Impact of a Real Estate Tax Rate Reduction

Finance and Economic Development Committee

October 10, 2024

PURPOSE

	Ordinance	Description
1.	Ord. No. 2024-272	RVA Stay: Pilot Housing Gap Program
2.	Ord. No. 2024-273	RVA Stay: Older Adults/Persons with Disabilities Freeze Program
3.	Ord. No. 2024-274	Appropriate additional FY 2025 Real Estate Revenue
4.	Ord. No. 2024-275	Reserve a portion of the FY 2024 surplus for Real Estate Tax Rebate
5.	Ord. No. 2024-276	Provide the equivalent of a 4-cent Real Estate Tax Rebate
6.	Ord. No. 2024-277	Appropriate up to $16.0 million for the 4-cent Real Estate Tax Rebate

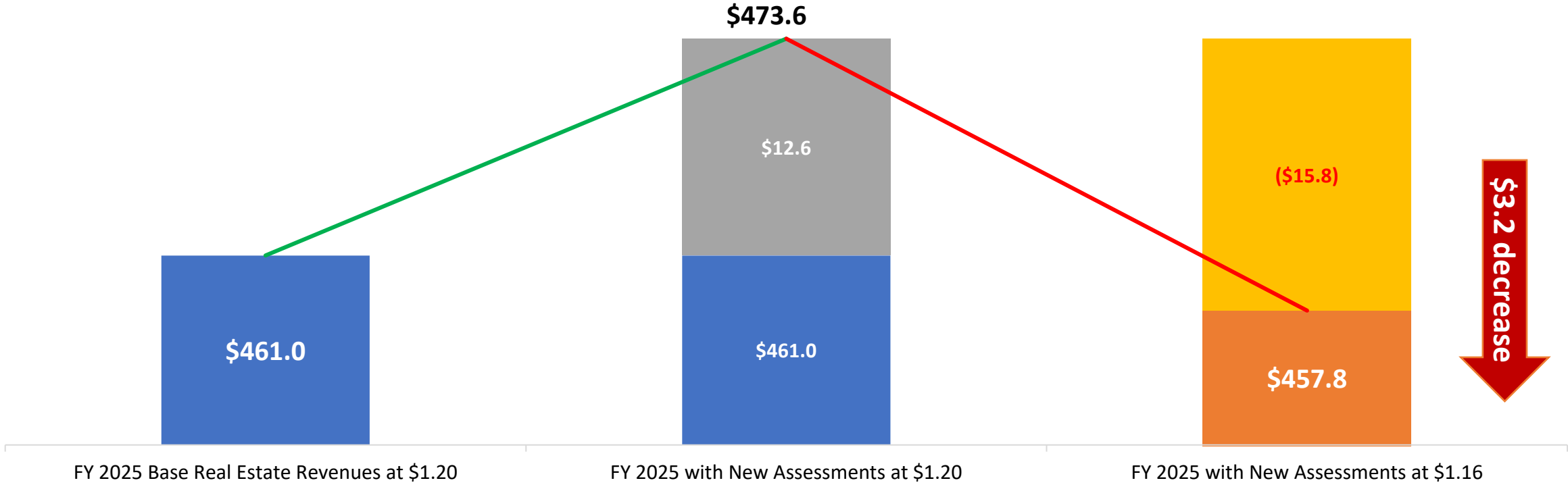
The Value of One-Cent of Real Estate Tax in FY 2025

$4.0 million in revenue

$50.0 million capital projects support

Reductions to the General Fund Revenue will also impact the amount of capital projects the city can support.

A 4-Cent Tax Rate Reduction Lowers FY 2025 Budget By $3.2 Million



Baseline Budget:

Budgeted Real Estate Revenue (4.0% increase in assessed value)

Tax Rate at $1.20:

$12.6 million additional revenues from 2.7% additional assessed value

Tax Rate at $1.16:

$3.2 million decrease from the baseline budget, even with additional assessed value

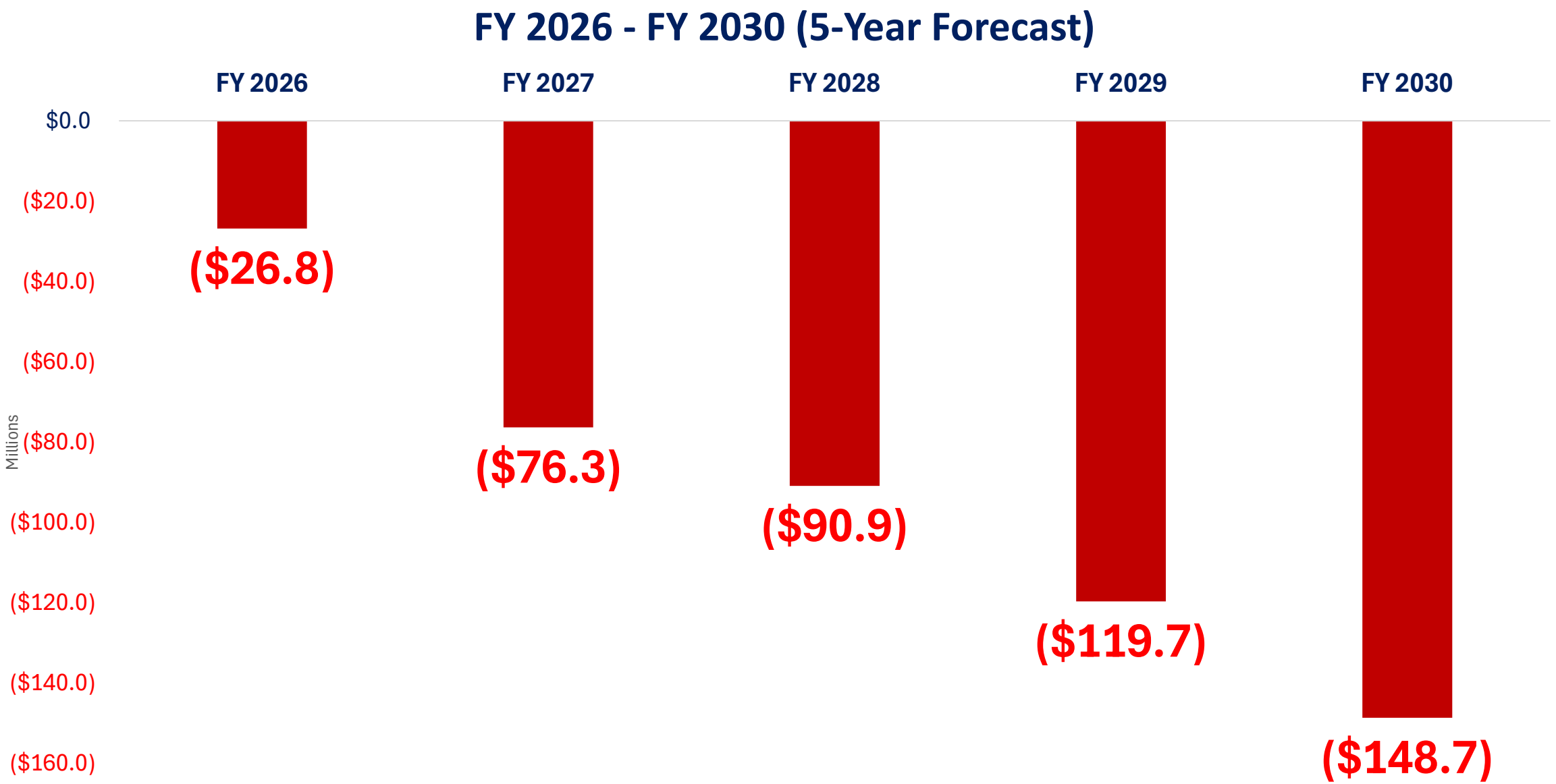
$1.16 Tax Rate = $3.2 Million Reduction to FY 2025

	A	B	C	D
1.	**FY 2025 Budget**	**Adopted**	**Updated Projection**	**Tax Rate = $1.16**
2.	Estimated January 1 Land Book Value	$40,216,347,000	$41,288,690,000	$41,288,690,000
3.	Tax Rate	**$1.20**	**$1.20**	**$1.16**
4.	Revenue Base	$482,596,164	$495,464,280	$478,948,804
5.	Adjustments:			
6.	Rehab credits for tax abatements	($12,240,243)	($12,240,243)	($11,832,235)
7.	Delinquent taxes (2%)	($9,407,118)	($9,664,481)	($9,342,331)
8.	**Projected Real Estate Current Revenue**	**$460,948,803**	**$473,559,556**	**$457,774,238**
9.		**Variance**	**$12,610,753**	**($3,174,565)**

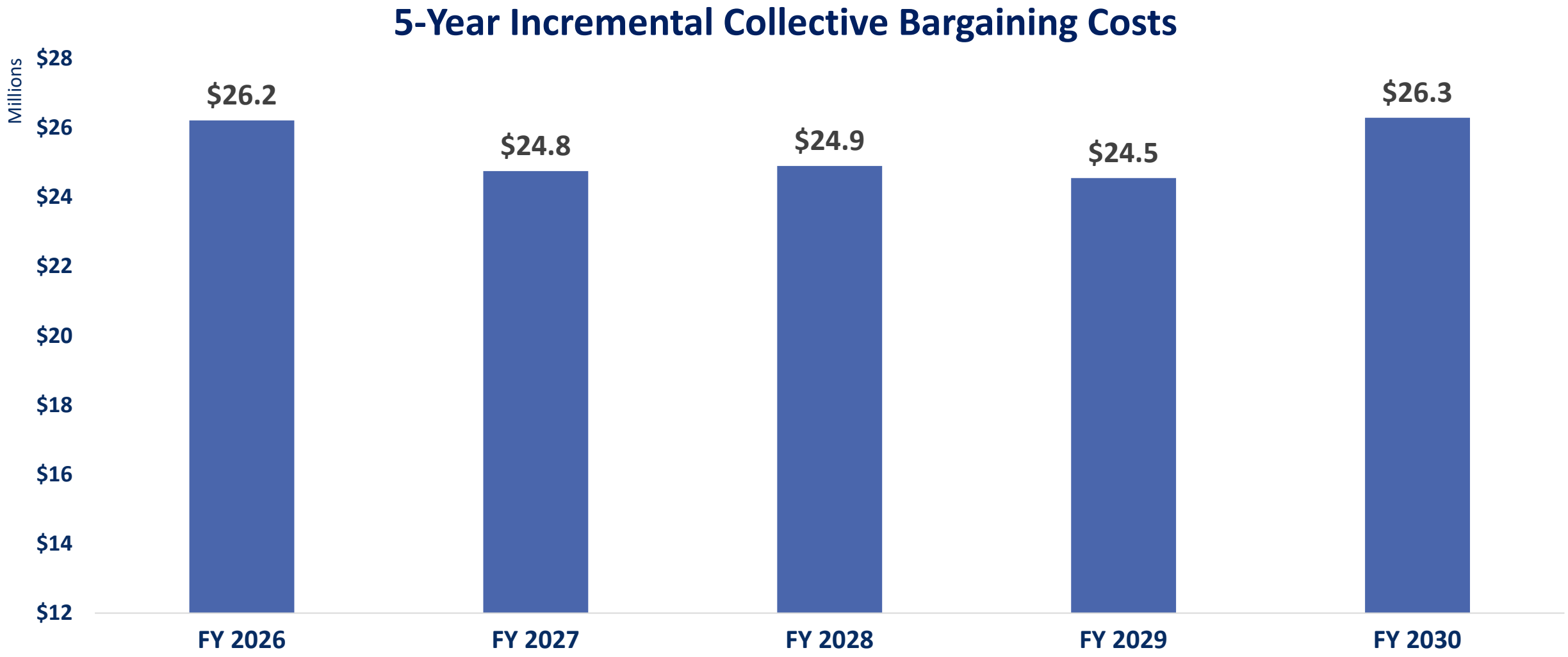
Increase FY 2025 Budget

Reduce FY 2025 Budget

Even At the $1.20 Tax Rate – Out Years are at a Deficit



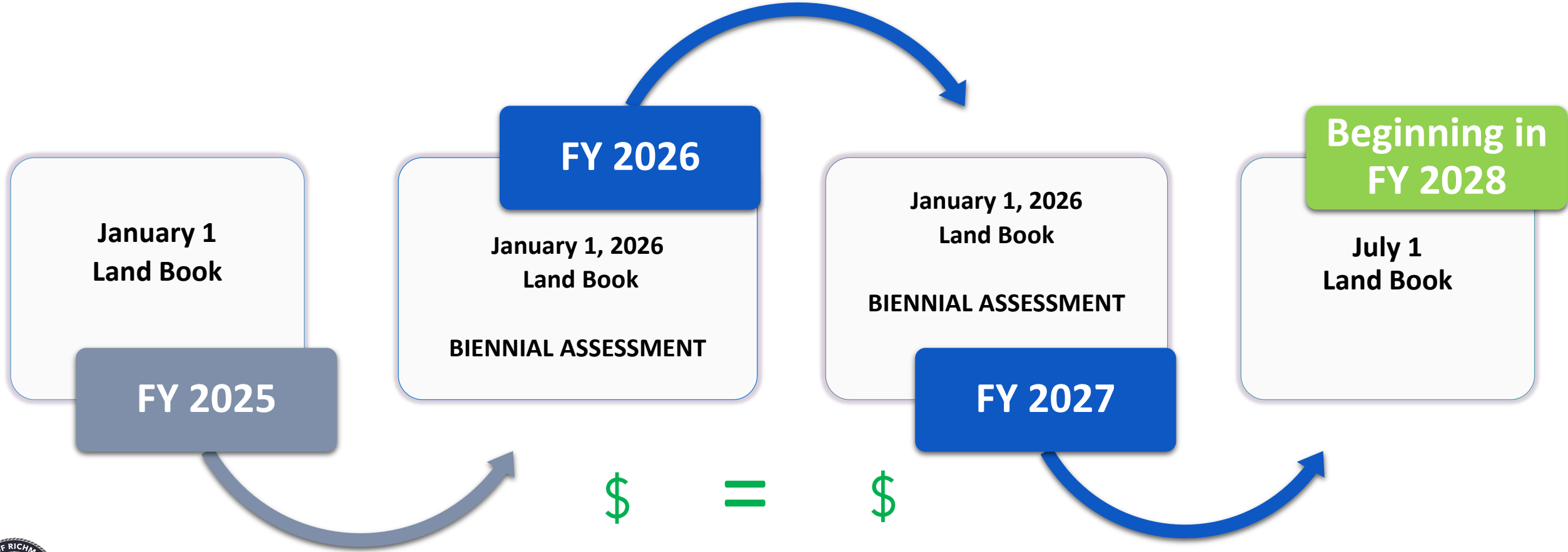
Collective Bargaining Average Yearly Cost About $25 Million



Amounts in Millions

Assessment Freeze Is Coming

January 1, 2026, Land Book Values in Effect for Tax Year 2026 and Tax Year 2027 Billing



$ are for illustrative purposes

Alternative Revenue Source Must Be Identified

Resolution 2013-R8-084

To establish a policy that (i) the patrons, whether the Mayor or one or more members of the Council, of **a proposal that would result in the reduction of an existing revenue source must also identify an alternative revenue source to offset the proposed reduction** and (ii) any proposal that would result in the reduction of an existing revenue source must have an effective date no earlier than the first July 1 falling at least 120 calendar days after the adoption of such proposal. (As Amended).

The City's Financial Advisors Recommend Against a Tax Rate Reduction

Davenport & Co.:

"Based on the analysis herein, we do not recommend reducing the $1.20 (per $100 of assessed valuation) Real Estate Tax Rate. We recognize that not every district is the same, however, when blended together as "One City" the data clearly demonstrates that over time the relative burden on City taxpayers has simply mirrored inflation."

Reduction of the tax rate would result in less revenues to support growth

Ability to provide essential services, reduce poverty, and invest in infrastructure and facilities would be hindered

Would not be viewed favorably by credit rating agencies absent a known and sustainable new source of revenue to offset the reduction

Source: Davenport & Co., Memo dated September 24, 2024.

Allocating the Additional FY 2025 Real Estate Revenue

$12.0 million

FY 2025 Budget Amendment Based on $1.20 Tax Rate

- $200,000 RVA Stay: Freeze
- $457,000 Afterschool Programming
- $679,500 Out of School/ Homeless Services
- $763,500 Public Safety Building
- $2.0 million Affordable Housing
- $3.9 million RVA Stay: Pilot Housing Gap Program
- $4.0 million Demolition

Proposed New Programs Go Away at the $1.16 Rate

~~$200,000~~
~~RVA Stay: Freeze~~

~~$457,000~~
~~Afterschool Programming~~

~~$679,500~~
~~School/~~
~~Services~~

~~$763,500~~
~~Building~~

~~Affordable~~

~~$3.9 million~~
~~RVA Stay:~~
~~Pilot Housing Gap Program~~

~~$4.0 million~~
~~Demolition~~

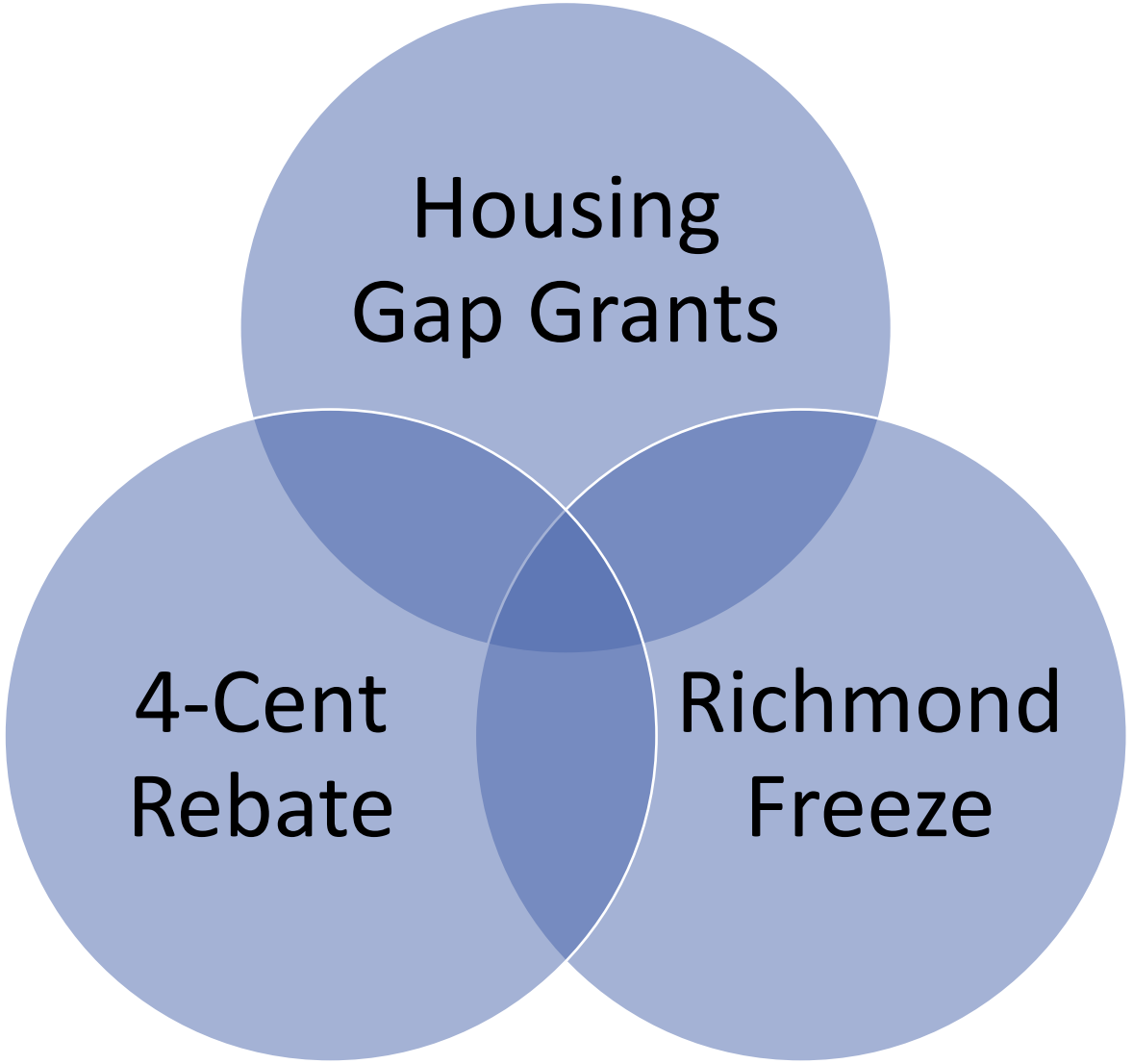
And reduce the FY 2025 Budget by

-$3.2Million Based on $1.16 Tax Rate

Tax Rate Reduction Alternatives: RVA *Stay*

Housing Relief Programs to Keep Residents in Richmond

Alternative Relief Proposal : RVA Stay



Housing Assistance Gap Grants: $3.9 Million

- More than 30% Housing Burden
- Up to $200 for 6-months
- Uses HUD 80% Income limits
- Homeowners and Renters
- Administered by the Local Social Services Board
- First Come First Served
- Requires Workforce Development
- Requires Financial Planning Sessions

HOUSING GAP GRANTS THROUGH SOCIAL SERVICES

The Director of Social Services is designated as the local board of social services (City Code § 2-570):

Designation as Social Services *Board.* The Director of Social Services, pursuant to Code of Virginia, § 63.2-304, is designated as and shall constitute the City's Social Services Board, and the Director is authorized to exercise all the rights and powers set out in Code of Virginia, § 63.2-304.

Pilot Housing Gap Grants Eligibility Criteria

HUD 80% AMI Income	
#	Income Limit
1	$61,800
2	$70,600
3	$79,450
4	$88,250
5	$95,350
6	$102,400
7	$109,450
8	$116,500

Limits by Persons in Household

Residency

Current City of Richmond resident

Rent or Own

Renter/home owner

Lease or deed in your name

Income Limit

Does not exceed the annual income limit for household size

Housing Costs

More than 30% of annual household income is dedicated to housing

Other Assistance

Not receiving other types of real estate/ housing relief

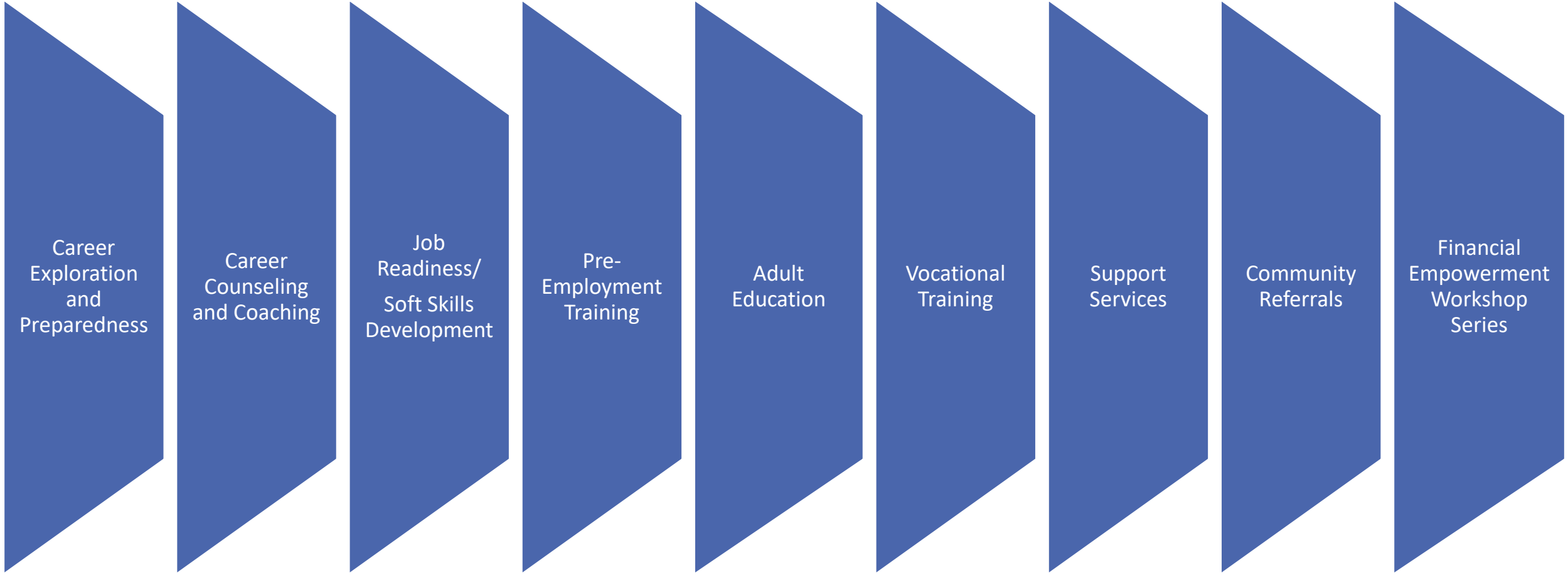
GETTING TO THE ASSISTANCE

1. Apply through Department of Finance
2. Social Services Director Review/Approval
3. Enroll with Office of Community Wealth Building (OCWB)
4. Relief Starts

Cross collaboration and coordination with the new Department of Neighborhood and Community Services for community engagement and outreach

Positioning our Residents to Thrive

Every Richmond resident and family should have the tools, resources, and opportunities to thrive.



Older Adults and Persons with Disabilities Tax Relief

(Formerly known as the Elderly/Disabled Real Estate Tax Relief Program)

Establish New Freeze Program: $200,000

Exemption

- Current exemption program provide relief to 2,332 participants
- **FY 2025 Cost = $5.75 million**
- At least 65 years or disabled
- Tiered approach to relief

Freeze (NEW)

- At least 65 years or disabled
- Caps the amount of taxes paid to the prior year of the application.
- Income limit = $125,000
- Net Worth = $750,000

OAPD: Richmond Freeze Program

Thresholds

Income Limit = $70,000

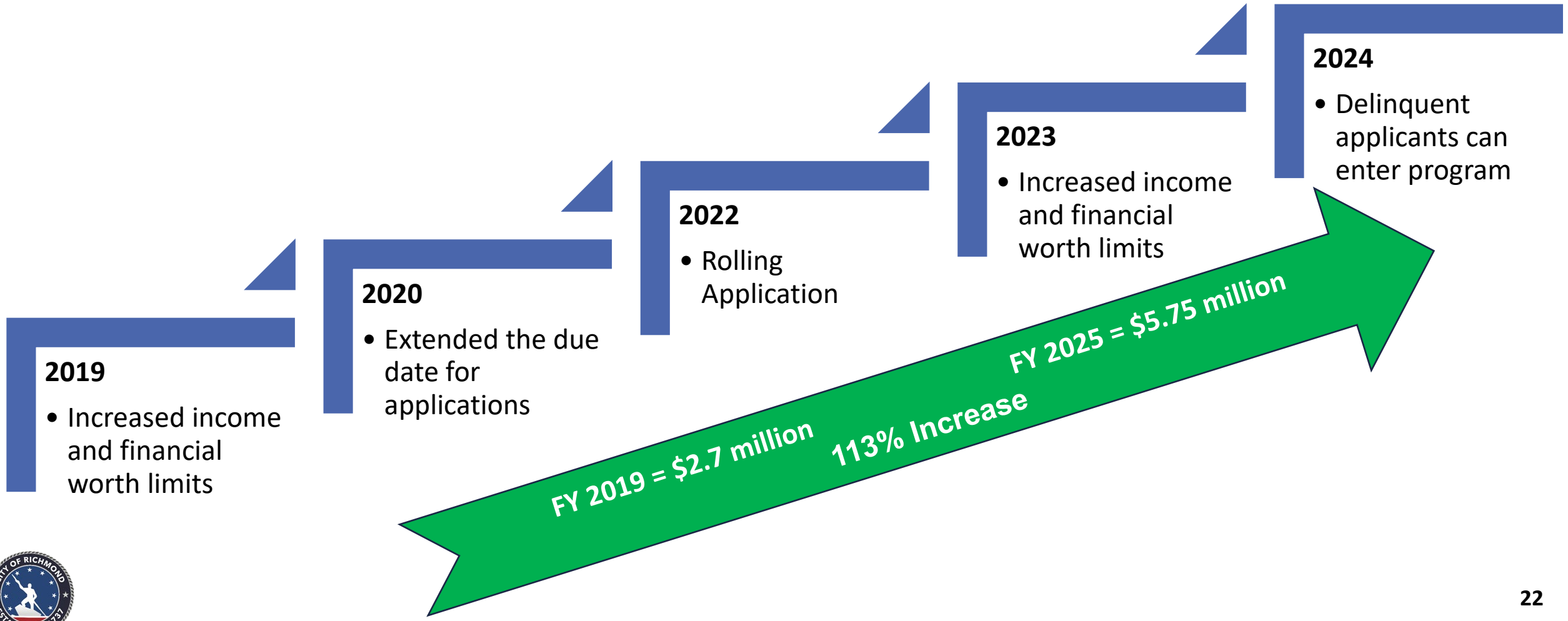
Asset Limit = $450,000

Income Limit = $125,000

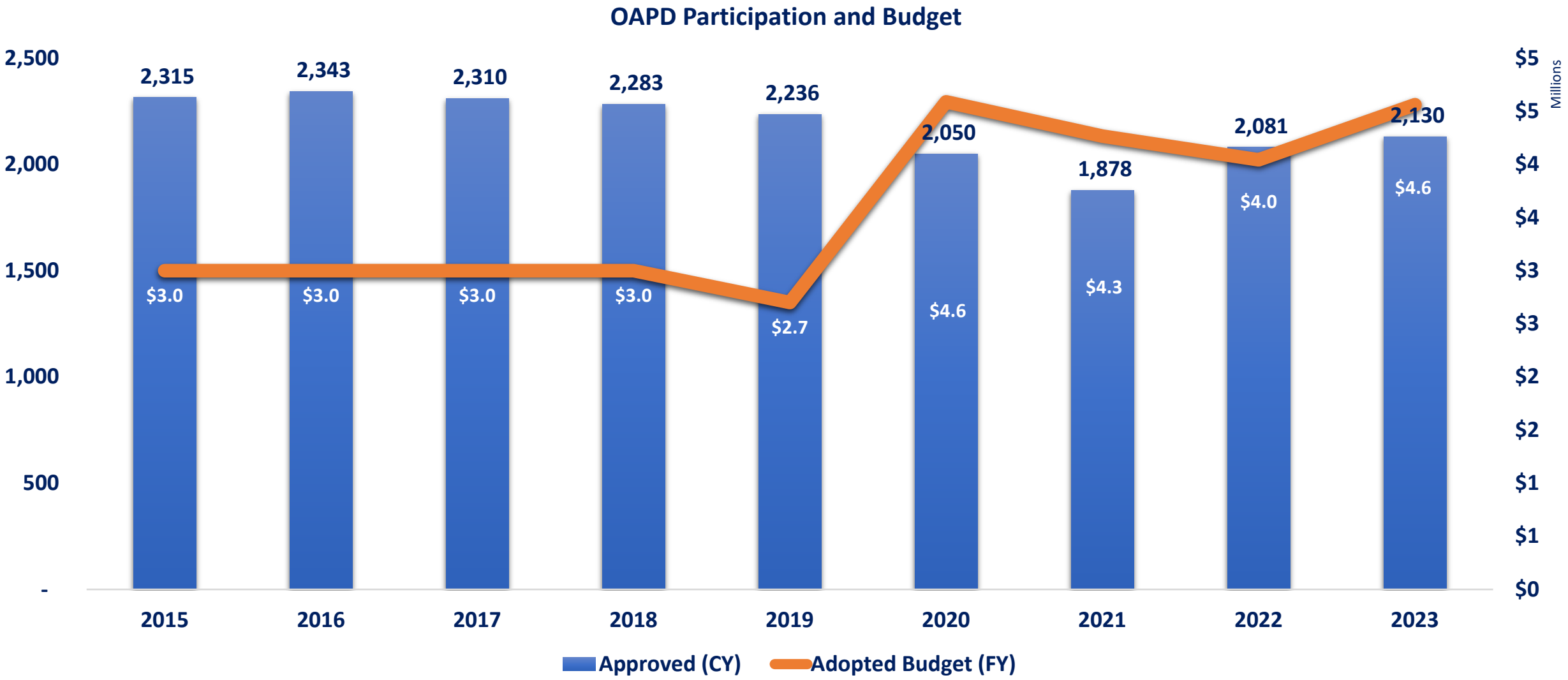
Asset Limit = $750,000

Impact of Recent Changes to OAPD are Not Known Yet

2023 legislation included an agreement that the administration will evaluate the program every three years beginning January 1, 2025, and provide a recommendation to City Council as to the need for program changes.



OAPD Participation and Budget Comparison



FY 2024 Budget is $5.1 million, and FY 2025 Budget is $5.75 million.

How Does Richmond's OAPD Program Compare?

	1	2	3	4	5
	City of Richmond ("OAPD")	**Henrico ("REAP")**	**Hanover**	**Chesterfield**	**Norfolk**
Household Income Max	$70,000	$75,000	$60,000	$62,000	$67,000
Net Worth Max	$450,000	$500,000	$400,000	$392,700	$350,000
Tax Relief Provided	Household income: $0-$30,000: 100% $30,001-$40,000: 75% $40,001-$50,000: 50% $50,001-$70,000: 25%	100% up to max relief limit	Amount based household income and % ownership of the qualifying owners	Household income: $0-$37,500: 100% $37,501-$46,500: 60% $46,501-$62,000: 35%	$0 to $28,611.00: 100% (exemption) $28,611.01 to $36,958: 80% (deferral) $36,958.01 to $45,306: 60% (deferral) $45,306.01 to $53,653: 40% (deferral) $53,653.01 to $67,000: 20% (deferral)
Max Relief Limit	N/A	$3,200	$3,500	$3,000	$3,292 multiplied by relief percentage
Application Cycle	Application effective for three years; recertification for years 2-3				
Participation Eligibility	Unique – OAPD or Tax Freeze, but not both (same limits)	Unique – REAP or CAP, but not both (different limits)	Unique (no freeze program)	Unique (no freeze program)	Unique (no freeze program)
Participation	2,330	6,300	1,400	14,000 (includes Veterans)	1,463
FY 2025 Budget	$5.75 million	$12.5 million	$3.9 million (includes Veterans)	$19.2 million (includes Veterans)	Sum sufficient $5.5 million (includes Veterans)

One-Time 4-Cent Relief with FY 2024 Surplus Funds

- All properties will receive an equivalent 4-cent rebate.
- Similar, to 2023, rebates will be distributed in February.

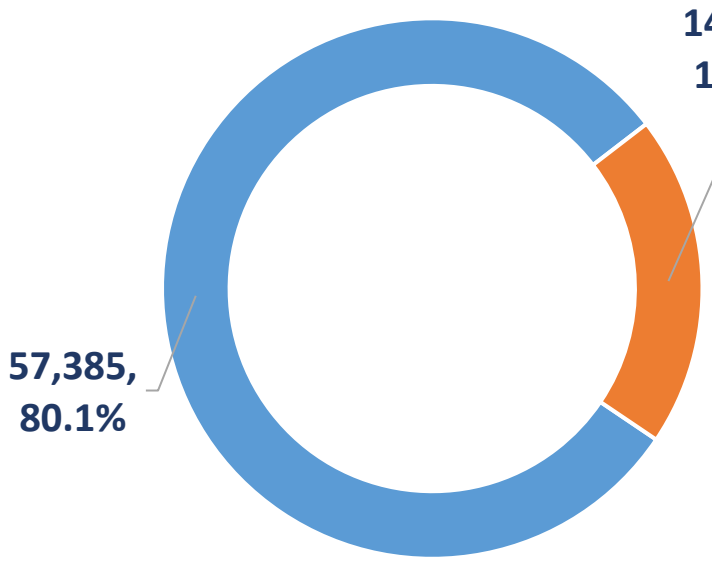
Impact of 1-Cent Relief at Low, Average, and High 2024 Land Book Values

	% of Taxable Parcels	Low*		Average		High*	
		Assessed Value	$0.01 Relief	Assessed Value	$0.01 Relief	Assessed Value	$0.01 Relief
Residential	84.1%	$1,000	$0.10	$366,163	$36.62	$6,906,200	$691
Condo	5.7%	$8,800	$0.88	$260,766	$26.08	$1,822,000	$182
Multi-Fam	1.9%	$2,000	$0.20	$5,125,092	$512.51	$81,665,200	$8,167
Commercial	6.1%	$1,000	$0.10	$1,352,202	$135.22	$175,101,200	$17,510
Industrial	2.1%	$1,400	$0.14	$1,695,584	$169.56	$155,922,800	$15,592
Overall	**100%**	**$1,000**	**$0.10**	**$539,934**	**$53.99**	**$230,590,400**	**$23,059**

Based on the average lowest and highest five values.
Note: Office of the Assessor of Real Estate 2024 Land Book. Amounts will be updated when the 2025 Land Book is finalized.

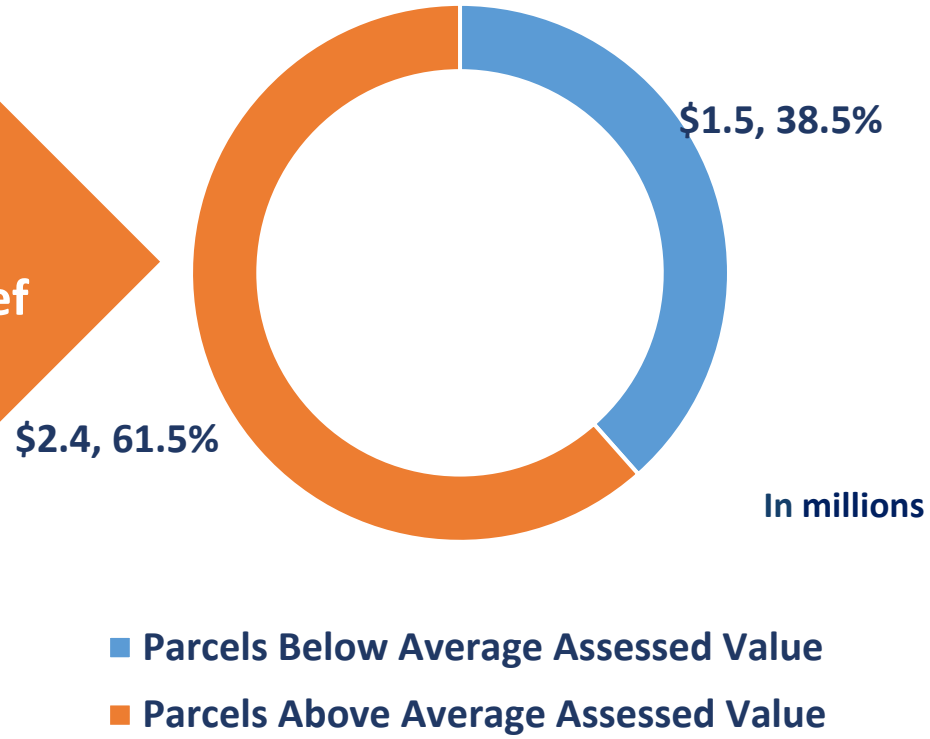
ALMOST TWO-THIRDS OF THE REBATE WOULD GO TO THE TOP 20% (WITH HIGHER-THAN-AVERAGE ASSESSED VALUE)

Chart 1: Count of Taxable Parcels* Above vs. Below the Average Assessed Value of $539,934



20% of parcels receive nearly two-thirds of relief

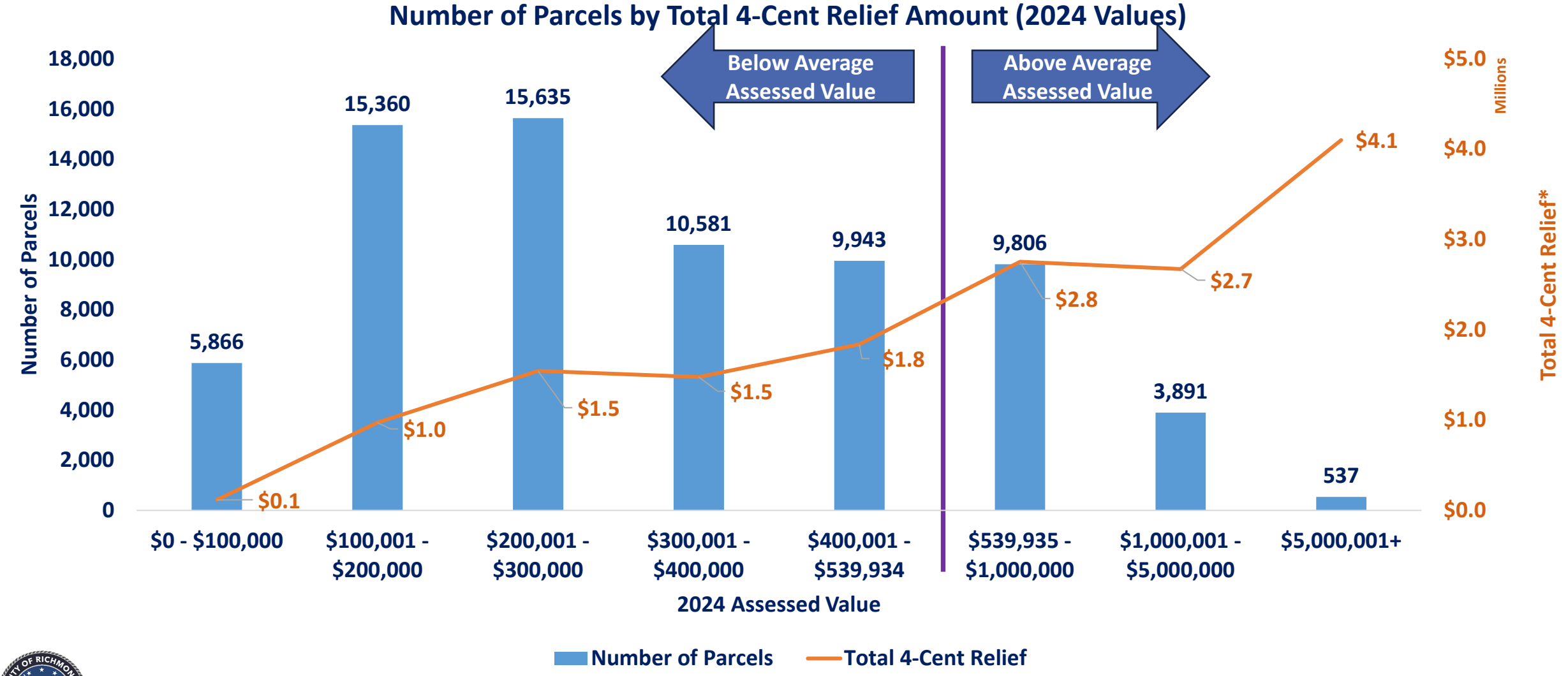
Chart 2: Share of $0.01 Relief of Taxable Parcels* Above vs. Below the Average Assessed Value of $539,934



**Excludes area tax parcels.*

Note: Office of the Assessor of Real Estate 2024 Land Book. Amounts will be updated when the 2025 Land Book is finalized.

80% of Parcels are Below the 2024 Average Assessed Value of $539,934, while 20% are Above

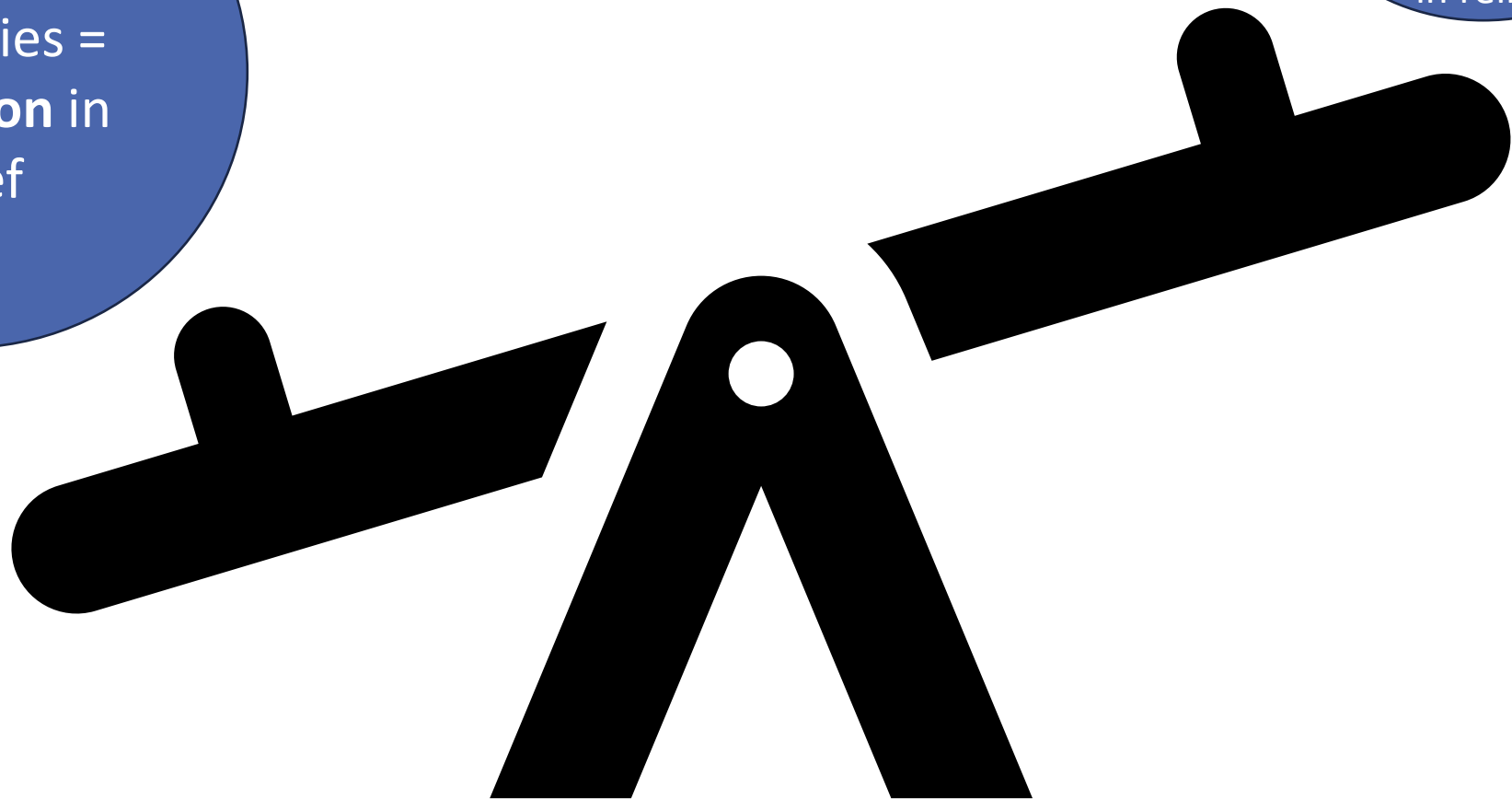


*Note: Office of the Assessor of Real Estate 2024 Land Book. *4-Cent relief is for example only using 2024 values. Amounts will be updated when the 2025 Land Book is finalized.*

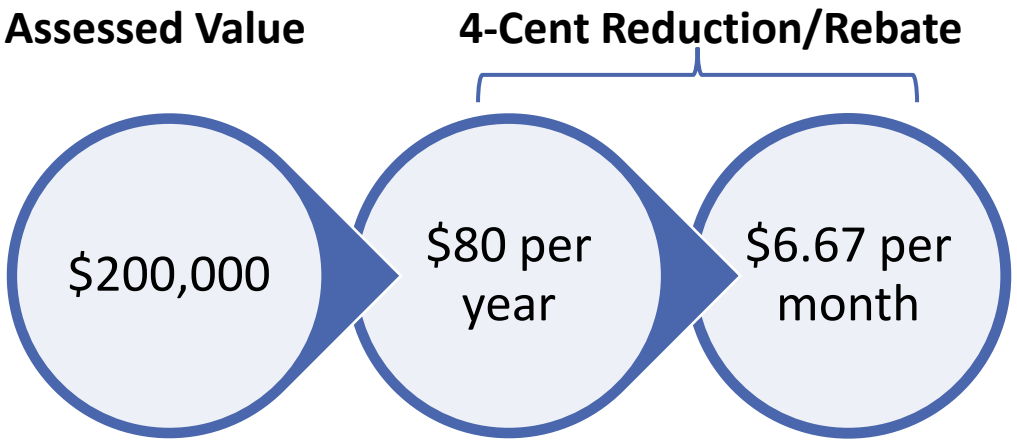
Relief is Not Targeted with a Per-Cent Reduction or Rebate

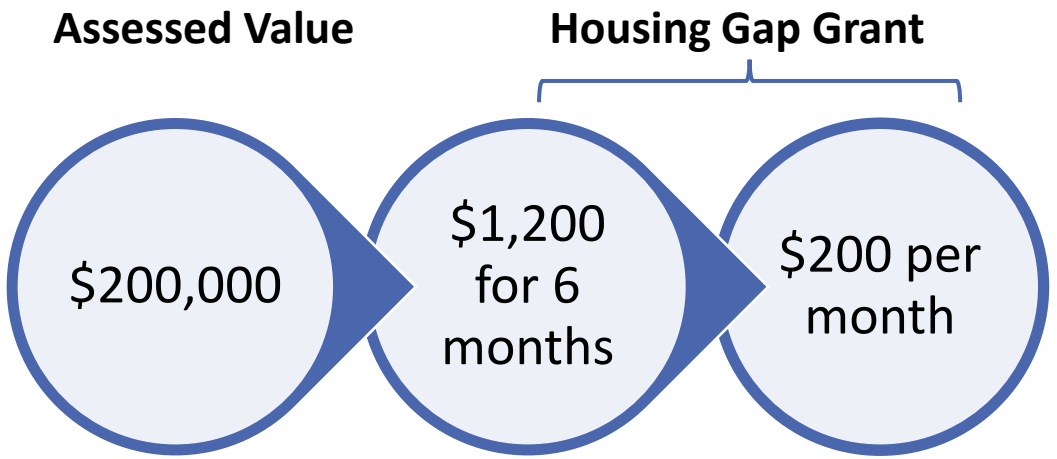
537 high-value properties = **$4 million** in relief

30,000 low/mid-value properties = **$2.5 million** in relief



Comparing a 4-Cent Savings to the Housing Gap Grant





Gap Grant vs. 4-Cent Relief for Two-Person Household with $50,000 Annual Income

14% monthly rent
Or 86% of one rent payment

Gap Grant

Renter

4-Cent Relief

- **Rent is $1,400/month ($16,800/year)**
- **Housing costs: 34% of annual income**

No relief unless landlord passes on rebate or tax reduction through reduced rent

12.5% monthly housing costs
Or 40% of real estate taxes

Gap Grant

Homeowner

4-Cent Relief

- **Assessed value = $250,000**
- **Tax is $3,000**
- **Monthly housing costs are $1,600**
- **Housing costs: 38% of annual income**

$100/year savings
Or 3% of real estate taxes

Funding the RVA Stay Initiative and Tax Rebate

Prior Fiscal Year Funds

FY 2024 Surplus

- $16.0 million
- Funds RVA Stay Rebate

Current Fiscal Year Funds

FY 2025 at **$1.20** tax rate

- $12.6 million
- Funds RVA Stay Gap Grants and Freeze

You Cannot Spend the Same Dollar Twice

Prior Fiscal Year Funds | **Current Fiscal Year Funds**

FY 2024 Surplus

- $16.0 million
- RVA Stay Rebate

FY 2025 at **$1.20** tax rate

- $12.6 million
- RVA Stay Gap Grants and Freeze

FY 2025 at **$1.16** tax rate

- -$3.2 million
- Cannot fund RVA Stay Gap Grants and Freeze
- Cut existing services

RECOMMENDATION

Instead of permanently lowering the real estate tax rate, take a three-pronged approach in 2025:

1. Establish the Gap Grants program.
2. Create the Richmond Freeze program.
3. Provide real estate taxpayers a one-time tax rebate equivalent to 4-cents.
4. Approve ordinances presented today.

Discussion