STEVE ADLER FOR MAYOR –
20 PERCENT HOMESTEAD PROPERTY TAX EXEMPTION FAQ

We must act now to ease the expense of property taxes for Austin homeowners. Runaway property values are rising nearly five times faster than incomes. We used to be one of the most affordable cities in Texas and now we are one of the most expensive. It is only getting worse. Rising costs are pushing people out of their homes and keeping families from establishing in our community. We can no longer sit by and do nothing by meekly claiming that our hands are tied. They are not.

We cannot let the perfect be the enemy of the good. This tool is not the best tool imaginable nor the only tool we should employ to address affordability. Addressing affordability requires us to increase the supply of housing. We need more middle class jobs and training for those jobs. We need to better support small businesses. And we need to provide relief to homeowners that are suffering from an undue property tax burden. This exemption would begin to bend the affordability curve toward helping people who live in our city.

We must look behind the conventional wisdom that a 20% homestead exemption would force up already high rents, unfairly single out commercial properties to bear its cost, or unduly increase the regressivity of the property tax. These are exaggerations that have cut off a full discussion of the alternatives available to the city to help preserve our community and address affordability.

While the changes we need the most are under the control of the Texas Legislature, this homestead exemption is something we can do now and must do for our residents. Ideally, the best option would be for a flat-dollar exemption that would concentrate the benefits on lower-income homeowners. However, this is not something we are permitted to do under state law. I will take this fight to the Legislature to have that changed. But right now, a percentage exemption is what we can do. It is something that benefits all homeowners regardless of the value of their home. In the case that a flat-dollar amount exemption is later approved, I would then transition to that.

The New Way Forward is about examining and testing “conventional wisdom.” It is about doing more than just wringing our hands. It is about doing something about affordability.

Frequently Asked Questions:

<u>What would the 20% homestead exemption cost?</u>

The City staff says it would cost $35.6 million in 2014-2015. Our proposal allows for a four-year phase in with the incremental cost being divided evenly for those years.

<u>What is the tax savings for homeowners?</u>

The savings would be about $189/yr for the average home if the cost were absorbed in the budget and about $104/yr for the average home if the tax rate were adjusted to maintain funding for city services.

Median Home Value	$196,500				
Tax Rate (2014-2015)	$0.4809	$0.5349	(adjusted to keep revenue neutral)		
				<u>Change in Taxes/Yr.</u>	
Tax Amount	$944.97	$840.90		$104.07	<u>Revenue Neutral Paid w/tax adjust.</u>
Median Home Value	$196,500	$157,200			
Tax Rate (2014-2015)	$0.4809	$0.4809			
Tax Amount	$944.97	$755.97		$188.99	<u>Paid from w/in Budget</u>

<u>How do we pay for the 20% exemption?</u>

One of two ways (or a combination of both):

1. Find some part or all of the money in the budget.
2. Adjust the tax rate to keep the exemption revenue neutral.

<u>What would we cut from the budget, if paid for out of the budget (and without a tax rate adjustment)?</u>

Essential city services will not be cut and such a cut is not necessary for this proposal. There's a surplus that could be used this year. In upcoming years, it's possible that growth could be used to support a larger exemption or other money could be found in the budget. If not, the council will need to prioritize giving homeowners this measure of affordability against other priorities.

If we phase-in the exemption over four years, but kept budget revenue neutral, what is the adjusted rate required?

If the exemption were phased in over four years, the increase in the tax rate to ensure revenue neutrality would be about 1.35 pennies per year.

The following chart calculates and shows the tax rate that would be needed to generate the same revenue but from a different and smaller taxable property value.

	General Fund w/o exemption (existing)	Cost of Exemption (per city)	Revenue Neutral Rate w/exemption (calculated)	Change in tax rate	4 Yr Phase-In - Change in tax rate
revenue from prop. tax	$352,500,000	$35,600,000	$352,500,000		
tax rate	$0.4809	$0.4809	$0.5349	$0.0540	$0.0135
taxable value (tax base)	$73,300,062,383	$7,402,786,442	$65,897,275,941		

Would renters be burdened by this proposal?

Unlikely. There would be no impact on renters if the cost of the exemption were found in the budget, since there would be no increase in the property tax rate. If the tax rate were adjusted upward to maintain revenue neutrality, it is unlikely that the resulting increased tax cost will be passed through to renters. Even if the cost were passed through, the burden would be relatively small. (There are other things we can and should be doing to help renters and passing this relief does not preclude nor should it limit those initiatives.)

In the analysis below, an estimate of the taxable value of an average 2 bedroom apartment is calculated using the direct capitalization method with the assumptions set forth. Then, the adjusted property tax rate is applied to that value to determine the property taxes that would be owned on that unit.

Average Apartment Rent (2 BR)	$1,200	monthly rent
	12	months/yr
	$14,400	yrly rent
	$11,520	rent less expenses (20% for vacancy, collection, mgmt, repairs)
	0.08	cap rate
	======	
	$144,000	Indicated Apt Value
	$0.05402	Adjusted rate increase
	======	
	$77.79	Yearly Increase (if passed thru)
	$6.48	Mo. Increase (if passed thru)

$19.45		4 Yr Phase-In Yearly Increase (if passed thru)
$1.62		4 Yr Phase-In Monthly Increase (if passed thru)

Are commercial properties being singled out to pay for the exemption?

No. If 20% of homestead value were taken off the tax rolls, most of the taxable value base would remain. This future base certainly would include commercial property but it would also include all residential property that is not homestead property, as well as the remaining 80% of homestead taxable value. This would truly be an example of the entire community pitching in together to deliver some reduction to homeowners who, with runaway property values, are bearing an undue property tax burden.

There is a good policy reason for treating residential property differently than commercial property in setting property taxes. When property values, and thus property taxes, rise for a commercial property, most owners are able to mitigate such an increase by raising rents or (if the property is owner occupied with a business) are able to sell more of whatever is being sold because of an improved location, which often drives the higher value.

But a homeowner facing increased value and property taxes has no ready means to mitigate increased property taxes (unless income is rising more rapidly than property value – not happening here in Austin), without selling the home. Unfortunately for this city and its spirit and soul, that is happening all too frequently.

Is the exemption regressive, benefitting the wealthy proportionally greater than the poor?

A property tax is a regressive tax meaning that it takes a higher percentage of the income from a lower income family than from a higher income family. When a regressive tax is cut proportionally, by reducing each homeowner's tax by an equal percentage, we are not increasing its regressivity. So, while the owners of higher-value homes save more, in dollars, than those who own lower-value homes, everyone's tax is cut by an equal proportion. The regressivity of the tax is unchanged.

In the example below, the initial regressivity by quintile is reduced by 20%. The relationship between quintiles remains the same and the numbers graphed would look the same

Quintile	Ratio of Burden to Income	Quintile	Adjusted (20%) Ratio of Burden to Income
1st	5%	1st	4.0%
2nd	4%	2nd	3.2%
3rd	3%	3rd	2.4%
4th	2%	4TH	1.6%
5th	1%	5th	0.8%