


## City of Alexandria, Virginia

## MEMORANDUM

DATE: APRIL 3, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: ORDINANCE TO INCREASE THE TRANSIENT LODGING TAX RATE

**ISSUE:** Consideration of an ordinance to increase the transient lodging tax rate.

**RECOMMENDATION:** That City Council:

- (1) Introduce an ordinance to increase the transient lodging tax from the current rate of 5.5 percent to up to 7.5 percent of the total amount paid for transient lodging and pass it on first reading on Tuesday, April 8;
- (2) Set the ordinance for public hearing on Tuesday, April 22 (which is the same public hearing date as the public hearing on the FY 2008 Budget); and
- (3) Set the ordinance for second reading and final passage on Monday, May 5, 2008, with the proposed new taxes to be effective July 1, 2008.

**BACKGROUND:** Council requested consideration of an increase in the transient lodging tax rate in large part due to the February 29, 2008, Virginia Supreme Court decision declaring the Northern Virginia Transportation Authority (NVTA) taxes newly levied (as of January 1, 2008) unconstitutional. This action voided the recently levied NVTA two percent add-on to local transient occupancy taxes. Council also requested that any increase in the transient lodging tax, that the City might enact, would be dedicated solely to transportation, and if either any General Assembly or the NVTA reinstituted the add-on to local transient occupancy taxes, part or all of the proposed City transient tax rate increase would be reduced on an equal basis.

An increase in the transient lodging tax would assist the City in closing part of the \$20.7 million budget gap created by the loss of NVTA and VDOT transportation funds, which occurred after the FY 2009 Budget was proposed. Additional transient lodging tax revenue could also be used, in part, to fund the FY 2009 Alternative Budget. Additional transient lodging tax revenue could be used to help fund initiatives, to name a few, such as the King Street Trolley, road repair and reconstruction on King Street, Washington Street, and Edsall Road, as well as transit initiatives that provide transit services City-wide.

The City's current tax for transient lodging is 5.5 percent of the total amount of the room rental charge plus \$1 per room per night. This rate structure has not been changed since FY 2000, when the rate was decreased from 5.65 percent to 5.5 percent and the \$1 per room part was instituted. The current rate structure is projected to produce \$9.7 million per year in transient occupancy taxes. Each one percent increase in the room rental tax would raise \$1.2 million. Each \$1 increase in the per-room rate charge would raise \$0.8 million. The following chart compares the City's transient occupancy tax rates with that of neighboring jurisdictions. For Virginia localities, the chart adds in the five percent State sales tax for comparability with D.C. and Maryland jurisdictions.

CITY CODE	STATE CODE	JURISDICTION	TAX RATE
§3-2-142	§58.1-3819 §58.1-3840	<b>City of Alexandria: 10.5% + \$1 per room/per night</b> Arlington County: 10.25% Fairfax County: 9.0% Leesburg: 11.0% Loudoun County: 10.0% Prince William County: 10.0% Spotsylvania County: 10.0% Fairfax City: 9.0% Stafford County: 10.0% Falls Church: 10.0% District of Columbia: 14.5% Montgomery County, MD: 12.0% Prince Georges County, MD: 10.0% Gaylord Hotel: 16.0% <sup>1</sup>	
Virginia Maximum: none for cities; 2% - 6% for counties			

<sup>1</sup> Consideration underway to potentially raise Prince Georges 10% hotel tax on other hotels at National Harbor.

A transient occupancy tax is a common tax utilized by most cities, urban counties, or counties with resorts and entertainment venues. Such a tax is nearly always paid by those who do not live in a jurisdiction, and therefore this “exports” part of a jurisdiction's tax burden to those who do not live in a community. In Virginia, as of 2007, 165 counties, cities and towns levied the transient occupancy tax, with 38 jurisdictions having a tax rate when including the State sales tax of more than ten percent. The median rate of all jurisdictions with the tax was ten percent. The authority to enact a transient occupancy tax in Virginia varies. Cities and towns have wide authority to enact a tax at a rate of their choosing. Counties may levy a tax of up to two percent more than the five percent sales tax rate, with certain counties authorized to levy up to five percent above the State sales tax rate.

Unlike many other local taxes, a transient occupancy tax has the potential to impact to some degree the selection of hotels by potential patrons. In particular, groups (conferences, meetings, tour groups) sometimes look to the total bottom line (including taxes) when making a hotel booking decision. While a one or two percent rate increase may not be significant mathematically, it could become the tipping point at which some groups decide not to book an Alexandria hotel. Given that circumstance, an increase in the transient lodging tax would also sometimes result in a hotel lowering its prices to win a group booking (thereby cutting into hotel profits), and sometimes the hotel will lose the potential business.

As an alternative to a general rate increase of up to two percent, Council may want to consider increasing the \$1 per-room-per-night levy. That structure of increasing the per night charge may have less of an impact on hotel business. It also would skew to impact patrons of lower price hotels more than higher price hotels. Council may want to consider advertising both a two percent increase in the transient occupancy rate, as well as a \$2 increase in the per night charge, so Council has the choice of either of the two options when it considers adoption of FY 2009 transient occupancy taxes. Adoption of both the two percent and a \$2 per night rate increase is not recommended, but by advertising both options, Council, the hotel community, and the public have the widest choice of options for consideration.

**FISCAL IMPACT:** The FY 2009 Proposed Budget includes a total of \$9.7 million in General Fund revenue from the transient lodging tax. Staff estimates that the proposed tax increase of two percent in rate would produce an additional \$1.2 million for each one percent, for a total of \$2.4 million in additional revenue. An increase of \$2 per room per night would raise an additional \$0.8 million per \$1, for a total of \$1.6 million in additional revenue.

**ATTACHMENT:** Proposed Ordinance

**STAFF:**

Laura B. Triggs, Director of Finance

Debbie Kidd, Division Chief, Revenue Administration

Introduction and first reading:	4/08/08
Public hearing:	4/22/08
Second reading and enactment:	5/05/08

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend and reordain Section 3-2-142 (LEVY AND RATE) of Article K (TRANSIENT LODGING TAX), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT), of The Code of the City of Alexandria, Virginia, 1981, as amended.

Summary

The proposed ordinance increases the city's transient lodging (hotel) tax from five and one-half percent to seven and one-half percent.

Sponsor

Staff

Mark Jinks, Deputy City Manager  
Laura Triggs, Director of Finance  
Karen S. Snow, Assistant City Attorney

Authority

§ 58.1-3840, Code of Virginia (1950), as amended  
§ 2.02, Alexandria City Charter

Estimated Costs of Implementation

None

Attachments in Addition to Proposed Ordinance and its Attachments (if any)

None

ORDINANCE NO. \_\_\_\_\_

AN ORDINANCE to amend and reordain Section 3-2-142 (LEVY AND RATE) of Article K (TRANSIENT LODGING TAX), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT), of The Code of the City of Alexandria, Virginia, 1981, as amended.

THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Section 3-2-142 of The Code of the City of Alexandria, Virginia, 1981, as amended, be, and the same hereby is, amended and reordained to read as follows:

Sec. 3-2-142 Levy and rate.

In addition to any other tax imposed by law, there is hereby imposed and levied on each and every transient, (i) a tax equivalent to ~~five and one-half~~ seven and one-half percent of the total amount paid for room rental by or for such transient to a hotel, and (ii) a tax of \$1 for each day (or portion thereof) of lodging for which room rental is paid by or for such transient to a hotel; provided, that the total tax under clause (ii) for a day (or portion thereof) of lodging in a single unit of lodging shall not exceed \$1 and, where more than one transient occupies a single unit of lodging for a day (or portion thereof) and room rental is paid by or for more than one transient, then each such transient shall be liable for a pro rata share of the \$1 tax.

Section 2. That this ordinance shall become effective on July 1, 2008.

William D. Euille  
Mayor

Introduction:	4/08/08
First Reading:	4/08/08
Publication:	
Public Hearing:	
Second Reading:	
Final Passage:	