M E M O R A N D U M

TO: Mayor & Council

FROM: Ed Van Eenoo, Deputy Chief Financial Officer EV

DATE: February 28, 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 drafted an ordinance, which was originally discussed as part of Council's agenda for its January 23, 2014 meeting, and distributed a related memo on January 17, 2014 (attached) providing cost projections and other analysis as requested by Council. This memo expands upon that analysis and refines our earlier cost projections in response to specific issues raised by Council during its January work session.

Significant Demographic Trends

Several Councilmembers were interested in additional information as to the percentage of the City's residents over the age of 65, how this percentage is likely to change in coming years, and the breakdown of renters versus homeowners in this population in comparison with the City as a whole. Relying on the 2012 American Community Survey, property information from the Travis County Appraisal District, and projections from the City Demographer, financial staff have developed a snapshot of Austin's senior population and its housing habits, as well as a forecast of how this picture is likely to shift in the next five years.

Three overarching demographic trends undergird our analysis. First, residents aged 65 years and older are significantly more likely to be counted among homeowners than are their younger fellow citizens. In Austin as a whole, the majority of residents, more than 55%, are renters. Among seniors, however, nearly 75% live in a home they or their head of household owns. Thus, while approximately three-quarters of households led by a resident over the age of 65 would gain financial benefits from an increase in the amount of the exemption, the approximately one-quarter of seniors who rent their homes would see no benefit. To the contrary, should the City elect to recoup the revenue loss resulting from an exemption increase by increasing tax rates, renters would likely experience increased rents as the rental market adjusted to this higher tax burden.

Second, seniors typically own higher value homes than does the general populace. While the median home value in Austin in FY 2013-14 is $185,133, the median value of homes currently taking the over-65 exemption is $216,031, nearly 17% higher.

Third, the percentage of the City's residents over the age of 65 is projected to increase as a share of its total population. The City Demographer projects that the share of the City's population over the age of 65, currently 7.7%, will reach 16% by 2040. Assuming a constant compound annual growth rate, financial staff forecast that the over 65 share of total population will rise to 8.8% by fiscal year 2018-19. As a result, the financial impacts of any change to the over-65 property tax exemption should be expected to become more profound as a larger and larger share of the City's population becomes eligible for it. This expanding share of population is the key input driving financial staff's revised cost analysis presented below.

Revised Projections of Revenue Loss from Increasing the Exemption Amount

In this revised analysis, the value exempted from the 31,686 properties currently qualifying for the over-65 exemption has been inflated in proportion with expected gains in seniors' share of the population, in addition to increasing in accordance with anticipated growth in assessed valuations across the City. In order to isolate the effect of growth in the share of our population over the age of 65, we have assumed that average household sizes, as well as the breakdown between renters and owners (both among seniors and in the population as a whole) will remain constant.

The table on the next page outlines the projected cost of increasing the current exemption amount of $51,000. As outlined above, these projections rely on forecasted increases in assessed valuations and reflect anticipated shifts in the relative percentage of the City's households owned and occupied by residents over age 65, and they also incorporate expected growth in the number of disabled persons residing in the City, which we have assumed will mirror the growth rate of the population as a whole. The projections also assume the nominal tax rate of 50.27 cents per $100 of assessed valuation for all years. Any increase in the tax rate from its current level would likewise increase the potential loss in revenue.

Increase Exemption To:	FY15 Estimated Cost	Total 5-Year Estimated Cost
$52,000	$170,619	$853,100
$53,000	$341,234	$1,706,188
$54,000	$511,840	$2,559,247
$55,000	$682,391	$3,412,241
$56,000	$852,857	$4,265,150
$57,000	$1,023,241	$5,117,964
$58,000	$1,193,498	$5,970,586
$59,000	$1,363,618	$6,822,950
$60,000	$1,533,602	$7,674,956
$70,000	$3,223,101	$16,157,608
$80,000	$4,889,001	$24,542,468
$90,000	$6,527,033	$32,803,524
$100,000	$8,132,853	$40,922,585

Please note that this table can be viewed in comparison with the similar table included in the original January 17 memo. The analysis contained in that earlier memo did not account for projected growth in the senior or disabled persons populations. Unsurprisingly, incorporating expected growth in the over 65 population has increased the projected cost of increasing the amount of the exemption. For instance, in the prior memo we anticipated that a $1,000 increase in the level of the exemption would cost the City $166,019 in fiscal year 2014-15 and $830,103 over the next five years. It is now projected that **a $1,000 increase in the property tax exemptions is anticipated to result in a revenue loss of $170,619 in FY15, and $853,100 over the next five years**.

Impacts to Other Taxpayers of Prospective Increases in Exemption

Another topic of Council discussion centered on the potential shift in tax burden if the City were to elect to recoup the revenue loss resulting from an increase in the level of the exemption through higher tax rates. The table below displays the fiscal year 2014-15 property tax bill impact to the owner of a median-valued home for various increases in the amount of the exemption, assuming that the City would adjust the tax rate to realize the same amount of revenue as it would have had if no change were made to the amount of the exemption.

Increase Exemption To:	FY15 Lost Revenue	O65/DP Savings	Cost to Median-Value Homeowner
$52,000	$170,619	$5.03	$0.36
$53,000	$341,234	$10.05	$0.71
$54,000	$511,840	$15.08	$1.07
$55,000	$682,391	$20.11	$1.43
$56,000	$852,857	$25.14	$1.79
$57,000	$1,023,241	$30.16	$2.15
$58,000	$1,193,498	$35.19	$2.50
$59,000	$1,363,618	$40.22	$2.86
$60,000	$1,533,602	$45.24	$3.22

$70,000	$3,223,101	$95.51	$6.79
$80,000	$4,889,001	$145.78	$10.34
$90,000	$6,527,033	$196.05	$13.85
$100,000	$8,132,853	$246.32	$17.32

Increasing the exemption to a total amount of $70,000, for instance, would save a disabled or senior homeowner an additional $95.51 (assuming that the value of the home was sufficiently high to leverage the entire amount of the higher exemption). However, this increase would also lead the City to realize approximately $3.2 million in less revenue at the nominal rate. The concomitant increase in the tax rate necessary to restore this revenue would cost the projected median-value homeowner an additional $6.79 in fiscal year 2014-15. This increase would also affect businesses and other non-residential classes of property owners. Although the relationship is not perfectly linear, roughly speaking, each $1,000 increase in the exemption would engender an additional property tax burden of approximately $0.18 for every $100,000 of assessed value.

Implications of a "Tax Freeze"

Subsequent to the discussion at the January work session, staff received an additional request to analyze the projected cost of a "tax freeze" for homeowners aged 65 or older, similar to the state-mandated tax freeze policy applicable to school districts. Generally speaking, under this law a homeowner's school district property tax bill is frozen at the dollar amount that is paid during the tax year in which the homeowner turns 65.

The table below displays the projected revenue loss over the next five years if such a tax freeze were instituted for fiscal year 2014-15. These projections rely on forecasted increases in assessed valuations as well as reflect anticipated shifts in the relative percentage of the City's households owned and occupied by a resident over age 65. The scenario also anticipates that disabled persons would see their property tax bill frozen upon first receiving the exemption, and assumes that the growth rate of this population will mirror that of the City as a whole. The projections also assume the nominal tax rate of 50.27 cents per $100 of assessed valuation for all years. Any increase in the tax rate from its current level would likewise increase the potential loss in revenue.

	Annual Revenue Loss	**Cumulative Revenue Loss**
FY15	$1,810,238	
FY16	$3,661,577	$5,471,815
FY17	$4,847,083	$10,318,897
FY18	$6,089,054	$16,407,952
FY19	$7,327,099	$23,735,050

The January 17 memo included an analysis of an alternative mechanism for achieving tax neutrality for our seniors. In that case, however, the tax neutrality was achieved by calculating increases in the exemption necessary to hold the tax bill on the median-value homeowner constant over time. Under that scenario, property owners newly qualifying for the exemption would see a significant reduction in their tax burden in the first year as the amount of the exemption was deducted from their total property value. In contrast, under the 'tax freeze' option presented here each senior would see their City tax bill frozen at the amount that obtained in the tax year in which they turned 65. The cost of the earlier, exemption-based scenario was estimated at $1.5 million in FY2014-15 and $20.3 million over the next five years. The ‘tax freeze’ scenario presented here is forecasted to cost $1.8 million in FY2014-15 and $23.7 million over the next five years. As a result of the significant revenue implications, staff continues to recommend against adopting 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.

ATTACHMENT

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:

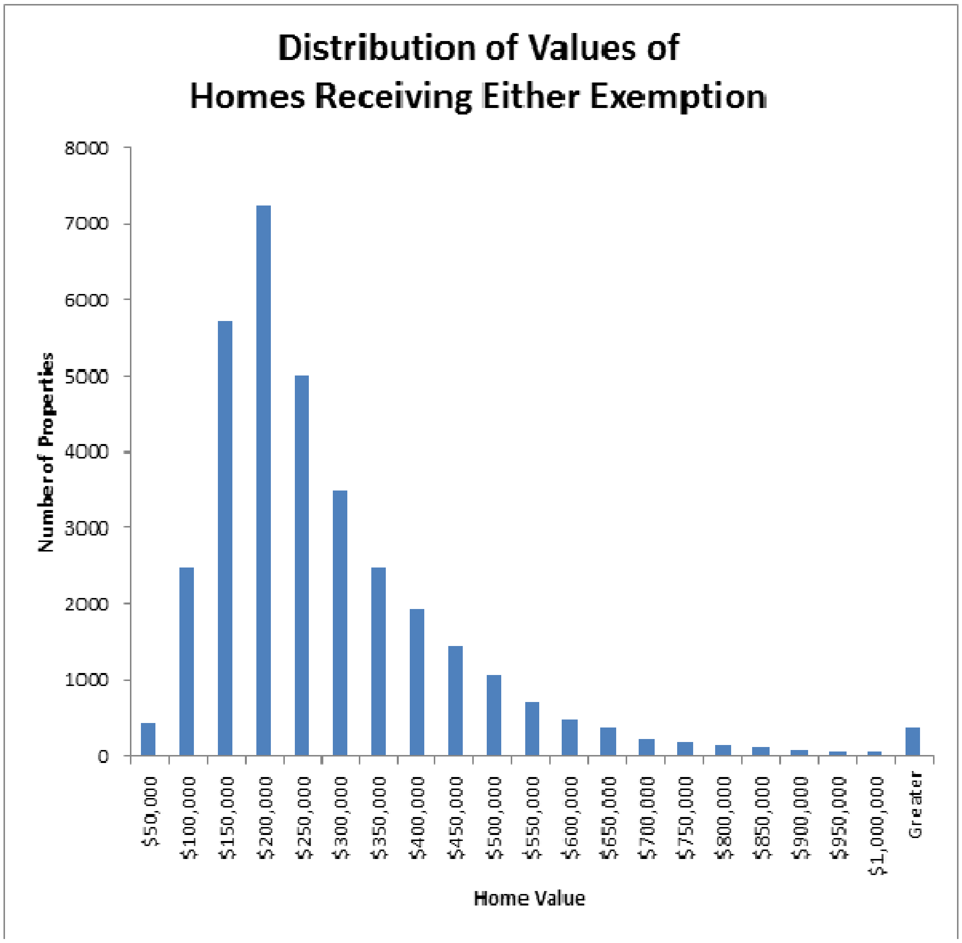
- to draft an ordinance that increases the exemptions and to place it on the Council agenda within a timeframe that would allow the changes to be reflected on property tax assessments for the City's fiscal year 2014-15 Budget;
- to report back to Council as to the cost of a $1,000 increase in the exemptions; 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 <u>specific</u> 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.