EXHIBIT NO. 1

7
3-12-11

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 8, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: PROPOSED REAL AND PERSONAL PROPERTY TAX RATES ORDINANCES AND PROPOSED EFFECTIVE TAX RATE INCREASE FOR CALENDAR YEAR 2011 (FISCAL YEAR 2012)

ISSUE: What real property (residential and commercial) and personal property tax rates should be adopted.

RECOMMENDATION: That City Council:

(1) Introduce the ordinance and pass it on first reading after establishing the tax rates to be advertised for residential and commercial real property and personal property; and

(2) Schedule the ordinance for public hearing on Saturday, April 16, and second reading and final passage on Monday, May 2.

The maximum rates authorized by City Council in the attached ordinance reflect:

1. A base real estate tax rate on residential, commercial and industrial property for calendar year 2011 of $___ per one hundred dollars of assessed valuation;

2. An add-on real estate tax rate on non-residential commercial and industrial property for calendar year 2011 to be dedicated for transportation purposes of $___ per one hundred dollars of valuation;

4. Assumed in this proposed amount is the continued dedication of 0.3% of real estate tax revenues for the Open Space Trust Fund Account to pay debt service costs on prior year borrowing for open space properties, the continued dedication of 0.6 cents for affordable housing, and the continued dedication of 0.5 cents for a stormwater infrastructure trust fund account;

5. A personal property tax rate on vehicles and business tangible property for calendar year 2011 of $4.75 per one hundred dollars of valuation; and

6. Tax rates on other classes of personal property are not proposed to change for calendar year 2011.

<u>DISCUSSION</u>: Under the requirements of The Code of Virginia ("The Code"), the City Council annually must establish real property and personal property tax rates for each calendar year. The Code also establishes certain advertising and public hearing requirements prior to the adoption of these property tax rates. One of these Code requirements is that the rates that Council chooses to advertise are the highest rates that Council can consider adopting when they vote on the budget and set tax rates on May 2.

It should be noted, as discussed below, that the State Code requires a separate public hearing (i.e., separate from the budget hearing on March 7) on the real property tax rate if the rates levied for the year in which the proposed tax rate applies would increase by more than one percent (after the value of new construction has been deducted). An increase of more than one percent is termed by statute an "effective tax rate increase." This would be the case in CY 2011 as taxes levied at a \$0.978 rate would increase 2.91 percent for all classes of real property (after the value of new construction has been deducted). Also, State law requires, in the circumstance of an increase in taxes levied in excess of 1%, to maintain or increase the current real property tax rate, that a special "notice of proposed real property tax increase" in a specific format and language be placed in a local newspaper of general circulation. We plan that the separate hearing on the "effective real property tax increase" be held on April 16, with the special notice of the hearing date, as required specifically by State statute, printed in two newspapers prior to that hearing. The advertisements will be placed in the Alexandria Times and the Washington Examiner on March 17, 30 days prior to the public hearing.

I propose that City Council act on Saturday, March 12, to establish the maximum real estate tax and personal property tax rates which will be advertised in advance of the April 16 public hearing on the tax ordinances to be considered, including any special commercial real estate tax for transportation purposes.

The following is the planned schedule for calendar year 2011 (FY 2012):

<u>Date</u>:	<u>Topic</u>:
March 7	Budget Public Hearing
March 12	Council sets maximum real estate tax rates and personal property tax rate to be advertised
April 16	Public hearing on the real and personal property tax rates and property tax related ordinance
April 16	Public hearing on effective tax rate increase
May 2	Final adoption of the budget and related tax ordinances

The FY 2012 proposed operating budget reflects no increase in the residential real property tax rate of \$0.978 per \$100. Each 1¢ increase or decrease in this rate would change revenue estimates by \$1.59 million in FY 2011 and \$3.26 million in FY 2012 (totals \$4.85 million per 1¢). The proposed budget offered a proposal to fund transportation projects in the Capital Improvement Program with a \$0.125 Transportation Add-On Tax rate for non-residential commercial and industrial properties. The optional increase to the commercial and industrial tax rate of 12.5 cents for transportation purposes would raise an additional $18.2 million in FY 2012, including $6.0 million from the June 2011 real property tax payment. A separate ordinance is being introduced to set the planned $0.20 real estate tax rate, in addition to the regular property tax rate to help finance a planned Metrorail Station, for properties located in the Tier I Special Services District in Potomac Yard.

The proposed budget and the proposed ordinance assume the continuation of the dedication of 0.6 cents of the base real estate tax rate for affordable housing and 0.3 percent of the real estate tax revenues for open space (exclusive of any add-on tax for transportation purposes on commercial properties). In addition, the proposed budget assumes the continuation of the dedication of 0.5 cents for the Stormwater Management Infrastructure Trust Fund.

As part of the transportation funding initiatives which the General Assembly approved (HB3202) during its 2007 session, local governments in Northern Virginia were each given the option of a commercial real estate tax to be used for transportation purposes. Under the commercial real estate tax option, localities were authorized to adopt a differential real estate tax rate on non-residential commercial and industrial property in the City of no more than 25 cents per $100 of value (apartments and all other residential property in the City would be excluded from this new tax). Non-residential commercial property includes office, retail, hotel, general commercial, industrial and public utility real property. During the 2009 session, the rate was capped at 12.5 cents. This rate will lapse in 2013 unless extended by the General Assembly, and the maximum will return to 25 cents. If the 12.5 cent increase in the commercial tax rate were adopted, the tax rate would be similar to the commercial tax rates in surrounding jurisdictions. Arlington County's add-on tax for commercial property is $0.125 and Fairfax County's add on rate is $0.11. Each increase of one cent of the commercial real estate add-on tax, if enacted, would generate $0.5 million in FY 2011 and $1.0 million in FY 2012.

The FY 2011 Proposed Operating budget reflects no change per $100 of assessed value to the current various personal property tax rates:

$4.75 for tangible personal property;
$3.55 for vehicles with specially designed equipment for use by the physically disabled;
$4.50 for machinery and tools used in machinery and manufacturing business, and certain vehicles for hire; and
$ .01 for privately-owned pleasure boats and watercraft that are used for recreational purposes only.

FISCAL IMPACT: The proposed tax of $0.978 in the base real estate tax on each $100 of assessed value is expected to generate $307.0 million in FY 2011 and $315.2 million in FY 2012. Each 1¢ increase or decrease in this rate would change revenue estimates by $1.59 million in FY 2011 and $3.26 million in FY 2012 (totals $4.85 million per 1¢).

Since 2004 the City has dedicated a portion of real estate tax revenues to the acquisition and development of open space. The dedicated tax rate for open space started as $0.01 of the real estate tax rate, and then in 2007 was changed to one percent of real estate tax revenues. In 2009, the Open Space dedication was reduced to 0.3 percent. The 0.3 percent dedication will generate $0.92 million in FY 2011 and $0.95 million in FY 2012 to pay debt service costs on prior year borrowing for open space purposes.

In the FY 2010 Approved Budget, the City reduced its dedication for affordable housing to 0.7 cents. The FY 2011 budget reduced the dedication to 0.6 cents of the real estate tax rate, a maximum of $1.955 million (depending on the issuance of new debt for the redevelopment of the James Bland housing project)[1]. If Council chooses to change the affordable housing dedication, a separate ordinance will be required and introduced at the time the budget is approved.

In FY 2011 City Council approved the dedication of 0.5 cents for stormwater management. The half cent is expected to generate an estimated $1.63 million in FY 2012 and will be used primarily for capital projects related to maintenance and improvements of the City's stormwater infrastructure.

The commercial real estate add-on tax, proposed at 12.5 cents on each $100 of assessed value, if enacted, would generate $6.0 million in FY 2011 from the June 2011 real property tax payment and $12.2 million in FY 2012.

The Tier I Potomac Yard Special Services tax rate of 20 cents is projected to raise $0.5 million in FY 2012.

ATTACHMENT: Proposed Ordinance

STAFF:
Mark Jinks, Deputy City Manager
Michele Evans, Deputy City Manager
Bruce Johnson, Chief Financial Officer
Laura Triggs, Deputy Chief Financial Officer
Kendel Taylor, Assistant Budget Director

[1] The dedication of 0.7 cents is sufficient to cover three separate debt service costs in FY 2011: $1,395,375 for $15 million of debt issuance in 2006 for affordable housing, $478,250 for $5 million of debt issued in FY 2008 for Glebe Road ARHA property redevelopment and $270,000 for $3.1 million of possible debt to be issued for the James Bland ARHA property redevelopment. A new ordinance would have to be introduced to change the dedicated amount, but this could be done at the time of passage of the budget.

EXHIBIT NO. 2

Introduction and first reading: 03/12/2011
Public hearing: 04/16/2011
Second reading and enactment: 05/02/2011

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 3-2-181 (LEVIED; AMOUNT) and Section 3-2-188 (CLASSIFICATION AND TAXATION OF CERTAIN COMMERCIAL AND INDUSTRIAL PROPERTY), of Division 1, (REAL ESTATE), and Section 3-2-221 (LEVIED ON TANGIBLE PERSONAL PROPERTY OTHER THAN MOBILE HOMES, AUTOMOBILES, TRUCKS, ANTIQUE MOTOR VEHICLES, TAXICABS, MOTOR VEHICLES WITH SPECIALLY DESIGNED EQUIPMENT FOR USE BY THE HANDICAPPED, MOTORCYCLES, CAMPERS AND OTHER RECREATIONAL VEHICLES, BOATS AND TRAILERS; AMOUNT), Section 3-2-222 (LEVIED ON MACHINERY AND TOOLS USED IN MINING OR MANUFACTURING BUSINESS; AMOUNT), Section 3-2-223 (LEVIED ON MOBILE HOMES; AMOUNT), Section 3-2-224 (LEVIED ON AUTOMOBILES, TRUCKS, TRAILERS, SEMI-TRAILERS ANTIQUE MOTOR VEHICLES, TAXICABS, MOTORCYCLES, CAMPERS AND OTHER RECREATIONAL VEHICLES, BOATS AND TRAILERS; AMOUNT) of Division 3 (TANGIBLE PERSONAL PROPERTY AND MACHINERY AND TOOLS), all of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

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Summary

The proposed ordinance sets the city's 2011 tax rates for (1) real property; (2) personal property; (3) machinery and tools; and (4) for the additional real property taxes assessed on commercial and industrial property.

0.3 percent of estimated 2011 real estate tax revenue continues to be set aside for the Open Space Trust Fund to cover debt service on Open Space Trust Fund supported bonds. 0.6 percent of estimated 2011 real estate tax revenue continues to be set aside for affordable housing. 0.5 percent of estimated 2011 real estate tax revenue continues to be set aside for the Storm Water Trust Fund.

The ordinance sets the 2011 real property tax rate at $______ on each $100 of assessed value. Personal property and machinery and tools tax rates are unchanged from 2010. The ordinance levies for calendar year 2010, an additional real property tax of $_____ per $100 of assessed value on all commercial and industrial property in the City. City Council has the authority to lower the tax rates set forth in the ordinance.

Sponsor

Staff

Mark Jinks, Deputy City Manager
Bruce Johnson, Chief Financial Officer
Laura Triggs, Deputy Chief Financial Officer
Christina Zechman Brown, Assistant City Attorney

Authority

Article X, § 4, Virginia Constitution
§§ 2.02(a)(1), 6.15 Alexandria City Charter
§ 58.1-3221.3, Code of Virginia

Estimated Costs of Implementation

None.

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None.

EXHIBIT NO. 3

ORDINANCE NO. _____

AN ORDINANCE to amend and reordain Section 3-2-181 (LEVIED; AMOUNT) and Section 3-2-188 (CLASSIFICATION AND TAXATION OF CERTAIN COMMERCIAL AND INDUSTRIAL PROPERTY), of Division 1, (REAL ESTATE), and Section 3-2-221 (LEVIED ON TANGIBLE PERSONAL PROPERTY OTHER THAN MOBILE HOMES, AUTOMOBILES, TRUCKS, ANTIQUE MOTOR VEHICLES, TAXICABS, MOTOR VEHICLES WITH SPECIALLY DESIGNED EQUIPMENT FOR USE BY THE HANDICAPPED, MOTORCYCLES, CAMPERS AND OTHER RECREATIONAL VEHICLES, BOATS AND TRAILERS; AMOUNT), Section 3-2-222 (LEVIED ON MACHINERY AND TOOLS USED IN MINING OR MANUFACTURING BUSINESS; AMOUNT), Section 3-2-223 (LEVIED ON MOBILE HOMES; AMOUNT), Section 3-2-224 (LEVIED ON AUTOMOBILES, TRUCKS, TRAILERS, SEMI-TRAILERS ANTIQUE MOTOR VEHICLES, TAXICABS, MOTORCYCLES, CAMPERS AND OTHER RECREATIONAL VEHICLES, BOATS AND TRAILERS; AMOUNT) of Division 3 (TANGIBLE PERSONAL PROPERTY AND MACHINERY AND TOOLS), all of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 3-2-181 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-181 Levied; amount.

There shall be levied and collected for the calendar year 2011~~0~~ on all real estate located within the territorial boundaries of the city and subject to taxation for city purposes under the constitution and laws of this state and city, a tax of $____ on each $100 of the assessed residential property value thereof and $____ on each $100 of the assessed commercial residential property value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

Section 2. That Sec. 3-2-188 of The Code of the City of Alexandria, 1981 as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-188 Classification and taxation of certain commercial and industrial real property.

(a) Pursuant to the authority granted by Section 58.1-3221.3 of the Code of Virginia (1950), as amended, all commercial and industrial real property in the City of Alexandria classified by the General Assembly as a separate class of real property for local taxation shall be designated, assessed and taxed as a separate class of real property. Such separate class of real property shall not include any residential uses excluded by Section 58.1-3221.3 of the Code of Virginia.

(b) In addition to all other taxes and fees permitted by law, the class of real property designated in this section may, and if imposed by ordinance shall, be subject to a real property tax, in addition to that imposed by City Code Section 3-2-181 and any other applicable law, at the rate established by the City Council of the City of Alexandria not to exceed the rate authorized by the Code of Virginia.

(c) All revenues generated from the real property tax imposed by this Section 3-2-188 shall be used exclusively for transportation-related projects and services that benefit the City of Alexandria.

(d) The real property tax imposed by this Section 3-2-188 shall be levied, administered, enforced and collected in the same manner as set forth in Subtitle III of Title 58.1 of the Code of Virginia and Chapter 2 of this Title for the levy, administration, enforcement and collection of local taxes.

(e) The director of the department of real estate assessments shall separately assess and set forth upon the City of Alexandria's land book the fair market value of that property that is designated as a separate class of real property in accordance with the provisions of this section.

(f) There shall be levied and collected for the calendar year 2011~~0~~ on all real estate located within the territorial boundaries of the city and subject to taxation pursuant to this section, a tax of $___ on each $100 of the assessed value thereof, for the purposes set forth in subsection (c) above.

Section 3. That Section 3-2-221 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-221 Levied on tangible personal property other than mobile homes, automobiles, trucks, antique motor vehicles, taxicabs, motor vehicles with specially designed equipment for use by the handicapped, motorcycles, campers and other recreational vehicles, boats and boat trailers; amount.

There shall be levied and collected for the calendar year 2011~~0~~ on all tangible personal property, other than mobile homes, automobiles, trucks, antique motor vehicles, taxicabs, motor vehicles with specially designed equipment for use by the handicapped, motorcycles, campers and other recreational vehicles, boats and trailers, owned or held by residents or citizens of the city or located within the territorial boundaries of the city or otherwise having a situs within the city and subject to taxation for city purposes under the constitution and laws of this state and city, a tax of $4.75 on every $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

Section 4. That Section 3-2-222 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-222 Levied on machinery and tools used in mining or manufacturing business; amount.

There shall be levied and collected for the calendar year 2011~~0~~ on all machinery and tools used in a mining or manufacturing business taxable on capital and subject to taxation for city purposes under the constitution and laws of this state and city, a tax of $4.50 on each $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

Section 5. That Section 3-2-223 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-223 Levied on mobile homes; amount.

There shall be levied and collected for the calendar year 2011~~0~~ on all vehicles without motor power, used or designed to be used as mobile homes as defined in section 46.2-100 of the Code of Virginia, owned or held by residents or citizens of the city or located within the territorial boundaries of the city or otherwise having a situs within the city and subject to taxation for city purposes under the constitution and laws of this state and city, a tax of $0.978 on each $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

Section 6. That Section 3-2-224 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-224 Levied on automobiles, trucks, trailers, semi-trailers, antique motor vehicles, taxicabs, motorcycles, campers and other recreational vehicles, boats and trailers; amount.

(a) Except as provided in subsections (b), (c) and (d), there shall be levied and collected for the calendar year 2011~~0~~ on all automobiles, trucks, trailers, semi-trailers, antique motor vehicles (as defined in section 46.2-100 of the Code of Virginia, 1950, as amended, which may be used for general transportation purposes as provided in subsection C of section 46.2-730 of the Code of Virginia, 1950, as amended), taxicabs, motorcycles, campers and other recreational vehicles, boats and boat trailers owned or held by residents or citizens of the city or located within the territorial boundaries of the city or otherwise having a situs for taxation in the city, a tax of $4.75 on every $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

(b) There shall be levied on and collected for the calendar year 2011~~0~~ on all automobiles, trucks, trailers and semi-trailers with a gross vehicle weight of 10,000 pounds or more which are used to transport property for hire by a motor carrier engaged in interstate commerce, and are owned or held by residents or citizens of the city, are located within the territorial boundaries of the city or otherwise have a situs for taxation in the city, a tax of $4.50 on every $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

(c) There shall be levied on and collected for the calendar year 2011~~0~~ on all automobiles and trucks which are equipped with specially designed equipment for use by the handicapped and are owned or held by residents or citizens of the city, are located within the territorial boundaries of the city or otherwise have a situs for taxation in the city, a tax of $3.55 on every $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

(d) There shall be levied on and collected for the calendar year 2011~~0~~ on all privately owned pleasure boats and watercraft, which are used for recreational purposes only, and are owned or held by residents or citizens of the city, or are located within the territorial boundaries of the city or otherwise have a situs for taxation in the city, a tax of $.01 on every $100 of assessed value thereof, for the support of the city government, for the payment of principal and interest of the city debt and for other municipal expenses and purposes.

(e) For tax years commencing in 2006, the City adopts the provisions of Item 503.E of Chapter 951 of the 2005 Acts of Assembly (the 2005 revisions to the 2004-06 Appropriations Act, the "2005 Appropriations Act"), providing for the computation of tax relief under the Personal Property Tax Relief Act of 1998, sections 58.1-3523 et seq. of the Code of Virginia, as amended, as a specific dollar amount to be offset against the total taxes that would otherwise be due but for the Personal Property Tax Relief Act of 1998, sections 58.1-3523 et seq. of the Code of Virginia, as amended, and the reporting of such specific dollar relief on the tax bill.

(i) The City shall, following adoption of the annual budget adopted pursuant to Chapter 25 of Title 15.2 of the Code of Virginia and sections 6.01 through 6.15 of the City Charter, set the rate of tax relief under this subsection at such a level that it is anticipated fully to exhaust relief funds under the Personal Property Tax Relief Act of 1998, sections 58.1-3523 et seq. of the Code of Virginia, as amended, provided to the City by the Commonwealth. Any amount of relief funds under the Personal Property Tax Relief Act of 1998, sections 58.1-3523 et seq. of the Code of Virginia, as amended, provided to the City by the Commonwealth, not used within the City's fiscal year shall be carried forward and used to increase the funds available for personal property tax relief under this subsection in the following fiscal year.

(ii) Personal property tax bills shall set forth on their face the specific dollar amount of relief under this subsection credited with respect to each qualifying vehicle, together with an explanation of the general manner in which such relief is allocated.

(iii) Allocation of relief under this subsection shall be provided in accordance with the general provisions of this section, as implemented by the specific provisions of the City's annual budget relating to relief under this subsection.

(iv) Relief under this subsection shall be allocated in such as manner as to eliminate personal property taxation of each qualifying vehicle with an assessed value of $1,000 or less.

(v) Relief under this subsection with respect to qualifying vehicles with assessed values of more than $1,000 shall be provided at a rate, annually fixed in the City budget and applied to the first $20,000 in value of each such qualifying vehicle, that is estimated fully to use all relief funds under the Personal Property Tax Relief Act of 1998, sections 58.1-3523 et seq. of the Code of Virginia, as amended, provided to the City by the Commonwealth.

Section 7. That this ordinance shall become effective January 1, 2011, nunc pro tunc.

WILLIAM D. EUILLE
Mayor

Introduction: 03/12/2011
First Reading: 03/12/2011
Publication:
Public Hearing:
Second Reading:
Final Passage:

7
3-12-10

	Potential Impact FY 2012 $	Potential Impact FY 2012 cents
Budget Memo #13 - ACPS CIP Request		
(see page 3 of memo for options)		
(Assuming 100% bonds)	$0.3 M	0.1 cents
(Assuming 75% bonds/25% Cash Cap.)	$4.3 M	1.3 cents
Budget Memo #14 - BPOL Tax Rate Reduction		
(see page 6 of memo for options)		
Option 1	$0.2 M	0.1 cents
Option 2	$0.4 M	0.1 cents
Option 3	$1.9 M	0.6 cents
Option 4	$3.1 M	1.0 cents
Option 5	$0.0 M	0 cents
Option 6	$13.5 M	3.1 cents
Option 7	$18.2 M	3.8 cents
Option 8	$0.0 M	0 cents
Budget Memo #15 - Employee Take Home Pay		
(see page 2 of memo for options)		
Option A	$1.6 M	0.5 cents
Option B	$2.4 M	0.7 cents
Option C	$0.7 M	0.2 cents
Option D	$1.0 M	0.3 cents
Option E	$0.6 M	0.2 cents
Option F	$0.9 M	0.3 cents

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 10, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 13 : IMPACT OF FULLY FUNDING THE ACPS APPROVED FY 2012 – FY 2021 CIP

This memorandum is in response to Vice Mayor Donley and Councilman Smedberg's request to describe the ten-year impact on the City's debt guidelines and operating budget of fully funding the ACPS Approved FY 2012 – FY 2021 Capital Improvement Program. This memo also addresses Councilman Krupicka's question at the recent joint City Council – School Board meeting on February 28th about the impact of funding only the first three years of the ACPS Approved CIP.

Background

The total City Manager's Proposed FY 2012 – FY 2021 CIP, which was released on February 8, decreased by $25.2 million, or 2.6%, over the ten years compared to the Approved FY 2011 – FY 2020 CIP. The City Manager's Proposed CIP keeps the ten-year funding level for ACPS capital projects at $158.1 million, which is equal to what was planned in the FY 2011 – FY 2020 Approved CIP. The School Board's Approved FY 2012 – FY 2021 CIP includes a total of $372.6 million in capital projects over ten years, which represents an increase of $214.5 million (135.7%) over the City's Proposed CIP. Fitting this level of additional funding in the Proposed CIP was simply not possible if the CIP were to remain consistent with City Council budget guidance to not increase CIP bond or cash capital funding from current revenues.

FY 2012 City Manager Proposed to FY 2012 ACPS Approved			Difference	
	FY 2012 CM Proposed	FY 2012 ACPS Approved	$	%
School Capacity	$51.6	$199.3	$147.7	286.3%
Facilities Maintenance	$65.2	$75.1	$9.9	15.3%
Shared Programs	$0.0	$33.9	$33.9	N/A
All Other Categories	$41.3	$64.2	$22.9	55.5%
TOTALS	**$158.1**	**$372.6**	**$214.5**	**135.7%**

The request for additional debt issuance for ACPS comes at a time when state and local governments are under increased scrutiny by the bond rating agencies in regard to their overall finances, future pension fund projections, as well as existing debt and bond issuance plans. Some Wall Street analysts are also predicting a historic record volume of municipal defaults in the coming year. While the City's finances and economy are in better shape than most other local governments, the City's existing and planned debt have increased substantially in the last decade for City and School projects. This has resulted in the City meeting or exceeding the targets set in its adopted debt policy guidelines, as well as nearing the policy guideline debt limits. These debt policy guidelines were first adopted in 1987 (amended in 1997 and 2008) and are considered a "best practices" model by the bond rating agencies. These guidelines have assisted the City in obtaining and maintaining its AAA/Aaa ratings. As a result, the guidelines cannot be ignored or violated without negative consequences.

Funding Options Considered

In order to analyze and model the impact of this additional $214.5 million in projects, one could assume exclusive bond financing or a combination of bonds and cash. This memo will model both possibilities, with the combination of bonds and cash being a 75% / 25% mix. This bonds-to-cash ratio is equal to that of the overall existing City capital program. These two different financing options have differentiated and serious impacts on the City's long-term operating budget (and tax rates) and debt policy guidelines.

A third financing option that could be considered is the exclusive use of cash capital (i.e., "pay-as-you-go") to fund the full ACPS Approved FY 2012 – FY 2021 CIP. This option could also be considered to finance just the first three CIP years plus Patrick Henry, if that program was approved by City Council. Over the long-term a full cash option is the least costly financing option for the City, but all of the costs would be borne within the next ten years, rather than spread over the next thirty years. This option also has the most dramatic impact on the real estate tax rate over the next ten years since the costs are not being spread over the useful life of the ACPS capital assets.

The City could not afford a 100% cash capital option to fund ACPS capital needs. The impact on the real estate tax rate would be both annually volatile and extreme. In some of the larger program years, the tax rate would need to increase by between 10 and 16 cents to fund the additional projects and then drop to 4 or 5 cents the next year. Also, adopting such a strategy would go against the philosophy of generational equity (i.e., "pay-as-you-use"), which posits that the cost of capital assets should be spread over time to better align with those members of the public who are benefitting. In other words, a new school constructed in FY 2014 will benefit the community for upwards of 40 years or more, so the costs of that school should also be spread somewhat over time.

The following pages include numerous graphs illustrating the impacts on the City's Operating Budget and debt policy guidelines that various mixes of expenditure and financing options yield. In all these options, the impact in the early years is relatively minimal. However, it is very important to consider that the full impact of issuing bonds is felt over many years. For that reason, decisions should be focused on a multi-year analysis rather than simply the fiscal impact in the immediate one or two budget years. Another important consideration is that the assumed borrowing in these graphs does not include any Transportation Add-On Tax funded bonds, which would only serve to further increase the City's general obligation debt ratios in the next ten years.

Summary of Results for Different Options

	Total 10-year Additional Debt	10-year Additional Debt Service & Cash Capital	FY 2012 Increase in Operating Budget	FY 2021 Increase in Operating Budget	Peak of % of Assessed Value Debt Ratio (Year)	10-year Average Additional Real Estate Tax Rate
Funding Full ACPS CIP						
Option 1: 100% Bonds	$214.5 million	$68.5 million	$0.3 million	$13.6 million	1.66% (2015)	2.1 cents
Option 2: 75% Bonds / 25% Cash	$160.9 million	$106.1 million	$4.3 million	$9.6 million	1.59% (2015)	3.3 cents
Funding FY12-FY14 ACPS CIP[1,2]						
Option 3: 100% Bonds	$94.6 million	$36.1 million	$0.3 million	$4.8 million	1.62% (2015)	1.1 cents
Option 4: 75% Bonds / 25% Cash	$71.0 million	$51.8 million	$4.3 million	$3.7 million	1.56% (2015)	1.6 cents

[1] This option includes the FY 2015 funding to complete the Patrick Henry new school project and excludes the FY 2014 funding for the Minnie Howard classroom additions, MacArthur HVAC replacement, and Polk exterior play area. These are the four projects that have funding overlapping FY 2014 and FY 2015 that needed to be either fully included or excluded from the model.

[2] The assumptions used for Options 3 & 4 -- an increase over the C.M. Proposed CIP in fiscal years 2012 - 2014 and amounts below the School Board's request in fiscal years 2015 - 2021 -- do not imply School Board, School Staff, or City Staff agreement. This memo is simply giving Council an analysis that was requested on the multi-year impact of such options.

There are a few key figures to focus on in the table. First, for both expenditure options (full ten years or first three years), using 100% bonds as the funding source would result in the City exceeding its debt policy guideline limits for Debt as a Percent of Real Property Value. This is the most important debt ratio statistic. Next, all of these options would result in a 10-year average real estate tax rate increase of at least 1.1 cents, and all but one option (Option 3) would have a peak real estate tax rate impact of over 4 cents. Finally, while both options using 100% bond financing cost less in the next ten years, the options using a mix of cash and bonds are significantly less expensive over the full life of the bonds (30 years).

Overall, for whatever ACPS CIP funding Council approves, City staff would recommend a financing plan that mixes cash and bonds (25% / 75%) because it is both less expensive in the long run and more in line with the City's practice of using diverse funding sources to maintain its AAA/Aaa bond ratings. This somewhat lesser dependence on borrowing would also allow the City's debt ratios to recover and again drop below the target levels in a more expedited manner. That being stated, while this memo details the financial impact of different project plans and financing strategies, City staff is not endorsing or making any recommendations on any of the options in this memorandum. This information is simply intended to provide information to City Council by modeling the impacts on future operating budgets and the debt policy guidelines of certain potential actions. Additional discussion on the merits of specific projects and specific year-to-year financing choices needs to occur before a final 10-year CIP is approved.

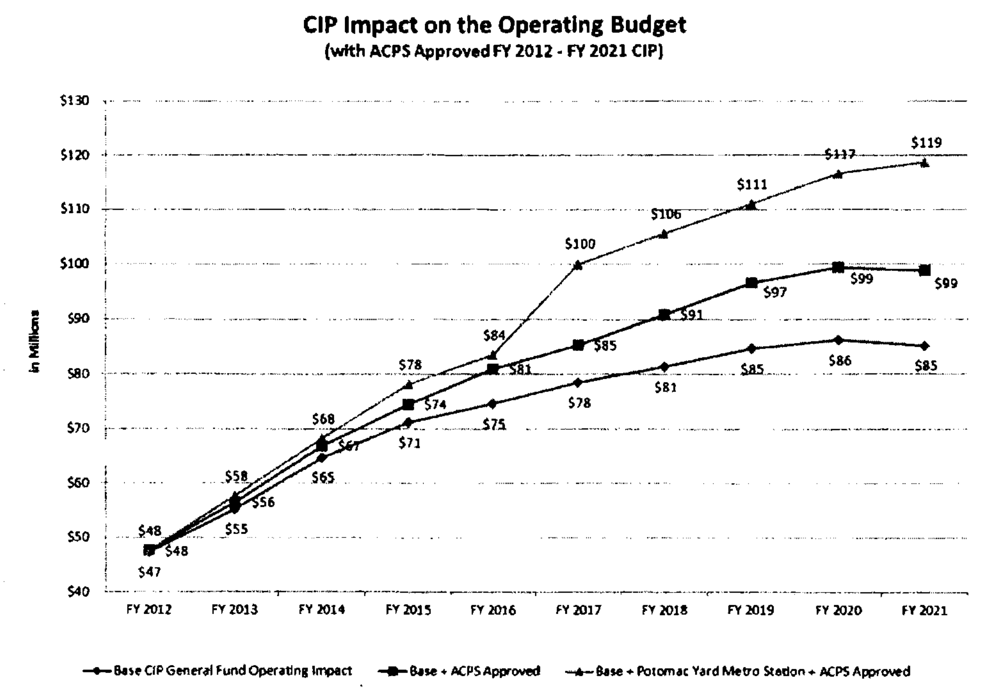
It should be noted that the City's current CIP does not reflect the potential capital needs impact (i.e., sports fields and recreation centers) of the ACPS current enrollment projections. These projections are driving much of the request for a substantial increase in ACPS capital funding over the next decade. At some point there will need to be a true-up of those youth-related City CIP needs, as City-wide planning will need to incorporate a larger rate of growth in school age population over the next few decades.

In viewing the various debt ratio charts in this memorandum the focus should be on the "Base CIP Debt" and "Base plus ACPS Approved" graph lines. The lines containing the planned debt issuance for the Potomac Yard Metrorail Station are not relevant to the ACPS capital analysis because that debt is considered outside the City's core debt and debt ratio policy targets and limits. The Metrorail Station debt is self-financed and does not draw upon existing general tax revenues to be repaid.

OPTION 1 - ACPS APPROVED FY 2012 – FY 2021 CIP (100% BOND FINANCING):

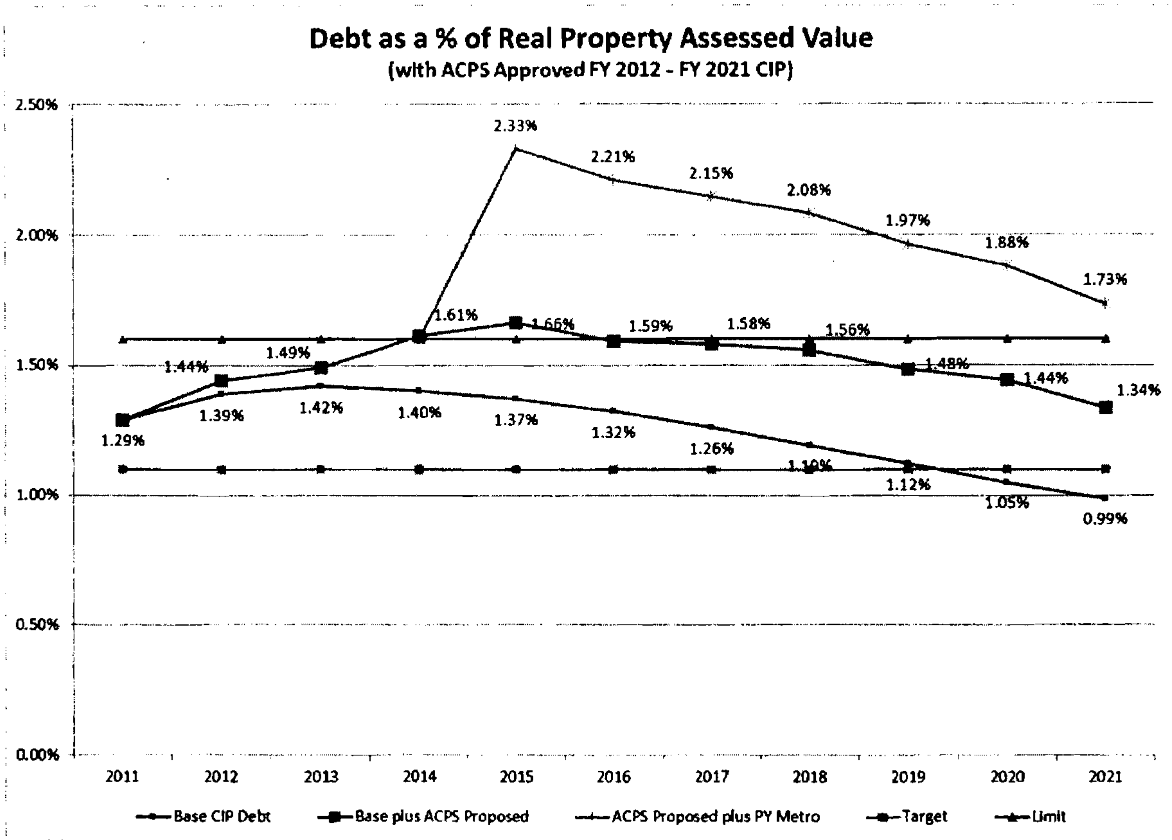
The first option for financing the additional ACPS projects in FY 2012 – FY 2021 would use entirely General Obligation Bond funding. These additional bonds would total $214.5 million over the ten years. Over the ten years, this debt would cost the City's Operating Budget a total of $68.5 million in additional debt service.

This method of financing would steadily increase the amount of funding needed in the City's operating budget. The middle line on the graph below represents the operating budget costs of implementing this financing option. By FY 2021, an additional $13.6 million would be needed for debt service payments over those required for the base capital program. The short-term impact of this option is relatively minor as it takes a few years for the full level of debt service payments to work their way into the budget.



In FY 2012, the additional operating budget expense would only be about $300,000, or 0.1 cents on the real estate tax. However, that number quickly grows and would require about 0.5 cents in FY 2013; 1 cent by FY 2015; 3 cents by FY 2018; and over 4 cents more on the real estate tax rate by FY 2020.

Beyond simply impacting the City's Operating Budget, this funding decision would negatively impact the City's debt guidelines and cause the debt limit ceiling to be breached. The graph below shows how the most important ratio, Debt as a % of Real Property Assessed Values, is impacted by this increase in planned borrowing.



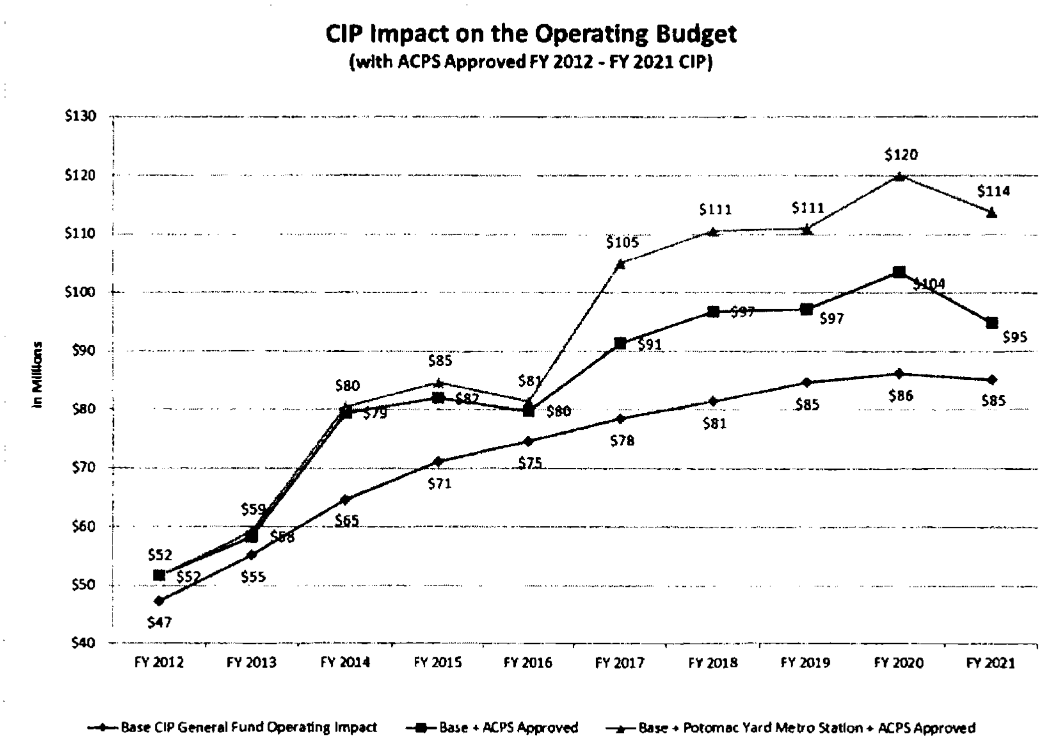
The middle line in this graph represents that impact of funding the base CIP and the additional ACPS capital projects. In FY 2014 and FY 2015 this plan would result in the City exceeding the limit for this ratio. Overall, this additional debt would increase this ratio fairly drastically through FY 2021 and beyond.

The other two debt guidelines, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, are also negatively impacted by this additional debt. Neither guideline exceeds the City's limit in any year, but they are pushed much closer to the limits than the City would be otherwise. These two graphs can be found in Attachment 1 to this memo.

OPTION 2 - ACPS APPROVED FY 2012 – FY 2021 CIP (75% BOND FINANCING; 25% CASH):

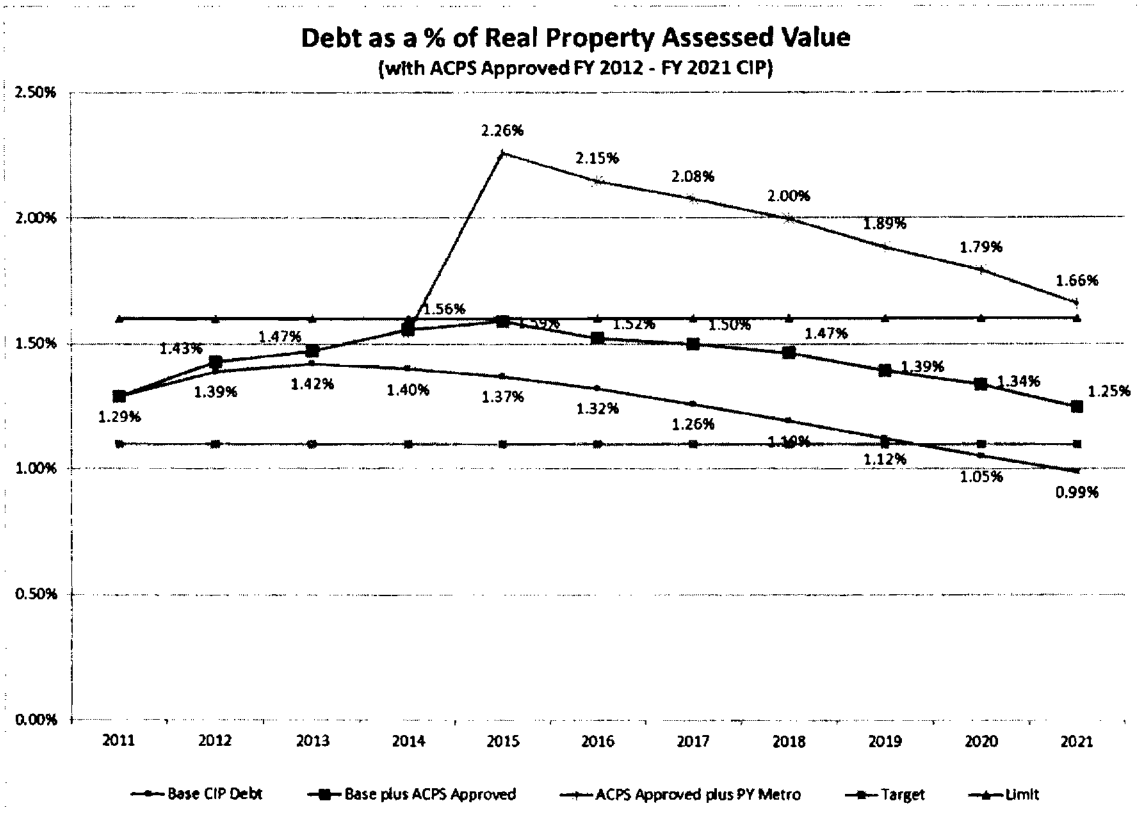
This option would include full funding of the ACPS Approved FY 2012 – FY 2021 CIP, but would use a financing combination of 75% bonds and 25% cash capital in each year of the plan. As is apparent in the graph below, this funding mechanism results in a somewhat more erratic, or volatile, impact on the City's Operating Budget. It is unlikely that the City would strictly use a financing strategy like this (would likely seek a smoother operating budget impact), but it is useful to model and examine the results. A more likely scenario would use the same overall amount of bonds and cash capital, but would more evenly distribute the cash across the ten years to smooth out this impact. The long-term cost to the City would not be significantly impacted.

This option would require additional 10-year debt issuances of $160.9 million. The overall cost to the City's Operating Budget over the next ten years would be $106.1 million, which is about $37.6 million more than if the additional projects were 100% bond-financed (due to more cash capital). However, looking over the next thirty years this combination of bonds and cash would be significantly less costly on a budgeting basis because there is less interest paid due to a lower amount of bonds being issued. By FY 2021, the impact on the City's Operating Budget would be $9.6 million.



Because the annual impact on the Operating Budget varies from year to year, the impact of this option on the City's real estate tax rate is also rather varied. FY 2012, the first year of the plan, would require an additional 1.3 cents on the tax rate. That number drops to 1 cent in FY 2013, but increases to 4.5 cents in FY 2014. In FY 2015 and beyond, the rate varies from 1.5 cents to 5.4 cents, but averages about 3.7 cents per year. Again, this option is more expensive that 100% borrowing in the first ten years, but less expensive over the full 30 year lifecycle of this debt.

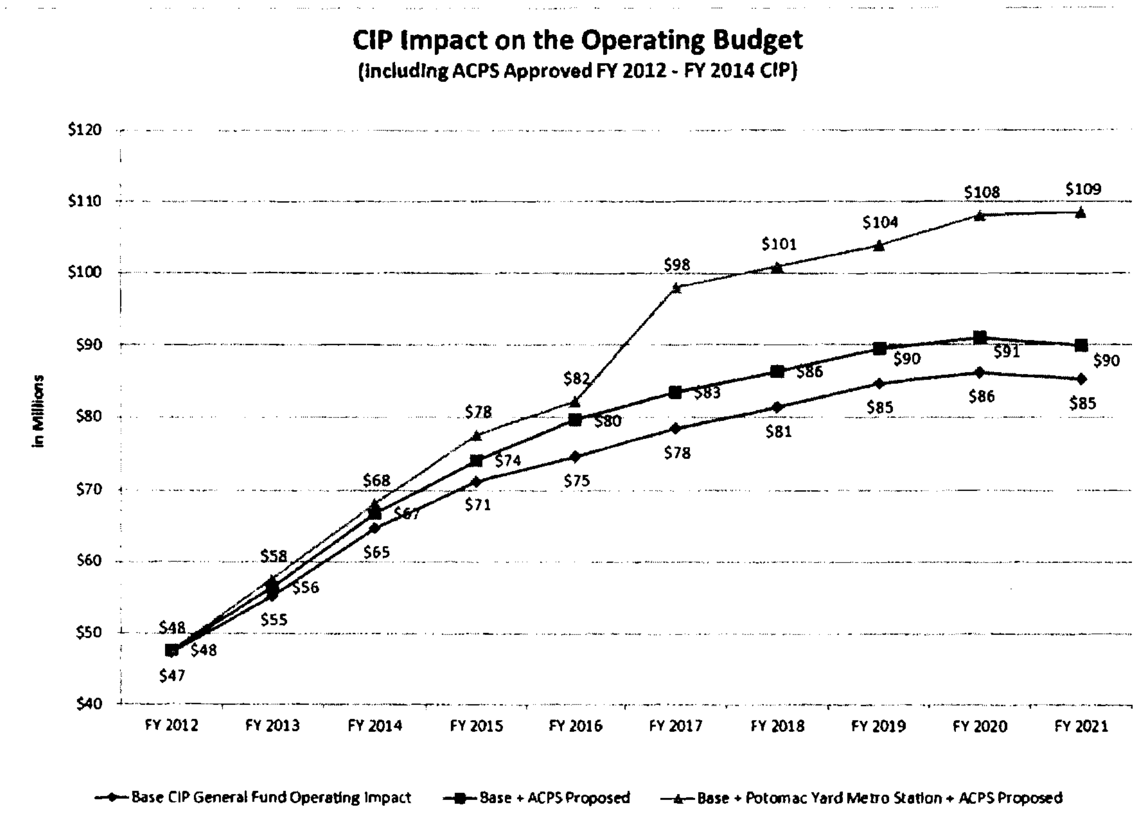
Unlike financing these projects completely with bonds, using this mix of 75% bonds and 25% cash does not push the City beyond the debt policy guideline limits. Debt as a % of Real Property Assessed Value bumps up just slightly below the limit in FY 2015 at 1.59% (limit is 1.6%). The real impact is keeping the City above the target ratio for a longer period of time (i.e., the entire 10-year period).



The graphs showing the other two debt ratios, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, using this financing model can be found in Attachment 2 to this memo.

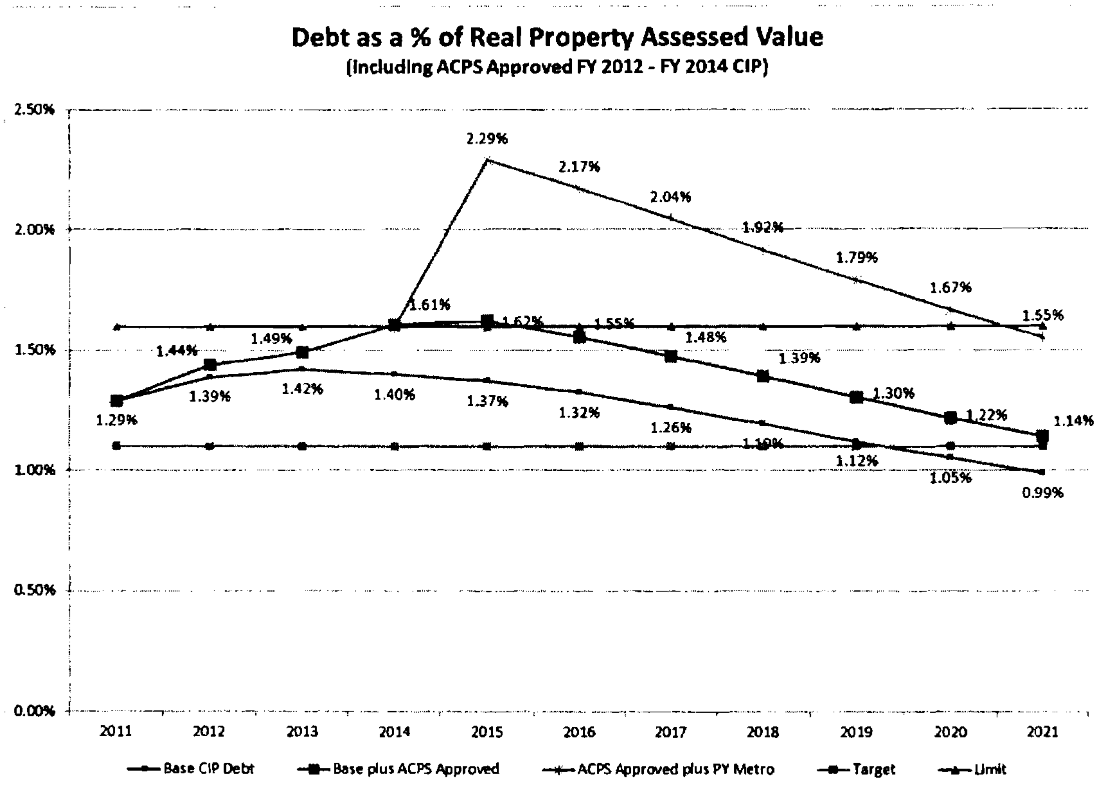
OPTION 3 - ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY NEW SCHOOL (100% BOND FINANCING):

If instead of funding the full ten-year CIP approved by ACPS, the assumption only included funding for the first three years (FY 2012 – FY 2014) of the ACPS plan plus the funding to finish the Patrick Henry new school in FY 2015, the total increment to debt finance is reduced from $214.5 million to $94.6 million. The total cost to the City's Operating Budget (increased debt service) over the next ten years would be $36.1 million. By FY 2021, the City's Operating Budget would increase by $4.8 million in this option. The graph below illustrates the impact that this option would have on the City's Operating Budget over the next ten years.



This option has almost the same impact on the City's Operating Budget and real estate tax rate through FY 2014 as funding the entire ten-year ACPS Approved CIP. This impact is about 0.1 cents in FY 2012 and grows to 0.6 cents in FY 2014. Starting in FY 2015, the impact is somewhat lessened. The approximate impact on the real estate tax rate would be about 1 cent in FY 2015 and 1.5 cents in FY 2016 through FY 2021.

The graph below shows the impact of funding the first three years of the ACPS Approved CIP plus the Patrick Henry new school in FY 2015 on the City's Debt as a % of Real Property Assessed Values. The impact through FY 2016 is very similar to funding the full ACPS ten-year plan, but in FY 2017 and beyond the negative impact is somewhat lessened. Ultimately, this borrowing would put the City in excess of the current limit for this policy in FY 2014 (1.61%) and FY 2015 (1.62%).



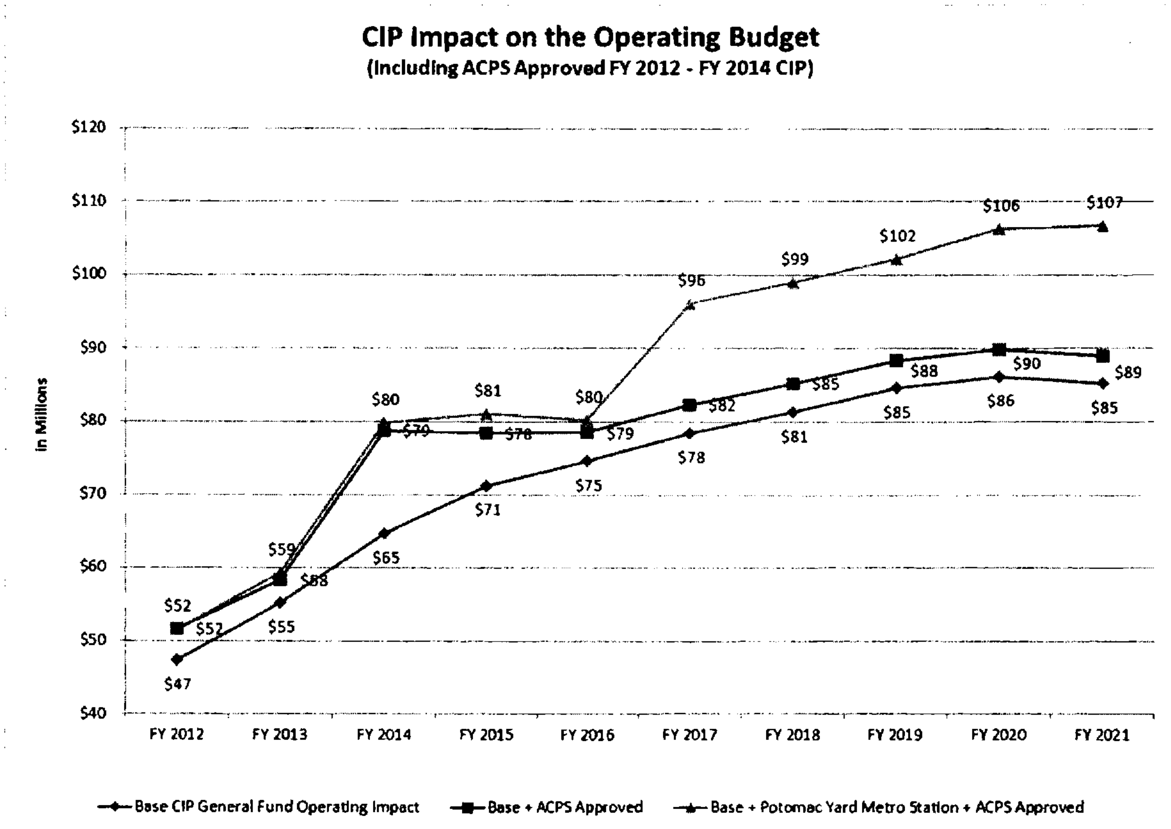
The other two debt ratios, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, are also negatively impacted by this additional debt. Neither is projected to exceed the debt policy limits in the next ten years, but would be result in a somewhat weaker position. Both these graphs can be found in Attachment 3 to this memo.

It is important to note that the expenditure assumptions used for Options 3 & 4 -- an increase over the C.M. Proposed CIP in fiscal years 2012 - 2014 and amounts below the School Board's request in fiscal years 2015 - 2021 -- do not imply School Board, School Staff, or City Staff agreement. These Options are simply giving Council an analysis that was requested on the multi-year impact of such spending and financing choices.

OPTION 4 - ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY NEW SCHOOL (75% BOND FINANCING; 25% CASH):

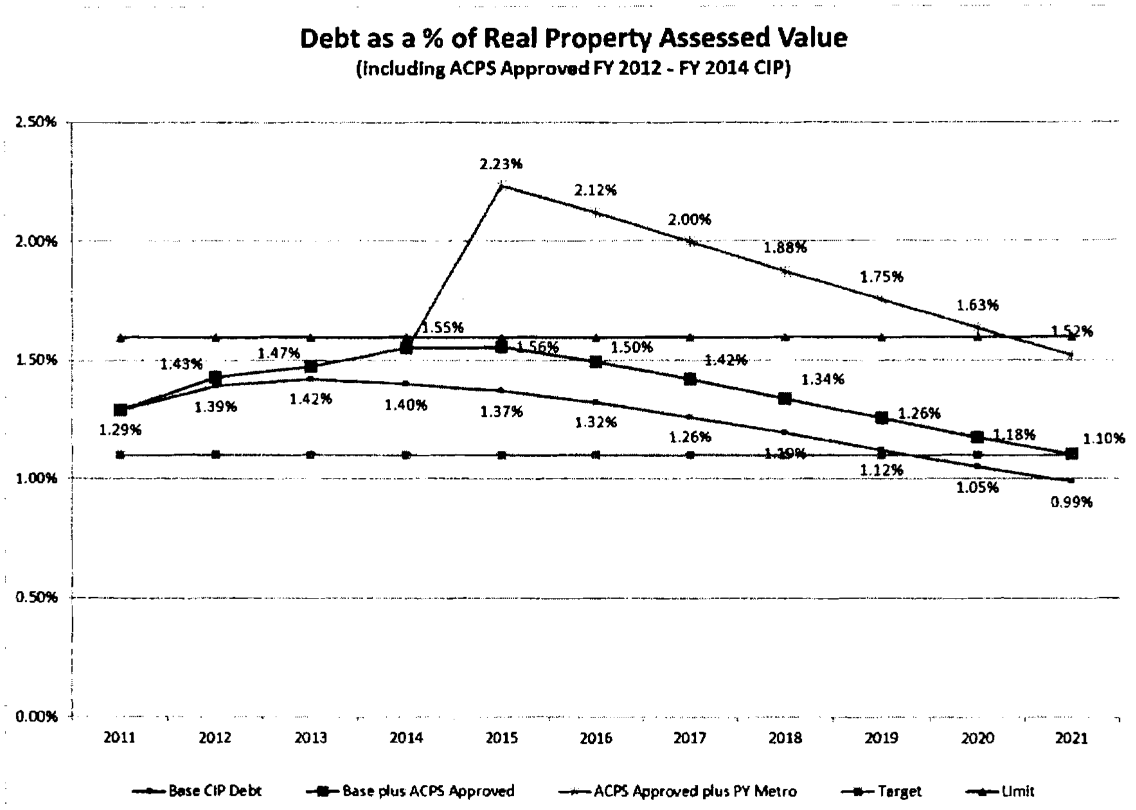
This next option again assumes that the City would only fund the first three years (FY 2012 – FY 2014) of the ACPS Approved plan plus the Patrick Henry new school in FY 2015. The financing strategy would include 75% bonds and 25% cash capital. Again, it is unlikely that the City would ultimately use a financing strategy that results in such a bumpy Operating Budget cost, but it is still a good exercise to model the results. A more likely scenario would spread the cash capital more evenly across the ten years to smooth out this impact. This option would require additional bond issuances totaling $71.0 million over ten years. The additional cost to the Operating Budget over these ten years would be $51.8 million. By FY 2021, the Operating Budget would be $3.7 million larger.

The graph below shows the impact on the City's Operating Budget using these expenditure and financing assumptions.



Because this financing involves combined cash and bonds, the impact on the Operating Budget and corresponding real estate tax rate is inconsistent from year to year. Over the ten years that tax rate would range from 1 cent (FY 2013) to 4.3 cents (FY 2014), and would average about 1.6 cents.

The graph below illustrates Debt as a % of Real Property Assessed Value assuming the first three years of the ACPS Approved plan plus the Patrick Henry new school in FY 2015 are funded using a combination of 75% bonds and 25% cash capital. This option results in a new peak for this ratio of 1.56% in FY 2015. Because there wouldn't be additional borrowing after FY 2015, the ratio begins recovering more quickly than if the full 10-year ACPS CIP was funded.



The graphs showing the other two debt ratios, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, using this financing model can be found in Attachment 4 to this memo.

ATTACHMENTS:

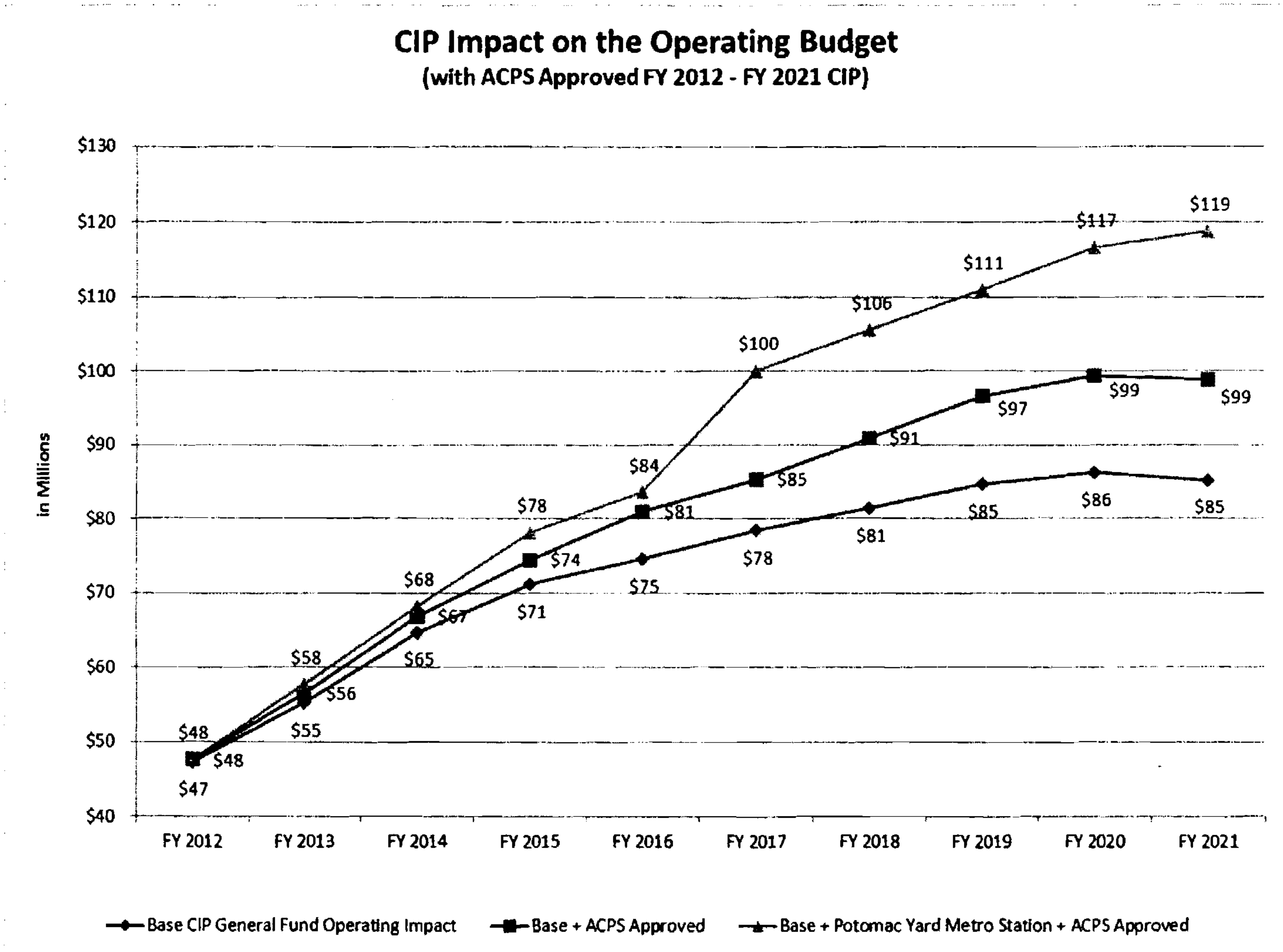
Attachment 1: Option 1 - Operating Impacts and Debt Ratios of funding the total ACPS Approved FY 2012 – FY 2021 CIP with 100% General Obligation Bonds

Attachment 2: Option 2 - Operating Impacts and Debt Ratios of funding the total ACPS Approved FY 2012 – FY 2021 CIP with 75% G.O. Bonds & 25% Cash Capital

Attachment 3: Option 3 - Operating Impacts and Debt Ratios of funding the first three years of the ACPS Approved FY 2012 – FY 2021 CIP with 100% G.O. Bonds

Attachment 4: Option 4 - Operating Impacts and Debt Ratios of funding the first three years of the ACPS Approved FY 2012 – FY 2021 CIP with 75% G.O. Bonds & 25% Cash Capital

ATTACHMENT 1: OPTION 1 - FUNDING THE ENTIRE ACPS APPROVED FY 2012 – FY 2021 CIP; 100% BOND FINANCING



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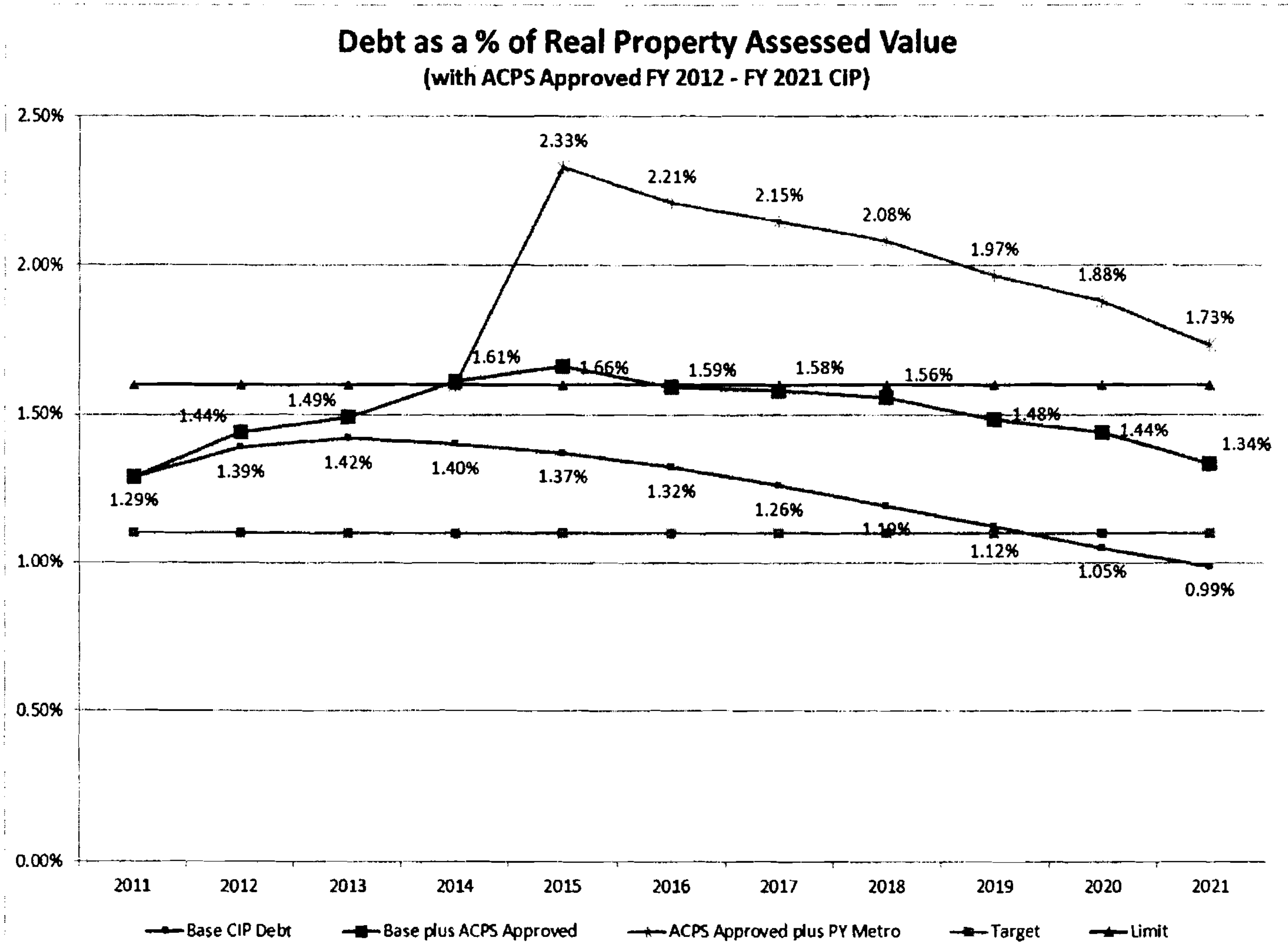

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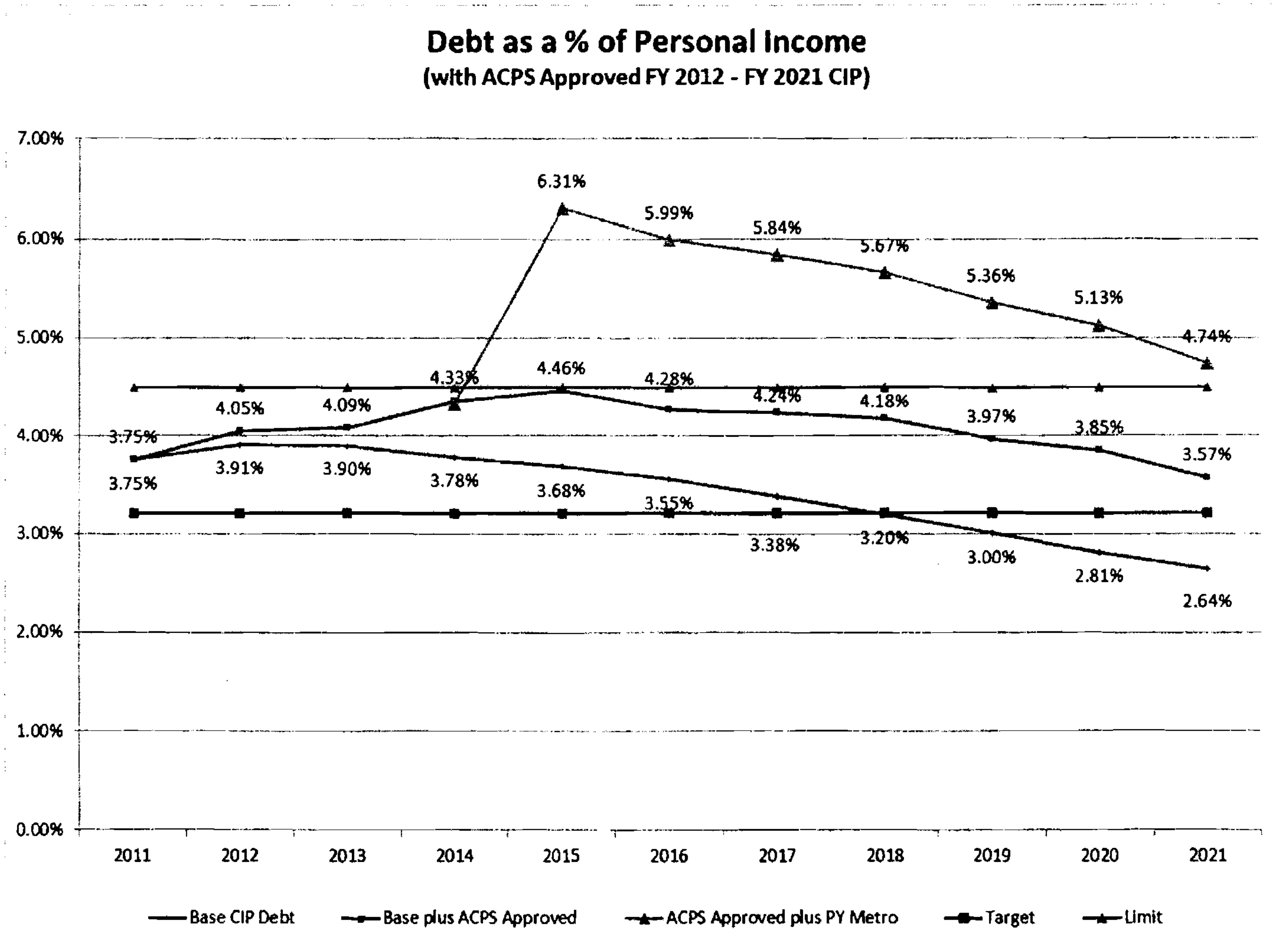
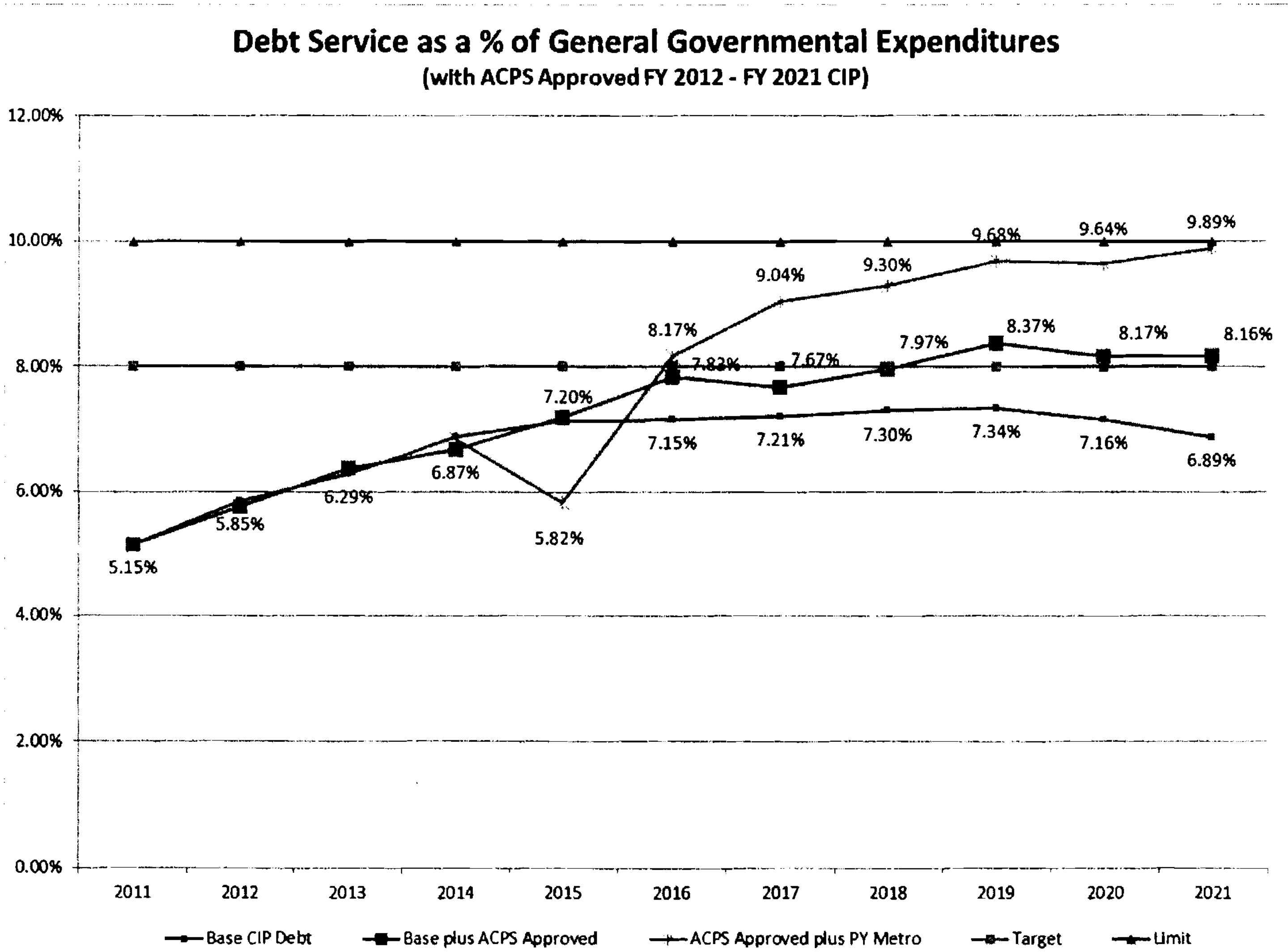
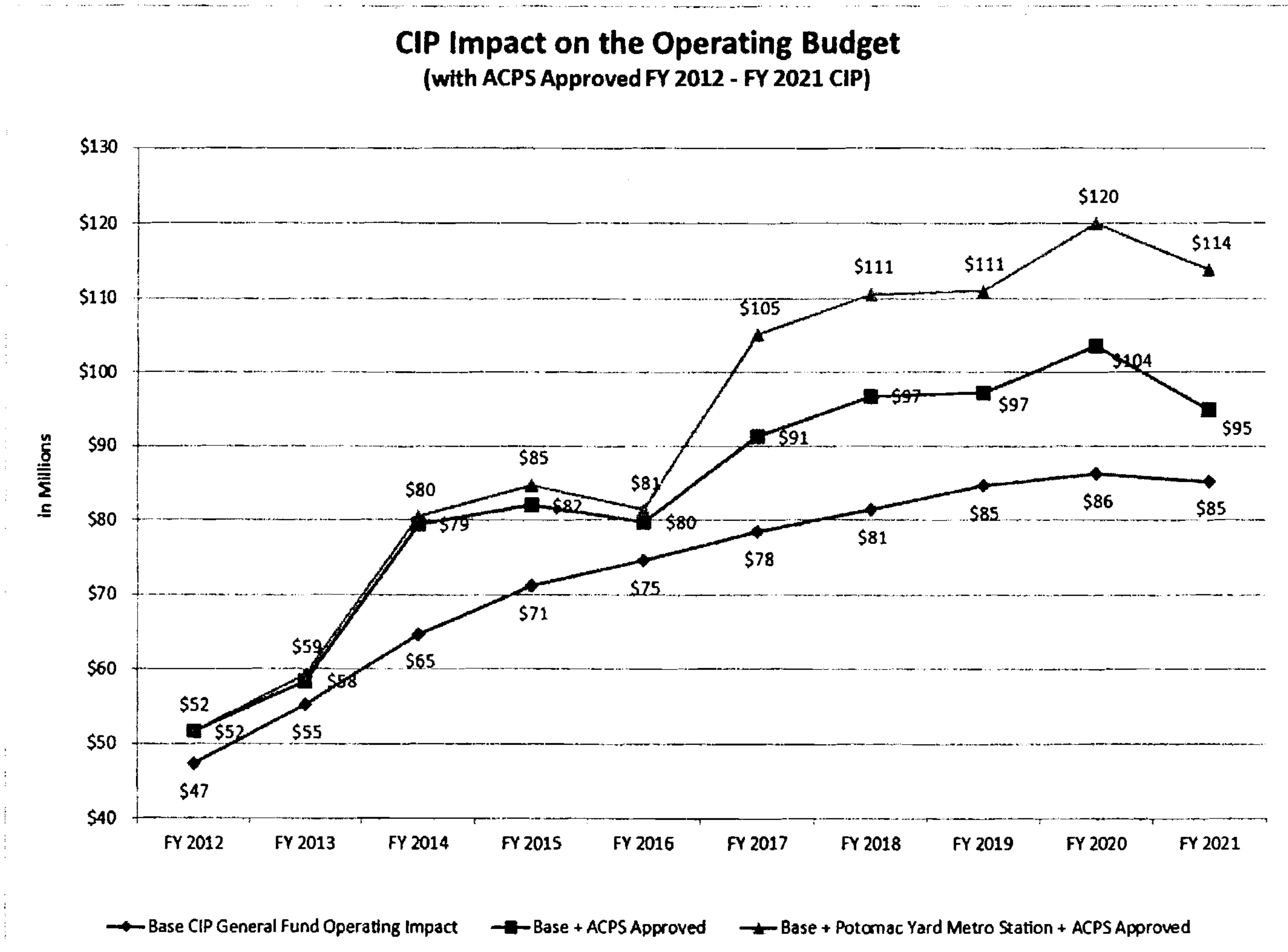


ATTACHMENT 1: OPTION 1 - FUNDING THE ENTIRE ACPS APPROVED FY 2012 – FY 2021 CIP; 100% BOND FINANCING



ATTACHMENT 2: OPTION 2 - FUNDING THE ENTIRE ACPS APPROVED FY 2012 – FY 2021 CIP; 75% BONDS, 25% CASH CAPITAL



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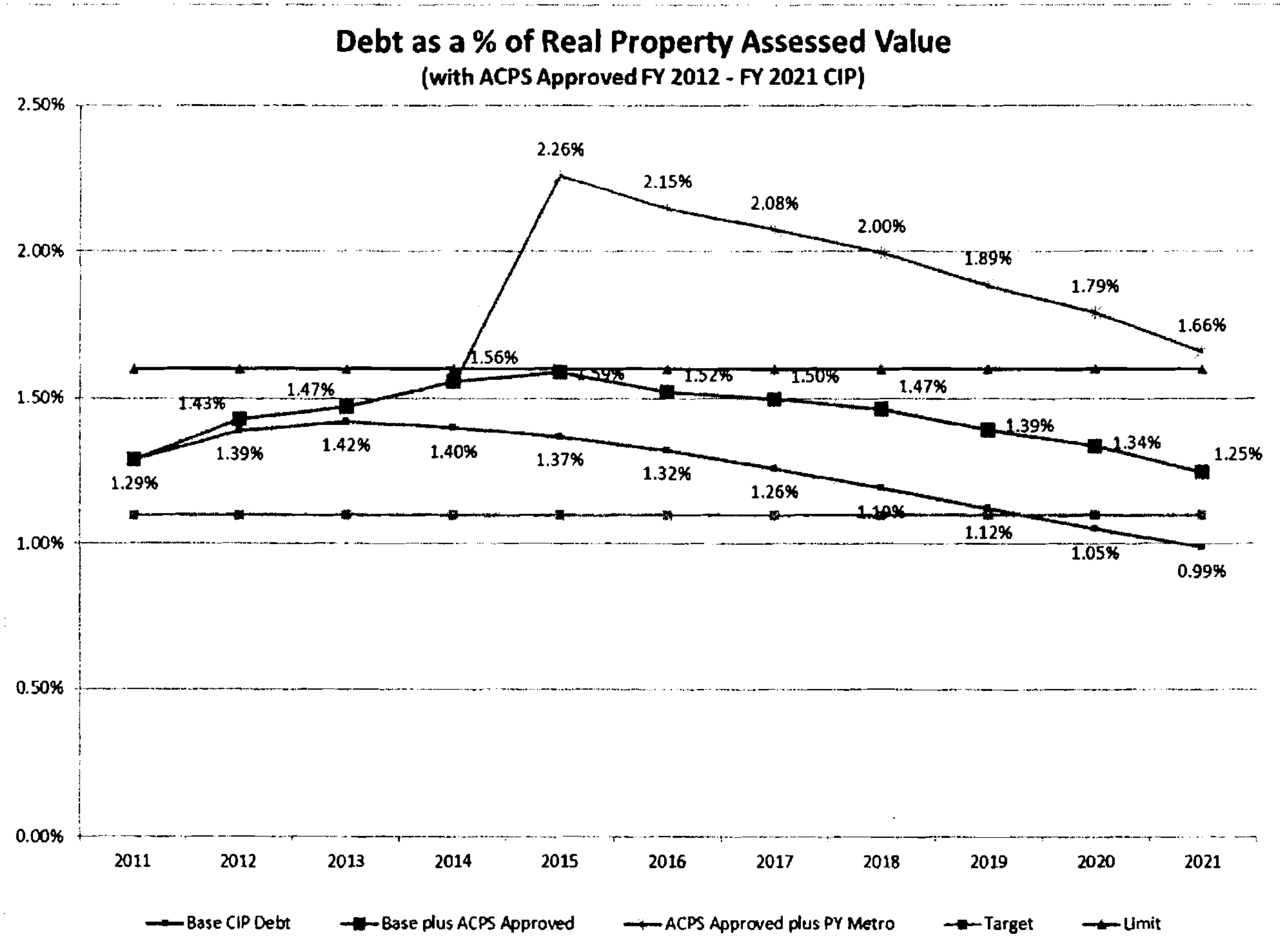

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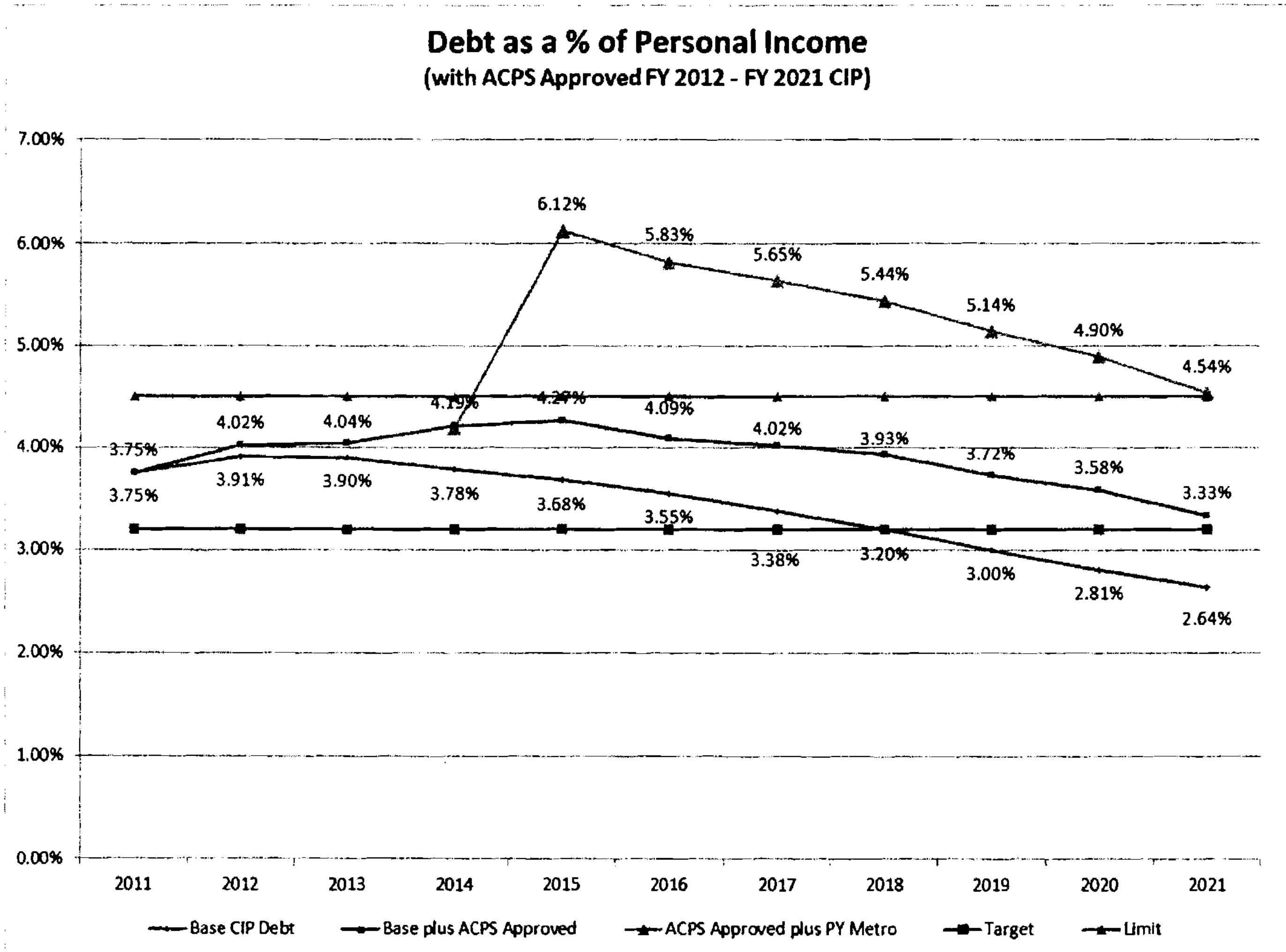

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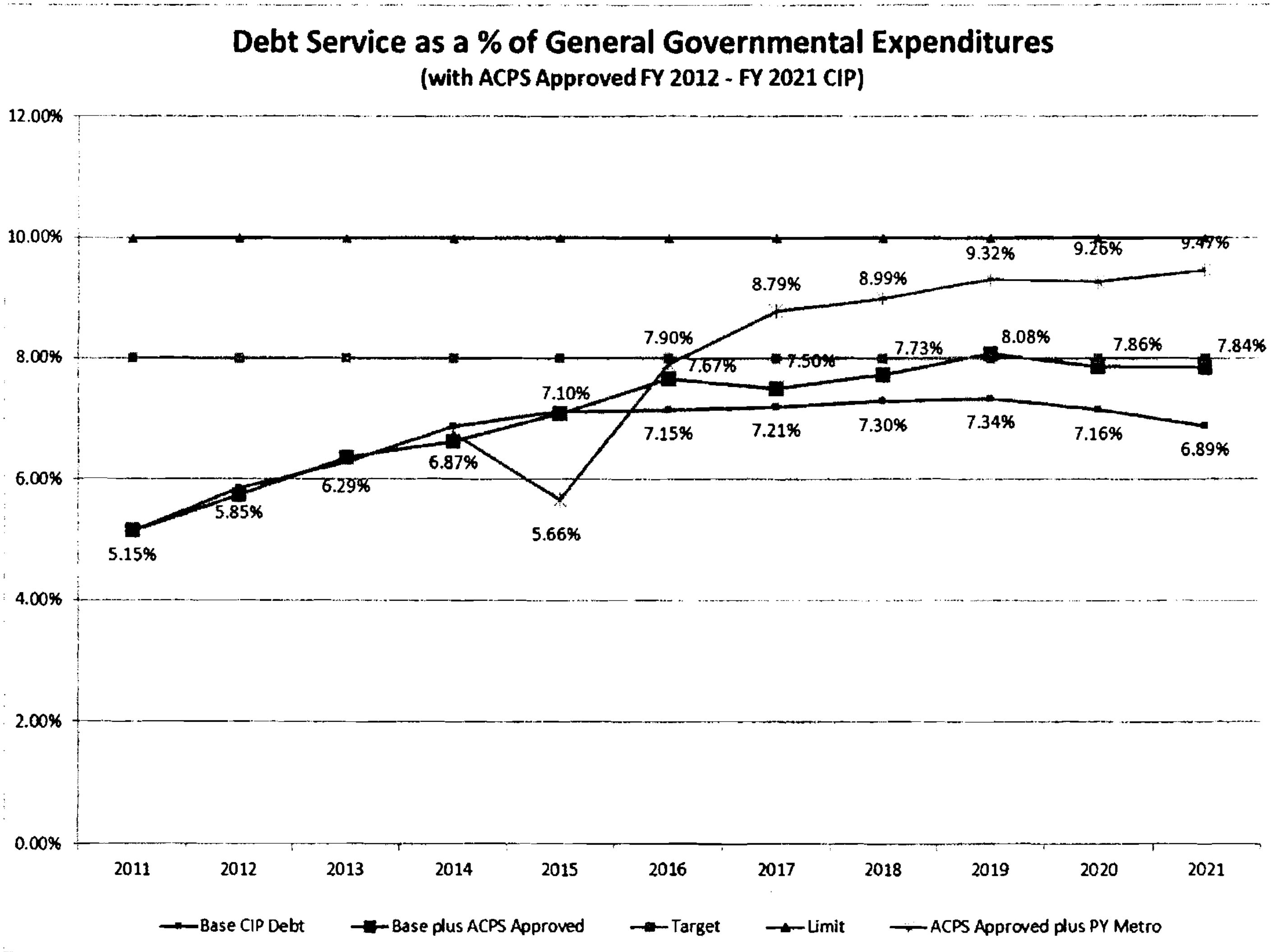
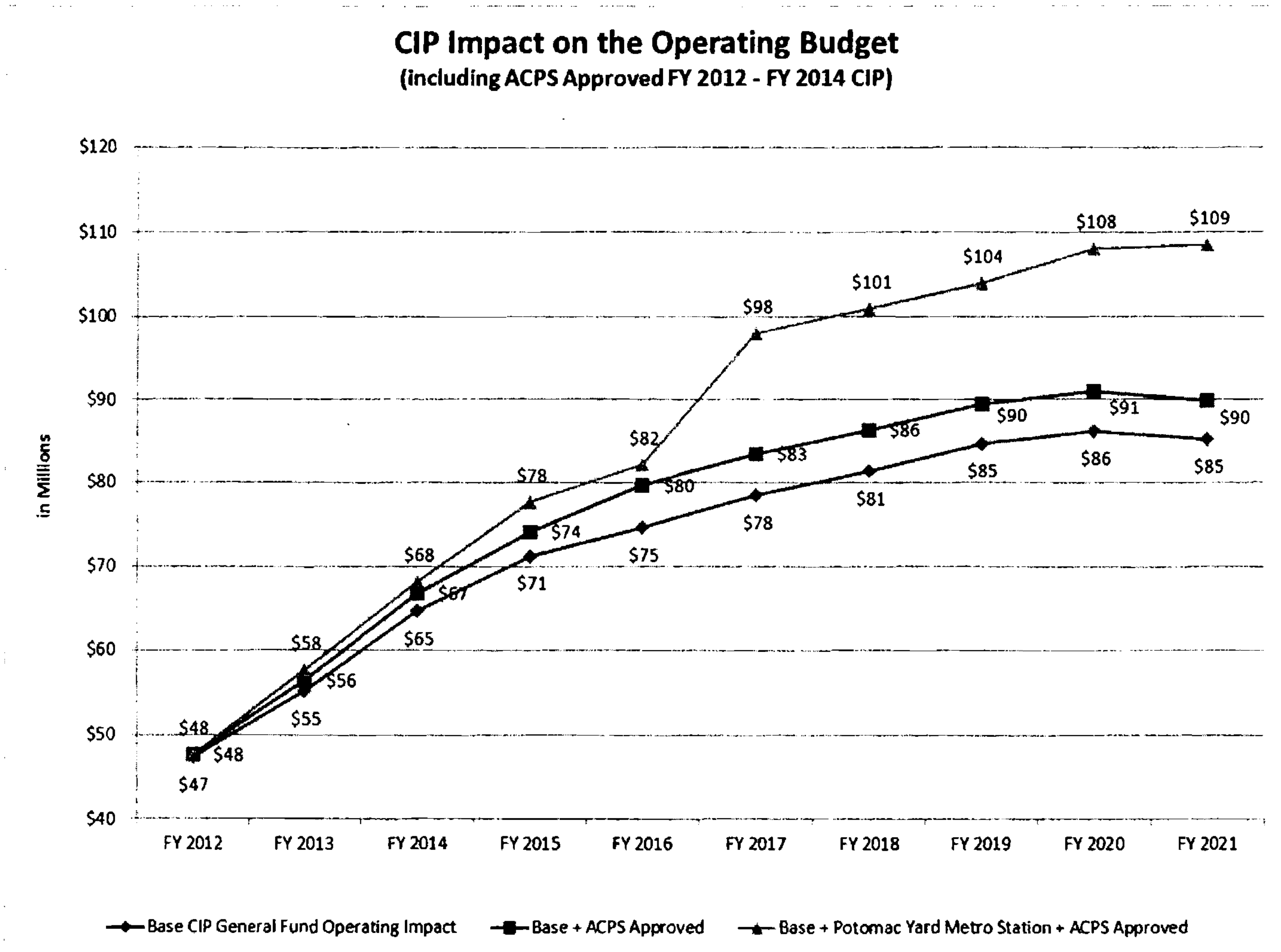
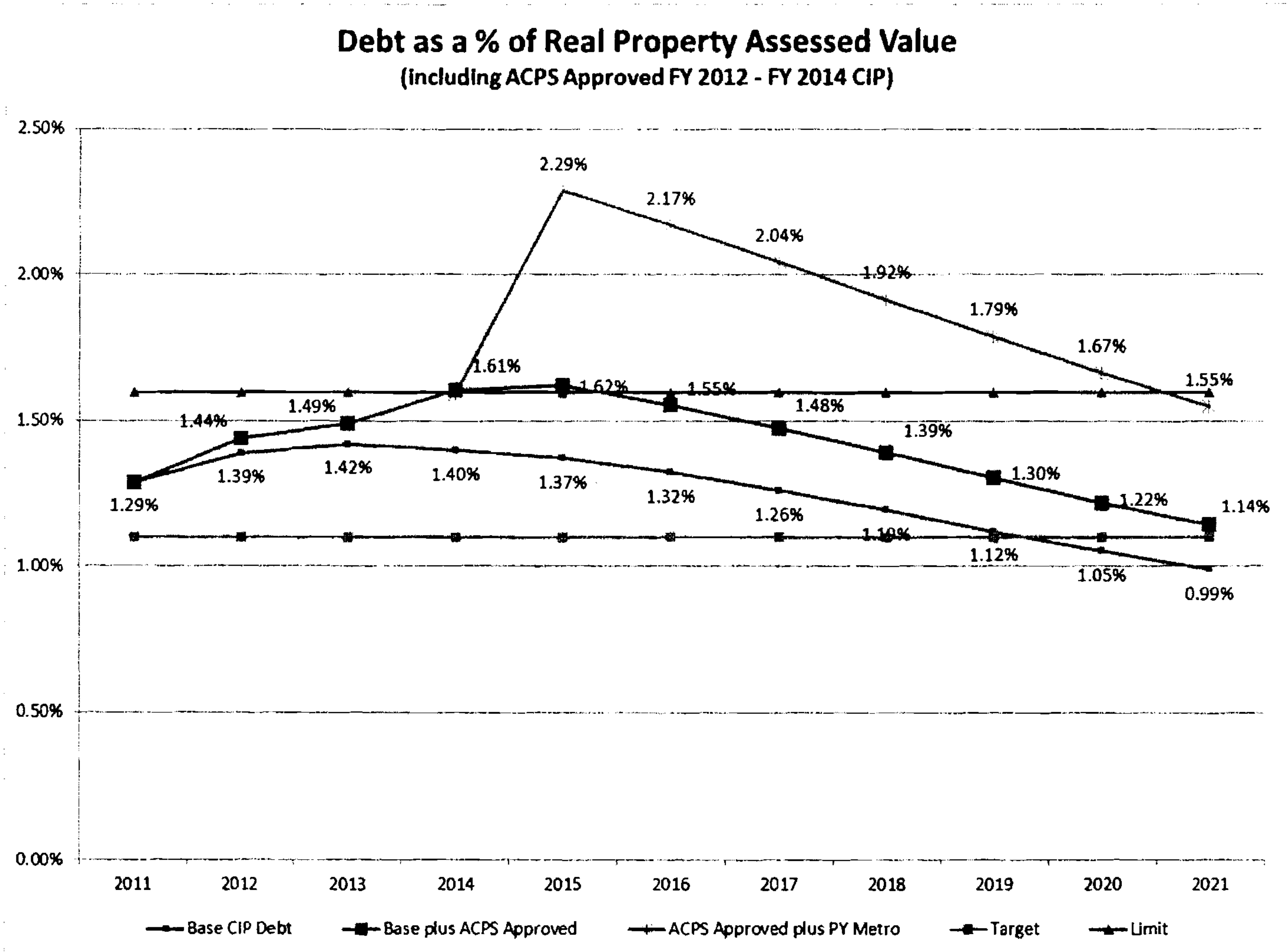


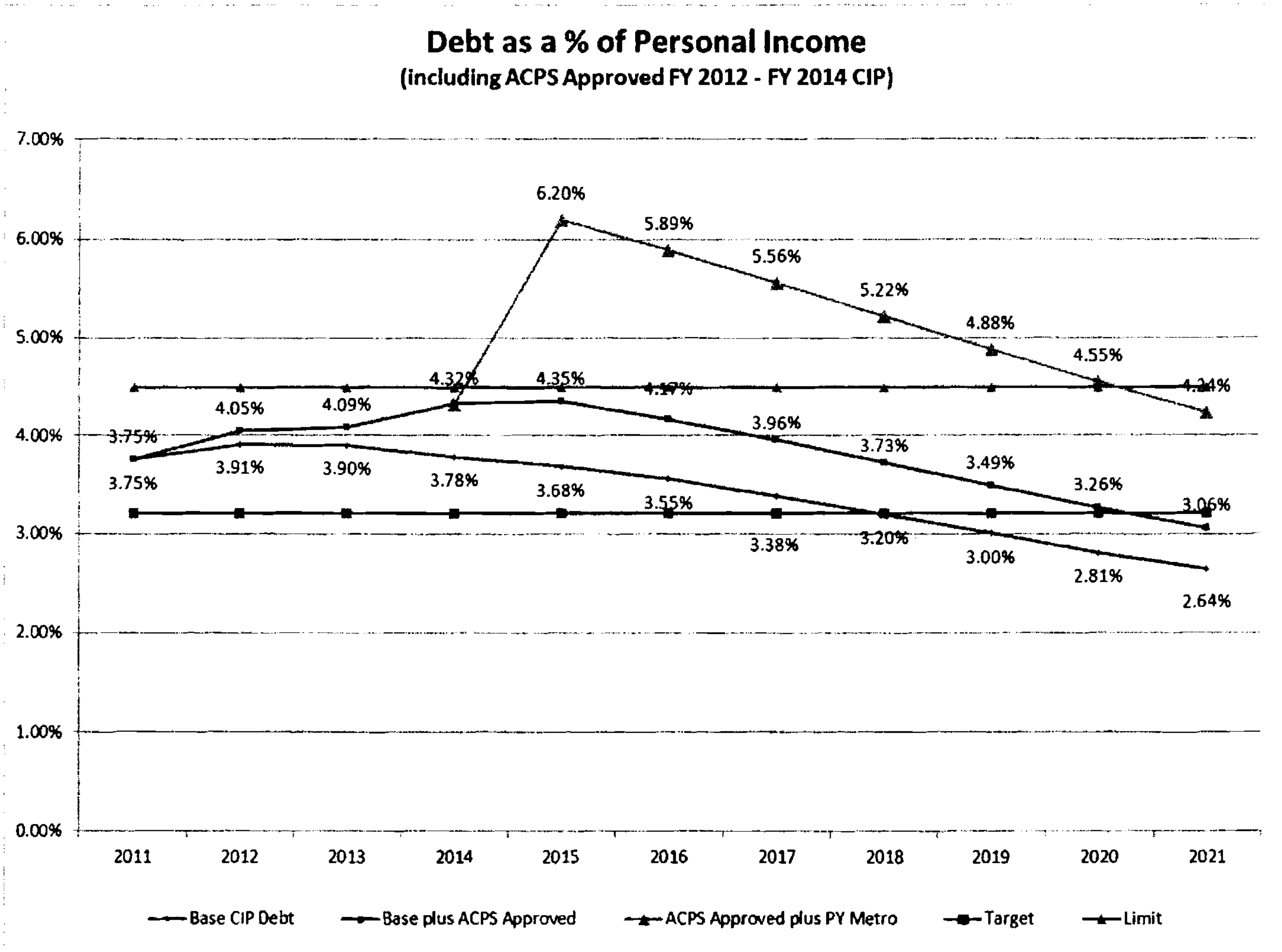
ATTACHMENT 3: OPTION 3 -FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 100% BOND FINANCING



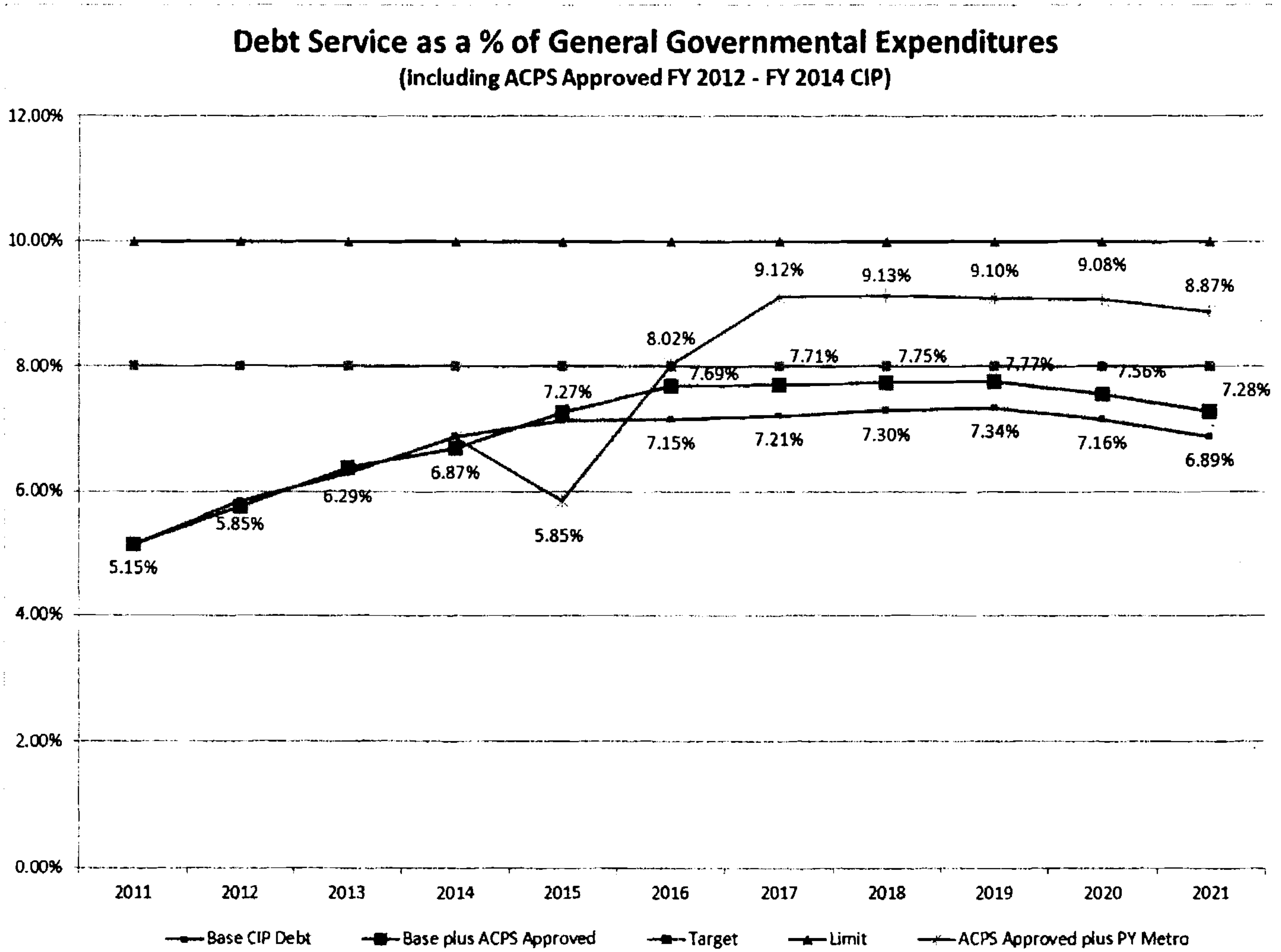
ATTACHMENT 3: OPTION 3 -FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 100% BOND FINANCING



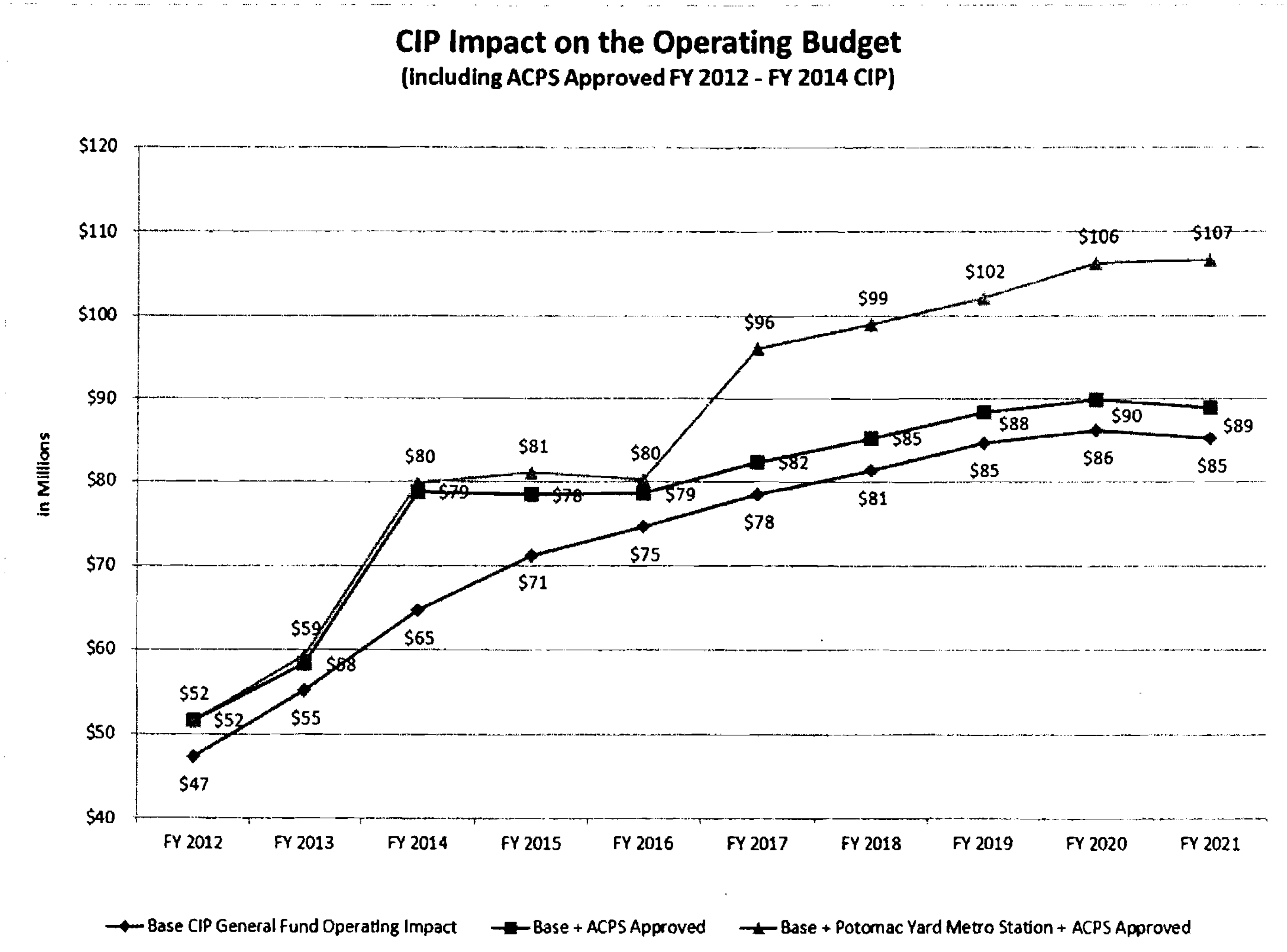
ATTACHMENT 3: OPTION 3 -FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 100% BOND FINANCING



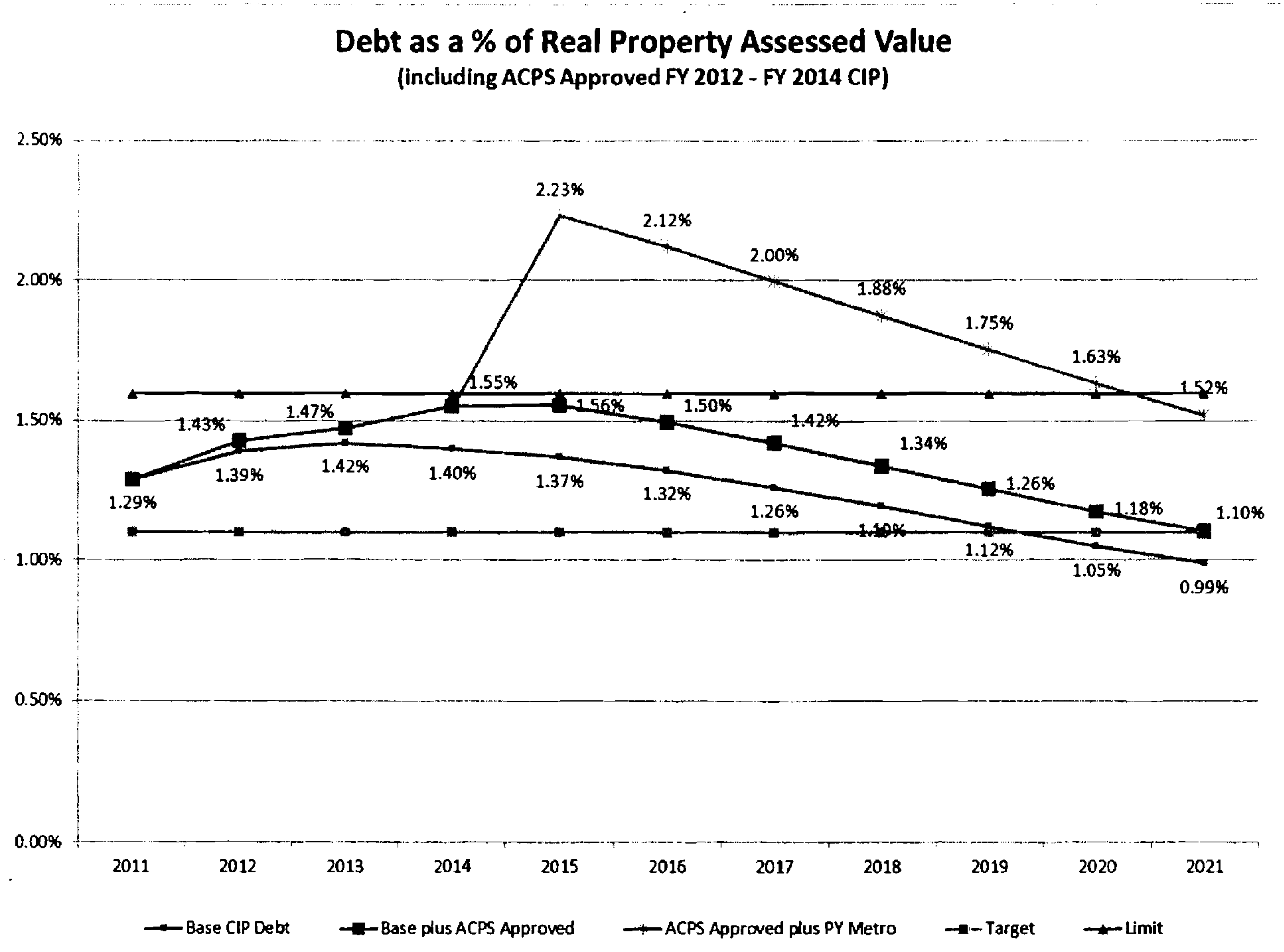
ATTACHMENT 3: OPTION 3 -FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 100% BOND FINANCING



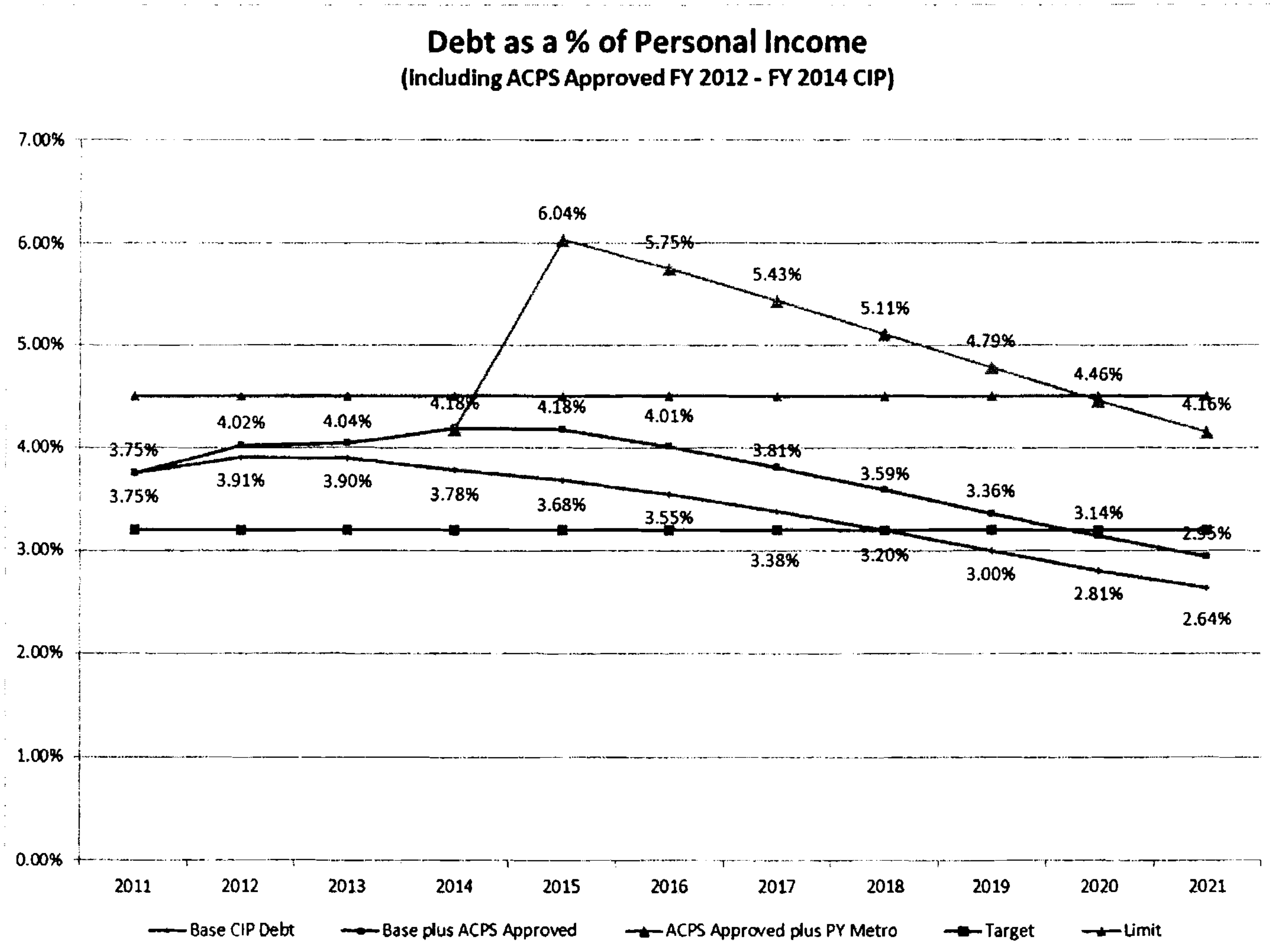
ATTACHMENT 4: OPTION 4 - FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 75% BONDS, 25% CASH



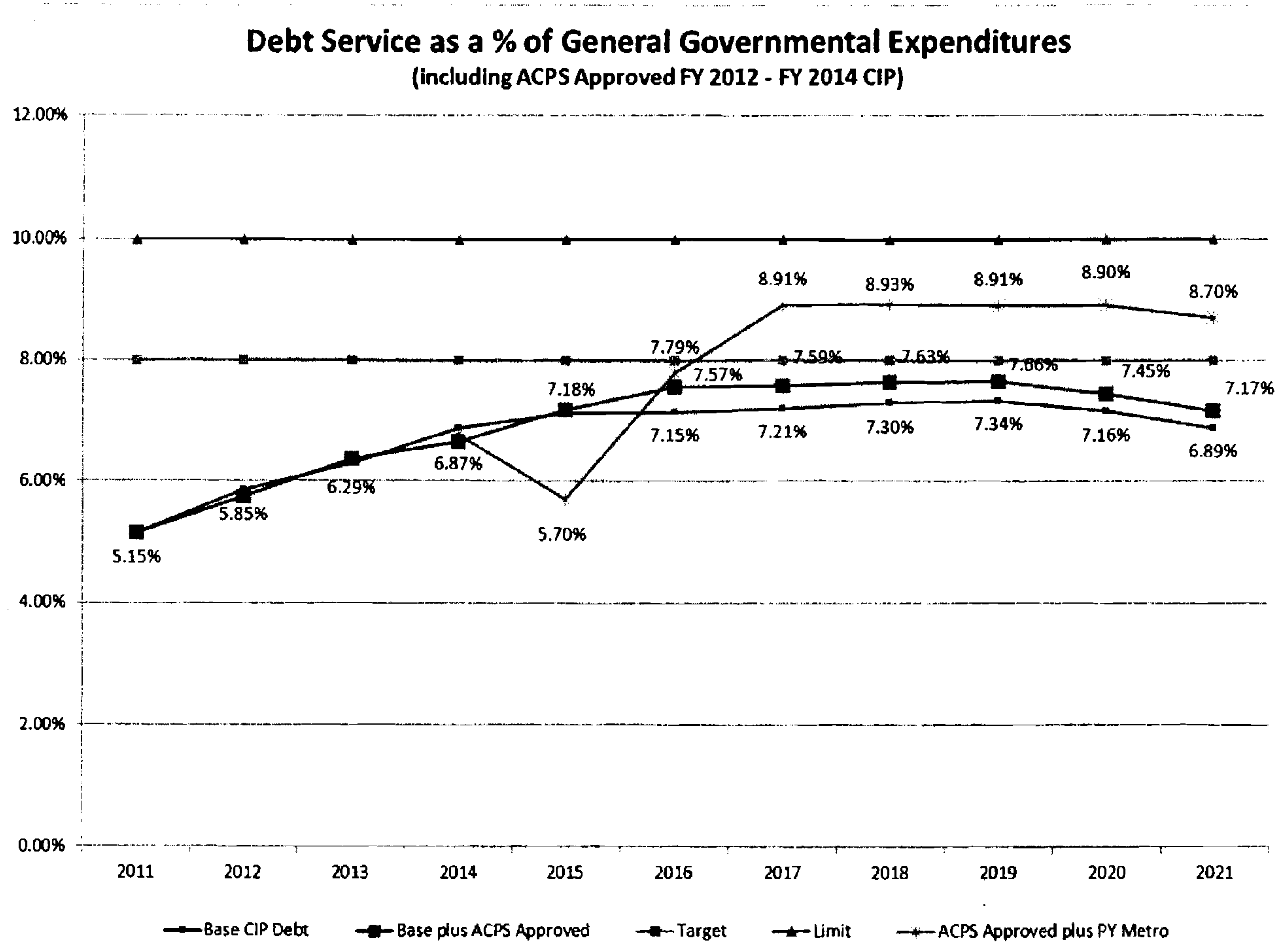
ATTACHMENT 4: OPTION 4 - FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 75% BONDS, 25% CASH



ATTACHMENT 4: OPTION 4 - FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 75% BONDS, 25% CASH



ATTACHMENT 4: OPTION 4 - FUNDING ACPS APPROVED FY 2012 – FY 2014 CIP + PATRICK HENRY SCHOOL; 75% BONDS, 25% CASH



City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 10, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #_14_: ALTERNATIVE BUSINESS LICENSE (BPOL) RATE REDUCTION OPTIONS

As part of the transportation add-on tax proposal, a companion reduction in business license (BPOL) taxes for small business was proposed. The tax relief, which would cost $1.625 million, and when combined with a $0.375 million increase in funding for destination marketing and group meetings solicitation by ACVA, brings the total business benefits package to $2.0 million. Since the proposal of the BPOL tax relief a month ago, a number of alternative tax relief ideas have been suggested by members of the business community. Staff encouraged the articulation of new options and offered to cost out options that might be proposed, so that Council had a broad menu of choices when it came time to make the BPOL reduction choice. It should be noted that any additional BPOL tax relief costs represent reduced General Fund revenues or increased general real estate taxes on all property owners which would otherwise be used to support the City's general governmental (such as Police and Fire) and public school expenses.

Base Proposal (initial BPOL reduction option proposed in the budget):

- Increase the threshold for paying the BPOL tax from $100,000 to $350,000. This would benefit 1,440 businesses with an average relief of $626 per year and cost $0.9 million.
- Reduce the BPOL rates by 50% for those businesses with gross receipts between $350,000 and $750,000. This would benefit 807 businesses with an average relief of $898 per year and cost $0.725 million.
- The total amount of relief would annually benefit 2,247 small businesses and cost $1.625 million. The average relief would be $723. This is some 45% of businesses who currently pay BPOL on a gross receipts basis.
- These businesses would pay the $50 business license fee that businesses which gross $100,000 or less now pay.
- This tax relief would substantially, if not fully offset the cost of transportation add on tax for many of these small businesses. (See Budget Memo #4 for details.)
- This tax relief would not apply to those who rent commercial or residential properties, nor would it apply to public utilities and telecom firms.

- This tax relief would be effective starting on January 1, 2011 (as BPOL is a calendar year tax usually paid on March 1 of each year).

The following new options have been costed out and would apply to all businesses other than those listed in the above last bullet.

<u>Option 1: Add a 25% additional tax relief category between $750,000 and $1.0 million to the current proposal</u>:

- In addition to the base proposal, add a new category of tax relief between $750,000 and $1.0 million in gross receipts and reduce the current business license tax rates by 25%.
- This would create a smoother transition from the 50% tax relief category to the no tax relief category and reduce the incentive to restructure one's business receipts into the 50% category.
- The cost of this tax relief which would be additive to the base proposal cost of $1.625 million and would be $0.212 million and would benefit 273 businesses with an average relief of $777 per year.
- The total cost of BPOL relief would rise to $1.837 million with 2,520 businesses benefiting.

<u>Option 2: Add a 25% additional tax relief category between $750,000 and $1,250,000 to the current proposal</u>:

- In addition to the base proposal, add a new category of tax relief between $750,000 and $1.25 million in gross receipts and reduce the current business license tax rates by 25%.
- This would create a broader, smoother transition from the 50% tax relief category to the no relief tax category and reduce the incentive to game one's business into the 50% category.
- The cost of this tax relief, which would be additive to the base proposal cost of $1.625 million would be $0.402 and would benefit 472 businesses with an average relief of $852.
- The total cost of BPOL relief would rise to $2.027 million with 2,719 businesses benefiting.

<u>Option 3: Allow all businesses to deduct $250,000 from their gross receipts calculations before applying the BPOL tax rates</u>:

- Currently, the BPOL tax rates apply to all gross receipts of a business with no deductions allowed.
- This proposal would keep all BPOL tax rates unchanged and allow businesses who file on a gross receipts basis to deduct $250,000 from their gross receipts before applying the tax rates.
- This proposal would benefit large and small businesses with an equal dollar amount of tax relief (i.e., equal within each BPOL rate category).
- The cost of this relief would be $3.570 million with 5,000 businesses benefiting.
- Since this relief option would be in lieu of the base proposal, the net new cost would be $1.945 million ($3.570 million less $1.625 million in the base proposal equals $1.945 million).

Option 4: Allow all businesses to deduct $350,000 from their gross receipts calculations before applying BPOL tax rates:

- Currently, the BPOL tax rates apply to all gross receipts of a business with no deductions allowed.
- This proposal would keep all BPOL tax rates unchanged and allow businesses who file on a gross receipts basis to deduct $350,000 from their gross receipts before applying the tax rates.
- This proposal would benefit large and small businesses with an equal dollar amount of tax relief (i.e., equal within each BPOL tax rate category).
- The cost of this relief would be $4.7 million with 5,000 businesses benefiting.
- Since this relief would be in lieu of the base proposal, the net new cost would be $3.1 million ($4.7 million less $1.625 million in the base proposal equals $3.1 million).

Option 5: Apply the $1.625 in budgeted BPOL tax relief to an across-the-board reduction in business license tax rates:

- This proposal would take the $1.625 million in budgeted business license tax relief and use it to reduce BPOL rates across the board.
- This would provide a small benefit to all 5,000 businesses that currently pay the business license tax on a gross receipts basis.
- Since it is estimated that BPOL would raise some $31.6 million before any tax relief, a $1.625 tax relief amount represents a 5.14% rate reduction.
- The rate reductions have been rounded to 1, 2 or 3 cents (depending on the current rate) with the professional category, which currently pays the highest BPOL rate, receiving the largest rate reduction of 3 cents.
- No change in the 5-cent wholesaler's BPOL rate is proposed since a 5.14% reduction is less than a 0.25 cent rate reduction.
- When the 5.14% rate reduction percentage is applied and the results rounded, the following new rates are derived:

Category	Current Rate*	Option 5 Rate	Rate Reduction*
Professional Services/Occupations	.58¢	.55¢	-.03¢
Financial Services	.35¢	.33¢	-.02¢
Personal Services	.35¢	.33¢	-.02¢
Repair Services	.35¢	.33¢	-.02¢
Retail Merchants (excluding restaurants)	.20¢	.19¢	-.01¢
Restaurants	.20¢	.19¢	-.01¢
Contractors/builders/developers	.16¢	.15¢	-.01¢
Wholesalers	.05¢	.05¢	NC

*All rates = Per $100 gross receipts

Option 6: Establish a 6.3 cent commercial add-on tax rate, cut BPOL taxes by $6.0 million and increase the base real estate tax rate on all properties in the City by 2.8 cents:

- This proposal would set the add-on tax rate at 6.3 cents which is about 50% of the proposed 12.5 cent rate.
- This 6.2 cent add-on tax rate reduction would reduce FY 2011 add-on tax revenues by $3.0 million, and FY 2012 revenues by $6.1 million, for a total loss of $9.1 million.
- BPOL taxes under this proposal would be reduced by $6.0 million (which is $4.4 million more than set aside in the FY 2012 budget for BPOL tax relief).
- Since it is estimated that BPOL would raise some $31.6 million before any tax relief, a $6.0 million tax relief amount represents at 19% rate reduction.
- When the 19% rate reduction is applied, the following new rates are derived:

Category	Current Rate*	Option 6 Rate*	Rate Reduction*
Professional Services/Occupations	.58¢	.47¢	-.11¢
Financial Services	.35¢	.28¢	-.07¢
Personal Services	.35¢	.28¢	-.07¢
Repair Services	.35¢	.28¢	-.07¢
Retail Merchants (excluding restaurants)	.20¢	.16¢	-.04¢
Restaurants	.20¢	.16¢	-.04¢
Contractors/builders/developers	.16¢	.13¢	-.03¢
Wholesalers	.05¢	.04¢	-.01¢

*All rates = Per $100 gross receipts

- In order to finance the $9.1 million in lost add-on tax revenues and the $4.4 million in added BPOL tax relief, some $13.5 million from the base real estate tax rate would be needed.
- Under this option, this $13.5 million would be financed by a 2.8 cent increase in the general real estate tax rate that would apply to all taxable real property in the City for CY 2012. For CY 2013, the real estate tax rate would need to be increased by another 0.9 cents to 3.7 cents to raise an equivalent amount of tax revenues.

Option 7: In lieu of adopting the add-on tax, increase the real estate tax rate on all properties by 3.8 cents to raise a similar amount of funds:

- Under this option the general real estate tax rate on all properties would be increased by 3.8 cents per $100 of valuation.
- This is an equivalent 4.0% additional increase in the taxes levied on all property owners
- Approximately 6% of these property owners representing 30% of the tax base would have been otherwise subject to the add on tax, and 94% of these property owners representing 70% of the tax base would not have been subject to this tax.
- In order to effect this option, Council will have to decide to advertise this 3.8 cent increase in the real estate tax rate above the base proposed 97.3 cent rate on March 12.
- This 3.8 cents would raise some $18.2 million for FY 2012 (including the June 2012 payment) and then about $12.1 million in future fiscal years.

Option 8: Apply the $1.625 million in budgeted tax relief towards priority transportation projects:

- In the event that Council decides not to adopt the commercial add on tax for transportation purposes, the BPOL tax relief partial offset to the add-on tax is no longer needed.
- The $1.625 million budgeted for BPOL tax relief then could be directed towards partially funding part of one of the identified priority transportation projects, or other Council priorities.
- This action could be accomplished through increasing the cash capital transfer to the City's cash capital projects fund.

If Council or the business community wishes additional options to be calculated, staff can undertake these calculations and provide that information to assist with the tax reduction decision making.

Attached is a summary chart comparing the base proposal with these eight options.

Attachment

SUMMARY OF BPOL RATE REDUCTIONS OPTIONS
(in Millions)

Option	Title	Net New Business Tax Relief Above Base[1]	Total Business Tax Relief[1]
Base Proposal		N/A	$1.625
1	Add a 25% additional tax relief category between $750,000 and $1.0 million to the current proposal	$0.212	$1.837
2	Add a 25% additional tax relief category between $750,000 and $1,250,000 to the current proposal	$0.402	$2.027
3	Allow all businesses to deduct $250,000 from their gross receipts calculations before applying the BPOL tax rates	$1.945	$3.570
4	Allow all businesses to deduct $350,000 from their gross receipts calculations before applying BPOL tax rates	$3.098	$4.723
5	Apply the $1.625 in budgeted BPOL tax relief to an across-the-board reduction in business license tax rates	-0-	$1.625
6	Establish a 6.3 cent commercial add-on tax rate, cut BPOL taxes by $6.0 million and increase the base real estate tax rate on all properties in the City by 2.8 cents	$13.500	$15.125
7	In lieu of adopting the add-on tax, increase the real estate tax rate on all properties by 3.8 cents to raise a similar amount of funds	$18.200	$18.200
8	Apply the $1.625 million in budgeted tax relief towards priority transportation projects or other Council priorities	-$1.625	-0-

[1]Reflects FY 2012 budget impact compared to base proposal of a 12.5 cent add-on tax and $1.625 in BPOL tax relief.

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 9, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 16 : EMPLOYER AND EMPLOYEE RETIREMENT CONTRIBUTION RATES FY 1988 – FY 2012 PROPOSED

This memorandum responds to a request from Councilman Smedberg for additional information on contribution rates made by the City and employees towards retirement. During the February 23, 2011 work session on human resources and compensation, staff presented several graphs showing retirement contribution rates paid by the City and employees from FY 1988 – FY 2012 Proposed. In addition to the graphs presented to City Council, Attachment 1 also provides tables listing the retirement rates paid by the City and employees since FY 1988. Because retirement contribution rates vary based on whether an employee is civilian or sworn personnel, Attachment 1 includes three categories of employees: 1) civilian General Schedule employees; 2) Deputy Sheriff, Medics and Fire Marshals; and 3) Firefighters and Police Officers.

Page 1: Total Retirement Contribution Rates (Employer and Employee - % of Salary)
The graph on Page 1 of Attachment 1 displays the combined retirement contributions made by the City and employees. The table on Page 1 shows the combined contribution rates paid for by both the City and employees since FY 1988.

Page 2: Retirement Contribution Rates for General Schedule Employees
The graph on Page 2 shows the employer and employee contributions made towards the City's retirement plan for full-time General Schedule employees. The table on Page 2 provides the contribution rates for the City and General Schedule employees based on the period of time an employee was hired (i.e., hired prior to FY 2010, during FY 2010, or during FY 2011). The City currently makes the full contribution to retirement for those employees hired before FY 2010. Employees hired during FY 2010 pay 2% of salary into the City Supplemental Retirement Plan, and employees hired during FY 2011 contribute 6% of salary towards their retirement (4% to the Virginia Retirement System and 2% to the City Supplemental Plan). The City Manager's FY 2012 Proposed Budget recommends that General Schedule employees hired prior to FY 2010 begin to contribute 1% of salary towards their retirement.

Page 3: Retirement Contribution Rates for Deputy Sheriff, Medics, & Fire Marshals
In addition to being enrolled in VRS and the City Supplemental Plan, Deputy Sheriff/Medics/Fire Marshal employees are also covered by a defined contribution plan. The total contribution displayed in the table on Page 3 represents the combined rate for all three of these plans. The table also shows the difference in retirement rates for employees hired before and after FY 2011.

For employees hired before FY 2011 the City continues to make the full contribution towards the cost of retirement. Employees hired in FY 2011 contribute 4% of their salary to the employee share of the VRS retirement plan. The City Manager's FY 2012 Proposed Budget recommends Deputy Sheriff/Medic/Fire Marshal employees hired before FY 2011 begin to contribute 1% of salary towards the City Supplemental Plan starting in FY 2012.

Page 4: Pension Contribution Rates for Firefighters and Police Officers
In FY 2004 the City transitioned from a defined contribution plan to a defined benefit plan for Police Officers and Firefighters. As part of this change members of the Police/Fire pension plan began contributing 8% of salary towards their retirement. In the FY 2012 Proposed Budget the City Manager has recommended that Police Officers and Firefighters pay 1% more towards their retirement (from 8% to 9%). This proposal impacts all of the members enrolled in the new Police/Fire pension plan regardless of their hire date. The City's contribution has increased from 22.35% in FY 2004 to 25.17% in FY 2011. In FY 2012, the City's contribution to the pension plan increases by 2.05% from 25.17% to 27.22%.

Attachment:

1. Employer and Employee Retirement Contribution Rates FY 1988 – FY 2012 Proposed

Attachment 1: Employer and Employee Retirement Contribution Rates
FY 1988 - FY 2012 Proposed

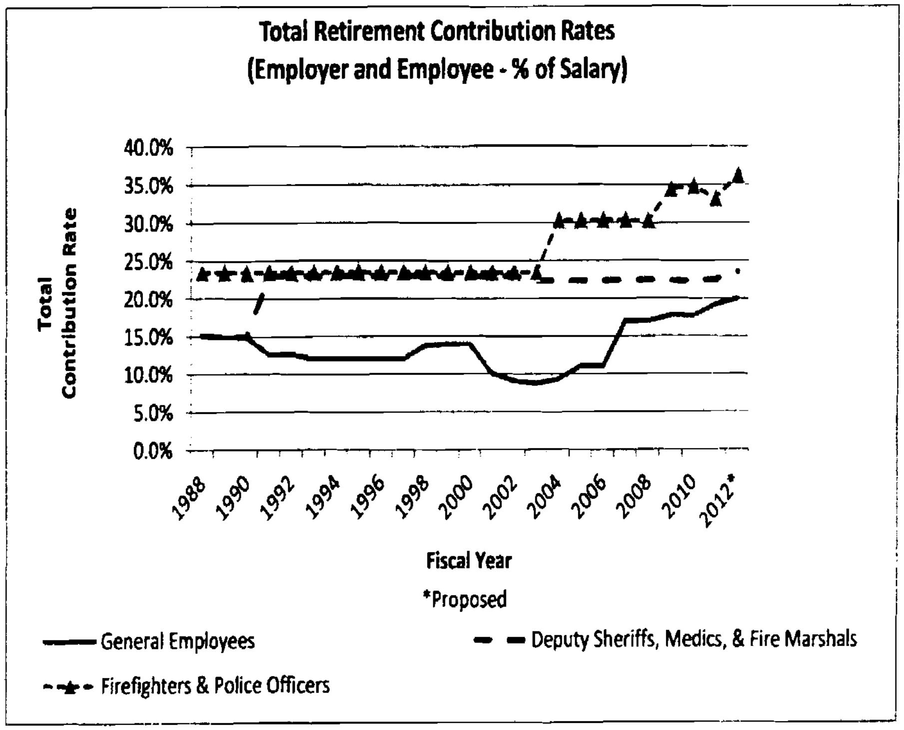
Total Retirement Contributions 1988-2012 by Employee Groups

Combined employer and employee share as % of salary

Fiscal Year	General Employees	Deputy Sheriffs, Medics, & Fire Marshals	Firefighters & Police Officers **
1988	15.11%	15.11%	23.50%
1989	14.87%	14.87%	23.50%
1990	14.87%	14.87%	23.50%
1991	12.65%	23.00%	23.50%
1992	12.65%	23.00%	23.50%
1993	11.98%	23.00%	23.50%
1994	11.98%	23.00%	23.50%
1995	11.98%	23.00%	23.50%
1996	11.98%	23.00%	23.50%
1997	11.98%	23.00%	23.50%
1998	13.75%	23.00%	23.50%
1999	13.90%	23.00%	23.50%
2000	13.90%	23.00%	23.50%
2001	10.06%	22.96%	23.50%
2002	9.00%	23.00%	23.50%
2003	8.75%	22.35%	23.50%
2004	9.25%	22.35%	30.35%
2005	11.00%	22.35%	30.35%
2006	11.00%	22.35%	30.35%
2007	16.98%	22.41%	30.35%
2008	16.98%	22.41%	30.35%
2009	17.71%	22.35%	34.41%
2010	17.67%	22.35%	34.79%
2011	19.17%	22.52%	33.17%
2012*	19.96%	23.59%	36.22%

*Proposed

**From 1988-2003 Police Officers and Firefighters were enrolled in a defined contribution plan

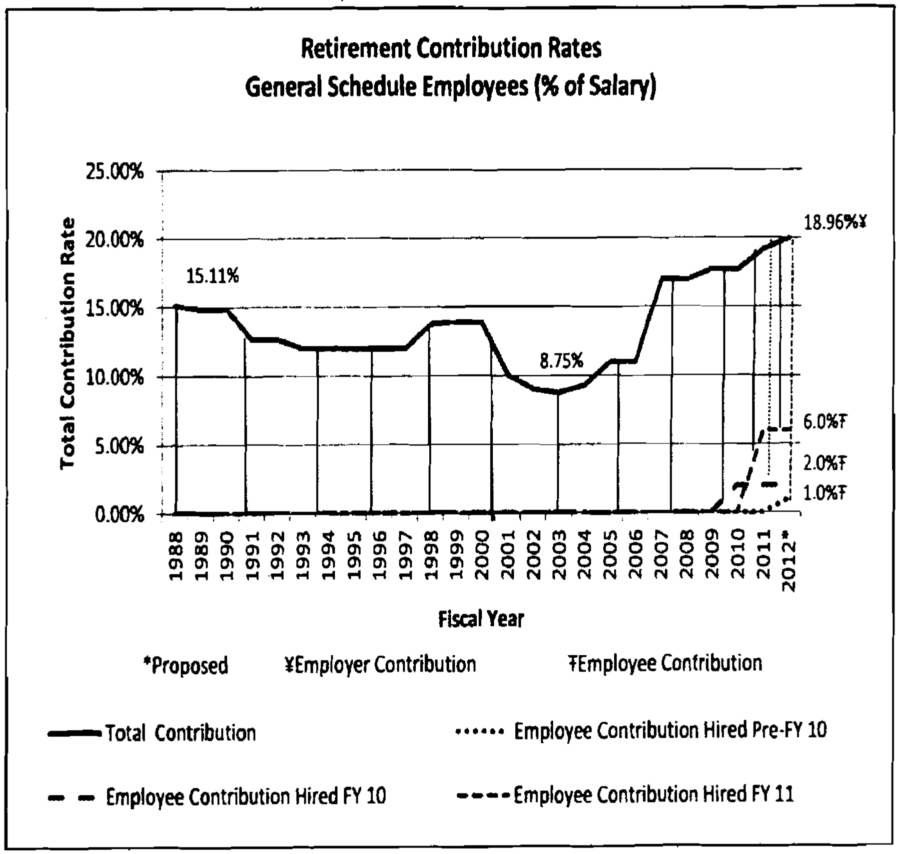


Retirement Contribution Rates from 1988-2012 for General Schedule Employees

Grouped by the fiscal year in which an employee was hired

Fiscal Year	Total Contribution	City Contribution Hired FY 10	Employee Contribution Hired FY 10	City Contribution Hired FY 11	Employee Contribution Hired FY 11	City Contribution Hired Pre-FY 10	Employee Contribution Hired Pre-FY 10
1988	15.11%	15.11%	0.00%	15.11%	0.00%	15.11%	0.00%
1989	14.87%	14.87%	0.00%	14.87%	0.00%	14.87%	0.00%
1990	14.87%	14.87%	0.00%	14.87%	0.00%	14.87%	0.00%
1991	12.65%	12.65%	0.00%	12.65%	0.00%	12.65%	0.00%
1992	12.65%	12.65%	0.00%	12.65%	0.00%	12.65%	0.00%
1993	11.98%	11.98%	0.00%	11.98%	0.00%	11.98%	0.00%
1994	11.98%	11.98%	0.00%	11.98%	0.00%	11.98%	0.00%
1995	11.98%	11.98%	0.00%	11.98%	0.00%	11.98%	0.00%
1996	11.98%	11.98%	0.00%	11.98%	0.00%	11.98%	0.00%
1997	11.98%	11.98%	0.00%	11.98%	0.00%	11.98%	0.00%
1998	13.75%	13.75%	0.00%	13.75%	0.00%	13.75%	0.00%
1999	13.90%	13.90%	0.00%	13.90%	0.00%	13.90%	0.00%
2000	13.90%	13.90%	0.00%	13.90%	0.00%	13.90%	0.00%
2001	10.06%	10.06%	0.00%	10.06%	0.00%	10.06%	0.00%
2002	9.00%	9.00%	0.00%	9.00%	0.00%	9.00%	0.00%
2003	8.75%	8.75%	0.00%	8.75%	0.00%	8.75%	0.00%
2004	9.25%	9.25%	0.00%	9.25%	0.00%	9.25%	0.00%
2005	11.00%	11.00%	0.00%	11.00%	0.00%	11.00%	0.00%
2006	11.00%	11.00%	0.00%	11.00%	0.00%	11.00%	0.00%
2007	16.98%	16.98%	0.00%	16.98%	0.00%	16.98%	0.00%
2008	16.98%	16.98%	0.00%	16.98%	0.00%	16.98%	0.00%
2009	17.71%	17.71%	0.00%	17.71%	0.00%	17.71%	0.00%
2010	17.67%	15.67%	2.00%	17.67%	0.00%	17.67%	0.00%
2011	19.17%	17.17%	2.00%	13.17%	6.00%	19.17%	0.00%
2012*	19.96%	17.96%	2.00%	13.96%	6.00%	18.96%	1.00%

*Proposed

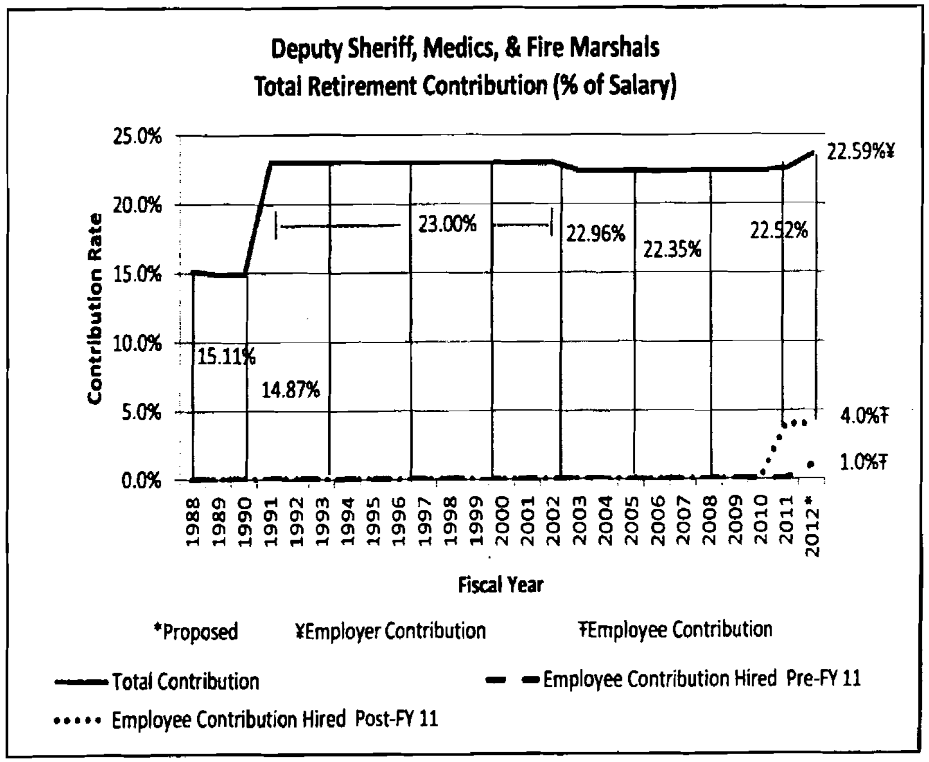


Retirement Contribution Rates from 1988-2012 for Deputy Sheriff, Medics & Fire Marshals

Grouped by the fiscal year in which an employee was hired

Fiscal Year	Total Contribution	City Contribution Hired Pre-FY 11	Employee Contribution Hired Pre-FY 11	City Contribution Hired Post-FY 11	Employee Contribution Hired Post-FY 11
1988	15.11%	15.11%	0.00%	15.11%	0.00%
1989	14.87%	14.87%	0.00%	14.87%	0.00%
1990	14.87%	14.87%	0.00%	14.87%	0.00%
1991	23.00%	23.00%	0.00%	23.00%	0.00%
1992	23.00%	23.00%	0.00%	23.00%	0.00%
1993	23.00%	23.00%	0.00%	23.00%	0.00%
1994	23.00%	23.00%	0.00%	23.00%	0.00%
1995	23.00%	23.00%	0.00%	23.00%	0.00%
1996	23.00%	23.00%	0.00%	23.00%	0.00%
1997	23.00%	23.00%	0.00%	23.00%	0.00%
1998	23.00%	23.00%	0.00%	23.00%	0.00%
1999	23.00%	23.00%	0.00%	23.00%	0.00%
2000	23.00%	23.00%	0.00%	23.00%	0.00%
2001	22.96%	22.96%	0.00%	22.96%	0.00%
2002	23.00%	23.00%	0.00%	23.00%	0.00%
2003	22.35%	22.35%	0.00%	22.35%	0.00%
2004	22.35%	22.35%	0.00%	22.35%	0.00%
2005	22.35%	22.35%	0.00%	22.35%	0.00%
2006	22.35%	22.35%	0.00%	22.35%	0.00%
2007	22.41%	22.41%	0.00%	22.41%	0.00%
2008	22.41%	22.41%	0.00%	22.41%	0.00%
2009	22.35%	22.35%	0.00%	22.35%	0.00%
2010	22.35%	22.35%	0.00%	22.35%	0.00%
2011	22.52%	22.52%	0.00%	18.52%	4.00%
2012*	23.59%	22.59%	1.00%	19.59%	4.00%

*Proposed



Retirement Contribution Rates from 2004-2012 for the New Fire and Police Pension Plan**

Rates apply only to Sworn Police Officers and Firefighters.

Fiscal Year	Total Contribution	City Contribution	Member Retirement	Member Disability	Member Total
2004	30.35%	22.35%	7.50%	0.50%	8.00%
2005	30.35%	22.35%	7.50%	0.50%	8.00%
2006	30.35%	22.35%	7.50%	0.50%	8.00%
2007	30.35%	22.35%	7.50%	0.50%	8.00%
2008	30.35%	22.35%	7.50%	0.50%	8.00%
2009	34.41%	26.41%	7.40%	0.60%	8.00%
2010	34.79%	26.79%	7.40%	0.60%	8.00%
2011	33.17%	25.17%	7.20%	0.80%	8.00%
2012*	36.22%	27.22%	8.20%	0.80%	9.00%

*Proposed

**In FY 2004 Police Officers and Firefighters transitioned from a defined contribution to a defined benefit plan.