

# Memorandum



CITY OF DALLAS

DATE December 30, 2016

TO Honorable Members of the Budget, Finance, & Audit Committee: Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan, Scott Griggs, Lee M. Kleinman

SUBJECT Property Tax Overview

On Tuesday, January 3, 2017, the Office of Financial Services will brief the Budget, Finance, & Audit Committee on "Property Tax Overview." I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

## Attachment

c: Honorable Mayor and Members of the City Council  
A.C. Gonzalez, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager

Eric D. Campbell, Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Sana Syed, Public Information Officer  
Elsa Cantu, Assistant to the City Manager – Mayor & Council



# Property Tax Overview

Budget, Finance, & Audit Committee  
January 3, 2017



# Briefing Outline

---

- › Property tax base values
- › Property tax rate
- › Property tax exemptions
- › Legislative Session

# Overview

---

- › Ad valorem taxes are single largest revenue for City and total nearly \$843m for both General Fund and Debt Service
  - General Fund - \$603.1m or 49.1% of revenue
  - Debt Service - \$239.5m or 91.3% of revenue
- › Ad valorem taxes are based on following:
  - Property tax base values determined by appraisal districts
  - Tax rate set by City Council
  - Exemptions set by State and City Council

A decorative L-shaped bar composed of several segments in various shades of blue and grey, with a grid pattern on the bottom-left corner.

# Property Tax Base Values

# Property Tax Base Values

---

- › Taxable property values represent market value (determined by Appraisal Districts) net of exemptions
- › Property within City of Dallas is physically located in and appraised by 4 different appraisal districts
  - Dallas County – 94.6%
  - Collin County – 4.2%
  - Denton County – 1.2%
  - Rockwall County – 0.02%
- › Each appraisal district is required by state law to certify value by July 25<sup>th</sup> of each year

# Property Tax Base Values (\$ in billions)



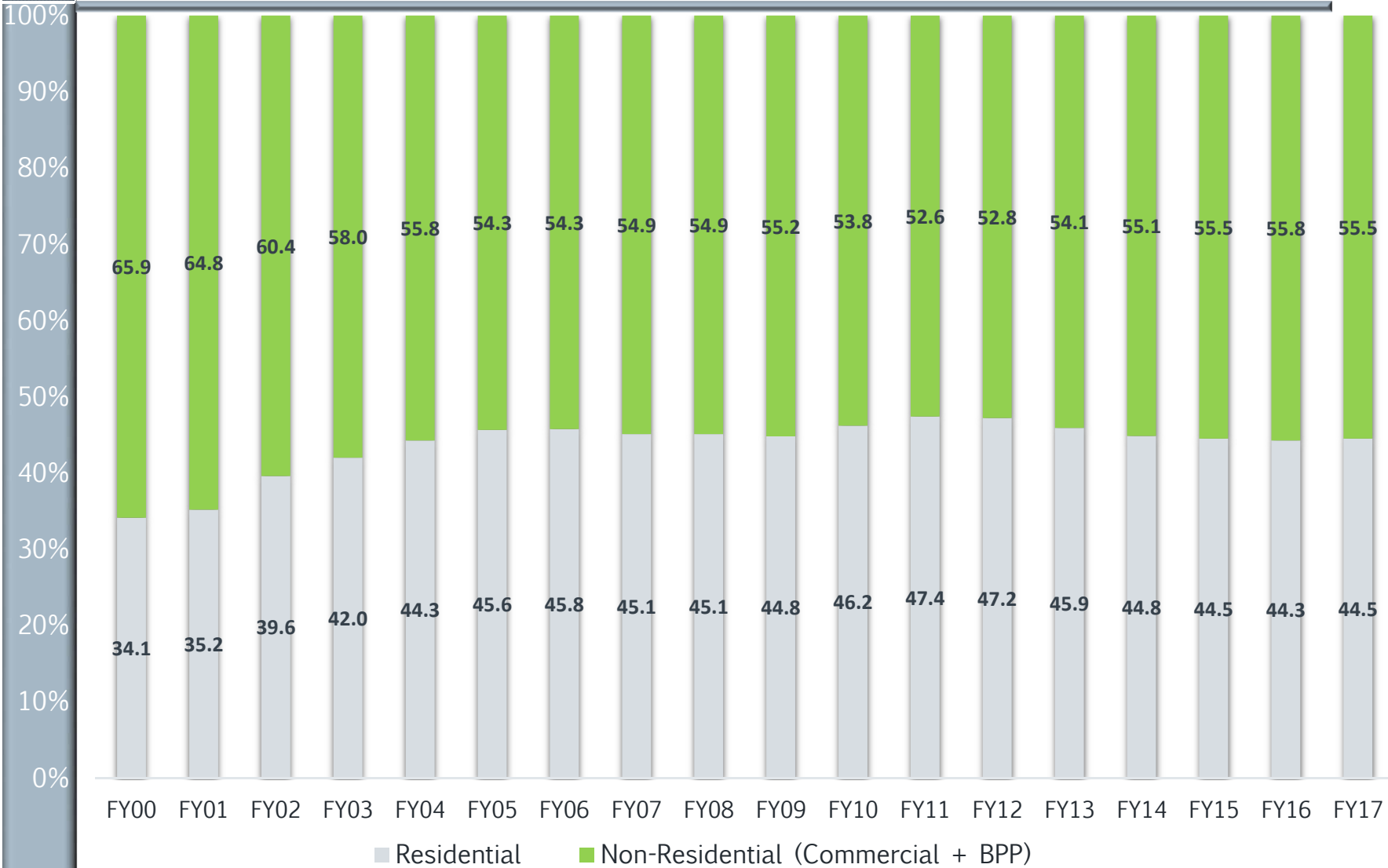
# Property Tax Base Values

---

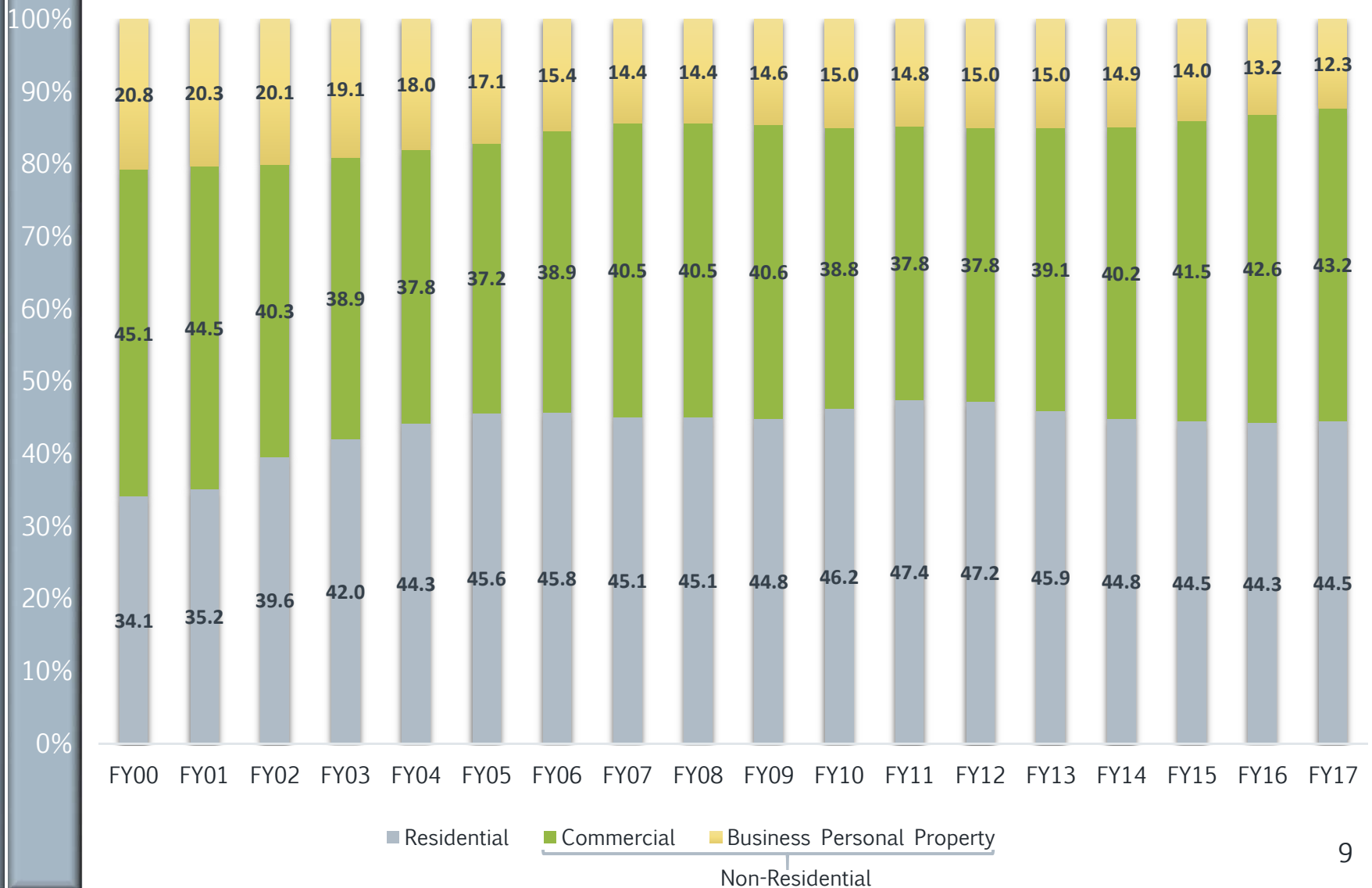
- › Taxable value is presented in categories determined by whether use is for residential or non-residential purposes:
  - Residential property – single-family homes and home-site land
    - › Residential – 44.5% of Dallas tax base
  - Non-residential property – apartments/multi-family residential property, buildings and land used for office/industrial use as well as personal property used in generating business revenue
    - › Commercial – 43.2% of Dallas tax base
    - › Business Personal Property – 12.3% of Dallas tax base



# Property Tax Base Values Historical Distribution by Category



# Property Tax Base Values Historical Distribution by Category



A decorative L-shaped bar composed of two rectangular segments. The vertical segment on the left is dark blue with a subtle gradient and a slight shadow. The horizontal segment at the bottom is a lighter blue-grey, also with a gradient and shadow. The two segments meet at a corner in the bottom-left. The text 'Property Tax Rate' is centered in the white space to the right of the vertical segment.

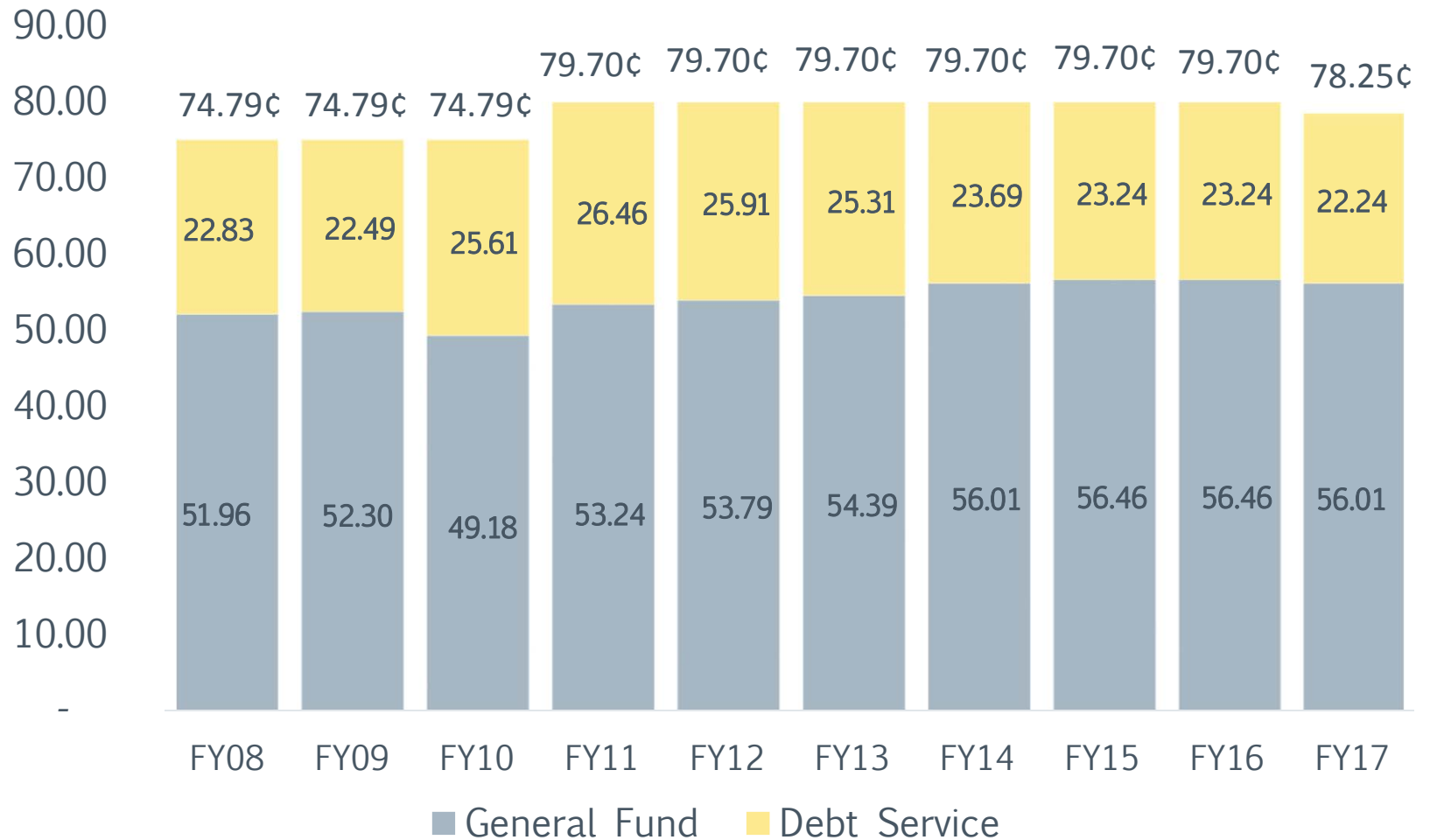
# Property Tax Rate

# Property Tax Rate

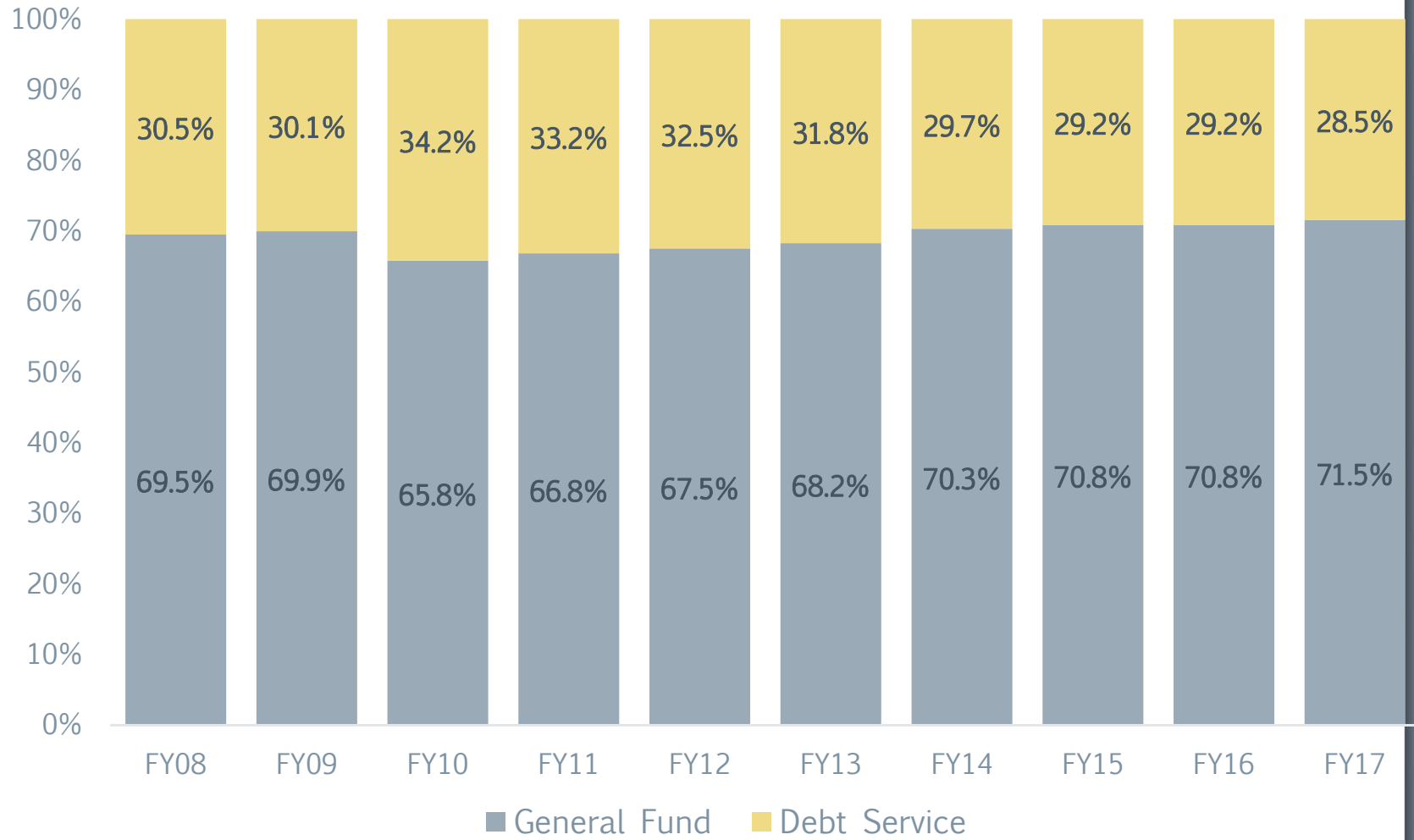
- › Property tax rate is set each September by City Council (at time of annual budget adoption)
- › Tax rate has increased or stayed same every year since FY99, except for:
  - FY07 - 1.25¢ decrease
  - FY17 - 1.45¢ decrease

	FY16 Adopted	FY17 Adopted	Change
General Fund	56.46¢	56.01¢	-0.45¢
Debt Service	23.24¢	22.24¢	-1.00¢
<b>Total Tax Rate</b>	<b>79.70¢</b>	<b>78.25¢</b>	<b>-1.45¢</b>

# Property Tax Rate Historical Distribution (¢/\$100 value)



# Property Tax Rate Historical Distribution



A decorative L-shaped bar composed of several segments in various shades of blue and grey, with a textured pattern on the bottom-left corner. The bar is positioned on the left and bottom edges of the slide.

# Property Tax Exemptions

# Property Tax Exemption

---

- › Exemptions lower taxable value and liability for homeowner but also lower revenue to support city services
- › Current exemptions in Dallas include:
  - Residential homestead exemptions
  - Over-65/Disabled exemptions
  - Disabled veteran exemptions (sliding scale based on level of disability determined by VA)



# Property Tax Exemptions

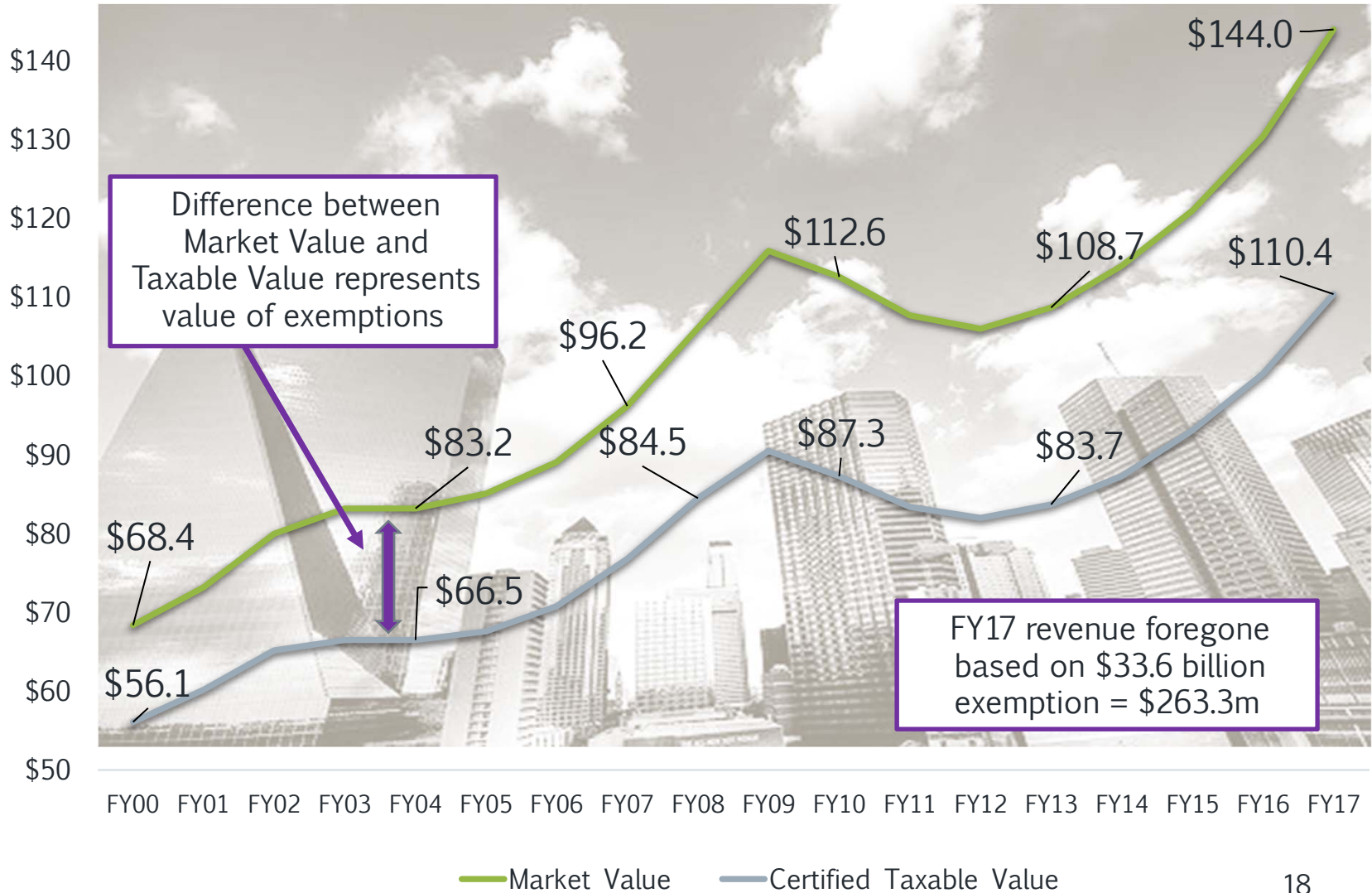
Exemption	Tax Code Section	Taxing Unit	Total or Partial	Mandatory or Local Option	Amount
General Res. Homestead	11.13(b)	School Districts	Partial	Mandatory	\$25,000
General Res. Homestead	11.13(n)	<u>Cities</u> , Counties, School Districts/Special Districts	Partial	Local Option	Up to 20% but not less than \$5,000
Age 65 or Older	11.13(c)	School Districts	Partial	Mandatory	\$10,000
Age 65 or Older	11.13(d)	<u>Cities</u> , Counties, School Districts/Special Districts	Partial	Local Option	An amount adopted by taxing unit, not less than \$3,000
Disabled Veterans	11.22	<u>Cities</u> , Counties, School Districts/Special Districts	Partial	Mandatory	Amount determined by the percentage of service disability

# Property Tax Exemption Analysis

## Comparative City Data - Residential Exemptions Offered

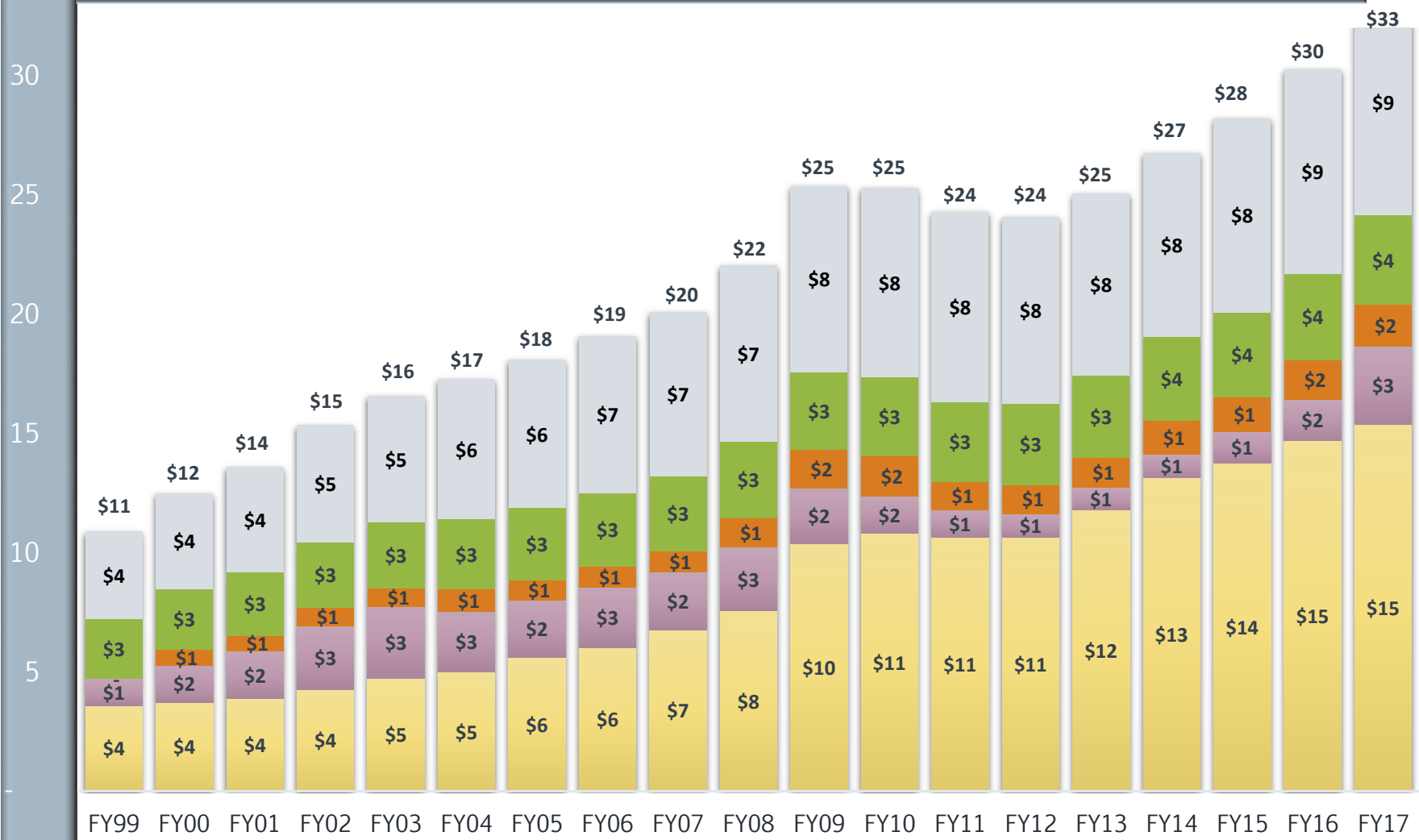
City	HS Exempt	Over-65/Disabled Exemptions	Tax Levy Freeze	Comments
Comparative Set				
Dallas, TX	20%	Ovr-65: \$64,000 Disabled: \$64,000	No	N/A
Austin, TX	8%	Ovr-65: \$82,500 Disabled: \$82,500	No	Established homestead exemption in FY2016.
Fort Worth, TX	20%	Ovr-65: \$40,000 Disabled: \$40,000	No	N/A
Houston, TX	20%	Ovr-65: \$160,000 Disabled: \$160,000	No	Has Prop 1 that puts a cap on property tax growth to lower of: 1.)CPI plus growth in population or 2.)4.5%.
San Antonio, TX	0%	Ovr-65: \$65,000 Disabled: \$12,500	Yes	Property tax levy freeze on homesteads owned by >65/disabled established in FY2006
Area Suburbs				
Frisco, TX	0%	Ovr-65: \$70,000 Disabled: \$70,000	No	N/A
Grand Prairie, TX	1%	Ovr-65: \$45,000 Disabled: \$30,000	Yes	Property tax levy freeze on homesteads owned by >65/disabled established in FY2005
Irving, TX	20%	Ovr-65: \$30,000 Disabled: \$30,000	No	N/A
Plano, TX	20%	Ovr-65: \$40,000 Disabled: \$40,000	Yes	Property tax levy freeze on homesteads owned by >65/disabled established in FY2003
Richardson, TX	0%	Ovr-65: \$70,000 Disabled: \$70,000	No	N/A

# Market Value vs Taxable Value (\$ in billions)



# Property Tax Exemptions

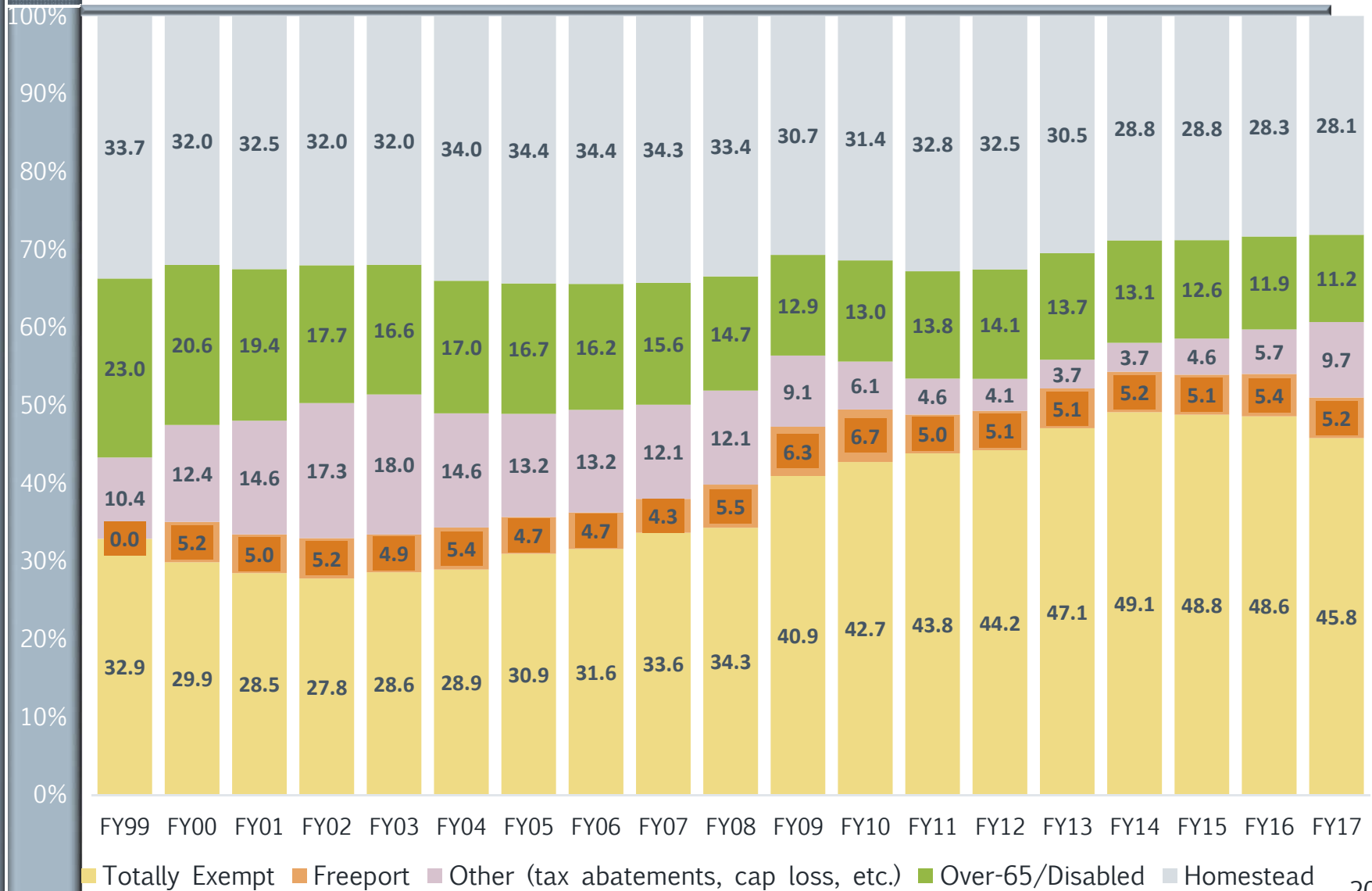
Historical Value of Exemptions (\$ in billions)



■ Totally Exempt 
 ■ Other (tax abatements, cap loss, etc.) 
 ■ Freeport 
 ■ Over-65/Disabled 
 ■ Homestead

# Property Tax Exemptions

## Exemption History (% of total exemptions)



# Property Tax Levy Freeze – What is it?

---

- › Ensures that a senior or disabled person will not have city tax bill any higher than what was paid in city taxes in year homeowner turns 65 or becomes disabled
  - Tax bill may fall below frozen amount but can never exceed amount set even if property value or tax rate increases
  - Frozen amount will be based on tax rate and property value in year homeowner is eligible
  - Frozen amount can increase for major home improvements
  - May transfer percent of tax paid to another homestead property

# Creating a Local Tax Freeze

---

- › Requires official action to enact tax freeze
  - Cannot be repealed or rescinded once enacted
  - Should be approved by Council and forwarded to DCAD by July 1<sup>st</sup> due to extra DCAD workload created by changing an exemption
- › Citizens can petition for an election to create local tax freeze if 5% of registered voters sign petition
- › Estimated revenue foregone is \$0.7m for each 1% growth in value
  - 2.85% (30 year average growth) = \$2.0m revenue foregone
  - 10.04% (FY17 growth) = \$7.0m revenue foregone

# Over 65/Disabled Exemption

---

- › Council approved \$64k exemption on September 17, 1986
- › Council has flexibility to increase or decrease this exemption
  - There is no maximum amount related to this exemption; minimum amount is \$3k
  - Must be a dollar amount, not a percent
  - Should be approved by Council and forwarded to DCAD by July 1<sup>st</sup> due to extra DCAD workload created by changing an exemption



A decorative L-shaped bar composed of several segments in various shades of blue and grey, with a textured bottom-left corner. The bar starts with a vertical segment on the left, followed by a horizontal segment extending across the bottom, and a final vertical segment on the right.

# Legislative Session

# Property Tax Related Legislation

---

- › Currently, it is difficult to tell which bills will be more successful than others in upcoming legislative session
- › SB 2, by Sen. Bettencourt and pushed by Lt. Gov. Patrick, will likely be major bill used for property tax reform from Senate
- › Based on bills filed to date, property tax legislation will largely focus on:
  - Exemptions
  - Revenue caps
  - Property appraisal board reforms
  - Some additional miscellaneous items
- › See appendix for bills filed to date
- › City's legislative team will closely monitor all legislation related to property taxes and actively oppose legislation that limits local control and ability of City to serve Dallas residents

# Property Tax Legislation: SB2

---

- › Most robust bill of session relating to property tax will likely be SB2 by Sen. Bettencourt
  - SB2 is openly supported by Lt. Gov. Dan Patrick
  - SB2 is also product of Senate Select Committee on Property Tax Reform and Relief (committee has held hearings around state)
  
- › SB2's main provisions would:
  - Change rollback rate from 1.08 to 1.04
  - Increase exemption amount for BPP from \$500 to \$2,500
  - Create a Property Tax Administration Advisory Board



# Questions & Comments



# Appendix

# Appendix: Property Tax Bills - Caps

Bill	#	Author	Party	Caption
HB	44	Keough, M	(R)	This bill creates a 5% appraisal cap for all real property tax assessments.
HB	167	Cecil, B	(R)	This bill creates a 5% appraisal cap for all real property tax assessments
HB	376	Metcalf, W	(R)	This bill lowers the homestead cap from 10% to 5%.
HB	586	Bohac, D	(R)	This bill lowers the homestead cap from 10% to 5%.
HB	345	Canales, T	(D)	This bill changes the calculation of the rollback rate by lowering the M&O rate from 1.08 to 1.05 and providing for calculations with a "consumer price index" (defined) and "inflation rate" (defined) which will be set by the comptroller by August 1 of each year.
SB	172	Nichols, R	(R)	This bill lowers the homestead cap from 10% to 5% however, commissioners court may call for an election to raise the cap above 5% but not greater than 10%.
HJR	17	Keough, M		This bill proposes a constitutional amendment to authorize the legislature to limit the maximum appraised value of real property for ad valorem tax purposes to 105 percent or less of the appraised value of the property for the preceding tax year.
HJR	43	Bohac, D	(R)	This bill proposes a constitutional amendment to authorize the legislature to set a lower limit on the maximum appraised value of a residence homestead for ad valorem taxation.
HJR	30	Larson, L	(R)	This bill proposes a constitutional amendment to authorize the legislature to limit the maximum appraised value of property for ad valorem tax purposes in a tax year if in the preceding tax year the owner of the property disputed the appraisal of the property and the appraised value was lowered as a result.
HJR	33	Metcalf, W	(R)	This bill proposes a constitutional amendment to authorize the legislature to set a lower limit on the maximum appraised value of a residence homestead for ad valorem taxation.
SJR	19	Nichols, R	(R)	This bill proposes a constitutional amendment to authorize the legislature to limit the maximum appraised value of a residence homestead for ad valorem tax purposes to 105 percent or less of the appraised value of the property for the preceding tax year and to permit the voters of a county to establish a higher limitation not to exceed 110 percent on the maximum appraised value of a residence homestead in the county.
SJR	28	Creighton, B	(R)	This bill proposes a constitutional amendment to authorize the legislature to set a lower limit and provide for more than one limit on the maximum appraised value of a residence homestead for ad valorem taxation.

# Appendix: Property Tax Bills - Caps (Continued)

Bill	#	Author	Party	Caption
HB	301	Larson, L	(R)	This bill states that the value of property cannot be increased by a CAD if the property value was the result of an agreement between the property owner and the CAD or a result of an ARB hearing. If the CAD determines there is substantial evidence to raise the value, the value may not be increased by more than 5% and the value of all new improvements to the property.
HB	455	Metcalf, W	(R)	This bill would allow individuals to appear before the ARB by telephone if they send an evidence affidavit prior to the hearing and notify the ARB on their protest that they intend to appear by telephone 10 days prior to their hearing.
HJR	18	Guillen, R	(D)	This bill proposes a constitutional amendment authorizing the governing bodies of certain political subdivisions to exempt from ad valorem taxation the real and tangible personal property of businesses during an initial period of operation in this state.
SB	15	Huffines, D	(R)	This bill provides for an exemption for a surviving spouse of a first responder killed or fatally injured for 100% of their homestead value if the spouse has not remarried.
SB	376	Creighton, B	(R)	This bill lowers the homestead cap from 10% to 3% if the home has a value of \$1 million or less or 5% if the home has a value of more than \$1 million.
SJR	1	Campbell, D	(R)	This bill proposes a constitutional amendment authorizing the legislature to provide for an exemption from ad valorem taxation of all or part of the market value of the residence homestead of the surviving spouse of a first responder who is killed or fatally injured in the line of duty.

# Appendix: Property Tax Bills - Exemptions

Bill	#	Author	Party	Caption
HB	150	Cecil, B	(R)	This bill increases the ability to receive a percentage disabled veterans exemption if the owner of the homestead received the property from a charitable organization at some cost to the veteran if the cost is not more than 50 percent of the good faith estimate of the market value.
HB	217	Canales, T	(D)	This bill adds "disabled veteran" to the list of individuals that can qualify for tax deferral.
HJR	21	Bell, C	(R)	This bill proposes a constitutional amendment authorizing the legislature to provide for an exemption from ad valorem taxation of part of the market value of the residence homestead of a partially disabled veteran or the surviving spouse of a partially disabled veteran if the residence homestead was donated to the disabled veteran by a charitable organization for less than the market value of the residence homestead and harmonizing certain related provisions of the Texas Constitution.
SB	240	Creighton, B	(R)	This bill increases the ability to receive a percentage disabled veterans exemption if the owner of the homestead received the property from a charitable organization at some cost to the veteran if the cost is not more than 50 percent of the good faith estimate of the market value.
SJR	23	Creighton, B	(R)	This bill proposes a constitutional amendment authorizing the legislature to provide for an exemption from ad valorem taxation of part of the market value of the residence homestead of a partially disabled veteran or the surviving spouse of a partially disabled veteran if the residence homestead was donated to the disabled veteran by a charitable organization for less than the market value of the residence homestead and harmonizing certain related provisions of the Texas Constitution.
HB	570	Button, A	(R)	This bill provides for an exemption for a surviving spouse of a first responder killed or fatally injured for 100% of their homestead value if the spouse has not remarried.
SB	15	Huffines, D	(R)	This bill provides for an exemption for a surviving spouse of a first responder killed or fatally injured for 100% of their homestead value if the spouse has not remarried.



# Appendix: Property Tax Bills - Exemptions (Continued)

Bill	#	Author	Party	Caption
HB	302	Goldman, C	(R)	This bill raises the exemption threshold for mineral interests from \$500 to \$2000.
HB	549	Anderson, R	(R)	This bill would allow the Dallas County Utility and Reclamation District to file an abatement application with the CAD in behalf of any residential property owners receiving an abatement.
HB	626	Workman, P	(R)	This bill states that a CAD must notify a taxing jurisdiction within 30 days of receiving a late application for an over 65 or disabled veteran homestead exemption and the taxing jurisdiction must refund an overpayment within 60 days.
HB	758	Keough, M	(R)	This bill allows religious organizations who lease their facilities to receive a refund for taxes paid on those facilities.
HJR	49	Keough, M	(R)	This bill proposes a constitutional amendment authorizing the legislature to provide for the refund of ad valorem taxes imposed on property leased to a religious organization for use as an actual place of religious worship.
HJR	35	Button, A	(R)	This bill proposes a constitutional amendment authorizing the legislature to exempt from ad valorem taxation by one or more political subdivisions of this state a person's inventory held for sale at retail.
SB	97	Hall, B	(R)	This bill changes the deadline for the chief appraiser to accept a homestead application for a 100% totally disabled individual to one year after the date on which the Department of Veterans Affairs approves the application.

# Appendix: Property Tax Bills - County Appraisal Board Reforms

Bill	#	Author	Party	Caption
HB	495	Phelan, D	(R)	This bill mandates election of the Board of Directors members of a CAD. It also mandates a 5 panel board with elections every two years.
HB	566	Keough, M	(R)	This bill provides for election of ARB members. The ARB will consist of five elected members that serve two-year terms.
HB	85	Keough, M	(R)	This bill removes the ability for a BOD of a CAD to contract with a tax office within or without of their district for purposes of appraisal.
HB	139	Cecil, B	(R)	This bill allows the ARB to deliver a hearing notice by certified mail if the property owner requests it.
HB	513	Davis, S	(R)	This bill mandates reappraisal in a disaster area by the chief appraiser with all taxing units in the affected area paying the cost of the reappraisal.

# Appendix: Property Tax Bills - Miscellaneous

Bill	#	Affects Dallas' Prop Tax	Author	Party	Caption
HB	182	yes	Bernal, D	(D)	This bill creates a study by the comptroller to determine the effect of sales disclosure.
HB	198	Yes	Bernal, D	(D)	This bill makes installment payments mandatory for all homestead properties.
HB	320	Yes	Canales, T	(D)	This bill lowers the recapture period for change of use on open space land from five years to two years.
HB	379	Yes	Bernal, D	(D)	This bill states that a person may not file for a deed unless the deed conveys the sales price of the property.
HB	386	Yes	Murphy, J	(R)	This bill changes the qualifications for receiving a chapter 313 limitation of value.
HB	540	Yes	Metcalfe, W	(R)	This bill states that there is no cap on attorneys fees for a 42.25 or 42.26 appeal if the property is the owner's homestead and the property owner prevailed in an appeal in the two prior years and was subject to attorney's fees limitations in those appeals.
HB	598	yes	Koop, L	(R)	This bill would allow the county TAC to refer a dishonored check or credit card invoice to a private collections agency that may then charge a fee to the person responsible.
HB	643	yes	Phillips, L	(R)	This bill removes the requirement that land be appraised as open space or timber land prior to receiving a wildlife management designation.
SB	175	Yes	Nichols, R	(R)	This bill states that land will still qualify as open space if it does not meet the degree of intensity but the owner is a member of the armed services stationed outside the state and will continue the use within 180 days after they are no longer deployed.