City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 21, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 134 : RESTRUCTURED REAL ESTATE TAX RELIEF

In response to the restructured real estate tax relief proposal (Attachment I) brought forward for Council consideration by Councilwoman Woodson, the following information is provided:

The proposal that has been offered by Councilwoman Woodson would keep the real estate tax rate at 91.5 cents, but would target real estate tax relief to about 22,000 households whose assessed value was $500,000 or less. The aim of this proposal is to make real estate tax relief more progressive in its application and not solely related to the value of a residential property (which is what an across-the-board rate reduction would do).

There are legal limitations on the City's ability to enact such a program. Article X, Section 1, of the State Constitution establishes a property tax uniformity principle which restricts a locality's flexibility when it comes to real estate tax relief. In general, absent some other Constitutional, statutory, or City Charter flexibility, the City is required to levy real estate taxes uniformly based on the assessed value of each property. Localities in Virginia do not have the ability to tax real property at different rates (or give differential credits) based on the assessed value of real property. This means (again absent legal authority to enact exceptions which are described below) that the attached proposal cannot be enacted by the City (or any other locality in Virginia). However, the City does have the authority to create (and to expand) income-based real estate tax relief programs.

<u>Senior and Disabled Real Estate Tax Relief</u>: Because of a Constitutional amendment which allowed the General Assembly to enact specific statutes, localities in Virginia are permitted to enact real estate tax relief (exemption or deferral) programs for seniors (aged 65 and over) and for the permanently and totally disabled whose incomes are $72,000 or less per year and whose assets do not exceed $340,000 (in 2006) or $540,000 (starting in 2007). Council has specific expansions to the real estate tax relief program for income eligible senior citizens and the disabled funded and under consideration for adoption on April 24. For FY 2007, it is estimated that the City will provide $3.4 million in real estate tax relief to 1,166 seniors and disabled homeowners. The current (2005) and proposed (2006) tax relief program for seniors and the disabled (along with an inter-jurisdictional comparison) are included in Attachment II.

Affordable Home Ownership Program (AHOP): In 2004, Alexandria became the first locality in the State to offer real estate tax relief for moderate and low income homeowners. The AHOP program provides grants as credits on income eligible homeowner's real estate tax bills. The authority for this AHOP program rests in the City Charter which states the City has the authority to:

> "To make grants of funds to owners of dwellings or dwelling units in the city for the purpose of subsidizing, in part, the rental payments due and owing to any such owner by a low or moderate income person; to acquire, by purchase, exchange, gift, lease, condemnation or otherwise, any dwellings or dwelling units in the city for the purpose of providing housing to low or moderate income persons, and to dispose of such dwellings or dwelling units, by sale or lease, to low or moderate income persons or to a nonprofit organization which has as its principal purpose the provision or development of housing for low or moderate income persons; and to make grants and loans of funds to low and moderate income persons to aid in the purchase of dwellings or dwelling units in the city."

The underlined part at the end of the above text (emphasis added) is the legal foundation for the AHOP Program. City Charter Section 2.04.2 further provides:

> "For purposes of this section, the phrase "low or moderate income persons" has the same meaning as the phrase "persons and families of low and moderate income," in § 36-55.26 of the Code of Virginia, and shall be applied in the city using the income guidelines issued by the Virginia Housing Development Authority for use in its single family mortgage loan program authorized by § 36-55.33:1."

Section 36-55.26 of the Code of Virginia provides:

> "Persons and families of low and moderate income" means persons and families, irrespective of race, creed, national origin or sex, determined by the HDA[1] to require such assistance as is made available by this chapter on account of insufficient personal or family income taking into consideration, without limitation, such factors as follows: (i) the amount of the total income of such persons and families available for housing needs, (ii) the size of the family, (iii) the cost and condition of housing facilities available, (iv) the ability of such persons and families to compete successfully in the normal private housing market and to pay the amounts at which private enterprise is providing sanitary, decent and safe housing, and (v) if appropriate, standards established for various federal programs determining eligibility based on income of such persons and families."

With the above criteria, the City created the AHOP program and set up a sliding grant scale based on income. Initially, the income eligibility ceiling for this program was set at $62,000.

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[1]HDA refers to the Virginia Housing Development Authority.

For 2006 (FY 2007) real estate tax payments that income ceiling is proposed to be raised to $72,000. It is expected that the AHOP program will serve 1,400 homeowners and provide $0.9 million in real estate tax relief grants in 2006. The current (2005) and proposed (2006) AHOP program criteria and costs are included in Attachment II. Budget Memo #124 provided some AHOP program expansion options.

While the City does not have legal authority to provide for non-income based real estate tax relief that is not assessment based, if Council decided to provide the funding, the City could expand real estate tax relief by:

(1) increasing the amount of the real estate tax exemptions provided for seniors and the disabled from the exemption levels of 100%, 50%, 25% to up to 100% total exemption at the $72,000 State set income ceiling, or

(2) increasing the amounts of the AHOP grants to up to the full amount of eligible homeowners real estate tax bills, or

(3) increasing the AHOP program income limits above $72,000. The VHDA income limits that the City could use given the language in the City's Charter is $108,300 for a one person household and $135,400 for a two or more person household, or

(4) increasing other AHOP program criteria, such as raising the AHOP home assessment eligibility ceiling above $527,000, or raising the amounts of the AHOP grants.

If Council were interested in further expansion of income targeted real estate tax relief, then staff would need to develop options and cost them out.

Attachments:
I. Letter from Councilwoman Joyce Woodson to City Council Regarding Tax Relief
II. February 22 Work Session Power Point on Real Estate Tax Relief

"Council"
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>

04/19/2006 06:05 PM

To "Andrew Macdonald" <ahmacdonald@his.com>, "Rob Krupicka" <Rob@krupicka.com>, "Ludwig Gaines" <Councilmangaines@aol.com>, "Ludwig Gaines"

cc "Bruce Johnson" <Bruce.Johnson@ci.alexandria.va.us>, "Mark Jinks" <mark.jinks@ci.alexandria.va.us>, "Jim Hartmann" <Jim.Hartmann@alexandriava.gov>, "Fay"

bcc

Subject Tax relief.doc

April 19, 2006

Re: Different approach to tax relief

Dear Colleagues,

I realize this budget year is much more difficult for you than it is for me because of the election. However, we all have difficult decisions to make and regardless of the election outcome we were elected to represent the best interest of the entire city. I am concerned that a small segment of the city has commandeered the budget dialog and the end result may be felt in the next few years. What happens then?

Consider these facts: Of the 38,000 households, 22,000, or 60 percent, are assessed at below $500,000 and but only provide 37.5 percent of our revenues. That means that the remaining 16,000 households, 40 percent, produce 62.5 percent of our revenues.[1] If we lower the tax rate across the board we will nearly double the lost revenue at the higher end but provide much less relief where it is needed at the lower end. And what will it cost the city to provide this meager relief that will satisfy very few? Think about it.

I think we should maintain the manager's recommended tax rate. I firmly believe we will not be able to safely reduce the budget adequately to affect the size rate reduction demanded by our most vociferous proponents for lower taxes. We could, however, make a big difference in the lives of 22,000 households by granting tax relief to the 60 percent with assessments under $500,000.

Households below $500,000 have been the hardest hit by the last few years of higher assessments primarily because their relatively fixed income against the rising value of their house makes it more difficult to pay higher taxes year after year. Right now we have $4.5 Million in surplus revenue from last year and over $7 Million in recommended deferred CIP projects. Instead of lowering the rate (only to have to raise it when assessments level off – and they will) we could maintain the rate and cast a wider net of tax relief. I suggest that this relief be automatic, apply directly to the tax bill, and have no requirement for application. Remember, the average increase to the tax bill this year was $400. The amount recommended will no doubt return many households to last year's tax.

If I have calculated correctly, the amount of tax relief would be approximately $7.5 Million leaving $4 Million in surplus revenue from last year[2]. That money can be used to fund an additional reduction in rate or to return many of the items reduced to reach an unreasonable 5 percent budget. This approach will not affect the senior or disabled program, nor would it affect the AHOP program. This will affect the majority of Alexandria households that work hard every day but cannot meet the needs of rising tax bills. Next year we will see even higher energy costs, higher assessments, but relatively flat income growth. What will be done next year to meet the burden?

Additionally, I support the proposed AHOP program changes but the valuation of the property should probably be set at the average sales price of a single-family home each year. Believe it or not, Warwick Village town homes are selling for almost $500,000.

I hope you will consider this approach. It does not provide automatic relief for assessed value over $500,000 which I admit was an arbitrary number based on categories provided by the real estate assessors office. We could draw the line at the same level as AHOP above, the average sales price of a single-family home. We will be helping the households that need it the most without jeopardizing our budget as much.

Finally, I have no argument with any of the preliminary add/deletes. I would like to see funds returned to the schools for reasons already stated publicly.

Thanks for reading this. I know you are busy.

Joyce

[1] Chart attached

[2] Using the tables provided by Alexandria real estate assessment office, I am prosing to take .1 percent of the median assessed value in each category -- < $100,000. $100,000 - $249,999, $250,000 - $499,999 – and multiply it by the number in each category to arrive at the total tax relief per category. For example, $219 in tax relief would be provided to households with assessed value of between $100,000 and $249,999. There are 3,945 households in this category for a total of $863,955 in total tax relief. tax assessment categories.xls

Categories	# of units	Total Assessement	Median Assessed Value	Average Assessed Value
Less than $100,000	55.00	$1,850,200	$72,300	$33,640
$100,000 - $249,999	3,945.00	$844,127,800	$219,000	$2,313,974
$250,000 - $499,999	18,295.00	$6,733,048,200	$362,300	$368,027
$500,000 - $749,999	10,390.00	$6,285,400,600	$597,000	$604,947
$750,000 - $999,999	3,951.00	$3,380,077,000	$845,100	$855,499
$1,000,000 - $1,999,999	1,685.00	$2,155,923,200	$1,204,200	$1,279,480
$2,000,000+	252.00	$913,601,500	$2,492,400	$3,625,403
Totals	38,573.00	$20,314,028,500		

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Elderly & Disabled Tax Relief Benefit

Comparison of Real Estate Tax Relief Programs in Selected Jurisdictions

	Alexandria					
	Current	Proposed	Arlington	Fairfax	Prince William	Loudoun
Tax Relief Benefit	Income	Income	Income	Income	Income	Income
Exemption - Full	$0 - $40,000	$0 - $40,000	$0 - $40,625	$0 - $52,000	$0 - $46,400	$0 - $72,000
Exemption - Partial (%)	$40,001-50,000 (50%) $50,001-62,000 (25%)	$40,001-55,000 (50%) $55,001-72,000 (25%)	$40,626-50,000 (50%) $50,001-72,000 (25%)	$52,001-62,000 (50%) $62,001-72,000 (25%)	$46,401-53,400 (75%) $53,401-60,300 (50%) $60,301-67,300 (25%)	N/A
Deferral	Up to $62,000	Up to $72,000	Up to $72,000	N/A	N/A	N/A
Eligible Property	Home & lot up to 2 acres	Home & lot up to 2 acres	Home & lot up to 1 acre	Home & lot up to 1 acre	Home and lot up to 1 acre	Home & lot up to 3 acres
Asset Limit	$240,000	$240,000	$240,000/exemption $340,000/deferral	$340,000	$340,000	$340,000

Attachment II

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Affordable Home Ownership Preservation (AHOP) Program

Current AHOP Program

Grant Amounts	Income Limits ($ in thousands)	# of Act. Participants	Act. Cost of Grants
$275	$50 to $62	251	$69,025
$475	$40 to $50	307	$145,825
$675	Under $40	463	$312,525
		1,021	$527,375

Max. Home Value
$442,000

Proposed AHOP Program (increase grant by $50, $225, and $325)

Grant Amounts	Income Limits ($ in thousands)	# of Est. Participants	Est. Cost of Grants
$325	$55 to $72	500	$162,500
$700	$40 to $55	368	$257,600
$1,000	Under $40	530	$530,000
		1,398	$950,100

Max. Home Value
$527,000

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