



# City of San Antonio

## Agenda Memorandum

**File Number:**

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**Agenda Item Number:** 4

**Agenda Date:** June 16, 2022

**In Control:** City Council A Session

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**DEPARTMENT:** Finance Department

**DEPARTMENT HEAD:** Troy Elliott

**COUNCIL DISTRICTS IMPACTED:** Citywide

**SUBJECT:**

Proposed Increase in Homestead Exemptions

**SUMMARY:**

This Ordinance approves (A) an increase, beginning January 1, 2022, in: (1) the general residence homestead exemption in the City for an individual in an amount equal to 10 percent of the appraised value of the residence homestead or the statutorily mandated minimum of \$5,000; (2) homestead property tax exemption for persons 65 years of age or older from \$65,000 to \$85,000; and (3) homestead property tax exemption for disabled persons from \$12,500 to \$85,000; and (B) amendments to Chapter 31 of the City Code of San Antonio, Texas to increase such exemptions.

**BACKGROUND INFORMATION:**

A budget goal setting session was held on April 13, 2022, with the Mayor and City Council. The purpose of the goal-setting session was to discuss budget priorities and provide policy direction for the development of the FY 2023 Adopted Budget. At this session, City Council was presented with preliminary estimates on a tax rate reduction due to the 3.5% revenue cap imposed under state statute, as well as recommendation for property tax relief through an increase in the City's Homestead Exemption. Based on direction received at the Goal Setting Session, City Staff returned on May 11, 2022, and provided additional information and a recommendation to increase the

general residence homestead exemption for an individual to an amount equal to 10 percent of the appraised value of the residence homestead or the statutorily mandated minimum of \$5,000; increase the homestead property tax exemption for persons 65 years of age or older from \$65,000 to \$85,000; and increase the homestead property tax exemption for disabled persons from \$12,500 to \$85,000.

In FY 2020, the City adopted a Local Option Residence Homestead Exemption in the amount of .01% of the appraised value of a residence homestead (which equates to a minimum \$5,000 exemption by State Statute). There are currently 237,181 homesteads in the City which benefit from the City's Homestead Exemption.

The City has long recognized the need to provide senior citizens and disabled persons with property tax relief. The City initially adopted an Over Age 65 Homestead Exemption in the amount of \$3,000 in FY 1974, which was incrementally increased to \$65,000 through FY 2004. The Over-65 exemption has remained at the \$65,000 exemption level since FY2004. In 2005, the City adopted a Homestead Exemption in the amount of \$12,500 for disabled persons and initiated a tax freeze for both Over-65 and disabled persons homesteads. There are currently 101,346 Over-65 accounts and 6,436 disabled persons accounts receiving these exemptions.

The City of San Antonio is also one of the few Texas Cities that offer an Over-65 and Disabled Persons Tax Freeze in addition to the Over-65 and Disabled Persons exemption. Proposition 3 was approved by the voters of San Antonio in 2005 and freezes the amount of property taxes as of the time of qualification as long as the property is occupied by the homestead owner.

The Texas Property Tax Reform and Transparency Act of 2019 ("SB 2") lowered the current property tax rollback rate from 8% to 3.5% effective in FY 2021. In years of increasing growth, the effect of SB 2 will be to decrease the adopted tax rate which will also provide tax relief to property owners. In FY 2023, based on preliminary information received from the Bexar County Appraisal District (BCAD), it is anticipated that the City's tax rate will be decreased due to SB 2 requirements which will provide tax relief to both Residential and Commercial accounts. A change to the City's tax rate will be considered separate from this action during the preparation and adoption of the FY 2023 budget.

Considering the unprecedented increases in property values that the citizens and businesses of San Antonio are experiencing, the combination of increased exemptions and an anticipated property tax rate reduction will provide a balanced approach to tax relief for all property owners while targeting relief to the most vulnerable homeowners. This strategic approach to property tax relief also provides the future flexibility to provide targeted and equitable tax relief through the pursuit of legislative changes and local programs to further benefit homeowners.

The combination of these actions will provide needed property tax relief in light of the unprecedented increases in property values that the citizens of San Antonio are experiencing.

**ISSUE:**

Based on City Council direction, the City is recommending an increase to the Local Option Residence Homestead Exemption to 10% of the appraised value of the residence homestead in the City of San Antonio and an increase to the Over Age 65 and Disabled Persons Homestead Exemptions to \$85,000 for the Tax Year beginning January 1, 2022 (FY 2023) pursuant to Texas Tax Code Section 11.13. Any changes to exemptions are required to be approved by July 1st in order to be effective for the coming year.

Additionally, in the event the City Council elects to pursue a tax rate change to the City's tax rate, such action will be considered during the preparation and adoption of the FY 2023 budget.

Reductions in the City's property tax rate and other property tax relief measures including increasing homestead exemptions approved by the City Council would apply to property tax bills issued in October of this year.

#### **ALTERNATIVES:**

City Council could choose not to move forward with increases to the Local Option Residence Homestead, Over Age 65 and Disabled Persons Homestead Exemption which would leave the exemptions at their current amounts.

#### **FISCAL IMPACT:**

In FY 2022, the City will forego \$72.4 million in revenue due to the above exemptions and the tax freeze in order to provide tax relief. This amount is projected to increase in FY 2023 to an estimated \$93.8 million with the proposed increase to the General Homestead Exemption to 10%, the Over Age 65 Exemption to \$85,000, and the Disabled Persons Exemption to \$85,000.

The City will continue to get updates from BCAD through certification of the tax roll on July 25, 2022, which will impact these estimates.

#### **RECOMMENDATION:**

Staff recommends approval of this Ordinance approving an increase to the general residence homestead exemption in the City to 10% of the appraised value of the residence and an increase to the over age 65 and disabled persons homestead exemptions to \$85,000 for the Tax Year beginning January 1, 2022 (FY 2023) pursuant to Texas Tax Code Section 11.13.