



- (2) Set the ordinance for second reading and public hearing on Saturday, April 17 and final passage on Wednesday, May 5.

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

A base real estate tax rate on residential, commercial and industrial property for calendar year 2021 of \$\_\_\_ per one hundred dollars of assessed valuation. The FY 2022 proposed budget reflects a real estate tax rate of \$1.11; as well as presents a budget with a real estate tax rate of \$1.13, as well as a budget with a real estate tax rate of \$1.07.

- 1.) Assumed in this proposed amount is the continued dedication of 0.6 cents for affordable housing;
- 2.) Assumed in the proposed amount is the continued reservation of 2.2 cents of the real property tax rate for transportation projects;
- 3.) 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;

For all other taxes, the following rates are proposed:

4. A personal property tax rate on vehicles for calendar year 2021 of \$\_\_\_ per one hundred dollars of assessed value. The FY 2022 proposed budget recommends a vehicle personal property tax rate of \$5.33 to fund the base budget; and
5. A tangible business personal property tax rate for calendar year 2021 of \$\_\_\_ per one hundred dollars of assessed value and a machinery and tools tax rate of \$\_\_\_ per hundred dollars of assessed value. The FY 2022 proposed budget recommends a tangible personal property tax rate of \$4.75 and a machinery and tools tax rate of \$4.50 to fund the base budget.

**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 Code requirement mandates that Council advertise the highest rates under consideration that could potentially be adopted when Council votes on the

FY 2022 budget and sets the 2021 tax rates on May 5, 2021. State Code also requires a separate public hearing (i.e., separate from the budget hearing on March 8th) on the real property tax rate if the taxes 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 as the “effective tax rate increase.” Although the Manager’s Proposed Budget proposes a tax rate of \$1.11, which is below the rate of \$1.12 that would generate 101 percent of the revenue generated last year, the current tax rate of \$1.13 is higher and would result in an effective slight tax rate increase, if not lowered. Each \$0.01 change in the real estate tax rate impacts revenue by \$4.3 million.

It should be noted that the advertised maximum tax rate can be different from the \$1.11 tax rate reflected in the proposed budget. The tax rate that would generate no more than 101% of the revenue as FY 2021 is \$1.12. Staff will prepare the appropriate notification based on the maximum advertised tax rate determined by City Council.

State law also requires 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 if the proposed tax rate results in a tax greater than one percent above the prior year tax levy. A separate hearing on this ordinance and the “effective real property tax increase” will be held on April 17th. The special notice of the hearing date, as required by State statute, is printed in at least one newspaper prior to that hearing. The advertisement will be placed in The Washington Times on March 12, which is more than 30 days prior to the public hearing. The advertisement will also be placed in the Alexandria Gazette on March 18.

It is necessary for City Council to act on Tuesday, March 9 to establish the maximum real estate tax and personal property tax rates which will be advertised in advance of the April 17 public hearing on the tax ordinance to be considered.

The following is the planned schedule for calendar year 2021 (FY 2022):

<u>Date:</u>	<u>Topic:</u>
March 8	Budget Public Hearing
March 9	Council sets maximum real estate tax rates and personal property tax rate to be advertised
April 17	Public hearing on the real and personal property tax rates and property tax related ordinance
April 17	Public hearing on effective tax rate increase
May 5	Final adoption of the budget and related tax ordinances

The FY 2022 Proposed Operating Budget reflects a two cent decrease in the tax rate from \$1.13 per \$100 to \$1.11 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 and the continuation of the reservation of 2.2 cents for transportation projects. In addition, the proposed budget and the proposed ordinance assume continuation of the Tier I Potomac Yard Metrorail Station Special Services District Tax Rate of 20 cents for all real property located in that District.

Below are the values attributed to dedicated taxes and Council reserved taxes.

Dedicated and Reserved Taxes:

Affordable Housing:	0.6 cents \$2.59 million
Potomac Yard Special Services:	20 cents \$1.37 million
Council Reserved Taxes:	
Transportation Improvements:	2.2 cents \$9.51 million

Value of one cent (on all taxable real property): \$4.32 million

The FY 2022 Proposed Operating budget reflects no change per \$100 of assessed value to the current various personal property tax rates:

\$5.33 for tangible vehicle personal property,

\$4.75 for business 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

\$0.01 for privately-owned pleasure boats and watercraft that are used for recreational purposes only.

**FISCAL IMPACT:** The real estate tax rate of \$1.11 reflected in the FY 2022 budget on each \$100 of assessed value for calendar year 2021 is expected to generate a total of \$476.9 million in

FY 2021 (including \$238.0 million in June 2021) and \$483.3 million in FY 2022. The 2021 calendar year tax rate affects the first half tax levy due in June 2021, which falls in FY 2021 and the second half tax levy due in November 2021, which falls in FY 2022.

For each \$0.01 increase in the 2021 real estate tax rate, an additional \$2.1 million would be raised in FY 2021, and \$4.3 million in FY

2022.

In FY 2022, the \$0.6 cents for affordable housing is estimated to generate \$2.59 million, of which \$1.7 million is needed for debt service. The remaining \$0.89 million is budgeted for affordable housing initiatives. If Council chooses to change the affordable housing dedication, a separate ordinance will be required and introduced at a later date.

The Tier I Potomac Yard Special Services District tax rate of \$0.20 per \$100 of valuation at Potomac Yard is projected to raise \$1.35 million in Fiscal Year 2022 for Potomac Yard Metrorail Station funding purposes.

**ATTACHMENTS:**

Attachment 1 - Ordinance Cover

Attachment 2 - Proposed Ordinance

**STAFF:**

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