

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 12, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO #16: STORMWATER UTILITY FOLLOW-UP INFORMATION

This memorandum is in response to questions raised at the March 3, 2010 budget work session regarding the stormwater utility fee.

The stormwater utility fee and the real estate property tax each have advantages and disadvantages as instruments for funding stormwater improvements. Real estate taxes are tax deductible for property owners and simpler to administer. Stormwater utility fees provide greater property owner equity by charging a larger share of stormwater fees to the properties that most significantly impact stormwater runoff. A stormwater utility fee structure would also include incentives for property owners to reduce their properties' impact on stormwater runoff by minimizing the impervious surface or engaging in best stormwater management practices.

The following are the specific questions from Council with staff's response.

Would the stormwater management fee be eligible for homeowners to take as deduction from their federal income tax?

Although billed along with the City's solid waste fee on the City's semi-annual real estate tax bill, a stormwater utility fee would not be eligible as a federal income tax deduction on individual tax returns. It would be a business expense and therefore can be included with other business expenses in determining a business's tax liability.

Do Arlington and Fairfax Counties list the amount of their real estate taxes dedicated for stormwater management separately on tax bills?

Both counties currently charge a real estate property tax rate of \$0.01 per \$100 of assessed value for stormwater management. Fairfax County tax bills display the amount charged for stormwater separate from the regular real estate tax amount. Arlington

County combines the two rates into a single amount. For FY 2011, Fairfax County has proposed increasing its stormwater rate to 1.5 cents.

Based on CY 2010 real estate property assessments, a one cent rate in Alexandria would cost the average single family detached home \$71.22 per year and the average single family attached home (town homes and duplexes) \$53.61 per year and would generate \$3.1 million per year in revenue. The stormwater utility fee is proposed to generate \$2.25 million per year at a rate of \$48 annually for single family detached homes, \$20.64 annually for single family attached homes, and \$48 per 1,971 square feet of impervious surface for commercial and multi-family properties.

Council could increase the real estate property tax rate by 0.7 cents per \$100 of assessed value to generate approximately the same amount of revenue as proposed for the stormwater utility fee. This would cost single family detached homes \$50 annually and single family attached homes \$38 annually. Funding stormwater management through real estate taxes effectively causes single family homes to subsidize commercial and multi-family properties. Single family homes represent 23% of the City's impervious surface but 41% of its locally assessed taxable real property. The following table illustrates the comparative real estate property tax and stormwater utility fee burdens on selected properties. **It demonstrates that the real estate tax, if set to raise approximately the same amount of revenue as the stormwater utility, would distribute a greater share of the cost to single family homes than would the stormwater utility.**

| Property Type | Example | Address | ERUs (1,971 SF) | Stormwater Utility Fee | 2010 Assessed Value | Real Estate Tax @ 0.7 Cents |
|------------------------|-------------------------|------------------------|-----------------|------------------------|---------------------|-----------------------------|
| Single Family Detached | Average SF Detached | NA | 1.00 | \$48 | \$712,152 | \$50 |
| Single Family Attached | Average SF Attached | NA | 0.43 | \$21 | \$536,065 | \$38 |
| Multifamily (Rental) | Meadowcreek/ Lynbrook | 5501 Sanger Ave. | 402 | \$19,296 | \$115,500,000 | \$8,085 |
| Retail | Bradlee Shopping Center | 3680 King St. | 211 | \$10,128 | \$67,286,300 | \$4,710 |
| Office | Mark Center Building #6 | 2000 N. Beauregard St. | 58 | \$2,784 | \$20,144,800 | \$1,410 |

What would be the impact of delaying the storm water fee for 6 months and setting it to start in January of 2011?

Either the stormwater utility fee or a dedicated real estate tax would be billed twice annually on real estate property bills. If Council chooses to adopt a stormwater utility fee, the amount of time required to set up the new billing system would necessitate delaying the fee to the second payment in FY 2011. As a result, the fee would be phased in over two years, with property owners paying 50% of the fee in FY 2011 and 100% in FY 2012 and the City receiving 50% of the revenue in FY 2011 and 100% in FY 2012. A dedicated real estate tax for stormwater could be implemented for a full-year in FY 2011 or delayed until the second payment for the same effect as the stormwater utility fee phase-in.

In addition, what would be the process to clearly designate property tax funds for stormwater needs?

In the case of the dedicated revenues for open space and affordable housing, the rate for open space is set as part of the regular real estate property tax rate ordinance, and the affordable housing designated rate is set through a separate ordinance. If Council chooses to designate real estate property taxes for stormwater utility, staff will coordinate with the City Attorney's Office to develop the appropriate City Council amendments to be docketed after budget adoption. Regardless of which method of stormwater utility funding is determined, all funds raised will be accounted for separately to ensure all revenues received are spent as intended. This is how the dedicated open space and affordable housing tax dedications have been handled.

Provide specific instructions to Council on how to address the stormwater utility in add/delete.

If Council wishes to consider adopting either a stormwater utility fee or dedicated real estate tax in the approved budget, at least one Council member should submit a preliminary budget add for Transportation & Environmental Services in the amount of the stormwater expenditures to be funded in FY 2011 and specify the source as either the stormwater utility fee or dedicated real estate tax. The amount proposed by staff is \$1.13 million for the stormwater utility fee (due to phased implementation) or \$2.25 million for a full year of real estate tax funding or \$1.13 million from real estate taxes if implementation is phased in. The deadline for submitting preliminary add/delete items is Monday, April 19, 2010.