



## COMMISSION ON SENIORS RECOMMENDATION 20150311-003A

Date: March 11, 2015

Subject: Property Tax Relief

Motioned By: Commissioner Cecilia Crossley      Seconded By: Commissioner Jacqueline Angel

### **Recommendation**

In the 2013, City of Austin Mayor's Taskforce on Aging stressed that there was a need for detailed research to review options available to older adults with regard to affordable senior housing, including the impact of rising property taxes on low-income seniors and those on fixed incomes.

The four options reviewed were:

- 1) Property tax freeze
- 2) Circuit Breaker/Sliding Scale
- 3) Reverse Annuity Mortgage Program
- 4) Property Tax Deferral

### **Description of Recommendation to Council**

Three of the four options are summarized below and include freezing property taxes, a sliding scale circuit breaker, and property tax deferrals. The 3rd listed option, Reverse Annuity Mortgage Program, was considered, but eliminated by the Commission. In addition, both the strengths and weaknesses of each option are presented in table format. See attachments, Table I, Appendix A, and the Memo dated March 13<sup>th</sup> for more detail.

- **Option # 1: Property Tax Freeze: To freeze taxes for all tax entities if the homestead value is below the median appraised value of homes in Austin.**

**Description:** Texas Property Tax Code (TPTC) §11.13, §11.26§11.261. This option raises issues of fairness and implementation questions. Is it reasonable for a household that falls slightly above the median appraised value be excluded from the tax benefit while one that is slightly below receives the benefit? Increased values in the neighborhood raise the median value; or values go back and forth which changes the qualifying status.

**Option #1A:** An alternative would be to index the current senior exemption of \$70,000 to automatically increase as the median homestead value increases in the city. With this option, there is some assurance that the value of the exemption would increase with home values. A flat dollar amount, unlike a percentage exemption, gives the biggest proportionate break to those with lower valued homes and who are most likely having a more difficult time paying their taxes.

- **Option #2: Property Tax Relief: Circuit Breaker/Sliding Scale Approach** is where taxpayers earning below a certain income level are given some amount of property tax relief when their taxes exceed a certain percentage of their income.
- **Description:** This option balances equity and relative income adequacy. By targeting exemptions based on a certain income level, it is less expensive to a jurisdiction than an across the board property tax relief. This option would apply to all age groups based on an income guideline. Texas does not have an income tax and although income could be verified using a W-2 to participate in the program, it could be difficult to verify. (A model of income verification in Washington State). This approach involves an application process and is not automatic.
- **Option #3: Property Tax Deferral: Sec 33.06 allows seniors to postpone payment of property taxes until they move out of their home or die. The estate is then responsible to pay owed back taxes.**

**Description:** Payment of tax is deferred as older adults' age in place, in their own homes. This option provides absolute guarantee that a senior would not be forced out of their home because of taxes. It allows the senior to postpone payment of property taxes until they no longer live in the home. The estate is then responsible to pay owed back taxes.

**Rationale:**

The Commission on Seniors believes that taxes should be equitable and reflect the ability to pay. People should be able to remain in their own homes and "age in place." Many Austin Seniors live on fixed incomes and are facing a time in life when health care costs are higher and care is more expensive. A City wide survey to determine the preference of voters is an alternative.

**Vote**

**For:** Chair Dan Pruett, Commissioner Jacqueline Angel, Commissioner Angela Atwood, Commissioner Cecilia Crossley, Vice-Chair Erica Garcia-Pittman, Commissioner Fred Lugo, Commissioner Monica Saavedra.

**Against:** None.

**Abstain:** Commissioner Martin Kareithi.

**Absent:** Commissioner Thomas Coopwood, Commissioner Joyce Lauck, and Commissioner Jennifer Scott.

**Attest:** *Chair Dan Pruett*



**Attachments:**

**Memo, March 13, 2015: Austin Property Tax Options for Seniors**

**(Included: Questions raised in researching tax relief options for low-income Seniors)**

**Table 1-Costs and Benefits of Proposed Senior Tax Exemptions**

**Bibliography**

**Appendix A: Summary of Senior Tax Exemptions in Austin and Travis County**

**M E M O**  
**Austin Property Tax Options for Seniors**  
**March 13, 2015**

In 2013, the City of Austin Mayor's Taskforce on Aging stressed the need for detailed research to examine options in affordable senior housing, including deferrals of all property taxes. A major issue to be addressed is how property tax increases affect housing affordability for Austin homeowners, particularly for low-income seniors and those on modest and fixed incomes. The question is motivated by rapidly increasing housing values in conjunction with increasing tax rates. Currently, 75% of Austin seniors live in a home that they own, almost twice the proportion of the general population. Among seniors, 31,816 homeowners are receiving tax exemptions based on the age of the householder. These tax exemptions have a potentially significant impact on municipal revenues because of the growing Austin senior population. In 2012, residents 65 and older make up 7.3% of Austin population (61,099) and their number is expected to increase to 16% by 2040.

Increases in senior tax exemptions were passed by City Council last year and the Commission on Seniors has examined additional tools for tax relief for senior Austinites. We believe that property taxes should be equitable, reflect the ability to pay, and enable Austin seniors to stay in their own homes for as long as possible. We considered four approaches that satisfy these principles including freezing taxes, a sliding scale circuit breaker, property tax deferrals, and reverse annuity mortgages. Table 1 provides a summary of the costs and benefits of each of these proposed options. We reached consensus on the acceptability of the first three options. The reverse mortgage option was rejected.

Option #1: Freezing taxes for all tax entities if the homestead is below the median appraised value of homes in Austin. Two strengths of this option is first that it might stimulate the economy and second that it may also have minimal revenue implications given that it applies the exemption to those households at or below the median appraised value. This proposal still raises questions on whether it is fair and how it should be implemented. Is it reasonable for a household that falls slightly above the median appraised value to be disqualified while one that is just below receives it, e.g., when neighborhood becomes more attractive, in years you are above the median? Or vice-versa, your value stays the same but the rest of the city increases, putting you below the median sometime after age 65? Or you go back and forth? A final concern is that it might be casting too broad a net. Many people over 65 are far from poor and not in need of special tax relief.

An alternative would be to index the current \$70K senior exemption to automatically increase with the median homestead value in the city. That option offers some assurance that the value of the exemption would increase along with home values. In addition, a flat-dollar-amount

(unlike a percentage exemption) gives the biggest proportionate break to those with lower-value homes, who are most likely to have difficulty paying taxes.

In general, a major problem with any freeze arises from the fact that as Baby Boomers turn 65, the city would forgo a major source of revenue, potentially for several decades.

Option #2: Property Tax Sliding Scale Circuit Breaker in which taxpayers earning below a certain income level should be given some amount of property tax relief when their taxes exceed a certain percentage of their income. This option balances equity and relative income adequacy. Another advantage of circuit breakers is that they are less expensive to a jurisdiction than across the board property tax breaks. One limitation of the circuit breaker is verifying income in the absence of a state personal income tax. Washington, a state without an income tax, has designed a program that might work, but it has not yet been implemented:

Option #3: Property Tax Deferral. Tax Code, sec 33.06 allows seniors to postpone payment of property taxes until they move out of their home or die. Their estate then owes the back taxes. A benefit of the tax deferral is that it guarantees that a senior would not be forced out of his or her home because of taxes. A drawback however is that virtually no one takes advantage of this option, partly because the interest rate of 8% is so high. One option would be to lower the interest rate or fix it at a particular year.

Finally, we have some remaining questions that merit attention by Council:

- 1) How many seniors 65 and older have difficulty paying their property taxes in Austin?
- 2) How many elderly homeowners are delinquent in their payments?
- 3) Currently, how much tax revenue is foregone due to the deferment, and how much is that projected to be in the future? Is it a significant increase?
- 4) To what extent will the aging of the baby-boom population affect revenue? And, preferences to age-in-place?
- 5) Has there been a city-wide property tax survey conducted of what is acceptable to voters?

Attachments

Table 1- Costs and Benefits of Proposed Senior Tax Exemptions

Senior Tax Exemption	Features	Benefits	Cost
#1 Property Tax Freeze	Texas Property Tax Code (TPTC) §11.13, §11.26, §11.261 freezes the taxable value of a homestead property that is below the median value of all homesteads.	Helps low-income seniors with property that falls below median value. Stimulates the Austin economy. Minimal revenue implications given that it applies the exemption to those households at or below the median appraised value.	May lose freeze if home appreciates above the median value. City will be locking away a large source of revenue as Baby Boomers turn 65. County may raise the tax rate that is applied to taxable value. Taxable value may increase if homeowner makes improvements to property. Homeowner must apply for the exemption each year. To what extent is it reasonable for a household that falls slightly above the median appraised value to be disqualified while one that is just below receives it.
#2 Circuit Breaker/Sliding Scale	Taxpayers earning below a certain income level are given some amount of property tax relief when their taxes exceed a certain percentage of their income.	Targeted exemptions are less expensive to a jurisdiction than across the board property tax breaks. Ties tax payments to income. Benefits go to the taxpayers for whom property taxes are most burdensome.	Balances equity and relative income adequacy. Reduces tax liability. Credit may be available to elderly or non-elderly taxpayers, or both. In absence of State income tax difficult to verify income.
#3 Reverse Annuity Mortgage Program	Encourage seniors to apply for a reverse mortgage through an FHA approved lender if they have equity in their homes. Sec 33.06 allows seniors to postpone payment of property taxes until they move out of their home or die.	Allows lower income seniors the ability to borrow the equity in their homes and benefit from additional income. Provides absolute guarantee that a senior would not be forced out of their home because of taxes.	They are only given to taxpayers who apply for them, in the form of a credit or refund, and are not automatic. Unappealing due to excessive administrative costs. Money unavailable for other purposes.
#4 Property Tax Deferral			Although senior homeowner would no longer owe taxes their heirs (estate) then owes the back taxes. Low participation rate owing to high interest rate 8%. Legislative approval needed to peg rate of deferred tax payment to some current measure of interest rate.

## Bibliography

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## Appendix A

### Summary of Senior Tax Exemptions in Austin and Travis County: 2015

Senior Tax Exemption	Features	Benefits	Cost
#1	Travis County - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	
#2	Austin ISD - \$25,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	
#3	Austin ISD - Tax ceiling on total school taxes.	The ceiling is set at the amount paid in the year the individual turns 65.	
#4	Austin Community College - \$125,000 is deducted from a home's appraised value.	There are approximately 55,000 homesteads with the senior/disabled exemption. Exemption saves the senior/disabled homeowner about \$118 per year at the current tax rate.	The total value exempted is about \$6.8 billion. At the current tax rate this equates to about \$6.5 million in foregone tax revenue.
#5	Travis County Health Care District - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Lowers tax bill.	
#6*	City of Austin - \$70,000 is deducted from a home's appraised value.	Reduces amount of taxable value. Saves qualified individuals an average of \$95.51 per year.	\$11.2 million revenue loss; Raises the taxes on the owner of a median-valued home by \$6.79 per year. A large percentage of the elderly population are well off and may not need tax relief.

\*On March 20, 2013 the Austin City Council agreed to increase the city's homestead exemption, a deduction of a home's appraised value, from \$51,000 to \$70,000 for homeowners 65 and older who qualify and the disabled. Council Member Laura Morrison argued that .... "thousands of seniors in this city are just getting by .... "In terms of searching for ways to address affordability, this is a demographic with many low-income people... I think it makes sense to take advantage of this tool and this option to help with affordability" (Coppola, 2014). Council Member Bill Spelman rebutted stating that: "By putting \$100 back in the pocket of every senior who owns a home, we have to take \$7 out of every younger person who owns a home, in addition to those who rent" in order to make up the difference,.... "I can think of a lot more efficient ways of putting money into the hands of people who really need it. I think we can do better than this".... Some members of the local community agreed and weighed in noting that "The elderly and the rest of us would all be better served if those tax subsidies were used to provide better public transportation options. I think studies have shown that a large percentage of the elderly population are well off and don't need a tax break" (McCrary, 2014).





Meals on Wheels and More

May 26, 2015

The Honorable Stephen Adler  
Mayor of the City of Austin  
Austin City Council  
301 West 2<sup>nd</sup> Street  
Austin, Texas 78701

Dear Mayor Adler,

Over the past few months, The Commission on Seniors has explored four property tax relief options to help older adults to "age in place." The Reverse Annuity Mortgage Program was one of the four options but was removed as a consideration because it was deemed an unappealing option by the Commissioners. As Chair of and on behalf of the Commissioners serving on the Commission on Seniors, I respectfully submit a detailed analysis of three different tax options for your review and consideration. In the analysis, the Commission is presenting a summary of the costs and benefits to the City of Austin and its residents.

In the 2013, City of Austin Mayor's Taskforce on Aging, it was stressed that there was a need for detailed research to review options available to older adults with regard to affordable senior housing, including the impact of rising property taxes on low-income seniors and those on fixed incomes.

The three options are: 1). Property tax freeze where taxes are frozen until the home is sold, 2). Circuit Breaker/Sliding Scale is based on income level, and 3). Property tax deferral is not acted upon until the homeowner's death.

Commissioner Jacqueline Angel researched and analyzed different options and presented an unbiased overview to the Commission on Seniors. With my esteemed colleagues, we look forward to discussing these options with you and City Staff.

Sincerely yours,

Dan Pruett

Chair of the Commission on Seniors  
President and C.E.O.

Meals on Wheels and More

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