EXHIBIT NO. 1

12
5-12-04

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 6, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: AN ORDINANCE TO AMEND THE PROVISIONS OF TITLE 3, CHAPTER 2 OF THE CITY CODE, RELATING TO AN AFFORDABLE HOMEOWNERSHIP PRESERVATION GRANT PROGRAM (AHOP)

ISSUE: Consideration of the adoption of an ordinance to amend the provisions of Title 3, Chapter 2 of the City Code, relating to the establishment of an Affordable Homeownership Preservation (AHOP) Grant Program.

RECOMMENDATION: That City Council pass the proposed Ordinance (Attachment 2) on first reading May 12, schedule it for public hearing, second reading and final passage on Saturday, May 15. The proposed ordinance would provide a grant of $250 to the owner or owners of any single family home under the following conditions:

- The total annual income of the resident homeowner or homeowners (and any income of an owner's relatives, including any spouse, who reside in the home, but are not owners) shall not exceed $61,000 for the calendar year prior to the date of filing the application.

- The total assets of the resident homeowner or homeowners (and resident, non-owner relatives, including any spouse), excluding the value of the house and property, vehicles, and assets in qualified retirement plans shall not exceed $50,000.

- The property for which the tax grant is requested must be assessed by the City, for taxation purposes, at $362,000 or less.

- The resident applicant or spouse homeowner or homeowners must own all or at least 50 percent of the property.

- The resident homeowner or homeowners must occupy the property, as his or her sole residence as of January 1, 2004, and from January 1 through at least November 15, 2004.

- Eligible homeowners may receive benefits from the AHOP Program or the Tax Relief for the Elderly or Disabled Program, but not both.

DISCUSSION: In recent years, the value of residential property has increased at a rate much greater than the rate of inflation, causing the amount of real estate taxes on the average home to substantially increase, despite recent reductions in the real estate tax rate. As a result, many lower income homeowners are experiencing difficulty in maintaining affordable homeownership. As a result, last year Councilwoman Woodson requested that staff work on developing a new tax relief program to assist lower income households, and bring forward a new program in conjunction with the FY 2005 budget process. During the FY 2005 budget process, Council approved the tax grant program described in this memorandum in concept, as well as included $745,000 in the FY 2005 Approved Budget. Budget Memorandum #66 (Attachment 1) outlines the program options considered by Council in more detail. Since this is the first time the City has undertaken such a program, and given the fact that this program is unique in Virginia, with no other jurisdictions having experience, it is being considered a "pilot" program. As a result, it will be evaluated with any recommendations related to changing the program coming forward prior to, or as part of, the FY 2006 City budget process.

The proposed ordinance establishes a pilot program designed to provide targeted real estate tax relief to certain homeowners to help keep homeownership affordable. The AHOP grant program, as designed, has an income eligibility threshold of $61,000 (which approximates 70% of the HUD median family income for the Washington, DC area) and a residential property value limit of $362,000 (which is just above the value of an average single family residence in Alexandria) to enable the City to provide tax relief to those who may indeed have greater difficulties affording the full increase in real estate taxes.

The AHOP program will be administered by the Finance Department, which also administers the Real Estate Tax Relief for the Elderly and Disabled Program. After the proposed ordinance is approved, information describing the program will be provided to the public through various means similar to those used to advertise the Real Estate Tax Relief for the Elderly and Disabled Program. In addition, a flyer describing the AHOP program will be mailed to all homeowners of property valued at $362,000 or less. Applications for the grant will also be mailed to homeowners who have called the Finance Department to inquire about the program since it was announced in the FY 2005 Proposed Budget.

The Finance Department will accept applications for the grant to be applied to 2004 real estate taxes until September 1, 2004. In order to allow sufficient time for filing and application processing, the grant will be credited on the real estate tax bills due November 15, 2004 as a tax prepayment. Therefore, it will not matter if the taxes are paid directly by the homeowner, by an escrow agent, or by a mortgage holder, as tax bills sent out will already reflect the $250 tax prepayment credit. The tax bill due June 15, 2004 will need to be paid in full even if the taxpayer meets the qualifications and has filed an application prior to June 15, 2004.

As staff worked out the details of this program, the following program features (in addition to the income and household parameters) were structured for City Council consideration:

(1) For the first year, the $250 tax bill prepayment credit would apply to the November tax bill only. In future years, consideration will be given to dividing this credit evenly between the June and November tax bills.

(2) An asset limit (excluding house value, vehicles, and assets in qualified retirement programs) of $50,000 is proposed.

(3) An applicant must live in the home being taxed on January 1, 2004, and from January 1 at least through November 15, 2004.

(4) The AHOP application form and review process will be designed so as not to be complicated in order to make it easy for someone to apply, as well as efficient for the Finance Department to process.

FISCAL IMPACT: Staff estimates that the cost of the program will be approximately $745,000. This is based on the fact that there are 36,311 residential units in Alexandria as of the last assessment cycle. The average assessed value of a residence in Calendar Year (CY) 2004 is $361,040. Census data from 2000 indicates that 10.6 percent of residential units, or approximately 3,850 households, may meet the program requirements. Staff anticipates that 67 percent of the eligible households will participate in the program. The administrative costs of the program are estimated to be $100,000, which includes the cost of a mailing campaign and the equivalent of one additional position in the Finance Department.

As a word of caution, the proposed program is an entitlement program and, if adopted, the City cannot refuse a grant to a taxpayer who meets the qualifications. There is a significant uncertainty as to the amount of this entitlement which will be utilized. As a result, the program may cost more than the $745,000 budgeted. Staff has made an educated guess as to the percentage of taxpayers who would be eligible and who may elect to participate in the program, but with no other Virginia jurisdiction having this type of program, there is no track record to guide estimating participation or costing of such a program.

ATTACHMENTS:
Attachment 1: Budget Memo #66
Attachment 2: Proposed Ordinance

STAFF:
Mark Jinks, Assistant City Manager
D. A. Neckel, Director of Finance
Bruce Johnson, Director, OMB

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 20, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

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]

	Value of House as Reported in 2000 Census					
Household Income	Less than $185 K	Between $185 - $365 K	Between $365 - $550 K	Between $550 - $920 K	Over $920 K	All Housing Units
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%**

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[1]This 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%**	**100%**
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
ss 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.

Introduction and first reading:	5/12/04
Public hearing:	5/15/04
Second reading and enactment:	5/15/04

INFORMATION ON PROPOSED SUBSTITUTE ORDINANCE

Title

AN ORDINANCE to amend and reordain Article L (REAL ESTATE TAX RELIEF), of Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended, by adding thereto a new Division 2 (AFFORDABLE HOMEOWNERSHIP PRESERVATION PROGRAM).

Summary

The proposed ordinance establishes a new residential real estate tax relief program for owner/occupants with limited incomes, but who are not elderly or disabled. Under this program, a taxpayer with a household income up to $61,200, a home assessed at no more than $362,000, and assets no greater than $50,000 (excluding the house, its furnishings, qualified retirement plans and personal-use automobiles), is eligible for a $250 grant, which will be applied by the City towards the taxpayer's real estate tax liability. The terms and conditions of this program are subject to amendment by the City Council during the process for adopting this ordinance.

Sponsor

Staff

Mark Jinks, Assistant City Manager
Daniel A. Neckel, Director of Finance
Bruce Johnson, Director of Finance
Ignacio B. Pessoa, City Attorney

Authority

§§ 2.01, 2.04.2, Alexandria City Charter

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 Article L (REAL ESTATE TAX RELIEF), of Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended, by adding thereto a new Division 2 (AFFORDABLE HOMEOWNERSHIP PRESERVATION PROGRAM).

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Article L, Chapter 2, Title 3 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained by adding thereto a new Division 2 to read as follows:

[The following is all new language.]

Division 2
Affordable Homeownership Preservation Program

Sec. 3-2-171 Definitions.

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

(1) Applicant. Any natural person who applies for a grant under section 3-2-173.

(2) 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 a grant is sought pursuant to this division.

(3) Grant. A grant in aid of payment of taxes owed for the year as provided under section 3-2-175.

(4) Net combined financial worth of applicant. The value of all assets 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., 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, of up to one acre of the land on which the dwelling is situated, of qualified retirement plans of any person whose assets are included hereunder, and of motor vehicles for the personal use of any such person, shall be excluded.

(5) Spouse. The husband or wife of any applicant who resides in the applicant's dwelling.

(6) Taxes owed for the year. The amount of real estate taxes levied on the dwelling of the

applicant for the taxable year.

(7) Taxable year. The current calendar tax year for which a grant is applied.

(8) Household income of applicant. The adjusted gross income, as shown on the federal income tax return 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. The city manager shall promulgate regulations for the determination of the income of such persons for whom no federal income tax return is required to be filed.

Sec. 3-2-172 Grant– provided.

There is hereby provided to any natural person, at such person's election, a grant for affordable homeownership preservation in aid of payment of the taxes owed for the taxable year on real property in the city which is owned, in whole or in part, and is occupied by such person as his or her sole dwelling. The grant provided for in this section shall be subject to the restrictions, limitations and conditions prescribed by this division.

Sec. 3-2-173 Same– eligibility, restrictions generally.

A grant under this division in any taxable year shall be subject to the following restrictions and conditions:

(1) The household income of the applicant shall not exceed $61,000.

(2) The assessed value of the real estate owned by the applicant shall not exceed $362,000.

(3) The net combined financial worth of an applicant shall not exceed $50,000.

(4) The applicant and/or the applicant's spouse shall own at least 50 percent interest in the real estate.

(5) As of January 1 of the taxable year, the applicant must occupy the real estate for which the grant 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.

(6) An applicant shall file the affidavit or written statement required by section 3-2-175 no later than September 1 of the taxable year.

(7) An applicant for a grant provided under this division shall not participate in the real estate tax exemption or deferral program for the elderly or permanently and totally disabled provided under division 1 of this article, and no grant shall be applied to real estate taxes on property subject to such exemption or deferral program.

(8) An applicant for a grant provided under this division shall not be delinquent on any portion of the real estate taxes to which the grant is to be applied.

Sec. 3-2-174 Same--administration by city manager.

The grant program provided under this division shall be administered by the city manager according to the provisions of this division. The city manager is hereby authorized and empowered to prescribe, adopt, promulgate and enforce such rules and regulations in conformance with the provisions of this division, including the requirement of answers under oath, as may be reasonably necessary to determine eligibility for a grant. The city manager may require the production of tax returns to establish household income and the status of any person claimed as a dependent.

Sec. 3-2-175 Same--procedure for application.

(a) Commencing with taxable year 2004, and not later than September 1 of the taxable year, any applicant for a grant under this division shall file with the city manager, in such manner as the manager shall prescribe and on forms to be supplied by the city, an affidavit or written statement providing the following:

(1) the name of the applicant;

(2) the address of the real estate for which the grant is to be applied against the tax liability;

(3) the names of all persons who reside in the applicant's dwelling;

(4) the household income of the applicant as defined in section 3-2-171(9);

(5) the net combined financial worth of the applicant as defined in section 3-2-171(5);

(6) such additional information as the city manager reasonably determines to be necessary to determine eligibility for a grant pursuant to this division.

(b) If, after audit and investigation, the city manager determines that the applicant is eligible for a grant, the manager shall so certify to the director, who shall implement the grant as a prepayment on the applicant's real estate tax bill due on November 15 of the taxable year.

(c) Any provision of this division to the contrary notwithstanding, the director may declare eligible to apply for a grant any person filing the affidavit or written statement required by subsection (a), after September 1 but before November 15 of the taxable year, provided good cause is shown for the failure to file the affidavit or statement on or before September 1 of the taxable year.

Sec. 3-2-176 Same--amount; limitation.

The amount of each grant under this division shall be $250.00.

Sec. 3-2-177 Change in status.

Changes in household income, ownership of property, or other factors occurring after the application deadline but before the end of the taxable year for which an affidavit has been filed shall not affect a grant which has been certified pursuant to section 3-2-175(b).

Sec. 3-2-178 Penalty for violation of division.

Any person wilfully making a false statement in applying for a grant under this division shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not less than $25 nor more than $500 for each offense.

Sec. 3-2-179 Sunset date.

No grant pursuant to section 3-2-172 shall be permitted in any taxable year which commences after December 31, 2004.

Section 2. That this ordinance shall become effective January 1, 2004, *nunc pro tunc*.

WILLIAM D. EUILLE
Mayor

Introduction: 5/12/04
First Reading: 5/12/04
Publication:
Public Hearing:
Second Reading:
Final Passage: