

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 6, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

DOCKET TITLE:

..TITLE

Introduction and First Reading. Consideration. Passage on First Reading of an Ordinance to Establish the Real Estate and Personal Property Tax Rates for Calendar Year 2013 (Fiscal Year 2014).

..BODY

ISSUE: Consideration of the Real and Personal Property Tax Rates for Calendar Year 2013 (Fiscal Year 2014)

RECOMMENDATION: That City Council will:

- (1) Pass the proposed ordinance on first reading after establishing the tax rates to be advertised for residential and commercial real property and personal property; and
- (2) Set the ordinance for public hearing on Saturday, April 13, and second reading and final passage on Monday, May 6.

The maximum rates authorized by City Council in the attached ordinance reflect:

1. A base real estate tax rate on residential, commercial and industrial property for calendar year 2013 of \$___ per one hundred dollars of assessed valuation;
2. Assumed in this proposed amount is the continued dedication of 0.3% of real estate tax revenues for the Open Space Trust Fund Account to pay debt service costs on prior year borrowing for open space properties, the continued dedication of 0.6 cents for affordable housing, and the continued dedication of 0.5 cents for a stormwater infrastructure trust fund account;
3. Assumed in the proposed amount is the continued reservation of 2.2 cents of the real property tax rate for transportation projects;
4. A special services district tax is proposed to continue to be levied on all real property located

in the Tier I Potomac Yard Metrorail Station Special Services District at the current rate of \$0.20 per one hundred dollars of valuation.

5. A personal property tax rate on vehicles for calendar year 2013 of \$5.00 per one hundred dollars of valuation. Tax rates on other classes of personal property are not proposed to change for calendar year 2013.

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 when they vote on the budget and set tax rates on May 6.

It should be noted, as discussed below, that the State Code requires a separate public hearing (i.e., separate from the budget hearing on March 11th) 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). An increase of more than one percent is termed by statute an “effective tax rate increase.” This would be the case in CY 2013 as taxes levied at the current \$0.998 rate reflect a 3.33 percent increase for all classes of real property (after the value of new construction has been deducted). It should be noted that the maximum tax rate that will be advertised may be different from the City Manager’s proposed tax rate. In addition to the 2.5 cent tax increase in the Manager’s proposed Budget, City Council Guidance includes a provision to include a proposal for an additional 3 cent tax increase. This 3 cent increase would generate an additional \$10.4 million and increase the proposed tax rate to \$1.053. If City Council enacted both the 2.5 cent tax and the 3 cent tax, the combined real estate tax rate of \$1.053 reflects a 9.0 percent effective tax increase. The tax rate that would generate the same revenue as FY 2013 is \$0.966. Also, State law requires, in the circumstance of an increase in taxes levied in excess of 1%, to maintain or increase the current real property tax rate, that a special “notice of proposed real property tax increase” in a specific format and language be placed in a local newspaper of general circulation. We plan that the separate hearing on the “effective real property tax increase” be held on April 13th, with the special notice of the hearing date, as required specifically by State statute, printed in two newspapers prior to that hearing. The advertisements will be placed in the Alexandria Times and the Alexandria Gazette Packet on March 14th, 30 days prior to the public hearing.

I propose that City Council act on Tuesday, March 12th to establish the maximum real estate tax and personal property tax rates which will be advertised in advance of the April 14 public hearing on the tax ordinance to be considered.

The following is the planned schedule for calendar year 2013 (FY 2014):

<u>Date:</u>	<u>Topic:</u>
March 11	Budget Public Hearing
March 12	Council sets maximum real estate tax rates and personal property tax rate to be advertised

- April 13 Public hearing on the real and personal property tax rates and property tax related ordinance
- April 13 Public hearing on effective tax rate increase
- May 6 Final adoption of the budget and related tax ordinances

The FY 2014 proposed operating budget reflects a 5.5 cent increase in the real property tax rate of \$0.998 per \$100. The proposed budget and the proposed ordinance assume the continuation of the dedication of 0.6 cents of the base real estate tax rate for affordable housing, the dedication of 0.3 percent of the real estate tax revenues for open space (exclusive of any add-on tax for transportation purposes on commercial properties) and the continuation of the dedication of 0.5 cents for the Stormwater Management Infrastructure Trust Fund. The proposed budget and the proposed ordinance also assume the continuation of the reservation of 2.2 cents for transportation projects. In addition, the proposed budget and the proposed ordinance assume the same Tier I Potomac Yard Metrorail Station Special Services District Tax Rate of \$0.20 for all real property located in that District.

Value of one cent	1.0 cent	\$3.4 million
Value of three cents for capital	3.0 cents	\$10.4 million
Tax ordinance dedicated taxes		
Proposed tax increase	2.5 cents	\$8.6 million
Affordable Housing	0.6 cents	\$2.1 million
Open Space	0.3 percent	\$1.1 million
Storm Water Management	0.5 cents	\$1.7 million
Potomac Yard Special Services	20 cents	\$0.5 million
Council Reserved Taxes		
Transportation Improvement	2.2 cents	\$7.6 million

The FY 2014 Proposed Operating budget reflects a 25 cent change from \$4.75 to \$5.00 per \$100 of assessed value for tangible personal property. The remaining personal property tax rates remain unchanged:

- \$5.00 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 certain vehicles for hire, and
- \$.01 for privately-owned pleasure boats and watercraft that are used for recreational purposes only.

FISCAL IMPACT: If a tax rate of \$1.053 was enacted in the base real estate tax on each \$100 of assessed value for calendar year 2013, \$349.7 million would be generated in FY 2013 and \$368.2 million in FY 2014. It should be noted that the 2013 calendar year tax rate impacts the tax payment made in June 2013, which falls in FY 2013. In the fiscal impact below, the impact of the change in tax rate will be described in terms of its effect on FY 2013 and FY 2014.

Since 2004 the City has dedicated a portion of real estate tax revenues to the acquisition and development of open space. The dedicated tax rate for open space started as \$0.01 of the real

estate tax rate, and then in 2007 was changed to 1 percent of real estate tax revenues. In 2009, the Open Space dedication was reduced to 0.3 percent. The 0.3 percent dedication will generate \$1.0 million in FY 2013 and \$1.1 million in FY 2014 to pay debt service costs on prior year borrowing for open space purposes. The City has issued \$10 million for open space purposes. No new debt is anticipated for Open Space in FY 2014.

In the FY 2010 Approved Budget, the City reduced its dedication for affordable housing to 0.7 cents. The FY 2012 budget reduced the dedication to 0.6 cents of the real estate tax rate. In FY 2014, this is estimated to generate \$2.1 million, of which \$1.4 million is needed for debt service. The remaining \$0.7 million is available for affordable housing initiatives. If Council chooses to change the affordable housing dedication, a separate ordinance will be required and introduced at the time the budget is approved.

In FY 2011, City Council approved the dedication of 0.5 cents for stormwater management. The half cent is expected to generate an estimated \$1.7 million in both FY 2013 and FY 2014 and will be used primarily for capital projects related to maintenance and improvements of the City's stormwater infrastructure.

The Tier I Potomac Yard Special Services tax rate of 20 cents is projected to raise \$0.5 million in Calendar Year 2013.

ATTACHMENTS:

Attachment 1: Cover Sheet

Attachment 2: Proposed Ordinance

STAFF:

Laura Triggs, Chief Financial Officer

Nelsie Smith, Budget Director