Date of Meeting: March 2, 2021

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BOARD OF SUPERVISORS
BUSINESS MEETING
ACTION ITEM

SUBJECT:	**Response to Board Member Initiative – Amendment to Codified Ordinance: Chapter 872 – Real Estate Tax Relief for Elderly or Totally and Permanently Disabled**
ELECTION DISTRICT:	Countywide
CRITICAL ACTION DATE:	At the pleasure of the Board
STAFF CONTACTS:	Caleb Weitz, Finance and Budget Alex Espinosa, Finance and Budget

PURPOSE: To provide information in response to a Board Member Initiative (BMI) approved by the Board in December 2020 to review the qualifying criteria for the County's Real Estate Tax Relief program for the elderly or totally and permanently disabled.

RECOMMENDATIONS: If the Board is interested in making changes to the income brackets of the County's Real Estate Tax Relief Program for the elderly or totally and permanently disabled, Consumer Price Index (CPI) data suggest that a 6.5 percent increase would be the most appropriate increase to reflect the change in CPI since 2015. If the Board approves changes to the program, the Commissioner of the Revenue has recommended changes be brought to a public hearing for the Board's consideration by July 2021 to allow sufficient time for outreach to the impacted community. Furthermore, it is recommended that any changes be effective Tax Year 2022 or January 1, 2022.

BACKGROUND: At their December 15, 2020, Business Meeting[1], the Board of Supervisors (Board) (8-0-1, Kershner absent) directed staff to study the possibility of increasing the qualifying Annual Gross Household Income up to $10,000 identified in Loudoun County Ordinance Chapter 872: Real Estate Tax Relief for the Elderly or Totally and Permanently Disabled and to provide options to change the program if the data justifies such an increase. As detailed in the item, the Board specifically requested an analysis of the CPI in the Washington Metro Region since 2015, housing assessment in Loudoun County since 2015, and tax revenue lost to the program.

The Tax Relief for Elderly or Totally and Permanently Disabled program provides real property tax relief for property owners who are at least 65 years of age or totally and permanently disabled

[1] Item 11, Amendment to Codified Ordinance: Chapter 872 - Real Estate Tax Relief for Elderly or Totally and Permanently Disabled, Business Meeting, December 15, 2020

as of December 31 of the previous year. Under the Virginia Code § 58.1-3212, the Board has the authority to establish real property tax exemptions based on net financial worth or annual income. Permanently and totally disabled is defined as:

- A person who has been certified by the Social Security Administration, the Department of Veterans Affairs or the Railroad Retirement Board, or

- If such person is not eligible for certification by any of these agencies, a person who has been certified by a sworn affidavit by two medical doctors who either are licensed to practice medicine in the Commonwealth or are military officers on active duty who practice medicine with the United States Armed Forces, to the effect that the person is permanently and totally disabled.

Further, the individual must be found by the Commissioner of the Revenue to be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment or deformity which can be expected to result in death or can be expected to last for the duration of such person's life. Qualified applicants may be exempt from paying real property taxes on their home and lot, up to three acres. Land in excess of three acres and any additional lots and certain structures are ineligible for relief. Manufactured homes (mobile homes) may qualify for tax relief.

The program was last revised in December 2017[2] to include a 50 percent exemption for four additional income and net worth brackets. In establishment of the brackets, staff considered the administrative cost and complexity of more brackets and the equity achieved by doing so. The new criteria became effective January 1, 2019. Income and net worth requirements of the program as well as the relief provided by income range are shown in **Table 1**[3].

Table 1. Income and Net Worth Requirements

Annual Gross Household Income	Total Net Financial Worth as of 12/31	Percentage of Exemption (up to 3 acres)
$0 - $72,000	Cannot Exceed $440,000	100%
$0 - $65,000	$440,000.01 to $560,000	50%
$0 - $59,000	$560,000.01 to $680,000	50%
$0 - $52,000	$680,000.01 to $800,000	50%
$0 - $46,000	$800,000.01 to $920,000	50%

[2] Item 5, Proposed Amendments to the Codified Ordinances of Loudoun County, Chapter 872, Real Estate Tax Relief for the Elderly or Totally and Permanently Disabled, Public Hearing, December 13, 2017

[3] Military veterans having 100 percent service-connected, total and permanent disability may qualify for 100 percent property tax exemption. The surviving spouse of a disabled veteran is also eligible for real property tax exemption if the veteran died after December 31, 2010, the surviving spouse maintains the property as a principal residence, and he or she does not remarry. Surviving spouses of service members killed in action are also eligible for tax relief. These exemptions are granted irrespective of their financial situation.

Annual gross household income is computed by adding all the prior year's gross income received by the owner(s), the owner's spouse, and all relatives of the owner(s) that reside in the home on December 31st. A deduction up to $10,000 may be applied to the spouse of an owner and to any relatives with income residing in the home. Furthermore, 100 percent of the disability income of the disabled owner or owner's spouse may be deducted from gross household income.

Total net financial worth is calculated as of December 31 of the previous year. It includes the value of all assets less liabilities of the owner(s) and the spouse of any owner, excluding the value of the dwelling and lot up to 10 acres.

For comparison purposes, the income and net worth requirements for surrounding jurisdictions can be found in **Attachment 1**. Three of the jurisdictions listed appear to regularly adjust income brackets and/or net worth criteria, either by area median income, consumer price index, and/or Department of Housing and Urban Development (HUD) metrics **(Attachment 2)**. For example, Prince William County defines a base income bracket with subsequent brackets identified as a percent of the base income as opposed to identifying a numerical amount of income. The seven incorporated towns in the County are not included in Attachment 1 as they defer to the County's tax relief program for the elderly or totally and permanently disabled. Any changes to the County's program, therefore, result in changes to the town programs and their real property tax revenue collections.

The FY 2021 Adopted Budget included $12.4 million in foregone revenue for tax relief including this program and tax relief for disabled veterans and spouses of service members killed in action. Based on historical trends, staff anticipates that approximately $8.2 million of this foregone revenue will come from tax relief for the elderly or totally and permanently disabled (excluding disabled veterans for whom there are no income requirements). **Table 2** displays the estimated foregone revenue by tax year (TY) back to 2016. As the current computer system was implemented in mid-2015, data for prior years is not readily available. As shown in the table, the expansion of the program to include the additional four tax brackets effective beginning Tax Year 2019 did not result in a significant increase in foregone revenue. In TY 2020, 87 households qualified under the new brackets.

Table 2. Estimated Foregone Real Property Tax Revenue by Tax Year[4]

Tax Year	Original Brackets	New Brackets Effective TY 2019	Total Foregone Revenue
2016	$8.2 million	n/a	**$8.2 million**
2017	$8.1 million	n/a	**$8.1 million**
2018	$7.7 million	n/a	**$7.7 million**
2019	$7.9 million	$0.1 million	**$8.0 million**
2020	$7.9 million	$0.2 million	**$8.1 million**

ISSUES: Specific data points requested by the Board in consideration of potential changes to the program included the CPI for the Washington Region since 2015, housing assessments in Loudoun County also since 2015, and tax revenue lost to the program. The BMI further directed staff to present options to amend Chapter 872: Real Estate Tax Relief for the Elderly or Totally and Permanently Disabled to increase, up to $10,000, the income allowed for qualification if the data justified the increase. CPI and housing values have increased since 2015, potentially justifying an increase to the income brackets of the program.

Moody's Analytics provides historical data on the CPI for the Washington D.C. Metropolitan Statistical Area (MSA) as part of the Department of Finance and Budget's annual subscription to economic indicators. **Table 3** displays the annual CPI as well as Moody's forecasted CPI for the next three years based on the December 2020 forecast. Since 2015, CPI for the region has increased 6.5 percent.

Table 3. CPI – Washington D.C. MSA

Year	CPI	Annual Change	Change Since 2015
2015	250.49		
2016	253.11	1.0%	1.0%
2017	256.16	1.2%	2.3%
2018	260.98	1.9%	4.2%
2019	264.37	1.3%	5.5%
2020	266.82	0.9%	6.5%
2021 Forecast	271.35	1.7%	8.3%
2022 Forecast	279.32	2.9%	11.5%
2023 Forecast	287.30	2.9%	14.7%

Table 4 displays the average home value by calendar year. This value represents the average value of **all** homes in the County given the mix of homes (single-family detached, townhouse, and

[4] Amounts shown are for the elderly or permanently disabled excluding disabled veterans. The County is mandated to provide 100 percent exemption for all permanently and totally disabled veterans. Staff from the Commissioner of the Revenue estimate Tax Year 2020 relief for disabled veterans at $4.1 million.

condominium) that existed for each year. The average assessment has increased 18.1 percent since 2015[5]. While assessments have increased, tax rates have decreased since 2015. In considering the tax burden, the average tax bill has increased 7.7 percent since 2015. Since the average home value can be skewed by newly built homes, for reference **Table 4** also includes the average home value for those individuals receiving tax relief in each year and the corresponding average tax bill, for which the homeowners were granted some level of tax relief.

Table 4. Average Loudoun County Home Value

Year	Tax Rate	Average Home Value	Average Homeowner Tax Bill	Average Home Value In Program[6]	Average Program Tax Bill Before Relief[5]
2015	$1.135	$436,400	$4,953	n/a	
2016	$1.145	$444,300	$5,087	$340,400	$3,898
2017	$1.125	$452,700	$5,093	$346,000	$3,893
2018	$1.085	$471,900	$5,120	$357,900	$3,883
2019	$1.045	$494,000	$5,162	$380,100	$3,972
2020	$1.035	$515,600	$5,336	$391,100	$4,048
Change since 2015		**18.1%**	**7.7%**	**14.9%**	**3.8%**

When considering the appropriate income levels for the tax relief program, applying a 6.5 percent increase based on the increase in CPI since 2015, would result in revised income brackets as shown in **Table 5**[7]:

Table 5. CPI-Adjusted Income Brackets

Previous Income Bracket	CPI-Adjusted Bracket
$0 - $72,000	$0 - $77,000
$0 - $65,000	$0 - $70,000
$0 - $59,000	$0 - $63,000
$0 - $52,000	$0 - $56,000
$0 - $46,000	$0 - $49,000

[5] The average assessed value is an average assessment for all homes. The actual value of individual properties will generally differ from the average depending upon the specific characteristics of the property (e.g. location, age, size, and condition). The average value of a home exempted under the tax relief program differs from the average value of homes countywide.

[6] Due to system changes, the average home value of those receiving tax relief from this program is not readily available. Rates of change displayed for the program are compared to 2016.

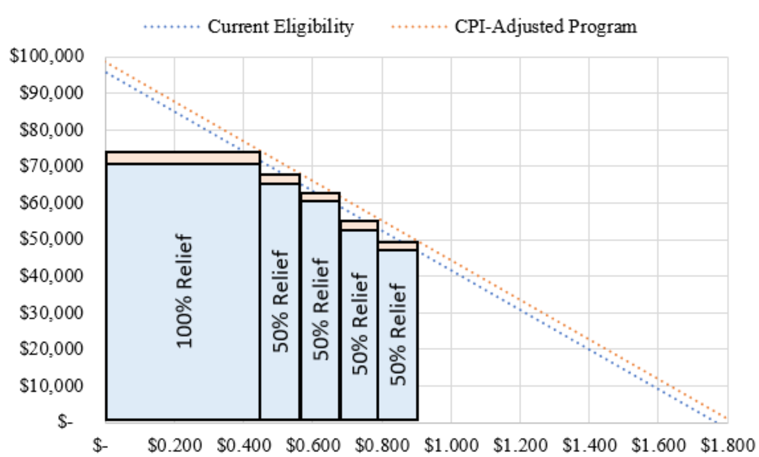
[7] Staff recommends that any changes to the tax brackets be to the nearest $1,000 for easier communication with potential applicants. CPI-Adjusted brackets have been rounded up to the nearest $1,000.

An increase of $10,000, as mentioned in the BMI, would represent a 13.9 percent increase at the highest income bracket. The Board could consider such an increase in anticipation of future inflation. As shown in **Table 3**, an increase to the income brackets of this magnitude would capture the increases in CPI since 2015 and the forecasted increases in CPI through 2023.

As mentioned above, the 2017 program revisions established four new brackets for net worth based on income level. The net worth brackets were set based on the principle that financial assets can be converted to income by using annuities. Since financial assets can be converted to income, residents with a higher net worth but with less income may be in a similar financial position as those with a lower net worth and higher income. Increasing the income brackets, the net worth brackets, or some combination of the two are all ways to adjust the program to reflect increasing homeowner costs.

Figure 1 displays the relationship between annual income and net financial worth under the current eligibility criteria and how each bracket would be adjusted if income were increased based on CPI changes since 2015. The downward sloping blue dotted line depicts all combinations of annual income and net worth having the same annuitized income value. The blue rectangles below this line identify the various combinations of income/net worth that would fall into the current tax relief brackets. As a guide to adjusting brackets to reflect increasing costs, the diagonal line would shift to the right[8] as illustrated by the orange diagonal line, which reflects increases to the income brackets consistent with those identified in Table 5. The points along this line show the combinations of income and net worth that result in an equivalent overall increase of 6.5 percent. The orange boxes then show the increased combinations of income/net worth that would fall into each eligibility bracket, if only income were increased. Staff does not recommend changes to the net financial worth ranges at this time.

Figure 1. Comparison of Current Eligibility Criteria to CPI-Adjusted Income Brackets



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[8] Given the current lower returns on annuities, staff has retained the same assumed relationship between income and assets. This line is shown with the same slope as in 2017.

If the Board is interested in making changes to the income brackets, this item identifies several different approaches. Options presented include increasing the income brackets based on changes to CPI since 2015 as requested in the BMI, fixed increases of $10,000 as identified in the BMI, or deferring to income limits established by other external partners. The Commission on Aging was provided a briefing on the program and potential changes at its meeting on February 9 and will likely weigh in on any Board action. **Table 6** displays the redefined upper income limits for each income bracket based on changes in CPI since 2015 and based on a fixed amount as identified in the BMI. The Board is not limited to the options presented in Table 6.

Table 6. Potential Upper Limits for Redefined Income Brackets

Relief Percentage	Current Limit	CPI-Adjusted (Motion #1)	Fixed Amount (Motion #2)
100%	$72,000	$77,000	$82,000
50%	$65,000	$70,000	$75,000
50%	$59,000	$63,000	$69,000
50%	$52,000	$56,000	$62,000
50%	$46,000	$49,000	$56,000

FISCAL IMPACT: The FY 2021 Budget includes approximately $8.2 million in foregone revenue for real property tax relief for the elderly or totally and permanently disabled. Given the lack of data surrounding incomes and ages of homeowners in the County, staff cannot accurately estimate the impact of adjusting the income brackets. Given the financial impacts experienced when the four additional brackets were added, staff believes the current program budget would be sufficient to cover any increases in foregone revenue.

Any changes to the County's Tax Relief for Elderly or Totally and Permanently Disabled Program would also have a fiscal impact on the towns. All of the towns follow the County's program guidelines.

ALTERNATIVES:

1. The Board of Supervisors could increase the upper limit for annual gross household income for each income bracket by 6.5 percent consistent with the increase in CPI since 2015.

2. The Board of Supervisors could increase the upper limit for annual gross household income for each income bracket by $10,000 in anticipation of forecasted increases in CPI through 2023.

3. The Board of Supervisors could direct staff to pursue changes to the ordinance and program that would allow for regular review of income based on specific indicators or published datasets such as area median income, HUD income limits, and/or CPI.

4. The Board of Supervisors could maintain the program as currently structured.

DRAFT MOTIONS:

1. I move that the Board of Supervisors direct staff to prepare a draft amendment to Chapter 872 of the Codified Ordinances of Loudoun County for the Real Estate Tax Relief for the Elderly or Permanently Disabled to increase the upper limit for annual gross household income for each income bracket by 6.5 percent, consistent the increase in CPI since 2015, to be advertised for public hearing.

OR

2. I move that the Board of Supervisors direct staff to prepare a draft amendment to Chapter 872 of the Codified Ordinances of Loudoun County for the Real Estate Tax Relief for the Elderly or Permanently Disabled to increase the upper limit for annual gross household income for each income bracket by $10,000 in anticipation of forecasted increases in CPI through 2023, to be advertised for public hearing.

OR

3. I move that the Board of Supervisors direct staff to further consider changes to the Chapter 872 of the Codified Ordinances of Loudoun County for the Real Estate Tax Relief for the Elderly or Permanently Disabled that would allow for periodic updates to the annual gross household income limits and provide options to the Board of Supervisors at the May 18, 2021 Board of Supervisors Business Meeting.

OR

4. I move an alternate motion.

ATTACHMENTS:

1. Real Estate Tax Relief for the Elderly or Disabled in Surrounding Jurisdictions
2. FY 2020 HUD Income Limits Summary

Real Estate Tax Relief for the Elderly or Disabled in Surrounding Jurisdictions

ARLINGTON COUNTY		
Tax Exemption	**Household Income***	**Combined Net Assets**
100%	$0 - $48,391	$0 - $413,714
75%	$48,391.01 - $59,145	$0 - $413,714
50%	$59,145.01 - $69,898	$0 - $413,714
25%	$69,898.01 - $86,029	$0 - $413,714
Deferral	$86,029.01 - $106,969	$0 - $558,513
Deferral	$0 - $106,969	$413,714.01 - $558,513

Income calculations exclude up to $10,000 per household member (other than owner and spouse) and disability benefits for the owner and/or owner's spouse.
*Income brackets are adjusted by U.S. Department of Housing and Urban Development (HUD) Section 8; Net worth is adjusted by CPI.

CITY OF ALEXANDRIA		
Tax Exemption	**Household Income**	**Combined Net Assets**
100%	$0 - $40,000	$0 - $430,000
50%	$40,001 - $55,000	$0 - $430,000
25%	$55,001 - $72,000	$0 - $430,000
Deferral	$72,001 - $100,000	$0 - $430,000

Income calculations exclude up to $10,000 per relative residing in the home and up to $10,000 of disability income.

CLARKE COUNTY		
Tax Exemption	**Household Income**	**Combined Net Assets**
100%	$0 - $20,000	$0 - $250,000
80%	$20,001 - $25,000	$0 - $250,000
60%	$25,001 - $30,000	$0 - $250,000
50%	$30,001 - $35,000	$0 - $250,000
10%	$35,001 - $55,000	$0 - $250,000

Income calculations exclude up to $8,000 per relative residing in the home (other than spouse).

CITY OF FAIRFAX		
Tax Exemption	**Household Income**	**Combined Net Assets**
100%	$0 - $52,000	$0 - $340,000
50%	$52,001 - $62,000	$0 - $340,000
25%	$62,001 - $72,000	$0 - $340,000

Income calculations exclude up to $6,500 per relative residing in the home (other than spouse) and up to $10,000 of disability income.

FAIRFAX COUNTY		
Tax Exemption	**Household Income**	**Combined Net Assets**
100%	$0 - $52,000	$0 - $340,000
50%	$52,001 - $62,000	$0 - $340,000
25%	$62,001 - $72,000	$0 - $340,000

Income calculations exclude up to $6,500 per relative residing in the home (other than spouse) and up to $7,500 of disability of applicants (other relatives exclude all disability).

Attachment 1

CITY OF FALLS CHURCH

Tax Exemption	Household Income*	Combined Net Assets
100%	$0 - $38,840	$0 - $400,000
75%	$38,841 - $58,260	$0 - $400,000
50%	$58,261 - $62,100	$0 - $400,000
Deferral	$62,101 - $97,100	$0 - $400,000
Deferral	$0 - $97,100	$0 - $540,000

Income calculations exclude 50 percent of Social Security Disability Income or a maximum of $7,500 from other disability income sources. Additionally, allows for a $10,000 deduction for non-spouse, non-owner income (caregiver exclusion).
*Income brackets coincide with 40%, 41-60%, 61-80%, and 81 – 100% of Area Median Income, respectively.

FAUQUIER COUNTY

Tax Exemption	Household Income	Combined Net Assets
100%	$0 - $58,000	$0 - $440,000

Income calculations exclude up to $10,000 per relative residing in the home.

CITY OF MANASSAS

Tax Exemption	Household Income	Combined Net Assets
100%	$0 - $30,250	$0 - $340,000
Up to $3,400	$30,250 - $56,150	$0 - $340,000

Income calculations exclude up to $10,000 per relative residing in the home (other than owner & spouse) and up to $7,500 of disability income.

PRINCE WILLIAM COUNTY

Tax Exemption	Household Income*	Combined Net Assets
100%	$0 - $63,700	$0 - $340,000
75%	$63,701 - $73,255	$0 - $340,000
50%	$73,256 - $82,810	$0 - $340,000
25%	$82,811 - $92,365	$0 - $340,000

Income calculations exclude up to $10,000 per relative residing in the home and up to $7,500 of disability income.
*Income brackets are established on a "Base" which is defined as the lowest family income limit based upon a family of two, most recently published prior to January 1 of the current tax year, by the U.S. Department of Housing and Urban Development (HUD) for qualifying for the "Section 8 Housing Assistance Program" or the base from the prior tax year, whichever is higher. Brackets are base, base plus 15%, base plus 30%, and base plus 45%.

FY 2020 U.S. Department of Housing and Urban Development (HUD) Income Limits Summary

WASHINGTON-ARLINGTON-ALEXANDRIA, DC-VA-MD HUD METRO FMR AREA

Median Family Income - $126,000

	Persons in Family							
Category	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
Very Low (50%)	$44,100	$50,400	$56,700	**$63,000**	$68,050	$73,100	$78,150	$83,200
Extremely Low	$26,500	$30,250	$34,050	**$37,800**	$40,850	$43,850	$46,900	$49,900
Low (80%)	$55,750	$63,700	$71,650	**$79,600**	$86,000	$92,350	$98,750	$105,100

The Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area contains the following areas: District of Columbia, DC; Calvert County, MD; Charles County, MD; Frederick County, MD; Montgomery County, MD; Prince George's County, MD; Arlington County, VA; Clarke County, VA; Fairfax County, VA; Fauquier County, VA; Loudoun County, VA; Prince William County, VA; Spotsylvania County, VA; Stafford County, VA; Alexandria city, VA; Fairfax city, VA; Falls Church city, VA; Fredericksburg city, VA; Manassas city, VA; and Manassas Park city, VA.

Attachment 2