

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 25, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: BUDGET MEMO #46 : REVIEW OF OTHER JURISDICTIONS' EXPERIENCE WITH A REAL ESTATE TAX DEFERRAL PROGRAM FOR THE GENERAL POPULATION (COUNCILMAN SPECK'S REQUEST)

In follow up to your request that staff see if other Virginia jurisdictions had considered the real estate tax deferral program for the general population (as differentiated from tax relief for the elderly and the permanently and totally disabled), staff made numerous phone calls, sent e-mails across the state, as well as brought the matter up at Thursday's Northern Virginia Tax Administrators meeting. While the information received confirmed the prior staff survey that no jurisdiction had a tax deferral program in place for the general population, what was learned at the Tax Administrators meeting was that Loudoun County had this deferral program in place in the early- to mid-1990s and eliminated the program because the program was administratively complex, cumbersome and required staff time in disproportion to the benefit received by the taxpayer. Loudoun County is not considering re-instituting this program. Fairfax County staff indicated that title companies and tax service companies complained that real estate deferral programs cause delays in real estate tax settlements in those cases where there were tax deferrals. It was the consensus of the Northern Virginia Tax Administrators group that this type of deferral program for the general population was very complex to administer. The Arlington County Treasurer stated, "The potential benefits of such a program can in no way outweigh the problem it creates."

This year with real estate assessments rising, a number of jurisdictions have considered this program, but none to date have adopted it. Henrico County considered this deferral program and decided against it for a number of reasons. Henrico staff stated, "The administrative procedures for tracking the properties and recovering the relevant taxes upon either the death of the owner or transfer of the property itself would be both cumbersome and time consuming and could not be accomplished with existing staffing levels or existing computer systems."

Prince William has just repealed its tax deferral program for the elderly and permanently and totally disabled as an expanded tax exemption program was approved. Albemarle County does not offer any type of real estate tax deferral program. Arlington County briefly considered a general deferral program and did not pursue it further. Falls Church and Fairfax City are waiting to see what Alexandria does with the general deferral program proposal. No other Virginia locality currently has a general real estate tax deferral program.

As City staff has looked at the details of how this program would be implemented, and has mapped out the processes involved, we remain convinced that a general real estate tax deferral program, apart from its merits, would be administratively cumbersome and require significant staff time to administer. At a minimum, administration of a deferral program would include: preparation of program materials; distribution of applications; assistance to individual taxpayers in understanding program and completing application; obtaining from taxpayers prior year tax returns and other application-required materials; verification of taxpayer-given information; determination of eligibility; determination of deferral amount; preparation of tax bills (manual until system can be changed) showing amount of pre-deferral tax, deferral and net due tax; sending of tax bills to taxpayers or mortgage company; communications with mortgage companies; and discussions with lawyers and title companies relating to settlement of properties with deferred taxes.

Also, any general deferral program approved for 2003 will come at a time when the City's real estate tax relief program for the elderly and permanently and totally disabled is being substantially expanded. This will increase the burden on existing staff in the Finance Department and, without additional staffing, will force a reallocation of staff time away from other responsibilities, such as delinquent tax collection.