City of Alexandria, Virginia
FY 2024 Proposed Operating Budget & CIP
Budget Questions & Answers

April 5, 2023

Question:

What is the cost to expand the partial tax exemption income brackets for elderly and disabled property tax relief by $10,000? $20,000? Approximately how many more persons would be served by such a change? What would be the impact of increasing the elderly and disabled real estate tax relief program limit on assets, excluding the home, from the current $430,000 to Arlington County's $585,880? Please provide a projected breakdown of the budgeted for relief in FY 2024.

Response:

Tax Relief for the Elderly and Disabled is currently estimated to reduce FY 2024 General Fund revenue by approximately $2.9 million. Staff has limited data from which to make a firm estimate in response to this question; however, extrapolating from 2021 Census data from the American Community Survey (ACS), staff estimates that expanding the partial tax relief income brackets by $10,000 and $20,000 would result in the following program increases:

	Increase Partial Exemption Ranges By $10,000			
Relief %	**Current Income Range**	**Revised Income Range**	**Increased Participants**	**Additional Revenue Loss**
50%	$40,001 - $55,000	$40,001 - $65,000	21	$28,330
25%	$55,001 - $72,000	$65,001 - $82,000	301	$410,865
Total			322	$439,195

With a $10,000 increase to the partial exemption ranges, approximately 21 existing applicants would move from the 25% relief level to the 50% relief level, and an estimated 301 new applicants would be added to the program at the 25% relief level. This would increase total exemptions by $439,195.

Relief %	Increase Partial Exemption Ranges By $20,000 Current Income Range	Revised Income Range	Increased Participants	Additional Revenue Loss
50%	$40,001 - $55,000	$40,001 - $75,000	173	$475,304
25%	$55,001 - $72,000	$75,001 - $92,000	527	$719,355
Total			700	$1,194,659

With a $20,000 increase to the partial exemption ranges, approximately 89 existing applicants would move from the 25% relief level to the 50% relief level; an estimated 84 new applicants would be added to the 50% relief level; and, an estimated 527 new applicants would be added to the 25% relief level (new to the program). Overall, this would increase exemptions by $1.2 million.

These increases would be in addition to the current program, projected to relieve $2.7 million in taxes (FY 2023 estimates shown below):

Existing Gross Income Relief Ranges	% Relief	# of Participants	Average 1/ Income	Average 1/ Assets	Average Assessed Value	Taxes Relieved
$40,000 and Below	100%	418	$27,204	$159,270	$487,093	$2,194,097
$40,001 - $55,000	50%	140	$47,402	$204,126	$501,238	$383,621
$55,001 - $72,000	25%	89	$64,336	$229,947	$502,362	$121,761
$72,001 - $100,000	Deferral Only	1	---	---	---	$0
		648	$37,367	$180,151	$492,254	$2,699,479

The average income and net assets for the existing program are an approximation based on Tax Year 2021 data, the most recent year in which program applications were submitted. The next full application year is Tax Year 2024; in the intervening years only affidavit certifications are required attesting that the applicant's income/assets have not materially changed and still fall within the existing parameters.

It is important to note that these are soft estimates only. Staff is extrapolating from ACS survey data that estimates the City has approximately 8,376 owner-occupied homes where the householder is at least 65 years old or greater. Staff then estimates the potential number of these 8,376 homes at the approximate income ranges specified in the ACS survey. For example, the ACS estimates that approximately 18.69% of owner-occupied households in the City have household income between $75,000 and $99,999. Staff had to assume that this is an even distribution across each discrete income level, but that could be a faulty assumption. In other words, if the incomes are skewed more heavily toward one end of the range, then this would affect the calculated impact.

Staff has even more limited data on the potential range of net worth among the elderly and disabled community, but Deferral has never been a popular option. For example, the City already allows full Deferral for anyone with incomes between $72,001 - $100,000 and net assets of up to $430,000, yet thus far, only one homeowner has opted to defer their taxes. Moreover, existing applicants who receive partial relief (50% or 25%) have the option of deferring the remaining balance; yet, only 12 have chosen to do so. This is in part due to the fact that the deferred amounts are liabilities against the property that must be paid upon the sale of the house or the demise of the owner, and owners have been reluctant to leave the debt to their estate. Likewise, not all mortgage companies universally allow the deferral of future tax debt.

Regarding net assets, Arlington County's net asset limit for Tax Relief is $467,402, not $585,880. The $585,880 used to be Arlington's maximum net asset limit for Deferral. The County's current maximum net asset limit for Deferral is now $630,993.

Were Council to increase the Tax Relief net asset limit to match Arlington's $467,402, staff roughly estimates this could increase the amount of lost revenue by around $200,000, but again, this is a very soft estimate. Were Council to increase the net asset limit for Deferrals only, staff has no data from which to project the potential estimate, but because of the unpopularity of the program, a substantial surge in the number of owners choosing to defer their taxes is not anticipated.

For reference, the FY 2024 Proposed Budget also includes an estimated $3.6 million in relieved Real Estate taxes associated with qualifying Disabled Veterans. This aspect of the relief program is mandated by State law and the Virginia Constitution. Combined with Tax Relief for the Elderly and Disabled, the two programs are estimated to reduce General Fund revenue by $6.5 million in FY 2024. An additional $25,000 has been factored in should Council decide to also adopt a relief program for surviving spouses of qualifying veterans Killed in the Line of Duty.