

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 27, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: JAMES K. HARTMAN, CITY MANAGER

SUBJECT: BUDGET MEMO 47 : DEFERRAL OF REAL ESTATE TAXES THROUGH THE AFFORDABLE HOMEOWNERSHIP PRESERVATION (AHOP) GRANT PROGRAM

This budget memo responds to Councilman Wilson's request for information regarding the possibility of deferring real estate taxes for participants in the Affordable Homeownership Preservation (AHOP) Grant Program in lieu of or in addition to the current grant system.

The AHOP program currently offers grants on a sliding scale to be applied towards second-half real estate tax payments for taxpayers who meet certain income and asset requirements. Income levels and grant sizes are:

Lower Income Level	\$0-\$40,000 (\$1,200 grant);
Medium Income Level	\$40,001-\$55,000 (\$875 grant);
Higher Income Level	\$55,001-\$72,000 (\$375 grant); \$72,001-\$100,000 (\$200 grant)

Participants must also have less than \$50,000 in assets and have a home assessed at no more than \$527,000.

Base Budget Proposal: In his FY 2009 Proposed Budget, the City Manager has proposed lowering the maximum income level to \$72,000 and limiting participation in this year's program to those who were approved last year. The lowering of the maximum income level is expected to save \$20,000. Based on previous years' reapplication rates, staff would expect approximately 66 percent of last year's participants to apply for grants in 2008. A freeze on participation could thus save approximately \$0.4 million in FY 2009 with additional savings occurring in future years.

Deferred Options: In considering Councilman Wilson's request, staff reviewed the parameters for a deferral program established in Code of Virginia §58.1-3219. A local real estate tax deferral program created under State law would be limited to those taxpayers whose real estate tax is at least 105 percent of the previous year's tax. Of the 1,380 participants in the 2007 AHOP program, only six percent (79 participants) would qualify for a deferral under State law

definitions if the current AHOP program was not changed (see above). If the AHOP program was changed, then the number of those potentially eligible for deferrals would be less.

The Weldon Cooper Center reports that as of 2007 no Virginia localities had the State Code authorized “over 105 percent” Real Estate Deferral Program in place.

The Center reports,

“Loudoun County had a deferral program in place in the 1990s but terminated it “...because the program was administratively complex, cumbersome and required staff time in disproportion to the benefit received by the taxpayer.” The cities of Alexandria, Falls Church, and Fairfax and the counties of Fairfax and Henrico have considered deferral but have not adopted it. Administrative problems appear to be the major reason for the unpopularity of deferral programs. According to Henrico staff, “The administrative procedures for tracing the properties and recovering the relevant taxes upon either the death of the owner or transfer of the property itself would be both cumbersome and time consuming and could not be accomplished with existing staffing levels or existing computer systems.” Another reason for the unpopularity of the programs is that taxpayers receive a postponement, not a removal, of the tax burden”.¹

The last point the Center makes is key, as this is the experience of local governments in Virginia with the low income elderly and disabled tax relief program. Even if a household is eligible for deferral, the eligible owner will not ask for deferral as they do not want to have a tax lien added to their house. Instead, they chose to pay the tax, and to forego the immediate benefit.

cc: Mark Jinks, Deputy City Manager
Laura B. Triggs, Director of Finance
Debbie Kidd, Division Chief, Revenue Administration
Dave Clark, Division Chief, Treasury

¹ Weldon Cooper Center for Public Service, Local Tax Rates 2007 Pg. 5-6