


City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 14, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: ESTABLISHMENT OF A COMMITTEE TO STUDY THE COMMERCIAL
REAL ESTATE TRANSPORTATION TAX OPTION

ISSUE: Establishment of a Committee to consider whether or not to tax non-residential commercial property an add-on real estate tax in order to fund transportation initiatives.

RECOMMENDATION: Adopt the attached resolution creating an Ad Hoc Commercial Transportation Tax Option Study Committee.

BACKGROUND: As part of the transportation funding initiatives which the General Assembly approved (HB3202) during its 2007 session, included was a package of major new regional and local funding options for Northern Virginia and the Hampton Roads area. As part of this package, the Northern Virginia Regional Transportation Authority (NVTA) was granted new fee and tax options. Local governments in Northern Virginia also were each given a commercial real estate tax option, a vehicle decal fee option, and an impact fee option. If implemented, all of the funds must be dedicated for transportation purposes. While the City has already implemented the vehicle license fee (which in FY 2008 added \$8 for most vehicles to the existing \$25 decal fee), the City has not taken action to date to implement the add-on commercial real estate tax option or the impact fee option.

Under the commercial real estate tax option, localities are now authorized to adopt a differential real estate tax rate on non-residential commercial property in the City (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 and public utility real property. It would not apply to residential property. Under the new State law, the differential tax can range from 1/10th of one-cent per \$100 of valuation to no more than 25 cents per \$100 of valuation. This transportation tax, if enacted, would be an add-on tax to the existing real property tax. For example, if Council decided to levy a 1-cent real estate tax add-on to the existing real estate tax rate of 83 cents for all property, then non-residential commercial properties would pay an 84 cents real property tax rate, and all residential property would continue to pay 83 cents. Properties with both a residential and commercial use would have their

add-on tax applied proportionately. All of the funds raised by this add-on tax would need to be permanently dedicated towards transportation operating or capital investment initiatives.

Alexandria's non-residential commercial property tax base in 2007 totals some \$9.9 billion or 29% of the total City real estate tax base of \$34.2 billion. If the City were to enact this add-on tax, for each one-cent enacted some \$1 million in revenues for transportation would be raised. The decision on what commercial add-on rate (if any) to adopt would occur at the same time as the base 2008 real estate tax rate is considered in conjunction with the FY 2009 budget. This means determining the maximum real property tax rate(s) to advertise on March 15, 2008, and then adopting the real property tax rates(s) on May 5, 2008.

In order to consider whether or not to enact the add-on commercial real estate tax rate, and then determine what rate (if any) to levy for 2008, I recommend that an ad hoc committee be established to review this tax option, its implications, and its impacts. As part of this review of the tax option, this ad hoc committee would also be asked to review the City's current and future transportation funding needs. The charge to this ad hoc committee would be to study and report to Council:

1. The positive and negative impacts of enacting such an add-on tax.
2. If such a non-residential real estate transportation tax should be enacted in 2008 and beyond.
3. If recommended:
 - a. what should the add-on tax rate be for 2008,
 - b. address tax and transportation funding issues on a multi-year basis,
 - c. what principles should be used, and
 - d. what should be the priority areas for funding.

I propose that the Committee be composed of five members. Two would be members of the City's Budget and Fiscal Affairs Advisory Committee (BFAAC), two would be members of the Ad Hoc Transportation Task Force, and one would be designated by the Alexandria Chamber of Commerce. The Committee would be requested to report to Council by February 29, 2008, so their advice could be incorporated into the calendar year 2008 tax rate setting and FY 2009 budget adoption process.

Fairfax County and Arlington County have taken the first steps to enact this tax. While the add-on commercial tax rates have not been set by these two jurisdictions, it appears that both jurisdictions are planning to enact an add-on rate of about 10 cents.

In reviewing the legislation, it is the opinion of the City Attorney that if Council wants to consider enacting the add-on non-residential commercial property tax rate for 2008, Council should amend the City Code prior to the end of calendar 2007. This action would not pre-judge the eventual outcome of whether or not this add-on tax was adopted, but it would enable consideration to occur during budget deliberations. Absent amending the City Code to allow for this add-on to the real estate tax rate, whether or not Council can act in 2008 is not clear.

Attorneys for Fairfax County and Arlington County concluded that enabling action needs to occur before the end of 2007. The City Attorney recommends that if Council wishes to consider this add-on tax in 2008, it should act by amending the City Code before the end of 2007. This action would enable the add-on tax to be implemented, but not require its implementation. Staff will schedule the docket item which will allow Council to consider this tax option for 2008, for first reading on December 11 and public hearing and potential passage on December 15, 2007. Council can then decide in March (when the maximum property tax rates are advertised) whether or not to proceed to further consider enacting this add-on tax for commercial property. A final decision on 2008 property tax rates is scheduled to occur with the FY 2009 budget adoption on May 5, 2008.

FISCAL IMPACT: The study process can be carried out utilizing existing staff resources. If Council were to enact the add-on real estate tax for non-residential commercial properties, each one cent enacted would raise \$1 million per year.

ATTACHMENT: Proposed Resolution

STAFF:

Mark Jinks, Deputy City Manager

Bruce Johnson, Director, Office of Management and Budget

Tom Culpepper, Deputy Director, Transportation and Environmental Services

RESOLUTION NO. ____

WHEREAS, in order to address critical transportation needs, the General Assembly enacted HB 3202 in 2007 which granted new tax and fee authority options to Northern Virginia jurisdictions; and

WHEREAS, one of the new tax options is an add-on commercial real estate tax which can be applied to non-residential commercial properties; and

WHEREAS, transportation capacity, infrastructure, and service are key issues for the City, as well as its businesses and residents; and

WHEREAS, tax policies, tax competitiveness, and how they impact businesses and the City economy are key issues for the City, as well as its businesses and residents; and

WHEREAS, 2008 is the first year when Northern Virginia jurisdictions can consider adopting this add-on commercial real estate tax; and

WHEREAS, City Council is scheduled to determine the maximum real estate tax rate, or rates, it can consider on March 15, 2008; and

WHEREAS, City Council is scheduled to adopt the calendar year 2008 real estate tax, or rates, on May 5, 2008; and

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Alexandria, Virginia that:

There is hereby established a group known as the Ad Hoc Commercial Transportation Tax Option Study Committee (the "Committee"):

1. The Committee shall consist of five members, including two members of the Budget and Fiscal Affairs Advisory Committee, two members of the Ad Hoc Transportation Task Force, and one member of the Chamber of Commerce.
2. The Committee shall be appointed by the Mayor and serve a term concluding by June 30, 2008.
3. The Committee shall select a chair from among its members.
4. The Committee's charge will be to:
 - a. Study the new commercial real estate transportation tax authority as enacted by the General Assembly, as well as the City's current and future transportation funding needs.

- b. Determine the positive and negative impacts of enacting such an add-on tax.
 - c. Recommend whether or not Council should enact such a tax for 2008 and beyond, and if so, what rate should be considered for 2008.
 - d. If enactment of such a tax is recommended, the Committee should also address the tax and transportation funding issues for a multi-year period.
 - e. If enactment of such a tax is recommended, recommend principles as to use and priority areas for funding.
 - f. Make other recommendations to Council related to these issues as the Committee deems appropriate.
- 5. By February 29, 2008, the Committee should report the results of its study and its recommendations to Council.
 - 6. Staff support of the Committee shall be provided by the Office of Management and Budget and the Department of Transportation and Environmental Services.

ADOPTED: _____

WILLIAM D. EUILLE Mayor

ATTEST:

Jackie M. Henderson, CMC, City Clerk