

# City of Alexandria, Virginia

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## MEMORANDUM

DATE: APRIL 20, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER

SUBJECT: BUDGET MEMO # 69 : POTENTIAL SALES TAX CHANGE FISCAL IMPACT

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This memo is in response to Mayor Euille's question regarding the impact of possible changes to the Sales Tax by the Virginia General Assembly.

The current revenue proposal (HB 5018), passed by the House and under consideration by the Senate, would increase the sales tax on all non-food items by one half of one cent, but all the revenue resulting from this increase would go to the State General Fund. Since HB 5018 is a revenue bill only, we cannot project how the General Assembly would allocate these new funds other than to say there is significant support for additional education funding. The projected revenue for the State for the biennium for this Sales Tax increase is \$688.2 million. It will be up to a subsequent appropriations bill to determine how these funds would be spent, and at that time we can estimate how much of any new funds will come to the City.

It should also be noted that HB 5018 includes a phased-in decrease on the sales tax for food items, decreasing the tax by one half cent in FY 2005 and an additional one-half cent in FY 2006. Although this reduction also has no direct effect on local government revenues where the one percent local tax rate applies to food, the initiative is projected to cost the State \$146 million in revenue over the biennium.

There have been reported discussions among Senators regarding a half cent local option Sales Tax, although nothing formal has been proposed. If the General Assembly were to give local governments the authority to raise the Sales Tax, the expected extra revenue for Alexandria would be approximately \$11 million per year for each half cent increase.