

Report of the Tax Relief for the Elderly and Disabled Taskforce Briefing

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Program Goal

To assist qualified Virginia Beach homeowners who are at least 65 years of age or are totally and permanently disabled, with their real estate taxes in an effort to help mitigate financial hardships while being conscious of the overall cost of the program to the City and remaining taxpayers.

Past Studies:

- ❖ 1998 Review --
 - ❖ At that time the programs maximum income limit to receive 100% relief of real estate taxes was \$13,000 with a net asset limit of \$70,000.
 - ❖ There were 1,865 participants at that point and the program's annual cost was \$1.6 million.
 - ❖ Staff recommended that the maximum income threshold and the net asset limit for the freeze program only be increased to \$30,000 and \$80,000 respectively to allow some relief to the elderly who did not meet the lower exemption program limits while controlling rising costs.

Past Studies:

- ❖ 2003 Taskforce Review. This fourteen member taskforce recommended that the City:
 - Adopt the maximum State Income and Net Asset limits which were \$52,000 and \$195,000 respectively.
 - The City set the maximum income threshold for 100% relief at 50% of the Maximum Income Limit in the program or \$26,000.
 - Implement a phasing of relief for incomes greater than \$26,000 by establishing four brackets for reducing the percentage of abatement until it reaches no relief at \$52,000.
 - Eliminate the 8% interest charge on the deferral program.
 - And to implement the recommended changes in a phased manner, but no longer than five years.
 - At that point there were 2,852 participants in the programs and an annual cost of \$2.9 million.

Current Virginia Beach Programs:

- ❖ Tax Exemption - a portion of the applicants' real estate tax bill is permanently forgiven by the City based on income qualifications that are tiered in increments of 20%, 40%, 60%, 80% and up to a full exemption of 100%.
- ❖ Tax Freeze – The applicant may opt to freeze their real estate tax bill at the amount assessed in the fiscal year in which the taxpayer initially applies and qualifies for the freeze option of the tax relief program. The applicants' bill is then protected from future rate changes or increases in assessments. In the event the tax payer becomes disqualified, any subsequent application for exemption by the applicant will be treated as the initial application for purposes of determining the amount of the tax freeze.
- ❖ Tax Deferral –The applicant may opt to have 100% of the real estate tax bill deferred until a change in ownership of the residence occurs at which point the total accrued tax bill is due. There is no interest charged on the deferred amounts.
- ❖ All three programs use a net worth of less than \$350,000 excluding the home and 10 acres of land.

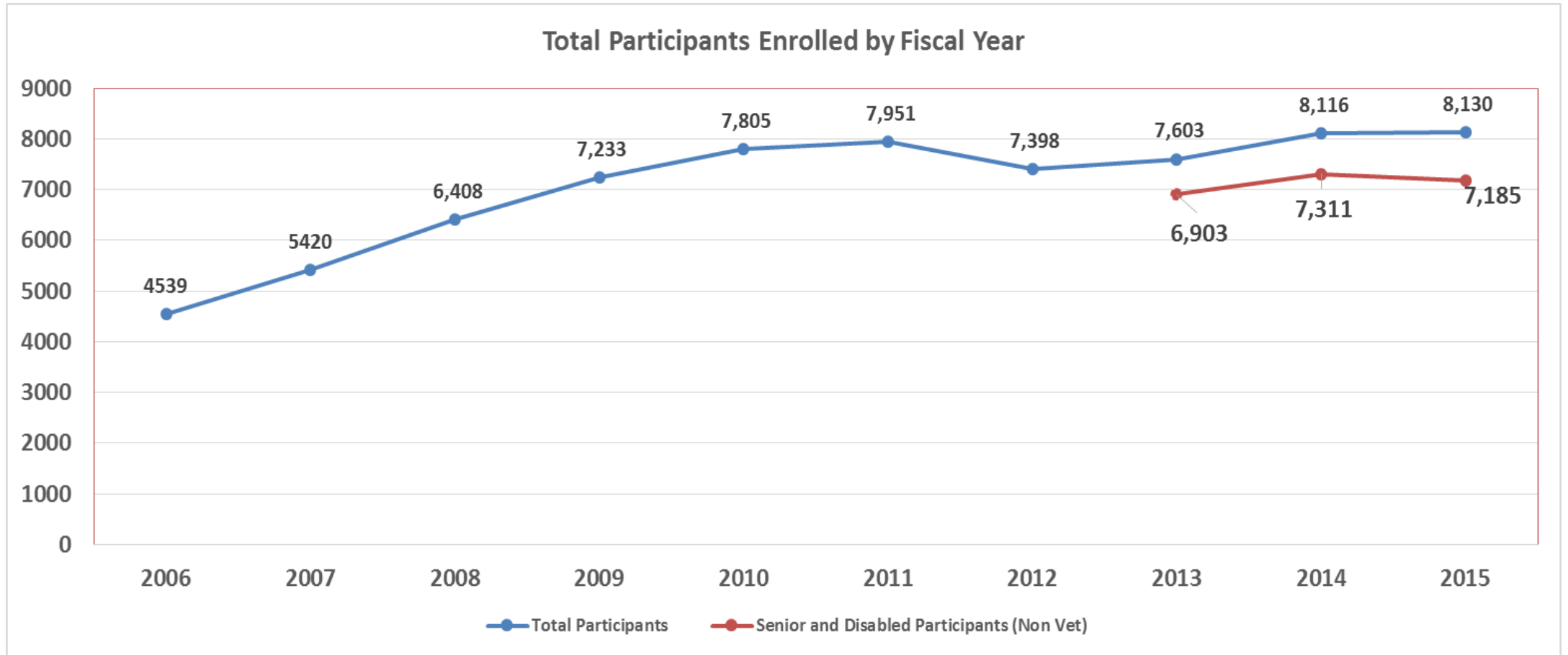
Comparison to Programs in Hampton Roads Cities

	Virginia Beach	Chesapeake	Hampton	Newport News	Portsmouth	Suffolk	Norfolk
Exemption Program Offered	Yes	Yes	No	No	Yes	Yes	Yes
Max Income to Receive 100 % Exemption	\$48,009	\$22,000	n/a	n/a	\$21,000	\$44,359*	\$28,611**
Freeze Program Offered	Yes	Yes	Yes	No	Yes	No	No
Income Range For Freeze Program	\$0-\$68,293	\$44,001-\$62,000	\$0-\$50,000	n/a	\$30,001-\$50,000	n/a	n/a
Deferral Program	Yes	No	Yes	Yes	No	No	Yes
Income Range for Deferral	\$0-\$68,293	n/a	\$0-\$50,000	\$0-\$50,000	n/a	n/a	\$0-\$67,000**
# of Participants Enrolled in FY2014	8,116	3,515	853	788	1,697	1,719	2,655

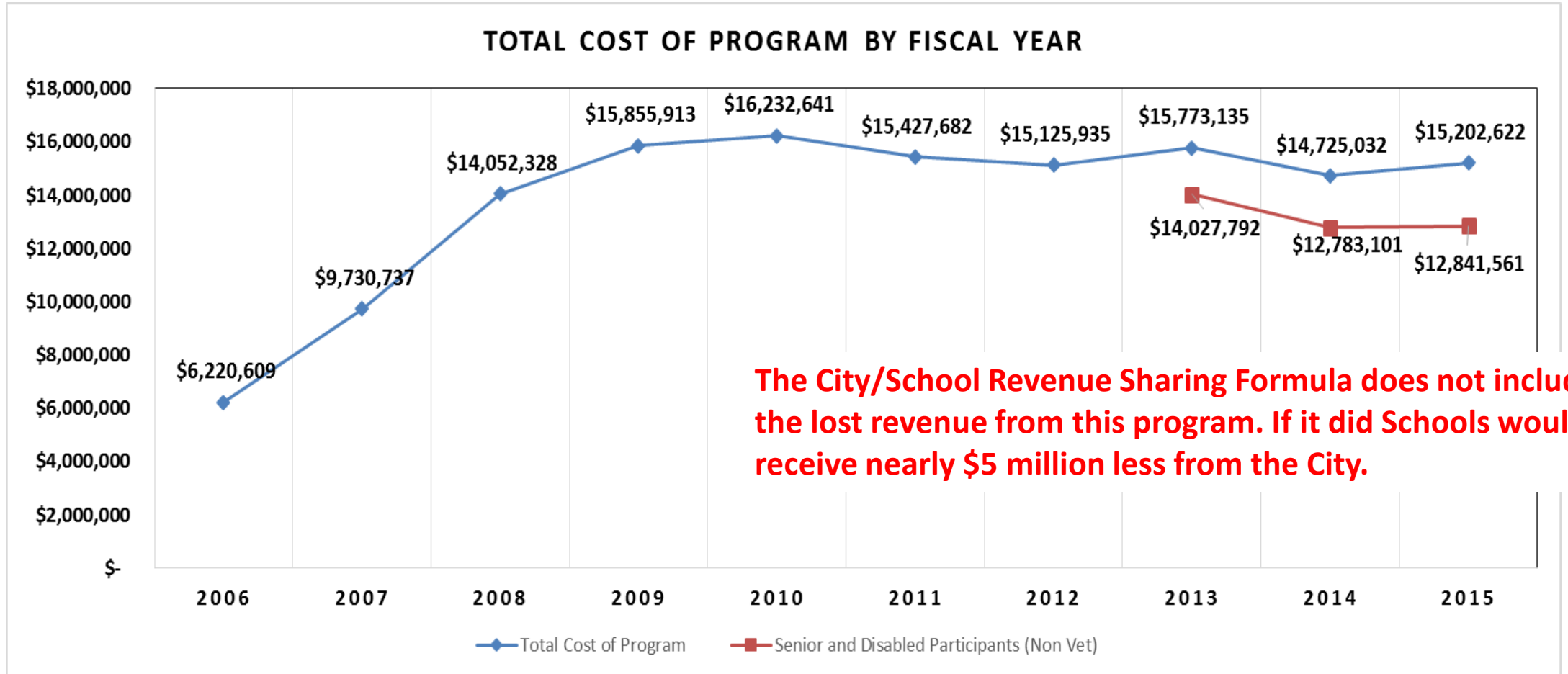
Notes: * Suffolk limits the house value to \$201,700.

** Norfolk limits the house value to \$203,386 and the total program cost to \$5 million.

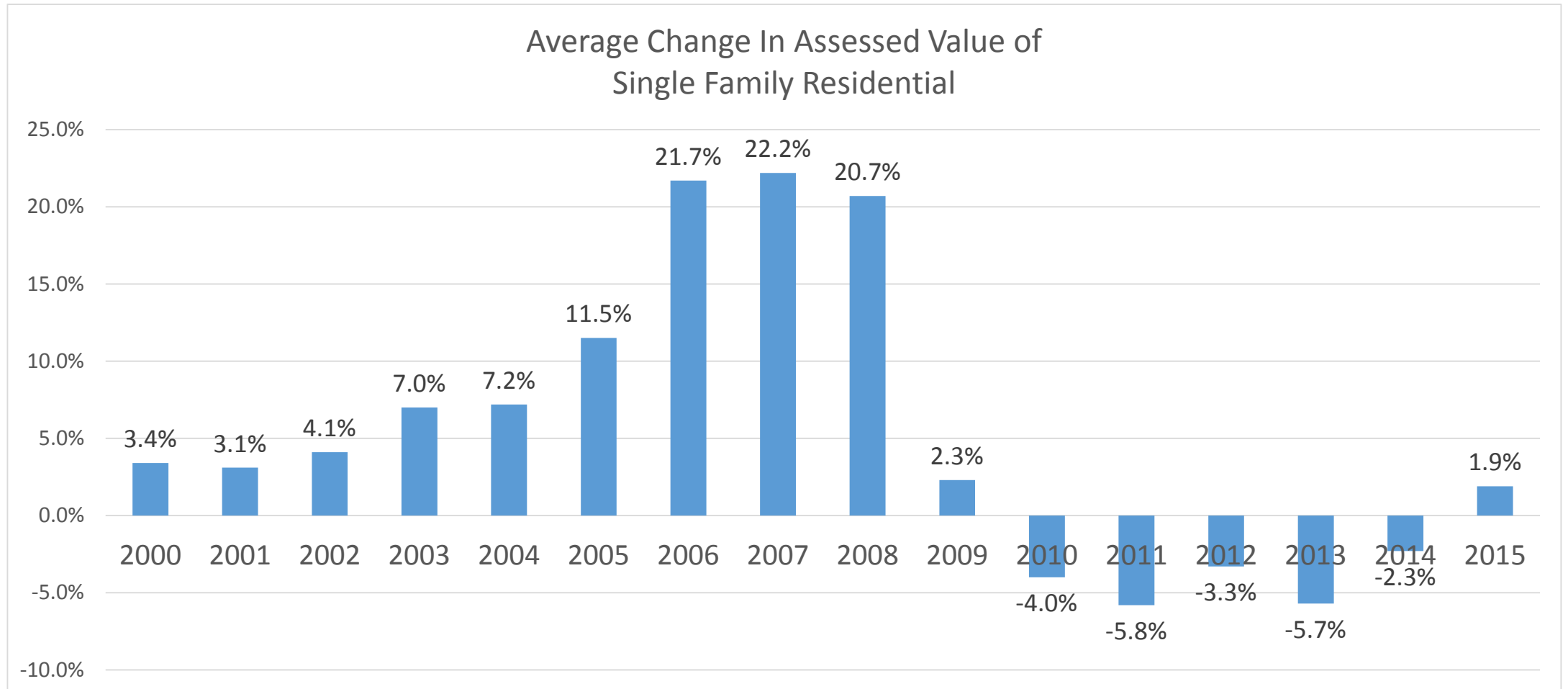
Virginia Beach Program Participation



Virginia Beach Program Costs



Change in Residential Assessments:



Virginia Beach Maximum Income Thresholds:

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
100%	\$22,800	\$27,800	\$34,000	\$46,000	\$47,100	Same	Same	Same	Same	Same	\$48,009
80%	\$24,800	\$30,200	\$36,900	\$50,000	\$51,200	Same	Same	Same	Same	Same	\$52,188
60%	\$26,800	\$32,700	\$40,000	\$54,000	\$55,300	Same	Same	Same	Same	Same	\$56,367
40%	\$28,800	\$35,100	\$42,900	\$58,000	\$59,400	Same	Same	Same	Same	Same	\$60,546
20%	\$30,900	\$37,700	\$46,100	\$62,000	\$63,450	Same	Same	Same	Same	Same	\$64,675
Freeze/ Deferral	45,400 52,000	\$52,000 \$52,000	\$52,000 \$52,000	\$62,000 \$62,000	\$63,450 \$63,450	Same	\$67,000 \$67,000	Same	Same	Same	\$68,293 \$68,293
Net Worth	E/F=\$179,500 D = \$195,000	D=\$200,000	All Programs \$350,000	Same	Same	Same	Same	Same	Same	Same	Same

In 2005 City Council adopted a policy of increasing the income thresholds by the average change in single family home values, but during the recession as home values dropped the thresholds did not also decrease.

Recommendations:

- 1. Establish a goal for the program:** To assist qualified Virginia Beach homeowners who are at least 65 years of age or are totally and permanently disabled, with their real estate taxes in an effort to help mitigate financial hardships while being conscious of the overall cost of the program to the City and remaining taxpayers.
- 2. Eliminate the deferral program** due to its extremely low utilization and higher administrative costs in having to maintain tax liens on the property and collect the taxes due at some future date. Also, the State Code limits the amount of deferral that receives priority lien status to 10% of the home's value (Va. Code § 58.1-3216), and the same statute requires any deferred taxes above the 10% to be inferior to all other recorded liens.
 - a)** A person turning 65 years of age can expect to live an additional 19.3 years (AARP).
- 3. Appoint a citizen Taskforce to review the program every three years** and make recommendations for adjustments to the City Council for consideration

Recommendations:

4. Suggested Change to Income Thresholds

The maximum income threshold of \$38,670 for 100% relief is where it would have been had the city decreased thresholds with the decline in home values.

a. Exemption Program

Income Limits	Current Income Thresholds	Current Participants	Proposed	Proposed Participants
100 % Exemption	\$0 - \$48,009	5,722	\$0 - \$38,668	4,083
80% Exemption	\$48,009 - \$52,188	484	\$38,669 - \$41,668	446
60% Exemption	\$52,188 - \$56,367	428	\$41,669 - \$44,668	463
40% Exemption	\$56,367 - \$60,546	350	\$44,669 - \$47,668	480
20% Exemption	\$60,546 - \$64,675	206	\$47,669 - \$50,668	375
Freeze Program	\$0 - \$68,293	46	\$0 - \$68,293	1,355
Deferral Program	\$0 - \$68,293	13	Not offered	

b. Freeze Program

Income Limits	Current	Proposed
Maximum Income	\$68,293	\$68,293

Other Items for Possible City Council Consideration:

- A. The City Council can exclude certain types of income from being counted as income to determine eligibility. For example, income from an IRA/401 type accounts could be excluded. These accounts currently counts as an asset under Net Assets, but as a homeowner draws funds from this account it currently then counts as income. In the past, this situation has resulted in a participant's income increasing to the point where they were no longer eligible for their current level of relief.

- B. If the City Council wishes to retain the deferral program consider reestablishing an interest rate charge on the amount being deferred. Up until FY 2003, the city did assign an interest rate of 8% on the amount of taxes being deferred. The amount deferred and the accumulated interest would then be due upon sale of the dwelling. The City Council could link the interest rate to the interest received on City Investments.

Conclusion:

- ❖ Since 2006, participation (including veterans) in this program has grown by 79.1% while the cost has grown by 144.4%.
- ❖ The total cost of real estate tax relief in the current fiscal year is \$15.2 million or the equivalent of over three cents on the real estate tax rate.
- ❖ The Taskforce feels that the recommendations bring the program into a more sustainable position for the long run, but recommends a periodic review.
- ❖ Everyone who is currently in the program can remain, though potentially a number of persons in the program would be at lower levels of relief.
- ❖ If Taskforce Recommendations are adopted the cost of the program would drop by \$3.3 million.