

EXHIBIT NO.

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*City of Alexandria, Virginia*

## MEMORANDUM

DATE: APRIL 17, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: PROPOSED REAL AND PERSONAL PROERTY TAX RATES ORDINANCES  
AND PROPOSED EFFECTIVE TAX RATE INCREASE FOR CALENDAR  
YEAR 2008 (FISCAL YEAR 2009)

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**ISSUE:** What real property (residential and commercial) and personal property tax rates should be adopted.

**RECOMMENDATION:** That City Council hold the public hearing on Tuesday, April 22, and consider the ordinance for second reading and final passage on Monday, May 5. The maximized rates authorized by Council reflect:

1. A base real estate tax rate on residential, commercial and industrial property for calendar year 2008 of up to \$0.86 per one hundred dollars of assessed valuation;
2. An add-on real estate tax rate on non-residential commercial and industrial property for calendar year 2008 to be dedicated for transportation purposes of up to \$0.02 per one hundred dollars of valuation; and
3. A personal property tax rate on vehicles and business tangible property for calendar year 2008 of \$4.75 per one hundred dollars of valuation.

**DISCUSSION:** Under the requirements of The Code of Virginia (The Code), the City Council annually must establish real property and personal property tax rates for each calendar year. The Code also establishes certain advertising and public hearing requirements prior to the adoption of these property tax rates. One of these Code requirements is that the rates that Council chooses to advertise are the highest rates that Council can consider adopting. Council chose the maximum rates it would consider on March 15.

It should be noted, as discussed below, that the State Code requires a separate public hearing (i.e., separate from the budget hearing held on April 14) on the real property tax rate if the rates levied for the year in which the proposed tax rate applies would increase by more than one percent (after the value of new construction has been deducted). This would be the case in CY

2008 because the increased value of commercial properties yielded an overall increase in assessments of 4.0%.<sup>1</sup>

The following chart illustrates real estate alternative rates that Council can consider for the base real estate tax rate which applies to residential, commercial, and industrial properties:

Tax Rate Increase Over Current \$0.83 <sup>2</sup>	FY 2009 ( in millions) Revenues	Average Change in Residential Tax (\$) (%)	
None	\$0.0	-82	-1.9%
1.6 cents	\$5.6	-2	- 0.0%
2 cents (Alt. Budget)	\$7.0	+18	+0.4%
3 cents	\$10.5	+68	+1.6%

The FY 2009 Proposed Operating budget reflected no change to the real property tax rate of \$0.83 per \$100 of assessed value and did not include any add-on commercial property tax rate option. However, the alternative budget, if funded, would require a 2 cent real estate tax rate increase to \$0.85. An additional 1 cent increase beyond this 2 cents which would then increase the rate to \$0.86 cents could be used to fund a large portion of the \$4.45 million revenue shortfall for FY 2009 described in Budget Memo # 79.

The proposed budget and the proposed ordinance assume the continuation of the dedication of one cent of the real estate tax rate for affordable housing and one percent real estate tax revenue for open space.

As part of the transportation funding initiatives which the General Assembly approved (HB3202) during its 2007 session, local governments in Northern Virginia also were each given a commercial real estate tax option to be used for transportation purposes. Under the commercial real estate tax option, localities are now authorized to adopt a differential real estate tax rate on non-residential commercial and industrial property in the City of no more than 25 cents per \$100 of value. (Apartments and all other residential property in the City would be excluded from this new tax.) Non-residential commercial property includes office, retail, hotel, general commercial, industrial and public utility real property. The Ad Hoc Committee that Council established has recommended that Council consider implementing this new tax in the 2 cent to 4 cent range in 2008. The Ad Hoc committee also recommended business license tax relief for small and medium size retailers. Recent loss of NVTa and VDOT funds totaling \$21.5 million in FY 2009

<sup>1</sup> The total value of taxable real property within the City has been assessed at \$35.6 billion including non-locally assessed properties. This reflects a 4.0% increase in total assessments. Of the total increase, approximately 31% (\$431.5 million) is the result of new growth, including \$155.3 million in new residential growth and \$276.2million in new commercial growth. The reassessments of existing properties increased \$931.7 million. Existing commercial real property appreciated \$1.3 billion; the value of existing residential real property decreased by \$95.3 million. Under the existing \$0.83 tax rate, the tax bill for the average residential unit in 2008 would decrease by \$82.

<sup>2</sup> Council can consider adopting any rate at \$0.86 per \$100 of valuation or lower. Rate gradations may be in tenths of a cent.

make this decision on this commercial add-on tax more germane in 2008.

The FY 2009 Proposed Operating budget reflects no change per \$100 of assessed value to the current various personal property tax rates:

- \$4.75 for tangible personal property,
- \$3.55 for vehicles with specially designed equipment for use by the physically disabled,
- \$4.50 for machinery and tools used in machinery and manufacturing business, and
- \$ .01 for privately-owned pleasure boats and watercraft that are used for recreational purposes only.

The attached ordinance assumes that the personal property tax rates for machinery and tools, specially equipped vehicles for the disabled, and boats would not change for 2008.

**FISCAL IMPACT:** A one cent increase in the overall real estate tax on each \$100 of assessed value is expected to generate an additional \$1.7 million in FY 2008 and \$3.5 million in FY 2009. Each increase of one cent of the commercial real estate rate add-on real estate tax is expected to generate \$0.5 million in FY 2008 and \$1.0 million in FY 2009.

**ATTACHMENT:** Proposed Ordinance

**STAFF:**

Mark Jinks, Deputy City Manager

Bruce Johnson, Director, Office of Management and Budget

Laura Triggs, Director, Finance Department