



# General Homestead Exemption



## Overview and Analysis

*City of Austin, Texas*



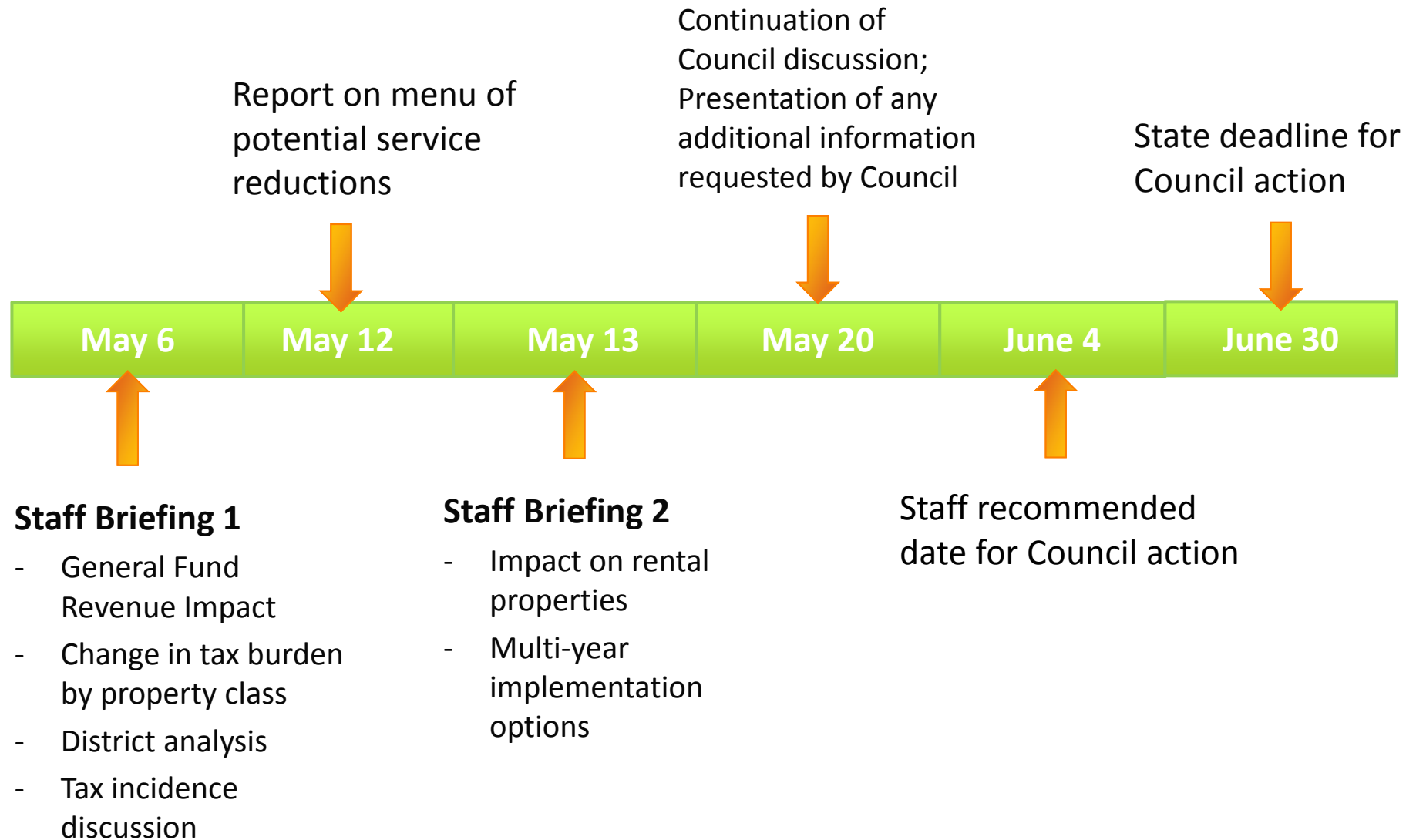
# Today's Agenda

- Overview of homestead exemption resolution
- Timeline for adopting
- Background information
- Citywide results
- District analysis
- Tax incidence discussion
- Council discussion and Q&A

# Summary of Council Resolution 20150212-050

- Analyze tax incidence and impact of implementing a 20% Homestead Tax Exemption
  - Impacts on homeowners, renters, commercial and industrial property owners and the city budget
- Terms of 1, 2 and 4 years in aggregate by district and by income
- Consider revenue uses, tax rate changes and reductions in services
- Present information to Council by May 12, 2015

# Homestead Exemption Decision Timeline



# **General Homestead Exemption**

## **Background Information**

# Tax Rate Calculations

## *Effective Rate*

- Rate that produces the same amount of tax revenue as in the prior year when applied to properties taxed in both years

### EXHIBIT 3 Calculating the Effective Tax Rate

$$\frac{\begin{array}{c} \text{Prior Year's Taxes} \\ \text{less} \\ \text{Taxes on Property} \\ \text{Lost this Year} \end{array}}{\div} \begin{array}{c} \text{Current Value of} \\ \text{Property Taxed} \\ \text{in the Prior Year} \end{array} \times \$100 = \begin{array}{c} \text{Effective} \\ \text{Tax Rate} \end{array}$$

*Source: Texas Comptroller of Public Accounts, 2013.*

# Tax Rate Calculations

## Rollback Rate

- Rate that produces 8% more revenue for maintenance and operations than in the prior year when applied to properties taxed in both years, plus the amount needed for debt service

EXHIBIT 5

### Calculating the M&O Limit of the Rollback Tax Rate

(Adjusted 2012 Value x 2012 M&O Rate)  
——— divided by ———  
Adjusted 2013 Taxable Values

x \$100 x 1.08 = M&O Portion of Rollback Rate

Source: Texas Comptroller of Public Accounts, 2013.

EXHIBIT 6

### Calculating the Debt Service Portion of the Rollback Rate

(2013 debt payments – 2012 excess debt tax collections)  
——— divided by ———  
2013 anticipated collection rate

= Adjusted 2013 debt

Adjusted 2013 debt

——— divided by ———

x \$100 = 2013 debt service rate

2013 total taxable values\* – 2013 captured appraised value in a TIF fund

\* Counties, cities and junior college districts that adopted the tax ceiling provision exclude the total taxable value of the 2013 homesteads with tax ceilings for homeowners age 65 or older or disabled.

Source: Texas Comptroller of Public Accounts, 2013.



# Value Definitions

- Market Value – The price property would sell for when both buyer and seller seek the best price and neither is under pressure to buy or sell
- Appraised Value – An evaluation of a property's value based on a given point in time
- Taxable / Assessed Value – the amount determined by deducting from appraised value the amount of any applicable exemptions
  - General homestead
  - Over 65/Disabled
  - Historic home
  - Tax freeze for over 65
  - 10% value growth cap on homestead properties



# Legal Matters – General Homestead Exemption

## ➤ Texas Tax Code Section 11.13(n)

(n) In addition to any other exemptions provided by this section, an individual is entitled to an exemption from taxation by a taxing unit of a percentage of the appraised value of his residence homestead if the exemption is adopted by the governing body of the taxing unit **before July 1** in the manner provided by law for official action by the body. If the percentage set by the taxing unit produces an exemption in a tax year of less than \$5,000 when applied to a particular residence homestead, the individual is entitled to an exemption of \$5,000 of the appraised value. The percentage adopted by the taxing unit may not exceed 20 percent.

## ➤ Key Points

- Only applies to residence homesteads
- Must be established as a percentage of appraised value
- Must be adopted before July 1<sup>st</sup>
- Minimum exemption: \$5,000
- Maximum exemption: 20% of appraised value

# Summary of Property Value Exemptions

## *Local Taxing Entities*

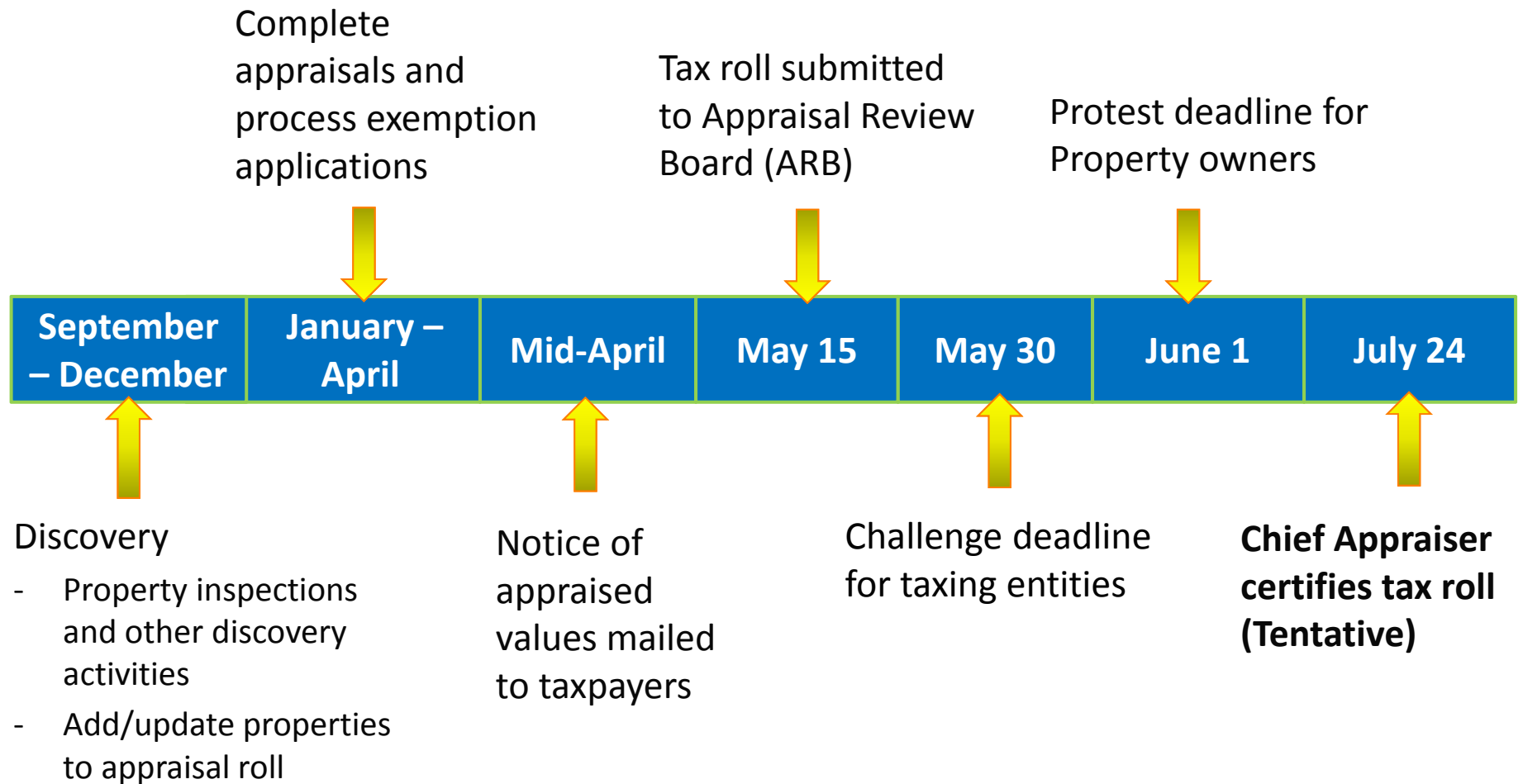
Entity	General Homestead Exemption	Senior/ Disabled Exemption	Other Exemptions
City of Austin	0.01%, minimum of \$5,000	\$70,000	Historical
Travis County	20%, minimum of \$5,000	\$70,000	Historical
AISD	\$15,000 (state-mandated)	\$35,000 (\$25,000 disabled persons) + Tax freeze	Historical and Transitional Housing
ACC	1%, minimum of \$5,000	\$125,000	Historical
Healthcare District	20%, minimum of \$5,000	\$70,000	None

# Summary of Property Value Exemptions

## *Large Texas Cities*

City	General Homestead Exemption	Senior/ Disabled Exemption	Other Exemptions
City of Austin	0.01%, minimum of \$5,000	\$70,000	Historical
San Antonio	0%	\$65,000 (65 years and older) + \$12,500 (disabled)	None
Houston	20%, minimum of \$5,000	\$80,000 (65 years and older / disabled)	None
Dallas	20%, minimum of \$5,000	\$64,000 (65 years and older / disabled)	None
Fort Worth	20%, minimum of \$5,000	\$40,000 (65 years and older / disabled)	None

# Appraisal Cycle



# Forecast Tax Rates and Revenues

*0.01% Homestead Exemption (current level approved by Council)*

Category	Rate	Revenue	Increase from FY 2015
FY 15 Projected Revenue	.4809	\$473.5 M	-
Effective Rate	.4495	\$480.2 M	\$6.7 M
FY 16 Forecast Rate*	.4750	\$507.2 M	\$33.7 M
Rollback Rate	.4807	\$513.3 M	\$39.8 M

\*Projected tax rate needed to balance the FY 2016 budget.

# **General Homestead Exemption**

## **Citywide Results**

# Impact on FY 2016 Property Tax Revenue

## *20% Homestead Exemption (HSE)*

### ***Scenario 1: Forecast Tax Rate = 0.4750***

Projected Budget Gap with a 0.01% HSE	\$0
Projected Budget Gap with a 20% HSE	(\$32.5 M)

### ***Scenario 2: Rollback Rate = 0.4886***

Revenue Increase over Forecast Rate	\$13.3 M
Projected Budget Gap with a 20% HSE	(\$19.2 M)

### ***Scenario 3: Tax Rate = 0.5083 (exceeds rollback threshold)***

Additional Revenue at Tax Rate of 0.5083	\$32.5 M
Projected Budget Gap at with a 20% HSE	\$0



# Tax Incidence by Property Category

## 20% Homestead Exemption

	Change in GF Revenue	Change in Homestead Tax Burden	Change in Non- Homestead Residential Tax Burden	Change in All Other Property's Tax Burden
At Forecast Rate of 0.4750	(\$32.5 M)	(\$32.5 M)	\$0	\$0
At Rollback Rate of 0.4886	(\$19.2 M)	(\$28.7 M)	\$4.3 M	\$5.4 M
At Tax Rate of 0.5083	\$0	(\$23.2 M)	\$10.6 M	\$13.2 M

\*Rows may not balance due to impact of tax increment financing zones.

# Impact on Median Valued Homestead Property

## *20% Homestead Exemption*

	Change in Tax Burden for Median Valued Homestead of \$227,272	Change in Tax Burden for Non-Homestead Properties, per \$227,272 of Value
At Forecast Rate of 0.4750	(\$216)	\$0
At Rollback Rate of 0.4886	(\$191)	\$31
At Tax Rate of 0.5083	(\$155)	\$76

## 6% Homestead Exemption Scenario

	Change in GF Revenue	Change in Homestead Tax Burden	Change in Non-Homestead Residential Tax Burden	Change in All Other Property's Tax Burden
At Tax Rate of 0.4824	\$0	(\$5.2 M)	\$2.4 M	\$2.9 M

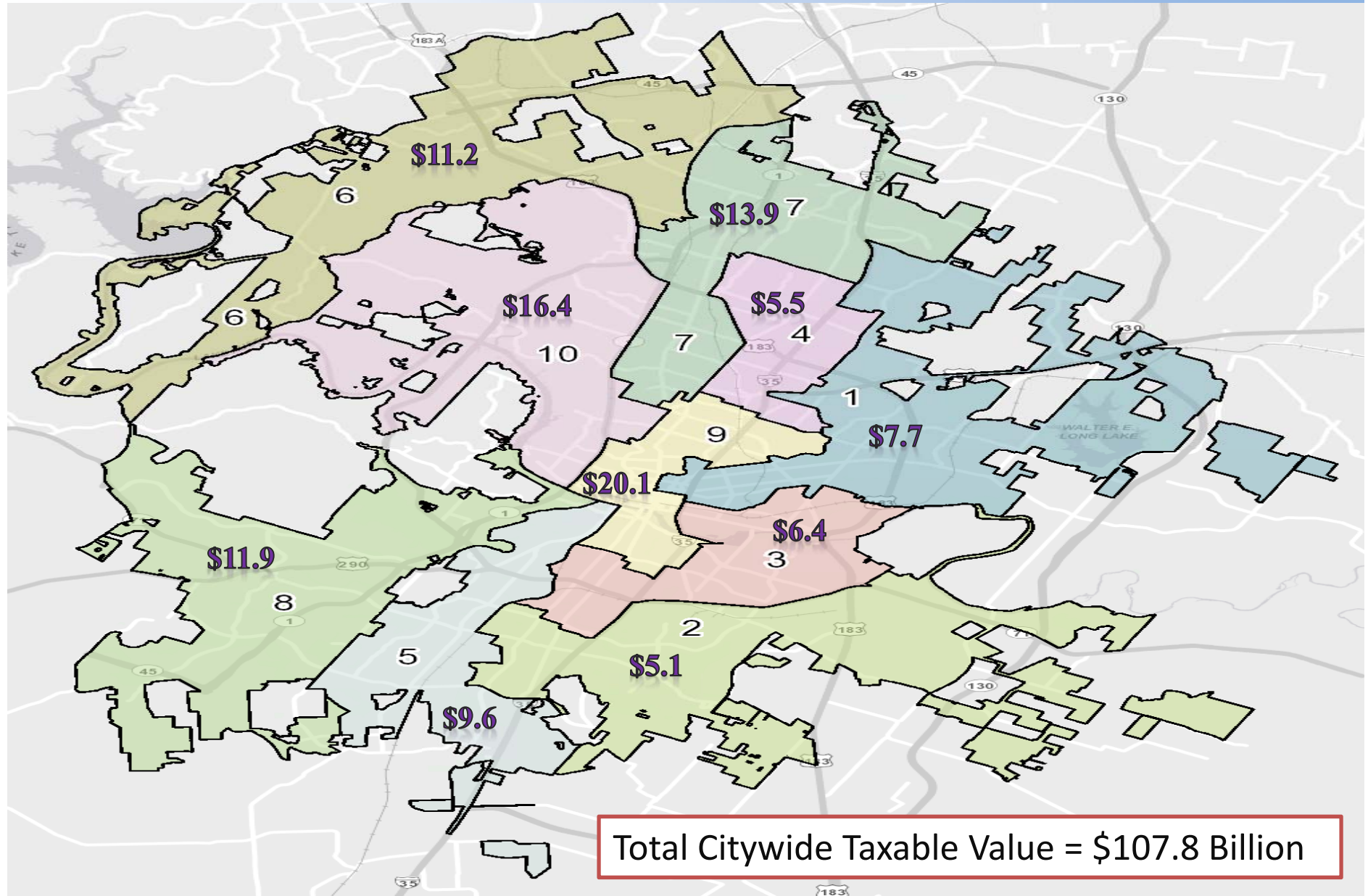
\*Above row does not balance due to impact of tax increment financing zones.

	Change in Tax Burden for Median Valued Homestead of \$227,272	Change in Tax Burden for Non-Homestead Properties, per \$227,272 of Value
At Tax Rate of 0.4824	(\$49)	\$17

# **General Homestead Exemption**

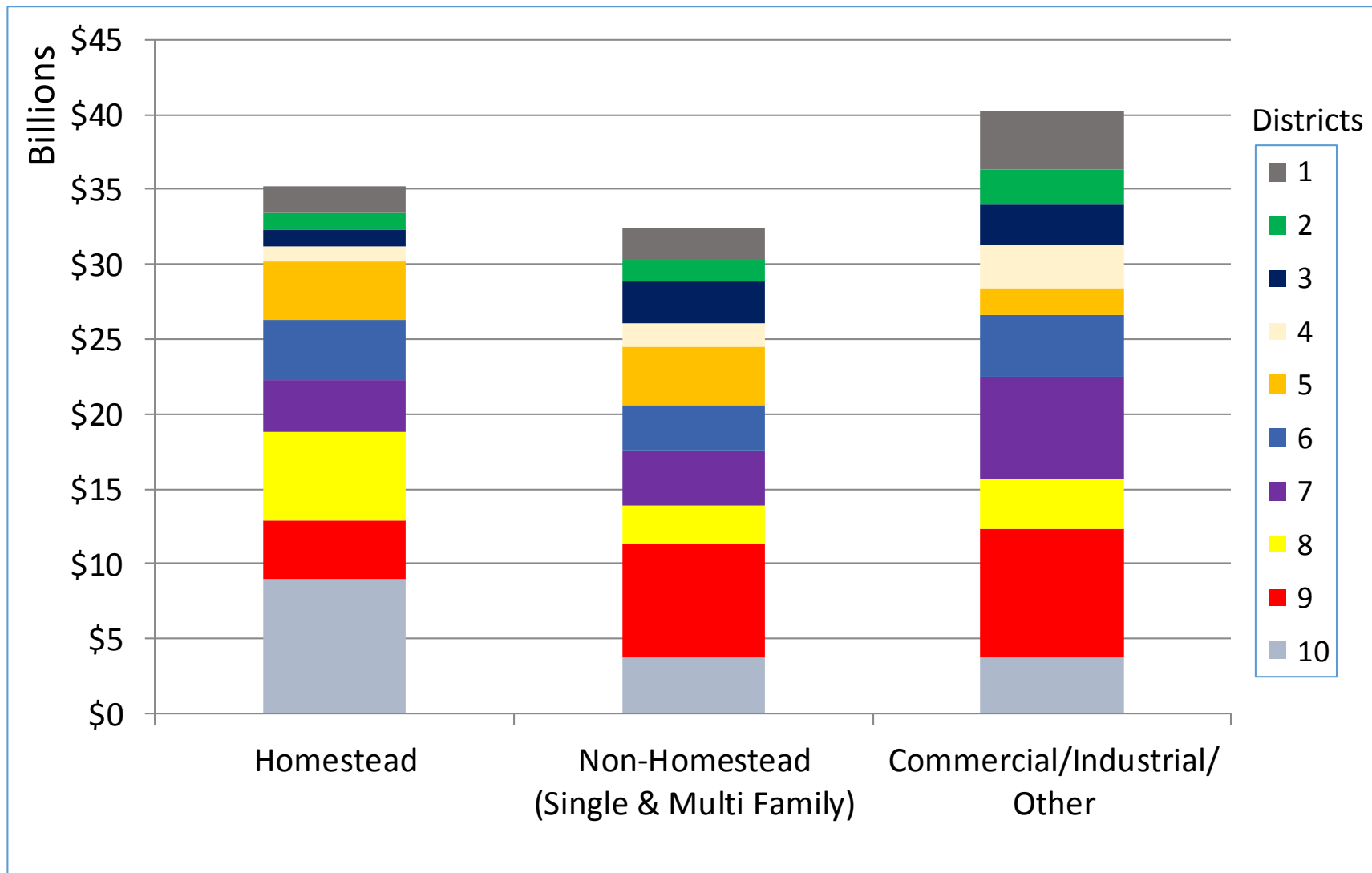
## **District Analysis**

# Taxable Value by District – FY16 (estimated, in billions)



# Assessed Valuation by Property Class and District

(in billions)



# Homestead Statistics by District

District	Percentage of City's Homesteads	Total Homestead Value (billions)	Median Homestead Value
1	10.2%	\$1.8	\$149,836
2	8.5%	\$1.1	\$111,027
3	5.9%	\$1.2	\$159,102
4	5.5%	\$1.0	\$141,424
5	14.5%	\$3.9	\$201,592
6	5.3%	\$3.9	\$322,652
7	12.4%	\$3.5	\$226,277
8	15.1%	\$6.0	\$309,567
9	7.4%	\$3.8	\$376,642
10	15.2%	\$9.0	\$455,197



# Reduction in Homestead Tax Burdens by District

## *20% Homestead Exemption*

Districts	Total Reduction (0.4750)	Median Reduction (0.4750)	Total Reduction (0.4886)	Median Reduction (0.4886)	Total Reduction (0.5083)	Median Reduction (0.5083)
1	\$1.7 M	\$142	\$1.5 M	\$126	\$1.2M	\$102
2	\$1.0 M	\$105	\$0.9 M	\$93	\$0.7 M	\$76
3	\$1.1 M	\$151	\$0.9 M	\$134	\$0.8 M	\$109
4	\$0.9 M	\$134	\$0.8 M	\$119	\$0.6 M	\$97
5	\$3.6 M	\$192	\$3.2 M	\$170	\$2.6 M	\$138
6	\$3.6 M	\$264	\$3.2 M	\$233	\$2.6 M	\$190
7	\$3.2 M	\$215	\$2.8 M	\$190	\$2.3 M	\$155
8	\$5.5 M	\$294	\$4.9 M	\$260	\$4.0 M	\$212
9	\$3.5 M	\$358	\$3.1 M	\$317	\$2.5 M	\$257
10	\$8.3 M	\$432	\$7.3 M	\$383	\$5.9 M	\$311

\*The figures in this table only reflect the reduction in tax burden for homestead properties. They do not reflect the overall tax incidence relative to non-homestead properties.

# Reduction in Homestead Tax Burdens by District

## *6% Homestead Exemption*

Districts	Total Reduction (0.4824)	Median Reduction (0.4824)
1	\$0.3 M	\$32
2	\$0.2 M	\$24
3	\$0.2 M	\$34
4	\$0.1 M	\$30
5	\$0.6 M	\$43
6	\$0.6 M	\$60
7	\$0.5 M	\$49
8	\$0.9 M	\$67
9	\$0.6 M	\$81
10	\$1.3 M	\$98

\*The figures in this table only reflect the reduction in tax burden for homestead properties. They do not reflect the overall tax incidence relative to non-homestead properties.

# **General Homestead Exemption**

## **Tax Incidence Analysis**

# Tax Incidence

- Tax Incidence – Economic analysis that attempts to distinguish between the *initial impact* of a tax and its ultimate *incidence*.
  - Attempts to answer the question, “Who bears the ultimate burden of a given tax?”
- Outcome of incidence analysis relies heavily on the accuracy and availability of data, and on assumptions regarding a wide range of economic and demographic factor
  - How do producers and consumers respond to price changes?
  - Is the market competitive or monopolistic?
- “The analysis is complicated because it is difficult...”

# State of Texas Tax Incidence Model

- City staff lack the data and expertise to develop a tax incidence model specific to the City of Austin
- State-wide tax incidence analysis is performed biennially by the Legislative Budget Board (LBB) and published by the Texas Comptroller
  - LBB is unable to conduct a targeted run for the City of Austin based on Texas statute (Texas Legislature requests only)

# Texas Tax Incidence

## Total School Property Tax Revenue

Final Incidence of Tax -- By Household Income Quintile				
Quintile	Household Income	Amount	Percent of Total Tax Paid	Tax as a Percent of Total Income
1	less than 34,161	\$1,840.4	5.9%	6.4%
2	34,161 - 61,955	2,570.4	8.3%	3.4%
3	61,955 - 94,319	3,433.3	11.1%	2.8%
4	94,319 - 147,411	5,326.3	17.2%	2.8%
5	147,411 and higher	11,169.3	36.1%	2.0%
Residents		\$24,339.7	78.7%	
Exported		\$6,591.7	21.3%	
<b>TOTAL</b>		<b>\$30,931.4</b>	<b>100.0%</b>	
Estimated Equity of Tax, Tax Year 2017				
Suits Index		-0.084		
<i>Totals may not add due to rounding.</i>				

\*Table from Tax Exemptions & Tax Incidence Report by Texas Comptroller (March 2015)

# Property Tax Incidence Conclusions

- Higher income quintiles incur more of the property tax burden than lower income quintiles
- Property taxes are nonetheless highly regressive
  - In other words, the tax burden expressed as a share of income increases as income decreases
- More than 1/5 of the statewide school property tax burden is exported outside of the state
- Similar results for the City of Austin would seem likely



# Next Week

- Impact on rental properties
- Multi-year implementation options
- Menu of potential service reductions
- Anything else?



# Questions/Comments/Discussion

