

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 5, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO # 21 :HOMES SALES AND RECORDATION TAX REVENUES

This budget memo is in response to a question regarding the relationship between the amount of recordation tax collected and the number of home sales in Alexandria. The recordation tax is assessed at a rate of 1/3 that of the Commonwealth of Virginia's rate or \$0.833 per \$100. Prior to September 1, 2004, the City's rate was \$0.50. The tax applies to both commercial and property sales. The tax is assessed on both purchase transactions and refinances. The City does not track recordation revenue by its source, so separating out the share of recordation revenue that comes from purchases compared to the share of recordation revenue that comes from refinances is impossible.

The chart below shows the number of homes sold in Alexandria compared to the recordation tax revenue on an annual basis. To adjust for the increase in the tax rate in FY 2005, the recordation revenue in the following chart was increased upward as if the tax rate had been \$.833 per \$100 for the full six fiscal years.

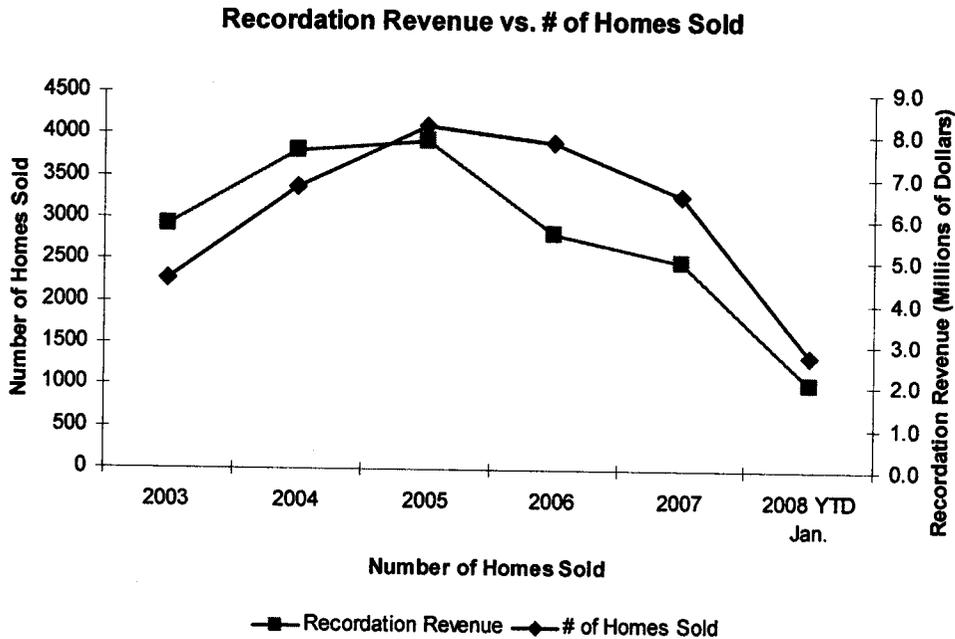
Table 1. Recordation Revenue and # of Homes Sold

Table with 4 columns: Fiscal Year, # of Home Sales, Adjusted Recordation Revenue, Recordation revenue per home sold. Rows include years 2003 through 2008 YTD January.

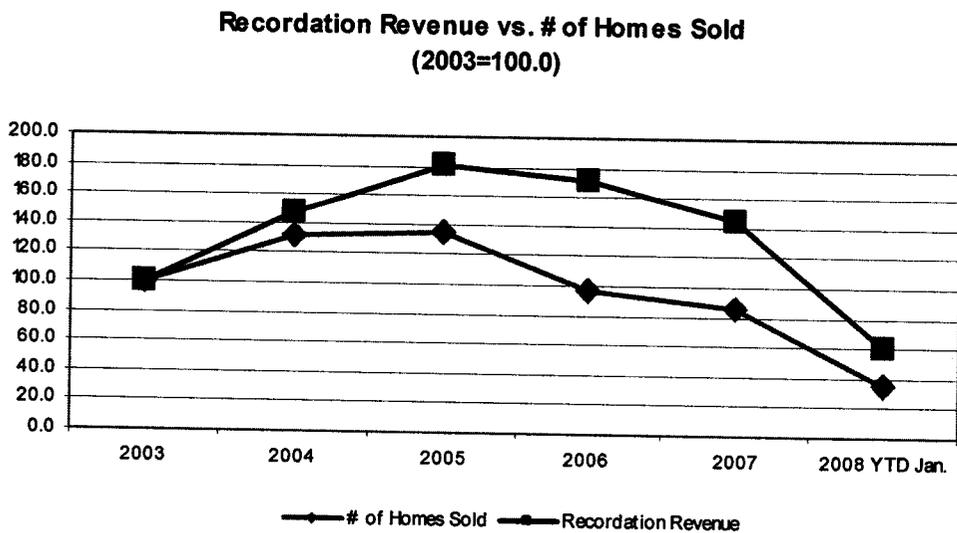
Source: Office of Real Estate Assessments, Department of Finance

*Actual recordation revenue was approximately \$2.7 million in FY03, \$4.0 million in FY04, and \$7.2 million in FY05.

The graph below shows the correlation between total recordation revenue and the number of homes sold.



The graph below indexes the two numbers to 100.00, allowing a direct comparison of the relationship between the two variables.



The two graphs illustrated that there is a relationship between the number of homes sold and recordation revenue, but it's not a direct relationship. The two reasons for the divergence between the variables are the increase in the City's average home value and the number of refinances. The value of the average home in Alexandria increased from just under \$300,000 in 2003 to just over \$500,000 in 2008. Since recordation tax for each transaction is based on the value of the home being purchased or refinanced, the amount of recordation tax has decreased less than the number of homes sales. It takes many fewer purchases to realize the same amount of recordation tax. The City also realizes recordation revenue on refinances, so all things being equal, as interest rates decrease, the number of refinances should increase. An increase in refinances has partially made up for the effect of the decrease in purchases on the recordation tax. Also, at times there are large blocks of commercial properties sold in a block and that produces a large periodic source of recordation tax revenue. In recent years the sale of the PTO complex, the Winkler properties, and the Carr properties all produced one-time spikes in recordation tax revenue.

Based on information through December, it was projected that FY 2008 recordation revenues would be about \$5.7 million or \$0.9 million less than FY 2007 actuals; the same level of \$5.7 in recordation revenues is forecast in FY 2009. A reestimate will be provided in mid-April based on information through March. This estimate may need to be reduced at that time.