



The City of Stone Mountain

Office of the City Manager

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<https://www.stonemountaincity.org/>

City Administration Quick Analysis to Mayor and Council: Analysis and Recommendation on House Bill 581

Introduction:

House Bill 581 (HB 581) presents a critical decision for the City of Stone Mountain: whether to opt into or opt out of the floating homestead exemption and associated provisions. This decision has long-term implications for property tax revenues, homeowner affordability, and the City's ability to meet budgetary goals. Below is an analysis of the potential impacts, weighing the pros and cons of opting in or opting out, supported by relevant data and insights.

Option 1: Opting In to HB 581

Pros:

- 1. Homeowner Relief and Predictability:**
 - Limits annual increases in taxable home value to the rate of inflation, providing stability for homeowners.
 - Addresses public concerns about rising property values and property tax burdens.
- 2. Community Goodwill:**
 - Demonstrates responsiveness to resident concerns, potentially improving public perception of the City's leadership.
- 3. Eligibility for New Local Option Sales Tax (FLOST):**
 - Opting in allows the City to consider implementing a sales tax to offset property tax revenue loss, creating an alternative revenue stream.

Cons:

- 1. Reduced Property Tax Revenue Growth:**
 - Property taxes are a significant revenue source, and HB 581 limits the City's ability to capitalize on rising property values.
 - Revenue impacts will be compounded by inflation-adjusted base-year values for new homeowners.
- 2. Budgetary Constraints:**
 - With approximately **\$5.26 million** in property tax revenue anticipated in FY2025, even a small percentage loss due to exemptions could result in budget shortfalls affecting infrastructure, public services, and planned projects.



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- The City may need to explore alternative funding mechanisms to fill gaps, such as increasing the millage rate, which could create inequities for non-homesteaded properties (e.g., commercial).

Option 2: Opting Out of HB 581

Pros:

- 1. Preserves Revenue Growth Potential:**
 - Allows the City to fully benefit from increasing property values, which supports growing service demands and rising operational costs.
 - Reduces reliance on alternative revenue sources like sales taxes or service fees.
- 2. Maintains Local Control Over Tax Policy:**
 - Retaining existing exemptions (such as Stone Mountain Senior Citizen Homestead exemption) without adding HB 581 ensures simplicity and minimizes administrative changes.
- 3. Avoids Complex Administration:**
 - HB 581 requires detailed tracking of inflation-adjusted exemptions, which could increase administrative costs and complexity.

Cons:

- 1. Negative Perception from Residents:**
 - Opting out may be perceived as prioritizing revenue over taxpayer affordability.
 - Rising property assessments without the HB 581 exemption could lead to public frustration.
 - 2. No Access to FLOST Revenue:**
 - The City would lose the opportunity to implement a Floating Local Option Sales Tax (FLOST), which could provide much-needed tax relief for non-homesteaded properties and diversify revenue.
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Data-Driven Insights

- 1. Impact on Revenue Growth:**



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- With an average annual property value increase of 5-7% in recent years, the HB 581 exemption could significantly limit taxable growth, resulting in a projected annual revenue loss of **\$200,000-\$350,000** by FY2027.
2. **Budgetary Context:**
 - The FY2025 adopted budget already includes limited flexibility due to essential investments in infrastructure and public services. Any reduction in property tax revenue could jeopardize planned projects like development/redevelopment of our public spaces, road construction, facility maintenance and public safety enhancements.
 3. **Comparative Analysis:**
 - Neighboring jurisdictions that adopt HB 581 may appeal to homeowners seeking property tax stability, potentially impacting Stone Mountain's competitiveness for new residents.

Recommendation and Next Steps

Given the trade-offs, we recommend proceeding with the following:

1. **Engage the Public:**
 - Conduct the required three public hearings and provide clear, transparent information to residents about the implications of opting in or out.
2. **Conduct a Financial Impact Study:**
 - Analyze the revenue implications of both options over a 5- to 10-year period, factoring in inflation, projected property value growth, and potential administrative costs.
3. **Collaborate with Other Jurisdictions:**
 - Monitor how DeKalb County and neighboring cities decide to position the City competitively and collaboratively.

The final decision must balance fiscal responsibility with the City's commitment to supporting residents. I look forward to discussing this further and providing additional data as needed.

Best Regards,

City Manager

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