

VIRGINIA ACTS OF ASSEMBLY -- 2007 SESSION

CHAPTER 843

SENATE JOINT RESOLUTION NO. 354

Proposing an amendment to Section 6 of Article X of the Constitution of Virginia, relating to property tax exemptions, including tax relief for certain homeowners.

Agreed to by the Senate, February 6, 2007

Agreed to by the House of Delegates, February 22, 2007

RESOLVED by the Senate, the House of Delegates concurring, a majority of the members elected to each house agreeing, That the following amendment to the Constitution of Virginia be, and the same hereby is, 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 TAXATION AND FINANCE

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 an ordinance adopted by the local governing body and subject to such restrictions and conditions as provided by general law.

(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 property taxation, or a portion thereof, within such restrictions and upon such conditions as may be prescribed, of real estate and personal property designed for continuous habitation 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 property 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, (i) of real estate whose improvements, by virtue of age and use, have undergone substantial renovation, rehabilitation or replacement or (ii) of real estate with new structures and improvements in conservation, redevelopment, or rehabilitation areas.

(i) The General Assembly may by general law allow the governing body of any county, city, or town to exempt or partially exempt from taxation any generating equipment installed after December thirty-one, nineteen hundred seventy-four, for the purpose of converting from oil or natural gas to coal or to wood, wood bark, wood residue, or to any other alternate energy source for manufacturing, and any co-generation equipment installed since such date for use in manufacturing.

(j) The General Assembly may by general law allow the governing body of any county, city, or town to have the option to exempt or partially exempt from taxation any business, occupational or professional license or any merchants' capital, or both.

(k) The General Assembly may by general law allow the governing body of any county, city, or town to exempt or partially exempt from real property taxation or provide for the deferral of real property taxes, within such restrictions and upon such conditions as may be prescribed by the governing body by ordinance, of up to twenty percent of the value of residential or farm property that is designed for continuous habitation and is occupied as the primary dwelling of the individual owners.

NORTHROP GRUMMAN

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December 5, 2007

The Honorable Lacey Putney
P O Box 127
Bedford, VA 24523

Dear Delegate Putney:

Congratulations on your recent re-election.

During the 2007 session of the General Assembly I testified on behalf of Northrop Grumman against the proposed "Homestead Exemption" constitutional amendment (SJR 354) before the House Privileges and Elections Committee. I had opposed similar measures in prior years on behalf of the Virginia Chamber of Commerce. The Chamber and the Virginia Manufacturers Association are both in opposition this year. It has been pre-filed for 2008 as HJR 3 and HJR 4 (Delegate Bob Brink won the race).

The first problem with the idea, despite its obvious popularity, is very simple. If localities deliver on their promises to grant eligible homeowners a 20 percent discount on their real estate assessments, they will most likely make that up by raising rates and taxing everybody else more. To the extent homeowners come out ahead, higher taxes will fall across the board on business, rental property and agricultural land.

Reducing taxes by simply passing the bill on to someone else is an ancient tactic. The authors of the Virginia Constitution sought to forestall that option by requiring that all property taxes be imposed with a uniform rate on 100 percent of the fair market value. Previous amendments have chipped at that protection, but this simply kills it outright. The constitutional authors were also wise in calling for a second enactment. Please consider the issue carefully before the final vote. It is a notably bad idea.

In 2006 there was just under \$900 billion in assessed value on the local real estate tax books, and about \$675 billion of that was single family residential. Assuming only 75 percent of that is owner-occupied, the 20 percent discount promised in the amendment would amount to \$100 billion taken off the local tax rolls. The reduced tax receipts on that would approach \$1 billion statewide.

But localities are not promising to or required to cut spending. They won't. So the result will be to shift that \$1 billion in additional taxes to businesses, landowners and renters. Their hike could eventually be larger than 20 percent because the \$1 billion comes from fewer taxpayers. Some of the proponents of this proposal openly advocate higher taxes on business, but I don't think all of you desire that outcome. I'm not sure anybody considered the impact on rents, usually paid by the youngest, oldest or poorest of your constituents.

The second major problem with the idea is taxpayers will be disappointed. Many localities are too heavily residential to implement the idea (at least, not without cutting their budgets!) Proponents were assuming that values would rise as the discount was applied, but that is out the window. Now that residential values are flat or even declining, granting the full discount means a real cut in revenue, unless there are dramatic increases in the base tax rate. Yet, once they vote for this, people will expect the full 20 percent tax cut they were promised, just as they once expected their car tax to fully go away. Local officials who think this is only an option are fooling themselves. Some are starting to realize they are promising something they cannot deliver. So are you.

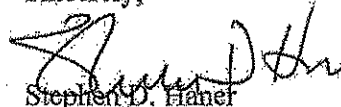
The third problem is it fixes nothing. The argument has been made that Virginia relies too heavily on property taxes. This proposal doesn't fix that. We still will.

The argument has been made that the real problem is the failure of local governments to fully compensate for assessment increases by trimming their tax rates proportionately. This proposal doesn't fix that, either. They can keep doing that.

The argument has been made that commercial property values are not keeping pace and therefore are under-taxed. In recent years residential prices in general have grown faster than commercial prices. The opposite has been true at times in the past. Commercial values may set the pace again now that the housing bubble has ruptured.

If it is put on the ballot, the amendment will pass. If it is put into the constitution, localities will be under enormous pressure to exercise the option soon. Absent restraint on spending, localities will raise their base tax rates to the point where they get the revenue they want, homeowners see a small tax cut, and the burden falls on business, agricultural and rental property. Then in a few years, when the discount is in place and homeowners see their values and taxes begin to spike again, what comes next?

Sincerely,



Stephen D. Haner
Manager, State Government Relations

Northrop Grumman is Virginia's largest manufacturing company, largest technology company and largest defense contractor, employing more than 33,000 people statewide and adding \$11 billion to the state's economy. Northrop Grumman Newport News is the only American shipyard capable of building, overhauling and refueling nuclear aircraft carriers and one of only two able to build nuclear submarines.

Philip F. Abraham

From: Haner, Stephen (NNS) [Stephen.Haner@ngc.com]
Sent: Thursday, December 06, 2007 10:08 AM
To: Brett Vassey; Cheatham, Keith
Cc: wrowe@hunton.com; tim.winks@us.pwc.com; Philip F. Abraham; Ira Agricola
Subject: Homestead Exemption



Letter 2 L. Putney 12-5-07.pdf...



RE Tax Scenarios
Illus.xls

As of yesterday, anyway, Lacey Putney was still chairman of House Privileges and Elections, so I've attached a copy of a letter he should be getting today. All the re-elected members of the two Privileges and Elections committees will get the letter. They need to hear from other companies, too. I think House P&E will be the flash point.

The problem they have is obvious, since they all voted for it last year. But I think they can point to some things that they might not have known about the bill at the time.

1) It really will not produce a 20 percent tax cut for anyone. The one thing that is guaranteed under this proposal is that base tax rates will be higher than if the proposal fails. Homeowners should see some stabilization for a while (and with the drop in values, actual tax cuts) but the nominal rates will climb substantially. And now that home values are dropping that pressure to raise the base rate will be even stronger and they will not only be higher than they would have been, they will be higher period.

2) Among those likely to see measurable tax increases out of this are people paying rent, whether it is a young person just starting out, or a senior paying rent in a retirement community. Tax hikes show up in rents very quickly. And even among those eligible, the vast majority of the benefit is enjoyed by those with the most expensive housing. Even the car tax was capped at \$20,000 -- but there is no cap here.

3) About the only substantial difference between this and the car tax program is that this time, the state is not promising to make the localities whole. But when the localities are faced with angry mobs of voters looking for their discount, and then the renters, farmers and business owners come in saying don't dump the whole bill on us, their next step will be to come to the state demanding more state aid in some form. The General Assembly may think this will be the localities' problem, but in the long run it will come home to roost.

4) Even if everything goes exactly as advertized, we end up right back where we were before. The base rates will be higher than they would otherwise be, and when the next wave of rising values sweeps the market, homeowners will be just as unhappy. Localities will still look at 10 percent value rise and cut their rate a penny or two and wink at the voters about "cutting your taxes."

I've attached a spreadsheet showing some examples of what might happen under this. I make no promises I've done this right. Nobody can predict the future but to make the comparisons I assumed a locality with \$100 million in real estate tax revenue, 75 percent from owner-occupied residential, and a \$1 tax rate. In the first scenario I assumed residential values rose 30 percent over two years and the other categories rose 10 percent. In the second scenario I assumed residential values dropped ten percent over two years but the other categories rose 10 percent.

In both scenarios, in order for the locality to get the same \$100 million in revenue, the rate had to be higher than it would have been had the locality granted no discounts. Doing nothing the neutral rate would drop to 78 cents in the first scenario, with high residential values, and stay at 1.01 in the second scenario, with residential values dipping. In the first scenario, with the discount, the rate is 15 cents (20 percent) higher than with no discount. In the second scenario, if the 20 percent discount goes into effect as values drop, the tax rate will go up to about \$1.20 -- again, 19-20 percent higher!

The difference in taxes paid by owner-occupied and rental property is also pronounced and easy to see in this comparison.

You can also see what some of the localities are kvetching about -- under current law when they cut the rate to compensate for high residential value growth, if commercial property values are not growing as fast, commercial taxpayers get a cut. But this proposal really doesn't fix that. The market is busy fixing that right now, as the housing bubble bursts. Look what happens to the commercial property owner under scenario two, with residential values dipping a bit and commercial growing a bit -- his tax bill goes up 30 percent to save the homeowner \$150. Sadly, some people do perceive it to be progress if business gets soaked. Let's hope that is not the general attitude of the Assembly.

Remember, this pencil and paper calculation assumes the same \$100 million in revenue in all three years. In reality, the locality is likely to need more revenue each year, bumping those rates up a couple more pennies.

This idea needs to fade and be forgotten. It isn't the first constitutional amendment that looked a whole lot less attractive in the bright morning sunlight of second enactment.

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	Base Year	1. Home Values Grow, Commercial Values Grow		2. Home Values Shrink, Commercial Values Grow	
		Year One	Year Two	Year One	Year Two
Nominal Tax Rate					
w/o exemption	1	0.85	0.78	1.02	1.01
w/ exemption in force		1	0.93	1.2	1.18
\$250,000 Qualified Home					
w/o exemption in force	2,500	2,550	2,574	2,423	2,399
with 20 percent exemption		2,400	2,455	2,280	2,242
\$250,000 Unqualified Home					
w/o exemption in force:	2,500	2,550	2,574	2,423	2,399
w/ exemption in force:		3,000	3,069	2,850	2,803
\$1 million Commercial					
w/o exemption in force	10,000	9,350	9,048	10,710	11,100
w/ exemption		11,000	10,790	12,600	12,980

**Key Assumption: Maintain Stable Revenue.
What if Locality Seeks Higher Revenue?**

