

EXHIBIT NO. 1

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~~12-15-07~~ ~~19~~
~~12-11-07~~

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 6, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

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

SUBJECT: AMENDMENT TO THE CODE OF THE CITY OF ALEXANDRIA
RELATING TO THE SEPARATE CLASSIFICATION OF CERTAIN
COMMERCIAL AND INDUSTRIAL REAL PROPERTY FOR POTENTIAL
LEVYING OF TAXES FOR TRANSPORTATION PURPOSES

ISSUE: Preliminary consideration of a transportation real estate taxation and funding option.

RECOMMENDATION: That City Council pass the proposed ordinance on first reading, and schedule it for public hearing, second reading and final passage Saturday, December 15, 2007.

DISCUSSION: House Bill (HB) 3202 (Chapter 896, Acts of the Assembly) was enacted by the General Assembly during the 2007 session to, among other things, provide sources of funding for transportation-related improvements and initiatives in Northern Virginia and Hampton Roads. Much of HB 3202 addresses the rights and powers of the Northern Virginia Transportation Authority (NVTA) and the Hampton Roads Transportation Authority (HRTA), through which certain taxes and fees could be levied and transportation improvements could be funded.

The legislation also authorized each authority's member jurisdictions, including the City of Alexandria, which is a member of the NVTA, to generate additional funding for local transportation-related projects and services by imposing an ad valorem tax on certain non-residential commercial and industrial properties. Specifically, HB 3202 amended the State Code to create a separate class of real property comprised of all real property used for or zoned to permit commercial or industrial uses. Residential uses, including multi-family units, are excluded from this classification and, therefore, not subject to this special transportation tax. As a member of NVTA, the City is authorized by the State Code to adopt this new transportation tax, in addition to existing real estate taxes. The City has discretion whether to use this new tax authority, and if so, can set a rate up to 25 cents per \$100 of assessed value. The proceeds of the additional tax may only be used for transportation-related operating or capital purposes.

In order for City Council to consider levying the tax as part of the FY 2009 budget process, the January 1, 2008, real estate assessments should reflect the dollar values and appropriate

classifications consistent with the amended State Code. The Department of Real Estate Assessments is working to include these classifications and valuations for 2008 assessments. Consistent with the advice of the City Attorney's Office, and consistent with similar Code changes recently adopted by Fairfax and Arlington counties (based on advice from their legal counsel), the proposed Code change implementing the separate classification of commercial property is recommended at this time so that Council has the ability to levy the tax and determine the tax rate, if and when it so chooses, in 2008 or a subsequent year.

Council's actions to date in regard to the commercial real estate add-on tax option have been to authorize the appointment of an Ad Hoc Committee to study this option. This Ad Hoc Committee will be comprised of two members from the City's Ad Hoc Transportation Task Force, two members from the City's Budget and Fiscal Affairs Advisory Committee, and one representative from the Alexandria Chamber of Commerce. The Ad Hoc Committee has been asked to report its findings and recommendations to Council by February 29, 2008. This timing will enable Council to have the Ad Hoc Committee's recommendations prior to the time in March when Council needs to advertise the proposed real estate tax rate(s) for 2008. A final Council decision on adopting, or not adopting, this commercial real estate tax rate option would occur in conjunction with the FY 2009 budget adoption on May 5, 2008. To date, Arlington and Fairfax counties have adopted enabling ordinances and have indicated their intent on adopting an add-on commercial real estate tax rate in 2008. Loudoun and Prince William counties have indicated that they do not intend to adopt this add-on commercial real estate tax rate.

As the HB 3202 is implemented, exactly how the finances will work is still being clarified due to ambiguities in the bill the General Assembly passed. At the NVTA level, NVTA has adopted a number of taxes and fees which will be effective on January 1, 2008, and are now expected to raise about \$280 million for the Northern Virginia region annually. These new NVTA revenues will fund, as priorities required by statute, annual NVTA debt service for projects that will benefit NVTA jurisdictions, a \$50 million allocation to the Washington Metropolitan Area Transit Authority (which is intended as match for increased federal funds), and \$25 million annually to the Virginia Railway Express. The 60% of the net balance of NVTA revenues then will be dedicated to projects that are requested by jurisdictions and approved in a NVTA six-year plan. NVTA jurisdictions will benefit proportionately based on jurisdictional situs of NVTA tax and fee generation. The remaining 40% of revenues are then allocated as a cash transfer to each NVTA jurisdiction based on situs of NVTA tax levy fee collections.

Interpreting how the funds will flow based on HB 3202 remains under discussion. When a locality levies the local add-on commercial real estate tax, the jurisdiction's 40% allocation may be reduced by some amount and the jurisdiction's 60% would be increased by some amount. Exactly how those amounts change when a jurisdiction adopts the add-on real estate tax rate (or the add-on decal fee) is not yet determined. *In any instance, the jurisdiction will be kept whole in total over time. However, the net effect of raising the commercial add-on real estate tax rate is that some or all of those NVTA 40% cash revenues transferred to jurisdictions will instead transfer to the 60% NVTA six-year plan category.* The following chart depicts the two allocation methods currently under discussion.

HB 3202 Allocation Methodologies
(\$ in Millions)

	If Add-On Tax is Adopted		
	Hypothetical Base Case	Option A	Option B
60% - NVTA Six Year Plan Locality Benefit	\$7.5	\$12.5	\$10.5
40% - NVTA Cash to Locality	5.0	-0-	2.0
Add-On Commercial Real Estate Tax Revenues Generated by Locality	-0-	5.0	5.0
Total Locality Benefit	\$12.5	\$17.5	\$17.5

FISCAL IMPACT: If City Council elects to levy the additional real estate tax on commercial and industrial properties, the tax would generate about \$0.9 million per year for each one cent of the additional tax that is levied, based on CY 2007 assessments.

ATTACHMENT: Proposed Ordinance.

STAFF:

Mark Jinks, Deputy City Manager
Cindy Smith-Page, Director, Department of Real Estate Assessments
Laura B. Triggs, Director of Finance
Roderick Williams, Assistant City Attorney

1	Introduction and first reading:	12/11/2007
2	Public hearing:	12/15/2007
3	Second reading and enactment:	12/15/2007

INFORMATION ON PROPOSED ORDINANCE

Title

AN ORDINANCE to amend Division 1 (REAL ESTATE) of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

Summary

As authorized by the HB 3202 (the transportation funding bill) adopted by the General Assembly in 2007, the proposed ordinance designates real property used for commercial and industrial uses, but not residential uses, as a separate class of property for real estate tax purposes. The proposed ordinance does not impose any new or additional taxes on such property at this time. Under HB 3202, any revenue resulting from tax on such property at a rate higher than the general real estate tax rate must be used for transportation purposes only. The decision on whether or not to adopt a special tax on commercial and industrial property, and on the amount of any new or additional tax, will be made by the City Council during Council's consideration of the FY 2009 budget. In order to preserve Council's option to consider such new or additional revenue in FY 2009, the property classification should be established at the start of the next tax year, January 1, 2008. However, unless there is subsequent action by Council, this proposed ordinance will not actually affect the real estate tax rate or structure in the City.

Sponsor

Staff

Mark Jinks, Deputy City Manager
Roderick Williams, Assistant City Attorney

Authority

§ 58.1-3321.3, Code of Virginia

Estimated Costs of Implementation

See memorandum from the City Manager

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

None

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ORDINANCE NO. _____

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THE CITY COUNCIL OF ALEXANDRIA HEREBY ORDAINS:

Section 1. That Division 1, Article M of Chapter 2 of Title 3 of The Code of the City of Alexandria, 1981 as amended, be, and the same hereby is, amended by adding thereto a new Section 3-2-188 to read as follows:

[The following is all new language.]

Sec. 3-2-188 Classification and taxation of certain commercial and industrial real property.

- a) Pursuant to the authority granted by Section 58.1-3221.3 of the Code of Virginia (1950), as amended, all commercial and industrial real property in the City of Alexandria classified by the General Assembly as a separate class of real property for local taxation shall be designated, assessed and taxed as a separate class of real property. Such separate class of real property shall not include any residential uses excluded by Section 58.1-3221.3 of the Code of Virginia.
- b) In addition to all other taxes and fees permitted by law, the class of real property designated in this section may, and if imposed by ordinance shall, be subject to a real property tax, in addition to that imposed by City Code Section 3-2-181 and any other applicable law, at the rate established by the City Council of the City of Alexandria, not to exceed the rate authorized by the Code of Virginia.
- c) All revenues generated from the real property tax imposed by this Section 3-2-188 shall be used exclusively for transportation-related projects and services that benefit the City of Alexandria.
- d) The real property tax imposed by this Section 3-2-188 shall be levied, administered, enforced and collected in the same manner as set forth in Subtitle III of Title 58.1 of the Code of Virginia and Chapter 2 of this Title for the levy, administration, enforcement and collection of local taxes.
- e) The director of the department of real estate assessments shall separately assess and set forth upon the City of Alexandria's land book the fair market value of that property that is designated as a separate class of real property in accordance with the provisions of this section.

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

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William D. Euille

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Mayor

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8 Introduction: 12/11/07

9 First Reading:

10 Publication:

11 Public Hearing:

12 Second Reading

13 Final Passage:

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ORDINANCE NO. 4512

AN ORDINANCE to amend Division 1 (REAL ESTATE) of Article M (LEVY AND COLLECTION OF PROPERTY TAXES), Chapter 2 (TAXATION), Title 3 (FINANCE, TAXATION AND PROCUREMENT) of The Code of the City of Alexandria, Virginia, 1981, as amended.

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

William D. Euille
Mayor

Final Passage: December 15, 2007

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12-15-07



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12/14/2007 02:10 PM

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cc

bcc

Subject COA Contact Us: Please help Alexandria Small Businesses & Consumers

Time: [Fri Dec 14, 2007 14:10:05] IP Address: [63.242.160.144]

Issue Type: Mayor, Vice Mayor, and Council Members
First Name: Bud
Last Name: Miller
Street Address: 115-D South Saint Asaph Street
City: Alexandria
State: VA
Zip: 22314
Phone: (703) 684-5312
Email Address: ersalexandria@msn.com
Subject: Please help Alexandria Small Businesses & Consumers
Mr. Mayor, City Council Members

This Saturday you will have the opportunity to demonstrate a commitment to support Alexandria Businesses and consumers by voting against the ordinance to amend Division 1 of Article M, Chapter 2, Title 3 of the Code of the City of Alexandria, Virginia, 1981, as amended. As you are doubtlessly aware, this proposal is the first step towards increasing commercial property taxes.

Increasing commercial property taxes will drive away new and established businesses as they search for friendlier jurisdictions. Alexandria shouldn't be chasing off the good local jobs attached to these businesses. Alexandria's unique economy, especially the small independent businesses concentrated in Del Ray and Old Town, will be

inordinately damaged by another tax increase in these economically
challenging times.

Comments:

Should the City Council increase commercial property
taxes, Alexandria consumers will face the prospect of higher prices as
businesses pass along the costs. Higher prices will especially hurt
low-income and less-mobile residents who have a harder time shopping around
for lower-priced goods.

Alexandria can capitalize on the recent
commercial property tax increases in some other Northern Virginia
localities by simply keeping the current tax rate the same. This will
naturally drive business and consumers to Alexandria. The City's leaders
can use this opportunity to foster a reputation for Alexandria as the most
pro-business jurisdiction in Northern Virginia.

We urge you to protect
our small businesses and consumers by rejecting this proposal and any
increase in the commercial property tax.

Bud Miller