City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: 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 ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS

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 (Real Estate Tax Relief Program).

RECOMMENDATION: That City Council pass the proposed Ordinance (Attachment 1) on first reading, schedule it for public hearing and second reading on April 22, 2006, and final passage with the FY 2007 budget on April 24, 2006. The proposed Ordinance would accomplish the following:

A. Increase the income range to qualify for a partial exemption equal to 50% of the real estate taxes owed, for the year for which exemption is claimed, from the current range of $40,000 to $50,000 to a range of $40,000 to $55,000;

B. Increase the income range to qualify for a partial exemption equal to 25% of the real estate taxes owed, for the year for which exemption is claimed, from the current range of $50,001 to $62,000 to a range of $55,001 to $72,000;

C. Increase the asset eligibility limits for the Real Estate Tax Relief Program from $240,000 to $340,000, and

D. Increase the deferral income ceiling from $62,000 to $72,000.

DISCUSSION: In recent years the value of residential property has increased at a rate greater than the rate of inflation. As a result, many elderly and disabled who participate in the Real Estate Tax Relief Program, and who may be on fixed incomes, have seen their real estate tax bills increase. To address this trend, City Council took the following actions:

- 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 a variable amount, based on the average residential tax bill; (2) establish phased 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 Real Estate Tax Relief 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 8% to 5%.

- In April 2003, City Council enhanced the program by (1) increasing the maximum income limit to qualify for a full real estate tax exemption from $12,800 to $40,000; (2) changing the income limits to qualify for a partial exemption equal to 50% of the taxes owed for the year from the current $35,000 to $50,000; (3) establishing the income limit to qualify for a partial exemption equal to 25% of the taxes owed for the year at $62,000; (4) increasing the asset eligibility limit for the real estate tax relief program from $195,000 to $240,000; and (5) increasing the deduction allowed for a family member living in the household from $6,500 to $8,500.

- In May 2005, City Council enhanced the program by permitting persons who reach 65 years of age during the tax year be eligible for a prorated exemption and/or deferral of real estate taxes for the portion of the tax year such person is 65 years of age and increasing the deduction allowed for a family member living in the household from $8,500 to $10,000.

**COMPARISON WITH OTHER JURISDICTIONS:** Staff surveyed the Real Estate Tax Relief Programs from neighboring jurisdictions. Program designs vary. The following chart illustrates the basic limits on income for an applicant to qualify in each jurisdiction.

### Comparison of Real Estate Tax Relief Programs in Selected Jurisdictions

<table>
<thead>
<tr>
<th></th>
<th>Alexandria</th>
<th>Proposed</th>
<th>Arlington</th>
<th>Fairfax</th>
<th>Prince William</th>
<th>Loudoun</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Relief Benefit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exemption - Full</td>
<td>$0-$40,000</td>
<td>$0-$40,000</td>
<td>$0-$40,625</td>
<td>$0-$52,000</td>
<td>$0-$46,400</td>
<td>$0-$72,000</td>
</tr>
<tr>
<td>Exemption - Partial (%)</td>
<td>$40,000-$50,000 (50%)</td>
<td>$40,001-$55,000 (50%)</td>
<td>$40,626-$50,000 (50%)</td>
<td>$52,001-$62,000 (50%)</td>
<td>$46,401-$53,400 (75%)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>$30,001-$62,000 (25%)</td>
<td>$55,001-$72,000 (25%)</td>
<td>$50,001-$72,000 (25%)</td>
<td>$62,001-$72,000 (25%)</td>
<td>$53,401-$60,300 (50%)</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Deferral</strong></td>
<td>Up to $62,000</td>
<td>Up to $72,000</td>
<td>Up to $72,000</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Eligible Property</strong></td>
<td>Home &amp; lot up to 2 acres</td>
<td>Home &amp; lot up to 2 acres</td>
<td>Home &amp; lot up to 1 acre</td>
<td>Home &amp; lot up to 1 acre</td>
<td>Home and lot up to 1 acre</td>
<td>Home &amp; lot up to 3 acres</td>
</tr>
<tr>
<td><strong>Asset Limit</strong></td>
<td>$240,000</td>
<td>$340,000</td>
<td>$240,000/exemption</td>
<td>$340,000</td>
<td>$340,000</td>
<td>$340,000</td>
</tr>
</tbody>
</table>
For 2006, 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. However, the 2006 General Assembly passed HB121, which increases the State asset limits from $340,000 to $540,000. This State-permitted increase in asset limits to $540,000 will not take effect until 2007, and the City can consider that asset limit increase as part of the FY 2008 budget process.

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

<table>
<thead>
<tr>
<th>2005 Tax Relief Program</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Full Exemption</td>
</tr>
<tr>
<td>50% of Average Residential Property Tax Exemption</td>
</tr>
<tr>
<td>25% of Average Residential Property Tax Exemption</td>
</tr>
<tr>
<td>Deferral Only</td>
</tr>
<tr>
<td>Grand Total</td>
</tr>
</tbody>
</table>

**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. 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 an additional $400,000 per year, bringing the program’s total cost to $3.2 million per year. However, because reliable data is not available, staff cannot determine with certainty the number of additional residents that may apply in response to the increase in real estate tax bills and proposed changes.

**ATTACHMENT:** Proposed Ordinance

**STAFF:**
Mark Jinks, Deputy City Manager
D. A. Neckel, Director of Finance
INTRODUCTION AND FIRST READING: 4/11/06
PUBLIC HEARING: 4/22/06
SECOND READING AND ENACTMENT: 4/24/06

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reorganize Section 3-2-163 (EXEMPTION OR DEFERRAL – ELIGIBILITY, RESTRICTIONS GENERALLY) and Section 3-2-166 (SAME – CALCULATION OF AMOUNT, LIMITATIONS), of Division 1 (REAL ESTATE TAX EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS), Article L (REAL ESTATE TAX RELIEF), 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 increases the income and asset limits for the exemption and deferral of real estate taxes under the City’s Real Estate Tax Relief Program for Elderly or Disabled Persons as follows:

- Modify the income range to qualify for a partial exemption equal to 50% of the real estate taxes owed, and deferral of the balance, from the current range of $40,000 to $50,000 to a range of $40,000 to $55,000;

- Modify the income range to qualify for a partial exemption equal to 25% of the real estate taxes owed, and deferral of the balance, from the current range of $50,000 to $62,000 to a range of $55,000 to $72,000; and

- Increase the “net combined financial worth” limit for program participants from $240,000 to $340,000. This limit excludes the value of the participant’s dwelling, household furnishings, and up to two acres of the land on which the dwelling is located.

Sponsor

Staff

Mark Jinks, Assistant City Manager
Daniel A. Neckel, Director of Finance
Roderick B. Williams, Assistant City Attorney
Authority

Virginia Code § 58.1-3211

Estimated Costs of Implementation

See memorandum from the City Manager.

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

None
ORDINANCE NO. ______

AN ORDINANCE to amend and reordain Section 3-2-163 (EXEMPTION OR DEFERRAL – ELIGIBILITY, RESTRICTIONS GENERALLY) and Section 3-2-166 (SAME – CALCULATION OF AMOUNT, LIMITATIONS), of Division 1 (REAL ESTATE TAX EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS), Article I (REAL ESTATE TAX RELIEF), 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 Sections 3-2-163 and 3-2-166 of the Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby are, 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 may not exceed the limits established by section 3-2-166.

(2) The net combined financial worth of an applicant may not exceed $240,000.

$340,000.

(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 15 of the taxable year.

(5) Interest on any taxes deferred under this article division 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.
Sec. 3-2-166 Same--calculation of amount; limitation.

(a) The exemption from or deferral of real estate taxes granted under this division for any taxable year shall be limited and calculated as follows:

(1) when the total combined income of the applicant does not exceed $40,000, the applicant shall be exempt from the taxes owed for the year;

(2) when the total combined income of the applicant exceeds $40,000 but does not exceed $50,000 $55,000, the applicant shall be exempt from 50 percent of 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 $50,000 $55,000 but does not exceed $62,000 $72,000, the applicant shall be exempt from 25 percent of the taxes owed for the year, and may defer all or part of the amount of such taxes in excess of the amount exempted

(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 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.

(c) Notwithstanding the provisions of subsection (a) above, if an applicant becomes eligible for exemption or deferral of real estate taxes owed during the course of the taxable year, the amount of the exemption or deferral computed under subsection (a) shall be reduced by one-twelfth of such amount for each full calendar month of the taxable year during which month such applicant is not eligible for exemption or deferral.

Section 2. That this ordinance shall become effective January 1, 2006, nunc pro tunc.

WILLIAM D. EUILLE
Mayor

Introduction: 4/11/06
First Reading: 4/11/06
Publication:
Public Hearing:
Second Reading:
Final Passage:

C:\Documents and Settings\headers\Local Settings\Temp\notes\C9812B\Elderly Tax Relief Ord.wpd
PROPOSED AMENDMENT:

ELDERLY AND DISABLED TAX RELIEF ORDINANCE

Page 6, line 26:

Insert after the number $340,000:

for taxable year 2006, and $540,000 for taxable year 2007 and thereafter
City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 24, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: 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 ELDERLY OR PERMANENTLY AND TOTALLY DISABLED PERSONS (REVISED)

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 (Real Estate Tax Relief Program).

RECOMMENDATION: That City Council pass the proposed Ordinance (Attachment 1) on first reading, schedule it for public hearing and second reading on April 22, 2006, and final passage with the FY 2007 budget on April 24, 2006. The proposed Ordinance would accomplish the following:

A. Increase the income range to qualify for a partial exemption equal to 50% of the real estate taxes owed, for the year for which exemption is claimed, from the current range of $40,000 to $50,000 to a range of $40,000 to $55,000;

B. Increase the income range to qualify for a partial exemption equal to 25% of the real estate taxes owed, for the year for which exemption is claimed, from the current range of $50,001 to $62,000 to a range of $55,001 to $72,000;

C. Increase the asset eligibility limits for the Real Estate Tax Relief Program from $240,000 to $340,000 for taxable year 2006 and $540,000 for taxable year 2007 and thereafter; and

D. Increase the deferral income ceiling from $62,000 to $72,000.

DISCUSSION: In recent years the value of residential property has increased at a rate greater than the rate of inflation. As a result, many elderly and disabled who participate in the Real Estate Tax Relief Program, and who may be on fixed incomes, have seen their real estate tax bills increase. To address this trend, City Council took the following actions:

• 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 a variable amount, based on the average residential tax bill; (2) establish phased 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 Real Estate Tax Relief 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 8% to 5%.

- In April 2003, City Council enhanced the program by (1) increasing the maximum income limit to qualify for a full real estate tax exemption from $12,800 to $40,000; (2) changing the income limits to qualify for a partial exemption equal to 50% of the taxes owed for the year from the current $35,000 to $50,000; (3) establishing the income limit to qualify for a partial exemption equal to 25% of the taxes owed for the year at $62,000; (4) increasing the asset eligibility limit for the real estate tax relief program from $195,000 to $240,000; and (5) increasing the deduction allowed for a family member living in the household from $6,500 to $8,500.

- In May 2005, City Council enhanced the program by permitting persons who reach 65 years of age during the tax year be eligible for a prorated exemption and/or deferral of real estate taxes for the portion of the tax year such person is 65 years of age and increasing the deduction allowed for a family member living in the household from $8,500 to $10,000.

**COMPARISON WITH OTHER JURISDICTIONS:** Staff surveyed the Real Estate Tax Relief Programs from neighboring jurisdictions. Program designs vary. The following chart illustrates the basic limits on income for an applicant to qualify in each jurisdiction.

### Comparison of Real Estate Tax Relief Programs in Selected Jurisdictions

<table>
<thead>
<tr>
<th></th>
<th>Alexandria</th>
<th>Proposed (revised)</th>
<th>Arlington</th>
<th>Fairfax</th>
<th>Prince William</th>
<th>Loudoun</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Relief Benefit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exemption - Full</td>
<td>$0-$40,000</td>
<td>$0-$40,000</td>
<td>$0-$40,625</td>
<td>$0-$52,000</td>
<td>$0-$46,400</td>
<td>$0-$72,000</td>
</tr>
<tr>
<td>Exemption - Partial (%)</td>
<td>$40,000-50,000 (50%)</td>
<td>$40,001-55,000 (50%)</td>
<td>$40,626-50,000 (50%)</td>
<td>$52,001-62,000 (50%)</td>
<td>$46,401-53,400 (75%)</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>$50,001-62,000 (25%)</td>
<td>$55,001-72,000 (25%)</td>
<td>$50,001-72,000 (25%)</td>
<td>$62,001-72,000 (25%)</td>
<td>$53,401-60,300 (50%)</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Deferral</strong></td>
<td>Up to $62,000</td>
<td>Up to $72,000</td>
<td>Up to $72,000</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Eligible Property</strong></td>
<td>Home &amp; lot up to 2 acres</td>
<td>Home &amp; lot up to 2 acres</td>
<td>Home &amp; lot up to 1 acre</td>
<td>Home &amp; lot up to 1 acre</td>
<td>Home and lot up to 1 acre</td>
<td>Home &amp; lot up to 3 acres</td>
</tr>
<tr>
<td><strong>Asset Limit</strong></td>
<td>$240,000</td>
<td>$340,000 (2006)</td>
<td>$240,000/deferral</td>
<td>$340,000</td>
<td>$340,000</td>
<td>$340,000</td>
</tr>
</tbody>
</table>
For 2006, 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. However, the 2006 General Assembly passed HB121, which increases the State asset limits from $340,000 to $540,000.

The following chart illustrates the distribution of exemptions granted to applicants for the 2005 Real Estate Tax Relief Program:

<table>
<thead>
<tr>
<th>Exemption Type</th>
<th>Income Range</th>
<th>Applicants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Exemption</td>
<td>$0 - $40,000</td>
<td>769</td>
</tr>
<tr>
<td>50% of Average Residential Property Tax Exemption</td>
<td>$40,001 - $50,000</td>
<td>118</td>
</tr>
<tr>
<td>25% of Average Residential Property Tax Exemption</td>
<td>$50,001 - $62,000</td>
<td>79</td>
</tr>
<tr>
<td>Deferral Only</td>
<td>Up to $62,000</td>
<td>0</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td>966</td>
</tr>
</tbody>
</table>

**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. 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 an additional $575,000 per year, bringing the program’s total cost to $3,375,000 for FY 2007 (including $175,000 for changing the assets ceiling to $540,000 as of January 1, 2007). However, because reliable data is not available, staff cannot determine with certainty the number of additional residents that may apply in response to the increase in real estate tax bills and proposed changes.

**ATTACHMENT:** Proposed Ordinance

**STAFF:**
Mark Jinks, Deputy City Manager
D. A. Neckel, Director of Finance