



City of Dallas

Ad Valorem Tax Limit for Over-65 or Disabled Homeowners

**Government Performance &
Financial Management Committee
January 25, 2021**

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Outline of Briefing



- Request for briefing received from Council Member
- Tax limit options
- Ad valorem tax limit for over-65/disabled homeowners
 - Tax ceiling (freeze)
 - Tax exemptions
- Over-65 and disabled properties in Dallas
- Next steps
- Appendix
 - Peer city comparison
 - 87th Legislative Session update
 - Tax levy limit
 - City of Dallas Budget
 - Historical Value of Exemptions



Briefing Request



- Council Member requested a briefing regarding a property tax “ceiling” on homestead ad valorem taxes for residents over-65/disabled
- Council Member proposed limiting future annual ad valorem tax increases to two percent or the consumer price index (whichever is higher) for Dallas residents who are over-65/disabled



Tax Limit Options



- Texas Constitution provides:
 - Taxation must be equal and uniform¹
 - All real property and tangible personal property must be taxed in proportion to its value unless exempt as required or permitted by the Texas Constitution²
 - Any taxing unit may offer an additional homestead exemption of at least \$3,000 for taxpayers disabled or aged 65 or older³
 - A county, city, or junior college district may freeze or limit a property owner's taxes by adopting a tax ceiling⁴

¹Texas Constitution, Article VIII, 1(a)

²Texas Constitution, Article VIII, 1(b)

³Texas Constitution, Article VIII, 1-b(c)

⁴Texas Constitution, Article VIII, 1-b(h) and Texas Tax Code 11.261(a)



Tax Limit Options



	Not Allowed Per State Law	Allowed Per State Law	Action Required
Adopt a property tax limit (cap) on the percentage increase of ad valorem taxes, specifically for over-65 or disabled homeowners	√		Not Allowed
Adopt a tax ceiling on the residence homestead of a person over-65 or disabled		√	City Council Approval
Adopt an increase in the over-65 or disabled homestead exemption		√	City Council Approval



Tax Ceiling



- A tax ceiling (freeze), sets a limit on the amount of property taxes paid annually
- Texas Constitution provides the ability for adopting a tax limitation (tax ceiling) on the residence homestead of a person who is over-65/disabled¹
- Texas Tax Code provides the requirements for implementation and administration of the ceiling²
- In future years, the taxable value on a home may go below, but not above, the ceiling amount (unless improvements are made or the homeowner is no longer eligible)
- A homeowner may transfer the tax ceiling percentage to a new home in the same county, city, or junior college district³

¹Texas Constitution, Article VIII, 1-b(h)

²Texas Tax Code, Section 11.261

³Texas Tax Code, Section 11.261(g)



Tax Ceiling



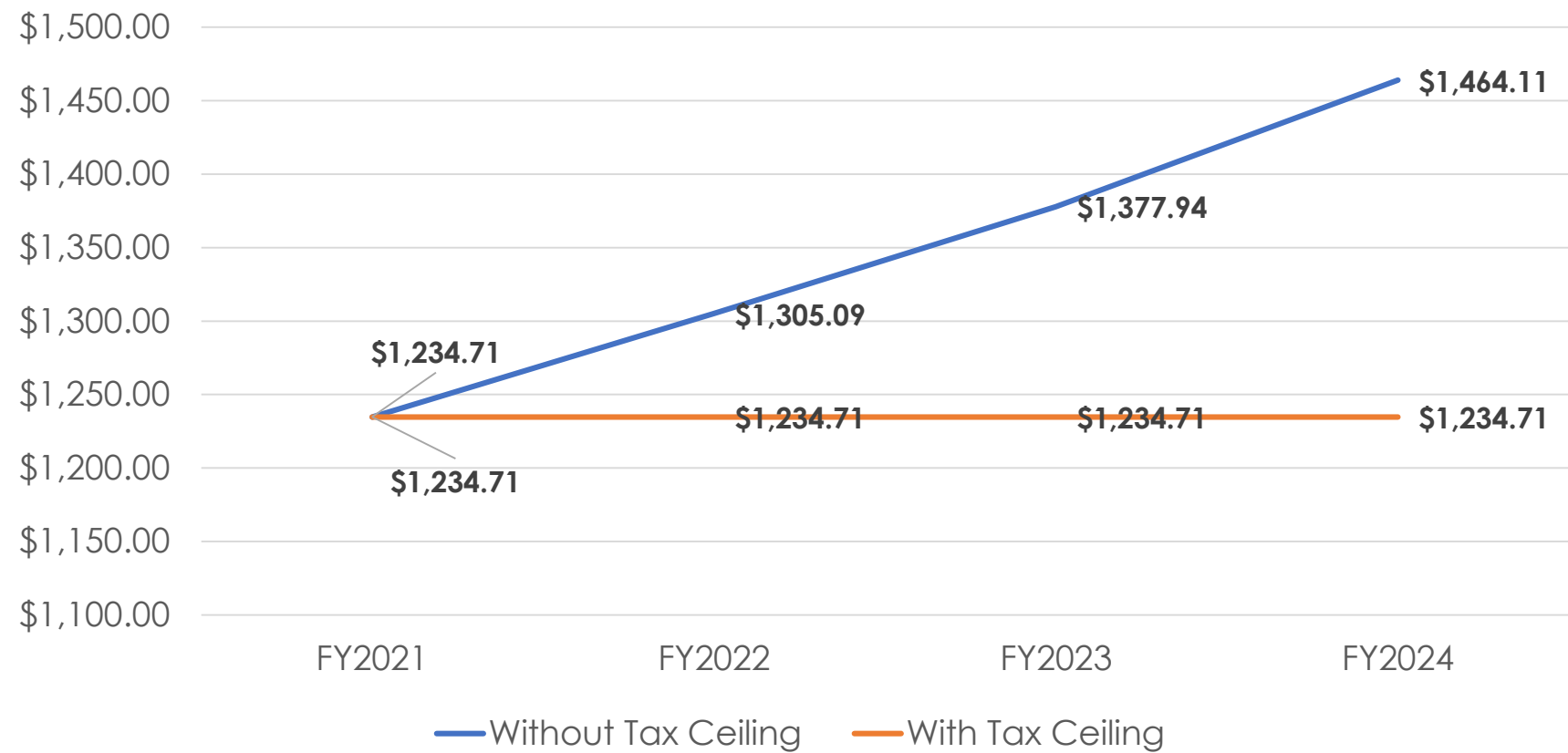
- Increases to the tax rate, even voter approved, will not change the ceiling
- If approved by City Council, ceiling only applies to City of Dallas portion of the tax bill
- A tax ceiling is not limited to low-income seniors
- Offers an across-the-board tax relief for all over-65/disabled taxpayers at all income levels
- By reducing tax burden on over-65/disabled residents, this would shift the City's property tax burden to younger homeowners and renters
- Once the tax ceiling is adopted it cannot be repealed



Tax Ceiling



Impact of Tax Ceiling on Average Tax Bill



Notes:
FY2021 Average Home Value of \$323,813
General Homestead Exemption of 20%
Over-65/disabled homestead exemption of \$100,000
3.5% growth in FY22 and FY23; and 4.0% growth in FY24



Tax Ceiling



Impact of Tax Ceiling on City of Dallas Budget	FY2021	FY2022	FY2023	FY2024
Number of disabled and age 65 and older exemptions	70,634	70,634	70,634	70,634
Taxable Value	\$12.6B	\$13.0B	\$13.5B	\$14.0B
Tax Generated	\$97.8M	\$101.2M	\$104.7M	\$108.9M
Estimated Tax Generated with Ceiling in Place	\$97.8M	\$97.8M	\$97.8M	\$97.8M
Tax Forfeited due to Ceiling	\$0.0M	\$3.4M	\$7.0M	\$11.1M
Tax Forfeited due to Ceiling (Cumulative)		\$3.4M	\$10.4M	\$21.5M

Notes

Assumes no change to tax rate - \$0.7763/\$100

Assumes 3.5% growth in taxable value in FY22, FY23, and 4.0% in FY 24

Taxable value = market value less homestead exemption less over-65/disabled exemption

Analysis reflects Dallas, Collin, and Denton CADs



Tax Exemptions



- Homestead exemption
 - A tax exemption removes part of a home's value from taxation
 - Offers across-the-board tax relief for all homeowners
 - City currently offers a 20 percent homestead exemption which is maximum allowed by State
- Over-65/disabled exemption
 - Offers tax relief for homeowners over-65/disabled
 - This exemption is a set dollar amount that reduces the home's taxable value, and reduces the homeowners tax bill
 - City currently offers over-65/disabled exemption (\$100,000)
 - Homeowners over-65/disabled pay no City taxes if property value is \$125,000 or less (20 percent homestead + \$100,000 over-65/disabled exemptions)



Tax Exemptions



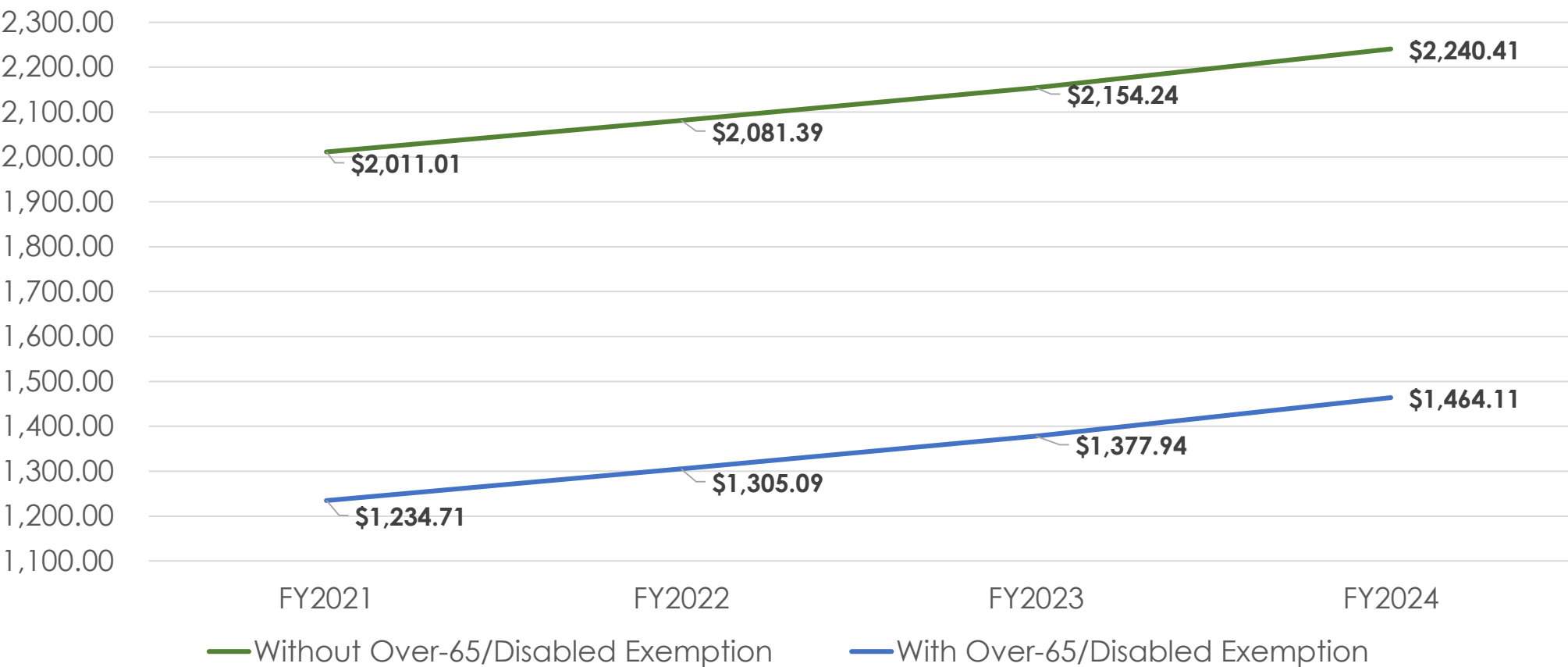
- Tax exemptions are a progressive approach to property tax relief
- Tax exemptions provide flexibility to policy makers
- Over-65/disabled exemption can be changed after enacted
- Financial Management Performance Criteria (FMPC) #23
 - Required to compare the current exemption for individuals over-65/disabled to the most recent annual Consumer Price Index (CPI) every 2 years
 - Required to provide analysis to City Council prior to June 30 for possible increase of this exemption
 - Exemption was last adjusted on June 26, 2019
 - Next review and possible adjustment will occur in May/June 2021



Tax Exemptions



Impact of Over-65/Disabled Exemption on Average Tax Bill



Note:
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3.5% growth in FY22 and FY23; and 4.0% growth in FY24



Tax Exemptions



Impact of Tax Exemption on City of Dallas Budget	FY2021	FY2022	FY2023	FY2024
Number of disabled and age 65 and older exemptions	70,634	70,634	70,634	70,634
Taxable Value with Exemption	\$12.6B	\$13.0B	\$13.5B	\$14.0B
Taxable Value without Exemption	\$18.7B	\$19.1B	\$19.6B	\$20.1B
Taxable Value of Exemptions	\$6.1B	\$6.1B	\$6.1B	\$6.1B
Revenue Foregone due to Exemption	\$47.4M	\$47.4M	\$47.4M	\$47.4M

Notes

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Taxable value = market value less homestead exemption less over-65/disabled exemption

Analysis reflects Dallas, Collin, and Denton CADs

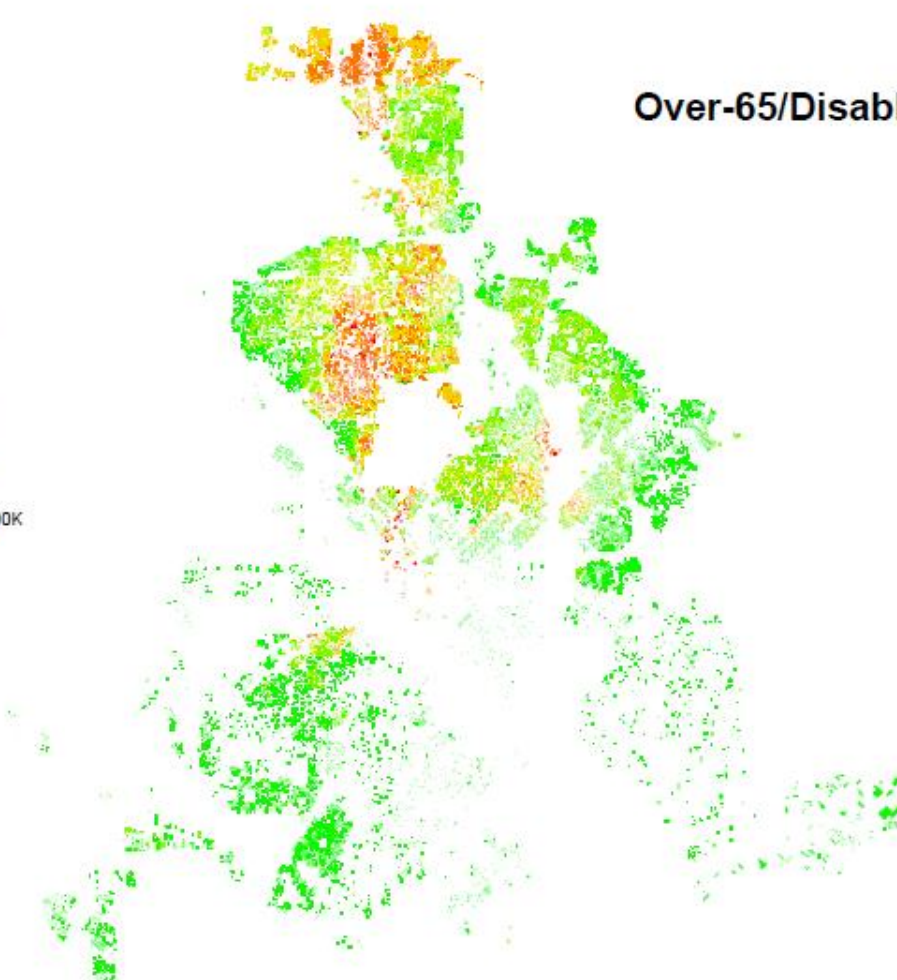
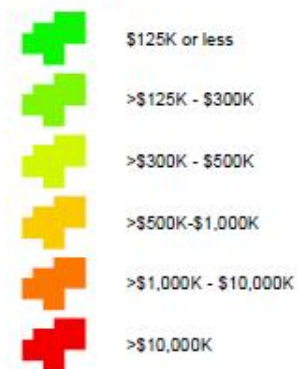


Over-65/Disabled Properties



Over-65/Disabled Properties

Taxable Value



2020

DISCLAIMER
This data is to be used for graphical representation only. The accuracy is not to be taken/used as data produced by a Registered Professional Land Surveyor (RPLS) for the State of Texas. This product is for informational purposes and may not have been prepared for or be suitable for legal, engineering, or surveying purposes. It does not represent an on-the-ground survey and represents only the approximate relative location of property boundaries.



1 in = 4 miles

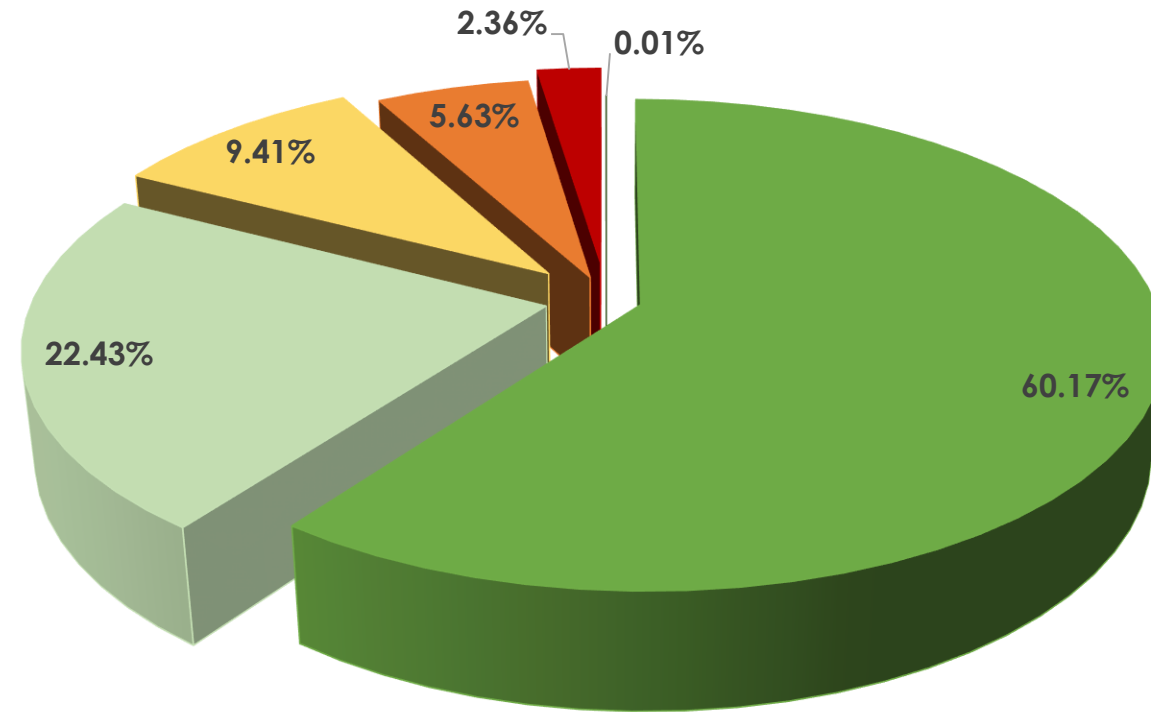


Reflects Dallas Central Appraisal District properties only

Over-65/Disabled Properties



Taxable Value - All Appraisal Districts



■ \$125,000 or Less ■ >\$125,001 - \$300,000 ■ >\$300,001 - \$500,000
■ >\$500,001 - \$1,000,000 ■ >\$1,000,001 - \$10,000,000 ■ >\$10,000,000



Next Steps



- Receive GPFM feedback on over-65/disabled tax limit options
- Brief GPFM on potential changes to FMPC on February 23
- Provide analysis and recommendation in compliance with FMPC #23
 - May 14 – GPFM consideration of change to current over-65/disabled exemption
 - Staff will provide analysis of CPI and impact on City of Dallas budget
 - June 16 – City Council consideration of change to exemption
 - Notify appraisal districts of any change by June 30





City of Dallas

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Appendix

Peer City Comparisons



City	Homestead Exemption	Over 65/Disabled Exemption
Comparative Set		
Dallas	20%	\$100,000 / \$100,000
Austin	10% or \$5,000	\$88,000 / \$88,000
Fort Worth	20%	\$40,000 / \$40,000
Houston ¹	20%	\$160,000 / \$160,000
San Antonio ²	0.01% or \$5,000	\$65,000 / \$12,500
Area Suburbs		
Frisco	10% or \$10,000	\$80,000 / \$80,000
Grand Prairie	10% or \$5,000	\$45,000 / \$30,000
Irving	20% or \$5,000	\$45,000 / \$45,000
Plano ²	20%	\$40,000 / \$40,000
Richardson	0%	\$100,000 / \$100,000

¹ Prop 1 caps property tax growth at the lower of CPI + growth in population or 4.5%

² Property tax ceiling on homesteads owned by over 65/disabled

Source: City budget documents, Appraisal Districts (Dallas, Harris, Fort Bend, and Montgomery), and entities





- Proposed legislation that may provide relief to over-65 and disabled homeowners
 - HB299 – lowers the homestead cap to 3.5% and makes it effective for all real property.
 - HB535 – changes the interest rate for over 65 tax deferrals from 5% to the 10-yr constant maturity treasury rate reported by the Federal Reserve Board.
 - HB746 – allows installment payments (five or nine equal installments) of taxes for individuals disabled or age 65 or older.
 - HB993/HB1061 - establish limitation on the total amount of ad valorem taxes that certain taxing units may impose on the residence homesteads of individuals who are disabled or elderly and their surviving spouse.
 - HB1053 – creates an appraisal cap of 5% (from 10%) for all real property.
 - HJR22/HJR53 – constitutional amendment to establish a limitation on the total amount of ad valorem taxes that certain political subdivisions may impose on the residence homesteads of persons who are disabled or elderly and their surviving spouses.



Tax Levy Limit



- Tax levy is the amount of revenue raised by a municipality through real and personal property tax
- Tax levy limit is the maximum dollar amount a city or town can raise through property tax in a given fiscal year
 - Limits ad valorem tax growth to a certain percentage
- Texas Property Tax Reform and Transparency Act of 2019 (Senate Bill 2 (SB2) limits levy growth to 3.5 percent (effective January 1, 2020)
- Prior to SB2, levy limit growth was limited to 8.0 percent
- Municipalities may limit levy growth lower than the state cap of 3.5 percent



Tax Levy Limit



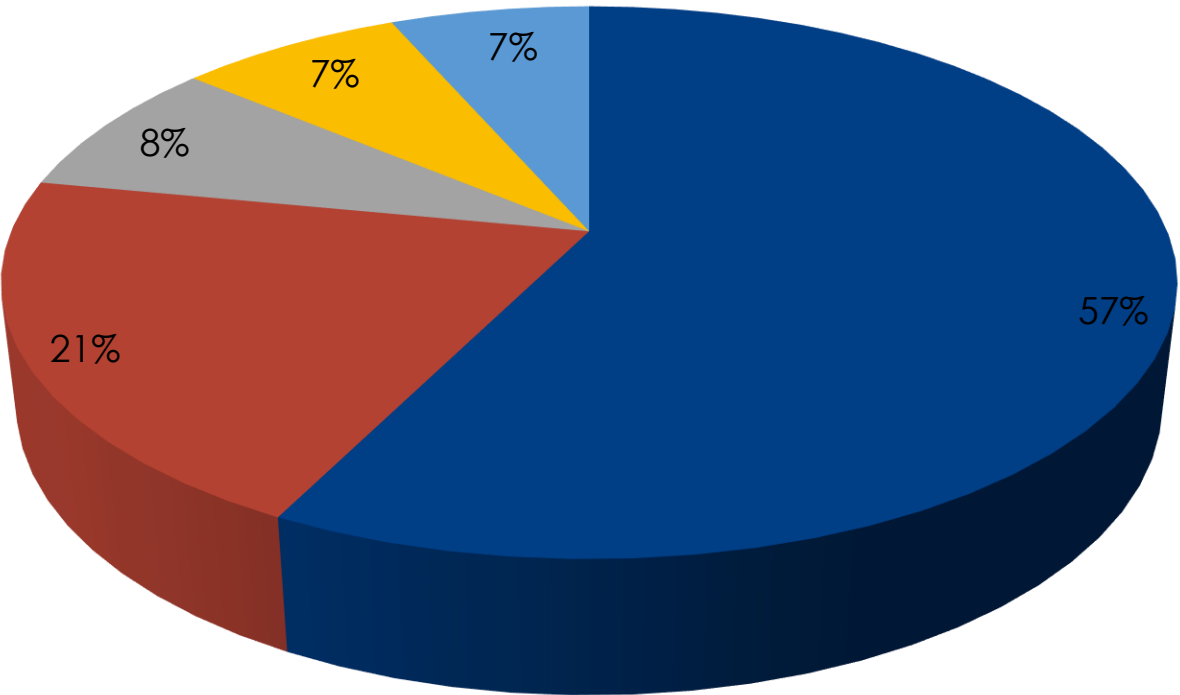
- The City of Houston's levy limit, added to the City Charter by voters in 2004, requires voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding fiscal year, plus 4.5%, or a formula that is based upon actual revenues in the preceding fiscal year adjusted for the cumulative combined rates of inflation and the City's population growth
 - In FY 2007, voters approved collecting additional revenues above the cap of \$90 million for police, fire, and emergency medical services (Proposition H)
 - Implemented prior to SB2
- Levy limit does not “cap” individual property valuations
- Levy limit does not limit individual tax bill increases
- Levy limit applies to all ad valorem taxes (residential and commercial)



City of Dallas Budget



General Fund Revenue



FY21 General Fund Revenue	
Property Tax	\$825,006,993
Sales Tax	\$296,324,365
Franchise & Other	\$115,907,401
Service to Others	\$105,618,133
Other	\$94,182,591
Total	\$1,437,039,483

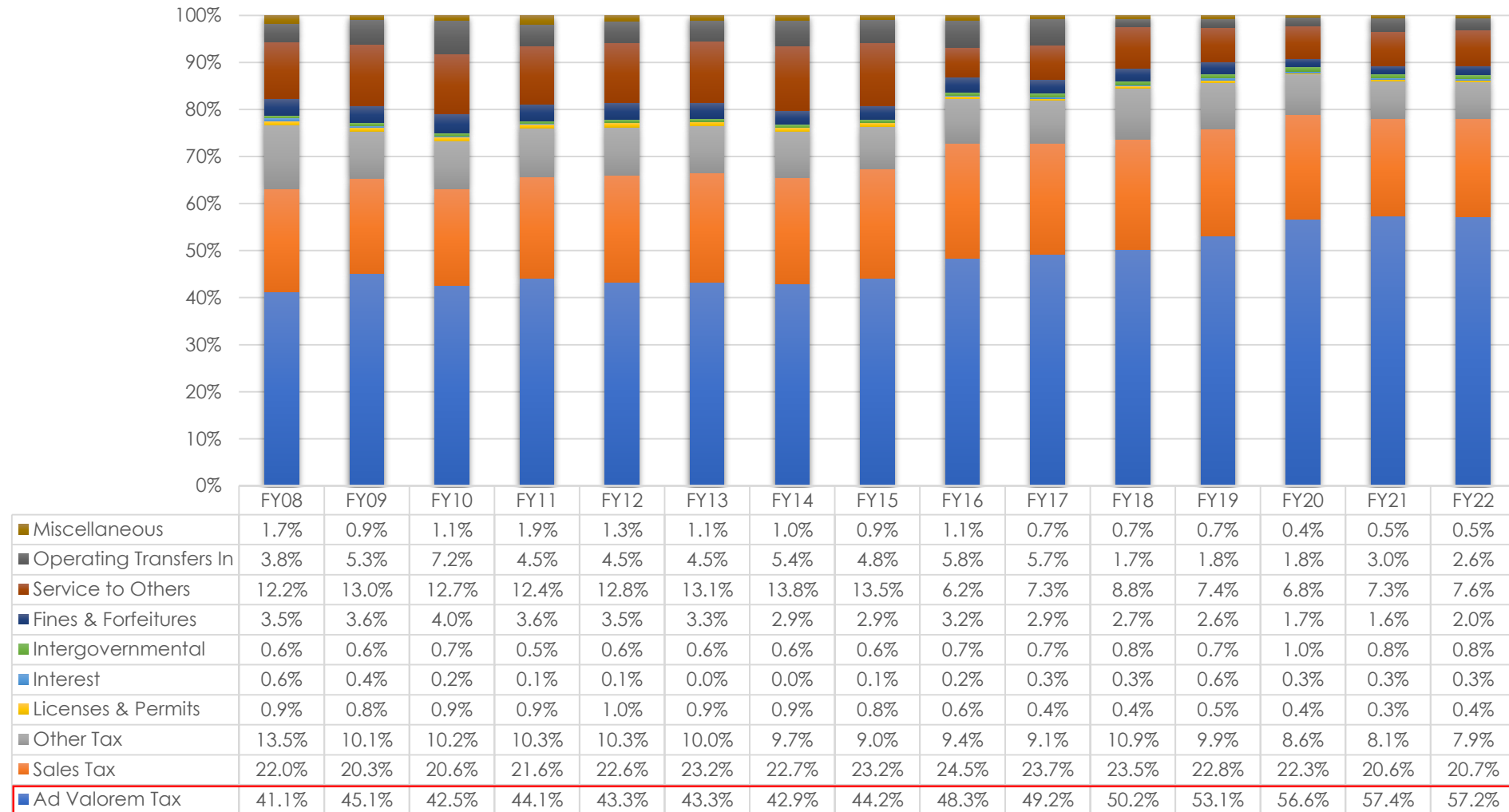
■ Property Tax ■ Sales Tax ■ Franchise & Other ■ Service to Others ■ Other



City of Dallas Budget



Historical General Fund Revenue Distribution



■ Ad Valorem Tax
 ■ Sales Tax
 ■ Other Tax
 ■ Licenses & Permits
 ■ Interest
■ Intergovernmental
 ■ Fines & Forfeitures
 ■ Service to Others
 ■ Operating Transfers In
■ Miscellaneous



Historical Value of Exemptions (\$ in billions)

