

EXHIBIT NO. 1

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 3, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: ORDINANCE TO INCREASE THE RESTAURANT MEALS TAX RATE  
FROM THREE PERCENT TO FOUR PERCENT OF GROSS SALES OF  
RESTAURANT MEALS

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**ISSUE:** Consideration of an ordinance to increase the restaurant meals tax rate.

**RECOMMENDATION:** That City Council:

- (1) Introduce an ordinance to increase the restaurant meals tax from the current rate of three percent to four percent and pass it on first reading on Tuesday, April 8;
- (2) Set it for public hearing on Tuesday, April 22 (which is the same public hearing date as the public hearing on other taxes); 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:** The City's current tax for restaurant meals (excluding the general sales tax of five percent) is three percent of the seller's monthly gross sales of meals, including alcoholic beverages. This rate has remained unchanged for 24 years, and is lower than some of Alexandria's neighboring jurisdictions that levy a restaurant meals tax, as indicated in the following table. Council has requested consideration of a meals tax rate increase from three to four percent.

Raising the restaurant meals tax rate to four percent is likely to have little impact on restaurant revenues. When persons decide to eat at a restaurant, the decision is not an economic one but driven by convenience, adjacency, genre of food selection, ambience, and other non-economic factors. Arlington instituted a four percent meals tax in 1991 and saw restaurant revenues increase in the year after its meals tax was implemented. City staff has checked with the National Restaurant Association, and this association reports having no research reports that show an overall negative impact on restaurant sales of a restaurant meals tax.

The meals tax increase, if approved, would also be substantially paid by non-residents. The Alexandria restaurant customer base is comprised of tourists, business travelers, employees of City-hired firms as well as those who live close to Alexandria and who come to Alexandria restaurants to dine. As a result, a large part of the tax burden of this proposed percentage increase in the restaurant meals tax will be "exported" to those who do not live in Alexandria. As a result, this will diversify Alexandria's tax base and have less of an impact on Alexandria residents than would an increase in the real estate tax rate.

Analyzing this from a marketplace competitiveness situation, a one percent increase in the rate would place Alexandria on an equal plane with Arlington and many other Northern Virginia cities and towns in regards to the restaurant meals tax, as well as slightly below the District of Columbia.

An increase in the restaurant meals tax would assist the City in closing 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 restaurant meals tax revenue could also be used, in part, to fund the FY 2009 Alternative Budget, which includes a new regional marketing initiative aimed at encouraging those who live in the Washington, D.C. region to shop and dine in Alexandria. Additional restaurant meals tax revenue could also be used to help close the transportation funding gap and could 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 following chart compares the City's current tax rate on meals (5% sales tax and 3% meals tax) with that of other jurisdictions. It should be noted that the sales tax has been added to Virginia jurisdictions for comparability with D.C. and Maryland.

CITY CODE	STATE CODE	JURISDICTION	TAX RATE
§3-2-242	§58.1-3833 §58.1-3840	City of Alexandria:	8.0%
		Arlington County:	9.0%
		Fairfax County:	5.0%
		Leesburg:	8.5%
		Loudoun County:	5.0%
		Prince William County:	5.0%
		Spotsylvania County:	9.0%
		Fairfax City:	9.0%
		Stafford:	9.0%
		Falls Church:	9.0%
		Washington, DC:	10.0%
		Montgomery County, MD:	5.0%
		Prince Georges County, MD:	5.0%
Virginia Maximum: none for cities; 9.0% for counties (All counties in Northern Virginia require a voter referendum by statute except Arlington County. Cities and towns may enact at the tax rate level they choose.)			

As of 2007, 182 Virginia counties, cities and towns had enacted a restaurant meals tax. The median rate was nine percent (including the sales tax), with 72 jurisdictions having a rate greater than nine percent.

**FISCAL IMPACT:** The FY 2009 Proposed Budget includes a total of \$11.1 million in General Fund revenue from the restaurant meals tax. Staff estimates that the proposed tax rate increase would produce \$3.7 million in additional revenue annually.

**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 3-2-242 (AMOUNT AND LEVY OF TAX) of Article N (TAX ON MEALS SOLD BY RESTAURANTS), 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 restaurant meals tax from three percent to four percent.

**Sponsor**

**Staff**

Mark Jinks, Deputy City Manager  
Laura Triggs, Director 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 3-2-242 (AMOUNT AND LEVY OF TAX) of Article N (TAX ON MEALS SOLD BY RESTAURANTS), 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 3-2-242 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. 3-2-242                      Amount and levy of tax.

There is hereby imposed and levied by the city, upon every purchaser of a meal, in addition to all other taxes, fees and charges of every kind now or hereafter imposed by law, a tax upon each and every meal sold in the city in or from a restaurant, whether prepared in the restaurant or not and whether consumed on the premises or not, based upon the amount charged the purchaser by the seller for the meal, at the rate of ~~three percent (3%)~~ four percent (4%) of the total charge.

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:	

ORDINANCE NO. 4532

AN ORDINANCE to amend and reordain Section 3-2-242 (AMOUNT AND LEVY OF TAX) of Article N (TAX ON MEALS SOLD BY RESTAURANTS), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of the Code of the City of Alexandria, Virginia, 1981, amended.

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WILLIAM D. EUILLE  
Mayor

Final Passage:            May 5, 2008