

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 20, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: BUDGET MEMO #66 : AFFORDABLE HOME OWNERSHIP PRESERVATION (AHOP) GRANT PROGRAM

This memorandum responds to Mayor Euille's and Councilwoman Woodson's request for information regarding the Affordable Home Ownership Preservation (AHOP) grant program. More specifically, Mayor Euille asked:

- Is the \$500,000 set aside in the non-departmental budget sufficient to fund the anticipated 2,400 program participants?

Councilwoman Woodson asked:

- What are the effects of adjusting the income threshold for eligible homeowners?

Summary

- Yes, the \$500,000 is sufficient to fund the estimated 2,400 eligible program participants if 67 percent of the estimated 2,400 eligible homeowners apply.
- If the household income eligibility threshold were increased to \$61,000 from \$43,500, the costs of the program would increase to about \$745,000 if the same 67 percent participation rate is assumed, and to about \$1,020,000 if the household income were increased to \$76,000.
- Because the income and ownership database upon which tax grant costs are calculated is not current, and participation rates are speculative, program cost projections are speculative. There is a risk of greater or smaller costs.

Background

The FY 2005 Operating Budget includes \$500,000 for the cost of awarding grants to low income homeowners to provide real estate tax relief. The program, as presented in the Proposed Budget, has an income eligibility threshold of \$43,500 and a residential property value limit of \$362,000. By

placing a limit on the assessed value of the housing unit, we can increase the size of the housing unit grant. This enables the City to provide much more tax relief to those who may indeed have great difficulties affording the full increase in real estate taxes.

Administrative costs must be considered when implementing any tax relief program. The administrative costs of such a grant program would be driven by 2 factors: the number of mailings and other communications needed to inform homeowners of their potential eligibility, and the need for one additional staff person in the Finance Department to handle the administrative responsibilities associated with the program. Approximate administrative costs are \$100,000 or less, depending on the necessary communications costs.

Based on information from other real estate tax relief programs in other jurisdictions, we do not think that 100 percent of those who qualify would apply for these grants. However, there is no precedent for this type of proposed program in Virginia or in our region, so participation rates could vary dramatically from our estimates. For this reason, assumptions on different possible participation rates are included on the next page.

Analysis of Data

There are 36,311 residential units in Alexandria as of the last assessment cycle. The average assessed value of a residence in CY 2004 is \$361,040. Census data from 2000 indicates the following percentages of households fall in the following mix of income levels and home values.

Percent of All Households in Certain Income and Home Value Brackets (as self-reported in 2000 Census)¹

Household Income	Value of House as Reported in 2000 Census					All Housing Units
	Less than \$185 K	Between \$185 - \$365 K	Between \$365 - \$550 K	Between \$550 - \$920 K	Over \$920 K	
Below \$12 K	0.5%	0.7%	0.5%	0.1%	0.1%	1.8%
\$12 K to \$25 K	0.4%	1.4%	0.6%	0.3%	0.0%	2.7%
\$25 K to \$43 K	0.6%	3.0%	1.2%	0.6%	0.1%	5.6%
\$43 K to \$61 K	0.5%	3.4%	2.0%	1.0%	0.2%	7.2%
\$61 K to \$76 K	0.2%	4.3%	2.3%	1.3%	0.3%	8.4%
\$76 K to \$92 K	0.2%	4.3%	2.3%	1.3%	0.3%	8.4%
\$92 K to \$107 K	0.2%	2.8%	3.1%	1.8%	0.2%	8.1%
\$107 K to \$123 K	0.2%	2.8%	3.1%	1.8%	0.2%	8.1%
Over \$123 K	0.3%	6.5%	15.1%	19.5%	8.3%	49.8%
Total Below \$123 K	3.2%	29.1%	30.1%	27.8%	9.7%	100.0%

¹This analysis assumes that because per capita income has increased an average of 4.2 percent since 1999 (the year for which income was reported in the 2000 Census), the household income levels reported in the Census date were adjusted upward 23 percent. Because home values in Alexandria have increased in assessed value by 83 percent since 2000, housing values reported in the 2000 Census were adjusted up by 83%.

Reading from this chart, a targeted program that sets an income eligibility threshold of \$43 thousand and a housing value of \$365 thousand would include 6.6 percent of the residential housing units or approximately 2,400 households (assuming 100% occupancy). The following table shows the subsidy costs (exclusive of the administrative costs discussed above) of grants of \$250 at four different participation rates and eight different household income levels. With a \$500,000 budget, estimated subsidy costs must be held around \$400,000 to allow for up to \$100,000 in administrative costs.

Possible Grant Costs Given Different Household Income Thresholds
(\$ in thousands)

Grant Amount = \$250		\$362 K Housing Value Limit					
		Participation Rate		25%	50%	67%	75%
Household Income Eligibility Ceiling	% of Total Households	Approximate # of qualifying households					
Less than \$25 K	2.9%	1,054	\$66	\$132	\$177	\$198	\$264
Less than \$43.5 K	6.6%	2,397	\$150	\$300	***\$401	\$450	\$600
Less than \$61 K	10.6%	3,849	\$241	\$482	\$645	\$722	\$963
Less than \$76 K	15.1%	5,483	\$343	\$686	\$919	\$1,029	\$1,371
Less than \$92 K	19.6%	7,117	\$445	\$900	\$1,193	\$1,335	\$1,780
Less than \$107 K	22.5%	8,170	\$511	\$1,022	\$1,369	\$1,532	\$2,043
Less than \$123 K	25.5%	9,260	\$579	\$1,158	\$1,551	\$1,737	\$2,315
Over \$123 K	32.4%	11,765	\$736	\$1,471	\$1,971	\$2,206	\$2,942

***Represents the program recommended in the FY 2005 Proposed Budget.

The recommended option is shown in bold. A participation rate of 67 percent would result in grants of \$401,000, and a total program cost of \$500,000 or slightly less (the proposed budgeted amount).

If the income eligibility ceiling levels were raised from \$43,500 to \$61,000 and the same housing value limit kept of \$362,000, the cost of the program would increase approximately \$245,000 to \$745,000 if a 67 percent participation rate is assumed. If the income level were increased to \$76,000, the likely costs of the program would increase approximately \$520,000 to \$1,020,000, if a 67 percent participation rate is assumed.