City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 28, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #16 : PROPOSED TAX AND FEE RATES ADVERTISEMENT

At the March 15 budget work session on revenues, where a presentation of tax and fee options was made, Council requested that staff propose a list of tax and fee options for active consideration in order that Council could further reduce the real estate tax rate. The following tax and fee options are proposed:

TAX RELIEF PROGRAMS IN PROPOSED BUDGET:

(1) AHOP Program Expansion

- Increase $250 credit to a three tier program
  $675 credit below $40,000 income
  $475 credit for $40,000 to $50,000 incomes
  $275 credit for $50,000 to $62,000 incomes
- Credits scaled back from proposed to reflect lower real estate tax rate
- Increase maximum home value to $441,823
- Estimated cost of $750,000 in the FY 2006 base budget ($250,000 savings from $1.0 million amount budgeted)

(2) Senior/Disabled Tax Relief

- Prorate in year in which homeowner turns 65 years of age
- Increase income deduction for other relatives living in the home from $8,500 to $10,000
- No measurable cost for above two changes
- Lower real estate tax rate creates $0.2 million budget savings from $2.7 million budgeted for FY 2006

(3) BPOL Tax Reform for Small and Medium Businesses

- Eliminates estimating process for most businesses with annual gross receipts of $2 million or less
- $50 rate for first year
- Cost estimate equals $0.2 million budgeted in FY 2006. Full year cost in FY 2007 will equal $0.4 million.

TAX AND FEE OPTIONS (NOT IN PROPOSED BUDGET):

(1) Cell Phone Tax

- 10% of first $30, or about $3 per month per cell phone number
- In place in Fairfax, Prince William and Loudoun Counties
- In place in 110 other Virginia counties, cities and towns
- Creates "equitable" treatment with land line tax
- Could generate $2.0 million per year

(2) Cigarette Tax

- Raise current City cigarette tax from 50¢ to 70¢ per pack
- 20¢ increase would generate $0.8 million per year (reflects assumed 6% sales decline)
- Current 50¢ per pack rate

(3) Sanitary Sewer Use Fee

- Proposed budget has fee increase of 20¢ (60¢ to 80¢ per 1,000 gallons)
- Increasing rate to $1.00 already planned for FY 2007
- Increasing rate to $1.00 in FY 2006 would generate $1.2 million in added revenue in FY 2006 and place sanitary sewer operating, capital and debt service expenses on a 100% fee supported basis one year earlier than planned

(4) <u>50¢ Admissions Tax</u>

- 50¢ per ticket would raise $1.3 million annually
- BFAAC has endorsed (9-2) admissions tax (report forthcoming)
- Would apply only to categories mandated by state code (unless exempted)
  - movies
  - live entertainment (music, plays, lectures, etc.)
  - boat tours
  - walking tours
  - political and non-profit fundraisers (unless exempted below)
  - non-school sporting events
- Exemptions for
  - public and private school events
  - college sponsored events
  - student sponsored events at schools and colleges
  - fundraising events where the proceeds go towards charitable purposes to organizations who have a state sales tax exemption
  - fundraising where 100% of the admissions proceeds go to charitable purposes
  - participating in sporting events
  - museums
  - boat chartering
  - events not open to the public (i.e., open to members and guests only)
- If event is taxable and is held in the City, then it applies to phone and Internet admissions purchases

If Council concurs, a first reading would occur April 12. Staff would proceed to advertise the above tax and fee options for public hearing on April 26. Final Council action is scheduled for May 2 in conjunction with the adoption of the budget and property tax rates. The BPOL tax reform (and possibly the Admissions Tax) will be more complicated to draft and will likely take until May for advertisement and public hearing, but estimated revenues can be assumed in the adopted budget from these or alternative services.

The following tax categories, which were discussed with Council on March 15, are proposed not to change:

(1) Commercial utility - electricity
(2) Meals tax
(3) Transient lodging tax
(4) E-911 tax
(5) Real estate tax deferral