



Date: April 4, 2017

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Reginald J. Johnson, Director
Department of Community Development
Subject: Property Tax Relief Deferred Loan Program

Executive Summary

During the Work Session held on November 22, 2016, comments were received from residents of the Southside Community in regards to the increase in property tax assessments to long-time homeowners evidenced by the 2016 property re-appraisal. These increases in property values are believed to be the direct result of the neighborhood revitalization that occurred in 2013-2016. Many homeowners in the low to moderate income range have limited resources and find it difficult to afford the increase in property tax obligations. Based upon these comments, the Council requested that the Administration draft a tax relief program. The Property Tax Relief Deferred Loan Program will assist eligible homeowners in the target areas identified as having a qualifying event (circumstances where the City's revitalization or home improvement activities have caused an excessive increase in property valuations and property taxes) occurring within the last five years by providing a loan to assist with the additional funds needed to comfortably pay their property taxes. This program will serve the important City objective of maintaining existing homeownership by low and moderate income households, as well as to preserve existing housing stock that provides affordable housing.

Recommendation

The Department of Community Development (DCD) recommends City Council receive a presentation on the proposed Property Tax Relief Deferred Loan Program designed to assist eligible homeowners whose property tax increases occurred due to the impact of the City of Durham neighborhood revitalization or home improvements. The Department requests feedback from the City Council in regards to this program.

Background

The City of Durham neighborhood revitalization that took place in the Southside area created an escalation in value of some properties owned and occupied by long-time residents. Many of these residents, although appreciative of the positive effects of the revitalization are not prepared to handle the sudden property tax increases that were reflected in the 2016 Durham County Tax re-appraisal due to limited income and resources. These homeowners and others residing in identified target areas need assistance to ease the financial burden

brought on by the increase in housing expenses. In an effort to preserve neighborhood stability and diversity, these residents could be offered a solution to enable them to pay their tax obligations and remain in and continue to maintain their homes. The proposed Property Tax Relief Deferred Loan Program will offer eligible households the opportunity to apply for a 0% interest loan with payments deferred until the homeowner sells or transfers the property. The following are highlights of the proposed Property Tax Relief Deferred Loan Program:

- **Program Eligibility-** Household income must be less than or equal to 80% of the median family income in Durham, with housing expenses exceeding 30% of the household's total gross income. Eligible applicants must have resided in their home prior to the event and for a minimum of five years. The increase in property taxes must be determined to be the result of a qualifying City of Durham event. Homeowners that qualify for existing Durham County property tax relief programs, such as the Homestead Exemption and Circuit Breaker programs must have applied for and be approved or denied for these programs prior to being considered for the Property Tax Relief Deferred Loan Program.
- **Property Eligibility-** Homes must be located in a target area where increased property values were a result of the City's revitalization or home improvement activities in the neighborhood. The revitalization or home improvement event must have occurred within the last five years. Currently, areas qualifying include Southside, Northeast Central Durham and Southwest Central Durham
- **Deferred Loan Terms-** The loan will have a 0% interest rate and be deferred until a majority ownership interest in the property is sold or transferred, at which time the full amount of the loan will become due and payable. The maximum loan amount will be the difference in the amount of the previous years' tax obligation and the recent 2016 tax obligation, and must be a minimum of a 10% increase. Homeowners may apply for the program annually and be approved for loan assistance for a maximum of four years. The borrower must occupy the property as his or her principal residence and continue to do so until it is sold or transferred. A deed of trust for the homeowner's real property will be part of the loan package, securing the loan until the debt is satisfied.

Issues/Analysis

The City has worked diligently to create homeownership opportunities, at significant cost to the taxpayers, and it would undermine those efforts for low and moderate income homeowners to lose their homes due to increased tax valuations that result from the City's own investments and improvements in those homeowners' neighborhoods. Many low to moderate income homeowners faced with increased property tax obligations that occupied the neighborhood prior to its revitalization or other event will struggle financially creating frustration, stress, and in some cases, displacement. A property tax relief assistance program of some type can eliminate the fear of an inability to pay taxes for the neighborhood's existing population and help preserve homeownership by low and moderate income households. The advantage of the proposed deferred loan program is that there is no immediate repayment required by the borrowing homeowners; however, there are closing costs associated with this loan that could range from \$250.00 to \$500.00 to be included in the loan amount. Due to these expenses, the homeowner must determine if this loan is financially feasible. The DCD staff examined the forgivable loan option; however, this option would require additional costs due to the servicing and compliance requirements.

Alternatives

The Homestead Exemption, Circuit Breaker, and Disabled Veterans Exclusion Programs are available to eligible homeowners faced with the pressures of property tax increases. The criteria that must be met for these existing programs include a minimum age requirement of 65, permanent disability, and an income that does not exceed \$44,250.00. Those homeowners who do not meet these criteria, or those left with unaffordable payments after approval for one of these programs may have little recourse other than to seek private loans.

Financial Impacts

The Dedicated Housing Fund is the proposed funding source for this program. Funds are available in the fund balance. The loan repayment will be deferred until the property is sold or transferred. The full amount of the loan will be due to the City upon the sale or transfer of the property. An annual estimated maximum amount needed to assist eligible homeowners in the Southside area would be \$6,970.00, and \$2,323.00 would be the estimated minimum amount. An annual estimated maximum amount needed to assist eligible homeowners in the Northeast Central Durham and Southwest Central Durham areas would be \$114,521.00, and \$134,174.00 would be the annual estimated minimum amount.

UBE Summary

This item addresses a loan program and was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting.

Attachment

Power Point Presentation
Program Highlights
HUD 2016 Income Limits
Map of Target Areas
Table-Property Tax Increases in Target Areas