



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** MARCH 6, 2019

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

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

**DOCKET TITLE:**

Public Hearing and Second Reading of an Ordinance on the Proposed Real and Personal Property Tax Rates and Proposed Effective Tax Rate Increase for Calendar Year 2019 (Fiscal Year 2020).

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**ISSUE:** Consideration of the Real and Personal Property Tax Rates for Calendar Year 2019 (Fiscal Year 2020).

**RECOMMENDATION:** That City Council:

- (1) Pass this 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 second reading and public hearing on Saturday, April 13 and final passage on Wednesday, May 1.

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 2019 of \$\_\_\_ per one hundred dollars of assessed valuation. The FY 2020 proposed budget reflects a real estate tax rate of \$1.13 to fund the base budget;
2. Assumed in this proposed amount is the continued dedication of 0.6 cents for affordable housing;
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 2019 of \$\_\_\_\_ per one hundred dollars of assessed value. The FY 2020 proposed budget recommends a vehicle personal property tax rate of \$5.00 to fund the base; and
6. A tangible business personal property tax rate for calendar year 2019 of \$\_\_\_\_ per one hundred dollars of assessed value and a machinery and tools tax rate of \$\_\_\_\_ per hundred dollars of assessed value. The FY 2020 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 2020 budget and sets the 2019 tax rates on May 1. State Code also requires a separate public hearing (i.e., separate from the budget hearing on March 11th) 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 2019 as taxes levied at the proposed \$1.13 rate result in a 2.40 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 can be different from the \$1.13 tax rate reflected in the proposed budget. The tax rate that would generate the same revenue as FY 2019 is \$1.099, but that would not be sufficient to fund the FY 2020 proposed budget. The City Manager’s FY 2020 proposed budget reflects City Council’s budget guidance to present a budget balanced at the City’s existing \$1.13 rate. In the FY 2020 budget document there is a budget options list (page 2.12), totaling \$3.585 million, which if Council desired would require the real estate tax rate to increase from \$1.13 to \$1.139

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 13th. 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 The Washington Times on March 13, 30 days prior to the public hearing. The advertisement will also be placed in the Alexandria Gazette on March 14.

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 13 public hearing on the tax ordinance to be considered.

The following is the planned schedule for calendar year 2019 (FY 2020):

<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 1	Final adoption of the budget and related tax ordinances

The FY 2020 Proposed Operating Budget reflects no change in the tax rate of \$1.13 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 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	\$2.44 million
Potomac Yard Special Services:	20 cents	\$1.23 million
Council Reserved Taxes:		
Transportation Improvement:	2.2 cents	\$8.97 million
Value of one cent (on all taxable real property):		\$4.08 million

The FY 2020 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 real estate tax rate of \$1.13 reflected in the FY 2020 budget on each \$100 of assessed value for calendar year 2019 is expected to generate \$450.2 million in

FY 2019 and \$462.8 million in FY 2020. The 2019 calendar year tax rate affects the first half tax levy due in June 2019, which falls in FY 2019 and the second half tax levy due in November 2019, which falls in FY 2020.

For each \$0.01 increase in the real estate tax rate, an additional \$2.01 million would be raised in

FY 2019, and \$4.08 million in FY 2020.

In FY 2019, the \$0.6 cents for affordable housing is estimated to generate \$2.44 million, of which \$1.85 million is needed for debt service. The remaining \$0.6 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 \$1.23 million in Fiscal Year 2020 for Potomac Yard Metrorail Station funding purposes.

**ATTACHMENTS:**

Attachment 1 - Ordinance Cover

Attachment 2 - Proposed Ordinance

**STAFF:**

Kendel Taylor, Director of Finance

Morgan Routt, Budget Director