

EXHIBIT NO. 1 4  
4-24-06 ~~4-22-06~~ ~~4-11-06~~

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2006  
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL  
FROM: JAMES K. HARTMANN, CITY MANAGER *J*  
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**

	Alexandria		Arlington	Fairfax	Prince William	Loudoun
	Current	Proposed				
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 (%)	\$40,000-50,000 (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	\$340,000	\$240,000/exemption \$340,000/deferral	\$340,000	\$340,000	\$340,000

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:

**2005 Tax Relief Program**

	<b>Income Range</b>	<b>Applicant</b>
Full Exemption	\$0 - \$40,000	769
50% of Average Residential Property Tax Exemption	\$40,001 - \$50,000	118
25% of Average Residential Property Tax Exemption	\$50,001 - \$62,000	79
Deferral Only	Up to \$62,000	0
	<b>Grand Total</b>	966

**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

1	Introduction and first reading:	4/11/06
2	Public hearing:	4/22/06
3	Second reading and enactment:	4/24/06

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5  
6 **INFORMATION ON PROPOSED ORDINANCE**

7  
8 **Title**

9  
10 AN ORDINANCE to amend and reordain Section 3-2-163 (EXEMPTION OR DEFERRAL –  
11 ELIGIBILITY, RESTRICTIONS GENERALLY) and Section 3-2-166 (SAME –  
12 CALCULATION OF AMOUNT, LIMITATIONS), of Division 1 (REAL ESTATE TAX  
13 EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND TOTALLY  
14 DISABLED PERSONS), Article L (REAL ESTATE TAX RELIEF), Chapter 2  
15 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the  
16 City of Alexandria, Virginia, 1981, as amended.  
17

18 **Summary**

19  
20 The proposed ordinance increases the income and asset limits for the exemption and  
21 deferral of real estate taxes under the City’s Real Estate Tax Relief Program for Elderly  
22 or Disabled Persons as follows:  
23

- 24 • Modify the income range to qualify for a partial exemption equal to 50% of the real  
25 estate taxes owed, and deferral of the balance, from the current range of \$40,000 to  
26 \$50,000 to a range of \$40,000 to \$55,000;
- 27
- 28 • Modify the income range to qualify for a partial exemption equal to 25% of the real  
29 estate taxes owed, and deferral of the balance, from the current range of \$50,000 to  
30 \$62,000 to a range of \$55,000 to \$72,000; and
- 31
- 32 • Increase the “net combined financial worth” limit for program participants from  
33 \$240,000 to \$340,000. This limit excludes the value of the participant’s dwelling,  
34 household furnishings, and up to two acres of the land on which the dwelling is located.  
35

36 **Sponsor**

37  
38  
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40 **Staff**

41 Mark Jinks, Assistant City Manager  
42 Daniel A. Neckel, Director of Finance  
43 Roderick B. Williams, Assistant City Attorney  
44  
45  
46

1 Authority

2  
3 Virginia Code § 58.1-3211

4  
5 Estimated Costs of Implementation

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7 See memorandum from the City Manager.

8  
9 Attachments in Addition to Proposed Ordinance and its Attachments (if any)

10  
11 None

ORDINANCE NO. \_\_\_\_\_

1  
2  
3 AN ORDINANCE to amend and reordain Section 3-2-163 (EXEMPTION OR DEFERRAL –  
4 ELIGIBILITY, RESTRICTIONS GENERALLY) and Section 3-2-166 (SAME –  
5 CALCULATION OF AMOUNT, LIMITATIONS), of Division 1 (REAL ESTATE TAX  
6 EXEMPTION OR DEFERRAL FOR ELDERLY OR PERMANENTLY AND  
7 TOTALLY DISABLED PERSONS), Article L (REAL ESTATE TAX RELIEF), Chapter  
8 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code  
9 of the City of Alexandria, Virginia, 1981, as amended.

10  
11 THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:  
12

13 Section 1. That Sections 3-2-163 and 3-2-166 of the Code of the City of Alexandria,  
14 Virginia, 1981, as amended, be, and the same hereby are, amended and reordained to read as  
15 follows:  
16

17 Sec. 3-2-163 Same – eligibility, restrictions generally..  
18

19 Exemptions from or deferral of real estate taxation in any taxable year shall be granted  
20 subject to the following restrictions and conditions:  
21

22 (1) The total combined income for the calendar year immediately preceding the  
23 taxable year of an applicant may not exceed the limits established by section 3-2-166.  
24

25 (2) The net combined financial worth of an applicant may not exceed \$240,000  
26 \$340,000.  
27

28 (3) As of January 1 of the taxable year, the applicant must occupy the real estate for  
29 which the exemption or deferral is sought as his or her sole residence and must be expected to so  
30 occupy the real estate throughout the year; provided, that an applicant who is residing in a  
31 hospital, nursing home, convalescent home or other facility for physical or mental care shall be  
32 deemed to meet this condition so long as the real estate is not being used by or leased to another  
33 for consideration.  
34

35 (4) An applicant shall file the affidavit or written statement, or annual certification,  
36 required by section 3-2-165 no later than April 15 of the taxable year.  
37

38 (5) Interest on any taxes deferred under this article division shall accrue at the rate of  
39 five percent per annum from the date by which such taxes were required to be paid to the date on  
40 which such taxes are paid in full. Any and all deferred taxes shall constitute a single lien upon the  
41 applicant's real estate as if no deferral had been granted and the taxes had been assessed but not  
42 paid. To the extent it exceeds, in the aggregate, 10 percent of the price for which such real estate  
43 is sold or, if not sold, 10 percent of its assessed value, any such lien shall be inferior to all other  
44 liens.  
45

1 Sec. 3-2-166 Same--calculation of amount; limitation.

2  
3 (a) The exemption from or deferral of real estate taxes granted under this division for any  
4 taxable year shall be limited and calculated as follows:

5  
6 (1) when the total combined income of the applicant does not exceed \$40,000, the  
7 applicant shall be exempt from the taxes owed for the year;

8  
9 (2) when the total combined income of the applicant exceeds \$40,000 but does not  
10 exceed ~~\$50,000~~ \$55,000, the applicant shall be exempt from 50 percent of the taxes owed for the  
11 year, and may defer all or part of the amount of such taxes in excess of the amount exempted;  
12 and

13  
14 (3) when the total combined income of the applicant exceeds ~~\$50,000~~ \$55,000 but  
15 does not exceed ~~\$62,000~~ \$72,000, the applicant shall be exempt from 25 percent of the taxes  
16 owed for the year, and may defer all or part of the amount of such taxes in excess of the amount  
17 exempted

18  
19 (b) Notwithstanding the provisions of subsection (a) above, if the real estate identified in the  
20 affidavit or written statement filed under section 3-2-165 is not owned solely by the applicant and  
21 his or her spouse, the amount of the tax exemption or deferral shall be the amount of the taxes on  
22 the real estate for the taxable year times the percentage ownership interest in the real estate held  
23 by the applicant, or by the applicant and his or her spouse.

24  
25 (c) Notwithstanding the provisions of subsection (a) above, if an applicant becomes eligible  
26 for exemption or deferral of real estate taxes owed during the course of the taxable year, the  
27 amount of the exemption or deferral computed under subsection (a) shall be reduced by  
28 one-twelfth of such amount for each full calendar month of the taxable year during which month  
29 such applicant is not eligible for exemption or deferral.

30  
31 Section 2. That this ordinance shall become effective January 1, 2006, nunc pro tunc.

32  
33 WILLIAM D. EUILLE  
34 Mayor

35  
36 Introduction: 4/11/06  
37 First Reading: 4/11/06  
38 Publication:  
39 Public Hearing:  
40 Second Reading:  
41 Final Passage:

42  
43 C:\Documents and Settings\jhenders\Local Settings\Temp\notesC9812B\Elderly Tax Relief Ord.wpd

4  
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4-26-06

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

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TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

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- 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:

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					\$60,301-67,300 (25%)	
Deferral	Up to \$62,000	Up to \$72,000	Up to \$72,000	N/A	N/A	N/A
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Asset Limit	\$240,000	\$340,000 (2006) \$540,000 (2007 and thereafter)	\$240,000/exemption \$340,000/deferral	\$340,000	\$340,000	\$340,000

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**ATTACHMENT:** Proposed Ordinance

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