M E M O R A N D U M

TO: Mayor & Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer

DATE: January 17, 2014

SUBJECT: Resolution No. 20130926-084 re: Age-65-and-Older and Disabled Person Property Tax Exemptions

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Council Resolution No. 20130926-084 contained several directions for staff with regard to exploring options for increasing the amount of the property tax exemptions for residents aged 65 and older and for disabled persons:

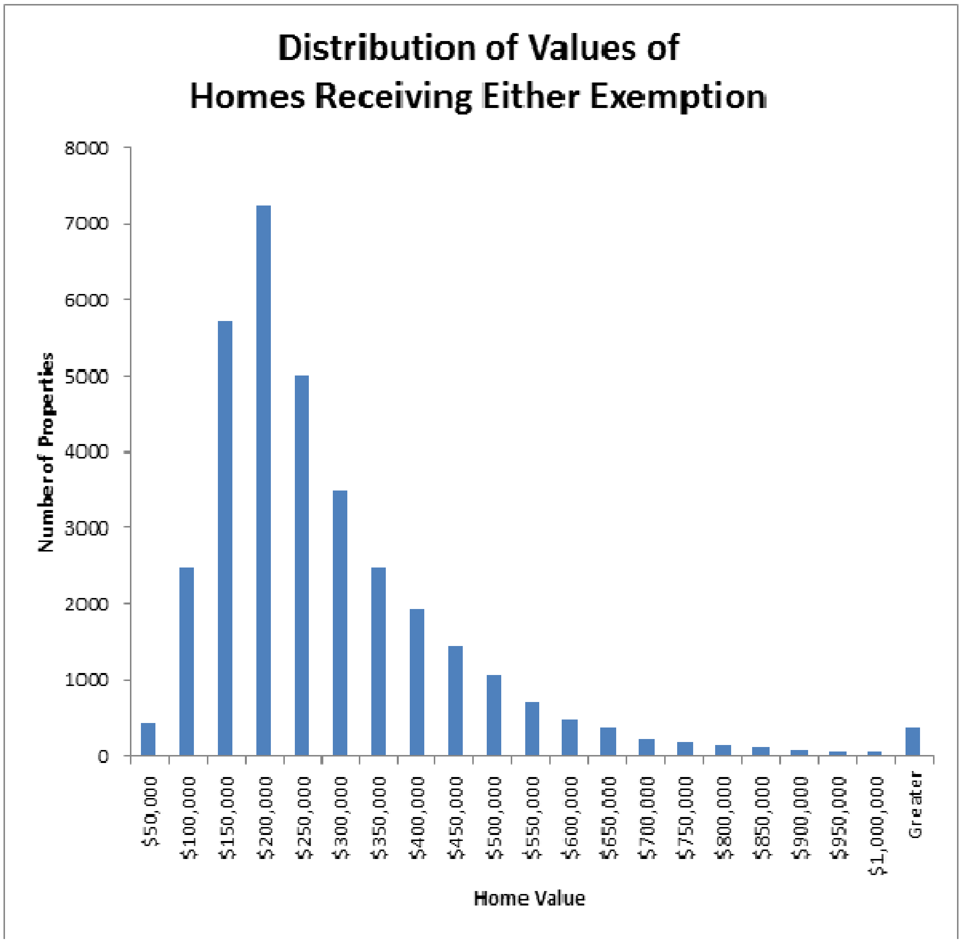
- to draft an ordinance that increases the exemptions and to place it on the Council agenda within a timeframe that would allow the changes to be reflected on property tax assessments for the City's fiscal year 2014-15 Budget;
- to report back to Council as to the cost of a $1,000 increase in the exemptions; and,
- to propose a procedure that would allow Council to consider annual increases in the exemptions that would offset the burden of a property tax increase for the owner of a median-priced home who qualifies for one of the exemptions.

Staff has drafted an ordinance, which will be considered as part of Council's agenda for its January 23, 2014 meeting. This memo provides broader context for consideration of that ordinance, in addition to responding to the remaining two directions included in the resolution.

Background

The ordinance providing for a property tax exemption for our community's senior citizens was first passed in 1974, at a level of $3,000. By 1986, the last time the ordinance was updated, the amount of the exemption had increased to $51,000 and disabled persons were included as qualified participants.

For fiscal year 2013-14, a total of 34,081 properties received either the over-65 or disabled person exemption (one may take only one of the exemptions even if eligible for both). 31,686 properties received the over-65 exemption and 2,395 received the disabled persons exemption. The median value of these properties was $210,539, about 14% higher than the citywide residential median value of $185,133. The total assessed valuation, net of exemption, for all properties receiving it, was over $7 billion, or about 7.9% of the City's total tax roll.



Since 1986, the price of a representative home in the City has increased by nearly 155% cumulatively, or by an average of about 5.3% per year. The property tax rate has ranged from 40.73 cents per $100 of assessed value in FY87 to 50.27 cents today, peaking at 64.10 cents in FY93 and falling to a low of 40.12 cents in FY09. As a result of these inputs, the tax bill on a representative home has risen, net of the exemptions, by an average rate of just over 6% annually over this same timeframe.

The remainder of this memo will outline the cost of increasing the exemptions by various amounts, and it offers a potential mechanism by which Council might elect to adjust the level of the exemptions on an annual basis.

Revenue Loss from Increasing the Exemption Amount

The table below outlines the projected cost of increasing the current exemption amount of $51,000. Please note that while the projections do rely on expected increases in assessed valuations, they make no assumption as to growth in the number of properties qualifying for either exemption. The projections also assume the nominal tax rate of 50.27 cents per $100 of assessed valuation for all years. Any growth in the number of qualified individuals due to population growth and longer life expectancies—both of which are expected to occur in the years ahead—would increase the amount of the projected revenue loss. Any increase in the tax rate from its current level would likewise increase the potential loss in revenue.

Increase Exemption From $51,000 to:	FY15 Estimated Revenue Loss	Total 5-Year Estimated Revenue Loss
$52,000	$166,019	$830,103
$53,000	$332,036	$1,660,194
$54,000	$498,042	$2,490,263
$55,000	$663,996	$3,320,268
$56,000	$829,867	$4,150,186
$57,000	$995,658	$4,980,010
$58,000	$1,161,325	$5,809,659
$59,000	$1,326,859	$6,639,086
$60,000	$1,492,260	$7,468,244
$70,000	$3,136,200	$15,728,847
$80,000	$4,757,146	$23,901,228
$90,000	$6,350,943	$31,957,866
$100,000	$7,913,365	$39,881,815

As the table shows, **a $1,000 increase in the property tax exemptions is anticipated to result in a revenue loss of $166,019 in FY15, and $830,103 over the next five years**.

Considerations Related to Systematic Increases in the Exemption Amount

Resolution No. 20130926-084 directed staff to “propose a procedure that would allow the City Council to consider annual increases in the property tax exemptions for seniors and people with disabilities which would offset the burden of a property tax increase for the owner of a median priced home.” Calculating the annual increase in the exemption amount necessary to achieve this outcome is relatively straightforward and implementation would only require annual Council approval of an Ordinance establishing the required exemption level. Approval of the Ordinance change would preferably occur prior to March of each year in order to be reflected on the April appraisal notices and to improve the reliability of property tax revenue forecasts during the annual budget process.

While the method for achieving tax neutrality for the owner of a median-valued home that receives one of the exemptions is simple, the fiscal implications are significant. For example, since the last time the exemption ordinance was updated in 1986, the tax bill on a representative home, net of the exemption, has increased by nearly $900, or about $33 per year. The revenue loss associated with returning a representative home to the absolute level of tax paid in FY87 is **estimated at $23.1 million in FY15**, and over $120.6 million over the next five years, assuming the nominal tax rate. However, even the revenue losses associated with instituting a tax neutrality policy only on a go-forward basis compound rapidly.

Consider the table below, which shows projected increases in the City property tax bill if no adjustment were made to the current level of the exemptions or the number of properties receiving them, given current estimates for growth in assessed valuations and assuming the nominal tax rate.

FY	Median Value	Tax Rate	Exemption	Tax Bill	$ Increase over Prior FY	% Increase over Prior FY
2013	$178,327	0.5029	$51,000	$640.33		
2014	$185,133	0.5027	$51,000	$674.29	$33.96	5.3%
2015	$194,390	0.5027	$51,000	$720.82	$46.53	6.9%
2016	$204,109	0.5027	$51,000	$769.68	$48.86	6.8%
2017	$210,437	0.5027	$51,000	$801.49	$31.81	4.1%
2018	$216,960	0.5027	$51,000	$834.28	$32.79	4.1%
2019	$223,469	0.5027	$51,000	$867.00	$32.72	3.9%

Cumulatively, then, over the five year period from FY15 to FY19, our baseline scenario shows that the owner of a median-value home, net of either exemption, would be expected to pay approximately $3,933 in property tax, and see his or her City property tax bill grow by an average of 5.2% per year.

The table below shows the increases in the amount of the exemption required to hold the tax bill on a median-value home flat at its FY14 level of about $674.

FY	Median Value	Tax Rate	Exemption	Tax Bill	$ Increase over Prior FY	% Increase over Prior FY
2013	$178,327	0.5029	$51,000	$640.33		
2014	$185,133	0.5027	$51,000	$674.29	$33.96	5.3%
2015	$194,390	0.5027	$60,000	$674.29	$0.00	0.0%
2016	$204,109	0.5027	$70,000	$674.29	$0.00	0.0%
2017	$210,437	0.5027	$76,000	$674.29	$0.00	0.0%
2018	$216,960	0.5027	$83,000	$674.29	$0.00	0.0%
2019	$223,469	0.5027	$89,000	$674.29	$0.00	0.0%

Under this scenario, the homeowner would pay a total of $3,371 in property tax over the five year period from FY15 to FY19—about $562 less than in the baseline scenario—as the amount of the exemptions ultimately rises to $89,000 to maintain a constant tax bill. The revenue loss of this scenario is estimated at nearly $1.5 million in FY15 and $20.3 million over the next five years. **As a result of this significant loss of revenue, staff recommends against enacting any policy that would result in a permanently fixed level of tax revenue from any specific property owner, i.e. the owner of median-value home.**

Another potential mechanism for increasing the annual exemption amount that Council may wish to consider would be to adjust the exemptions by the same percentage as the change in the tax bill on a median-value home, net of either exemption, during the two most recent fiscal years.

For instance, from FY13 to FY14 the property tax bill on the median-value Austin home, net of either exemption, rose from about $640 to about $674, an increase of 5.3%. Following this prospective approach, the exemptions would increase by 5.3% for FY15, which, with rounding, would bring them to $54,000, an increase of $3,000.

The following table shows a similar forecast, but assumes that the level of the exemptions would increase in accordance with the methodology described above.

FY	Median Value	Tax Rate	Exemption	Tax Bill	$ Increase over Prior FY	% Increase over Prior FY
2013	$178,327	0.5029	$51,000	$640.33	-	-
2014	$185,133	0.5027	$51,000	$674.29	$33.96	5.3%
2015	$194,390	0.5027	$54,000	$705.74	$31.45	4.7%
2016	$204,109	0.5027	$57,000	$739.52	$33.78	4.8%
2017	$210,437	0.5027	$60,000	$756.24	$16.73	2.3%
2018	$216,960	0.5027	$61,000	$784.01	$27.77	3.7%
2019	$223,469	0.5027	$63,000	$806.68	$22.67	2.9%

Under this scenario, the owner of a median-value home, net of either exemption, would pay approximately $3,792 cumulatively over the five-year period from FY15 to FY19, or about $200 less than in the baseline scenario. As the table shows, the amount of the exemption would increase from its current level of $51,000 to $63,000 in FY19. The revenue loss of this scenario is estimated at $498,042 in FY15 and $6.64 million over the next five years.

Conclusion

Any prospective increase in tax exemption for disabled homeowners or those aged 65 and older must be carefully weighed against how such an action would affect Austin's affordability for all its residents. City management has communicated its intent to present a proposed fiscal year 2014-15 Budget that maintains the property tax rate at 50.27 cents per $100 of assessed value. Any increase in the authorized level of this tax exemption will increase the challenge of achieving this goal while maintaining current service levels. Given certain fixed cost drivers, the pool of funding available for new programming and for enhancements of existing services is already limited. Any increase in this exemption will result in foregone General Fund revenue in fiscal year 2014-15 and beyond and should carefully be weighed against other potential funding priorities.