

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 2, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO # 38 : ADD-ON COMMERCIAL REAL ESTATE TAX
TRANSPORTATION PROJECTS

The following information is in response to Councilman Smedberg's request for a description of the projects that would be funded by the proposed 3-cent add-on to the commercial real estate tax rate for transportation.

This add-on tax is limited to the following uses:

- New road construction and associated planning, design, or right-of-way acquisition, including new additions to, expansions, or extensions of existing roads that add new capacity, service, or access;
- New public transit construction and associated planning, design, or right-of-way acquisition, including new additions to, expansions, or extensions of existing public transit projects that add new capacity, service, or access;
- Other capital costs related to new transportation projects that add new capacity, service, or access;
- The operating costs directly related to these projects; or
- The issuance costs and debt service on bonds that may be issued to support the capital costs in these permitted uses.

The 3-cent add-on tax would generate approximately \$4.0 million in FY 2011 (including the half-year payment in June of FY 2010) and \$2.5 million annually thereafter (in today's dollars). For FY 2011, staff recommends using these funds for the following projects:

- **DASH Fleet Expansion (\$2.0 million)** – Purchase three new hybrid buses in FY 2011 to provide new bus service beginning in FY 2012. Specific service expansion for FY 2012 has not been determined at this point. The final recommendation of service enhancements will require analysis by City and DASH staff to determine the most effective use of the additional buses. The additional operating costs associated with this service would also be funded by this tax option beginning in FY 2012.

- **Transportation Signage/Wayfinding System (\$1.2 million)** – Install a portion of the proposed new signage system designed to more efficiently guide visitors to transit and transportation options as well as better inform pedestrians and bicyclists of their surroundings and thus encourage the decision to avoid single-occupant vehicles.
- **King Street Trolley Fleet Expansion (\$0.7 million)** – Purchase one additional hybrid trolley in FY 2011 to provide expanded service along King Street beginning in FY 2012. This additional vehicle will allow for decreased trolley headways (20 minutes to 15 minutes) and increased operating hours during peak periods such as weekends and holidays. The operating cost increase would also be funded by this tax option beginning in FY 2012.
- **DASH bicycle racks (\$0.2 million)** – Outfit the entire DASH bus fleet with bicycle racks to encourage multimodal transportation. Bike racks are currently installed on the WMATA bus fleet and the King Street Trolley. DASH is one of the last bus systems in the region not to have been outfitted with bicycle racks.

The FY 2011-2020 Proposed Capital Improvement Program (CIP) proposal for this 3-cent add-on tax also included \$8.5 million in FY 2012 for the Potomac Yard exclusive transitway. The proposed plan had the City issuing \$8.5 million in debt for this project and funding the corresponding debt service with this add-on tax. Since the Proposed CIP publication in early February, the City has received Federal stimulus grant funding for this project. Staff recommends that this funding be reprogrammed for other high capacity transit corridor projects recommended in the Transportation Master Plan, including the Route 1, Duke Street, and Beauregard corridors. This reprogrammed funding could potentially include the issuance of up to \$8.5 million in debt for a large project; it could be used for smaller cash-funded capital or operating costs over time; or the funding could be used for some combination of debt and cash financed high capacity transit corridor projects.

The specific transit and transportation projects to be funded with the 3-cent commercial add-on tax in FY 2012 and beyond (including annual consideration of the tax rate) will be determined annually through the CIP process with guidance from Council and input from the community and City agencies.

Under the current proposed tax rate of 97.3 cents per \$1,000 for commercial property in the City, the total taxes paid to the City in CY 2010 are estimated at 2.2% less than CY 2009. If the 3-cent non-residential commercial add-on tax (excludes apartments) was approved on top of the proposed 7 cents, the CY 2010 estimated tax payments would increase by 0.9%, which would still be less than the average residential tax bill which would increase by 2.4%. A more specific breakdown by different types of commercial property is available in Attachment 1 to this memo. The overall commercial real estate tax rate even with the 3-cent add-on and a 7-cent base rate increase would remain below the overall commercial real estate tax rates in Arlington and Fairfax Counties.

Attachment 1: Calculation of the Effect of Changes in Tax Rates on Commercial Properties.

Calculation of Effect of Changes in Tax Rates on Commercial Properties
 (\$ in millions; numbers may not add due to rounding)

	CY 2009 Equalized Assessments	CY 2009 Taxes at 90.3 cents	CY 2010 Assessments	CY 2010 Taxes at 90.3 cents	% Change in Taxes at 90.3 cents	CY 2010 Taxes at 97.3 cents	% Change in Taxes at 97.3 cents	CY 2010 Taxes at 100.3 cents	% Change in Taxes at 100.3 cents
Commercial Office, Retail and Service									
General Commercial	\$ 1,389	\$ 12.54	\$ 1,290	\$ 11.65	-7.2%	\$ 12.55	0.0%	\$ 12.94	3.1%
Office	\$ 4,937	\$ 44.58	\$ 4,421	\$ 39.92	-10.5%	\$ 43.02	-3.5%	\$ 44.34	-0.5%
Office or Retail Condominium	\$ 467	\$ 4.22	\$ 441	\$ 3.98	-5.7%	\$ 4.29	1.6%	\$ 4.42	4.7%
Shopping Center	\$ 585	\$ 5.28	\$ 540	\$ 4.87	-7.7%	\$ 5.25	-0.5%	\$ 5.41	2.5%
Warehouse	\$ 722	\$ 6.52	\$ 671	\$ 6.06	-7.1%	\$ 6.52	0.1%	\$ 6.73	3.2%
Hotel/Motel and Ext. Stay	\$ 901	\$ 8.14	\$ 786	\$ 7.09	-12.9%	\$ 7.64	-6.1%	\$ 7.88	-3.2%
Total	\$ 9,002	\$ 81.29	\$ 8,147	\$ 73.57	-9.5%	\$ 79.27	-2.5%	\$ 81.72	0.5%
Vacant Commercial and Industrial Land	\$ 490	\$ 4.42	\$ 471	\$ 4.26	-3.7%	\$ 4.59	3.7%	\$ 4.73	6.9%
Grand Total	\$ 9,491	\$ 85.71	\$ 8,619	\$ 77.83	-9.2%	\$ 83.86	-2.2%	\$ 86	0.9%