

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 18, 2007
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMORANDUM #59 : IMPACT OF INCREASE IN REAL ESTATE TAX RATE ON RESIDENTIAL PROPERTIES

At the budget work session on April 16, 2007, Mayor Euille inquired about the history of tax rate changes taken by City Council and asked for a more detailed assessment of the impact of a possible change in the real estate tax rate of up to 2 cents.

- The City's real estate tax rate has gone from the highest in Northern Virginia among major jurisdictions in CY 1987 to the second lowest in CY 2006. Budget Memo #43 shows this graphically.
The City's real estate tax rate has been reduced by 29.5 cents since CY 2001.
If there is no change in the real estate tax rate from the current 81.5 cents per \$100 assessed value, the average homeowner would pay 2.9% less in real estate taxes, an amount equal to \$124 annually, because the average assessment decreased by 2.9%.
If the City's real estate tax rate is increased by 2 cents, the average homeowner's annual tax bill will be \$4,255 or \$22 dollars (-0.5%) less than if the tax rate remains unchanged.

Based on the distribution of changes in home assessments (see Attached Table I at the end of this memorandum) it is possible to estimate the number of homeowners who would pay increased real estate taxes with a real estate tax rate between 81.5 cents, the current rate, and 83.5 cents, the advertised and maximum possible rate. The table on the top of the next page estimates the number of homeowners who would have an increase or decrease in real estate taxes under 5 possible tax rate scenarios.

**Number and Percent of Residential Units Paying More or Less in Real Estate Taxes  
Under Different Tax Rate Scenarios**

	Real Estate Tax Rate Scenario				
	81.5 cents	82.0 cents	82.5 cents	83.0 cents	83.5 cents
# units paying more in real estate taxes	9,053	16,797	17,659	18,895	20,551
% units paying more in real estate taxes	23.0%	42.6%	44.8%	48.0%	52.0%
# units paying less in real estate taxes	23,246	22,603	24,741	20,505	18,849
% units paying less in real estate taxes	59.0%	57.4%	55.2%	52.0%	47.8%
# of units paying the same in real estate taxes	7,101	NA	NA	NA	NA
% of units paying the same in real estate taxes	18.0%	NA	NA	NA	NA

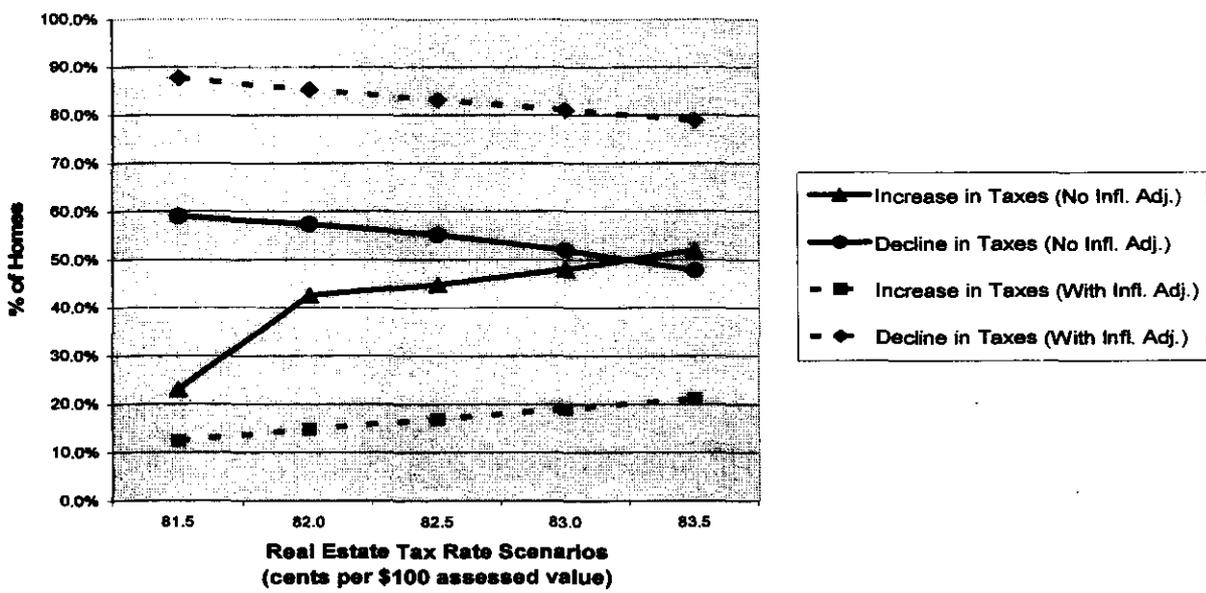
- When accounting for inflation (assumed to be 3.0%), in real dollar terms, the change in the average homeowner tax bill would drop \$245 or 5.7%. The table below estimates that only about 12% of homeowners would be paying more in real estate taxes. If a 2 cent tax increase were established, the percentage of homeowner's experiencing an increase in real estate taxes in inflation adjusted dollars would be about 21% with 79% of the homes experiencing a decrease.

**Number and Percent of Residential Units Paying More in Real Estate Taxes  
on Inflation Adjusted Basis  
Under Different Tax Rate Scenarios**

	Real Estate Tax Rate Scenario				
	81.5 cents	82.0 cents	82.5 cents	83.0 cents	83.5 cents
# units paying more in real estate taxes	4,891	5,839	6,666	7,491	8,318
% units paying more in real estate taxes	12.4%	14.8%	16.9%	19.0%	21.1%
# units paying less in real estate taxes	34,509	33,561	32,734	31,909	31,082
% units paying less in real estate taxes	87.6%	85.2%	83.1%	81.0%	78.9%

The graph on the next page combines the data combined in the two tables above to compare the number of homes that would experience a tax increase under the various real estate tax rate assumptions (with and without adjusting for inflation).

### Percent of Homes Paying More or Less in Real Estate Taxes at Various Real Estate Tax Rates



## ATTACHMENT

**Table I: Distribution of the Percent Change in Assessed Home Values  
(CY 2006 Assessments to CY 2007 Assessments)**

<b>% Change in Assessed Home Value (2006 to 2007)</b>	<b>Number</b>	<b>Percent</b>
Less than -20%	370	0.9%
-15% to -20%	725	1.8%
-10% to -15%	1,896	4.8%
-5% to -10%	10,509	26.7%
-4% to -5%	1,807	4.5%
-3% to -4%	1,937	4.9%
-2% to -3%	2,904	7.4%
-1% to -2%	2,014	5.1%
-0% to -1%	1,048	2.7%
No change	7,101	18.0%
0 to +5%	6,936	17.6%
+5% to +10%	1,495	3.8%
+10% to +15%	331	0.8%
+15% to +20%	57	0.1%
Over 20%	234	0.6%
<b>Total</b>	<b>39,400</b>	<b>100.0%*</b>

\* May not add due to rounding

The change in assessments is not spread equally by home value. For FY 2007 assessments for less expensive properties tended to decline at higher rates than more expensive properties. Table II below provides summary information on this phenomenon.

**Table II: Number of Homes With Declining or Increasing Assessments  
By Assessed CY 2007 Assessed Value**

<b>Assessed Home Value (CY 2007)</b>	<b>Decline in Assessments</b>	<b>No Change in Assessments</b>	<b>Increase in Assessments</b>
Less than \$100,000	18	5	9
\$100,000-\$249,999	3,217	585	886
\$250,000-\$499,999	12,667	2,505	3,809
\$500,000-\$749,999	5,211	2,277	2,541
\$750,000-\$999,999	1,503	1,134	1,130
\$1,000,000-\$1,999,999	539	485	647
\$2,000,000 +	91	110	31
<b>Total</b>	<b>23,246</b>	<b>7,101</b>	<b>9,053</b>