



Late Backup

M E M O R A N D U M

TO: Mayor & Council Members

FROM: Ed Van Eenoo, Deputy Chief Financial Officer *EV*

DATE: July 30, 2014

SUBJECT: Response to Council Resolution 201406026-074 re: Cost Impact of a Prospective General Homestead Exemption

Council Resolution 201406026-074, passed on June 26, 2014, directed the City Manager to "analyze the impact on homeowners and the City budget of providing a general homestead exemption as a percentage of appraise value and to present this information to Council at the earliest possible budget or Council work session." This memo presents this analysis in advance of tomorrow's work session, at which time staff will be available to answer any additional questions Council may have.

The parameters governing the establishment of a general homestead exemption are outlined in State law. Any taxing unit has the option of offering an exemption of up to twenty percent of a property's appraised value. To qualify for this exemption, a resident must have an ownership interest in the property and occupy it as his or her primary residence as of January 1 of a given tax year. The homeowner must also be an individual, as opposed to a corporation or other business entity.

State law also provides that taxing units must take action before July 1 of a given tax year to offer this exemption. As a result of this deadline, should Council choose to offer this exemption, it would not take effect until fiscal year 2015-16. Nevertheless, because generating an estimate as to the cost of offering this exemption depends upon the analysis of specific property value data provided by the Travis Central Appraisal District, all cost estimates are based on the City of Austin tax year 2014 property tax roll and fiscal year 2014-15 proposed property tax rate, and cost impact has been evaluated in comparison with fiscal year 2014-15 proposed General Fund property tax revenue.

The table below displays the property tax revenue that would be lost at the fiscal year 2014-15 proposed property tax rate at the maximum exemption level of 20%:

Level of Exemption	GF Revenue w/o exemption	GF Revenue w/ exemption	Change vs. Proposed Revenue	Annual Savings for Owner of Median-Value Home
20%	\$352.5M	\$316.8M	(\$35.6M)	\$189.00

For lower percentage levels of exemption, the revenue loss, as well as the savings to the owner of a median-value home, are predominantly linear functions. In other words, the revenue loss from a 10% exemption is approximately half of that from a 20% exemption, and the savings to the median-value homeowner would be half as large as well.

This linear relationship begins to break down as very small percentage exemptions are approached, due to the effect of the \$5,000 minimum exemption value. State law allows taxing entities the freedom to adopt any percentage level of exemption at or below 20%. Therefore, it would be possible to adopt an exemption at a very small percentage level that had the practical effect of resulting in \$5,000 fixed-value exemption. Assuming that each homestead in the city received a \$5,000 exemption yields the estimated cost impacts below:

Level of Exemption	GF Revenue w/o exemption	GF Revenue w/ exemption	Change vs. Proposed Revenue	Annual Savings for Owner of Median-Value Home
\$5,000	\$352.5M	\$349.4M	(\$3.1M)	\$24.05

It is also worth noting that a percentage-based exemption results in a proportionately larger exemption as home value rises. For example, a home valued at twice the median would realize twice as much tax savings. In the case of a fixed exemption amount, every homeowner receives the same amount of tax savings regardless of home value.

cc: Marc Ott, City Manager
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Assistant City Managers
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