CITY OF RICHMOND

WHITE PAPER – POTENTIAL IMPACT OF ORDINANCE 2018-236 (TAX DEFERRAL PROGRAM)

BACKGROUND:

Recent Changes in Real Estate Assessments

Overall citywide taxable real estate values have increased in recent years, following four consecutive years of declines beginning in Tax Year 2009. Based on information provided by the City Assessor, the FY2019 Adopted general fund budget is based on a 6.8% increase in taxable assessments compared to the prior year. While taxpayers in some neighborhoods have complained of significant increases in the TY2019 assessments sent in June 2018, the total taxable real estate growth has averaged less than 1.4% per year from TY2009 to TY2019. It appears that Ordinance 2018-236 was introduced with the intention to alleviate significant one-year assessment increases that would lead to higher tax bills for owner-occupied real estate.

Brief Summary of Potential Impacts of Ordinance 2018-236

Ordinance 2018-236 would establish a new tax deferral program to be administered by the Department of Finance. The attached Ordinance Request document notes that "the City government will need staff and computer programming to track amounts owed to the City and to continually calculate interests (sic) on those amounts owed to the City. The cost of such staff and programing is not known at this time." It also indicates that taxpayers can participate in the tax deferral program regardless of household income, with implementation to begin July 2019. Deferred real estate taxes (representing more than a 10% increase compared to the prior year) would accrue 2% interest, and constitute a lien on the property up until the property is transferred to a new owner. That interest rate is well below what taxpayers would likely pay for mortgages, car loans, and credit cards, and also less than the City's short term interest earnings on available cash balances.

The ordinance doesn't list a minimum amount of taxes that can be deferred, a maximum amount of assessed value in order to participate, nor an administrative/application fee to help recover the costs associated with administering a major new program. It also doesn't specify an application deadline, but if taxpayers were required to commit to the program prior to the end of a given calendar year, that would be several months before the March 31st deadline associated with the Tax Relief for the Elderly and Disabled Program. Taxpayers may be interested in annually revisiting the short-term savings associated with the Tax Relief Program relative to a Tax Deferral Program.

Finance staff aren't aware of any other Virginia locality that allows for tax deferral regardless of income. The *Virginia Local Tax Rates 2017* publication by the Weldon Cooper Center for Public Service notes the following in reference to real estate tax deferral as allowed by § 58.1-3219 of the Code of Virginia:

- Loudoun County had a deferral program in place in the 1990s but terminated it "... because the program was administratively complex, cumbersome and required staff time in disproportion to the benefit received by the tax payer"
- The cities of Alexandria, Falls Church, and Fairfax and the counties of Fairfax and Henrico considered deferral but did not adopt it.
- According to Henrico staff, "The administrative procedures for tracing the properties and recovering the relevant taxes upon either the death of the owner or transfer of the property itself would be both cumbersome and time consuming and could not be accomplished with existing staffing levels or existing computer systems."

Potential Negative Revenue Impact of Ordinance 2018-236

Council staff provided an analysis of the potential negative impact on general fund revenues associated with the ordinance, based on a review of TY2019 assessments of residential properties compared to TY2018 assessments. This analysis indicated that if all property owners had taken advantage of a tax deferral program in TY2019, approximately $2.7 million in real estate tax revenue could have been deferred on 18,104 residential properties.

The Department of Finance believes this potential revenue impact is understated. Each year, real estate taxes associated with specific properties increase due to the expiration of tax rehabilitation credits associated with a program administered by the City Assessor. Those credits are tied to improvements made many years prior. The ordinance doesn't appear to prevent property owners with tax bills increasing due to expiring rehab tax credits from deferring the related taxes at 2% interest. Given that the majority of the FY2019 Adopted general fund budget supports Schools and Public Safety, this new program could have a significant impact on the FY2020 revenue budget. The deferral of real estate tax revenue was not anticipated in the FY2020 Approved budget within the Biennial Fiscal Plan.

Potential Negative Operational Impact of Ordinance 2018-236

As noted above, Ordinance 2018-236 would create a new program to be administered by the Department of Finance, with an unknown impact on expenses. If TY2020 real estate assessments were to repeat the pattern evident in TY2019, over 18,100 property owners might be eligible to participate in the program. That total number of properties includes:

- Over 15,000 properties where the amount deferred would be less than $250
- Nearly 11,000 properties where the amount deferred would be less than $100
- About 6,500 properties where the amount deferred would be less than $50

These statistics indicate that there would be a major administrative burden for the Department of Finance related to relatively small dollar amounts. In order to provide some perspective, Finance currently dedicates some significant resources to administer the Tax Relief for the Elderly and Disabled Program, which had 2,220 participants in 2018. The tax deferral program outlined in the ordinance could create a program with over 8 times as many participants, based on the pattern of TY2019 assessments. That would be indicative of a need to add several additional full-time staff members to the Department of Finance for this program.

Separate from the staffing costs to implement a major new program, the ordinance would lead to significant costs related to printing application forms, providing each owner written notification of the determination as to whether the applicant qualified, and tracking amounts owed with continually calculated interest. Finance staff believe the City's revenue administration system doesn't have the capability to track deferred taxes with the respective amount of interest due, which seems to indicate that this information would need to be tracked manually in spreadsheets.

Further, Finance wouldn't be able to determine what portion of any real estate tax bill increase would be associated with "renovations or additions to the existing structure that were completed within the previous tax year", as outlined in the ordinance. The City Assessor's land book information that is used to generate tax bills only lists the new assessed value for improvements and land, not indicating what portion of the improvements are associated with such renovations or additions. Therefore, the Assessor would need to capture and maintain such data.

This lack of detailed assessment information as it pertains to the ordinance would likely have a major workload impact on the City Assessor's Office. If tax deferrals were allowed, assessment appeals could increase, and some kind of review board in the Assessor's Office may need to be established for appeals.

RECOMMENDATIONS:

As the Department of Finance wasn't consulted regarding the potential negative impacts of Ordinance 2018-236 before it was introduced, ideally the paper should be withdrawn if not considerably amended. If the legislative intent is to prevent residential taxpayers with limited means but ineligible for Tax Relief from bearing a significant one-year increase in their real estate tax bills, staff recommends the following alternative:

If allowed under State law, the ordinance should be amended to share the administration of the program with the City Assessor, where the Assessor could determine the new taxable assessment at market value but abate the portion that represents more than a 10% increase over the prior year's assessment. In order to lessen the administrative and revenue impact, the abatements could be limited to properties with a certain maximum assessment (e.g. $300,000) and be limited to a minimum deferred tax amount (e.g. $50).

Finance's adjustments to the real estate tax bill could be accomplished through roll corrections once received from the Assessor's Office, but staff would still need to manually track tax amounts deferred and accrued interest for an estimated 18,100 properties. The Assessor's Office would need to determine eligibility, establish an appeals board, and analyze the assessment information to consider increases due to improvements, and respective minimum and maximum amounts. Therefore, additional staff will be needed in both the City Assessor's Office and the Department of Finance to administer a tax deferral program.

ATTACHMENTS:

Ordinance 2018-236