



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** MARCH 8, 2017

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** MARK B. JINKS, CITY MANAGER /s/

**DOCKET TITLE:**

Consideration. Passage on First Reading of an Ordinance on the Proposed Real and Personal Property Tax Rates and Proposed Effective Tax Rate Increase for Calendar Year 2017 (Fiscal Year 2018).

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**ISSUE:** Consideration of the Real and Personal Property Tax Rates for Calendar Year 2017 (Fiscal Year 2018).

**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 22 and second reading and final passage on Thursday, May 4.

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 2017 of \$\_\_ per one hundred dollars of assessed valuation. The FY 2018 proposed budget recommends a real estate tax rate of \$1.10 to fund the base budget and presents a supplemental CIP with tax funding options for City Council consideration;
2. Assumed in this proposed amount is the continued dedication of 0.6 cents for affordable housing and the continued dedication of 0.5 cents for the storm water infrastructure trust fund account for the first half of

Fiscal Year 2018;

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 2017 of \$\_\_\_\_ per one hundred dollars of assessed value. The FY 2018 proposed budget recommends a vehicle personal property tax rate of \$5.00 to fund the base budget and presents a supplemental CIP with tax funding options for City Council consideration.
6. A tangible business personal property tax rate for calendar year 2017 of \$\_\_\_\_ per one hundred dollars of assessed value and a machinery and tools tax rate of \$\_\_\_\_ per hundred dollars of assessed value. The FY 2018 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 and presents a supplemental CIP with tax funding options for City Council consideration.

**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 that could be adopted when it votes on the budget and sets the tax rates on May 4.

State Code also requires a separate public hearing (i.e., separate from the budget hearing on March 13th) 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.” This would be the case in CY 2017 as taxes levied at the proposed \$1.10 rate result in a 4.3 percent increase for all classes of real property (after the value of new construction has been deducted).

It should be noted that the advertised maximum tax rate may be different from the City Manager’s proposed tax rate. The tax rate that would generate the same revenue as FY 2017 is \$1.054.

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 22<sup>nd</sup>. The special notice of the hearing date, as required by State statute, printed in at least one newspaper prior to that hearing. The advertisement will be placed in Washington Times on March 16<sup>th</sup> more than 30 days prior to the public hearing. The advertisement will be placed in the Alexandria Gazette on March 16<sup>th</sup>.

It is necessary for City Council to act on Tuesday, March 14 to establish the maximum real estate tax and personal property tax rates which will be advertised in advance of the April 22<sup>nd</sup> public hearing on the tax

ordinance to be considered.

The following is the planned schedule for calendar year 2017 (FY 2018):

<u>Date:</u>	<u>Topic:</u>
March 13	Budget Public Hearing
March 14	Council sets maximum real estate tax rates and personal property tax rate to be advertised
April 22	Public hearing on the real and personal property tax rates and property tax related ordinance
April 22	Public hearing on effective tax rate increase
May 4	Final adoption of the budget and related tax ordinances

The FY 2018 Proposed Operating Budget reflects an increase in the real property tax rate of 2.7 cents, from \$1.073 to \$1.10 per \$100. The FY 2018 Proposed Budget also presents a supplemental CIP (p. 16.3) that illustrates tax revenue options City Council could consider to fund the supplemental CIP which include raising the real estate tax rate by 5 cents, the personal property and tangible property tax by 50 cents and the meal sales tax by 1 percent. 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. The proposed budget and proposed ordinance also assume the dedication of 0.5 cents for the Stormwater Management Infrastructure Trust Fund for the first half of Fiscal Year 2018. In addition, the proposed budget and the proposed ordinance assume the same 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	\$2.31 million
Storm Water Management:	0.5 cents	\$0.96 million
Potomac Yard Special Services:	20 cents	\$1.12 million
Council Reserved Taxes:		
Transportation Improvement:	2.2 cents	\$8.48 million

Value of one cent (on all taxable real property):	\$3.85 million
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The FY 2018 Proposed Operating budget reflects no change per \$100 of assessed value to the current various personal property tax rates:

\$5.00 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 proposed real estate tax rate of \$1.10 in the base real estate tax on each \$100 of assessed value for calendar year 2017 is expected to generate \$410.1 million in

FY 2017 and \$424.4 million in FY 2018. The 2017 calendar year tax rate affects the first half tax levy due in June 2017, which falls in FY 2017 and the second half tax levy due in November 2017, which falls in FY 2018.

For each \$0.01 increase in the real estate tax rate, an additional \$1.9 million would be raised

FY 2017, and \$3.9 million in FY 2018.

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 2018, this is estimated to generate \$2.3 million, of which \$1.4 million is needed for debt service. The remaining \$0.9 million is available for affordable housing initiatives and was planned in the FY 2017 budget to leverage the borrowing of \$5.2 million for affordable housing purposes. If Council chooses to change the affordable housing dedication, a separate ordinance will be required and introduced at a later date.

In FY 2011, City Council approved the dedication of 0.5 cents for storm water management. In FY 2018, the half cent dedication will be set aside for the first half of FY 2018 due to the implementation of the Storm Water Utility Fee for the second half of FY 2018. The half cent dedication is estimated to generate \$0.96 million 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 District tax rate of \$0.20 per \$100 of valuation at Potomac Yard is projected to raise \$1.1 million in Calendar Year 2017 for Potomac Yard Metrorail Station funding purposes.

**ATTACHMENTS:**

Attachment 1 - Ordinance Cover

Attachment 2 - Proposed Ordinance

**STAFF:**

Laura Triggs, Deputy City Manager

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