County Board Agenda Item
Meeting of December 13, 2008

DATE: December 13, 2008

SUBJECT: Real Estate Tax Relief for Elderly and Disabled Persons

C. M. RECOMMENDATION: Approve amendments to Chapter 43 of the Arlington County Code, Real Estate Tax Relief for the Elderly and Disabled as set forth in Attachment A to:

1. Adopt a change to reduce the maximum income standard to 80 percent of the Weldon Cooper standard for married households, as allowed by State Code, effective January 1, 2009.
2. Adopt new guidelines providing a total exemption for eligible households with income up to 45 percent of Weldon Cooper, a 50 percent exemption for households with income between 46 percent to 55 percent of Weldon Cooper, and a 25 percent exemption for households with income between 56 percent to 80 percent of Weldon Cooper, adjusted for household size
3. Adopt a change to reduce the assets allowed for an exemption to $340,000.
4. Adopt a change to allow deferrals for assets up to $540,000.
5. Adopt a change to eliminate the income disregard of up to $10,000 for non-owner relatives in the home.

ISSUES: Changes to the Real Estate Tax Relief program are needed to curtail growth for higher income households while ensuring stabilization of tax relief for lower income households.

SUMMARY: Beginning in 2002, increases were made to the Real Estate Tax Relief program as a result of recommendations of the Affordable Housing Task Force and in response to the rapid increase in real estate assessments that occurred from 2002 to 2006. The two most significant changes were raising the maximum income level to the higher income level published by the Weldon Cooper Center of the University of Virginia and increasing the asset level to $540,000, which is the maximum allowed by Virginia Code. In 2001, 259 households received tax relief of $452,281 and by 2008 the program had grown dramatically, serving 1,233 households for $4,180,356 of tax relief. With the easing of increases in real estate assessments, the proposed changes will curtail program growth for households with higher income and assets, while continuing to allow households with lower income and assets to receive tax relief. These changes were advertised and information about the proposed changes was sent to all Real Estate Tax Relief recipients.

County Manager: ______________

County Attorney: ______________

Staff: Amy Yorczyk, DHS/EID

BACKGROUND: Localities are authorized under Virginia Code ("Code") to provide real estate tax relief for elderly (65 years of age and older) and disabled homeowners. The Code gives a locality a choice of using U.S. Housing and Urban Development (HUD) area median income, a maximum income set annually in the Code for Northern Virginia localities, or the median adjusted gross income for married taxpayers for the locality as determined by the Weldon Cooper Center. Additionally, the Code limits the allowable assets to $540,000. Localities may use standards that are lower, but cannot exceed those specified in the Code. The Code allows a locality to defer any portion of a homeowner's real estate tax not exempted, with or without penalty or interest, until the property is transferred.

In 2006, three program changes were made to expand program eligibility to a wider group of homeowners. Arlington began using the higher Weldon Cooper income level instead of a lower limit authorized in the Code. The asset level was also increased from $240,000 to $340,000 in 2006 and again to $540,000 in 2007. A change was made to consider household size in relation to the income limit, allowing some larger households to receive a higher exemption level than smaller households with the same income.

Although recent assessments have stabilized with little tax increase for homeowners, the program's income maximum, under Weldon Cooper, increased from $77,407 in 2006 to a scheduled $106,585 effective in 2009, substantially beyond the income level initially envisioned. While the newly eligible, higher income households receive only a 25 percent exemption, it is felt this population is beyond a commonly acceptable standard of "needy."

The proposed changes would have no impact on Accessory Dwelling Units (ADU). Adding an ADU may increase the value of the home. However, the assessed value of the home has no bearing on the percent of exemption which is determined by household income and size. If unrelated people, including caretakers, live in the ADU, their income and assets would not be considered in determining household income and asset eligibility. Any money, such as rent that is given to the homeowner is considered as income to the homeowner. If related people live in the ADU, they would be considered as part of the household and their income and assets would be considered in the determination of eligibility for the applicant.

DISCUSSION: Without any changes to the tax relief program, the tax relief caseload is expected to experience continued growth. In 2009, it is anticipated that the cost will grow to $4,376,490. If maximum income level increases to $106,585, the growth will be in the higher income households. The recommendation to reduce the income level from 100 percent of Weldon Cooper ($106,585) to 80 percent ($85,268) will curtail the growth at the higher income levels. However, Arlington's maximum income level will still be higher than neighboring localities.

The current asset level (exclusive of principal residence) for exemption is $540,000. The recommendation to reduce the asset level to $340,000 for exemption will allow eligible households with assets up to $540,000 to continue to receive tax relief in the form of deferral. Currently, Fairfax and Prince William counties all have a $340,000 asset level for an exemption (see Table 2).

Currently the income bands that determine the percentage of exemption are based on a percentage of the Area Median Income (AMI) published by HUD, while the maximum income level is based on Weldon Cooper. The recommendation to change the basis of the income bands to Weldon Cooper adjusted for household size standardizes the use of this income limit. Using the percentages indicated in Table 1 will allow most current recipients to receive the same tax relief in 2009 as they did in 2008. The income bands would be higher for one person households, who are the majority of tax relief cases, and would decrease slightly for larger households.

The final recommendation is to eliminate the $10,000 income disregard. Arlington, unlike neighboring localities, takes in consideration the household size when evaluating income to determine the amount of exemption. Additionally, $10,000 is disregarded for each household member who is not the owner or spouse of the owner. There is no longer need for this income disregard once benefit level is tagged to household size because the income bands already take into account household size.

The following tables show the impact of the recommended changes and compares Arlington to neighboring localities

Table 1

Impact of Program Recommendations

Recommendation	Clients eligible for exemptions	Clients affected by recommendation	CY 2009 savings/(cost)
Reduce the income level to 80% of the Weldon Cooper* ($85,268) **and** Cap the asset level at $340,000 for exemptions. Households with assets up to $540,000 may receive deferral only.	1166	125 lose exemptions. Could receive deferral only.	$230,375
Revise income bands to use a percentage of WC*, rather than AMI** 0 - 45% WC 100%exemption 46 - 55% WC 50% exemption 56 - 80% WC 25% exemption Same comment as in recommendations	1166	64 47 increase 17 decrease benefit 32 clients: 50%to 100% 15 clients: 25% to 50% 6 clients :100%to 50%, 11 clients: 50% to 25%	($70,635)
No longer allow $10,000 income disregard for household members.	1166	15 Would receive a lower exemption	$31,155

*WC = Weldon Cooper Center of the University of Virginia
**AMI = Area Median Income

Table 2
Comparison between Arlington and Other Counties

	Current: Arlington 2008 65%,80%of AMI,100%WC	Proposed: Arlington 2009 45%,55%,80% of WC	Fairfax	City of Alexandria	Loudoun	Prince William
Maximum Income Level	$95,515	$85,268	$72,000	$72,000	$72,000	$69,600
Income levels	Full: $42,997 50%: $52,920 25%: $95,515 Above is for a one person household. Bands based on household size. See below	Full: $47,963 50%: $58,622 25%: $85,268 Above is for a one person household. Bands based on household size. See below	Full: $52,000 50%: $62,000 25%: $72,000 Does not differentiate between household size	Full: $40,000 50%: $55,000 25%: $72,000 Does not differentiate between household size	Full: $72,000 Full exemption only Does not differentiate between household size	Full: $48,000 75%: $55,200 50%: $64,200 25%: $69,600 Does not differentiate between household size
Deferral	May defer what is not exempt		None	May defer what is not exempt with 5% interest	None	None
Asset Maximum allowable	Proposed: $340,000 for exemption $540,000 for deferral		$340,000	$540,000	$440,000	$340,000

HH size	Type	Current: Arlington 65%,80% AMI, 100%WC	Proposed: Arlington 2009 45%,55%,80% of WC
2	Full	$49,140	$47,963
	50%	$60,480	$58,622
	25%	$95,515	$85,268
3	Full	$55,282	$54,198
	50%	$68,040	$66,243
	25%	$95,515	$85,268
4	Full	$61,425	$60,159
	50%	$75,600	$73,529
	25%	$95,515	$85,268

FISCAL IMPACT: Implementing the recommendations would result in an estimated increase in revenue of $190,895 in CY 2009, half in FY 2009 and half in FY 2010. It is estimated that 125 fewer households would be served through exemption in CY 2009.