



LEGISLATIVE BUDGET BOARD

Overview of the Homestead Exemption Increase (SJR 1 and SB 1, 84th Legislature)

PRESENTED TO THE HOUSE COMMITTEE ON WAYS AND MEANS
LEGISLATIVE BUDGET BOARD STAFF

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WAM Interim Charge #8

House Committee on Ways and Means, Interim Charge #8:

Monitor implementation of the increased residence homestead exemption as approved by the voters in Proposition 1 (SJR 1 (84R)). Determine the amount of property tax relief for homeowners, taking into account increases in appraisals and local property tax rates. Additionally, determine the cost to the state to make up the revenue loss for school districts.

Homestead Exemption Overview

SJR 1 and SB 1, 84th Legislature:

- Increased homestead exemption from \$15,000 to \$25,000
- Adjusted the calculation of tax ceiling for homesteads with over-65 frozen levies to deliver same benefit
- Created a hold harmless mechanism to replace lost school district revenue with state funding
- Prohibited school districts from decreasing/eliminating local optional homestead exemption for 5 years

SJR 1 passed by voters on November 3, 2015

Estimate of Homeowner Tax Relief

For a statewide average homestead of \$165,500 in Tax Year 2014, in a statewide average school district with a total tax rate of \$1.32 per \$100 of valuation:

Homestead Exemption Increase:

\$10,000 exempted value / 100
X \$1.32 tax rate
(\$132) Decrease due to homestead increase

Appraisal Value Increase:

Between TY2014 and TY2015, the market value of homesteads increased by an average of **9.1%**.

The statewide average homestead value **increased from \$165,500 to \$180,600.**

\$15,100 value increase / 100
X \$1.32 tax rate
\$199 Increase due to appraisal value increase

Tax Effort Increase:

On a weighted average basis, school districts increased their tax rates by a little over **1 penny, or 0.78%**. Without factoring in any exemption other than the \$25,000 homestead exemption:

\$155,600 taxable value / 100
X 0.01 tax rate increase
\$16 Increase due to tax effort increase

Estimate of Homeowner Tax Relief, cont'd

So, for the statewide average homestead, school district taxes for Tax Year 2015 (absent other exemptions) were **\$2,070, an increase of \$83 (4.2%) from Tax Year 2014.**

Without the homestead increase, it would have been **\$2,202, \$215 higher (10.8%).**

However, overall tax impact to individuals are highly variable:

- ISD total tax rates range from \$0.71 to \$1.67, and individual tax rates can increase or decrease year-to-year
- Homestead value growth/decline highly variable across districts: generally, homesteads in urban areas show strong growth; those in oil/gas production regions are declining
- Property taxpayer's bottom line bill dependent on taxing behavior of other entities (cities, counties, community colleges, hospital districts)
- Homestead exemption benefit generally uniform across spectrum of home values, but has a larger percentage impact on homes of lower value.

Median Home Values & Property Tax Rates

	2014 Median Price	2015 Median Price	Median Price % Change	2014 Tax Rate	2015 Tax Rate	Tax Rate % Change
Wichita Falls	\$110,000	\$108,000	-1.8%	2.300%	2.489%	8.23%
Grand Prairie	\$159,900	\$175,400	9.7%	2.799%	2.928%	4.60%
Haskell	\$58,223	\$66,890	14.9%	2.586%	2.661%	2.90%
Waco	\$125,000	\$145,000	16.0%	2.814%	2.861%	1.67%
Hearne	\$63,214	\$61,534	-2.7%	2.490%	2.530%	1.60%
Amarillo	\$139,000	\$145,000	4.3%	2.384%	2.419%	1.49%
El Paso	\$139,304	\$138,000	-0.9%	2.736%	2.772%	1.30%
Fort Worth	\$155,000	\$168,840	8.9%	2.838%	2.868%	1.06%
McAllen	\$135,000	\$136,250	0.9%	2.526%	2.551%	0.97%
Laredo	\$145,000	\$153,825	6.1%	2.760%	2.777%	0.64%
Midland	\$235,500	\$232,000	-1.5%	1.903%	1.907%	0.21%
Beaumont	\$128,500	\$135,000	5.1%	2.745%	2.750%	0.18%
Tyler	\$162,500	\$168,000	3.4%	2.125%	2.125%	0.00%
Dallas	\$235,000	\$255,000	8.5%	2.743%	2.742%	-0.04%
Corpus Christi	\$165,000	\$176,215	6.8%	2.543%	2.538%	-0.19%
San Antonio	\$155,000	\$165,000	6.5%	2.706%	2.698%	-0.28%
San Angelo	\$150,000	\$156,100	4.1%	2.531%	2.524%	-0.30%
Lufkin	\$130,000	\$126,575	-2.6%	2.374%	2.365%	-0.38%
Denton	\$170,000	\$195,000	14.7%	2.502%	2.492%	-0.41%
College Station	\$180,000	\$200,000	11.1%	2.318%	2.300%	-0.74%
Richardson	\$210,000	\$238,000	13.3%	2.400%	2.381%	-0.79%
Houston	\$199,900	\$212,000	6.1%	2.571%	2.535%	-1.38%
Angleton	\$130,116	\$140,680	8.1%	3.246%	3.188%	-1.76%
Port Arthur	\$76,500	\$87,000	13.7%	2.985%	2.924%	-2.05%
Austin	\$275,000	\$301,500	9.6%	2.380%	2.296%	-3.52%

Property Tax Change - Median Priced Home

	2014 Tax (Median Price)	2015 Tax (Median Price)	2015 Tax (No SJR 1)	2015 Tax Increase (Decrease)	2015 Tax Increase (Decrease) (No SJR 1)	# of taxing entities
Grand Prairie	\$4,010	\$4,471	\$4,630	\$461	\$620	5
Dallas	\$5,266	\$5,600	\$5,728	\$334	\$462	5
Richardson	\$4,798	\$5,115	\$5,259	\$316	\$460	4
Fort Worth	\$3,936	\$4,216	\$4,351	\$280	\$415	6
College Station	\$3,965	\$4,214	\$4,350	\$250	\$386	3
Denton	\$3,964	\$4,210	\$4,364	\$246	\$400	3
Waco	\$3,047	\$3,289	\$3,429	\$242	\$382	4
Austin	\$6,036	\$6,212	\$6,332	\$176	\$296	5
Corpus Christi	\$3,746	\$3,887	\$4,011	\$141	\$265	6
Laredo	\$3,585	\$3,709	\$3,848	\$124	\$263	4
San Antonio	\$3,985	\$4,105	\$4,243	\$120	\$258	7
Angleton	\$3,725	\$3,834	\$3,980	\$109	\$254	7
Amarillo	\$3,135	\$3,211	\$3,329	\$76	\$195	5
Houston	\$3,953	\$4,022	\$4,142	\$69	\$189	8
Haskell	\$1,333	\$1,395	\$1,517	\$63	\$184	8
Beaumont	\$3,140	\$3,182	\$3,314	\$43	\$174	6
Port Arthur	\$1,831	\$1,858	\$1,993	\$27	\$162	6
Wichita Falls	\$2,359	\$2,381	\$2,504	\$21	\$144	3
San Angelo	\$3,223	\$3,228	\$3,352	\$5	\$128	3
Tyler	\$3,211	\$3,189	\$3,327	(\$22)	\$116	4
McAllen	\$3,236	\$3,186	\$3,302	(\$49)	\$66	6
El Paso	\$3,569	\$3,457	\$3,581	(\$112)	\$12	5
Hearne	\$1,384	\$1,240	\$1,367	(\$144)	(\$17)	4
Midland	\$4,034	\$3,865	\$3,979	(\$168)	(\$54)	5
Lufkin	\$2,904	\$2,690	\$2,812	(\$214)	(\$93)	4

Variation within Cities

	2014 Tax	2015 Tax	2015 Tax (No SJR 1)	2015 Tax Increase (Decrease)	2015 Tax Increase (Decrease) (No SJR 1)	Tax Savings as % of Tax Paid
Houston - Greater 5th Ward	\$828	\$694	\$814	(\$134)	(\$14)	17.2%
Houston - Median	\$3,953	\$4,022	\$4,142	\$69	\$189	3.0%
Houston - River Oaks	\$65,151	\$70,560	\$70,680	\$5,409	\$5,529	0.2%

State Cost

Current 2016-17 Estimate: ~\$675 million/year, \$1.35 billion for the biennium

Operative estimate during 84th session was \$1.2 billion, based on CPA data

Hold Harmless Mechanism

- Maintenance and Operations (M&O): Approx. \$550 million of the \$675 million per year. Existing funding formulas, for the most part, automatically adjust for lower local revenue by increasing state aid. A hold harmless payment (\$25 million statewide) covers what formulas don't.
- Facilities - Interest & Sinking (I&S): Approx. \$125 million per year. Since a majority of tax revenue falls outside a state-guaranteed yield mechanism, ~\$90 million of this amount flows as a hold harmless payment.

Ongoing Cost Estimate:

- M&O: Since property value growth lowers state cost (all else being equal), in years of value growth cost won't increase year-over-year, but state cost will not benefit from growth on the \$10,000 in exempted homestead value.
- Facilities: State costs to replace lost local revenue will largely track the growth of homestead value.

SOURCE: Legislative Budget Board.



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Contact the LBB

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