

**GENERAL ASSEMBLY OF NORTH CAROLINA**



**Session 2009**

**Legislative Fiscal Note**

**BILL NUMBER:** House Bill 1586 (Second Edition)

**SHORT TITLE:** Community Land Trust Property Taxation.

**SPONSOR(S):** Representatives Luebke and Hall

<b>FISCAL IMPACT (\$)</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>
<b>REVENUES</b>					
<b>Durham County</b>	(\$6,885)	(\$6,885)	(\$6,885)	(\$6,885)	(\$6,885)
<b>City of Durham</b>	(\$5,250)	(\$5,250)	(\$5,250)	(\$5,250)	(\$5,250)
<b>Orange County</b>	<b>*Potential Negative Impact Depending on Board of</b>				
<b>City of Carrboro</b>	<b>Equalization Review*</b>				
<b>City of Chapel Hill</b>	<b>*See Assumptions and Methodology*</b>				
<b>Carrboro-Chapel Hill School District</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp;</b>					
<b>PROGRAM(S) AFFECTED:</b> Orange County, City of Chapel Hill, City of Carrboro, Carrboro-Chapel Hill School District, Durham County, City of Durham,					
<b>EFFECTIVE DATE:</b> July 1, 2009					

**BILL SUMMARY:**

H1586 classifies community land trust property for special property tax valuation and establishes how resale restrictions should be used by an assessor in establishing property tax values for this type of property. Community land trust property is an improvement to real property that meets all of the following requirements:

- It is developed by a non-profit 501(c)(3) tax-exempt entity, which retains an interest in the property according to one of the following two models<sup>1</sup>:
  - The improvement is conveyed to the qualifying owner and the land on which the improvement is constructed is leased to the qualifying owner under a 99-year lease, renewable for an additional 99-year term.

<sup>1</sup> The first model is the model used by Durham County. The second model is the model used by Orange County. Wilmington, another community land trust being established, has not designated a model at this time.

- The improvement and the land on which the improvement is constructed are leased to the qualifying owner under a 99-year lease, renewable for an additional 99-year term.
- An interest in the property is conveyed to a North Carolina resident who occupies the improvement, as owner or lessee, as a permanent residence and who is part of a household with an annual income, at the time of transfer and adjusted for family size, of not more than 100% of the local area median income.<sup>2</sup>
- Its resale value is governed by restrictions contained in the ground lease to ensure low-priced housing to subsequent qualifying owners.

The tax value of community land trust property when the property first qualifies for this classification is equal to the actual sales price of the house to the qualifying owner, minus any silent mortgage amount.<sup>3</sup> In subsequent revaluations, the tax value of community land trust property is capped at the original sales price plus the amount of capital gain the qualifying owner could realize from the sale.

The bill also modifies G.S. 105-278.6(e) to allow that tax benefit to apply to situations such as bankruptcy or foreclosure, where the qualifying owner's interest is re-acquired by the CLT and the CLT owns the property, *in toto*, during the listing period.

*Source: Adopted from the bill analysis done by the Committee Counsel to House Finance July 9, 2009*

#### **ASSUMPTIONS AND METHODOLOGY:**

House Bill 1586 identifies community land trust property as a special class of property and requires assessors to take the resale restrictions that apply to land trust property into consideration when valuing property for property tax purposes. The bill limits the assessed value of land trust property to what the property could be sold for on the day it is assessed. This will have the effect of lowering the value of land trust property for property tax purposes.

There are currently three qualifying community land trusts active in North Carolina: Durham Community Land Trust, Orange Community Housing and Land Trust, and the Cape Fear Housing Land Trust. The cities and counties in which these land trusts are located will potentially experience a negative fiscal impact.

The Orange Community Housing and Land Trust currently has 135 properties within its trust that are subject to property tax. Of these properties, 127 are located in Chapel Hill and 8 are located in Carrboro. The Orange Community Trust estimates that on average each of the Carrboro properties will drop by \$36,449.3 in assessed value and that each of the Chapel Hill properties will drop by \$9,970.13 in assessed value. The Orange Country Board of Equalization and Review is currently conducting a hearing regarding land trust property. If the Board rules in favor of the Trust, the ruling would require Orange County local taxing entities to include land trust selling restrictions

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<sup>2</sup> The local area median income for Durham and Orange Counties is equal to \$49,938 for a family of one; \$57,063 for a family of two; \$64,188 for a family of three; \$71,313 for a family of four; \$77,000 for a family of five; \$82,750 for a family of six; \$88,750 for a family of seven; and \$94,125 for a family of eight or more.

<sup>3</sup> A silent mortgage is a mortgage that earns no interest and requires no repayment prior to the satisfaction of any interest-earning mortgage or the transfer of the property, whichever occurs first.

when assessing land trust property. If this scenario occurs, House Bill 1586 will have no fiscal impact. If the Board rules unfavorably to the land trust, House Bill 1586 will result in a revenue decrease for Orange County and its Municipalities. The revenue decrease will be equal to the local property tax rate applied to the average drop in assessed property values multiplied by the number of properties within the taxing jurisdiction. The chart below summarizes the potential fiscal impact to the local governments.

**Potential Impact of HB 1586: Orange County**

Local Taxing Entity	Tax Rate (per \$100)	Total Drop in Value	Total Tax Loss
Orange County	0.998	\$ (1,562,181.92)	\$ (15,590.58)
City of Carrboro	0.686	\$ (295,917.00)	\$ (2,030.88)
City of Chapel Hill	0.581	\$ (1,266,264.92)	\$ (7,357.00)
Carrboro-Chapel Hill School District	0.230	\$ (1,562,181.92)	\$ (3,593.02)

The Durham Community Land Trust currently has 75 properties in its trust. The properties are located in the City of Durham. Of these, there are 20 properties whose property tax value will lower due to House Bill 1586. The Trust estimates that, on average, each house will decrease in value by \$48,617. Multiplying the \$48,617 decrease by the number of properties results in a \$972,340 loss in taxable property value. Applying the \$0.7081 Durham County property tax rate to this number results in the revenue loss to Durham County. This results in a \$6,885.15 revenue loss in FY 2009-10. Applying the \$0.5400 City of Durham property tax rate to the loss in taxable property value results in the revenue loss to the City of Durham. This results in a \$5,250.64 revenue loss in FY 2009-10.

The Cape Fear Housing Land Trust is currently in the process of acquiring properties and does not anticipate any of their properties will be impacted by this legislation within the next ten years. Therefore, House Bill 1586 will have no fiscal impact on New Hanover County and its municipalities within the next five years.

**SOURCES OF DATA:** Orange Community Housing and Land Trust, Durham Community Land Trust, Cape Fear Housing Land Trust

**TECHNICAL CONSIDERATIONS:** None

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