



APARTMENT AND OFFICE BUILDING
ASSOCIATION OF
METROPOLITAN WASHINGTON

February 21, 2008

City of Alexandria Transportation Tax Option Study Committee
c/o the Office of the City Clerk
301 King Street, Room 2300
Alexandria, Virginia 22314

Members of the City of Alexandria Transportation Tax Option Study Committee:

As you and your colleagues evaluate the local option authority provided by the Virginia General Assembly in 2007 H.B. 3202, I thank you in advance for your consideration of the below comments submitted on behalf of the Apartment and Office Building Association (AOBA) of Metropolitan Washington.

AOBA represents the owners and managers of more than 180 million square feet of commercial office space across the region. Approximately 57 million square feet of that total is in Northern Virginia, much of which is located in the city of Alexandria and would therefore be subject to any increased levy on commercial property. As direct stakeholders in the city's decision whether to utilize the newly endowed authority and to what level it is ultimately exercised, our organization urges that great caution be taken to avoid the potentially negative impacts of increasing the commercial property tax rate beyond a very modest level and we respectfully request that your report to the City Council include a similar warning.

To be clear, our organization does not oppose the enactment of the local option commercial property tax increase. In fact, AOBA has been a participant in the coalition of Northern Virginia business organizations which has lobbied extensively over the past several years for funding solutions to the region's ongoing transportation crisis. Our members joined in this effort with a recognition and acknowledgement of the significant impact that our region's virtual paralysis has daily on their businesses as well as the quality of life of their tenants. Acting in this interest, AOBA ultimately endorsed H.B. 3202, including the local option funding mechanisms it created.

The significance of this position should not be discounted as it represents the willingness of our industry to take on an additional financial burden to alleviate the critical problem of regional transportation congestion. It is important to note, however, that the business community's support of H.B. 3202 was predicated on certain assurances that the commercial real estate tax would not be increased at the high end of that which was authorized by the General Assembly. While the legislation allows for an increase of up to 25 cents per \$100 assessed value, the projected budget and revenue targets underlying the legislation were premised on an increase not to exceed 10 cents; a fact which figured significantly into the willingness of the commercial real estate industry to embrace the funding package. It is of further importance that other burdens borne by the



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business community and the potential unintended consequences of too large an increase in the commercial property tax be taken into consideration in your committee's deliberations.

It is certainly worth noting that the business community – and the real estate industry in particular – is currently held responsible for footing the bill for the construction of a great share of the Commonwealth's infrastructure. Businesses contribute not only through standard property, income and other taxes, but also through special taxing districts and proffers contributed by developers. In addition to these expenses, local businesses and building owners have also been faced in recent years with sharply escalating utility costs (with increases on the magnitude of 25 to 30 percent on average) as well as security and insurance costs unique to the capital region.

Also contributing to the increased cost of doing business in the city has been the recent trend of rising assessments of commercial properties. Indeed, City Manager James K. Hartmann himself acknowledged in his budget presentation earlier this month that it was the increased revenues generated by rising commercial property assessments which allowed for the proposed budget to include a flat-line real property tax rate and some measure of tax relief to residential property owners. Though real estate tax assessments are by nature cyclical, it would be ill-advised to forge ahead with a steep increase in the tax rate at a time when the average commercial property assessment is also rising by 12.1 percent. To sharply increase the tax rate for commercial properties simultaneously with a large increase in the level of assessments would create significant inequity in the distribution of the overall tax burden with the demand placed on local government for services rendered.

It is absolutely imperative that great care be taken not to thusly overburden local businesses with additional taxes, which can stifle the local economy by creating a competitive disadvantage for those businesses which operate within the region. This could have the clearly unintended effect of driving away those businesses to neighboring jurisdictions or other areas of the country with more competitive tax rates. The County's tax structure will further impact future economic development and business attraction efforts, as it is a major factor that all businesses will weigh as they look at locating within in the city of Alexandria.

The thousands of businesses – both small and large – which make up the city's commercial tenant base face numerous financial pressures. It is therefore critical that the city not proceed too quickly in raising taxes on that particular constituency per the newly endowed authority. To do so would produce unintended negative consequences that could harm the business climate and diminish the commercial tax base over the long term. Again, we respectfully request your inclusion of such cautions in your forthcoming report to the City Council and that moderation be reflected in your recommended course of action. Thank you for your service and your consideration on behalf of the commercial and multi-family residential real estate industry.

Warmest regards,

Brian M. Gordon
Vice President Government Affairs, Virginia

cc: The Honorable William Euille, Mayor
Alexandria City Council

