

## Tax Presentation to the City Council

March 31, 2005

Over the last five years, the City's combined operating and capital budget has averaged an 8.6% annual increase. The most recent budget proposal for the coming fiscal year would increase expenditures by 9.27 per cent. To make matters worse, most revenue sources other than property taxes show little or no growth, which puts the lion's share of rapidly increasing City spending squarely on the shoulders of property owners, particularly residential homeowners.

It is difficult to avoid concluding that for the last several years the Council has simply tied the City's budget to ballooning real estate prices and assessments. The money was there to spend because of the rapidly rising real estate market. If housing prices are up so high, why worry about property taxes? The reason is that it does not matter if the value of your home has doubled if you have to sell it and move half way to Richmond because you can no longer afford to pay property taxes.

In the March 8<sup>th</sup> budget proposal by the City Manager, our attention has been drawn to a 4 cent reduction in tax rates – the so-called lowest rate in 50 years -- yet the average Alexandria tax bill will increase this year by as much as 16 per cent and thus will be the highest in history.

To remedy this problem, the Council must cap the soaring growth of the City budget by prioritizing spending, finding or expanding other revenue sources, and swearing off its addiction to ever-increasing real property taxes.

### **Déjà Vu All Over Again**

In January 1989, Councilmen Kerry Donley and Michael Jackson submitted a tax resolution to the Alexandria City Council, which was adopted soon afterward. In part, the resolution said,

*WHEREAS, the City of Alexandria's Fiscal Year 1989 General Fund Budget, as approved the City Council..., constituting a 9.1 increase in expenditures...; and*

*WHEREAS, real property assessments have increased by 58 per centum since 1984, adding additional tax pressures on available housing for low and moderate income citizens; and*

*WHEREAS, the tax burden is an added disincentive to moderate income home ownership in the city; and*

*WHEREAS, City Council's commitment to limiting and reducing the growth of City expenditures is intended to restrict the increase in and, if possible, reduce the tax burden*

*of the City's residential home owners while at the same time permitting the City to continue to fully perform...; and*

*WHEREAS, the City's ability to plan and limit growth in real property development is in large part contingent on the City's ability to plan for and limit the growth of the City expenditures; and*

*WHEREAS, City Council has determined that the Fiscal Year 1990 General Fund Budget for the City of Alexandria should provide for aggregate expenditures...with the view toward narrowing the gap between expenditure increases and the rate of inflation; and*

*WHEREAS, as part of its commitment to limit the growth of City expenditures, the City Council is committed to capping the total number of full time equivalent City employees...; therefore,*

*BE IT RESOLVED BY THE COUNCIL...*

- 1. That the City Manager shall plan and prepare the proposed fiscal 1990 Budget for the City of Alexandria...which do not exceed by more than 6.4 per centum...*
- 2. That the City Manager shall plan for no more than the same number of full time equivalent employees ...*
- 3. That the City Manager should prepare the fiscal 1990 proposed budget with the goal of limiting the growth in City expenditures during the next several fiscal years to growth rates, in each year, which are less than the 6.4 per centum growth rate approved hereby, with the view toward narrowing the gap between expenditure increases and the rate of inflation.*
- 4. That the School Board should plan and prepare ...that does not exceed by more than 6.4 per centum...*

Yes, the recent explosion in property taxes is a just a repeat of what happened in the late eighties. The City Council stemmed the tide then, but within a scant 15 years, the problem has resurfaced with even greater inequities than before. Core CPI was increasing at about 5% annually in the late eighties, versus about 2% to at most 3% in recent times. Growth in City spending then was considered out of control because it exceeded inflation by 80%. Today, growth in proposed City spending exceeds inflation three-fold, or by over 200%. Real estate taxes were increasing faster than inflation then, but not by nearly as much as they are now.

The time has come for the City Council to fix runaway property taxes once and for all, not just restrain this year's budget. In order to break the habit of uncontrolled spending, the Council should impose voluntary restraints. The Council needs to resolve to limit growth in property taxes to an appropriate index of inflation plus new property taxes, and then implement budgeting procedures to allocate scarce resources to meet the challenging needs of a vibrant city. Higher-than-inflation increases in property taxes should require extraordinary action by the City Council, and be duly recognized as a tax increase.

### **The Budgeting Process**

The principle we espouse is that the annual budget call process begin with projected real property tax revenues targeted at no more than the current year taxes adjusted for wage inflation and new property additions to the tax base. Any change in the target should be deemed a real property tax increase or decrease, depending on direction, with a tax increase requiring a supermajority vote by the City Council, such as 5 or 6 of the 7 members of the Council.

To the extent that the budget has accumulated bloat from recent years of uncontrolled spending financed by property owners, the Council should endeavor to examine every operating department to assess the appropriateness of resources allocated versus the mission to be accomplished. We suggest that a small number of departments be selected each year for such a zero-based budgeting exercise, starting with major departments.

The property tax rate flows from the budgeting process and the final target for property taxes. It should be duly noted by the Council, the City Manager and all citizens that, in isolation from assessed property values, the property tax rate is meaningless and has no bearing on whether property taxes are increasing or decreasing.

Proposed By,

Allen Benn, Richard Moose & Ernie Lehmann  
Citizens of Alexandria

Attachment: Resolution 1355

RESOLUTION NO. 1355

WHEREAS, the City of Alexandria's Fiscal Year 1989 General Fund Budget, as approved by City Council on May 4, 1988, provided for General Fund expenditures of \$187,126,891. constituting a 9.1 increase in expenditures over the approved Fiscal Year 1988 General Fund Budget; and

WHEREAS, real property assessments have increased by 58 per centum since 1984, adding additional tax pressures on available housing for low and moderate income citizens; and

WHEREAS, the tax burden places a serious burden on those living on a fixed income by effectively taxing them out of their homes; and

WHEREAS, the tax burden is an added disincentive to moderate income home ownership in the city; and

WHEREAS, City Council's commitment to limiting and reducing the growth of City expenditures is intended to restrict the increase in and, if possible, reduce the tax burden of the City's residential home owners while at the same time permitting the City to continue to fully perform its legal obligations; continue to provide the quality services and facilities which it currently provides; maintain its commitment to education and the less advantaged members of the community; and maintain the competitive compensation package enjoyed by employees currently employed by the City; and

WHEREAS, the City's ability to plan and limit growth in real property development is in large part contingent on the City's ability to plan for and limit the growth of City expenditures; and

WHEREAS, City Council has determined that the Fiscal Year 1990 General Fund Budget for the City of Alexandria should provide for aggregate expenditures that exceed the fiscal 1989 expenditures by not more than 6.4 per centum and that City Council desires to limit the City's fiscal 1991 and 1992 expenditures growth rates to less than the 6.4 per centum rate to which City Council is committed for the fiscal 1990 budget with the view toward narrowing the gap between expenditure increases and the rate of inflation; and

WHEREAS, as part of its commitment to limit the growth of City expenditures, the City Council is committed to capping the total number of full time equivalent City employees at the level approved in the fiscal 1989 budget; therefore,

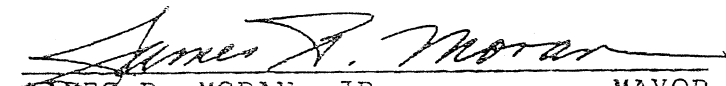
BE IT RESOLVED BY THE COUNCIL OF  
THE CITY OF ALEXANDRIA, VIRGINIA:

1. That the City Manager should plan and prepare the proposed fiscal 1990 Budget for the City of Alexandria so as to provide for aggregate City expenditures which do not exceed by more than 6.4 per centum the expenditure level approved by City Council for fiscal 1989, and, to the extent possible, the City Manager is hereby encouraged to limit the increase in fiscal 1990 budgeted expenditures to less than such 6.4 per centum.


3. That the City Manager should prepare the fiscal 1990 proposed budget with the goal of limiting the growth in City expenditures during the next several fiscal years to growth rates, in each year, which are less than the 6.4 per centum growth rate approved hereby, with the view toward narrowing the gap between expenditure increases and the rate of inflation.

4. That the School Board should plan and prepare the Proposed Fiscal Year 1990 School Budget for the Alexandria Public Schools so as to provide for a City appropriation to the public schools that does not exceed by more than 6.4 per centum the City appropriation to the schools approved by City Council for Fiscal Year 1989.

Adopted: January 10, 1989

  
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JAMES P. MORAN, JR. MAYOR

ATTEST:

  
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Helen Holleman City Clerk