

# City of Alexandria, Virginia

## MEMORANDUM

DATE: MARCH 17, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO # 19: ENERGY EFFICIENT TAX CREDIT PROGRAM FOR ENVIRONMENTALLY EFFICIENT BUILDINGS

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This is in response to a request from Council Member Krupicka for information regarding the cost of implementing a program similar to the Roanoke tax credit program for energy efficient buildings. Virginia Code section 58.1-3221.2 allows energy efficient buildings, not including the land on which they are located, to be a separate class of property which can constitute a separate classification for tax purposes.

On July 1, 2007, the City of Roanoke, Virginia implemented an ordinance providing a special tax rate for energy efficient buildings. An energy efficient building is defined as a building that exceeds the energy efficiency standards prescribed in the Virginia Uniform Statewide Code by 30 percent. Energy efficient buildings were declared to be a separate class of property. Roanoke reduces the tax rate on such buildings by 10 percent. In Calendar Year 2010, the nominal real tax rate for a typical parcel of real estate in Roanoke was \$1.19; the tax rate for a building classified as an energy efficient building was \$1.07. The energy efficient classification remains in effect for the tax year and the following four tax years, at which time the building the building reverts to regular real estate rate.

In Roanoke, applications are filed with the Department of Planning, Building, and Development, which then inspects the property to ensure certification. The City uses "Res Check" and "Comm Check" software, available from the Department of Energy. Once approval is granted, Roanoke's real estate assessment office adjusts its real estate database accordingly. Since the program was implemented, 27 out of 46,000 properties have been certified as energy efficient and have received the new tax rate, including 1 commercial property. Many of those buildings were in a new townhouse complex; the developer used the certification as a selling point. The City of Roanoke has made efforts to publicize the program, but the tax credit program was implemented at about the time the economy began to turn sour, and it is likely that the downturn has reduced demand for energy efficient construction.

In the City of Alexandria, the average assessment for a single family home is \$612,749. In a typical assessment, the building makes up about half the total value of the assessment. The table below shows the annual savings for the average homeowner claiming such a credit would be \$297 under the City Manager's proposed budget.

**Real Estate Tax for Average SFD Homeowner**

Without credit				With Credit			
	Current	Tax Rate	Tax		Current	Tax Rate	Tax
land	306,374	0.973	2,981	land	306,374	0.973	2,981
building	306,374	0.973	2,981	building	306,374	0.876	2,684
total	612,748	0.973	5,962	total	612,748	0.973	5,665

**savings = \$297**

The number of City parcels in Alexandria is slightly less than the number in Roanoke, so if the response rate is similar, the reduction in City revenues from the implementation of a 10% reduction in the real estate tax on energy efficient buildings would be around \$7,700 per calendar year.

**Administrative Costs of Implementation**

To implement such a program, Code Administration would have to review and inspect properties to determine if the property qualifies. Queries from the public regarding the program may have the most significant impact on the work load. The tax rate adjustment would require Real Estate Assessments to flag and annually track qualifying parcels during the exemption period. Also, the Finance Department would have to create a method in their tax system to apply a different tax rate to an energy efficient building. Assuming the number of parcels impacted is not significant, this may be a manual process.

It is possible that the administrative costs of implementation could be higher than the tax reduction, assuming the popularity of the program is comparable to that of Roanoke.