

# 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 #13 : REVENUE ISSUES RELATED TO PERSONAL PROPERTY, FEDERAL PRISONER PER DIEM AND RECORDATION TAXES

In response to Councilman Speck's questions, the answers below are provided. It should be noted that, as is customary at this stage of the budget process, an analysis of the FY 2003 and FY 2004 revenues and assumptions for FY 2003 and FY 2004 is currently underway. I hope to have the results to City Council in a budget memo by the end of this week or early next week.

**Question:** Why is there no growth projected in personal property revenues in FY 2004?

**Answer:** The reason that there is no growth in this revenue category relates to the economy and how car manufacturers have reacted to keep car sales from plummeting. Over the last 18 months car dealers have offered zero percent financing, large rebates and other incentives to get consumers to purchase new vehicles. These sales incentives were effective, as many persons accelerated when they were planning to purchase a new vehicle. This meant record new vehicle registrations in the City in FY 2002 that have slowed in FY 2003. This rush to buy new cars also has pushed down the value of used cars (see the attached clipping from the Wall Street Journal "How Detroit is Ruining Your Car's Value"). With used car values dropping, this trend is likely to drag down the normal growth rate in this revenue category. Also, business reinvestment during the course of 2002 (the basis for FY 2004 business tangible taxes) slowed. As a result of these factors, no growth was assumed in the personal property tax revenue category (including the state reimbursement) in the Proposed FY 2004 Budget.

Staff is currently reviewing further data from the last four months, as well as checking with other Northern Virginia jurisdictions to see what they are forecasting (at least one other jurisdiction has also projected no growth in this revenue category). All of these efforts will result in a re-forecast of all personal property revenues for FY 2003 and FY 2004.

**Question:** Why is there no projected increase in federal prisoner per diem revenue for FY 2004?

**Answer:** While the City earned \$5.1 million in FY 2002, only \$4.0 million was initially budgeted in FY 2003, with \$4.5 million now projected, and \$4.0 million was budgeted in FY 2004. Federal prisoner per diems were intentionally budgeted at a lower level in FY 2003 for two reasons. First, the Sheriff indicated that he was concerned that with the unprecedented

housing of very high profile federal prisoners, he would not be able to house his normal level of federal prisoners. Actual experience has not produced a revenue shortage due to this unique situation. Second, part of the FY 2003 federal per diem monies (\$0.5 million) have been allocated to cover the not-yet reimbursed cost of providing Sheriff's deputies to staff-up to meet the Public Safety Center perimeter security requirements which were new as of FY 2002. Until the City is successful in obtaining direct federal reimbursement for perimeter security, some of the federal jail per diem revenues are being used to cover the perimeter security staffing costs. As a result, for FY 2003 there does not appear to be any significant surplus federal per diem revenues available. For FY 2004, as part of the revenue analysis now underway, the \$4.0 million estimate (after the deduction of \$524,000 for perimeter security) is being reviewed. If at some point the City is successful in getting federal assistance for perimeter security, then these federal per diem funds would be able to be released back to the City's General Fund.

**Question:** Why are real estate recordation taxes projected to decrease?

**Answer:** Real Estate recordation tax revenues are a volatile, and often cyclical source of revenue to the City, given their direct correlation to housing sales and mortgage refinancings which fluctuate greatly depending on the economy, interest rates and housing demand/supply. The range of real estate recordation tax revenues received over the last five years has ranged from \$1.3 million to \$2.5 million annually. Given the record refinancings this year, we expect to collect more than \$2.0 million. Given the uncertain outlook, and the fact that there are only so many refinacings that can occur, FY 2004 projections were dropped to \$1.5 million for FY 2004. This prior assumption is currently being reviewed as part of the FY 2003 and FY2004 revenue analysis.

Attachment: Wall Street Journal clipping "*How Detroit is Ruining Your Car's Value*"



# The Wall Street Journal

**Chevrolet Venture**  
2000  
Sticker Price: \$24,350  
2002  
Trade-In Price: \$11,166  
-54%

**Ford Expedition**  
2000  
Sticker Price: \$30,440  
2002  
Trade-In Price: \$15,974  
-48%

**Mercury Grand Marquis**  
2000  
Sticker Price: \$25,180  
2002  
Trade-In Price: \$11,452  
-54%

## How Detroit Is Ruining Your Car's Value

*Zero-Percent Deals Wreak Havoc on Resale Prices;  
The Good News: \$8,300 for a 2000 Ford Taurus*

By KAREN LUNDGAARD

**T**HERE'S A LITTLE-NOTED downside to the slew of financing incentives that Detroit is using to keep car sales humming: The enticing deals are triggering sharp declines in the value of cars the minute they drive off the lot.

One reason: Millions of Americans are snapping up new cars, which is increasing the glut of used cars on the market and driving their values down. In addition, the incentives themselves are effectively slashing the prices on new cars, which are a key factor in

determining resale values. That also shrinks the value of earlier models already on the road.

One case in point is the 2000 Ford Taurus SE, which had a sticker price of \$19,440 but now is worth only about \$8,300.

For shoppers, it's a very good time to buy many kinds of used cars. Many of the best used-car deals are on larger SUVs and smaller cars because they have been so heavily discounted. The typical two-year-old Chevy Suburban C1500, with a \$26,421 sticker price, now fetches only \$15,404 at trade-in, estimates Edmunds.com, a Santa Monica, Calif., auto-information company. That's \$1,400 less than the resale value of the 1996 model at the end of 2000.