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City of Decatur Analysis of 3% Cap in Legislation

The City of Decatur conducted an analysis of the potential impact of HB 1116 related specifically to the cap on total ad valorem revenue growth at the lesser of 3%, on the city's property tax revenue over the last five years.

Revenue Cap: Analysis includes applying a 3% growth cap to the actual property tax revenue starting in 2021. For each year, ad valorem tax revenue is calculated showing what the city's revenue would have been if it had been limited to a 3% growth over the prior year's revenue. The cumulative effect of the cap is reflected to show the compounding impact over time. A comparison of this capped revenue to the actual revenue collected and calculated the revenue loss for each year is also performed.

Key Findings: Total Revenue Loss (2021–2025): If the 3% revenue cap had been in place over the past five years, the city would have experienced a cumulative revenue loss of approximately \$21 million.

Important Notes: This analysis assumes that the cap applies only to revenue growth, not to the property tax digest itself.

The revenue losses will increase over time as the city's property tax base grows, compounding the effect of the cap.

HB 581 Compliance: This analysis does not include any additional constraints from HB 581, such as rollback requirements or limitations on assessments, which could further increase the revenue loss. Therefore, this analysis likely represents a conservative estimate, and the actual impact could be higher.

Conclusion: The 3% revenue cap would significantly reduce the city's property tax revenue over time, with a cumulative loss exceeding \$21 million between 2021 and 2025. A loss of \$4.2 million per year is roughly equivalent to the annual budget for the Fire Department or close to 10% of the general operating budget. This poses a serious challenge for future funding.