City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 8, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO #10 : REAL ESTATE TAX REVENUE INCREASES

At the time of the presentation of the Proposed FY 2004 Budget, Councilman Euille asked staff to address a number of real estate revenue and budget issues. Other Council members have also asked similar questions. These issues and others are addressed below.

Question: Why did the increase in the 2003 tax base of $3.216 billion not produce an increase in real estate tax revenues for FY 2004 of $34.7 million (only $26.6 million in additional revenues were budgeted)?

Answer: The answer to this question is complicated because there are many elements that influence how much real estate tax revenue is produced from real estate tax assessments.

<u>The major elements of the changes in the real estate tax revenues include</u>:

1. The tax base from budgeted 2002 assessments grew $3.076 billion, or $140 million less than the $3.216 billion growth cited, due to tax appeals and changes in the State's assessment of public utilities, which reduced the base during the year from the budgeted base. Using the budgeted base, and a 98.5% collection rate, reduces the assumed $34.7 million tax revenue growth by a net of $1.2 million. This reduction reflects adjustments related to the previously budgeted assumption of a tax base growth of 5% in 2003, as well as a lower proposed tax rate and its effect on this $140 million difference in tax base growth.

2. With a near 20% increase in assessment growth, there may be greater appeals by commercial and residential homeowners. As a result, the overall collection rate in the Proposed FY 2004 Budget was reduced from 98.5% to 98%. This reduced the assumed $34.7 million tax revenue growth by $1.0 million. The collection rate percentage is being reviewed as part of the upcoming General Fund revenue analysis and report to City Council.

3. A 3 cent reduction in the real estate tax rate from $1.08 to $1.05 further reduced the assumed $34.7 million growth by $5.8 million (two payments).

4. An expansion of real estate tax relief for the elderly and disabled was proposed in the budget, and the amount of relief has risen under the current program. This increased relief reduced the assumed revenue growth by $0.4 million.

5. The collection of delinquent real estate taxes from prior years is projected to increase by $0.3 million.

These changes result in a net reduction from the assumed tax growth of $34.7 million of $8.1 million. This produces the $26.6 million real estate revenue increase, which is what was budgeted for in FY 2004.

In summary:

Above Paragraph #	($ in millions)	Explanation
	$34.7	Starting revenue growth "assumption"
1.	-1.2	Adjusted tax base factor
2.	-1.0	Collection rate adjustment
3.	-5.8	-3 cents to $1.05
4.	-0.4	More senior/disabled tax relief
5.	+0.3	More prior year delinquent collections
Total	$26.6	Amount budgeted for FY 2004

Question: When the City Council Retreat was held in October, there was $14 million in projected revenue growth in FY 2004, but $24 million in projected expenditure increases. This left a $10 million budget gap. How was that gap closed?

Answer: At the City Council retreat a projection of $24.0 million in expenditure increases (this was close to the $24.7 million actual General Fund increase in the Proposed FY 2004 Budget) was made, along with a projection of $14.0 million in revenue increases. This left a $10 million budget gap which needed to be closed. At the time of the retreat, it was estimated that the real estate tax base would increase by 11.5%. The real estate tax base increased 19.93%. This was sufficient to eliminate the deficit, cover some additional cash capital funding, and make up for other revenue shortfalls, as well as allow for a 3-cent proposed decrease in the real estate tax base.

Question: Since the January 2003 assessment increases are significantly above the increases projected in the FY 2003 budget, what has happened to the increased revenue associated with this larger-than-projected increase in the tax base?

Answer: In the FY 2003 budget, we projected that the January 2003 real estate tax base would increase generally by 5% over the January 2002 base, and would produce an increase in real estate revenue in the second half of the fiscal year (the first half of CY 2003) of roughly 5% more than the first half's real estate revenue. Thus, in the FY 2003 budget, revenue in the second half of the fiscal year was projected to be $91,165,291[1].

In the FY 2004 budget, this revenue projection was increased since the January 2003 assessments produced a tax base significantly larger than what had been assumed (based on a 5% increase) in the FY 2003 budget. Based on the January 2003 real estate tax base, revenue in the second half of FY 2003 (using the current tax rate of $1.08) is projected to be $102, 427,530,[2] or $11,262,239 larger than the revenue projected in the 2003 budget.

This larger-than-projected revenue of $11.3 million has been allocated in the FY 2004 budget as follows:

First, $2.8 million has been used in decreasing the tax rate by three cents, to $1.05 – i.e., the decrease in the rate reduced revenue by $2.8 million in FY 2003.

Second, $3.9 million has been used to offset the decrease in other revenue in FY 2003. The FY 2003 budget projected other revenue at $282.7 million, but only $278.8 million is anticipated to be received through the end of FY 2003. To offset this reduction in other revenue, $3.9 million of the larger-than-projected real estate tax revenue is planned to be used.

Third, $4.2 million has been designated to fund capital projects in the FY 2004 CIP. This is in addition to the $15.1 million cash capital transfer budgeted in the FY 2004 Operating Budget, and helps support the $86.6 million FY 2004 portion of the six-year CIP.

Fourth, $0.2 million from the larger-than-projected real estate revenue has been used to help balance the FY 2004 budget. Overall, $5.6 million from fund balance has been used to balance the operating budget: $3.4 million came from FY 2002 surplus monies, $2.4 million from FY 2003 department savings, and the remaining $0.2 million from the larger-than-projected real estate revenue.

Fifth, the remaining $0.2 million represents the net of all other changes, but is primarily due to the changes in projected 2002 assessments of public utilities and independent power producers. These entities are assessed by the State.

Staff: Mark Jinks, Assistant City Manager

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[1] The derivation of this figure is on page 4-37 of the FY 2003 Operating Budget. It runs as follows: $16,272,680,000 billion (the January 2002 tax base) x 1.05 (assuming a 5% appreciation) x 1.08 (the tax rate) x 98% (the collection rate)/2 = $91,165,291.

[2] The derivation of this figure stems from the calculations on page 4-37 of the FY 2004 Operating Budget. It runs as follows: $19,348,250,000 x 1.08 x 98% (the collection rate)/2 = $102,427,530. It should be noted that this figure does not reflect the $2.845 million tax revenue effect of the 3 cent reduction in the tax rate.