

# Taxes in Unincorporated DeKalb versus Atlanta in DeKalb

## An Annexation Briefing Paper

When a customer explores changing companies they have been dealing with for many years, one of the first questions the customer considers is the difference in cost. This paper will examine the cost differences between paying taxes within the City of Atlanta versus taxes in unincorporated DeKalb. The accompanying spreadsheet will allow homeowners to calculate the difference in property taxes between the two jurisdictions. While the bottom line is that Atlanta property taxes are currently more expensive for most homeowners in Druid Hills, consumers also review the quality of services and other factors when considering a change in suppliers. Further, the chief variable that makes DeKalb competitive for taxes, could change in a few years.

Residents of unincorporated DeKalb can change and enter the value of their home as assessed by DeKalb County in cell D4 on the spreadsheet. It will automatically recalculate the taxes for both jurisdictions. Here are a few examples of the changes in taxes by going into the City:

<b>Assessed Value</b>	<b>Change in Taxes by Going into City</b>
\$200,000	- \$173.00
\$400,000	+\$336.00
\$600,000	+\$844.00
\$800,000	+1,353.00
\$1,000,000	+\$1,862.00
\$1,500,000	+\$3,133.00
\$2,000,000	+\$4,405.00

The reasons for the differences in costs may be surprising. The difference is not because city residents pay a tax on top of what unincorporated residents pay. Nor does the slight variation in millage rates explain the differences in costs. As you will see in the spreadsheet, the differences in taxes are directly related to the HOST credit which is unique to DeKalb County. (Host = Homestead Optional Sales Tax)

At this time the HOST credit keeps DeKalb's effective tax rate competitive with other governments in metro Atlanta. However HOST is fraught with problems. The distribution formula for capital projects among the County and cities is completely broken. Dunwoody receives \$103 per capita for capital improvements, unincorporated DeKalb receives \$21 per capita and Lithonia receives \$1 per capita. HOST has not proven to be an adequate source of revenue for capital improvements and DeKalb is vastly underfunded for road resurfacing, sidewalk construction, intersection improvements and maintaining parks and libraries. Gwinnett and Cobb use 100% of their local sales tax penny for capital improvements, but HOST only allows DeKalb to spend 20% on capital projects. The deferred maintenance of sidewalks, roads and public buildings continues to grow. There are over 400 miles of roads that need resurfacing in DeKalb, but only 40 miles will be resurfaced this year. In all likelihood, the General Assembly will need to rewrite the HOST legislation in the next few years to address the shortage of capital funding. There are no assurances that HOST will continue to provide the tax relief it currently offers.

A frequent question or assertion is: Don't people in cities pay an additional tax to the taxes people in the County pay? Actually, city residents pay other taxes, not additional taxes, and some of their County taxes are eliminated. Everyone in DeKalb regardless of where they live pays taxes for the criminal justice system, public health, property records, voter registration, libraries and tax collection. However, it is possible to go into a city and pay less property tax than previously paid in unincorporated DeKalb. This happened in Dunwoody and Brookhaven. In addition to the services that the County is obligated to provide by the State of Georgia, DeKalb provides urban services that cities typically provide. When an area is annexed, the city substitutes their urban services for ones the County was providing. Some cities can provide the same service DeKalb is providing at lower rates.

- This spreadsheet is organized in the same way your tax bill is prepared. Each government establishes a millage rate for specific tax funds. Counties and cities have specific and distinct responsibilities, and services are not duplicated within a jurisdiction.
- Tax bills are determined by three variables: (1) the fair market value of the home as determined by the tax assessor; (2) the millage rates approved by the County Commission, Board of Education, and City Council; and (3) any applicable tax exemptions or tax credits.
- The millage rates for Atlanta (24 mils) and unincorporated DeKalb County (22 mils) are comparable. So are the school systems: Atlanta (22 mils), DeKalb (23 mils). However each local government has different homestead exemptions and most importantly DeKalb has the HOST Tax Credit for *County government services*. Notice its impact on reducing taxes in the spreadsheet or on your tax bill from the Tax Commissioner. The HOST credit does not apply to taxes imposed by other governments such as the Board of Education or a city government.
- The net school taxes in Atlanta are lower than DeKalb. This results from a slightly lower millage rate in the City and a significantly higher homestead exemption. Atlanta's school system serves about 45,000 students while DeKalb serves approximately 90,000.

Taxes are one part of the discussion about annexation. Other factors to consider include:

- The quality of services
- The extent to which the reputation/performance of your school system and local government affects the value of your home
- The ability of your community voice to be reflected in local government decisions
- Equitable distribution of services
- The financial capability of your local government to meet future demands, particularly for capital improvements to roads, sidewalks, public buildings and pension liabilities.
- The right track or wrong track, i.e.: Is your local government on the right track or wrong track?
- The pool of future leaders available
- The network of political contacts, business leaders, that local government leaders can leverage to solve problems

Some of the above issues and will be addressed in future Annexation Briefing Papers.

## Additional Reading

### For Local Government Policy Wonks and Others Who Find This Subject Interesting

- The City of Atlanta has 2,000 police officers and DeKalb has about 1,000. Atlanta has 1,000 employees in fire and rescue, while DeKalb has 800. DeKalb has a population of 700,000 spread across 270 square miles while Atlanta has a population of 430,000 spread across 132 square miles.
- Cobb County is often cited as the best managed county in the region. Their taxes are approximately \$500 lower per \$500,000 of assessed value when compared to DeKalb. Gwinnett's effective tax is surprisingly high because of their low homestead exemption. With low homestead exemptions and total millage rates roughly 25% lower than DeKalb, the tax rates for businesses in Gwinnett are closer to the residential tax rate. This is a more "business friendly" position that may help them attract commercial taxpayers.
- School millage rates in Atlanta, DeKalb, Cobb and Gwinnett are between 19 and 23 mills. DeKalb is the highest.
- The State Constitution requires all counties to provide certain functions and voters elect officials to conduct these functions: judges, district attorney, solicitor general, clerk of court, tax commissioner and sheriff. Through statutes, the state requires counties to appoint and fund the board of tax assessors, public defender, public health director, and voter registration. These state mandated functions and the costs for Grady Hospital, countywide bonds, the Board of Commissioners, CEO, libraries, finance, county attorney are all paid through the *General Fund*. Regardless of how many cities are formed, or where citizens live in DeKalb all taxpayers in DeKalb County will be responsible for paying for these constitutional officers and countywide expenses.
- There are three categories of tax funds in DeKalb. The *general fund* pays for most countywide services, *enterprise funds* are derived from user fees (water and sewer, sanitation/landfill, PDK Airport, development permits) and *specific tax funds* pay for specific services: police, fire, unincorporated services.
- Enterprise funds are in a "locked box". For example, water and sewer charges are billed to consumers based upon their metered usage and the money goes into the water and sewer enterprise fund. Funds in this account can only be spent on capital or operating expenses related to the delivery of water and sewer services including salaries, support services, pensions and benefits.
- Unincorporated Services are an example of a *specific tax fund*. It funds parks, planning, building inspections, roads and drainage. City residents are not billed by DeKalb for these urban services.

However, city residents are billed through a city operations tax for these kinds of services and their other local government expenses. Dunwoody and Brookhaven have been able to provide these services at a cheaper rate than DeKalb, and this helps explain why their taxes are lower.

- The Homestead Option Sales Tax is a 1% sales tax applied to products purchased throughout DeKalb. The law, written specifically for DeKalb County in the 1980's, requires that at least 80% of the revenue collected is used to reduce property taxes on DeKalb homeowners. The remaining money is distributed to cities and the County for capital improvements. Based upon the amount of money collected and the budget constraints of DeKalb County, the Board of Commissioners annually determines the HOST factor (currently 66%), which when multiplied by the value of the home, determines the size of the HOST tax credit.
- There are no limits on the HOST tax credit and as a result high value homestead property owners are favorably treated compared to commercial properties, apartment properties, renters and shoppers from outside the County. The owner of a million dollar home in DeKalb receives over a \$4,900 annual tax credit. It requires \$61,250 in retail spending to generate that tax subsidy. (This figure considers that 20% of the retail spending goes to capital improvements and 80% goes to tax relief.) In 2011 DeKalb County raised its millage rate to compensate for the drastic decline in the County's tax digest (the sum value of all taxable property). The impact of this tax increase was more acute to commercial properties because they do not receive a HOST credit or homestead exemption.
- Gwinnett and Cobb counties have Local Option Sales Tax (LOST) to fund capital improvements in their road system, sidewalks, parks and libraries. DeKalb cannot raise its sales tax without exceeding the cap imposed on all counties by the State. In the current political environment, it is very unlikely the General Assembly would permit the County to increase its sales tax to fund capital improvements.
- Sanitation fees are significantly less expensive in DeKalb which currently offers very good service. There may be a possibility to continue to receive sanitation services from DeKalb County. Dunwoody, Brookhaven and Lithonia contract with DeKalb County and pay the same fee as unincorporated residents. This option and other user fees for water and sewer will be discussed in future Annexation Briefing Papers.