Response to Questions on the FY 2009 Advertised Budget Plan

Request By: Board of Supervisors

Question: What is the estimated revenue loss from increasing the acreage that can be excluded in the asset calculation for real estate tax relief?

Response: See attached memorandum.

County of Fairfax, Virginia

MEMORANDUM

DATE: April 2, 2008

TO: Susan W. Datta, Director
Department of Management and Budget

FROM: Kevin C. Greenlief, Director
Department of Tax Administration

SUBJECT: Real Estate Tax Relief **Q&A** for FY 2009 Budget

At the direction of the Board of Supervisors, and pursuant to a memo to the Board from the County Executive, dated March 7, 2007, the Department of Tax Administration (DTA) was asked to study the effect of amending Chapter 4, Article 14, of the Code of the County of Fairfax to expand the amount of acreage that could be excluded for real estate tax relief purposes. Under our current ordinance, senior and totally disabled applicants can qualify for tax relief with net assets up to $340,000 and income up to $72,000. At the same time, applicants are allowed to exclude from their net asset calculation the value of the house, its furnishings, and up to one acre of land upon which the house is situated. State law, however, allows a maximum acreage exclusion of up to 25 acres. The amendment that was originally under consideration would stipulate that "additional acreage can also be excluded – up to a maximum of five acres – for parcels that are zoned RA, RP, RC, and RE." The Board also directed staff to research the fiscal impact of this proposal.

There are nearly 12,000 improved residential, owner-occupied parcels with these zoning classifications. Although this only represents 3.5% of total residential parcels in the County, the assessed value still exceeds $11 billion. At a tax rate of $0.89 per $100, the associated maximum tax revenue is around $100 million. However, only a relatively small percentage of this base could presumably qualify for tax relief. Owners would have to meet the age or disability requirements, and have income less than $72,000 and net assets below $340,000. Furthermore, some of those who might otherwise qualify would presumably get less than full relief.

To estimate the financial impact, DTA surveyed these property owners with the goal of obtaining more specific demographic information concerning age, income and assets. Extrapolating from survey results indicates that the revenue loss associated with this program expansion could result in the annual loss of approximately $3 million in General Fund revenue.

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Background & Findings

DTA's real estate database does not capture age and other demographic information about individual property owners. Therefore, in order to conduct the study, it was necessary to survey the nearly 12,000 property owners with parcels zoned RA, RP, RC, and RE. DTA mailed these property owners a survey in December that inquired about the owner's age, the annual household net income, and the value of net assets.

A total of 4,777 surveys or just over 40% were returned to DTA. Of those answering the survey, 1,096, indicated they were a minimum of 65 years old, occupied the home and provided complete responses. These homeowners represented approximately 23% of the survey response. Furthermore, of the 1,096 senior respondents, the data indicates that only 152 would qualify for tax relief should the additional acreage allowance be instituted (based on age, income and assets). This works out to 14% of the 1,096 senior respondents. Approximately 60% of these would qualify for 100% tax relief, while the remaining 40% was split evenly among those qualifying for 50% and 25% relief. This was the data used for analysis.

If you assume that 23% of the total 11,786 parcels are owned and occupied by persons who are at least 65 years old, this would project out to a possibility of 2,711 parcels. Using a 14% extrapolation to the probable universe of 2,711 parcels, this would suggest that around 379 additional property owners might benefit from the tax relief expansion. <u>The associated General Fund revenue loss would be approximately $3 million</u>.

This is staff's best estimate of the potential impact from a program expansion. However, inasmuch as this is based on an extrapolation from survey data, there is the potential of a significant variance from this estimate should a program expansion actually be implemented.

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