ARLINGTON
VIRGINIA

REAL ESTATE TAX RELIEF
RECOMMENDED CODE CHANGES BRIEFING

May 2018

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REAL ESTATE TAX RELIEF (RETR) BACKGROUND

- Virginia localities are authorized to provide RETR to homeowners aged 65 or over, as well as to permanently and totally disabled homeowners.
- The current Arlington County RETR Program provides exemption of some or all real estate taxes for qualified Arlington homeowners whose:
  - Annual household income is no more than $99,472, and
  - Household assets (excluding the value of their primary Arlington home) are no more than $340,000.
- Homeowners may receive a full, 50 percent, or 25 percent exemption, depending on their income and household size.
- Homeowners within the income guidelines who have assets over $340,000 but no more than $540,000 may defer payment of their real estate taxes until their property changes ownership; no interest or penalties are charged.
- Homeowners not qualifying for a full exemption may defer what is not exempt.

Type of benefit	1-2 person household annual income/asset limit	3 person household annual income/asset limit
Full Exemption	$55,953/$340,000	$62,667/$340,000
50% Exemption	$68,387/$340,000	$76,953/$340,000
25% Exemption	$99,472/$340,000	$99,472/$340,000
Deferral	$99,472/$540,000	$99,472/$540,000

RETR BACKGROUND

- The Department of Human Services (DHS) has overseen the RETR Program since 1991.
- The Affordable Housing Master Plan (AHMP), adopted by the County Board in September 2015, found that many low-income senior households on fixed incomes face financial stress related to increasing condominium fee and real estate tax burdens.
- The AHMP included a recommendation to review the goals and guidelines of the RETR Program, and to consider redefinition of income levels, asset levels, and criteria for exemptions and deferrals.
- At FY 2017 budget adoption, the County Board requested the formation of a Working Group to study the County's current RETR Program and develop recommendations for consideration during the FY 2018 budget process.
- In CY 2017, 915 households were approved for RETR, resulting in $4,139,872 in uncollected revenue.

RETR PARTICIPATION STATISTICS BY TYPE OF BENEFIT

Type of Benefit	2012	2013	2014	2015	2016	2017
Full Exemption	875	764	707	650	639	645
50% Exemption	115	127	123	118	129	112
25% Exemption	101	128	131	143	135	137
Deferral Only	35	34	36	29	26	21
Total Approved	**1,126**	**1,053**	**997**	**940**	**929**	**915**
Uncollected Revenue	$4,583,156	$4,299,041	$4,232,471	$4,218,957	$4,163,131	$4,139,872

PARTICIPATION STATISTICS: 2017 INCOME AND ASSETS FOR RETR HOUSEHOLDS

Household Income	Number of Households	Percentage of Households
$0 - $20,000	110	12%
$20,001 - $40,000	304	33.3%
$40,001 - $60,000	285	31.1%
$60,001 - $80,000	137	15%
$80,001 - $99,472	79	8.6%

Household Assets	Number of Households	Percentage of Households
$0 - $100,000	472	51.6%
$100,001 - $200,000	207	22.6%
$200,001 - $300,000	155	16.9%
$300,001 - $400,000	71	7.8%
$400,001 - $500,000	10	1.1%
$500,001 - $540,000	0	0%

PARTICIPATION STATISTICS: 2017 ASSESSED VALUE OF RETR HOMES

Assessed Value	Number of Households	Percentage of Households
$0 - $200,000	64	7%
$200,001 - $400,000	220	24%
$400,001 - $600,000	256	28%
$600,001 - $800,000	300	32.8%
$800,001 - $1,000,000	65	7.1%
$1,000,001+	10	1.1%

RETR PROGRAM COMPARISON: 2018 NORTHERN VIRGINIA

Qualification Factors	Arlington County Current	Fairfax County	City of Alexandria	Loudoun County	Prince William County
Household Income Maximum	$99,472	$72,000	$72,000	$72,000	$87,073
Full Exemption	Full Exemption to: 1-2 people $55,953 3 people $62,667 4 people $69,560	0 - $52,000 up to 1 acre	0-$40,000 up to 2 acres	0-$72,000 up to 3 acres	0-$60,050 up to 1 acre
Partial Exemption	50% Exempt to: 1-2 people $68,387 3 people $76,593 4 people $85,018 25% Exempt to: 1-2 people $99,472 3 people $99,472 4 people $99,472	$52,001-$62,000 50% exempt $62,001-$72,000 25% exempt	$40,001-$55,000 50% exempt $55,001- $72,000 25% exempt	None	$60,051 - $69,058 75% exempt $69,059 - $78,065 50% exempt $78,066 - $87,073 25% exempt
Deferral	Can defer what is not exempt	None	Can defer what is not exempt	None	None
Asset Maximum	$340,000 for exemption/ $540,000 for deferral excludes house + property	$340,000 excludes house + up to 1 acre	$430,000 excludes house + up to 2 acres	$440,000 excludes house + up to 10 acres	$340,000 excludes house + up to 25 acres
Income Exclusions Relatives in Home: Disability:	- -	$6,500 per non-owner/non-spouse relative $7,500 per applicant with disability income	$10,000 per non-owner/non-spouse relative $10,000 per applicant/owner who is totally and permanently disabled	$10,000 per non-owner/non-spouse relative 100% for owner and/or spouse with disability income	$10,000 per non-owner/non-spouse relative $7,500 per applicant with disability income

RETR WORKING GROUP CHARGE

The RETR Working Group was charged by the County Manager to collaborate with staff to **provide commission, community, consumer and advocate perspectives** on possible future changes to the RETR Program in Arlington.

More specifically, the Working Group:

- **Researched and reviewed best practices** related to real estate tax relief throughout the country.
- **Engaged and informed** the community and relevant stakeholders of ongoing efforts and discussions.
- Determined if there may be Arlingtonians who qualify for RETR but are not currently participating in the program, and provided recommendations for **what could be done differently** to reach to these residents.
- Collaborated with a consultant to conduct **surveys and/or focus groups** to gauge the historical success of the RETR Program in reaching eligible Arlingtonians and enabling these residents to stay in their homes, and to ascertain what changes (if any) would allow the program to better address elderly and disabled Arlingtonians' needs.
- Utilized identified best practices and survey / focus group results to inform an **analysis of the current program's approach** to enabling elderly and disabled Arlingtonians to stay in their homes.
- **Provided recommendations** on how to best structure and administer the program in Arlington moving forward.

RETR WORKING GROUP STRUCTURE

- The RETR Working Group was a limited-term advisory body, with 12 members representing the following:
  - Commission on Aging (COA)
  - Disability Advisory Commission (DAC)
  - Fiscal Affairs Advisory Commission (FAAC)
  - Housing Commission (HC)
  - Real Estate Tax Relief program participants
  - Members-at-large
- <u>Chair and Vice-Chair</u>: Paul Holland (FAAC) and Patricia Sullivan (COA)
- <u>County Board Liaisons</u>: Christian Dorsey and John Vihstadt
- <u>County Staff Supports</u>: DHS, Community Planning, Housing, and Development (CPHD) and the Treasurer's Office.
- <u>Consultant</u>: The County contracted with Reingold, Inc. to conduct telephone surveys and focus groups involving Arlington's older homeowners and homeowners with disabilities.

COMMUNITY OUTREACH

The RETR Working Group and staff utilized a variety of tools and methods to engage and communicate with the community, including:

- A dedicated RETR Working Group and Study webpage https://commissions.arlingtonva.us/real-estate-tax-relief-retr-working-group/
- Public/Open-door Working Group meetings
- E-mail
- Social Media
- Telephone Surveys & Focus Groups *(over 9,800 calls/275 interviews; 3 focus groups/26 participants)*
- Media releases
- Presentations to Civic Associations and Commissions
- Community meeting *(Held March 6, 2017 at Arlington Mill Community Center; Approximately 60 attendees)*

*Public engagement cycles generated over 265 comments received via email, telephone, online, and at public convenings.

RECOMMENDATIONS

The proposed Arlington County Code amendments primarily impact the application timeline and program eligibility criteria.

- **Extend the RETR application deadline** from August 15 to November 15;
- Codify the existing administrative RETR Extension Policy; **allow extensions until January 31 under extreme circumstances;**
- Allow for the provision of **retroactive RETR of up to two (2) years under extreme circumstances;**
- **Increase** the RETR program's **exemption asset limit from $340,000 to $400,000;**
- **Adjust the asset limits annually** based on changes in the Experimental Consumer Price Index for Americans 62 Years of Age and Older (CPI-E);
- **Revise the method for calculating applicants' assets:**
  - Include assets of owner(s) and owners' spouses only
  - Allow for certain deductions in the event that the applicable asset limit is exceeded:
    - Qualified medical and dental expenses not covered by insurance,
    - Emergency home repairs not covered by insurance and exceeding $1,000 per repair, and
    - Condominium Association special assessments exceeding $1,000

RECOMMENDATIONS CONTINUED…

- **Expand the number of exemption levels** from three (100%, 50%, 25%) to four (100%, 75%, 50%, 25%);
- **Decrease applicant income limits to:**
  - $0-$45,000 for a 100 percent exemption for all household sizes,
  - $45,000.01-$55,000 for a 75 percent exemption for all household sizes,
  - $55,000.01-$65,000 for a 50 percent exemption for all household sizes,
  - $65,000.01-$80,000 for a 25 percent exemption for all household sizes, and
  - $80,000.01-$99,472 for a deferral only for all household sizes
- **Revise the method for calculating applicants' income** by excluding:
  - All disability income for owner(s) and/or owners' spouses, and
  - Up to $10,000 from the income of each non-owner/non-spouse relative living in the home
- **Adjust the income limits annually** based on changes in the Area Median Income;
- **Update** various **definitions to align with changes to Virginia Code.**

The cost of the proposed changes would be an estimated $153,898 net decrease in collected revenue per calendar year, plus approximately $3,200 in one-time administrative expenses to reprogram existing systems in the Department of Human Services and the Treasurer's Office.

RECOMMENDATIONS & IMPACT: NOTABLE HIGHLIGHTS

Revisions to the method of calculating applicants' income

	Current County Code	Proposed Code Change	Rationale/Impact
Calculating Applicants' Income			
Disability Exclusion	Does not allow for any income exclusions in determining eligibility for RETR	Exclude all disability income for owner(s) and/or owners' spouses	The Working Group recognized that disability expenses can be significant. In neighboring jurisdictions, disability income exclusions ranged from \$7,500 to \$10,000; (100% of disability income Loudoun County). **It is estimated that excluding all disability income for owner(s) and/or owners' spouses would impact seven (7) households, resulting in a \$20,000 decrease in collected revenue per year.**
Non-Owner/Non-Spouse Relative Exclusion	Does not allow for any income exclusions in determining eligibility for RETR	Exclude up to \$10,000 from the income of each non-owner/non-spouse relative living in the home	41 percent of survey respondents supported income exclusions for relatives. Restructured to not discourage intergenerational living arrangements; these living arrangements can provide many benefits to older adults, such as improved cognitive functioning, a decreased incidence of depression and social isolation, improved physical health, and an increased likelihood of aging in the community. In neighboring jurisdictions, income exclusions for each non-owner/non-spouse relative living in the home ranged from \$6,500 to \$10,000. **It is estimated that excluding up to \$10,000 from the income of each non-owner/non-spouse relative would impact 25 households, resulting in a \$33,000 decrease in collected revenue per year.**

RECOMMENDATIONS & IMPACT: NOTABLE HIGHLIGHTS

Revisions to the income limits

Exemption Level	Current Income Range	Proposed Income Range	Rationale/Impact
100% exemption	1-2 people $0-$55,953 3 people $0-$62,667 4 people $0-$69,560	$0-$45,000 (all household sizes)	More than half of telephone survey respondents supported an income limit increase. The upper income limits for neighboring jurisdictions range from $72,000 (Fairfax County, Loudoun County, City of Alexandria) to $87,073 (Prince William County). As a point of comparison, the 2017 annual household incomes adjusted by household size for 60 percent/80 percent of the Area Median Income (AMI) in Arlington County are as follows: • 1 person: $45,900/$61,200 • 2 people: $52,440/$69,920 • 3 people: $58,980/$78,640 • 4 people: $65,520/$87,360 Although the proposed upper income limit for exemptions ($80,000) represents a decrease over the current upper income limit ($99,472), all households presently participating in the program will continue to qualify for some level of RETR, whether it be an exemption, deferral, or a combination of the two. **It is estimated that 90 households would lose their RETR exemption as a result of decreasing the upper income limit; it is expected that approximately one-third of these households (30) would opt to defer what was previously exempt. This would result in a net increase of $83,614 in collected revenue per year.**
75% exemption	N/A	$45,000.01-$55,000 (all household sizes)	
50% exemption	1-2 people $55,953.01-$68,387 3 people $62,667.01-$76,593 4 people $69,560.01-$85,018	$55,000.01-$65,000 (all household sizes)	
25% exemption	1-2 people $68,387.01-$99,472 3 people $76,593.01-$99,472 4 people $85,018.01-$99,472	$65,000.01-$80,000 (all household sizes)	
Deferral Only	1-2 people $0-$99,472 3 people $0-$99,472 4 people $0-$99,472 (with assets exceeding $340,000)	$80,000.01-$99,472 (all household sizes, with assets $0-$400,000) $0-$99,472 (all household sizes, with assets $400,000.01-$540,000)	

RECOMMENDATIONS & IMPACT: NOTABLE HIGHLIGHTS

Revisions to the RETR program structure

	Current County Code	Proposed Code Change	Rationale/Impact
Exemption Levels			
Number of Exemption Levels	Three exemption levels: 100%, 50% and 25%	Four exemption levels: 100%, 75%, 50% and 25%	An additional exemption level could help lessen the effect of the "notch problem" possible under the current system of three exemption levels, in which a small increase in income could potentially move a household from a 100 percent exemption to a 50 percent exemption, resulting in greater loss of RETR. **It is estimated that 145 households would move from a 100% exemption to a 75% exemption, and 25 households would move from a 50% exemption to a 25% exemption, which, in combination with changes to the income limits, would result in a $236,995 increase in collected revenue per year.**
Retroactive RETR			
Retroactive RETR	There is no mechanism – in administrative policy or Arlington County Code – to allow for the provision of retroactive RETR	Allow retroactive RETR for up to two (2) years under extreme circumstances, as well as in instances in which the owner is retroactively determined to be permanently and totally disabled	Similar to codifying the Extension Policy, this will help in accommodating potential applicants who may have experienced a substantial impediment to the successful completion and/or submission of their RETR application. In some neighboring jurisdictions, retroactive RETR up to two (2) years is allowed when the owner is retroactively determined to be permanently and totally disabled. **It is estimated that the provision of retroactive RETR will impact approximately five (5) households annually, resulting in a $45,240 decrease in collected revenue per year.**

RECOMMENDATIONS & IMPACT: NOTABLE HIGHLIGHTS

Revisions to the method of calculating applicants' assets

	Current County Code	Proposed Code Change	Rationale/Impact
Calculating Applicants' Assets			
Assets – Inclusions and Exclusions	Assets are calculated as "the value of all assets including equitable interest, of the owner(s) and the owner's relatives living in the dwelling for which the exemption or deferral or both are claimed…"; the assets for all owners and relatives living in the home are counted.	Include only the assets of owners and owners' spouses	Restructured to not discourage intergenerational living arrangements; these living arrangements can provide many benefits to older adults, such as improved cognitive functioning, a decreased incidence of depression and social isolation, improved physical health, and an increased likelihood of aging in the community.
Assets – Deductions	Assets are calculated as "the value of all assets including equitable interest, of the owner(s) and the owner's relatives living in the dwelling for which the exemption or deferral or both are claimed…"; there is no provision for deductions.	Allow asset deductions for the following items: • Qualified medical and dental expenses not covered by insurance; • Out-of-pocket emergency home repairs not covered by insurance occurring within the tax year and exceeding $1,000 per repair; and/or • Condominium Association special assessments, occurring within the tax year and exceeding $1,000 per assessment. These deductions would only be calculated in the event that the applicant exceeded the applicable asset limit.	73 percent of survey respondents supported the deduction of medical expenses. In nearly all neighboring jurisdictions, RETR applicants may adjust their assets by deducting liabilities. **The annual cost associated with allowing for the various asset deductions is unknown at this time.**

RECOMMENDATIONS & IMPACT: NOTABLE HIGHLIGHTS

Revisions to the asset limits

<table>
<tr><th>Exemption Level</th><th>Current Asset Limit</th><th>Proposed Asset Limits</th><th>Rationale/Impact</th></tr>
<tr><td>100% exemption</td><td>$0-$340,000</td><td>$0-$400,000</td><td rowspan="5">The majority of survey participants (54%) supported raising the asset limit in order to accommodate more people in the RETR program.

Raising the asset limit would aid retirees that are increasingly likely to self-fund their retirement (vs. receiving income from a company-funded pension plan).

Neighboring jurisdictions have asset limits ranging from $340,000 (Prince William County, Fairfax County, City of Manassas) to $540,000 (City of Falls Church).

It is estimated that 90 households may gain eligibility for an exemption due to the recommended asset limit increase from the current limit of $340,000 to $400,000, resulting in a $376,267 decrease in collected revenue per year.</td></tr>
<tr><td>75% exemption</td><td>--</td><td>$0-$400,000</td></tr>
<tr><td>50% exemption</td><td>$0-$340,000</td><td>$0-$400,000</td></tr>
<tr><td>25% exemption</td><td>$0-$340,000</td><td>$0-$400,000</td></tr>
<tr><td>Deferral Only</td><td>$340,000.01-$540,000</td><td>$400,000.01-$540,000</td></tr>
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NEXT STEPS

- Authorization to advertise a July 2018 public hearing will be requested at the May 2018 County Board meeting.
- A second public engagement cycle will begin with release of the proposed RETR Code amendments through the July 2018 County Board meeting and public hearing.
- The proposed Code changes related to definitions would be effective immediately upon adoption, whereas changes impacting the application timeline and program eligibility criteria would be effective January 1, 2019.

QUESTIONS AND DISCUSSION

- ✓ RETR Background
- ✓ RETR Participation Statistics
- ✓ RETR Program Comparison
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