in city taxes and \$186.03 more in school taxes over the nine year period from 2015 through 2023 than under the freeze.

The figures below illustrate how the property taxes paid by the Jones family would change under the proposed alternative relative to the property tax freeze.

Annual Differences in the Jones Family City Property Taxes Under the Proposal



Annual Differences in the Jones Family School Property Taxes Under the Proposal



Author

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