

CITY OF CHARLOTTESVILLE, VIRGINIA  
CITY COUNCIL AGENDA



Agenda Date: April 21, 2025

Action Required: None (Informational only Presentation).

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Title: **Introducing the Charlottesville Affordable Housing Tax Abatement Program ("CAHTAP"): a new tax abatement strategy for housing affordability**

**Background**

**Enabling legislation: Virginia Code § 15.2-4905;** This Virginia Code Section outlines the powers of Industrial Development Authorities (e.g., Charlottesville Economic Development Authority ("CEDA")), including the ability to provide performance grants or other financial assistance to incentivize affordable housing. The Charlottesville Affordable Housing Tax Abatement Program ("CAHTAP") is a draft policy tool under development by the Office of Community Solutions to promote housing affordability, as a follow-up to the City's newly adopted 2023 Development Code. CAHTAP could help continue the City's broader strategy to ensure that affordability, displacement prevention, and housing access are not just aspirational goals, but measurable outcomes embedded in local development practice.

Other jurisdictions in Virginia have created similar affordable housing tax incentive programs, including the City of Richmond and Albemarle County. The County created the Affordable Rental Housing Incentive Program ("ARHIP"), which provides a fifteen percent (15%) tax abatement for up to thirty (30) years for both new construction and preservation projects that provide at least twenty percent (20%) Affordable Dwelling Units (ADUs) as part of the housing project.

Since Virginia law does not allow local governments to directly abate real estate taxes owed for affordable housing, these programs create a tax abatement calculation at the front end of the program, with a performance grant distribution at the back end. In other words, the tax incentive is calculated through a real estate tax abatement on the new increment value of the new development, and the abated tax amount is then reimbursed after it has been paid through a performance grant process. CAHTAP reflects commitments made across several planning processes and community engagement efforts—and is part of a longer arc of public policy work (e.g., Affordable Housing Plan 2021) rooted in past local housing ecosystems and economic downturns and planning propelled

forward by present-day pressures. Specifically, CAHTAP responds to the structural and financial tension created by the City's new ADU requirement, which mandates that ten percent (10%) of units in qualifying residential developments meet affordability standards. According to some claims and implications for particular sub-markets/areas of the City, this requirement is being deeply reviewed for any measurable financial constraints to developers, particularly in the rental market, where the gap between market rents and capped affordable rents impacts operational revenue and project feasibility.

In this context, CAHTAP emerges as a de-risking mechanism—providing a pathway to reconcile public affordability goals with the economics of housing delivery. It does so using only new revenue from the incremental value of new development, revenue that would not exist but for the building of new housing. The base tax revenue is not touched, so this protects existing fiscal resources while aligning future revenues for investment into our affordability commitments.

## **Discussion**

**A. Overview:** Tax abatement is being evaluated as a potential tool to reduce the cost burden associated with the City's new ADU requirement. For rental housing developers in particular, the mandate to provide ten percent (10%) of units at reduced, income-qualified rents for 99-years results in a measurable loss in operating revenue over time. Without an offset mechanism, this requirement could reduce the internal rate of return on projects and act as a barrier to new housing production.

CAHTAP is designed to address this financial constraint through a real estate tax abatement reimbursement model—offering a fiscal incentive on the future incremental value of newly developed affordable housing projects.

Developers would:

1. Pay full real estate taxes on the post-development assessed value, and
2. Receive a reimbursement based upon a pre-calculated percentage of the taxes on the newly built incremental value—*i.e.*, the increase in assessed value created by new construction or redevelopment.

This model preserves the base tax revenue, which continues flowing to support core City functions, such as education, safety, and infrastructure. It also ensures that public funds are disbursed only after affordability commitments have been met and new ADUs are built, making it a performance-based, fiscally prudent tool.

## **B. Legal Mechanism:**

Virginia localities are prohibited from directly abating taxes for private entities, except under specific exemptions and affordable housing is not one of those. However, local governments may issue performance-based grants to qualifying projects through one of the following pathways:

1. **CEDA:** Authorized under Virginia Code § 15.2-4905 (Industrial Development and Revenue Bond Act), CEDA can administer financial incentives—including grants tied to affordable

housing development—as done in similar programs (e.g., Richmond, Albemarle ARHIP). This would be the most expedient and legally tested model.

2. **Land Bank Authority of Charlottesville (“LBAC”)**: Authorized under Virginia Code § 15.2-7500 *et seq.*, LBAC may also provide subsidies or financing to support affordable housing objectives. While not yet tested for performance-based grant models, LBAC aligns closely with equity goals and place-based affordability strategies. If CAHTAP were to be linked to land disposition or anti-displacement interventions, LBAC may serve as a longer-term or targeted administrator.

**C. Prospective Workplan Activities:** (*No Timelines Established at This Time*) The successful development and launch of CAHTAP will require a phased, multi-track work plan involving:

1. **Completion of Market Needs and Fiscal Gap Analysis:**

A comprehensive analysis is required to accurately quantify the financial impact of the ten percent (10%) ADU requirement and to establish the “cost of affordability” across a range of development scenarios and sub-markets. This activity is already anticipated and budgeted in alignment with the City’s Affordable Housing Plan.

2. **Stakeholder Consultation:**

Robust engagement will be conducted with local and regional stakeholders, including developers, affordable housing advocates, lenders, equity-focused organizations, real estate professionals, and community partners. Their insight will help shape the program’s structure, ensure practical feasibility, and guide adoption strategies.

3. **Program Design Framework:**

City Staff will develop a flexible, tiered reimbursement calculation model that accounts for key policy variables such as Area Median Income (“AMI”) served, percentage of ADUs provided, project location, and the depth and duration of affordability commitments.

4. **Administrative Structure Development:**

To support consistent implementation and long-term program integrity, City Staff will develop internal administrative protocols, including eligibility criteria, application procedures, compliance monitoring, performance verification, reimbursement processing, and reporting requirements.

5. **Legal Review and Ordinance Drafting:**

The CAO will be involved ensuring the Program’s design aligns with state legal authority and local administrative constraints. Upon confirmation of the legal framework, draft Resolutions or Ordinances will be prepared and brought forward for City Council consideration.

**D. Key Policy Levers:**

The following policy levers represent the core design considerations currently under evaluation by City Staff. While these are not being presented for decision at this time, City Staff believe it is

important to share them early in the process to ensure transparency and invite any preliminary input. Upcoming market analysis, stakeholder engagement, and internal modeling will inform a final City Staff recommendation to City Council. Sharing this framework now allows City Council to anticipate the areas of policy discretion that will ultimately define the program.

1. **Administrative Body**

-Should the program be housed within CEDA, the LBAC, or in a hybrid/shared model?

2. **Program Intention:**

- a. *Should CAHTAP offset the cost of the ADU requirement? Or.*
- b. *Should CAHTAP provide broader incentives above the cost of the ADU requirement to stimulate additional affordable housing production?*

3. **Abatement Thresholds:**

- a. *What is the maximum percentage of new incremental tax revenue to reimburse (e.g., 15%, 50%, 75%, or 100%)?*

4. **Qualifying Criteria Enhancements (“Elegance Variables”):**

- a. *Require a higher percentage of ADUs than the minimum ten percent (10%) to be eligible?*
- b. *Require deeper affordability than the required sixty percent (60%) AMI (e.g., units at thirty (30%) – fifty (50%) AMI) to be eligible?*
- c. *Require a minimum project size (# of units built) to be eligible?*
- d. *Adjust abatement by project geographic location based on market pressures?*
- e. *How many years should the abatement take (e.g., fifteen (15) years, thirty (30) years, etc.)?*

4. **Abatement Bonus Options:** *Once the above eligibility criteria are set, should CAHTAP offer bonuses:*

- a. *Provide additional abatement for each additional ten percent (10%) ADUs? or*
- b. *Provide additional abatement for deeper affordability ADUs?*

## **Alignment with City Council's Vision and Strategic Plan**

- **2023 Strategic Framework:** Supports equitable growth, partnerships, housing affordability, some climate actions, and sustainability—goals that a land bank can help achieve by re-purposing underutilized land for affordable housing.
- **Comprehensive Plan (2021):** This plan focuses on inclusive neighborhoods and sustainable development. A land bank can facilitate affordable housing and neighborhood revitalization in alignment with goals.
- **Affordable Housing Plan (2021)**
- **Climate Action Plan 2023-2027** (*where or when applicable*).
- **Consolidated Plan** (*where or when applicable*).

## **Community Engagement**

Community engagement is both a foundational and forward-facing component of CAHTAP's development. The policy concept itself emerged in part through community feedback and dialogue during the zoning reform process, where the affordability requirements—and their potential consequences—were discussed publicly and critically. Tax abatement as a tool was raised during those deliberations as a possible solution to mitigate development costs and preserve affordable housing opportunities. Building on that initial community signal, City Staff will design a layered engagement strategy to inform the final structure of CAHTAP. This approach will prioritize inclusion, transparency, and technical input from stakeholders most directly affected by the Program's goals and implementation.

### **Engagement efforts will include:**

1. **Listening Sessions** with community-based organizations and tenant advocates to ground the program in local housing needs and displacement realities.
2. **Technical Workshops** with developers, equity-focused housing practitioners, lenders, and real estate professionals to test feasibility, address financing mechanics, and refine eligibility thresholds.
3. **Public Comment Opportunities** aligned with the release of the Market Needs and Fiscal Gap Analysis, ensuring that community members have access to key findings and a voice in interpreting the data.
4. **Alignment with Standing Committees or Advisory Groups**, where applicable, to ensure continuity with prior housing plans and initiatives.

This engagement process recognizes that, while the CAHTAP mechanism is technical in nature, its success relies on public trust, community relevance, and practical usability. Therefore, stakeholders will be invited to help shape not only the policy levers, but also the program's "user experience"—from eligibility to compliance and impact measurement.

### **Budgetary Impact**

There is no budgetary impact currently. This Presentation is for informational purposes only, and no Program costs or financial commitments are being proposed. Future iterations of CAHTAP may require fiscal modeling and appropriation decisions, pending the results of the ongoing market analysis and policy framework guidance from City Council. City Staff will return later with estimates on potential revenue impacts and administrative costs, if and when program implementation is considered.

As City Council considers the financial sustainability of the current affordable housing grant investments, which appropriates funds from existing base revenue, the CAHTAP abatement and post-completion reimbursement model that appropriates future, unrealized revenue that is only realized when the new development occurs, may be a critical opportunity to sustain this funding commitment into the future within the context of other City Budget needs and priorities.

### **Recommendation**

While no formal action is currently requested, City Staff welcomes City Council's feedback on the proposed CAHTAP model's concept, structure, and direction. The insights shared today—particularly in response to the policy framework and legal pathways outlined—will help inform future City Staff work and interdepartmental coordination.

## **Should City Council express interest in further development, City Staff stands ready to:**

- Finalize the market analysis currently underway—award notices sent to research firms.
- Return with a refined program framework and fiscal model, and
- Present legal and administrative recommendations for potential adoption in FY26.

City Staff also notes that further exploration of the appropriate administrative body (CEDA vs. LBAC) and potential integration with existing affordability tools may benefit from City Council guidance as the conversation continues.

### **Alternatives**

As an informational Presentation-only item, no alternatives are presented for City Council decision. However, a range of future options may be considered based on City Council discussion or direction, including:

- *Proceeding with detailed Program design and administrative structure development*
- *Pausing work pending completion of the market and fiscal analysis*
- *Pursuing parallel or complementary affordability incentives through other funding mechanisms*
- *Further evaluating legal and structural fit between potential administrators (e.g., CEDA, LBAC)*

### **Attachments**

1. Attachment A - PowerPoint Presentation Charlottesville Affordable Housing Tax Abatement Program (CAHTAP)