

Memorandum

Memorandum No: 24-135

Date: October 9, 2024
To: Honorable Mayor and City Council
From: Ryan Henderson, City Manager 
Re: Senior Tax Freeze Considerations

The City of Anna has recently been asked by neighbors to consider a senior tax freeze as part of our approach to providing property tax relief to senior neighbors. I feel it is appropriate to take the time to provide some critical information in this regard.

Last year, the City of Anna adopted Ordinance 1050-2023-06 “Age 65 or older or disabled residential homestead exemption,” exempting \$30,000 of the appraised value for neighbors who are 65 and older or disabled and own their home. In addition, Anna offers a 3% General Homestead Exemption, with a minimum value of \$5,000, further reducing taxable property values for all homeowners. These exemption amounts are revisited annually, providing flexibility to adjust them based on economic conditions and community needs.

Property Tax Calculation

To understand how property taxes are determined for homeowners in Anna, it is important to review the calculation process:

1. **Appraised Value:** The Collin Central Appraisal District establishes the market value of each home annually. However, state law limits the increase in taxable appraised value to no more than 10% per year.
2. **Exemptions:** Once the taxable appraised value is determined, exemptions are subtracted. Currently all four taxing entities (Anna Independent School District, City of Anna, Collin County and Collin County College District) offer homestead and Over 65 exemptions that may be applied through one form from the Collin Central Appraisal District.
3. **Tax Rate:** The city’s tax rate is capped by state regulations, ensuring any increase beyond a certain amount must be approved by voters. This cap, combined with the 10% limit on appraised value increases, means tax bills for most seniors in Anna rise minimally year over year.

Senior Tax Freeze

A senior tax freeze (or “tax ceiling”) freezes the property taxes for homeowners who are 65 years of age or older, preventing future increases on the city’s portion of property taxes, even if property values rise.

Property taxes may go below the ceiling in future years, but not above unless you improve the home beyond normal repairs and maintenance. Then, the ceiling will be adjusted to a higher value.

While ensuring property taxes remain predictable for seniors may seem attractive, it presents several disadvantages compared to the exemption:

- **No Immediate Reduction:** The tax freeze locks in a homeowner's current tax rate, but it does not reduce the amount of property taxes owed. If a senior's current tax bill is high, the freeze won't provide immediate relief. The exemption, on the other hand, reduces the taxable value upfront, lowering the current tax burden.
- **Upgrades and Improvements:** As mentioned, any improvements or expansions made to a property after a tax freeze are not covered and would be taxed at the current rate. This can lead to increased tax bills, despite the freeze.
- **Disproportionate Benefit to Wealthier Homeowners:** A tax freeze benefits wealthier homeowners more. The higher the value of a home, the greater the benefit when the freeze is implemented. In contrast, the value of the exemption is the same dollar amount for all seniors, which is more meaningful to lower income seniors.
- **Shifted Tax Burden:** A senior tax freeze will result in shifting the tax burden on to young families and other property owners to maintain services up to the point the city reaches the state-imposed property tax cap. Additional facilities such as a senior center or senior transit would have to be paid for by neighbors who would be unable to use the services.
- **Potential Long-Term Impact:** Freezing taxes can have unpredictable long-term consequences on the city's budget. As the city grows and the population of senior citizens increases, a tax freeze could significantly reduce the funds needed to serve all neighbors. Since the majority of property tax funds public safety (police and fire), over time there is a high likelihood that the cuts will be to those services.

It is also important to note that school district taxes, which are the largest portion of property tax bills in Anna, are already frozen for seniors under state law. Since school funding is supplemented by state resources, this freeze benefits senior homeowners without reducing the quality of services. However, cities like Anna do not receive such assistance from the state, making it essential to maintain a sustainable funding model for city services while balancing tax relief.

The City of Anna believes that the Over 65 property tax exemption offers a more flexible and equitable solution than a tax freeze. The exemption allows for meaningful, immediate relief to seniors, particularly those with lower incomes, while ensuring the city can continue to provide high-quality services to all neighbors without shifting the burden disproportionately onto younger homeowners.

We remain committed to evaluating and adjusting the Over 65 exemption as needed to ensure it continues to meet the needs of our senior citizens while protecting the long-term financial health of the City of Anna now and in the future.

c: Taylor Lough, Assistant City Manager
Greg Peters, Assistant City Manager
Terri Doby, Budget Manager
Management Team