

**REPORT OF THE
JOINT SUBCOMMITTEE TO STUDY
REAL PROPERTY TAX RELIEF TO PERSONS
WHO REHABILITATE THEIR HOMES
TO
THE GOVERNOR
AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 26

**COMMONWEALTH OF VIRGINIA
DIVISION OF PURCHASES AND SUPPLY
RICHMOND
1979**

MEMBERS OF SUBCOMMITTEE

.....

Honorable Franklin P. Hall, Chairman
Honorable William F. Parkerson, Jr., Vice-Chairman
Honorable C. Richard Cranwell
Honorable Ray L. Garland
Honorable Evelyn M. Hailey
Honorable William B. Hopkins
Honorable Johnny S. Joannou
Honorable Madison E. Marye
Honorable J. Harry Michael, Jr.
Honorable Frank W. Nolen
Honorable Robert E. Washington
Honorable Edward E. Willey

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Report of the
Joint Subcommittee to Study
Real Property Tax Relief to Persons
Who Rehabilitate Their Property

To
The Governor and the General Assembly of Virginia

Richmond, Virginia

January, 1979

To: Honorable John N. Dalton, Governor of Virginia

and

The General Assembly of Virginia

INTRODUCTION

The Joint Subcommittee to Study Real Property Tax Relief for Persons who Rehabilitate Their Property was established pursuant to House Joint Resolution Number 127 of the 1978 Session of the General Assembly:

HOUSE JOINT RESOLUTION NO. 127

Establishing a joint subcommittee of the House of Delegates Finance Committee and the Counties, Cities and Towns Committee and the Senate Committees on Local Government and Finance to study the methodology of real property tax relief for persons who rehabilitate their homes.

WHEREAS, Chapter 568 of the 1976 Acts of Assembly, permitted the establishment of the classification of certain rehabilitated residential, commercial or industrial buildings as a separate class of property for local taxation; and

WHEREAS, many localities were hesitant to enact ordinances establishing such classifications because of questionable constitutional authority on the subject; and

WHEREAS, House Joint Resolution No. 177, adopted during the 1977 Session of the General Assembly, proposed a constitutional amendment to permit the General Assembly to authorize local governments the power to provide real estate exemptions for rehabilitated property; and

WHEREAS, a similar resolution has been presented to this body for its second reference and if adopted will be presented for referendum to the voters in the Commonwealth in the year nineteen hundred seventy-eight; and

WHEREAS, many localities are desirous to permit such exemptions, in an effort to rehabilitate central cities and thereby insure their existence; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That there is hereby established a joint subcommittee composed of three members from the House of Delegates Finance Committee, appointed by the chairman thereof; three members from the House Counties, Cities and Towns Committee, appointed by the chairman thereof; and three members from the Senate Committees on Local Government and Finance, appointed by the chairmen thereof. The joint subcommittee shall elect its own chairman and shall study, propose, and draft enabling legislation that will encompass the constitutional language of House Joint Resolution No. 177 of the 1977 Session of the General Assembly.

The joint subcommittee shall present its legislative recommendation to the 1979 General Assembly.

The membership was composed as follows: Delegate C. Richard Cranwell, Vinton; Delegate Ray L. Garland, Roanoke; Delegate Evelyn M. Hailey, Norfolk; Delegate Franklin P. Hall, Richmond; Delegate Johnny S. Joannou, Portsmouth; Delegate Robert E. Washington, Norfolk; Senator William B. Hopkins, Roanoke; Senator Madison E. Marye, Shawsville; Senator J. Harry Michael, Jr., Charlottesville; Senator Frank W. Nolen, New Hope; Senator William F. Parkerson, Jr., Henrico; Senator Edward E. Willey, Richmond.

Delegate Hall and Senator Parkerson were elected Chairman and Vice-Chairman, respectively.

Staff assistance was provided by the Division of Legislative Services, through E. M. Miller, Jr., Jill M. Pope and John A. Garka, and the Office of the Clerk of the House of Delegates.

The charge of the Joint Subcommittee was to study, propose, and draft enabling legislation for the proposed constitutional amendment allowing tax relief for renovated, rehabilitated, or replaced property. The amendment was initiated by House Joint Resolution No. 177 in 1977 (Appendix A). The second reference was embodied in House Joint Resolution No. 15 in 1978 (Appendix B). The amendment was overwhelmingly approved by the voters on November 7, 1978 by a vote of 690,479 to 324,236.

Tax incentives for the rehabilitation of real property was first seriously considered in Virginia in 1976 when the General Assembly enacted sections 58-759.1 and 58-759.2. These statutes set up rehabilitated residential property and rehabilitated industrial and commercial property as separate classifications for taxation purposes allowing a county, city or town to set a real estate tax for these classes at a rate lower than the rate for all other real property. Residential property was required to be 30 years of age or older and improved to such an extent as to increase the appraised value by \$5,000.00 or more. Commercial and industrial property was required to be 45 years of age or older and improved to such an extent as to increase the appraised value by \$25,000 or more. The reduction in the real estate tax rate for both classes had a longevity of ten years. It should be noted that the real property tax rate reduction applied to the full assessed value of the property and not just to the portion rehabilitated. The 1976 statute became effective on January 1, 1977.

Constitutional questions clouded the statutes' movement through the legislative process and primarily for this reason, only one locality has adopted an ordinance pursuant to the statute. The Hampton ordinance which was adopted January 26, 1977, to become effective January 1, 1978, placed the rate reduction at seventy-eight percent of the local real property tax rate.

METHODOLOGY

The Subcommittee met numerous times during 1978 to receive information and testimony from the staff and interested parties. The components of the fact-finding portion of the study consisted of three primary areas: review of the laws of other states, issues analysis and review of the experience of other states.

FINDINGS

In order to determine the approach to tax relief for rehabilitated property utilized by other states, a review of their laws was conducted. Initially, twenty-four states were contacted. Sixteen laws of twelve states were analyzed for their applicability to the constitutional amendment and to

determine the similarity of issues involved (Appendix C).

Of the sixteen laws, five provided for the use of a district concept whereby structures in a specified area were designated as qualifying for rehabilitation tax relief due to deterioration, blight, etc.; other laws applied to individual structures or properties. Most laws specified the class of property eligible for the relief: residential, rental, commercial, and/or industrial. Five laws specified whether the benefit of the exemption ran with the land or owner. Specifics were included in seven state statutes regarding increases in square footage resulting from rehabilitation. Four laws specified a mandatory age minimum for the structure. Required expenditures on the rehabilitated property were expressed as a minimum expenditure per unit, maximum dollar expenditure per unit, percentage of fair market value and according to a fixed formula.

The amount and time span of the exemption were usually considered together. Eight statutes exempted all of the increased assessment due to rehabilitation and four allowed for a sliding scale percentage. Monetary limits on the increase in assessment exempt ranged from \$3,000 to \$15,000. The lengths of the exemptions ranged from three to twelve years with the exception of the Oregon statute- the exemption ceases January 1, 1982. The period of five years was allowed most often.

A totally different approach is taken by Wisconsin in their plan of indirect tax relief. The State provides funds for the program which allows a direct payment for rehabilitation by multiplying the increased assessment due to rehabilitation by the local tax rate. The rehabilitation assessment relief is limited to \$3,000 during any four year period.

After reviewing the laws of other states and determining the major areas of concern, a list of issues to be considered was drawn (See Appendix D). First and foremost was the amount and length of the exemption. Consideration was given to the structure of the exemption, specifically whether it should be a percentage of the increase in the assessed value, a monetary amount or an abatement of the total increased assessment for a specified period of time. The Joint Subcommittee also considered the time span of the exemption and whether the length should be linked to the amount. For example, the Pennsylvania act allows for a ten year exemption of one hundred per cent of the increase in assessed value, decreasing by ten per cent annually; or a five year exemption of one hundred per cent of the increased assessment the first year, decreasing by twenty per cent annually; or an exemption of one hundred per cent of the increased assessment for a three year period.

Another issue considered by the subcommittee was whether a maximum or minimum rehabilitation cost should be established and, if so, how. A minimum required cost could be a strong deterrent to potential abuses by requiring major renovation instead of cosmetic repairs or maintenance. A maximum expenditure would have the effect of limiting the potential relief and, ultimately, the expense borne by all other citizens paying their proportionate share of the real property tax. It may also unduly limit the types of rehabilitation and renovation which would qualify and perhaps thereby undermine the intent of the act. Consideration was also given to how a limitation should be defined- either as a monetary value or a percentage of the assessed value. A minimum percentage approach is less regressive as it requires the same proportional increase in value for a low valued structure as for a high valued structure, whereas, a flat dollar amount would require a greater proportional expenditure for those owning lower valued structures.

The concept of district designation versus individual structures was also studied. The district designation plan would limit qualification for the exemption to those structures within a specified area which is blighted or deteriorated. The boundary for such areas are normally determined by the local governing body. While the district designation concept would be easily workable in urban areas, it possibly lacks the flexibility necessary for statewide application in Virginia. Another argument voiced against this approach is that it would limit the relief only to those properties in a specific area. By allowing the exemption according to individual structure, the benefit would accrue to all areas within a locality. It would also allow isolated or historical structures the benefit of the exemption.

Still another important issue discussed by the subcommittee was the necessity of placing a minimum age requirement on an otherwise qualified structure. The Joint Subcommittee realized that age may not necessarily be the best criteria to determine the need for rehabilitation. However, the lack of a minimum age requirement was felt to penalize those persons maintaining the quality and appearance of their structures while rewarding those who allowed their property to fall into a state of disrepair. In discussing this issue, the Joint Subcommittee also considered the intent of the

legislation - to provide tax relief for those persons rehabilitating older, deteriorated properties and, thereby, lessening potential decline and improving the appearance and character of the area.

An additional area of concern was whether to prohibit an increase in the total square footage of the structure when the owner of a structure seeks tax relief for his rehabilitation efforts. Without the strictest conditions, the possibility of persons employing the exemption for the construction of such things as tennis courts, swimming pools, and structural additions, was felt to be great. The Joint Subcommittee felt that the intent of the relief was to provide an incentive for the rehabilitation of structures, not for increasing size or adding recreational facilities.

The issue of whether the benefit should run with the structure or the owner was also given consideration. The cessation of the benefit upon transfer of ownership was considered to reduce speculation. However, the continuation of the benefit upon the sale of the property was also considered to be an incentive for the purchase by persons desiring long-term ownership thereby insuring future care and proper maintenance for the structure.

The fact that a tax incentive for rehabilitation which runs with the land may entice speculators to rebuild whole blocks or areas for resale, and use the possible real estate tax savings as a selling point to future purchases, was deemed by the Joint Subcommittee not to contradict the purpose of the constitutional amendment. The purpose of the amendment is to provide an incentive for the revitalization of deteriorating structures.

Whether to make the incentive mandatory or by local option was also an area of concern. The real property tax being a local source of revenue, it was felt that each locality should be able to best determine its own needs and priorities in light of its tax base.

The issue of replacement of structures was also addressed by the Joint Subcommittee who felt the intent of the law was primarily directed towards the rehabilitation and renovation of existing structures and therefor did not address the replacement issue. During discussion of this issue, the many problems involved in defining replacement, setting criteria therefor, and the administrative difficulties of enforcement were brought forth.

These and many other issues were discussed thoroughly by the Joint Subcommittee to determine the best approach to be recommended to the General Assembly. Local civic organizations, assessing officials, the Department of Taxation, and other organizations were solicited for the benefit of their opinion and testimony. (Appendix E). The Joint Subcommittee wishes to express its appreciation for the assistance of all the interested persons working with it.

The experience of other states has been a valuable aid in determining the policies and laws of the Commonwealth. Consequently, twelve localities in four states having local option tax relief were contacted to learn of their experience. The replies revealed little information of value, the reasons given being that the information was unavailable, the program was not fully operational, or that the ordinance had been adopted so recently that no statistics were available. Another reason for the lack of results is that this specific form of relief is a relatively new phenomena, the majority of the laws having been enacted in 1973 or later.

RECOMMENDATIONS

The Joint Subcommittee recommends that legislation be enacted providing for local option tax relief for certain rehabilitated property within certain guidelines established by the General Assembly. (See Appendix F for proposed legislation.) The guidelines recommended for residential property are as follows: The structure must be at least twenty-five years of age. Substantial rehabilitation must be accomplished and is defined to mean that an increase in the assessed value by no less than forty per centum shall result from the rehabilitation without increasing the square footage by more than fifteen per centum. The governing body may require the percentage of increased assessment or the age to be greater and may set such other conditions as it deems necessary. The exemption is a total abatement of taxes on the increased assessment due to rehabilitation for a period of up to ten years. The local governing body may provide for a shorter time limitation.

To provide minimum guidelines for the administration of the incentive, the subcommittee

recommends a fee not to exceed twenty dollars may be assessed by a locality for processing an application for the tax relief. Eligibility for the exemption would also require as a condition precedent the acquisition of appropriate building permits and verification of completion of the rehabilitation or renovation by the local Commissioner of the Revenue or assessing officer. An additional provision would prohibit the listing upon the land books of the reduced taxable value due to the exemption.

The guidelines recommended for commercial and industrial property are the same as for residential property with the exception of the required increase in assessed value and the increase in square footage restriction. The requirement for commercial and industrial property is a minimum increase of sixty percent of the assessed value. The Joint Subcommittee felt this percentage necessary in order to insure complete rehabilitation. It was felt that abuses might occur with a lesser percentage, particularly when only deletion of obsolescent factors was the goal. To allow for complete rehabilitation for commercial and industrial property no restriction was placed on increasing square footage. The Joint Subcommittee felt that structural obsolescence may necessitate an increase in structural size, such size dependent upon the type of commercial or industrial activity performed therein.

RATIONALE

Optionality

The real property tax is a major source of local revenue. The Joint Subcommittee recommendation that the law be optional is to allow the most flexibility for local governing bodies in determining their revenue needs and resources.

Guidelines

The Joint Subcommittee recommendation to provide minimum guidelines is necessitated by the language of the recently enacted constitutional amendment.

Age of Structure

The Joint Subcommittee recommendation for a minimum age is twenty-five years. It was felt that more recently constructed structures were of better quality and may not necessarily need major renovation as much as older structures. In addition, the Joint Subcommittee felt an age limit should be mandated to prevent possible abuses by those persons not maintaining the quality and appearance of their structures.

Definition of Rehabilitation

The Joint Subcommittee recommendation that rehabilitation result in an increase in assessed value of at least forty percent for qualification for the exemption, is necessitated by the fact that such a requirement would insure major renovation rather than cosmetic repairs or maintenance. The percentage increase in assessed value approach takes into account also the cost differences that may occur when the actual rehabilitation is performed by the owner rather than a hired contractor. The subcommittee was of the firm opinion that an individual should not be omitted from the program because that person elects to perform the renovation himself rather than hire a professional contractor or subcontractor as long as the work is performed according to building code requirements.

Increase in Square Footage

The Joint Subcommittee recommendation of allowing a maximum fifteen percent increase in square footage would accommodate to a limited extent the problem of functional obsolescence in older structures, for example, the addition of a bathroom. The small permissible percentage increase should, however, insure that true renovation will occur, and avoid abuse by the construction of additions or recreational facilities.

Local Restrictions

The Joint Subcommittee recommendation to allow for stricter requirements by a local governing body is designed to provide flexibility in determining local needs and priorities.

Exemption Structure

The Joint Subcommittee recommendation to structure the exemption as one hundred percent of the increased assessment due to rehabilitation was made for several reasons. First is the ease of administration and the facilitation of taxpayer understanding. Second is the need to structure the exemption to allow a rational incentive while at the same time making the incentive large enough to insure that it will be used. In addition, the constant amount of relief annually not only allows the taxpayer to know the specific relief he was granted but also helps him prepare for the increase at the termination of the exemption.

Exemption Length

The Joint Subcommittee recommendation to provide the exemption for a maximum of ten years was made to provide a substantial incentive for rehabilitation without limiting the growth in the tax base in perpetuity. It should also be noted that the tax base continues to increase during the exemption period as the assessed value of the structure prior to rehabilitation will continue to increase during this period as the fair market value of real estate, in general, increases.

In addition, the local governing body has the final decision as to the extent of the exemption as it may decrease the length of the exemption if it so desires.

Policing Restrictions

The Joint Subcommittee recommendation requiring proper building permits and certification of completion is necessary in order to insure that the rehabilitation is in fact completed and to prevent abuses.

Fee

The Joint Subcommittee recommendation to allow a maximum application fee was designed to cover administrative expenses, yet not negate the exemption.

Land Book

The Joint Subcommittee recommendation to list the full value of the structure on the land book is made to insure that, in fact, the total assessed value is listed. This figure is used in the computation of the sales/assessment ratio by the Department of Taxation. In turn, the sales/assessment ratio is used in the formula for the distribution of school aid funds and in the assessment of public service corporation property. Also, the inclusion of any other computation on the land book would necessitate its redesign and would serve no useful purpose.

COMMERCIAL AND INDUSTRIAL PROPERTY

The approaches to assessment of property differ greatly from residential to commercial and industrial property. In order to make the most informed decisions, in depth testimony was received on the three approaches to value considered when commercial and industrial property is assessed: cost, sales analysis, and income. Other testimony regarding commercial and industrial property revealed that periodic maintenance and modernizing was the norm.

The Joint Subcommittee thoroughly discussed all the issues for the rehabilitation relief of commercial and industrial property including structure, life spans, reasons, and need for rehabilitation. The recommendation is designed to provide an incentive for the rehabilitation of the buildings in order to provide for total revitalization of areas. The Joint Subcommittee feels this incentive will encourage businesses to remain in their present location, thereby lessening potential for unemployment and economic downturns.

CONCLUSION

After much work and consideration, the Joint Subcommittee makes its recommendation as the most logical and equitable method of allowing for relief for rehabilitated or renovated properties.

Respectfully submitted,

Franklin P. Hall, Chairman

William F. Parkerson, Vice-Chairman

C. Richard Cranwell

Ray L. Garland

Evelyn M. Hailey

William B. Hopkins

Johnny S. Joannou

Madison E. Marye

J. Harry Michael, Jr.

Frank W. Nolen

Robert E. Washington

Edward E. Willey

APPENDIX A

HOUSE JOINT RESOLUTION NO. 177

Proposing amendments to Section 6 of Article X of the Constitution of Virginia, relating to property exempt from taxation.

RESOLVED by the House of Delegates, the Senate concurring, a majority of the members elected to each house agreeing, That the following amendments to the Constitution of Virginia be, and the same hereby are, proposed and referred to the General Assembly at its first regular session held after the next general election of members of the House of Delegates for its concurrence in conformity with the provisions of Section 1 of Article XII of the Constitution of Virginia; namely:

Amend Section 6 of Article X of the Constitution of Virginia as follows:

ARTICLE X

Section 6. Exempt property.—(a) Except as otherwise provided in this Constitution, the following property and no other shall be exempt from taxation, State and local, including inheritance taxes:

(1) Property owned directly or indirectly by the Commonwealth or any political subdivision thereof, and obligations of the Commonwealth or any political subdivision thereof exempt by law. (2) Real estate and personal property owned and exclusively occupied or used by churches or religious bodies for religious worship or for the residences of their ministers.

(3) Private or public burying grounds or cemeteries, provided the same are not operated for profit.

(4) Property owned by public libraries or by institutions of learning not conducted for profit, so long as such property is primarily used for literary, scientific, or educational purposes or purposes incidental thereto. This provision may also apply to leasehold interests in such property as may be provided by general law.

(5) Intangible personal property, or any class or classes thereof, as may be exempted in whole or in part by general law.

(6) Property used by its owner for religious, charitable, patriotic, historical, benevolent, cultural, or public park and playground purposes, as may be provided by classification or designation by a three-fourths vote of the members elected to each house of the General Assembly and subject to such restrictions and conditions as may be prescribed.

(b) The General Assembly may by general law authorize the governing body of any county, city, town or regional government to provide for the exemption from local real property taxation, or a portion thereof, within such restrictions and upon such conditions as may be prescribed, of real estate owned by, and occupied as the sole dwelling of, persons not less than sixty-five years of age who are deemed by the General Assembly to be bearing an extraordinary tax burden on said real estate in relation to their income and financial worth.

(c) Except as to property of the Commonwealth, the General Assembly by general law may restrict or condition, in whole or in part, but not extend, any or all of the above exemptions.

(d) The General Assembly may define as a separate subject of taxation any property, including real or personal property, equipment, facilities, or devices, used primarily for the purpose of abating or preventing pollution of the atmosphere or waters of the Commonwealth, and by general law may allow the governing body of any county, city, town, or regional government to exempt or partially exempt such property from taxation, or by general law may directly exempt or partially exempt such property from taxation.

(e) The General Assembly may define as a separate subject of taxation household goods and personal effects and by general law may allow the governing body of any county, city, town, or

regional government to exempt or partially exempt such property from taxation, or by general law may directly exempt or partially exempt such property from taxation.

(f) Exemptions of property from taxation as established or authorized hereby shall be strictly construed; provided, however, that all property exempt from taxation on the effective date of this section shall continue to be exempt until otherwise provided by the General Assembly as herein set forth.

(g) The General Assembly may by general law authorize any county, city, town, or regional government to impose a service charge upon the owners of a class or classes of exempt property for services provided by such governments.

h) The General Assembly may by general law authorize the governing body of any county, city, town, or regional government to provide for a partial exemption from local real property taxation, within such restrictions and upon such conditions as may be prescribed, of real estate whose improvements, by virtue of age and use, have undergone substantial renovation, rehabilitation or replacement

APPENDIX B

HOUSE JOINT RESOLUTION NO. 15

Proposing amendments to Section 6 of Article X of the Constitution of Virginia, relating to property exempt from State and local taxation.

WHEREAS, proposed amendments to the Constitution of Virginia, hereinafter set forth, were agreed to by a majority of the members elected to each of the two houses of the General Assembly at the session of nineteen hundred seventy-seven and referred to this, the next regular session held after the general election of members of the House of Delegates, as required by the Constitution of Virginia; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, a majority of the members elected to each house agreeing, That the following amendments to the Constitution of Virginia be, and the same hereby are, proposed in conformity with the provisions of Section 1 of Article XII of the Constitution of Virginia; namely:

Amend Section 6 of Article X of the Constitution of Virginia as follows:

(1) Section 6. Exempt property.—(a) Except as otherwise provided in this Constitution, the following property and no other shall be exempt from taxation, State and local, including inheritance taxes: (1) Property owned directly or indirectly by the Commonwealth or any political subdivision thereof, and obligations of the Commonwealth or any political subdivision thereof exempt by law.

(2) Real estate and personal property owned and exclusively occupied or used by churches or religious bodies for religious worship or for the residences of their ministers.

(3) Private or public burying grounds or cemeteries, provided the same are not operated for profit.

(4) Property owned by public libraries or by institutions of learning not conducted for profit, so long as such property is primarily used for literary, scientific, or educational purposes or purposes incidental thereto. This provision may also apply to leasehold interests in such property as may be provided by general law.

(5) Intangible personal property, or any class or classes thereof, as may be exempted in whole or in part by general law.

(6) Property used by its owner for religious, charitable, patriotic, historical, benevolent, cultural, or public park and playground purposes, as may be provided by classification or designation by a three-fourths vote of the members elected to each house of the General Assembly and subject to such restrictions and conditions as may be prescribed.

(7) Land subject to a perpetual easement permitting inundation by water as may be exempted in whole or in part by general law.

(b) The General Assembly may by general law authorize the governing body of any county, city, town, or regional government to provide for the exemption from local real property taxation, or a portion thereof, within such restrictions and upon such conditions as may be prescribed, of real estate owned by, and occupied as the sole dwelling of, persons not less than sixty-five years of age or persons permanently and totally disabled as established by general law who are deemed by the General Assembly to be bearing an extraordinary tax burden on said real estate in relation to their income and financial worth.

(c) Except as to property of the Commonwealth, the General Assembly by general law may restrict or condition, in whole or in part but not extend, any or all of the above exemptions.

(d) The General Assembly may define as a separate subject of taxation any property, including real or personal property, equipment, facilities, or devices, used primarily for the purpose of abating or preventing pollution of the atmosphere or waters of the Commonwealth or for the purpose of

transferring or storing solar energy, and by general law may allow the governing body of any county, city, town, or regional government to exempt or partially exempt such property from taxation, or by general law may directly exempt or partially exempt such property from taxation.

(e) The General Assembly may define as a separate subject of taxation household goods, personal effects and tangible farm property and products, and by general law may allow the governing body of any county, city, town, or regional government to exempt or partially exempt such property from taxation, or by general law may directly exempt or partially exempt such property from taxation.

(f) Exemptions of property from taxation as established or authorized hereby shall be strictly construed; provided, however, that all property exempt from taxation on the effective date of this section shall continue to be exempt until otherwise provided by the General Assembly as herein set forth.

(g) The General Assembly may by general law authorize any county, city, town, or regional government to impose a service charge upon the owners of a class or classes of exempt property for services provided by such governments.

h) The General Assembly may by general law authorize the governing body of any county, city, town, or regional government to provide for a partial exemption from local real property taxation, within such restrictions and upon such conditions as may be prescribed, of real estate whose improvements, by virtue of age and use, have undergone substantial renovation, rehabilitation or replacement

APPENDIX C PROPERTY TAX EXEMPTIONS FOR REHABILITATED PROPERTY: STATUTES OF OTHER STATES

T 6/27/78 nw
C 6/28/78 nw

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District Designation	Exemption applicable to following property classification(s):					Benefits applicable with: Owner/Land	QUALIFICATIONS:			EXEMPTION:	
	Residential	Commercial	Industrial	Other	Unspecified		Prohibition on increasing Sq. Footage	Ag of Structure	Amount of Repairs	Amount	Length
ALASKA 1	No	Yes	No	No	No	Not Specified	Yes			All or part of increased assessment due to improvements	4 years from completion of improvements or assessors exemption approval
COLORADO 2	Yes ¹	Yes	Yes	Yes	No	Yes	Yes	30 or more years			5 years after rehabilitation is completed
CONNECTICUT 3	es	Yes	Yes	Yes	Yes	Yes			\$5 million or more	100% increased assessment 1st year, less 10% each year there-	7 years during rehabilitation; 11 years after completion
ILLINOIS 4	No	Yes	No	No	No	Not Specified				\$15,000 maximum	4 years from completion and occupation
	5	No	Yes	No	No	Not Specified	Yes		\$7,500 max. every 10 yrs.	All of increased assessments due to improvements	10 years
		No	Yes	Yes	No	Not Specified	Yes		\$6,000 max. single family dwellings; \$8,000 max. two family dwellings; \$3,000/unit if more than 2 dwelling units	Lesser of: total increased assessment or \$3,000/dwelling unit	5 years

1 - COMMERCIAL STRUCTURES ONLY

(more)

Appendix C
 Property Tax Exemptions for Rehabilitated Property: STATUTES OF OTHER STATES

T 6/27/78 nw
 C 6/28/78 nw

District Designation	Exemption applicable to following property classification(s):					Benefits applicable with:	QUALIFICATIONS:			EXEMPTION:	
	Residential	Rental	Commercial	Industrial	Owner/Land		Prohibition on Increasing Sq. Footage	Age of Structure	Amount of Repairs	Amount	Length
7	Yes	Yes	Yes	No	Not Specified	No			100% increased assessment 1st year; 95%, 2nd 80%, 3rd 65%, 4th 50%, 5th	5 years	
MINNESOTA 8	No	No	Yes	No	Not Specified		25 or more years	Must be greater than 60% FMV of structure	100% increase in assessment	5 years after completion	
MONTANA 9	No				Not Specified				Increased Assessment: x 2.4% 1st yr. x 4.8% 2nd yr. x 7.2% 3rd yr. x 9.6% 4th yr. x 12% 5th yr. & every year thereafter	5 years	
10	No				Not Specified				Increase after construction: x 20% 1st yr. x 40% 2nd yr. x 60% 3rd yr. x 80% 4th yr. x 100% 5th yr.	5 years	

(more)

Appendix C
 Property Tax Exemptions for Rehabilitated Property: STATUTES OF OTHER STATES

T 6/27/78 nw
 C 6/28/78 nw

District Designation	Exemption applicable to following property classification(s):				Benefits applicable with:	QUALIFICATIONS:			EXEMPTION:	
	Residential	Rental	Commercial	Industrial		Owner/Land	Prohibition on Increasing Sq. Footage	Age of Structure	Amount of Repairs	Amount
N. DAKOTA 11	No	Yes	Yes	No	Yes	Yes	25 or more years		All increase due to improvement	3 years from commencement of improvement
OHIO 12	Yes	Yes	Yes	Yes	Not Specified	Yes		\$2,500 or more for 2 or less family units; \$5,000 or more for more than 2 family units, industrial and commercial	All increase due to improvement	Max. of 10 years for 2 or less family units; Max. of 12 years for all other property
OREGON 13	No	Yes	No	No	Not Specified	Yes			All increase in assessment until 12/31/82	7/1/75-12/31/82
14	No	No	Yes	No	Not Specified		25 or more years	5% or more of assessed value	All increase due to improvements	5 consecutive assessment rolls for improvements completed on or before 1/1/82.

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(more)

Appendix C
 • Property Tax Exemptions for Rehabilitated Property: STATUTES OF OTHER STATES

T 6/27/78 nw
 C 6/28/78 nw

District Designation	Exemption applicable to following property classification(s):				Benefits applicable with:	QUALIFICATIONS:			EXEMPTION:	
	Residential	Rental	Commercial	Industrial		Owner/Land	Prohibition on Increasing Sq. Footage	Age of Structure	Amount of Repairs	Amount
PENNSYLVANIA 15	Yes	Yes	No	No	Yes	No		Maximum during 1971 was \$10,000. Now is the maximum of preceeding year x ratio of US Bureau of Census, new one-family House Price Index for the current year to the preceeding year	100% increase 1st year decreasing by 10% annually; 100% increase 1st year decreasing by 20% annually; 100% increase	10 years 5 years 3 years
WISCONSIN 16	No	Yes	No	No	Yes	No			Maximum of \$3,000 in increased assessment	4 years

APPENDIX D

POSSIBLE ISSUES TO BE CONSIDERED

JOINT SUBCOMMITTEE STUDYING TAX EXEMPTIONS FOR REHABILITATED PROPERTY

1. Should rehabilitation be defined? If so, how?
2. Does the benefit of the exemption run with the structure or the owner? That is, does the exemption cease when the structure is sold?
3. Amount of exemption -

How much should the exemption be? Should it be a percentage of fair market value, a monetary amount, or an abatement for a specified period of time?
4. Length of exemption -

How long should the exemption be granted? Should the length and amount be considered together?
5. Should a minimum or maximum amount of rehabilitation cost be set? If so, should it be expressed as a monetary or percentage of fair market value limit?
6. What should the effective date of the enabling legislation be?
7. Should the start of the exemption be defined? If so, should it be at commencement of rehabilitation or upon completion?
8. Should the exemption be granted by district designation or according to individual structure?
9. Should there be a mandatory age minimum for the structure?
10. Should there be a prohibition on increasing square footage?
11. What should be included in the purpose clause of the act?
12. Should the exemption apply to a series of accumulated projects or only one project?
13. What are the potential problems with the implementation of the act?
14. What areas present potential for abuse?
15. What are the anticipated benefits of the relief?
16. Would relief in the form of a grant-in-aid be better?

APPENDIX E

Organizations and Persons Providing

Information and Assistance to

the Joint Subcommittee

Alexandria Federation of Civic Associations

Bedford County, Office of the Commissioner of the Revenue

Church Hill Association

City of Alexandria

City of Richmond

Dave Dugan, Virginia Beach

Fairfax County

Fan District Association

Historic Richmond Foundation

State Department of Taxation

Virginia Association of Assessors

Virginia Association of Counties

Virginia Association of Realtors

Virginia Homebuilders Association

Virginia Municipal League

Virginia Real Estate Commission

Virginia Savings and Loan Association

Wingate Appraisal Service

APPENDIX F

A BILL to amend the Code of Virginia by adding sections numbered 58-760.2 and 58-760.3 and to repeal §§ 58-759.1 and 58-759.2 of the Code of Virginia, the added and repealed sections providing an exemption from real property tax for certain rehabilitated real estate.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding sections numbered 58-760.2 and 58-760.3 as follows:

§ 58-760.2. Exemption from real property tax for certain rehabilitated residential real estate:

A. The governing body of any county, city or town may, by ordinance, provide for the exemption from taxation of real estate which has been substantially rehabilitated for residential use. For the purposes of this section, any real estate shall be deemed to have been substantially rehabilitated when a structure which is no less than twenty-five years of age has been so improved as to increase the assessed value of the structure by no less than forty per centum without increasing the total square footage of such structure by more than fifteen per centum; provided, however, that the governing body of a county, city or town may (i) require such structure to be older than twenty-five years of age, (ii) require the increase in assessed value to be greater than forty per centum or (iii) place such other restrictions and conditions on such property as may be prescribed by local ordinance.

B. The exemption provided in subsection A. shall be an amount equal to the increase in assessed value resulting from the rehabilitation of the residential structure as determined by the commissioner of revenue or other local assessing officer and shall be applicable to any subsequent assessment or reassessment. The exemption shall commence on January one of the year following completion of the rehabilitation and shall run with the real estate for a period of no longer than ten years; provided, however, the governing body of a county, city or town may place a shorter time limitation on the length of such exemption.

C. Nothing in this section shall be construed as to permit the commissioner of the revenue to list upon the land book any reduced value due to the exemption provided in subsection B.

D. The governing body of any county, city or town may assess a fee not to exceed twenty dollars for processing an application requesting the exemption provided by this section. No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the commissioner of the revenue or assessing officer has verified that the rehabilitation indicated on the application has been completed.

§ 58-760.3. Exemption from real property tax for certain rehabilitated commercial or industrial real estate.—A. The governing body of any county, city or town may, by ordinance, provide for the exemption from taxation of real estate which has been substantially rehabilitated for commercial or industrial use, For the purposes of this section, any real estate shall be deemed to have been substantially rehabilitated when a structure which is no less than twenty-five years of age has been so improved as to increase the assessed value of the structure by no less than sixty percent; provided, however, the governing body of a county, city or town may (i) require the structure to be older than twenty-five years of age, (ii) require the increase in assessed value to be greater than sixty percent or (iii) place such other restrictions and conditions on such property as may be prescribed by local ordinance.

B. The exemption provided in subsection A. shall not exceed an amount equal to the increase in assessed value resulting from the rehabilitation of the commercial or industrial structure as determined by the commissioner of revenue or other local assessing officer and shall be applicable to any subsequent assessment or reassessment. The exemption shall commence on January one of the year following completion of the rehabilitation or replacement and shall run with the real estate for a period of no longer than ten years; provided, however, the governing body of a county, city or town may place a shorter time limitation on the length of such exemption.

C. Nothing in this section shall be construed as to permit the commissioner of the revenue to

list upon the land book any reduced value due to the exemption provided in subsection B.

D. The governing body of any county, city or town may assess a fee not to exceed twenty dollars for processing an application requesting the exemption provided by this section. No property shall be eligible for such exemption unless the appropriate building permits have been acquired and the commissioner of the revenue or assessing officer has verified that the rehabilitation indicated on the application has been completed.

2. That the provisions of this act shall be effective beginning on and after January one, nineteen hundred eighty.
3. That §§ 58-759.1 and 58-759.2 of the Code of Virginia are repealed.

