M E M O R A N D U M

TO: Mayor & Council Members

FROM: Ed Van Eenoo, Deputy Chief Financial Officer

DATE: July 27, 2015

SUBJECT: Senior and Disabled Persons Exemption and Tax Limitation Fiscal Analysis

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At its June 11, 2015 meeting, the City Council considered a resolution that would direct the City Manager to take the necessary steps to implement a limitation on the taxable value of homesteads for seniors and people with disabilities. Council voted to send the item to the Audit and Finance Committee, which considered the resolution during its June 24, 2015 meeting. The Committee voted to recommend to the full Council that the tax limitation not be considered, but that it should consider increasing the fixed-value exemption for seniors and the disabled as part of its discussions during the budget adoption process. The Committee also directed staff to prepare an analysis of the revenue implications of the tax limitation and of prospective increases in the fixed-value exemption. An expanded analysis is included later in this memorandum, but the following table compares the estimated General Fund revenue impacts of both options resulting from fixing the tax bill on a qualified median-value home at the fiscal year 2015-16 level.

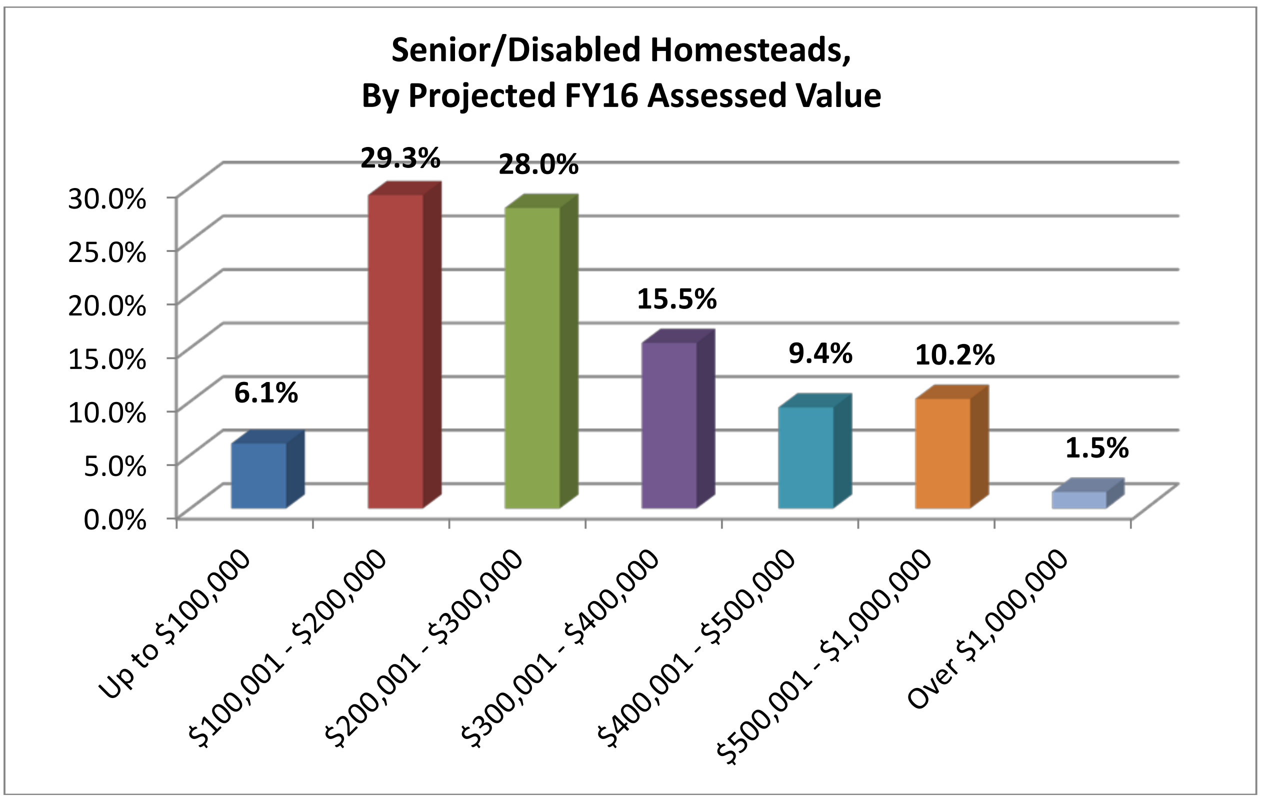
	FY16	FY17	FY18	FY19	FY20
Tax Limitation					
Level of Exemption	$70,000	$70,000	$70,000	$70,000	$70,000
Median – $245,552	$776	$776	$776	$776	$776
Estimated General Fund Annual Revenue Loss	**-**	**$4.0 M**	**$7.4 M**	**$11.2 M**	**$15.0 M**
Fixed-Value Exemption					
Level of Exemption	$70,000	$89,000	$106,000	$123,000	$138,000
Median – $245,552	$776	$777	$775	$773	$774
Estimated General Fund Annual Revenue Loss	**-**	**$3.1 M**	**$6.0 M**	**$9.0 M**	**$11.9 M**

Demographic Context

Seniors represent approximately 7.9% of Austin's population, and are anticipated to reach 16% of the City's population by 2040, according to projections prepared by the City Demographer. They tend to own homes at a higher rate than does the population as a whole, representing 20.7% of owner-occupied households. Per the Travis Central Appraisal District (TCAD), the median assessed value of an Austin home owned by a senior or disabled person is about 7.7% higher than the median assessed value of a homestead citywide. However, due to the effect of the City's existing $70,000 exemption for seniors and the disabled, the median net taxable value of homesteads owned by these residents is considerably—about 25%—lower than the citywide median net taxable value.

For fiscal year 2015-16, it is projected that approximately 33,200 homes will receive the senior exemption and 2,390 will receive the disabled persons exemption. Based on the most recently available data from TCAD, approximately 62% of Austin's taxable property value is residential, including both single and multifamily property. Of this residential taxable value, approximately 52% is attributable to homestead properties. And of these homesteads, approximately 22% of the taxable value is attributable to properties that receive the senior or disabled exemption. Put another way, properties owned by seniors and the disabled represent approximately 7% of Austin's combined tax roll.

The table below displays the distribution of taxable value of properties receiving the senior or disabled exemption:



Implications of a Tax Limitation

The table below illustrates the impact of Council's prospective adoption of a tax limitation in fiscal year 2015-16. Such an action would limit the City of Austin tax bill of homes owned by seniors or disabled to the amount of taxes paid in fiscal year 2015-16. State law dictates that this exemption is ***permanent and irreversible once adopted***.

Tax Limitation Impact Analysis

	FY16	FY17	FY18	FY19	FY20	Aggregate Projected Savings
Existing Fixed-Value Exemption	$70,000	$70,000	$70,000	$70,000	$70,000	
Forecast Tax Rate*	$0.4824	$0.4886	$0.4886	$0.5030	$0.5175	
FY16 Assessed Property Value	ESTIMATED CITY OF AUSTIN ANNUAL TAX BILL					
25th Percentile - $172,602	$445	$445	$445	$445	$445	$606
Median – $245,552	$776	$776	$776	$776	$776	$883
75th Percentile - $375,541	$1,365	$1,365	$1,365	$1,365	$1,365	$1,376
Estimated General Fund Revenue Loss						
Annual	-	$4.0 M	$7.4 M	$11.2 M	$15.0 M	
Cumulative	-	$4.0 M	$11.4 M	$22.6 M	$37.5 M	

*Assumes 6% homestead exemption in each year.

As the table shows, the tax limitation would have the effect of holding all qualifying homeowners' City of Austin property tax bills at their fiscal year 2015-16 level in perpetuity. The aggregate projected savings reflects the total projected savings for qualified homeowners over the 5 years of the analysis, relative to if there were no tax limitation in place. As the table demonstrates, the aggregate savings increases with homestead value under a tax limitation scenario—$606 for a homestead valued at $172,602, $883 for a homestead valued at $245,552, and $1,376 for a homestead valued at $375,541. The General Fund revenue impact analysis depends upon the interplay of forecasted tax rates and anticipated growth in property values of the 35,600 properties that will qualify for the senior or disabled person exemption in fiscal year 2015-16. The revenue implications associated with projected growth in the senior population are discussed later in the report and are not reflected in the chart above.

Implications of Increases in the Fixed-Value Exemption

Staff was also directed to analyze the impact of increasing the fixed-value property tax exemption for seniors and the disabled from its present level of $70,000. While Council has the ability to increase this exemption this year and thereby lower qualifying homeowners' fiscal year 2015-16 tax bills, to maintain comparability with the tax limitation scenario, our analysis assumes increases in the exemption sufficient to keep the projected median senior or disabled homeowner's tax bill approximately flat at its projected fiscal year 2015-16 level assuming the existing $70,000 exemption. Unlike the tax limitation, ***Council has the ability to raise, lower, or eliminate this exemption at any time in the future.***

The table below illustrates the impact of Council's prospective adoption of the specified increases in the fixed-value exemption for seniors and the disabled beginning in fiscal year 2016-17.

Fixed-Value Exemption Impact Analysis

	FY16	FY17	FY18	FY19	FY20	Aggregate Projected Savings
Fixed-Value Exemption	$70,000	$89,000	$106,000	$123,000	$138,000	
Forecast Tax Rate*	$0.4824	$0.4886	$0.4886	$0.5030	$0.5175	
FY16 Assessed Property Value	ESTIMATED CITY OF AUSTIN ANNUAL TAX BILL					
25th Percentile - $172,602	$445	$417	$391	$360	$332	$887
Median – $245,552	$776	$777	$775	$773	$774	$887
75th Percentile - $375,541	$1,365	$1,419	$1,459	$1,510	$1,561	$887
Estimated General Fund Revenue Loss						
Annual	-	$3.1 M	$6.0 M	$9.0 M	$11.9 M	
Cumulative	-	$3.1 M	$9.1 M	$18.1 M	$30.0 M	

*Assumes 6% homestead exemption in each year.

As the table shows, this approach would hold the median qualifying homeowner's City of Austin tax bill at its fiscal year 2015-16 level and provide aggregate savings of $887, essentially equivalent to that of the tax limitation. Due to the nature of a fixed exemption, all homeowners would realize the same aggregate savings. Homeowners with properties valued below the median would see their tax bills decline over time, and therefore experience a greater benefit relative to a tax limitation—$887 in savings under the fixed-value exemption for a homestead valued at $172,602 relative to $606 under a tax limitation. Homeowners with properties valued above the median would see tax bills increases, albeit at a more moderate rate than if no increases to the exemption were adopted, and therefore experience less of a benefit relative to the tax limitation—$887 in savings under the fixed-value exemption for a homestead valued at $375,541 relative to $1,376 under a tax limitation.

As with the tax limitation analysis, the impact analysis in the table above also depends upon the interplay of forecasted tax rates and anticipated growth in property values of the roughly 35,590 properties that will qualify for the senior or disabled person exemption in fiscal year 2015-16. It similarly does not reflect revenue implications associated with projected growth in the senior population, which are discussed later in the report.

The table below shows the projected fiscal year 2015-16 impact of prospective increases in the amount of the fixed-value homestead exemption for seniors and disabled persons.

Impact Analysis of Prospective Increases in the Senior and Disabled Persons Property Tax Exemption

Increase Exemption By:	Total Exemption	Total Property Tax Bill Savings	Incremental Property Tax Bill Savings	FY16 Incremental General Fund Revenue Loss
$0	$70,000	$337.68	$0	$0
$1,000	$71,000	$342.50	$4.82	$164,286
$2,000	$72,000	$347.33	$9.65	$328,360
$3,000	$73,000	$352.15	$14.47	$492,276
$4,000	$74,000	$356.98	$19.30	$656,021
$5,000	$75,000	$361.80	$24.12	$819,587
$6,000	$76,000	$366.62	$28.94	$982,939
$7,000	$77,000	$371.45	$33.77	$1,146,108
$8,000	$78,000	$376.27	$38.59	$1,309,118
$9,000	$79,000	$381.10	$43.42	$1,471,883
$10,000	$80,000	$385.92	$48.24	$1,634,363
$20,000	$90,000	$434.16	$96.48	$3,245,710
$30,000	$100,000	$482.40	$144.72	$4,830,743

Additional Considerations

The tables above derive the projected General Fund revenue loss from forecasted tax rates and assumptions about growth in the property values of properties that would qualify for the tax limitation or the fixed-value exemption in fiscal year 2015-16, including the effect of state law limiting the increase in a homestead's assessed value to 10% annually. It is important to note how closely tied these projected revenue loss figures are to tax-rate assumptions. For instance, were the effective tax rate[1] to be adopted year-after-year, there would be no revenue loss associated with the tax freeze, nor would there be a need to increase the fixed-value exemption. At the other extreme, were the City to consistently adopt the rollback tax rate[2], the revenue loss associated with the either approach would increase sharply.

Moreover, these projections do not attempt to quantify the effects of an increase in the share of Austin's population consisting of seniors, as doing so would require a host of speculative assumptions, including those associated with: attempting to project General Fund expenditures, assessed valuation growth,

[1] The effective tax rate is defined as the rate that would generate the same amount of property tax revenue as in the prior year when applied to properties taxed in both years.

[2] The rollback tax rate is calculated by multiplying the rate that would generate the same amount of operations and maintenance property tax revenue as in the prior year when applied to properties taxed in both years 1.08 and adding it the debt rate, which is the rate necessary to generate sufficient property tax revenue to cover projected debt service requirements when applied to all properties in that tax year.

growth in other sources of City revenue, and required tax rates beyond the five-year forecast horizon; projecting changes in the ratio of home values between seniors and the disabled and the rest of the City's homeowners; attempting to incorporate actuarial data predicting the turnover rate of senior-owned homes and senior mortality rates; and modeling the effect of the provision that allows transfer of the senior exemption to surviving spouses over the age of 55. Nevertheless, given the significance and magnitude of the projected increase in seniors' share of Austin's population, some broad generalizations as to the likely effects of this demographic shift on the medium- and long-term General Fund revenue loss associated with both the tax limitation and fixed-value exemption scenarios are presented below.

Generally speaking, as the share of Austin's population consisting of seniors continues to rise, so too will the revenue impact to the City's General Fund associated with either scenario, assuming a tax rate above the effective tax rate is adopted. While the tables above show that the fixed-exemption scenario is slightly less expensive in the short-term, in the medium-to-long-term, the revenue impact associated with this scenario can be expected to increase more steeply. Consider the owner of a median-value home in fiscal year 2025-26, for instance, who first qualifies for the exemption. In this first year, he or she would see their tax bill drop immediately to its fiscal year 2015-16 level of $776 and would continue to pay this same dollar amount for as long as he or she lives or owns this property. This same property owner, if first qualifying for the tax limitation, would instead see his or her tax bill limited thereafter to the amount paid in fiscal year 2025-26, which is likely to be significantly higher than the $776 they would pay under the fixed-exemption increase scenario (again, depending upon the degree to which future tax rates adopted by the City Council exceed the effective tax rate). While resulting in a greater revenue loss in the short-term, the revenue impact of the tax limitation can reasonably be expected to level out in twenty to thirty years as the number of properties qualifying for the limitation reaches a state of relative equilibrium.

On the other hand, the tax limitation is permanent and irreversible, and so any revenue decline associated with it would be guaranteed. The fixed-exemption scenario, however, could be amended, halted, or reversed by City Council at any time in response to financial circumstances, changing policy priorities, or other contingencies. Moreover, the fixed-exemption scenario has the advantage of providing more targeted relief at the owners of homes valued below the median, who are presumably lower-income individuals. These homeowners would see their City of Austin property tax bills not simply level off, but actually decline, and for very low-valued homes, reach zero.

Staff has confirmed with the Travis and Williamson Central Appraisal Districts that if Council were to enact an increase in the Over 65 and Disabled Persons exemption or to enact a tax limitation concurrent with the adoption of the City's Budget on September 8-10, that these changes could still be incorporated into the tax year 2015 tax rolls submitted to the Travis and Williamson County Tax Assessor/Collectors' offices. As always, please feel free to contact me with any additional questions, concerns, or requests for further information.

cc: Marc Ott, City Manager
Deputy City Manager
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