



INTERNAL AUDIT

Homestead Credit Analysis

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2024 - 2

OUR CITY

316
Acres of Public Park Space

89,142
Inhabitants

68
Square Miles of City Limits

1
Home of the US Marshals
Museum

June 2, 2024

City of Fort Smith Board of Directors

SUBJECT: Homestead Credit & Property Taxes

Board of Directors:

A planned 2024 Homestead Credit/Property Tax vs Utility Billing analysis was conducted for 2023. Following is the definition from Amendment 79 from 2001: “A tax credit of up to \$300.00 on real property that qualifies as the owner’s homestead used as his principal place of residence”.

The objectives were to:

- Review Fort Smith’s residential properties that are receiving the Homestead Credit.
- Review to see if there is a meter associated with the properties that are receiving a Homestead Credit and to ensure they are being charged for water. (this would likely indicate that someone was residing at the location)
- Identify if any homeowners were receiving more than one credit.

OUTCOME

The analysis determined there may be some homeowners receiving multiple credits, the County Assessor has been provided with that data to investigate home sales and deeds to determine if they are valid. We noticed there were 105 repeated owner names associated with 260 properties. One possibility for appearing to be a duplicate involves home sales/purchases. Depending on the timing, it could look like a duplicate credit has been given.

There are also 559 accounts on the Assessor’s file that did not match the City’s residential water service file. This also has been provided to the County Assessor to determine if the homeowner qualifies to receive the Homestead Credit. There could be valid reasons for not appearing on the residential listing, for instance, the property could be classified as commercial. If a commercial property owner resides on the property they could qualify for the Homestead Credit.

The Counties are reimbursed by the State for the Homestead Credits that are issued. Any assessed property taxes would be paid to the City regardless of the owner receiving a Homestead Credit or not.

To obtain sufficient evidence, we performed the following:

- Conducted interviews and process walkthroughs with key individuals in the Sebastian County office.
- Obtained a property listing from the County Assessor’s Office of all Homestead Credits claimed.
- Obtained a listing of all residential water services in Fort Smith from Munis.
- Obtained the 2023 Financial Report from the Sebastian County Treasurer.

SCOPE AND METHODOLOGY

The scope included residential properties in the city of Fort Smith, Arkansas.

The methodology included analysis of several data tables including the Homestead Credit file from the County Assessor and a Residential Water Service file from Munis. To perform the analysis, the Assessor's property listing needed to be corrected to be able to perform a match to the Munis property listing. There were 2464 addresses that needed to be corrected. (i.e. Road vs Drive, Spelling errors, etc.)

Service/Credit Recap	# of Properties
All Residential Water Service Accounts	31,761
Under Construction	227
Apartments/Units	1,001
Inactive	2,751
Active Residential Water Service	27,782
Homestead Credit File from Assessor's Office	17,323
Homestead Credit File - Noted As Commercial/Apt	93
Homestead Credit File Matched Residential Water	16,671
Homestead Credit File Did Not Match Residential Water	559
Duplicate Owner	105
Duplicate Owner Number of Properties	260

COUNTY ASSESSOR PROCESS

Once the County is notified of a property transaction and the deed is filed with the County Clerk, the Assessor's office receives that information as well. If it appears to be a legitimate transaction, the Assessor's Office will send out a Homestead Credit Application.

When the application is returned, the Homestead Specialist will check the county system and utilize a program called Homestead Credit Finder which is linked to other databases throughout the state to try to eliminate potential duplications. If they determine that the owner is entitled to the credit it is applied to the current year and check if they qualify for the prior year since taxes are paid one year in arrears.

At the end of the year/beginning of the next the Homestead Credit Finder team sends the Assessor a potential list of duplicates in Sebastian County. They work through that list and perform site visits if necessary to verify whether a credit should be removed or not.

Once it is determined how many credits apply to the County the Tax Collector sends certification to the state for reimbursement.

BACKGROUND

Arkansas Amendment 79 took effect January 1, 2001, which stated homeowners may receive a homestead property tax credit of up to \$300 per year. The amount has increased over the past 22 years and for the 2023 tax bills the credit amount has been increased to \$425. The credit is applicable to the “homestead”, which is defined as the dwelling of a person used as their principal place of residence. The homestead property may be owned by a revocable or irrevocable trust. Homeowners must apply for the credit with the county assessor’s office.

Amendment 79 also provides limits on how much the assessed value of real property can increase due to a county-wide reappraisal. The taxable value can only increase 5% per year until the property reaches its full assessed value. The taxable value of all other real property parcels, commercial, agricultural, and vacant can only increase 10% per year until the property reaches full assessed value. The 5% and 10% limits do not apply to newly discovered real property, new construction, or substantial improvements to real property. Newly constructed and newly discovered property shall be assessed at full value. Substantial improvements are defined as “renovation, reconstruction and refurbishment” of a property that adds 25% or more to the value of the property.

Homeowners who qualify for the homestead tax credit and who are either age 65 or older or 100% disabled may be eligible to have the assessed value “frozen”. Eligible homeowners must apply for the “freeze” with the county assessor’s office.

More information can be obtained through the Assessor’s office:

<https://www.sebastiancountyar.gov/Departments/Assessor/Homestead-Credit>

Per the Sebastian County Treasurer 2023 report, Fort Smith received \$8,337,460.40 from the total revenue of \$352,024,767.79. 83% (\$6,916,679.09) of the total for the City comes from property taxes.

