City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #19: COMMENTS ON THE ACCURACY AND IMPACT OF PETITION ENTITLED "ALEXANDRIANS FOR A 3% COMPROMISE"

On Wednesday, March 30, a meeting of the Federation of Civic Associations was held at which a petition was distributed entitled "Alexandrians for a 3% Compromise" (attached). Vice Mayor Pepper and Councilman Krupicka requested that staff review the calculations in the petition and convey a sense of the impact on the City of an 86 cent real estate tax rate as proposed in the petition.

The petition has numerous factual inaccuracies and makes incorrect assumptions. While we could list those out in detail, the most important are:

1. **The conclusion that a tax rate of 86 cents, or a reduction of 13.5 cents from the current rate, would support an increase in the budget of 3.5 percent is not correct.**

2. A rate cut of 13.5 cents to 86 cents would reduce revenues and fund balances by an additional $39 million from the Manager's proposed FY 2006 budget (see budget memo #5, dated March 21), and the City Manager's proposed budget called for an increase of less than $39 million – a total increase of $37.9 million in the General Fund for both adjustments to base to maintain current services and provide discretionary enhancements to current services and programs. **If the loss of revenue were applied entirely to the General Fund Operating Budget for FY 2006, a real estate tax rate of 86 cents would lead to a reduction of $1.1 million in that budget – a -0.2% cut or "hard freeze".**

3. Looked at another way, if the General Fund Operating Budget were to be given a 3.5 percent increase, it would need to increase by $15.1 million. **To fund an increase of $15.1 million percent would provide only 40 percent of the requested increases to maintain current services and to provide program enhancements in the City Manager's budget designed to achieve City Council's strategic goals.**

4. **Even a $15.1 million or 3.5 percent increase in the General Fund Budget would not pay for maintaining current policies and services**, which require a $25.2 million increase just for City operations and debt service, not counting what is necessary to continue current operations and policies at the City schools.

5. The analysis contained in the petition makes three crucial mistakes:

   a. It fails to account for the significant loss of revenue in FY 2005 from a real estate tax rate reduction passed in May. At 13.5 cent reduction to the tax rate reduces revenue in *FY 2005* by $18.1 million from the current 99.5 cent rate; $12.7 below the City Manager's proposed rate; and $7.4 million below the rate cap of 91.5 cents set by City Council on March 22nd. No funds would be available to carryover into FY 2006 and partially fund the CIP. In fact, this loss in FY 2005 revenue at an 86 cent tax rate would have the consequence of *driving the FY 2005 budget into deficit.*

   b. It assumes an additional $10 million in surplus revenues in FY 2005 from revenue re-estimates when the City Manager's budget already assumes $7 million of those savings. Any additional surplus revenue estimates will be put on the table for City Council at the time of the preliminary add/delete, but we caution City Council that this year these re-estimates may not yield much more than the $7 million already estimated as the revenue estimates are more aggressive than in prior years. Also, assuming another $10 million in "revenue surplus" in FY 2006 builds in a greater proposed tax increase than that assumed in the City's Manager budget.

   c. It incorrectly includes a budgeted increase of $4.8 in special grant funds from the Federal and State government in the analysis. Most of this increase is not interchangeable with General Fund revenues and it cannot replace revenues lost through a real property tax rate cut. This is why the City's budgeting typically focuses on the General Fund and not the All Funds budget.

6. When combined, these mathematical and conceptual mistakes materially miscalculate the fiscal impact on the City's operating and CIP budgets for FY 2006.

Cataloging all the effects such a reduction would have on City programs would be a voluminous undertaking. It is probably sufficient to say that even with a 3.5 percent increase in the General Fund budget:

- The City would not be able to follow its compensation philosophy and maintain competitiveness in its pay and benefits with neighboring jurisdictions.

- The City would not be able to fund the current level of transit operations in the City.

- The City would not be able to make up for stagnant or declining federal and state funding for general fund operations – particularly for social services.

- The City would not be able to meet federally and state mandated standards in the education of Alexandria's youth.
- The City would not be able to maintain its commitment to infrastructure investment and would have to significantly scale back its plans for capital improvements in roads, transit, sewers, recreational facilities, and other public buildings.
- Certainly, the City's strategic plan goals would be unobtainable in FY 2006 and progress toward these goals would be delayed.

ATTACHMENTS: Alexandrians for A 3% Compromise

ALEXANDRIANS FOR A 3% COMPROMISE

P.O. Box 3570
Alexandria, VA 22302
(phone) 703/212-6750, (fax) 703/212-6751 & (email) 3PercentMakesSense@Cordia.com

Attachment 1

139.

To: Mayor Bill Euille, Vice Mayor Del Pepper and Council Members Ludwig Gaines, Rob Krupicka, Andrew Macdonald, Paul Smedberg and Joyce Woodson
m: Alexandria Homeowners, Condo Owners, Business Owners, Renters and Voters
Re: **PETITION TO SUPPORT A "3% MAKES SENSE" COMPROMISE**

I am joining fellow Alexandrians who are very concerned about our ever-increasing property tax bills, and am urging the City Council to take two immediate and important steps. Among our concerns are:

- -- Over the last 5 years, **the average residential property tax bill has increased at double-digit rates each year**, rising an average of 13% per year [as determined by the average residential property tax bill of $4,043 in Calendar Year 2005 and $2,450 in CY2000 (using 2005 dollars)]. For this year's average home valued at $441,823 and at the 91.5 cent tax rate, our average residential property tax bill would go up another 12.5% over last year. **By next year at this rate, our tax bill will double from what it was in 2000.**
- -- Residential homeowners are also having to pay a greater share of the tax burden, paying 60% of all real property taxes while commercial property owners pay 40%. Moreover, real property taxes are accounting for a greater share of all taxes. In FY'06, property owners are being asked to pay 56.2% of all taxes, a steep rise over the last 5 years from 47% in FY'01.
- -- Over the last 5 years, property owners have paid nearly $1 billion in taxes; and the city is proposing record tax bills this year.
- -- City Council and Staff must stop talking about "tax relief." **It is intellectually dishonest to call huge tax increases "tax relief."** Proposing a tax rate "cut" of a minimum of 8 cents (99.5 to 91.5 cents per $100 of property value) combined with the largest assessment increase in 25 years significantly increases our tax bills. A real tax cut would lead to our paying less taxes than the year before. Council would have to impose a tax rate of 79.4 cents per $100 to begin to get a "real tax cut."
- -- The City Staff proposed yet **another year of 8% growth in city spending** when it presented the FY'06 Budget to City Council on March 8, 2005. That was on top of an 8.7% increase from FY'04 to FY'05. With this year's proposed increase, city spending over 5 years will reach nearly $2.5 billion.
- -- During this same 5-year period, **the cost of living in Alexandria has increased on average only 2.7% per year**, including an increase of 2.8% in each of the last two years.
- -- During this period, long-time residents and small businesses left Alexandria; and in the foreseeable future, they will continue to leave unless we take action now. We need to preserve our community and stop the exodus of those **Alexandrians who cannot stay because they cannot pay. Our tax bills have increased at 4-to-5 times inflation and city spending at 2-to-3 times inflation.** We have City tax and budget policies that are driving out families on fixed incomes, teachers, firefighters, policemen and women, single parents and those in the military whose incomes grow at or near 2.7%. Democrats and Republicans, liberals and conservatives, rich and poor, and owners and renters (who see increased costs passed along to them) **all have been cutting into our family budgets to pay for the city budget. time for the city to live within our means – like our families must do.**

CALL TO ACTION: In signing this petition, we **urge the City Council to take two very important steps**:

(1) **"3% Makes Sense"**: As an immediate short-term, stop-the-bleeding solution, the City Council should direct the City Staff to increase the FY'06 Budget no more than 3.5% over last year's spending level. The revised FY'06 Budget would be $539.2 million or an increase of $18.4 million. In addition to increasing the budget .7% over last year's inflation rate, the city will have a cushion of an additional $10 million (or 2% more) in reserve because real property tax revenues that are actually collected have always been greater than each year's projected revenues. For FY'05 & FY'06, the City should expect to receive another $10 million each year over the projected revenues, as was the case in FY'03 & FY'04. **To pay for the 3.5% spending increase, our collective tax bill would increase 3% over last year, resulting in a tax rate of 86 cents/$100 of assessed value.** This 3% Compromise strikes a balance between last year's spending level and this year's 6.4% cap that City Council imposed on March 22, 2005. On March 22nd, the City Council declared that this year's tax rate could not exceed 91.5 cents/$100, thereby determining that the maximum city spending level to be $554.1 million [See the fact sheet on the other side of this page for details]. On March 22nd, the City Council said that it would consider a real estate tax rate lower than 91.5 cents. **If the City Council and Staff cannot manage one lean year after five fat years, they will never be able to.** The time is now for our elected leaders to show good faith in hearing and acting upon our crucial and reasonable request.

(2) During calendar year 2005, **undertake a serious and intensive investigation** of how to restrain the growth of real property taxes and control spending for FY'07 and beyond. Both City Council and citizens have acknowledged the need for institutional reform to stop the unpredictable and unsustainable current tax policy that balances the city budget on the backs of property owners and renters.

PLEASE PRINT
My Full Name: ____________________

Street Address: ____________________ Alexandria, VA ________(Zip Code)

Home Phone: (703)_____-__________ Home Fax: (703)_____-__________

mail Address: ____________________

My Signature: ____________________ Date: ____/____/2005

Please mail your signed petition to **Alexandrians For a 3% Compromise, PO Box 3570, Alexandria, VA 22302.** Should you want copies of this petition and fact sheet, please request them via email (**3PercentMakesSense@Cordia.com**). Any questions, please call 703/212-6750.

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ALEXANDRIA CITY BUDGET & TAX BILLS

		FY'05 City Council Approved	FY'06 3% COMPROMISE	FY'06 CITY COUNCIL CAP
ALEXANDRIA SPENDING	City, Schools & Capital Projects Budget [All Funds Budget, inc. Fed. & VA monies]	$520.8 million [inc. $38.7m from Virginia & $33.1m from Feds]	**$539.2 million** [inc. $40.9m Virginia (+5.6%) & $35.7m Feds (+7.6%)]	$554.1 million [inc. $40.9m Virginia (+5.6%) & $35.7m Feds (+7.6%)]
	Budget Increase Over FY'05		**+$18.4 million +3.5%**	+$33.3 million +6.4%
	Total Budget Increase, inc. $10 million collected over projected revenues (or +2%)		**+$28.4 million +5.5%**	+$43.3 million +8.3%
ALEXANDRIA REVENUE	Revenue From All Sources, except from Real Property Taxes	$292.3 million	$303.8 million	$303.8 million
	Revenue Needed From Real Property Taxes For Budget	$228.5 million	$235.4 million	$250.3 million
	Alexandria's Property Tax Bill Increase		**+$6.9 million +3%**	+$21.8 million +9.5%
	Total Assessed Value of Alexandria Property	$22.58 billion	$27.36 billion	$27.36 billion
	Resulting Property Tax Rate Needed For Budget	99.5 cents/$100 of assessed value	**86 cents/$100 of assessed value**	91.5 cents/$100 of assessed value
WHAT THE IMPACT IS ON YOUR TAX BILL			3% Compromise (tax rate = 86 cents/$100)	City Council Cap (tax rate = 91.5 cents/$100)
	If your property assessment increased 10%		your tax bill is cut 4.9%	your tax bill increases 1.2%
	If your property assessment increased 15%		your tax bill is cut .6%	your tax bill increases 5.8%
	If your property assessment increased 20%		your tax bill increases 3.7%	your tax bill increases 10.4%
	If your property assessment increased 25%		your tax bill increases 8.0%	your tax bill increases 15.0%
	If your property assessment increased 30%		your tax bill increases 12.4%	your tax bill increases 19.5%
	If your property assessment increased 35%		your tax bill increases 16.7%	your tax bill increases 24.2%
	If your property assessment increased 40%		your tax bill increases 21.0%	your tax bill increases 28.7%
Sample Properties	If your property was assessed at $200,000 last year, then this year's assessed value would be...	Last year's tax bill was $1,990	This year's tax bill @ .0086 would be...	This year's tax bill @ .00915 would be...
	$220,000 @ 10%		$1,892 (-$98/-4.9%)	$2,013 (+$23/1.2%)
	$240,000 @ 20%		$2,064 (+$74/3.7%)	$2,196 (+$206/10.4%)
	$260,000 @ 30%		$2,236 (+$246/12.4%)	$2,379 (+$389/19.5%)
	$280,000 @ 40%		$2,408 (+$418/21%)	$2,562 (+$572/28.7%)
	If your property was assessed at $600,000 last year, then this year's assessed value would be...	Last year's tax bill was $5,970	This year's tax bill @ .0086 would be...	This year's tax bill @ .00915 would be...
	$660,000 @ 10%		$5,676 (-$294/-4.9%)	$6,039 (+$69/1.2%)
	$720,000 @ 20%		$6,192 (+$222/3.7%)	$6,588 (+$618/10.4%)
	$780,000 @ 30%		$6,708 (+$738/12.4%)	$7,137 (+$1,167/19.5%)
	$840,000 @ 40%		$7,224 (+$1,254/21%)	$7,686 (+$1,716/28.7%)
	If your property was assessed at $1,000,000 last year, then this year's assessed value would be...	Last year's tax bill was $9,950	This year's tax bill @ .0086 would be...	This year's tax bill @ .00915 would be...
	$1,100,000 @ 10%		$9,460 (-$490/-4.9%)	$10,065 (+$115/1.2%)
	$1,200,000 @ 20%		$10,320 (+$370/3.7%)	$10,980 (+$1,030/10.4%)
	$1,300,000 @ 30%		$11,180 (+$1,230/12.4%)	$11,895 (+$1,945/19.5%)
	$1,400,000 @ 40%		$12,040 (+$2,090/21%)	$12,810 (+$2,860/28.7%)

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RESOLUTION

REAL PROPERTY TAX RELIEF

WHEREAS,

(1) The City of Alexandria budget has increased an average of 8.4% per year since 2000.

(2) The average residential property tax bill in the City has increased an average of 13% per year since 2000.

(3) The proposed increase in the average residential property tax bill for 2005 (fiscal year 2006) is 12.5%.

(4) If individual property taxes continue to increase at the rate they have in recent years, many more Alexandrians may be forced to sell their homes and move elsewhere, and ever fewer families of low or moderate income will be able to afford to remain in our City.

NOW THEREFORE BE IT RESOLVED, that________________________________ (Name of Association or citizens group), believes that decisive action is necessary to restrain the growth in individual real property taxes, and urges that the City Council take the following two actions:

(1) As a stopgap measure for the next budget year (fiscal year 2006), restrain growth in the budget to no more than 3% above the previous year (fiscal year 2005), and set the real property tax rate accordingly; and

(2) During the coming year, undertake a serious and intensive investigation of means to restrain the growth of real property taxes and control spending for fiscal year 2007 and beyond.

____ CIVIC ASSOCIATION

Adopted________________, 2005

Attest:________________________

Name________________________ Title ________________________