

Memorandum

To: Mayor and Members of the City Council

From: Charles Cunningham, Finance Director

Cc: Frank Salvato, City Manager

Date: February 20, 2004

Re: Tax Freeze

As can be determined from the attached article from TML concerning H.J.R. 16, this constitutional amendment approved by voters in 2003 could have far reaching effects on the City's ability to generate revenue from property taxes and should be considered very carefully before any action is taken. I am in the process of gathering some historical information from the Assessment District and formulating an analytical model that can be used to fairly evaluate the potential impact on the City but need a little more time to complete this work. I would expect to have some results available for the Council's consideration by the second meeting in March.

The attached article also indicates that there is should be no rush to pass any legislation immediately in that any Ordinances regarding the issue of freezing taxes that are passed at any time in 2004, would not be effective until the 2005 tax year.

This is simple to inform you that it is being looked into and some information from the staff should be available shortly.



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TAX FREEZES: CITIES SHOULD PROCEED CAUTIOUSLY

A constitutional amendment approved by Texas voters in 2003 (H.J.R. 16), permits cities to freeze property taxes on the homesteads of persons over the age of 65 and disabled persons. The freeze is optional for each city, except that a popular election on the issue is required if the city receives a petition signed by five percent of the registered voters in the city.

Many cities are beginning to feel the pressure brought by advocates of the freeze, including organizations representing the elderly and certain newspapers columnists around the state. According to some of these proponents, the freeze should be enacted immediately, without any further study or deliberation by cities. This is unfortunate. Enacting the freeze without careful consideration is very risky for several reasons:

1. Once enacted, the freeze is permanent. There is no opportunity for the council or the voters to undo it in the future. Hasty action could lead to fiscal regret for years to come.
2. The impact of public school finance reform is an enormous fiscal question mark on the horizon. Talk of reform now includes proposed restrictions on municipal property revenue (see previous articles). Though TML will be fighting any threat to city revenue during a school finance session, it may be wise to wait until the smoke clears before acting on other property tax issues. If a city grants the freeze and the legislature subsequently reduces the authority of cities to raise revenue, the city may find it very difficult or impossible to recover the revenue lost to the freeze.
3. There is no advantage to enacting the freeze now, as opposed to enacting it later in calendar year 2004. A freeze enacted anytime in 2004 does not impact actual taxes paid until 2005. Thus, waiting until after a spring special session on school finance to enact the freeze would confer the same benefit on affected taxpayers as acting right away would, but at much less risk.

4. Whether real tax “relief” is offered by the freeze is questionable. Cities must still levy taxes to pay for public safety, infrastructure, and much more. Any artificial limitation on taxes simply shifts the tax burden from the benefited landowners to other citizens—in this case younger taxpayers.
5. Persons over 65 already enjoy substantial front-end homestead exemptions in many cities, sometimes as much as \$100,000. A city feeling pressured to enact the freeze may wish to reexamine the extent to which these optional homestead exemptions are currently offered. Freezing taxes on an already nearly tax-exempt homestead could be a case of gilding the lily.

There is no deadline by which city councils must make a decision on this issue. TML would advise careful consideration before any decision on tax freezes, especially considering the current fiscal situation in our state. City officials with questions about the freeze may call Bennett Sandlin in the TML Legal Department at (512) 231-7400.

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