



AGENDA MEMORANDUM

First Reading Ordinance for the City Council Meeting of March 28, 2023
Second Reading Ordinance for the City Council Meeting of April 11, 2023

DATE: March 23, 2023

TO: Peter Zaroni, City Manager

FROM: Constance P. Sanchez, Chief Financial Officer
constancep@cctexas.com
(361) 826-3189

<p>Increasing Property Tax Homestead Exemption for 10% to 20% and Increasing the Over-65 or Disabled Property Tax Exemption from \$50,000 to \$62,500</p>
--

CAPTION:

Ordinance amending Ordinance 17150 by increasing the exemption for ad valorem taxes for all qualified homesteads from 10% to 20% of assessed value but not less than \$5,000 for all qualified resident homesteads; and increasing the exemption for ad valorem taxes for persons' residence who are disabled or 65 years of age or older from \$50,000 as approved by the citizens of Corpus Christi on April 4, 1987 to \$62,500; Commencing Tax Year 2023.

SUMMARY:

Councilmember Mike Pusley is recommending that the homestead exemption for the City of Corpus Christi be increased from 10% of assessed value to 20% of assessed value and the homestead exemption for those over-65 or disabled be increased from \$50,000 to \$62,500.

BACKGROUND AND FINDINGS:

On July 28, 1982, the City Council approved Ordinance 17150 adopting a qualified homestead exemption of 10% of assessed value or \$5,000 minimum as per section 11.13(n) of the Property Tax Code. Increasing the exemption from 10% to 20% would result in an estimated recurring property tax revenue reduction for the City of Corpus Christi of approximately \$7.6 million annually beginning in FY 2024. The annual savings to an average homeowner would be \$119.50 or \$9.96 monthly.

Section 11.13(d) of the Property Tax Code states that an individual who is disabled or is 65 or older is entitled to an exemption from taxation by a taxing unit of a portion of the appraised value of the residence homestead if the exemption is adopted either by the governing body of the taxing unit or by a favorable vote of a majority of the qualified voters of the taxing unit. Section 11.13(f) of the Property Tax Code states that once authorized, an exemption adopted as provided by Subsection (d) may be repealed or decreased or increased in an amount by the governing body of the taxing unit.

On April 4, 1987, the citizens of Corpus Christi voted to approve an exemption of \$50,000 for those who are disabled and those who are 65 or older (ordinances 19692 and 026124). Increasing the exemption from \$50,000 to \$62,500 would result in an estimated recurring property tax revenue loss to the City of Corpus Christi of \$1.9 million beginning in FY 2024. The annual savings to an average homeowner would be \$80.78 or \$6.73 monthly.

The combined annual recurring property tax reduction to the City with the recommended changes to the property tax exemptions would be \$9.5 million beginning in FY 2024.

ALTERNATIVES:

City Council could take no action on this ordinance and maintain the \$9.5 million in recurring property tax revenue for the City of Corpus Christi to be used for City operations and critical City needs.

FISCAL IMPACT:

The annual fiscal impact to the City of Corpus Christi for increasing the homestead exemption from 10% to 20% would be approximately \$7.6 million annually. Of this amount \$4.9 million (or 64%) would be a reduction of General Fund property tax revenue and approximately \$2.7 million (or 36%) would be a reduction of Debt Service Fund property tax revenue.

The annual fiscal impact for increasing the over-65 or disabled property tax exemption from \$50,000 to \$62,500 would be approximately \$1.9 million. Of this amount, approximately \$1.2 million (or 64%) would be a reduction of General Fund property tax revenue, and approximately \$700 thousand (or 36%) would be a reduction of Debt Service property tax revenue.

The total recurring fiscal impact to the General Fund would a reduction of approximately \$6.1 million in property tax revenue. The total recurring fiscal impact to the Debt Service Fund would be a reduction of approximately \$3.4 million in property tax revenue. Although the property tax rate related to the General Fund (the Maintenance and Operations (M&O) rate would be reduced, the property tax rate related to the Debt Service Fund (I&S) would need to increased to cover the City's current outstanding debt.

The recurring fiscal impact to the General Fund would result in a reduction of services. This could include not hiring additional police officers or firefighters, reducing the transfer from the General Fund to Streets, reducing or even eliminating investment in the City's parks, senior programs, programs for youth, libraries, of Solid Waste to name a few.

With the uncertainty in what action will be taken by the Texas legislature as it relates to municipal property tax revenue or assessed valuations, City staff cannot support this ordinance. We are also uncertain as to future General Fund revenue specifically as it relates to sales tax, franchise fees, or payment in lieu of taxes in light of the current economic situation.

One additional aspect that City staff is reviewing is the over-65 property tax freeze. Those property taxpayers who are over-65 already have their property taxes frozen, and so an increased exemption may not benefit them especially if they have experienced high assessed value growth over time. It appears that this type of additional exemption is a regressive tax that would benefit homes of greater assessed value.

FUNDING DETAIL:

Fund:

Organization/Activity:

Department:

Account:

RECOMMENDATION:

City staff does not recommend approval of the Ordinance. Adopting this ordinance would result in a permanent \$9.5 million decrease in property tax revenue in both the General Fund and Debt Service Fund that cannot be sustained unless services and future bond programs are cut or eliminated. Use of the City's reserves should not be used to balance the City's budget.

SUPPORTING DOCUMENTS:

Ordinance