

City of Alexandria, Virginia

15
2-11-03

MEMORANDUM

DATE: FEBRUARY 6, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: ORDINANCE (a) TO CHANGE THE INCOME AND ASSET LIMITS FOR FULL AND PARTIAL REAL ESTATE TAX EXEMPTIONS UNDER THE CITY'S REAL ESTATE TAX RELIEF PROGRAM FOR ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS AND (b) TO INCREASE THE DEDUCTION ALLOWED FOR A FAMILY MEMBER LIVING IN THE HOUSEHOLD

ISSUE: Consideration of an ordinance to change the income and asset limits for full and partial real estate tax exemptions under the City's Real Estate Tax Relief Program for the Elderly or Permanently and Totally Disabled Persons and to increase the deduction allowed for a family member living in the applicant's household.

RECOMMENDATION: That City Council pass the proposed ordinance (Attachment I) on first reading and schedule it for public hearing, second reading and final passage on February 22, 2003. The proposed ordinance would accomplish the following:

- Increase the maximum income limit to qualify for a full real estate tax exemption under the Real Estate Tax Relief Program from the current \$12,800 to \$20,000;
- Change the income limits to qualify for the maximum exemption equal to 100% of the average property tax for residential properties in the City from the current \$25,600 to \$30,000;
- Change the income limits to qualify for a partial exemption equal to 75% of the maximum exemption amount from the current \$30,000 to \$35,000;
- Change the income limits to qualify for a partial exemption equal to 50% of the maximum exemption amount from the current \$35,000 to \$40,000;
- Continue to offer a deferral of real estate taxes for qualified applicants with total income that does not exceed \$62,000;

- Increase the asset eligibility limits for the Real Estate Tax Relief Program from \$195,000 to the new state limit of \$240,000;
- Increase the deduction allowed for a family member living in the household from \$6,500 to the new state limit of \$8,500.

DISCUSSION: In recent years the value of residential property has increased at a rate much greater than the rate of inflation. As a result, many of the elderly and disabled who participate in the Real Estate Tax Relief Program have seen their potential real estate tax bill increase. To address this trend, in January 2001, City Council enhanced the City's Real Estate Tax Relief Program to (1) change the maximum exemption from a fixed amount to an increased variable amount, based on the average residential tax bill, (2) establish new higher exemptions within multiple income brackets, based on a percentage of the taxes on the average residential property, and (3) increase the overall income limits for total and partial exemptions and deferrals.

In March 2002, City Council again enhanced the Program to (1) increase the income limit for a deferral of real estate taxes from \$40,000 to \$62,000 and (2) decrease the interest rate on deferred real estate taxes from eight percent to five percent. In CY 2002, the average residential real estate tax bill was \$2,684 based on an average assessment of \$248,563. For CY 2003, it is expected that the average assessment will increase substantially and therefore expansions of the real estate tax relief program are recommended.

COMPARISON WITH OTHER JURISDICTIONS:

Staff surveyed the Real Estate Tax Relief Programs of neighboring jurisdictions. Program designs vary. The following chart illustrates the basic limits on income for an applicant to qualify in each jurisdiction. It should be noted that Alexandria and Arlington allow all amounts not exempted to be deferred, while Fairfax County, Prince William and Loudoun do not.

**Real Estate Tax Relief
Income Eligibility and Benefit Range**

Tax Relief Benefit	Alexandria		Arlington	Fairfax County	Prince William	Loudoun
	Current	Proposed				
Exemption - Full	\$0 to \$12,800	\$0 to \$20,000	\$0 to \$39,585	\$0 to \$40,000	\$0 to \$36,400	\$0 to \$62,000
Exemption - Partial	\$12,801 to \$35,000	\$20,001 to \$40,000	\$39,586 to \$62,000	\$40,001 to \$52,000	\$36,401 to \$52,800	N/A
Full Deferral Only	\$35,001 to \$62,000	\$40,001 to \$62,000	N/A	N/A	N/A	N/A
2002 Cost (\$ in millions)	\$1.0	N/A	\$1.1	\$8.9	\$1.7	\$1.7

For 2003 the increase in income limits will provide a greater benefit to currently participating households, as well as encourage more City households to apply. Changes to asset limits and family member deduction amounts are proposed to match that now allowed by state law.

COMPARISON OF EXEMPTION DISTRIBUTION UNDER PROPOSED REAL ESTATE TAX RELIEF PROGRAM MODIFICATIONS:

For calendar year 2002, 558 complete tax relief applications were received. Of those, 162 applicants qualified for a full exemption of their real estate taxes, 373 applicants qualified for a partial exemption, 7 applicants were qualified for a deferral only and 16 applicants did not qualify for tax relief. Of the 373 applicants that qualified for partial exemption, 14 applicants requested and had a remaining balance to be deferred. In the last calendar year, the Real Estate Tax Relief Program cost the City \$969,146 in exempted taxes and \$33,796 in deferred taxes.

The following chart illustrates distribution of exemptions granted to applicants for the 2002 Real Estate Tax Relief Program:

2002 Tax Relief Program

	Income Range	Applicants
Full Exemption	<\$12,800	162
100% of Average Residential Property Tax Exemption	\$12,801-\$25,600	285
75% of Average Residential Property Tax Exemption	\$25,601-\$30,000	47
50% of Average Residential Property Tax Exemption	\$30,001-\$35,000	41
Deferral Only	\$35,001-\$62,000	7
Exemptions Denied	>\$35,000	23
Total Exemptions	<\$35,001	535
	Grand Total	558

The following chart illustrates what the distribution of exemptions to the 558 qualified applicants in the 2002 Program would be under the proposed ordinance changes:

Modified Program With Full Exemptions for Applicants With Income <\$20,000

	Income Range	Applicants
Full Exemption	<\$20,001	346
100% of Average Residential Property Tax Exemption	\$20,001-\$30,000	148
75% of Average Residential Property Tax Exemption	\$30,001-\$35,000	41
50% of Average Residential Property Tax Exemption	\$35,001-\$40,000	12
Deferral Only	\$40,001-\$62,000	11
Total Exemptions	<\$40,001	547
	Grand Total	558

FISCAL IMPACT: It is expected that the increased assessments will result in an increase in the program's benefits this calendar year. Since this program is structured as an entitlement, the

City is obligated to serve all who apply and are eligible under the City ordinance, and with the proposed changes it is likely that more City households will apply and qualify for this program. While the exact cost of the proposed ordinance changes are unknown, the estimated cost is \$200,000 per year. Nearly all of the increased costs will relate to increased income ceilings, with the increased asset and family member deductions having very little fiscal impact. However, because data is not available, staff cannot determine with certainty the number of additional residents who may apply in response to the increase in real estate tax bills and changes made in eligibility income limits.

It should be noted that at the time of the sale of the residence, any deferred amounts plus interest are repaid to the City from the sale proceeds. Of the 558 applicants who qualified for tax relief under the 2002 Tax Relief Program, 4% requested and obtained a partial or total deferral of real estate taxes. It is estimated that this percentage will remain the same regardless of changes made to the Tax Relief Program for 2003.

ATTACHMENTS:

Attachment I: Proposed Ordinance

STAFF:

Mark Jinks, Assistant City Manager
D. A. Neckel, Director of Finance
Debbie Kidd, Division Chief, Revenue
Cassandra Lewis, Revenue Collection Specialist III
Gary Rossi, Revenue Collection Specialist II

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2-11-03

Introduction and first reading:	2/11/03
Public hearing:	2/22/03
Second reading and enactment:	2/22/03

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 3-2-161 (DEFINITIONS), Section 3-2-163 (SAME--ELIGIBILITY, RESTRICTIONS GENERALLY), and Section 3-2-166 (SAME--CALCULATION OF AMOUNT; LIMITATION), all of Article L (REAL ESTATE TAX EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

Summary

The proposed ordinance adjusts the income and net worth limits for the exemption from, or deferral of, the city's real estate taxes for elderly or disabled taxpayers, by raising the existing limits.

Sponsor

Staff

Daniel A. Neckel, Director of Finance
Ignacio B. Pessoa, City Attorney

Authority

§ 58.1-3213, Code of Virginia

Estimated Costs of Implementation

None

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None

AN ORDINANCE to amend and reordain Section 3-2-161 (DEFINITIONS), Section 3-2-163 (SAME--ELIGIBILITY, RESTRICTIONS GENERALLY), and Section 3-2-166 (SAME--CALCULATION OF AMOUNT; LIMITATION), all of Article L (REAL ESTATE TAX EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 3-2-161 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-161 Definitions.

The following words and phrases shall, for the purposes of this article, have the following respective meanings, except where the context clearly indicates a different meaning:

- (1) Applicant. Any person who claims an exemption or deferral under section 3-2-165.
- (2) City council. The council of the City of Alexandria, Virginia.
- (3) Deferral. A deferral of the obligation to pay real estate taxes granted pursuant to the provisions of this article.
- (4) Dwelling. The building, or portion of a building, which is owned, at least in part, by an applicant, which is the sole residence of the applicant and which is a part of the real estate for which an exemption from or deferral of taxes is sought pursuant to this article.
- (5) Exemption. An exemption from the obligation to pay real estate taxes granted pursuant to the provisions of this article.
- (6) Net combined financial worth of applicant. The value of all assets of an applicant, of an applicant's spouse and of any other person who is an owner of and resides in the applicant's dwelling, calculated as of December 31 of the calendar year immediately preceding the taxable year; provided, that the value of the applicant's dwelling, of household furnishings in the dwelling and of up to one acre of the land on which the dwelling is situated shall be excluded.
- (7) Permanently and totally disabled persons. An applicant certified as provided by section 3-2-165(d) and found by the city manager to be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment or deformity which can be expected to result in death or can be expected to last for the duration of such applicant's life.

- (8) Relative. Any person related by blood or marriage to an applicant who uses the applicant's dwelling as his or her principal residence, other than a spouse.
- (9) Taxes on the average residential property. An amount equal to the product of (i) the real estate tax rate for the taxable year, as set forth in section 3-2-181, multiplied by (ii) the average assessment for the taxable year of properties reported by the city manager, pursuant to section 3-2-235, as single-family detached, single-family semi-detached, single-family-row, condominium garden, condominium high-rise, condominium townhouse, and residential cooperative.
- (10) Taxable year. The calendar year for which an exemption or deferral is claimed.
- (11) Spouse. The husband or wife of any applicant who resides in the applicant's dwelling.
- (12) Total combined income of applicant. The annual gross income from all sources, calculated as of December 31 of the calendar year immediately preceding the taxable year, of the applicant, of the applicant's spouse, of any relative of the applicant who resides in the dwelling, and of any other person who is an owner of and resides in the applicant's dwelling; provided, that up to ~~\$6,500~~ \$8,500 of the income of any such relative and up to \$7,500 of the income of any applicant, and any other owner residing in the dwelling, who is permanently disabled shall be excluded.

Section 2. That Section 3-2-163 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-163 Same--eligibility, restrictions generally.

Exemptions from or deferral of real estate taxation in any taxable year shall be granted subject to the following restrictions and conditions:

- (1) The total combined income for the calendar year immediately preceding the taxable year of an applicant for an exemption may not exceed \$35,000. Such income of an applicant for a deferral may not exceed \$62,000.
- (2) The net combined financial worth of an applicant may not exceed ~~\$195,000~~ \$240,000.
- (3) As of January 1 of the taxable year, the applicant must occupy the real estate for which the exemption or deferral is sought as his or her sole residence and must be expected to so occupy the real estate throughout the year; provided, that an applicant who is residing in a hospital, nursing home, convalescent home or other facility for physical or mental care shall be deemed to meet this condition so long as the real estate is not being used by or leased to another for consideration.
- (4) An applicant shall file the affidavit or written statement, or annual certification,

required by section 3-2-165 no later than April 10 of the taxable year.

- (5) Interest on any taxes deferred under this article shall accrue at the rate of five percent per annum from the date by which such taxes were required to be paid to the date on which such taxes are paid in full. Any and all deferred taxes shall constitute a single lien upon the applicant's real estate as if no deferral had been granted and the taxes had been assessed but not paid. To the extent it exceeds, in the aggregate, 10 percent of the price for which such real estate is sold or, if not sold, 10 percent of its assessed value, any such lien shall be inferior to all other liens.

Section 3. That Section 3-2-166 of The Code of the City of Alexandria, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-166 Same--calculation of amount; limitation.

- (a) The exemption from or deferral of real estate taxes granted under this article for any taxable year shall be calculated as follows:
 - (1) when the total combined income of the applicant does not exceed ~~\$12,800~~ \$20,000, the applicant shall be exempt from the taxes owed for the year;
 - (2) when the total combined income of the applicant exceeds ~~\$12,800~~ \$20,000 but does not exceed ~~\$25,600~~ \$30,000, the applicant shall be exempt from the taxes owed for the year, in an amount equal to the taxes on the average residential property, as defined in section 3-2-161(9) (but in no event greater than the taxes owed for the year), and may defer all or part of the amount of such taxes in excess of the amount exempted; and
 - (3) when the total combined income of the applicant exceeds ~~\$25,600~~ \$30,000 but does not exceed ~~\$30,000~~ \$35,000, the applicant shall be exempt from the taxes owed for the year, in an amount equal to 75 percent of the taxes on the average residential property, as defined in section 3-2-161(9) (but in no event greater than the taxes owed for the year), and may defer all or part of the amount of such taxes in excess of the amount exempted; and
 - (4) when the total combined income of the applicant exceeds ~~\$30,000~~ \$35,000 but does not exceed ~~\$35,000~~ \$40,000, the applicant shall be exempt from the taxes owed for the year, in an amount equal to 50 percent of the taxes on the average residential property, as defined in section 3-2-161(9) (but in no event greater than the taxes owed for the year), and may defer all or part of the amount of such taxes in excess of the amount exempted; and
 - (5) when the total combined income of the applicant exceeds ~~\$35,000~~ \$40,000 but does not exceed \$62,000, the applicant may defer all or part of the taxes owed for the year.

- (b) Notwithstanding the provisions of subsection (a) above, if the real estate identified in the affidavit or written statement filed under section 3-2-165 is not owned solely by the applicant and his or her spouse, the amount of the tax exemption or deferral shall be either the amount of the taxes on the real estate for the taxable year times the percentage ownership interest in the real estate held by the applicant, or by the applicant and his or her spouse, or an amount equal to taxes on the average residential property, as defined in section 3-2-161(9), whichever is less.

Section 4. That this ordinance shall become effective upon the date and at the time of its final passage, and shall apply to real estate tax levied and collected for calendar year 2003, and subsequent years.

KERRY J. DONLEY
Mayor

Introduction: 2/11/03
First Reading: 2/11/03
Publication:
Public Hearing:
Second Reading:
Final Passage:

14415

2-11-03

- CITY SEAL -

Public Hearing will be held by the City Council of the City of Alexandria, Virginia, in the Council Chamber, City Hall, City of Alexandria, Virginia, on Saturday, February 22, 2003, at 9:30 a.m., or as soon thereafter as may be heard on the hereinafter described ordinances.

TITLE OF ORDINANCE

AN ORDINANCE to amend Chapter 4 (COMMITTEES, BOARDS AND COMMISSIONS), of Title 2 (GENERAL GOVERNMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended, by adding thereto a new Article R (BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE). The proposed ordinance establishes the Budget and Fiscal Affairs Advisory Committee, previously established by Resolution No. 1464 in 1990, as a standing committee established by ordinance. In addition, the proposed ordinance changes current law to permit a member of the committee to serve as an officer or director of an organization which receives City funding, provided that the member does not participate in any way in committee business which relates to that organization. Presently, an officer or director of such an organization is prohibited from serving on the committee. The ordinance makes no other changes to the membership or functions of the committee

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THE PUBLIC IS ADVISED THAT AMENDMENTS OR ADDITIONS MAY BE MADE TO PROPOSED ORDINANCES WITHOUT FURTHER PUBLICATION. IT IS RECOMMENDED THAT PERSONS INTERESTED IN ANY OF THESE ORDINANCES OBTAIN FREE FULL-TEXT COPIES FROM THE CITY CLERK AT CITY HALL. BEVERLY I. JETT, CMC, CITY CLERK

To be published in the:

Northern Virginia Journal on Thursday, February 13, 2003
Alexandria Gazette Packet on Thursday, February 13, 2003