

**DRAFT**

REPORT OF THE

HOUSE FINANCE SUBCOMMITTEE  
STUDYING  
REAL ESTATE TAX ASSESSMENTS

January 1990

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REAL ESTATE TAX ASSESSMENTS

**MEMBERS OF THE SUBCOMMITTEE**

Delegate David G. Brickley, *Chairman*  
Delegate J.W. O'Brien, Jr.  
Delegate Leslie L. Byrne  
Delegate George W. Grayson  
Delegate Harry J. Parrish

**STAFF**

**Division Of Legislative Services**

John A. Garka, *Manager, Government and Finance*  
Regina M. McNally, *Staff Attorney*  
Jane C. Lewis, *Executive Secretary*

## BACKGROUND

The Subcommittee was formed by the Chairman of the House Finance Committee, Delegate C. Richard Cranwell, to examine the dramatic increases in real estate tax assessments in many parts of the Commonwealth, especially in Northern Virginia and the Hampton Roads areas.

The Chairman appointed the following individuals to study the assessment situation, with Delegate David G. Brickley (*Woodbridge*) being appointed Chairman: J.W. O'Brien, Jr. (*Virginia Beach*), Leslie L. Byrne (*Fairfax County*), George W. Grayson (*James City County*), and Harry J. Parrish (*Manassas*).

The Subcommittee held four meetings and three public hearings during the course of its study and has prepared this report listing its findings and recommendations.

The Subcommittee has found real property values, and as a result, assessments, are increasing dramatically in many parts of the Commonwealth. Although most of the attention has focused on single family residential assessments, commercial and industrial property is also increasing rapidly in the growth areas. Although many areas of the Commonwealth are experiencing this phenomenon, the Northern Virginia localities have been particularly impacted, as the following shows:

<u>LOCALITY</u>	<u>AVERAGE SINGLE-FAMILY RESIDENTIAL ASSESSMENT INCREASE FOR 1989</u>
Arlington County	29.2%
Alexandria County	24.4%
Fairfax County	18.0%
Loudoun County	14.7%
Prince William County	17.0%

## FINDINGS

1. The subcommittee has examined Virginia's current property tax relief program for taxpayers age 65 or over and handicapped. As authorized by the *Constitution*, the General Assembly has allowed local governments to provide an exemption or deferral program on owner-occupied residences for those taxpayers within certain income and net worth constraints. The current income limitation throughout most of the Commonwealth is \$22,000 (or the income limits based upon family size for the respective metropolitan statistical area, published by the Department of Housing and Urban Development for qualifying for federal housing assistance) and \$40,000 in Northern Virginia. The current net worth limitation is \$75,000 throughout most of the Commonwealth and \$150,000 in Northern Virginia. The net worth limitation excludes the value of the house and one acre of land. Localities may adopt lower income and net worth limitations.

Localities are authorized to exempt (or defer) all or any part of the property tax of these taxpayers. The Subcommittee believes this is an important program to reduce the real estate tax burden on these taxpayers. The program works well and is popular throughout the Commonwealth.

2. Assessments are increasing dramatically, especially in the high-growth areas of the Commonwealth. Many areas of the Commonwealth are experiencing dramatic increases in individual assessments. The Subcommittee has heard and verified numerous cases where individual assessments have increased hundreds, or in fact, a thousand percent in one single year. Although the average increases (as the above table shows) are significant, averages often hide the tremendous increases borne by individual taxpayers. These dramatic individual increases have been brought to the Subcommittee's attention by numerous individuals during the Subcommittee's public hearings.
3. These dramatic assessment increases are forcing some people to sell their homes and move.
4. The problem is most serious in the fringes of high-growth areas where property has been owned and occupied by a taxpayer for years. However, a larger population and population density drives up the value of existing property. Moreover, as commercial/industrial development and other development occurs, property which is being used as a residence, where the owner has no intention to sell or change its use, is being valued at a higher, hypothetical use.
5. Although in many areas single family residential property assessments are increasing dramatically, there are also areas where the commercial and industrial property assessments are also increasing dramatically, and in fact, faster than the single family residential assessment increases.
6. The Subcommittee believes that, generally, the assessors are valuing property fairly, and attempt to approximate 100% of fair market value. The Subcommittee, however, is concerned with the proper valuation of property where only one or two sales are used to indicate the approximate value of hundreds of other properties which are not for sale. The Subcommittee is also concerned with the practice of valuing property based on some other hypothetical use.
7. The Subcommittee has determined that, overall, the Commonwealth has a good property tax system which is fair, has good administration, and has an excellent reputation among the states.
8. During the course of its hearings, the Subcommittee heard a great deal of public testimony regarding large assessment increases; however, at least part of the real issue appeared to be with the public perception of excessive local spending and using the dramatic increases in assessments to raise tax revenue while at the same time exhibiting a lack of discipline in spending and not having a priority for government spending.

9. The public hearings indicated that a number of speakers felt there was a lack of accountability in members of local governing bodies to keep real estate taxes down.
10. The Subcommittee heard a great deal of taxpayer support for annual limitations on assessment increases on specific individuals or limitations on the total amount of tax increases which a locality could adopt.
11. The Subcommittee has found that Virginia localities place a very heavy reliance on the property tax in comparison to other states. Clearly, limitations imposed on certain other local taxes (*i.e.*, BPOL, transient occupancy, utility and meals taxes) have caused Virginia localities to become reliant on the property tax, at least relative to other states.

**Virginia has the greatest reliance on the property tax to generate local revenue than any other state in the Southeast.**

12. According to the National Conference of State Legislatures (NCSL), 41 states have some type of limitation on the local property tax. Virginia is one of the few states which does not have some type of limitation. The Subcommittee has found a great deal of variation in limitations in other states. However, Virginia does have a truth in taxation statute which provides information to taxpayers on the proposed increases in real property taxes which the local governing body is considering.

## ALTERNATIVES CONSIDERED BY SUBCOMMITTEE

In an effort to reduce the burden of real property tax increases caused by rapidly escalating assessments, the Subcommittee has examined the following alternatives. Before discussing the alternatives, it should be noted the Subcommittee believes its charge is to find the best alternative to reduce the impact of escalating property taxes regardless of whether or not the alternative would require an amendment to the *Constitution of Virginia*. For example, the *Constitution of Virginia* requires all property to be assessed at 100% of fair market value. As a result, legislation to place a cap on assessment increases would require an amendment to the Constitution. However, a number of speakers have testified that what they believe necessary is a cap on total real property tax collection increases rather than a cap on assessments. This type of approach would not require a constitutional amendment since individual assessments would not be affected but rather local collections would be capped much like other local taxes are capped.

The following lists the alternatives considered by the Subcommittee. Of course, there are many variations for each option; moreover, the options may be combined.

## 1. Homestead Exemption.

A homestead exemption generally provides for an exemption of a specified amount of a home's assessed value from the real property tax base. It may be made available to all homeowners or limited to the elderly, veterans, or some other group. It is the most widespread form of relief for homeowners and generally is applicable for a taxpayer's principal residence. The relief can be either state financed or locally financed.

- ✦ Florida has a homestead exemption of \$25,000 which applies to all homeowners.
- ✦ Kentucky has a homestead exemption of \$17,000 for elderly and disabled homeowners.

### *ADVANTAGES:*

- ◆ Easy to understand and administer.
- ◆ Localities have flexibility to adopt appropriate level of homestead exemption, given their financial condition.
- ◆ Provides greater relief to owners of more modestly valued residential property.

### *DISADVANTAGES:*

- ◆ Shifts portion of property tax burden to non-residential property as well as to higher valued residential property.
- ◆ Selection of precise homestead exemption amount may be difficult.
- ◆ Provides relief only to residential property.

## 2. Circuit-breaker.

A circuit-breaker program defines an acceptable tax burden as some fixed percentage or percentages of household income and any tax above this amount is "excessive" and therefore qualifies for relief. A sliding-scale circuit breaker could also be utilized. These types of approaches are used for either all homeowners or a particular class of taxpayers, such as the elderly. The relief can be either state financed or locally financed. Many Virginia localities use a circuit-breaker type approach for providing real property tax relief for the elderly.

### *ADVANTAGE:*

- ◆ Can be targeted to help those taxpayers deemed to be most in need of relief.

*DISADVANTAGES:*

- ◆ Circuit-breaker is generally triggered by income; however, net worth is not utilized to determine the amount of relief. Some argue net worth is more important than income in determining the ability to pay real property taxes.
- ◆ More difficult to claim and administer than a homestead exemption.
- ◆ If financed by the locality, the tax burden would be increased on all other property.
- ◆ Does not specifically help those taxpayers who have experienced the largest increases in assessments.

**3. Classification (Residential/All Other).**

Under the current law, localities impose one tax rate on all real property. This alternative would allow localities to impose different tax rates on different types of property. For example, one tax rate for residential property and another for all other property.

Although this specific approach is used in only a few states, a large number of states use this method indirectly by assessing different types of property at different percentages of fair market value. For example, Minnesota has fourteen classes of property, each assessed at a different percentage of fair market value. Of course, this is identical to assessing all property at 100% of fair market value and imposing different tax rates. Classification has been accepted in Virginia for the tangible personal property tax.

*ADVANTAGE:*

- ◆ If residential property is deemed to be paying too much [or too little] the locality may impose a lower [or higher] tax rate.

*DISADVANTAGES:*

- ◆ Discriminates against certain types of real property by giving a preference to one; presumably, the burden would be shifted to the remaining classes of real property.
- ◆ Once different classes are established, it may be difficult to stop their proliferation.
- ◆ May be difficult to justify the precise tax rate differential.
- ◆ Identically valued property would pay a different amount of tax.
- ◆ Would not focus relief to those properties which have the greatest assessment increases.
- ◆ Relief would be dependent on the tax rate differential.

#### **4. Classification (Land and Improvements).**

This alternative would allow two separate classes of real property for tax rate purposes -- one for land, and one for all improvements.

A large part of the assessment problem in the spiraling assessments of single-family homes is in or near high-growth corridors where the property's location leads the assessor to assume that a non-residential use of residential property will cause the property to be valued at a higher non-residential use. In this case, the assessment on the land will increase faster than the assessment on the improvements because the increasing value is on the land which could be used for non-residential use. For example, a home and the land it occupies may be valued by the assessor because of its potential for an office building. In this case, the assessor's valuation of the land would increase dramatically, while the assessment on the improvements would not. Allowing a lower rate for land could mitigate this situation.

##### **ADVANTAGE:**

- ◆ Reduces real estate tax burden for homeowners experiencing large increases in land assessments.

##### **DISADVANTAGES:**

- ◆ Would tend to help only those with the greatest percentage increase in land values.
- ◆ May be difficult to justify the precise tax rate differential.
- ◆ Identically valued property would pay a different amount of tax.
- ◆ Relief would be dependent on the tax rate differential.
- ◆ Property owners with relatively large land values relative to improvements would receive a tax break while those with a relatively small percentage of land value may experience a tax increase.

#### **5. Limit/Freeze Assessment Increases.**

This option would provide an annual limit on real property assessments for individual homeowners for as long as they own the specific home. Once the property is sold, it is revalued at 100% of fair market value, and the new owner would be eligible for the annual limit on assessments. There could be a special tax at the time of sale or transfer, or a rollback tax for a specified period of time.

##### **ADVANTAGES:**

- ◆ Would place an annual cap on the assessment increase.
- ◆ Would specifically help those taxpayers who have experienced the largest increases in assessments.



*DISADVANTAGES:*

- ◆ Would shift a portion of the burden of the tax to non-residential property.
- ◆ Locality could still increase the real estate tax rate.
- ◆ Homes with identical fair market values would pay different taxes, depending on when the owners purchased the homes.

**6. Limit Total Real Property Tax Collections To A Certain Percentage Annually.**

This alternative would limit the percentage increase in local real property tax collections to a certain percentage annually. If assessment increases exceeded this percentage, the real property tax rate would have to be reduced.

*ADVANTAGE:*

- ◆ Would place some downward pressure on the real estate tax rate and cap reliance on the real property tax.

*DISADVANTAGES:*

- ◆ Because the limitation applies to total collections, individual properties could still experience large percentage increases in taxes if their assessments escalated dramatically.
- ◆ The specific percentage limitation may be difficult to select.

**7. Allow Different Rates For Different Values Of Real Property.**

For example, instead of a \$1.00 tax rate per \$100 of assessed value for all property, allow the use of the following type of progressive structure:

\$0.80 per \$100 for the first \$25,000 of assessed value  
\$0.90 per \$100 for assessed value between \$25,001 - \$100,000  
\$1.00 per \$100 for assessed value between \$100,001 - \$200,000  
\$1.10 per \$100 for assessed value over \$200,000

*ADVANTAGES:*

- ◆ Would give relief to lower valued real property.
- ◆ Easy to administer.

*DISADVANTAGES:*

- ◆ Would shift a portion of the tax burden from lower valued real property to higher valued property and commercial/industrial property.
- ◆ Tax rate differentials could be difficult to select.
- ◆ Could lead to a proliferation of rates.
- ◆ Does not target relief to properties which experience the greatest increase in assessments.

**8. Allow Taxpayers Experiencing The Largest Increase In Assessments To Defer A Portion Of the Increase, With Interest.**

If the primary concern is those taxpayers which experience the largest assessment increases, a program could be devised which would provide the tax which resulted from an assessment increase of over a certain percentage be deferred, at the taxpayer's option.

Interest would be charged and a lien placed on the property for the amount of the deferral, plus interest.

*ADVANTAGES:*

- ◆ Target relief to those taxpayers with the largest assessment increases.
- ◆ Prevent owners from being taxed out of their homes.
- ◆ Would not cost local revenue but would delay its receipt by the locality.
- ◆ Would not shift tax burden to other tax sources.

*DISADVANTAGES:*

- ◆ Selection of appropriate threshold increase could be difficult.
- ◆ Would reduce actual tax collections and cash flow in the early years of the program.
- ◆ Would involve some administrative expense.

**9. Strengthen truth in taxation statute.**

Although Virginia does have a truth in taxation statute, many states provide additional information to taxpayers or impose different requirements. Although these statutes do not directly affect the level of assessment or the tax rate, they are an important part of the process in improving the appropriate level of taxpayer information regarding budget needs and priorities and the determination of the appropriate amount of tax increases through the public hearing process.

## RECOMMENDATIONS

The Subcommittee presents the following recommendations:

- 1. Enact a local option deferral program whereby taxpayers can defer all or a part of their annual real property tax increases which exceed a certain percentage.**

The Subcommittee has been particularly concerned with the rapidly escalating assessments for taxpayers who have lived in their homes for a number of years and have witnessed the dramatic increase in assessments either because of growth in the region or because of the development growth where their particular property is valued for its potential (as, for example, an office building) rather than the existing use as a homesite. One critical concern is that homeowners who have a limited income increase and who have lived in their homes for a number of years are being forced to sell and move because they cannot afford to pay the increased real property taxes on their homes. The Subcommittee has heard testimony on a number of occasions where the property tax bill is greater than the original mortgage payment for the home.

One way to redress this inexcusable situation is to provide for a deferral program which will defer the real estate tax increase over a certain percentage and will thus allow the taxpayer to remain in his home. The locality will charge interest on the deferred amount and the deferred amount will need to be repaid to the locality at the time of sale or transfer of the house or the death of the owner.

Under this alternative, no one would ever be forced to sell their home because they were unable to pay their taxes.

The Subcommittee recommends the adoption of a local option program whereby localities can decide if the program is appropriate or not. The Subcommittee recommends that increases in taxes above 5% each year be deferred; however, localities can select a higher threshold level. Moreover, the Subcommittee is further recommending that localities have the option of extending the deferral plan to either owner-occupied residences or to all property.

The following example illustrates the impact of a deferral program. For purposes of this example, we assume (i) the home was purchased January 1, 1990, and the locality adopted the deferral program beginning in 1991. The example assumes the value of property increases 15% per year, (ii) the locality adopts a deferral amount of 5%, and (iii) the interest charged is 10%.

YEAR	FAIR MARKET VALUE OF HOME	REAL ESTATE TAX AT \$1.25	BASE AMOUNT OF NON- DEFERRABLE TAX	AMOUNT AVAILABLE FOR DEFERRAL	AMOUNT OF EQUITY INCREASE SINCE LAST YEAR
1990	\$100,000	\$ 1,250	-----	-----	-----
1991	\$115,000	\$ 1,437	\$ 1,312	\$ 125	\$ 15,000
1992	\$132,250	\$ 1,653	\$ 1,378	\$ 275	\$ 32,250
1993	\$152,087	\$ 1,901	\$ 1,447	\$ 454	\$ 52,087
1994	\$174,900	\$ 2,186	\$ 1,519	\$ 667	\$ 74,900
1995	\$201,135	\$ 2,514	\$ 1,595	\$ 919	\$101,135
1996	\$231,305	\$ 2,891	\$ 1,675	\$ 1,216	\$131,305
1997	\$266,001	\$ 3,325	\$ 1,759	\$ 1,566	\$166,001
1998	\$305,901	\$ 3,824	\$ 1,847	\$ 1,977	\$205,901
		-----	-----	-----	
		\$19,731	\$12,532	\$7,199	

Assume owner sold house in December, 1998; the outstanding deferred amount plus interest is \$8,832.64 (or 4.3% of the increased equity of the home since the base year).

**2. Strengthen the current truth in taxation statute by requiring a separate public hearing to be held on the real estate tax rate question. Also, require the truth in taxation advertisement to include the proposed increase in the total local budget under the proposed real estate tax rate.**

The Subcommittee believes under current law many localities have their required annual budget hearing in conjunction with the real estate tax hearing. The annual budget hearing contains a number of special interest groups which wish to influence the local government by adding new spending programs, etc. On the other hand, the real estate tax rate public hearing is generally attended by individual citizens who are greatly outnumbered by the special interest groups (who are often paid to attend). The private citizens simply wish to address the real estate tax question and the level of governmental spending. The Subcommittee believes these two hearings should be held by the locality separately.

Also, in examining the truth in taxation statutes of other states the Subcommittee found that some states include, in addition to the percentage increase in the effective real estate tax rate, the percentage increase in the total local budget, given the proposed real estate tax rate. The Subcommittee feels this is important information to the taxpayer to gauge how large an increase there will be in the total budget if the local property tax rate is increased by the proposed amount. The Subcommittee has found a number of states require this information in their truth in taxation statutes.

3. **The Subcommittee has reached a tentative agreement to examine an 8% limitation on annual assessments increases so long as the owner-occupied residential property is owned by the same owner.**

As you will recall, a ceiling on assessments will require an amendment to the Virginia Constitution. However, since the amendment must be resubmitted to the General Assembly after the next election of members of the House, there is no pressing need to introduce this amendment to the 1990 Session as opposed to the 1991 Session.

Thus, the Subcommittee is recommending that its study be extended one additional year. The Subcommittee has wrestled with a number of important and emotional issues. The Subcommittee has also examined the laws in other states and has found a great deal of variation and complexity in the property tax structures as well as property tax limitations and programs. Moreover, the national literature on the laws and mechanisms of other states is helpful but it is not complete. As a result, the Subcommittee is requesting an additional year to update this national information as well to examine the workings of the proposed 8% limitation on assessment increases.

The Subcommittee believes a limitation on annual assessments will have many important benefits. One will be that homeowners will have the security of knowing their assessment increases will be manageable. This will encourage those taxpayers who have lived in a community for a number of years, paid taxes, and contributed to the community to remain in that community. In fact, these are precisely the type of people which localities should be trying to retain. It might be appropriate to refer to this as a "stability dividend;" that is, reduced governmental spending as a result of a more stable community.

## SUMMARY

The Subcommittee believes that the proposed limitation on assessment increases, so long as the property is retained by the same owner and does not sell the property, is a reasonable compromise between those who wish to have a very tight cap imposed and those who wish to have no restrictions. The Subcommittee believes the locality will still be able to generate a large dollar amount of additional revenue since the limitation will not apply to commercial/industrial property, new construction, and property which has just been sold or transferred. Moreover, the locality could still increase the local tax rate if it needed to have additional revenue. On the other side, the taxpayer will have some feeling of security and knowledge that the assessment would not be able to increase more than 8% per year.

The Subcommittee wishes to acknowledge that there are a number of study groups which are examining local tax capacity, authority, and relationships at the current time. The Infrastructure Commission, the Grayson Commission, and the Population Growth Commission are all examining areas which affect local tax authority and spending. The Subcommittee believes it is prudent to wait until these respective Commissions have made their recommendations to the 1991 Session before making a specific concrete proposal on an 8% limitation on assessment increases.

The Subcommittee will be working throughout 1990 on this tentative limitation proposal and will report its final recommendations to the 1991 Session. In regard to the 1990 legislative recommendations, **Appendix A** contains the proposed legislation recommended by this Subcommittee. **Appendix B** contains a portion of the relevant background information the Subcommittee has gathered during 1990.

Respectfully submitted,

David G. Brickley, *Chairman*

J. W. O'Brien, Jr.

Leslie L. Byrne

George W. Grayson

Harry J. Parrish

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# APPENDIX A

## **Proposed Legislation**

1. **House Bill No. 900**
2. **House Bill No. 938**
3. **House Resolution No. 6**

# House Bill No. 900

## Legislation

This legislation which has passed the 1990 Session of the General Assembly authorizes localities to adopt a real estate tax deferral program whereby taxpayers can defer, at their option, all or part of their annual real estate tax increases which exceed 5% per year. The locality may adopt the deferral program to apply to either owner-occupied residences or all property. Interest would be charged on the deferred amount. The interest rate would be the interest rate charged by the locality for most unpaid local taxes. The tax could be deferred for so long as the owner owns the real estate. The deferral tax and interest must be repaid to the locality within one year of the sale or transfer of the property.

## Rationale

The General Assembly has been particularly concerned with the rapidly escalating assessments for taxpayers who have lived in their homes for a number of years and have witnessed the dramatic increase in assessments either because of growth in the region or because of the development growth where their particular property is valued for its potential (as, for example, an office building) rather than the existing use as a homesite. One critical concern is that homeowners who have a limited income increase and who have lived in their homes for a number of years are being forced to sell and move because they cannot afford to pay the increased real property taxes on their homes. The General Assembly has heard testimony on a number of occasions where the property tax bill is greater than the original mortgage payment for the home.

One way to redress this inexcusable situation is to provide for a deferral program which will defer the real estate tax increase over a certain percentage and will thus allow the taxpayer to remain in his home. The locality will charge interest on the deferred amount and the deferred amount will need to be repaid to the locality at the time of sale or transfer of the house or the death of the owner.

Under this alternative, no one would ever be forced to sell their home because they were unable to pay their taxes.

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Arthur C. Philpot  
312 Pennsylvania Avenue  
Falls Church, Virginia 22046

Telephone (703) 533-0131

16 May 1990

Mr. Otho C. W. Fraher  
Director, Property Tax Division  
Department of Taxation  
Commonwealth of Virginia  
Richmond, Virginia 23282

Dear Mr. Fraher:

I received your letter dated May 1, 1990 in response to the petition sent to the Tax Commissioner by 20 citizens and tax payers of the City of Falls Church, Virginia on 12 January 1990.

I personally find your letter almost totally unresponsive to the issues raised and the information, data and documents that have not been furnished to me as requested in the letters and petitions contained in the 318 pages of documents delivered to you by Mr. John A. Garka, Division of Legislative Services. Furthermore, your letter does appear to me to legitimize what the Governing Body and City Assessor are doing as pertains to assessments and taxation within the City of Falls Church, Virginia.

May I recommend to you that you request the Tax Commissioner take action under the provisions of Virginia Code 58.1-202, item 2. Since the Governing Body of the City of Falls Church has not exercised its authority over City Assessor and in my opinion has failed to duly enforce the Code of Virginia as pertains to Methods of Assessments and Taxation; The Governor of the Commonwealth of Virginia does have the authority and responsibility to enforce the Code of Virginia and The Fourteenth Amendment to The Constitutions of The United States of America and The Commonwealth of Virginia. I am most confident he will do so without hesitation.

Each signatory to the petition sent to the Tax Commissioner will be furnished a copy of this letter and your letter for their information and their response to your letter,

Sincerely,

  
Arthur C. Philpot

cc: Governor L. Douglas Wilder  
Governing Body, City of Falls Church  
Mr. W. H. Forst  
Mr. John A. Garka  
Mr. David R. Lasso  
Mr. William W. DeLonoy  
Each Signatory to Petition



# COMMONWEALTH of VIRGINIA

*Department of Taxation*

May 1, 1990

Mr. Arthur C. Philpot  
312 Pennsylvania Ave.  
Falls Church, VA 22046

Dear Mr. Philpot:

I have carefully reviewed all of the information supplied by you and the information supplied by Mr. John Garka including the videotape of the assessment forum held February 4, 1989.

Several common thoughts appear to be present throughout the documents.

The most common of these is the publication of a "mode of assessment" by either the council or the assessor. The phrase "mode of assessment" or "uniform mode of assessment" is used from time to time by the Virginia Supreme Court in decisions relating to the property tax. When taken within the context of the cases this does not mean that each and every property must be valued using the same precise technique or that the same factors must be applied to each property. For instance the method of assessment in Albemarle County was found to be unconstitutional because only a portion (approximately one-sixth) was revalued each year. The court essentially said that this resulted in an unconstitutional lack of uniformity in assessed values. One area of the county was assessed at or near fair market value while other areas were assessed at values that were far below current fair market value.

The constitutional standard is that all property must be assessed at its fair market value. Neither the Constitution nor the statutes prescribe a method to arrive at fair market value. In reality the method that reaches fair market value this year may not next year. For this reason the assessor must have the flexibility to change methods to meet the requirement of fair market value.

Mr. Arthur C. Philpot  
May 1, 1990  
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For this reason I would suggest that if a published methodology is created that it be general in nature to allow flexibility.

Another thought that appears throughout the document is uniformity.

Uniformity is the most important element of a good assessment system and it is impossible to stress this too much. It is important to recognize what uniformity does not mean just as much as it is important to recognize what it does mean.

Uniformity does not mean that all land zoned the same be assessed at the same value or the same rate per square foot nor does it mean that it would all increase at the same percentage. Uniformity does not mean that all detached residential buildings are to be assessed at the same value or the same square foot rate or that they will all increase at the same percentage from year to year or within the same year. Differences in many factors such as location, size, construction, or condition may cause property to have different values per unit and also to change in value at different rates.

The assessor is obligated to take all elements of value into consideration in determining the assessed value of each parcel each year.

Uniformity does mean that each property must be assessed at a value which results in a uniform relationship to fair market value for all property.

In the assessment of residential property in Falls Church the assessor examines each neighborhood separately. The sales of property in these neighborhoods determines the standard increase in value for the neighborhood, but other factors such as additions may affect the assessed value of particular properties within a neighborhood. This is proper as long as all assessed values maintain a uniform relationship to fair market value.

The Virginia scheme of real estate assessment and taxation is relatively simple. The standard for assessed value is fair market value with no percentage applied to further confuse the issue or obscure the level of assessed value. The tax rate is adopted by the city council after a public hearing and is applied to all real estate uniformly.

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The statutes are drawn in such a way that when council advertises the tax rate, it is advertized as a tax increase to the extent that the proposed rate increases real estate tax revenue by more than one percent over the previous year.

Real estate assessment does involve subjective judgement on the part of the assessor and from time to time errors do occur. To allow protection to the taxpayers from erroneous assessments an appeals process is provided.

The first level of appeal is an informal appeal to the assessor after a notice of change in assessment is provided to the taxpayers. The second and final administrative appeal is to the Board of Equalization. This is a citizen board whose members must be property owners in Falls Church and they must be trained in their duties by the Department of Taxation. This board advertises their hearing dates, hears appeals and make whatever adjustments to the individual assessed values that in their judgement will equalize the assessments. The next level of appeal is to the local Circuit Court. This involves engaging an attorney and the formal submission of evidence to support a change in assessed value. An adverse opinion of the court can be appealed to the Virginia Supreme Court.

This system appears to work well in Falls Church. Each year the Department of Taxation publishes an Assessment/Sales Ratio Study. This document is the result of an exhaustive study of the comparison of assessed values to sales prices in each of the counties and cities in the Commonwealth. The sale prices that are used are for arms length sales of real estate that occurred after the assessed values are a matter of record. The sales information is acquired from the Clerk of the Circuit Court.

In this study the level of assessment is measured by the median ratio. A ratio of assessed value to sales price is determined for each sale and these individual ratios are arrayed in order from the smallest ratio to the largest. The individual ratio which falls in the center of this array is the median.

Another useful statistic is the coefficient of dispersion. This is a measure of the uniformity of the assessed values. A full discussion of the methodology for developing this coefficient is in the full 1988 study which is enclosed. Suffice it to say that the smaller this number, the more uniform the assessed values are.

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May 1, 1990  
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Because the study utilizes sales after the fact and time necessary to conduct this study over the entire state the publication is routinely published more than a year after the effective date of the assessment.

The following table sets out the median ratio and the coefficient of dispersion for the City of Falls Church for the years 1980 through 1988.

Year	Median Ratio	Coefficient of Dispersion
1988	76.4%	8.9%
1987	84.6%	7.5%
1986	87.4%	5.7%
1985	92.9%	4.5%
1984	94.8%	6.0%
1983	96.2%	5.8%
1982	94.7%	4.8%
1981	88.1%	5.5%
1980	83.2%	7.0%

An analysis of these numbers indicates that in spite of the large increases in individual assessed values the assessments have been falling behind the market since 1982. At least part of this can be accounted for by the time between the effective date of the assessment and the time the sales occur. In periods of rapidly rising values this will result in what appear to be much lower assessments.

A comparison of the coefficients of dispersion in Falls Church with those of other localities shows Falls Church to rank near the best. The numbers are well within the acceptable range.

Pursuant to the petition you submitted to the Tax Commissioner I have met with the Falls Church Board of Equalization on four occasions. As you know this board is a citizen board charged with the responsibility to equalize assessments in Falls Church.

Quite frankly, I am impressed with the board of equalization in Falls Church. They listen to the problems of the taxpayers and readily make changes in the assessed values when they believe changes are justified. This board also upholds the value placed by the assessor if they believe the assessed value is justified. These actions protect all of the citizens of Falls Church because an assessment which is too low creates an inequity just as much as an assessment which is too high. This board also

Mr. Arthur C. Philpot  
May 1, 1990  
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makes changes without a specific request if they discover a change is appropriate. Situations which require this action are usually discovered as the result of a complaint on a similar property.

I believe the board has increased assessed values in past years in situations where this action was warranted but all of the adjustments I am aware of in 1990 reduced the values.

I hope this information is helpful to you.

Sincerely,



Otho C. W. Fraher  
Director  
Property Tax Division

cc: Mr. W. H. Forst  
Mr. William W. De Lanoy  
Mr. David Lasso

## Panel backs deferral plan

By Virginia Churn  
Times-Dispatch staff writer

Homeowners facing large increases in real estate tax assessments would get a break through a legislative proposal that would permit them to defer paying the increased portion of the bill.

The special finance subcommittee studying these assessments will recommend a deferral program to the 1990 General Assembly.

The subcommittee also will recommend that its work be continued for a year to address putting a limit on real estate assessments. It also will continue to study a proposal that would not limit assessment increases but would keep higher tax collections to a certain percentage a

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# Assembly due plan to defer payment of realty tax boosts

Continued from first page  
year.

The subcommittee at its meeting yesterday at the Capitol was leaning toward limiting real estate assessment increases to 8 percent a year. A limit on such increases requires a constitutional amendment.

The subcommittee favors a local option program to allow a tax deferral for all who face large increases. It has not determined how large the increase would have to be before the tax could be deferred. The taxpayer would pay some interest on the deferred tax, but that also is yet to be decided.

Del. J.W. O'Brien Jr., D-Virginia Beach, a subcommittee member, said he wanted to address the problem of an elderly woman who told him it looked as if she would have to move out of her house because her taxes were going up so much.

Del. Leslie L. Byrne, D-Fairfax, said retired people have told her they would not use a deferral program. A house is their only asset and they are not comfortable putting a lien on it, which would happen with an unpaid tax bill, she said.

Local governing bodies oppose a limit or freeze on assessment increases.

In Virginia, 31.5 percent of local government general revenue is from property taxes.

A Virginia Municipal League survey of assessments showed the highest average home values, as well as the fastest increases in values, are in Northern Virginia. Bedford County and Virginia Beach also have had above-average increases.

Taxes paid on average-value homes have not increased as much as the increase in assessed value, according to the report from Suzette Denslow, the league's research director.

The report said there is less variation in the increase in taxes than the variation in assessment increases.

"The increase in real estate taxes on the average home in Richmond was 41 percent from 1985 to 1989. The increase in Fairfax County in the same period was 40 percent. Loudoun's increase was 45 percent, while Norfolk's increase was 46 percent," the report said.

Much of the pressure for a limit on assessment increases has come from Northern Virginia. In Fairfax County, property tax bills have risen by an average of 18 percent this year.

A Northern Virginia group, Citizens on Sensible Taxation has rec-

ommended a 5 percent limit.

The subcommittee, though, liked an 8 percent cutoff with the idea that if a local government needed to go over that, it could hold a referendum and let the voters decide whether they favored a larger tax increase for some project.

The state constitution calls for all property to be assessed at fair market value, so a limit on property tax increases would require a constitutional amendment. A referendum on an amendment could not be held before November 1992.

The subcommittee turned down proposals for different tax rates for residences and businesses and a homestead exemption, such as the one in Florida, where homeowners receive a \$25,000 exemption for single-family residences and the state makes up the loss in revenue for localities.

The subcommittee also will propose to the 1990 Assembly:

- A truth-in-taxation statute that would prohibit a public hearing on real estate tax increases from being held in conjunction with a budget hearing and would require advertisement to include the percentage increase in a locality's budget under the proposed tax rate.

- That Virginia continue to allow property tax relief for eligible elderly and handicapped people.

# Va. Legislative Panel Backs Assessment Limit

## 8% Restriction Opposed by Local Officials

By John F. Harris  
Washington Post Staff Writer

RICHMOND, Dec. 18—Carried by a tide of citizen anger about rising local taxes, a legislative panel proposed a state constitutional amendment today that would prohibit real estate assessments from increasing more than 8 percent a year.

The limit, proposed by a House of Delegates subcommittee, faces a long series of hurdles before it could become law, but elected officials from Northern Virginia wasted no time in condemning it as an unfair restriction on their ability to raise money for schools, police and other services.

Taxes on business and residential property are by far the largest source of revenue for Virginia localities. In Northern Virginia, in particular, critics of high taxes contend that a real estate market that until recently was rising at a fever pitch has caused values to increase

so fast that homeowners can't afford to pay their taxes.

The proposed limit on assessments unanimously passed the five-member subcommittee, which includes three Northern Virginians. One of them, Del. Leslie L. Byrne (D-Fairfax), said she recognizes that she is setting the stage for a battle with local officials, but complained that Fairfax and other localities have been using rising assessments as a "shell game" to disguise tax increases.

Real estate taxes are determined by multiplying the assessed value of a property by the local tax rate, which is set each year. As assessments have risen, most Northern Virginia localities have lowered their tax rates while realizing large revenue gains.

Byrne said that with the proposed limit on assessments, if county officials need to raise money for services, "They'll have to advertise

See ASSESSMENT, B7, Col. 3

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## Northern Va. Officials Condemn Assessment Proposal

### ASSESSMENT, From B1

the [higher] tax rate and take the heat for doing it."

Fairfax County lowered its tax rate between 1985 and 1989, from \$1.39 per \$100 of assessed value to \$1.19. At the same time, the assessed value of the average house in the county has increased more than 60 percent—to a current average of about \$171,000. The bottom line is that the tax bill for a typical homeowner has climbed 40 percent in four years.

Elected officials across Northern Virginia said that the General Assembly already has given them few options for raising money, and at a time when they are straining to provide adequate services, the last thing they need is another restriction.

"It's an issue of principle," said Alexandria Mayor James P. Moran

Jr. (D). "I don't think the state government should be imposing more constraints on localities than they already have. What the state should be doing is giving us . . . more flexibility to meet the needs of our constituents."

The Virginia Constitution requires that property be assessed at 100 percent of its market value. The subcommittee, headed by Del. David G. Brickley (D-Woodbridge) and formed earlier this year in response to unusually high assessments in the high-growth suburbs of Northern Virginia and Hampton Roads, approved the amendment in concept and ordered its staff to draft specific language.

To become law, a constitutional amendment must be passed in two sessions of the General Assembly and then ratified by voters at a referendum. Brickley said the subcom-

mittee's proposal is subject to considerable change as it is studied, and the earliest it could be put to voters is November 1992.

Nonetheless, today's action is evidence of how politically potent the tax issue has become. Citizens on Sensible Taxation, a Great Falls anti-tax group that sent Fairfax County lawmakers into a panic earlier this year with a proposal to revamp the county government, is seeking a 5 percent lid on assessments.

Byrne said that if the 8 percent restriction is enacted, the legislature should consider ways of increasing revenue to localities, such as returning to them a percentage of state lottery profits.

The subcommittee also recommended today that the legislature enact a program allowing homeowners to defer payment on their tax bills, with interest. Brickley said



a deferral plan might be useful in cases where property owners have experienced a spectacular jump in the value of their land.

Along Horner Road in Prince William County, for example, speculation by adjacent developers caused one homeowner's annual assessment to rise by almost 1,000 percent this year.

However, Suzette Denslow of the Virginia Municipal League said such cases are rare and could be corrected without a drastic measure such as a constitutional amendment.

Prince William Board Chairman Edwin C. King (D-Dumfries) said an assessment limit would increase unfairness in the tax system. A developer whose property value increased 40 percent, for example, would bear the same burden as a homeowner whose property increased 8 percent.

The following example illustrates the impact of a deferral program. For purposes of this example, we assume (i) the home was purchased January 1, 1990, and the locality adopted the deferral program beginning in 1991. The example assumes the value of property increases 15% per year, (ii) the locality adopts a deferral amount of 5%, and (iii) the interest charged is 10%.

YEAR	FAIR MARKET VALUE OF HOME	REAL ESTATE TAX AT \$1.25	BASE AMOUNT OF NON- DEFERRABLE TAX	AMOUNT AVAILABLE FOR DEFERRAL	AMOUNT OF EQUITY INCREASE SINCE LAST YEAR
1990	\$100,000	\$ 1,250	-----	-----	-----
1991	\$115,000	\$ 1,437	\$ 1,312	\$ 125	\$ 15,000
1992	\$132,250	\$ 1,653	\$ 1,378	\$ 275	\$ 32,250
1993	\$152,087	\$ 1,901	\$ 1,447	\$ 454	\$ 52,087
1994	\$174,900	\$ 2,186	\$ 1,519	\$ 667	\$ 74,900
1995	\$201,135	\$ 2,514	\$ 1,595	\$ 919	\$101,135
1996	\$231,305	\$ 2,891	\$ 1,675	\$ 1,216	\$131,305
1997	\$266,001	\$ 3,325	\$ 1,759	\$ 1,566	\$166,001
1998	\$305,901	\$ 3,824	\$ 1,847	\$ 1,977	\$205,901
		-----	-----	-----	
		\$19,731	\$12,532	\$7,199	

Assume owner sold house in December, 1998; the outstanding deferred amount plus interest is \$8,832.64 (or 4.3% of the increased equity of the home since the base year).

# APPENDIX A

## Proposed Legislation

1. **House Bill No. 900**
2. **House Bill No. 938**
3. **House Resolution No. 6**