# Study looks at effect of high foreclosure rates on local tax bases

29 September 2009

(PhysOrg.com) -- Foreclosed homes and unsustainable growth can wreck the tax base of local governments. That's the warning being issued by Auburn University's Center for Governmental Services following its study of newly released U.S. Census Bureau data on housing unit growth.

Auburn researchers compared housing data from the states of Alabama and Georgia to gauge the effects of the recession and its real estate bubble on property taxes that fund local governments and their services.

"We found a version of the old tortoise and hare tale," said Don-Terry Veal, director of the Center for Governmental Services. "Georgia, the hare, added new housing units at a much faster rate than did Alabama from 2000 to 2008. But when the real estate bubble burst, Alabama, the tortoise, was in a much better position to weather the storm. Alabama counties won't experience the property tax problems that some parts of Georgia are going to be facing as tax payments are missed on foreclosed homes."

From 2000 to 2008, Georgia added 744,000 housing units, a 22.4 percent growth rate, making Georgia the fourth fastest-growing state. By comparison, the state of Alabama added 195,000 housing units, reflecting a 9.9 percent growth rate, ranking it 24th among the states.

Foreclosures have hit Georgia much harder, though. Data from RealtyTrac indicates that Georgia has had 92,611 foreclosures in 2009 so far, compared with just 14,963 in Alabama. That makes Georgia's foreclose rate on existing housing units 2.3 percent, almost four times Alabama's rate of 0.6 percent. Assuming the typical Georgia household pays $2,684 in property taxes annually, as estimated by The Tax Foundation, Georgia's foreclosures represent a potential revenue loss or delay to state and local governments of almost $249 million.

By comparison, Alabama's lower property tax burden of $1,080 per household and its lower foreclosure rate portend a much smaller potential financial loss or delay of revenue of just $16 million. According to the census data, the Alabama counties with the highest growth rates in housing units from 2000 to 2008 were Baldwin, Lee, Madison, Russell, Shelby, St. Clair and Tuscaloosa. All showed gains in housing of 14 percent or more.

"We are not saying that growth in housing development should be avoided," said David Hill, associate director of the Center for Governmental Services, "but we are pointing out that counties and cities should be watchful whenever there is a huge growth in housing. The financial bubble can burst, leaving local governments without revenues needed to pay back bonds that financed the infrastructure required for growth, or to pay for expanded services needed to serve newly developed areas."

The recently released U.S. Census data shows that 23 counties (or 14 percent) of Georgia's 159 counties were among the 100 fastest-growing housing markets in America from 2000 to 2008. But Auburn University researchers note that four of these rapidly growing Georgia counties (Henry, Newton, Douglas and Gwinnett) were in the top 10 Georgia counties for foreclosures last month, accounting for 2,681, or 22 percent, of Georgia's August foreclosures.

By comparison, only one (or 1.5 percent) of Alabama's 67 counties (Baldwin) was among the 100 fastest-growing housing markets in America from 2000 to 2008. Baldwin County had just 227 foreclosures last month, 11.4 percent of the state's total.

"All things considered," said Veal, "it appears that

Alabama's more measured growth will be a benefit to our local governments."

Provided by Auburn University

APA citation: Study looks at effect of high foreclosure rates on local tax bases (2009, September 29) retrieved 23 June 2021 from https://phys.org/news/2009-09-effect-high-foreclosure-local-tax.html