



## Memorandum

**To:** Honorable Mayor Jeff Cheney and Members of the Frisco City Council

**Cc:** Wes Pierson, City Manager  
Anita Cothran, Chief Financial Officer

**From:** Jennifer Hundt, Director of Budget and Strategic Planning

**Date:** June 20, 2023

**Subject:** Consider and act upon adoption of an Ordinance to increase an exemption to the ad valorem property taxes for residence homesteads in the City of Frisco. (Budget/JH)

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**Action Requested:** Consider and act upon adoption of an Ordinance to increase an exemption to the ad valorem property taxes for residence homesteads in the City of Frisco from 12.5% to 15%.

**Background Information:** The Homestead Exemption was first adopted in June 2017 at 7.5%. It was increased to 10% in June of 2018 for FY19 and to 12.5% in June of 2022. It is a Council interest to continue to increase the homestead exemption to the allowable maximum, 20% of a home's value. In sync with the budget process, staff review the property value data each year and estimate the effect that increasing the homestead exemption would have on the City's revenue and service levels.

The Tax Code Section 23.23(a) sets a limit of 10% on the amount of the annual increase to the appraised value of a residence homestead (not including new improvements). However, the low home inventory, the increased demand due to the local economy and employment market, the positive development opportunities, and our world class amenities, continue to cause property values to increase within the North Texas and specifically Collin and Denton Counties and the City of Frisco.

Preliminary totals from the Denton and Collin Appraisal Districts show an increase in the total net taxable value of approximately 12% (including new, residential, commercial, and values within the TIRZ). Therefore, staff is recommending increasing the homestead exemption an additional 2.5%, from 12.5% to 15%.

While the ongoing costs of operating a world class City, providing for adequate staff, performing routine facility and equipment maintenance, and continuing superior service levels and performance contracts all have a cost, staff estimate that with this additional reduction to the taxable value, the City focus on the voter approval tax rate is important to continue services, maintenance, and operations activities at expected levels.

**Financial Considerations:** The adoption of the exemption at 15% will impact the revenue stream for FY24. At the current tax rate and estimated market value, the revenue decrease is estimated at approximately \$3 million. This exemption, if adopted by July 1<sup>st</sup>, will be effective for the January 1, 2023, valuation and will change the taxes due for fiscal year 2024.

**Legal Review:** Legal has prepared the Ordinance and it is approved as to form.

**Alternatives:** City Council could choose to adjust the exemption by a different amount or to not move forward with a change at this time.

**Board/Citizen Input:** The Budget and Audit Committee discussed on May 16, 2023. The City Council discussed at the winter work session on January 27, 2023.

**Supporting Documents:** Ordinance.

**Staff Recommendation:** Staff recommends approval of the Ordinance to increase the exemption for Residence Homesteads in the City of Frisco by 2.5% to a total new exemption of 15%.