COUNTY OF YORK
MEMORANDUM

DATE: May 24, 2024

TO: York County Board of Supervisors

FROM: Mark L. Bellamy, Jr., County Administrator MLB

SUBJECT: York County Real Estate Tax Relief for Elderly and Disabled - Updated

I have attached an updated white paper on the York County Real Estate Tax Relief for the Elderly and Disabled. This was initially released in 2016 by former County Administrator Neil Morgan.

Please let us know if you have any questions.

Attachment:

- York County Real Estate Tax Relief for Elderly and Disabled

York County Real Estate Tax Relief for the Elderly and Disabled

Staff Commentary

May 10, 2024

It has been suggested that the County offer a property tax freeze option to assist a larger portion of the over sixty-five home owning population. The rationale is that historic assessment increases have not been consistent with Social Security increases, placing a burden on elderly homeowners. It has been further suggested that such a program would not be very expensive and could be absorbed over time into the County's budget with no significant negative impacts.

This paper addresses the policy question as to whether such a program proposal merits detailed consideration. The first section of the report provides a recent history of the changes made to the real estate tax abatement program. The second describes the County's current program, compares it to neighboring jurisdictions, and then describes alternate programs available under state law, including deferral and freeze options. The report then describes how such a program would impact an individual, and how it would impact the County in terms of cost and administration, based on one (of many potential) set of assumptions. The purpose of this section is in part to illustrate why this programmatic option is more burdensome to administer than the abatement option currently available. Finally, an analysis of the new program idea is provided with a recommendation against proceeding with this approach.

A Brief History

Staff previously studied this in 2016, with the resulting recommendation to the Board that modest changes be made to the existing relief program rather than introducing a new one. The Board did in fact change the previously existing Real Estate Tax Relief program in 2023, to provide a means of indexing the qualification threshold to Area Median Income (AMI). The changes further provided progressively larger relief amounts for lower income households, while raising the maximum relief amounts for qualifying households. The intent was to allow the qualification thresholds to increase naturally with the rise in AMI without need for further Board action.

Current Abatement Program

York County's tax relief program provides relief from real estate taxation to home owners not less than 65 years of age or permanently and totally disabled who qualify and are deemed to bear an ***extraordinary*** tax burden. An exemption reduces the tax liability partially or completely depending on the percentage of relief calculated. In determining the amount of relief, the dwelling and land, not to exceed 10 acres, is excluded from the calculation of net financial worth, which shall not exceed $200,000. The U S Census Bureau reported as of 2022, 18.0% or roughly 12,780 of York County's 71,164 residents were 65 years and older, and reported the 2022 household median income in York County was $105,154. Persons in poverty make up 4.7% of the County's population.

Currently, eligibility requires total non-real estate assets to be no more than $200,000. Both income and asset level eligibility can be adjusted at the discretion of the County. The chart below illustrates income levels for eligible individual(s) and the applicable amount of relief.

York County Eligibility Criteria

Total Combined Income as Determined sec. 21-42		Assistance Percentage	Not to Exceed
(1) Eligible Owner	(2 or more) Eligible Owners		
Less than $22,950.	Less than $26,150.	100%	$2,530.00
$22,951. to $32,750.	$26,151. to $34,700.	50%	$1,260.00
$32,751. to $52,400.	$34,701. to $59,850.	25%	$630.00

* These limits automatically adjust for inflation based on Area Median Income, published by Housing and Urban Development.

A five year review (2019-24, inclusive) of York County's program reveals the total number of participants has declined from **476** participants in **2019** to **261** participants **2024**. The total relief amount of **$315,095** is approximately equivalent to **$42,580,000** in assessed real estate. It is important to note that in 2019 a number of the tax relief participants may have qualified for the Veteran's exemption and the decline is actually a shift in programs. The Veteran's exemption is based on the disability rating rather than the level of income and net worth and relieves an additional **$4,053,109** in taxes for calendar year 2024, translating to **$547,717,432** in assessed value. The total 2024 relief is **$4.37** million or **$0.034** cents on the tax rate.

Calendar Year	Total Relief (Elderly)	No. of Participants	Total Relief (Veterans)	No. of Participants
2019	$396,526	476	$894,693	325
2020	$336,363	396	$1,245,733	448
2021	$365,075	420	$1,569,598	559
2022	$398,704	403	$2,182,951	712
2023	$379,244	366	$2,764,692	915
2024	$315,095	261	$4,053,109	1,173

Localities can adopt one or any combination of the three options in order to provide real estate tax relief. Each option impacts the locality and participant differently. The Counties of York, Gloucester, James City, and Isle of Wight have focused on an ***exemption***, which relieves all or some portion of real estate tax based on income and net worth. There is no recapture of revenue and no lien against the property. The cities of Newport News and Hampton have elected to offer a "freeze" or "deferral" of taxes. Both options require the applicant to meet income and net worth criteria. The basic ***exemption*** provides a reduction or elimination of tax liability, dependent upon the level of relief (25% to 100%), with no lien against the property and no recapture of taxes. A ***deferral*** of tax liability postpones payment of taxes to some date in the future, when the participant no longer owns the real estate, and creates a lien against the real estate, allowing localities to recapture deferred revenue. The City of Hampton does not charge interest and does not record a lien. A ***freeze*** refers to the total exemption of that portion of real estate tax which represents the increase in tax from the year the taxpayer initially applied or re-applied and qualified, so that the tax will be frozen at the amount assessed in the fiscal year in which the taxpayer applied.

There is no recapture feature when a freeze is applied, and will cease at the taxpayer's death, or when the owner no longer qualifies, or transfers the property.

A Comparison of Real Estate Tax Relief Programs by Locality

Locality	Total Combined Income	Net Worth	Exemption	Freeze	Deferral	Tax Rate Per $100 of value
York County	$59,850	$200,000	YES	NO	NO	0.74
Newport News	$25,000	$10,000	NO	NO	YES	1.18
Hampton	$64,000	$200,000	NO	YES	YES	1.16
Gloucester	$40,000	$100,000	YES	NO	NO	0.583
James City County	$55,000	$200,000	YES	NO	NO	0.83
Isle of Wight	$56,300	$235,896	YES	NO	NO	0.76

New Program Impacts

At a glance, York County's existing program is competitive with neighboring localities. Expanding the program to include a "freeze" or "deferral" will have increased administrative costs to the extent of adding at least one or more full-time employees to review applications and analyze the applicant's tax history in order to correctly apply the benefit. Software enhancements and creation of a database to track each participant's accumulated deferred tax liability and monitor a change in ownership will be necessary. To meet current demand, the Commissioner of Revenue has employed two part-time "*work as required*" employees, 25 hours per week per employee, during the months of March and April. Many participants or applicants require assistance in meeting the annual application deadline due to a lack of computer access or physical or cognitive difficulties. As a result, staff dedicates a substantial amount of time assisting past and prospective participants in submitting applications.

Implementing a "deferral" option warrants consideration of recording a lien and application of interest on the total amount deferred. Although both the abatement and deferral programs are relatively efficient to administer as compared to a freeze program, all of the options must set an income and asset level for qualification. Income is easily verified, but local government has no authority or capacity to track "asset shifting". In all of these programs, it is perfectly legal for a resident to transfer assets to adult children, for example, and then qualify for reduced real estate tax benefits. This type of activity is well known to occur and cannot be prevented. It has the effect of allowing an extended family pursuing such a strategy to protect estate assets while shifting the cost of local government services to other elderly citizens who do not transfer assets, or to other tax payers more generally.

In order to illustrate the impact and mechanics of establishing a freeze several assumptions are made in the example below. Other more generous policy choices would have proportionately larger long-term budgetary impacts. The freeze replaces the basic exemption, because the freeze guarantees the initial relief based on qualifying criteria and ensures each participant receives the benefit of the lowest tax liability through annual analysis of property value and the applicable tax rate. This ongoing, dynamic analysis requirement generates the need for more staff resources to administer this type of program.

Assumptions:

- The applicant / participant has annual income between $34,701 and $59,850 and a combined net worth of less than $200,000.
- The value of the land and home for the base year is $383,000, which was derived from 2024 market data for York County
- Due to market conditions reassessments return a 10% increase in value for year 2026, and 2% for 2028, and 2030
- Changing market conditions result in reassessments indicating a decline in market value for years 2032 and 2034 of 5% and 3% respectively.
- Property values rebound in years 2036 and 2038 resulting in a 3% increase each re-assessment year.
- The tax rate remains constant at $0.74 per $100 of assessed value.
- County maintains a biennial assessment cycle.

ASSMT YEAR	TOTAL VALUE	TAX RATE	TAX DUE W/O RELIEF	EXEMPTION $ AMOUNT	TAX DUE WITH RELIEF	ADDTL REV LOSS DUE TO FREEZE
2024	$383,000	0.74	$2,834.20	$630	**$2,204.20**	$0.00
2026	$421,300	0.74	$3,117.62	$630	$2,487.62	$283.42
2028	$429,726	0.74	$3,179.97	$630	$2,549.97	$345.77
2030	$438,320	0.74	$3,243.56	$630	$2,613.56	$409.36
2032	$416,404	0.74	$3,081.38	$630	$2,451.38	$247.18
2034	$403,912	0.74	$2,988.94	$630	$2,358.94	$154.74
2036	$416,029	0.74	$3,078.61	$630	$2,448.61	$244.41
2038	$428,510	0.74	$3,170.97	$630	$2,540.97	$336.77
			$24,695.25	**$5,040**	**$19,655.25**	**$2,021.65**

Analysis and Recommendation

Simply stated, the question is whether an elderly real estate freeze program is a good replacement or supplement to the current elderly real estate abatement system that York County shares with several of its neighbors. The staff conclusion is that this new approach should not be advocated.

The elderly population in York County is growing. Whatever programs are implemented targeting this population must be expected to have a larger impact over time if their application is expanded to include middle class residents. Programs targeting a larger percentage of that population will have a larger fiscal impact. That portion of the population will also be generating a disproportionate amount of non-school county services growth. Once such a program is established benefitting a significant cross section of residents, pressure will always be present to expand the benefit by increasing eligibility (increasing personal asset and income levels).

What problem would be solved by offering the freeze option? The fact that the utilization of the existing exemption program is relatively steady suggests there are not large numbers of elderly homeowners struggling to stay in their houses in York County. The freeze program would seem to be intended to introduce a new relief program for elderly homeowners with middle class incomes or higher.

While precise data on the financial condition of homeowners over sixty-five in York County is unavailable, it is reasonable to extrapolate from national data based on what is known about York's demographics. The average post-65 American relies on Social Security for 37% of their income. Given York County's high median income and the large number seniors with pensions and substantial assets, it is reasonable to suggest that York's seniors rely on Social Security to a smaller degree than the nation as a whole. Therefore, there is no logical rationale for tying the County's property tax increases to what is likely one quarter to one third of our average elderly citizens' actual income.

The current exemption program is highly targeted to the County's most financially stressed elderly homeowners. On the other hand, a freeze program would skew any additional elderly tax benefit toward those with more wealth. For example, in the earlier scenario with a typical house valued at $383,000, the cumulative fifteen-year benefit (revenue that would need to be paid by other tax payers) of $2,021 would be over $5,000 for a senior in a house valued at $1,000,000. In other scenarios in which there is no assumed value decline during the program life cycle, the revenue loss per program recipient could be much greater.

Although there is no way to know how many residents would take advantage of such an initiative, it is reasonable to assume utilization would grow over time and a greater tax burden would be shifted to others. Pressure to grow the program would be understandable and very popular. New program costs allowing the Commissioner of the Revenue to administer the program would occur immediately. Using the example in this report assumes an individual would receive an approximately $283 benefit in year one. If 2,000 properties entered the program in year one, $566,000 of revenue would be lost or need to be made up from other tax payers. Assuming a very conservative new administrative cost structure, first year program expenses are projected at approximately $150,000 for a total first year program cost, which would include the cost of a single employee and software reconfiguration. This makes the total first year program cost $716,000. One could certainly argue that this is an amount that the County could absorb in an annual budget, but the cumulative and growing impact would be significant. To give another perspective the $716,000 represents approximately one half a cent on the tax rate or the cost of four equipped sheriff's deputies.

In light of the recent improvements made to the relief program, and given that the freeze program is much more expensive to administer and would disproportionately benefit wealthier citizens, further modification of the existing program would be a far superior policy option if the Board of Supervisors determined that there is a need for additional elderly property tax relief. More philosophically, policy makers must consider the total cost of delivering government services and the tax base available to pay those costs. <u>If taxes from one group are reduced, they must be increased on other groups at any given level of service.</u> Current County programs provide over $4,300,000 annually of property tax relief for elderly, disabled veterans and those with land in agricultural use. If this amount is increased by extending real estate tax relief to middle and upper middle class elderly residents, what other group should be asked to pay the difference: Business? Young adults? Families with students in college? Families with young children paying day care costs and establishing homes?

York County is generally attractive to residents because of its low overall tax rates and efficient cost of government. This characteristic is beneficial to all kinds of citizens whether they are young, middle age, or elderly. Residential property owners generally benefit from this situation. Would the Board of Supervisors really want to introduce a new middle class entitlement program that benefits a growing cohort of citizen voters? Once initiated, pressure to expand the benefit would be powerful, administrative costs would grow, and over time the lost revenue would have to be sought from other categories of taxpayers.

Conclusion

The current real estate tax abatement programs target those most in need and are efficiently administered by the Commissioner of Revenue with a minimal loss of County revenue. A broadly targeted freeze for elderly property owners would benefit many citizens who have the means to pay for the services provided by the County, shift the tax burden to other groups, and generate new operating costs. The short-term ability for the County to absorb the cost of such a program is not a sound argument for introducing a popular new entitlement with a benefit weighted toward those with greater wealth. Over time future County officials would inherit an expensive and growing benefit program that favors one class of citizens to the detriment of others.