EXHIBIT NO. 1

15
9-28-10

City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 23, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF PROPOSED PROCESS FOR FUNDING FOR PRIORITY TRANSPORTATION PROJECTS

ISSUE: How to fund priority transportation projects.

RECOMMENDATION: That City Council approve the proposed process discussed herein, including the work plan and timeline.

DISCUSSION: The funding of priority transportation projects is one of the most challenging and unresolved issues facing the City, the Northern Virginia region, and the Commonwealth of Virginia. This is due to a number of factors including population growth at the local, regional and state level, an increasing level of unmet transportation capital and operating funding needs, as well as declining federal, and state transportation funding sources (such as the impact of increased fuel efficient vehicles on a per gallon based gasoline tax).

A lack of new transportation investment by the Commonwealth of Virginia is evident. In 2008-09, the Commonwealth Transportation Board cut $3.7 billion from the Six-Year Improvement Program of proposed transportation projects and the $7.8 billion plan approved in 2010 included additional reductions. For example, State transportation capital aid to the City has materially declined from about $8 million per year in State Urban Funds aid for road and transit capital projects ten years ago to no Urban Funds at all for the City and other Virginia localities in FY 2011. Although significant transportation funding solutions have been raised at the state level, and continue to be proposed at the State level, to date none of those options have been adopted. While statewide transportation funding solutions have not been approved, in 2007 the General Assembly did approve legislation (HB3202) which authorized: (1) new regional funding mechanisms in Northern Virginia and the Tidewater area through regional transportation authorities; as well as (2) authorization for a commercial (and industrial) add-on real estate tax for these two regions of Virginia. While the Virginia Supreme Court found the regional funding mechanisms unconstitutional, the commercial add-on tax remains a legally authorized option at a rate not to exceed 12.5 cents per $100 of valuation. The commercial add-on tax has been implemented to date by both Arlington County (12.5 cents) and Fairfax County (11.0 cents), but not in the City of Alexandria. The commercial add-on tax under State law may be used for transportation capital projects, as well as the subsequent operation or maintenance costs of that those projects would incur after implementation.

During the FY 2011 budget process, City Council requested that City staff develop a proposal to identify City transportation priorities, as well as funding by the add-on tax for the FY 2012 budget process. Staff has developed such a proposal in consultation with the Transportation Commission, and the Mayor requested that it be docketed for Council consideration.

Over the last year, the City's Transportation Commission has been working on creating a long view prioritization process for needed transportation projects and services. This has included in recent months the articulation and the drafting by staff and a Subcommittee of the Transportation Commission of a vision for proposed transportation investments and priorities over the next 10 years. A primary objective is mobility, a cornerstone of Eco-City Alexandria and the Transportation Master Plan. It is one of City Council's seven strategic focus areas in the 2010 Strategic Plan. To accomplish this strategic plan goal, one of the City's objectives would be to develop local, reliable funding mechanisms to support a fiscally constrained transportation plan.

The purpose of this effort is to address transportation questions such as:

1. What transportation projects would have the most economic benefit for Alexandria businesses?

2. Which transportation projects would most clearly improve access and visibility for business?

3. How can the City best meet the current and future transportation needs of the business community?

4. What are the most critical short- and long-term transportation needs?

In order to provide the mobility options Alexandrians need, City Council annually adopts a Capital Improvement Program (CIP) which includes an extremely fiscally constrained list of transportation projects critical to internal mobility and regional connectivity. In the FY 2011 budget, Council approved $12.5 million for capital transportation projects such as DASH buses, reconstruction of Edsall Road and critical Metro facilities.

The City also maintains a transportation long range plan (LRP) which is a fiscally unconstrained list of critical transportation needs. This list includes a large number and dollar volume of projects that are not in the CIP due to a lack of funding. The gap between the City's need and available funding is substantial and is growing each year.

On March 6, 2008, a report of the Ad Hoc Commercial Real Estate Tax Option Study Committee, established by City Council, presented its report (Attachment 2). The Committee recommended that Council adopt the add-on commercial and industrial real estate tax with rates to be determined annually (as well as recommended that the business license tax rate for retailers be reduced).

In order to develop a comprehensive list of priority transportation projects that meets the City's Strategic Goals, a robust outreach work plan program is recommended. The outreach program should be a collaborative effort with business and residential communities designed to elicit input on the transportation priorities to support the City's transportation goals, vetting the proposed project list, and to discuss funding strategies including:

1. Adding capacity strategically to best use limited resources in areas with demonstrated local economic benefit;

2. Operating efficiently to get the most use out of existing transit and infrastructure;

3. Managing demand by offering more mobility choices; and

4. Connecting the benefit of transportation improvements with businesses.

The outreach should include various community stakeholders including the Alexandria Economic Development Partnership, Chamber of Commerce (breakfast held on September 16), Carlyle Community Council, Northern Virginia Building Industry Association, Northern Virginia chapter of the NAIOP Commercial Real Estate Development Association, as well as key City boards and commissions, commercial real estate brokers, and the Federation of Civic Associations.

A. Project Selection

The purpose of the program is to identify critical transportation projects that are candidates for dedicated and sustainable funding. Projects should meet current and future transportation needs and be selected based on the following criteria. The Transportation Commission has already started this effort with interim draft results displayed on Attachment 1.

1. Transportation Long Range Plan (LRP): In drafting the LRP, the Transportation Commission developed the following prioritization criteria:
    a. Livability
    b. Multi-modal
    c. Relationship to land use
    d. Economic development
    e. Long-term operating costs
    f. Connectivity
2. Implementation Time Frame
    a. Short-term (FY 2012)
    b. Mid-term (FY 2013-FY 2017)
    c. Long-term (Beyond FY 2017)
3. Geographic Dispersion
4. Economic Benefit
5. Projects Eligible for Funding:
    a. Streets
    b. Transit
    c. Wayfinding
    d. Parking
    e. Traffic Signal system
    f. Pedestrian/Bike

B. Timeline

Phase	Lead	Schedule
Program rollout	Transportation Commission	June and July 2010
Development of program outreach materials, website	Staff & Transportation Commission sub-committee	July and August 2010
Formulation of project list & schedule	Staff & Transportation Commission	August 2010
Review of draft project list	Transportation Commission	September 1, 2010
Develop funding options, and fiscal impacts	Staff	September-October 2010
Meetings and input on project list from stakeholders	Staff	September-November 2010
Finalize project list recommendation	Transportation Commission	October 6, 2010
Presentation to City Council at Transportation FY2012 budget work session	Staff	November 2010
City Council FY 2012 budget guidance to City Manager (including transportation funding direction)	Staff	November 23, 2010
Consideration by City Council in FY 2010 budget and Capital Improvement Program (CIP) process	City Council	February 2011 - May 2011

FISCAL IMPACT: This proposed process for funding priority transportation projects has no immediate fiscal impact as the process can be handled with existing staff and budgeted resources. The fiscal impact of the adoption of the commercial add-on real estate tax would potentially yield approximately $895,000 of revenue per penny assessed per year. While Council can set the rate anywhere between zero cents to 12.5 cents per $100 of valuation, the maximum rate allowable under the statute is 12.5 cents which, if adopted, would potentially result in about $11 million of revenue for funding transportation projects.

ATTACHMENTS:
Attachment 1: Draft list of priority transportation projects
Attachment 2: 2008 Report of the Ad Hoc Transportation Tax Option Study Committee

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ATTACHMENT 1: Draft list of priority transportation projects

City of Alexandria			
Priority Transportation Projects			
Updated September 21, 2010			
Name	***Description***	***Cost***	***Estimated Start***
TIER ONE			
Eisenhower Avenue Metrorail Platform Extension	Construction of station entrance north of Eisenhower Avenue as development occurs to provide direct pedestrian access to the station without the crossing of Eisenhower Avenue.	More than $5 million	1-5 years
Transit Corridor 'C' /Van Dorn Street	Dedicated transitway along Van Dorn/Beauregard corridor	More than $5 million	5-10 years
Transit Corridor 'A'/ Route 1- CCPY Streetcar	Conversion to streetcar in dedicated transit lanes in Route 1 corridor	More than $5 million	5-10 years
Landmark Transit Station	Construction of intermodal Transit Station at or Near Landmark Mall to serve the transfer point of the 'B' and 'C' transit corridors.	$1-5 million	5-10 years
Transit Corridor 'B' /Duke Street	Dedicated transitway along the Duke Street corridor	More than $5 million	10+ years
TIER TWO			
DASH bus service enhancements system-wide	Enhancements to DASH bus service system-wide along priority routes.	More than $5 million	1-5 years
Trolley service extension to Del Ray	Extension of trolley service to the Del Ray neighborhood.	$1-5 million	1-5 years
Holmes Run Greenway/Eisenhower East Shared-Use Path Improvements	Improvements to Holmes Run Greenway between Beauregard Avenue and N. Ripley Street and construction of a trail connection from Mill Road at Eisenhower Avenue to South Payne Street.	More than $5 million	5-10 years
Redesign intersection of Mt. Vernon & Russell Road.	Construction of intersection improvements including pedestrian upgrades and revised intersection geometry.	Less than $1 million	5-10 years
High priority multi-use paths	Multi-use path projects including Backlick Run- Construction of shared use path between Boothe Park west to Fairfax County line.	$1-5 million	5-10 years
Complete Streets Project	Van Dorn Street over Duke Street to acommodate pedestrians		5-10 years
Complete Streets Project	Extension of Holland Lane		5-10 years
Complete Streets Project	Duke Street from Wheeler to Jordan	More than $5 million	5-10 years
High Street construction	Construction of New High Street west of and parallel to Van Dorn Street from West End Town Center to Pickett Street, including Duke Street grade separated crossing	More than $5 million	5-10 years

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Attachment 1

Ad Hoc Transportation Tax Option Study Committee

Report and Recommendations

Mark Feldheim
George Foote
Paul Friedman, Chair
Lois Walker
John Renner

Presented to City Council
March 6, 2008

A. Background and Description of Process

The Resolution creating our task force included a number of facts agreed upon by the City Council. [1]

1. HB 3202, the new transportation finance law adopted by the General Assembly in 2007 allowing Alexandria and other Northern Virginia and Tidewater area jurisdictions to adopt a supplemental commercial and industrial property real estate tax was based upon the reality that critical transportation needs were under-funded. This new add-on tax would not apply to residential property including multi-family rental

2. The new commercial add-on real estate tax dedicated for transportation purposes is one of a number of new revenue sources for funding transportation which HB3202 authorized. The recent Supreme Court decision has set aside most of the new revenue sources that the Northern Virginia Transportation Authority (NVTA) had levied, but the add-on commercial real estate tax and the add-on to the decal fee which localities were authorized to levy remains intact.

3. Alexandrians appear to overwhelmingly agree there is a need to improve transportation "capacity, infrastructure, and services" in the City and in the region.

4. Transportation infrastructure and service improvements improve the economic competitiveness of a jurisdiction and its businesses, and the ability of our City to retain and add businesses and the jobs, services and the existing and new tax revenues those businesses provide.

5. Through its draft Comprehensive Transportation Master Plan, Council is considering ambitious new transportation improvements that would improve business conditions and quality of life across the city, including new transit facilities and possible two new Metrorail stations.

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[1] Resolution No. 2259-November 27, 2007

6. Every cent of the add-on tax applied to commercial and industrial real estate would raise approximately $1 million in revenue annually.

7. Due to state laws related to consideration of real estate tax rates, City Council must make a decision on whether to adopt the add-on commercial real estate and establish a maximum rate it wishes to consider for any such tax by March 15.

8. The Virginia Department of Transportation has just released transportation capital allocations to Virginia localities, and absent any General Assembly action funding to all localities will be drastically reduced starting in FY 2009. For the City it means a $3.1 million or a 47% reduction in state transportation capital aide

As established by Council, the Committee was tasked to:

- Study the new commercial real estate transportation tax authority as enacted by the General Assembly,

- Determine the positive and negative impacts of enacting such an add-on tax,

- Recommend whether or not Council should enact such a tax for 2008 and beyond, and if so, provide guidance on a reasonable add-on tax rate range which should be considered for 2008, and

- Make other recommendations to Council related to these issues as the Committee deems appropriate.

B. Overview

After a number of meetings, discussions and the review of over two-dozen City-prepared documents (posted on alexandriava.gov/budget), many e-mails from the public, and submissions from interest groups, we observe the following:

1. The funds raised by this add-on tax would generate funds that would be available to the Alexandria City Council for new transportation projects starting in the current fiscal year.

2. If the Supreme Court had not ruled out the NVTA tax and fee levies, the collection of these new funds would have changed the way other funds that are being raised under this law would be managed but, ultimately, all funds raised by Alexandria would still be used to benefit Alexandria and in ways Alexandria

requests. This is now moot, unless future action by the General Assembly makes this issue operative.[2]

3. Aside from the new commercial real estate tax and other fee increases adopted last year, there may be no other state or regional funding option to address our transportation needs that might pass the General Assembly in the near term.

4. There are a number of vital local transportation projects waiting for funding, including, for example, improving the roads and transit access in and around a to-be-redeveloped 55 acre Landmark Mall property, as part of a larger plan to turn that outdated shopping complex into a mixed-use project that will bring millions of dollars of economic activity and new tax revenues into Alexandria.

Further, as noted in the minutes of our January 30 meeting:

> The estimated capital funding needs over the next few decades is estimated at $687.7 million to $978.7 million. The largest projects identified are two new Metro stations (Potomac Yards and Eisenhower Valley), new City-wide transit corridors to operate transit such as a Bus Rapid Transit (BRT) system, as well as an expansion of the City's DASH bus system. In addition, annual operating costs would total some $81.9 million to $95.9 million. These totals compare with a current annual transportation operating costs of $53.3 million.

C. The Numbers[3]

1. City-wide the general commercial property assessment category which includes retail and mixed use buildings in Old Town increased 17.2% from 2004 to 2005, 16.7% from 2005 to 2006 and 5.0% from 2006 to 2007. This compounds to a 44% increase in three years. In 2008, the general commercial property tax base increased 7% in value.

2. During that same period, the City's real property tax rate was reduced by a net of 16.5 cents from 99.5 cents in 2004 to 83.0 cents in 2007.

3. This means that the net change in average general commercial property tax bills was 20.1% over the three-year period, not close to the 100% increase cited in an article that appeared in the Washington Post on December 31. This compares to a 16% increase in average residential home taxes over the same time period.[4]

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[2] As presented, the City Manager's Proposed FY 2009 Budget and FY 2009-2014 CIP included anticipated NVTA revenues which can no longer be relied upon. This has resulted in an $18.4 million shortfall in FY 2009 and $55.4 from FY 2008 through FY 2014. Budget Memo #14, March 3, 2008

[3] Excerpted from a January 28, 2008 memo from City staff to Council

[4] A summary of CY 2008 real estate taxes for commercial office, retail and service parcels appears in Attachment 1.

4. The average retail space on King Street is assessed for about $400 per square foot, so for the 1,000 square foot store cited in the above cited Washington Post article, the City's real estate taxes (at 83 cents) would have been $3,320 in 2007. Thus, a 2-cent increase in the commercial real estate tax for transportation purposes would cost the owner (or the tenant if the tax is passed through) $80 per year. A 4-cent increase would cost $160 per year.

D. **Business Considerations**

1. The City's economic zones in Eisenhower Valley, Potomac Yard and, potentially, along Van Dorn and Beauregard streets would benefit most from urban transit improvements and, because of the larger percentage of valuable, heavily used properties, can best afford a tax increase. However, we cannot limit a tax increase on commercial properties to those areas because of the way State law HB3202 was written.

2. The Alexandria Chamber of Commerce believes that any tax increases in our community should be even-handed and not be restricted to commercial real estate property.

3. The Alexandria Taxpayers Union presented the Committee with a petition and expressed the opinion in our February 14 meeting that it opposes any tax increase, no matter how important or beneficial the transportation project.

4. The Apartment and Office Building Association (AOBA) of Metropolitan Washington does not oppose the enactment of this add-on tax, but opposes the tax being set on the "high end" which is the 25-cent cap set by the General Assembly. It appears that AOBA would support an add-on tax increase of not more than 10-cents.

5. Small retail store owners in our community are concerned that additional taxes will make it more likely that independent stores will close and chain stores will replace them, as those types of retailers have economic advantages that small retailers cannot duplicate.

6. The Council established Economic Sustainability Work Group, whose recommendations were adopted in principle by Council, called for efforts to increase business activity and the resulting tax revenues in the City and, in particular, at Metrorail stations, in order to reduce the financial strain on homeowners, especially those on fixed-incomes who find it very hard to pay their taxes.

7. The Economic Sustainability Work Group recommended taking advantage of new state taxing authority such as the add-on tax for transportation, but took no position on the matter, and did not state that such a tax would run counter to its goals of bringing new business into the City.

8. City staff indicated that it is the City's experience is that the general tax burden on businesses is not among the primary considerations by those businesses seeking to establish a new business in the City. That would hold for business relocation considerations as well. The cost per square foot of the lease, and access to customers and/or clients are far greater considerations in the decisions by business on where to locate. This assumes that a jurisdiction's business taxes are not substantially out of line with neighboring jurisdictions. Alexandria's overall tax burden is low to moderate and makes it a competitive place from a tax point-of-view.

9. The owners of the PTO office complex can pass through this add-on transportation tax to the federal government through its lease. Given PTO's near $1 billion assessment, a 1-cent add-on tax would raise $100,000 annually from that source alone. It is likely that this add-on tax can be passed through to other federal agencies which are also in leased space.

10. The National Harbor project is expected to produce a significant influx of new shoppers, restaurant goers, and overflow hotel occupants in Alexandria in the near future.

E. Related Considerations

1. The business community that pushed this tax in Richmond was largely led by businesses that determined they could afford a significant add-on real estate tax if it would reduce traffic congestion in Northern Virginia and improve the overall business environment. As noted above, some Alexandria businesses fit this description, and some do not.

2. The nation's economic standing is declining and may be in, or entering, a recession.

3. The Commonwealth's economic standing is troubled and, according to the most recent news, our current state budget is already short over $600 million and, over two years, may be short a billion dollars.

4. The Governor's proposed residential real estate tax Homestead exemption legislation (proposed Constitutional amendment and enabling statutes), which would have given local governments the opportunity to reduce the tax burden on homeowners and shift that burden to businesses, did not pass the General Assembly in 2008. If passed, it would have placed the law before the public at the next general election as the legislation needed to amend the Commonwealth's Constitution to be enacted. It was a matter of concern to the Committee that the Homestead exemption, if added on top of enacting this tax, the tax burden shift towards businesses might rise to a level that would be counterproductive to the City's stated desire to expand its commercial tax base.

5. To the best of our knowledge, Arlington, with substantial transit capital plans already in place, and Fairfax County, with heavier road building capital plans already in place, are proposing to enact the add-on tax on commercial real estate in 2008 year to address their transportation needs. Arlington is considering a 12.5-cent add-on tax and Fairfax County is now expected to adopt a 12.0-cent add-on tax.

6. Alexandria will be considering its Comprehensive Transportation Master Plan at the March 11 City Council Meeting. While this plan reflects a number of goals and objectives, it does not yet reflect the type of substantial transit and road building capital plans with which Arlington and Fairfax are ready to proceed.

II. Alternative Considerations

Special transportation tax districts authorized under HB 3202 might have had the capacity to help deal with some of the financial challenges facing the City's transportation needs. Unfortunately for Alexandria, the technical terms of the statute would require an inordinately high tax rate in those districts and limit the benefit of the taxes to the rest of the City. This section of HB3202 was written for Virginia Beach and is not of practical use for Alexandria.

Despite the impracticality of creating special tax districts under the new law, landowners in a given area of the City may request of Council, or Council may enact on its own, business improvement districts (BID) or special tax districts under other state enabling statutes. Taxation of real property in the district could fund transportation improvements in that district. For example, property owners in Eisenhower Valley could organize a taxing unit to build new transit improvements, or developers in Potomac Yard might organize a tax district devoted to helping finance the building a new Metrorail station.

Even if legal or political obstacles prevent creation of such governmental units, major landowners, businesses and building operators who would be beneficiaries of transportation improvements could see the benefit of organizing voluntary associations to support transit improvements. Moreover, such associations may cooperate with other private entities and with public bodies like the City through the Virginia Public Private Transportation Act of 1995 to build and operate roads, transit facilities, parking and other transportation infrastructure. The combination of private enterprise willing to fund improvements and creative thinking by public bodies may offer a chance for Alexandria and its major economic interests to begin work on the major transit upgrades that the City needs. However, these types of public-private partnerships are likely only to be one element of solving the City's transportation funding needs.

Another option would be to continue the uniform tax rate for residential and commercial properties with dedicated amounts for open space and affordable housing, dedicating an additional set amount to transportation. In addition, the Committee understands that the reasoning behind the creation of this add-on tax option is that transportation improvements help businesses first and foremost, both in access by customers and employees, so they should carry a larger share of the economic burden related to the improvements.

III. Conclusion

While there is some risk in taking action, there is also risk in not acting. The future will be upon us more quickly than we imagine. We need to face it with courage, optimism and hope as we explore every available revenue option to meet our current and future transportation needs.

Given the vitality of our region, underpinned by the federal government and the high technology and defense consulting firms that support it, we know that we will face ever-increasing transportation needs due to a growing population while likely continuing to have a fundamentally strong economy to support that growth.

Even though the Committee is optimistic about the future, there is no question that some small retailers are struggling with increased operating expenses and slim profit margins. Moreover, there is a strong sentiment that small, independent retailers add warmth and character to our City - adding to its attractiveness for residents and tourists alike.

Still, the high influx of new residents, due to the enormous increase in existing and planned residential development over the past decade, requires the City to confront its transportation needs or face a future that may well be best defined as gridlock. Moreover, Alexandria has space and resources available to it today that can be applied to ensure mobility for residents, workers and public safety for many years to come.

Added to that, with a high percentage of people who work in Alexandria living outside the City, we cannot close our eyes to facilitating their travel if we are going to retain those workers.

Thus, it is the view of the majority of the members of the Committee that we must use this new opportunity to start work on the transit and transportation network for Alexandria that will encourage good economic development of the City and improve the quality of life for Alexandrians and the people who work in the City.

At the same time, the Committee believes that the public must be confident that if this new tax is enacted, it be devoted to the development and construction of the transit and transportation improvements that the community supports.

Moreover, the Committee believes it would be wise to attempt to alleviate the impact of this new tax on those who can least afford to pay it.

Accordingly, we make the following recommendations.

IV. Recommendations

- The Committee recommends that Council adopt, as a permanent feature of the City's real estate tax system, the add-on commercial and industrial real estate tax authorized by HB 3202, with tax rates to be determined on a year-by-year basis, based on transportation funding needs and other sources of revenue for transportation.

- For 2008, the Committee recommends that Council adopt a rate for the new tax of no less than two cents per hundred dollars of valuation and no more than four cents.

- The Committee recommends that small retailers be given special relief if the tax is imposed at a rate of two cents or more.

- The Committee recommends that the City continue to analyze, establish and prioritize its current and future transportation needs and that in setting the add-on tax rate in future years, consider these needs in light of existing economic and market conditions. It is imperative that the transportation projects funded through this add-on tax be of such magnitude and type as to be able to readily demonstrate the positive impact to the commercial tax base funding these initiatives. [5]

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[5] By way of example, the Crystal City/Potomac Yard Transit Corridor Project which will significantly improve traffic and access to Alexandria residents and businesses was scheduled to make use of 60% NVTA funds in the amount of $8.5 million which can no longer be relied upon. OMB staff has advised that the revenues from the add-on tax would help fund annual estimated debt service of $850,000 for this project. Feasibility planning for a possible Potomac Yard Metro Station, another project that can be expected to benefit the commercial tax base, is projected at $2.5M annually from FY 2009 through FY 2014. An add-on rate of 2.5 cents would fund this part of the project in each of these years. A list of some of the projects under consideration is located in the NVTA Impact attachment to Budget Memo #14.

- The Committee recommends that the use of these funds be transparent and that the City Council not only make clear what projects these funds would be applied to but give the public a full opportunity to be heard in evaluating whether to go forward with all major projects.

- The Committee encourages the City Council to convene major landowners and businesses in the City to explore voluntary transportation support initiatives.

A. The Rationale for Our Recommendations

While the Committee recognizes that the economy is not as strong as it was when this tax was first envisioned, we also cannot avoid the reality that our City must meet its transportation challenges if we are to maintain and improve the quality of life in Alexandria and if we are to avoid gridlock and a dramatic increase in pollution.

The City has made the decision over the past decade that we will expand our commercial real estate base. We have also seen a significant expansion of residential housing, and a rapid increase in proposed commercial developments for several sectors of the City. As a result, we have continued to see increased demand on the roads from commuters passing through Alexandria and heavy usage of Metrorail for commuters and local travelers. Thus, we have no choice but to improve and expand our infrastructure.

Moreover, the Committee is aware of major transit infrastructure plans, including potential new transit facilities along the City's eastern, southern and western edges, potential new Metrorail stations for Potomac Yard and Eisenhower Valley, and new bus equipment and stations. The Committee also recognizes that those projects may require some months of planning, development and community participation before major funding would be needed for construction. The Committee is also aware that while roadway and DASH improvements are necessary, most immediate needs are already funded and there is relatively little new road building expected in Alexandria.

Thus, there is no immediate need for major tax increases for businesses or homeowners in the City to fund imminent projects, but the City must make prudent plans for the large expenditures to come.

The Committee believes that Council should consider an add-on tax rate that is no less than an amount necessary to fully fund planning and feasibility studies for the identified major new improvements. We estimate that amount to be approximately two million dollars, which would be provided by a new supplemental tax rate of 2 cents for 2008. Additionally, there are a number of needed projects that could be funded with an additional 2 cents.

We also believe that Council should weigh the benefits of creating a fund dedicated to the upcoming projects. Such a fund would enable the City to avoid borrowing, capitalize on opportunities that might require immediate payment, help preserve the City's AAA bond rating, and demonstrate to our neighbors and potential funding sources at the state and federal levels that the City is serious about building a modern regional transit system. Thus, the Committee believes that a higher rate would be appropriate to establish the fund.

B. Small Retailers Relief

Recognizing the importance of the small retailer community to civic life in Alexandria and to the tourism attraction of the City, and acknowledging the economic challenge of a new tax to small retail establishments, the Committee believes that modest small retailer relief is important. However, the Committee believes that such relief only makes sense in the context of rate that is two cents or above.

In the levying of any tax there is a varying degree of impact on those persons or businesses subject to the tax. The varying impact often relates on ability to pay the tax, or the economic impact of the tax on a person or business. During the course of the Committee's work, the business group most often heard from was small retailers. Some retailers in this group have indicated that they are seeing flat to declining sales. These retailers most often rent (a fixed cost), and, as a class of business nationally, are widely acknowledged to have low operating margins. While there is no empirical evidence that small retail business has been flat, intuitively that business climate scenario fits with national trends, as well as the City's recent City-wide sales tax collections are down 2% for the year and 4% for this past December (the peak retail sales season).

While the economic issues of one business sector should not necessarily drive the decision to levy the add-on real estate tax on commercial property for all non-residential business sectors, there are ways to possibly ameliorate the tax impact on retailers. While under Virginia law the City has little flexibility under most taxes to create exemptions or carve-outs for any single business group, under the business license tax statutes the City has ability to change tax policy as long as the total business license rate levied does not exceed the state-set maximum.

If Council decides to adopt the add-on real estate tax on commercial property, it should also consider establishing some tax relief for retail businesses. Currently, retail businesses are taxed on a rate of 20-cents per $100 of gross receipts if their total receipts are less than $100,000. There are at least three major options of providing relief to retailers:

> **Option 1:** Currently, if a retailer has gross receipts $100,000 or more then the 20-cent rate applies to all of the retailer's receipts (i.e., a retailer with $200,000 in gross receipts pays $400). That tax structure could be changed so that the first

$200,000 of gross receipts was exempt for all retailers. The cost of this new tax relief of $400 per retailer for the City's some 735 retailers who gross $100,000 or more per year would be $294,000 per year. While this option would provide relief it would provide $400 in relief and benefit smaller retailers more than larger retailers, it would not scale up, as would the add-on commercial real estate tax does scale up (this assumes that on average a retailer's gross receipts correlates with the retailer's store square footage and real estate tax bill, so the larger the store the larger the gross receipts).

As indicated in Attachment 2 for the five retail business examples, if one were to exempt all gross receipts below $200,000 and establish an add-on real estate tax of one-cent, the net impact to the retailer is a net savings of between $360 and $200 per year. This exemption relief on BPOL totally eliminates the impact of the one-cent add-on to the real estate tax rate for these five examples. It also would eliminate the impact of the one-cent for any business whose property assessment was $4 million or less. If an add-on real estate (RE) rate of 2 to 3 cents is set then most retailers in these five examples would still see a net tax savings.

The net fiscal impact to the City varies under Option 1 from a $0.7 million net gain for the City in revenues at a +1 cent RE / $200,000 threshold to a $4.7 million net gain if a +5 cent RE / $200,000 threshold.

Option 2: As stated above, the current tax threshold for the application of the 20-cent tax rate is $100,000. Below that level, retailers (and other BPOL business categories) pay a $50 annual filing fee. Raising that threshold of total gross receipts to $200,000 would cost $50,000, and benefit 139 retailers with a net $150 to $350 tax reduction. Raising that to $300,000 would cost $100,000 and benefit 229 retailers with a net $150 to $550 BPOL net tax reduction. Raising that to $1,000,000 would cost $400,000 and benefit 474 retailers with a net $150 to $1,950 tax reduction.

As indicated in Attachment 3 for the five retail business examples, if one were to raise the threshold to $300,000 then the savings accrues only to retailers with gross receipts of less than $300,000. All other 506 retailers with gross receipts of $300,000 of more would see no change in their BPOL tax liability, and therefore see no offset to the add-on commercial real estate tax.

The net fiscal impact to the City varies under Option 2 from a $950,000 net gain for the City in revenues at a +1 cent / $200,000 threshold to a $4,950,000 net gain for the City at a +5 cent / $200,000 threshold.

Option 3: Decreasing the 20-cent rate would also provide relief that would scale up as would the add-on tax. However it would benefit the largest retailers (big box stores, national grocery store chains, car dealers) more than smaller retailers. Each 1-cent of relief would cost about $200,000 and benefit about 735 retailers.

As indicated on Option 3-A (Attachment 4) for the five retail business examples, if one were to reduce the retail rate by 1-cent and establish an add-on real estate tax of one-cent, the net impact to the retailer is an increase in their overall net tax bill from $10 to $50. This 1-cent relief on BPOL substantially lessens the impact of the 1-cent add-on to the real estate tax. If an add-on rate of 2 to 5 cents is set and increasing the BPOL relief by the same amount is selected, the impact is also a net cost to retailers, but substantially offsetting the impact of the add-on real estate tax.

The net fiscal impact to the City varies (Option 3-A) and ranges from a $0.8 million net gain for the City in revenues at a +1 cent RE / -1 cent BPOL, to a net $4.0 million net gain if a +5 cent RE / -5 cent BPOL structure is implemented.

If one wanted to seek to have the tax bill impact on retailers be negative to neutral then a +1 cent RE / -2 cents BPOL rate structure change produces a overall tax bill saving for retailers for examples listed as Option 3-B (Attachment 5). The savings also occurs at a RE rate of +2 cents and + 3 cents if the BPOL relief is also raised. Starting with the +4 cent RE /-5 cent BPOL the fiscal impact changes to a net additional tax bill (albeit small) for the retail examples shown.

The net fiscal impact to the City varies (Option 3-B) and ranges from a $0.6 million net gain for the City in revenues at a +1 cent RE / -2 cent BPOL, to a net $3.8 million net gain if a +5 cent RE / -6 cent BPOL structure is implemented.

A change in City's BPOL tax structure as described above would provide relief for a target group of businesses, who have generally lower operating margins, and who may be most vulnerable to a downturn in the economy. Any policy change could lead to other types of businesses requesting similar relief (such as restaurants who also now pay the same 20-cent rate). The cost of such relief for all categories of business would be substantial. For example, providing a 1-cent tax relief (Option 3A above) for retailers would cost $0.2 million, a 1-cent rate reduction for all business license categories would cost $1.0 million per year.

C. Transparency, Accountability and Citizen Involvement

The Committee believes that the public will support tax increases when transparency, accountability and citizen involvement are integrated into how those taxes are spent. This has been a hallmark of the current City Council and we recommend that the transparency should be specifically built into processes for the use of new transportation improvement funds.

ATTACHMENTS