CITY OF CHARLOTTESVILLE, VIRGINIA
CITY COUNCIL AGENDA

Agenda Date:	November 7, 2022
Action Required:	Adopt proposed ordinance
Presenter:	Todd Divers, Commissioner of the Revenue
Staff Contacts:	
Title:	**To amend, re-ordain, and re-enact Chapter 30, Article 4 of the City Code (Real Estate Tax Relief for the Elderly and Disabled Persons) (2nd reading)**

Background

Chapter 32, Article 2 of the Code of Virginia (§58.1-3210 et seq) authorizes cities, counties, and towns to “by ordinance, provide for the exemption from… taxation of real estate and manufactured homes as defined in § 36-85.3, or any portion thereof, and upon such conditions and in such amount as the ordinance may prescribe”. Charlottesville’s ordinance, found in Chapter 30, Article IV of the Charlottesville City Code, establishes the parameters and conditions under which Real Estate Tax Relief for Elderly and Disabled Persons (RETR) is offered to City residents.

As currently administered by the Commissioner of the Revenue, the RETR program requires an annual application wherein an applicant must provide detailed income and net worth documentation. The percentage of tax exemption or deferral amount granted is determined according to the following rubric of gross income and net worth:

		Net Combined Financial Worth				
		$0.00 to $25,000.00	**$25,001.00 to $50,000.00**	**$50,001.00 to $75,000.00**	**$75,001.00 to $100,000.00**	**$100,001.00 to $125,000.00**
Gross Combined Income	**$0.00—$25,000.00**	100%	100%	100%	100%	100%
	$25,001.00—$27,500.00	80% or $1,000.00	64% or $1,000.00	48% or $1,000.00	32% or $1,000.00	16% or $1,000.00
	$27,501.00—$35,000.00	60% or $1,000.00	48% or $1,000.00	36% or $1,000.00	24% or $1,000.00	12% or $1,000.00
	$35,001.00—$41,250.00	60% or $750.00	48% or $750.00	36% or $750.00	24% or $750.00	12% or $750.00

	$41,251.00—$45,000.00	40% or $750.00	32% or $750.00	24% or $750.00	16% or $750.00	8% or $750.00
	$45,001.00—$55,000.00	40% or $500.00	32% or $500.00	24% or $500.00	16% or $500.00	8% or $500.00

The recipient is awarded an exemption of either a flat amount or a percentage of their tax liability, whichever is greater. This combination of percentage or flat amount arose in recent years as a way to keep pace with recent changes occurring to the CHAP program (Charlottesville Housing Affordability Program, recently renamed and changed to Charlottesville Homeowner Assistance Program).

Currently, the RETR program is open to elderly or disabled homeowners whose income is $55,000 or less and whose net combined financial worth is $125,000 or less. Total relief provided to elderly and disabled applicants through this program has averaged between $600,000 and $650,000 annually in recent years.

To maintain parity with recent income parameter changes for the CHAP program, and to streamline the application process and overall administration of the program, the following ordinance changes are required for RETR:

1. Eliminate the net worth component associated with qualifying for RETR;
2. Stipulate that applicants cannot own other real estate;
3. Increase the qualifying income threshold from $55,000 to $60,000;
4. Streamline benefit amounts to a simple percentage of tax liability based on income;
5. Standardize annual adjustments to align with changes in area Median Family Income;
6. Base eligibility on applicants' household Federal Adjusted Gross Income (FAGI) instead of counting income from all possible sources. For instance, we currently must verify SNAP and EAP benefits, which are not taxable and would not be included in an applicant's FAGI.
7. Provide for filing on a three-year cycle with an annual certification by the taxpayer that no information contained on the last preceding filing has changed to alter their benefit amount.

In addition to the changes outlined above, we propose a number of housekeeping measures that are addressed in more detail in the next section.

Discussion

Changes Since First Reading

- **Several definitions are added, with respect to terms used throughout the ordinance, including "applicant", "area median income", "claimant", "owner" and "person", and edits have been made within the ordinance to utilize the defined terms more precisely.**
- **Staff has verified that "Area Median Family Income" or "MFI" is, in fact, a single point of reference defined/ established by HUD annually, without reference to household size. Separately, however, various housing programs utilize household income limits based on definitions of "low income", "very low income" and "extremely low income" that may relate to percentages of Area MFI and household size. *See website "HUD User", page***

***titled "FY2022 Low-Income Limits Calculation*". For this tax relief program, staff recommends using an income limit that is a calculation of 50% of MFI, rather than the separate income limits based on household size.**

- **A number of editorial changes have been made, in an effort to streamline the language and make it more understandable.**

Eliminate the Net Worth Limitation

Currently, there is a net worth component associated with qualifying for RETR, while CHAP has no net worth component. This disparity creates a number of problems:

- Seniors and disabled persons whose net worth exceeds the qualifying threshold for RETR must come back later in the year to apply for CHAP;
- Providing documents to substantiate their net worth is a burden on applicants, as well as a burden on staff who must spend inordinate amounts of time pouring through those documents;
- As evidenced by the chart above, determining an applicant's ultimate benefit amount or percentage can be confusing;
- State Code does not require localities to consider net worth as a factor in awarding real estate tax relief to seniors and disabled persons.

Additional Real Estate

Currently, applicants for RETR are allowed to own other real estate in addition to the residence for which they seek tax relief. However, in such a scenario, the value of such an additional real estate asset is included in an applicant's net worth computation. Going forward, in the absence of a net worth limitation on eligibility for RETR, it makes sense to require that applicants cannot own additional real estate (other than the home for which relief is sought). This would mirror eligibility requirements for CHAP.

Increase Maximum Qualifying Income to $60,000 and Standardize Benefit Percentages to Applicants' Income Relative to Median Family Income

In order to simplify administration, it would be advisable to adopt uniform relief percentages applied against the real estate tax assessed for the taxable year in question. To standardize year-to-year adjustments to the program's income thresholds, automatic adjustments based on predetermined criteria should be adopted as part of the ordinance. An easily reproducible method would be to assign four relief percentage tiers based on applicants' income relative to Median Family Income (MFI). In the HUD Metropolitan Fair Market Rent Area that corresponds to the Charlottesville, Virginia Metropolitan Statistical Area, for the latest year available (FY22), the median family income for the Charlottesville, VA MSA is $111,200. Relief percentages would break down as follows:

- If income is between $0 and 30% of MFI, rounded up to the nearest $5,000, a qualifying applicant would receive an exemption equivalent to 100% of the real estate tax assessed for the taxable year on the property for which an exemption is claimed.
- If income is greater than 30% of MFI, rounded up to the nearest $5,000 but no more than 40% of MFI, rounded up to the nearest $5,000, a qualifying applicant would receive an exemption equivalent to 80% of the real estate tax assessed for the taxable year on the property for which an exemption is claimed.

- If income is greater than 40% of MFI, rounded up to the nearest $5,000 but no more than 45% of MFI, rounded up to the nearest $5,000, a qualifying applicant would receive an exemption equivalent to 60% of the real estate tax assessed for the taxable year on the property for which an exemption is claimed.
- If income is greater than 45% of MFI, rounded up to the nearest $5,000 but no more than 50% of MFI, rounded up to the nearest $5,000, a qualifying applicant would receive an exemption equivalent to 40% of the real estate tax assessed for the taxable year on the property for which an exemption is claimed.

So, in practice, benefit percentages in the coming tax year would look like this:

% of MFI ($111,200)	**INCOME**	**RELIEF %**
>45% to 50% of MFI	$55,001-$60,000	40%
>40% to 45% of MFI	$45,001-$55,000	60%
>30% to 40% of MFI	$35,001-$45,000	80%
Up to 30% of MFI	$0-$35,000	100%

Going forward, as MFI for the Charlottesville, VA MSA changes, the benefit tiers can be easily adjusted. It would be fairly easy to keep track of changes. The relief percentages themselves wouldn't change. And it should not be too difficult to estimate annually for budgeting purposes.

The thresholds indicated above are intentional and come from recent ill-fated discussions about merging RETR and CHAP, as well as Council's desire to offer more assistance to more people. The $35,000 income threshold (below which an applicant is afforded 100% relief) mirrors the same threshold in CHAP (below which a CHAP applicant is eligible for the largest grant amount under that program). Currently, 100% relief is afforded to applicants with incomes of $25,000 or less.

Likewise, the recently revised CHAP program's maximum income threshold is $60,000. Both programs previously maxed out at $55,000.

Regardless of our inability to merge these programs (as I had initially hoped), adjustments to the parameters of both programs should be conducted in unison. This will be less confusing for applicants, and it will be easier to administer for the Commissioner of the Revenue's Office if both programs are in sync.

Use Federal Adjusted Gross Income (FAGI)

Under the rules currently in place for RETR, income from all possible sources is counted. Many of those sources would not typically be included in FAGI. This tends to inflate the income of many RETR applicants relative to that of CHAP applicants (since CHAP uses FAGI), thereby reducing the benefits for which RETR applicants qualify. Additionally, the process of locating and combing through income documents is time-consuming for applicants and staff. Switching to FAGI would allow many applicants to simply provide a copy of their tax return or the front page of their Form 1040 without having to dig up the ancillary documents.

Three-Year Filing Cycle With Annual Recertification
§58.1-3213(B) of the Code of Virginia stipulates that:

> *In lieu of the annual affidavit or written statement filing requirement, a county, city or town may prescribe by ordinance for the filing of the affidavit or written statement on a three-year cycle with an annual certification by the taxpayer that no information contained on the last preceding affidavit or written statement filed has changed to violate the limitations and conditions provided herein.*

Such a cycle would prove extremely beneficial for our applicants. Having to file annually can be particularly burdensome for elderly and disabled people, many of whom have mobility and cognitive issues. In addition, we find that because many of the applicants for this program are on fixed incomes, their incomes are very stable. Further, by somewhat easing the crush of annual applications, such a cycle would have the added benefit of allowing staff to devote more time and energy to outreach and audit activities.

Housekeeping
In addition to the changes indicated above, a number of housekeeping changes are in order for this section of City Code:

- In an ordinance passed on October 7, 2019, Council removed the requirement that applicants for real estate tax relief for the elderly and/or disabled submit a notarized affidavit in order to apply for the program. At that time, all references to such a required affidavit should have been removed from the ordinance. Due to an oversight on my part, those references were not removed. This proposal deletes those references.
- In addition to tax exemption, State Code authorizes localities to offer a deferral of real estate taxes to eligible elderly and disabled homeowners. Such a deferral option was included in the City's ordinance at the time of adoption. To our knowledge, however, the deferral option has never been exercised. We suspect there are a number of reasons for this:

    - Since such a deferral constitutes a lien on the property, homeowners are reluctant to burden their heirs in such a way;
    - Though our ordinance stipulates that such deferred taxes are to eventually be paid without penalty, it does require payment of interest at eight per cent per year;
    - Qualified applicants are not interested in a deferral when an exemption is available.

  We recommend the elimination of references to deferral of real estate taxes in this section of City Code.

- The existing ordinance requires that on occasions where an applicant is unable to apply by the March 1st deadline due to medical infirmity or hardship, such applicant must provide a sworn affidavit from a medical doctor in order to justify their tardiness. We believe that this is impractical and poses an unnecessary burden on elderly and disabled applicants. We recommend the elimination of the requirement.
- The existing ordinance requires that the Commissioner of the Revenue seek the approval of the City Manager as to the form and content of application materials. Since such materials and forms change almost yearly, we submit that this requirement is not necessary or practical. Frankly, we were not even aware of the requirement until recently. As such, it has

not been followed in at least the last nine years. Likewise, we don't think this is something that the City Manager would even want to spend time on. As such, we recommend the elimination of this requirement.

Alignment with City Council's Vision and Strategic Plan

This change aligns with the City's Organizational Values of **Leadership**, **Trust**, **Creativity**, and **Excellence**.

This change aligns with the following City Goals:
1.4 Enhance the financial health of residents
5.1 Integrate effective business practices and strong fiscal policies
5.3 Provide responsive customer service

Community Engagement

Budgetary Impact

This measure should not increase overall expenditures for tax relief since our FY23 budget proposals initially anticipated a merging of CHAP and RETR under these same parameters. Instead of merging, the programs would remain distinct while sharing similar income and benefit parameters.

Recommendation

Adoption of the proposed ordinance. It is requested that Council vote and enact this ordinance on First Reading (see "Section 2" of the ordinance, last page), by four-fifths vote of Council.

Suggested Motion: "I move the ORDINANCE to amend, re-ordain, and re-enact Chapter 30, Article 4 of the City Code (Real Estate Tax Relief for the Elderly and Disabled Persons) to maintain parity with the CHAP program and streamline administration of the program".

Alternatives

Council could elect to implement some of the recommended changes or leave the program unchanged.

Attachments

1. Proposed ORD Amend RETR
2. Summary of HUD FY2022 Income Limits Documentation System for the Charlottesville, VA MSA