

A base real estate tax rate on residential, commercial and industrial property for calendar year 2024 of \$___ per one hundred dollars of assessed valuation. The FY 2025 proposed budget reflects a real estate tax rate of \$1.11. Also included in the FY 2025 Proposed Operating budget is an alternative option with a one cent increase.

1. Assumed in this proposed amount is the continued dedication of 1.0 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 2024 of \$___ per one hundred dollars of assessed value. The FY 2025 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 2024 of \$___ per one hundred dollars of assessed value and a machinery and tools tax rate of \$___ per hundred dollars of assessed value. The FY 2025 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 2025 budget and sets the 2024 tax rates on May 1, 2024. State Code also requires a separate public hearing (i.e., separate from the budget public hearings on March 11 and March 16) 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.” The City Manager’s Proposed Budget proposes a tax rate of \$1.11, which is unchanged from last year. The tax base appreciation for all locally assessed taxable property, not including new growth, is 0.11 percent. As a result, there is no effective tax rate increase this year.

It is necessary for City Council to act on Tuesday, March 12 to establish the maximum real estate tax and personal property tax rates which will be advertised in advance of the April 24 public hearing on the tax ordinance to be considered.

The following is the planned schedule for calendar year 2024 (FY 2025):

<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
March 16	Public Hearing, including FY 2025 Budget
April 24	Public hearing on the real and personal property tax rates and property tax related ordinance
May 1	Final adoption of the budget and related tax ordinances

The FY 2025 Proposed Operating Budget reflects no change in the current tax rate of \$1.11 per \$100. The proposed budget and the proposed ordinance assume the continuation of the dedication of 1.0 cent 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.

<u>Dedicated and Reserved Taxes:</u>	
Affordable Housing:	1.0 cents \$4.71 million
Potomac Yard Special Services:	20 cents \$1.61 million
Council Reserved Taxes:	
Transportation Improvements:	2.2 cents \$10.36 million

Value of one cent (on all taxable real property): \$4.71 million

The FY 2025 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 2025 budget on each \$100 of assessed value for calendar year 2024 is expected to generate a total of \$534.5 million, before tax relief (including \$267.2 million in June 2024) and \$267.2 million in FY 2025. The 2024 calendar year tax rate affects the first half tax levy due in June 2024, which falls in FY 2024 and the second half tax levy due in November 2024, which falls in FY 2025. For each \$0.01 increase in the 2024 real estate tax rate, an additional \$2.4 million would be raised in FY 2024, and \$4.7 million in FY 2025.

In FY 2025, the \$1.0 cents for affordable housing is estimated to generate \$4.71 million, of which \$1.49 million is needed for debt service. The remaining \$3.22 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 \$1.6 million in Fiscal Year 2025 for Potomac Yard Metrorail Station funding purposes.

Tax exempt property in the City, including governmental and non-governmental properties, total \$5.78 billion. The amount of revenue that is foregone from tax exemption is \$64.1 million. Tax relief is provided for eligible property owners through the City's Elderly and Disabled Tax Relief program, and to Disabled Veterans and Spouses of Veterans Killed in Action. In FY 2025, it is estimated that \$8.0 million will be relieved for eligible applicants.

ATTACHMENTS:

- Attachment 1 - Ordinance Cover
- Attachment 2 - Proposed Ordinance

STAFF:

- Morgan Routt, Budget Director
- Amanda Hamm, Assistant Budget Director