

City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 28, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK JINKS, DEPUTY CITY MANAGER 

SUBJECT: WASHINGTON POST ARTICLE ON LOCAL TRANSPORTATION TAX OPTION

On December 31, the attached article about the City considering the add-on commercial tax to finance transportation initiatives appeared in the *Washington Post*. In the article, several persons in the business community (a retailer and a property owner) expressed concerns about the tax and its impact on the business community.

In particular, the article cited a number of statistics to make the point about the impact of additional commercial real estate taxes. The data cited in the article about the impact of tax increases in retail buildings on King Street in Old Town over the last three years was not accurate. The article states that a 1,000 square foot store was now paying \$4,800 in real property taxes compared to \$2,400 three years ago.

The facts of the situation are:

- City-wide the general commercial property assessment category (which includes retail and mixed use buildings in Old Town) increased 17.2% from 2004 to 2005, 16.7% from 2005 to 2006 and 5.0% from 2006 to 2007. This compounds to a 44% increase in three years.
- During that same time period, the City's real property tax rate was reduced by a net of 16.5 cents from 99.5 cents in 2004 to 83.0 cents in 2007.
- This means that the net change in average general commercial property tax bills was 20.1% over the three-year period, not close to the 100% increase cited in the article.

- The attached chart shows the tax impact over the last three years for four properties in the vicinity of those properties cited in the article. For these four properties the actual real estate tax bill increased between 2.5% and 22% over the last three years.
- The average retail space on King Street is assessed for about \$400 per square foot, so for the 1,000 square foot store cited in the article, the City's real estate taxes (at 83¢) would have been \$3,320 in 2007. Thus, a 5-cent increase in the commercial real estate tax for transportation purposes would cost the owner (or the tenant if the tax is passed through) \$200 per year. A 10-cent increase would cost \$400 per year.

Attachments: (1) Property Comparison Chart  
(2) *Washington Post* 12/31/07 Article

cc: Ad Hoc Commercial Transportation Tax Option Study Committee

**King Street Properties  
Comparison of Real Estate Taxes (2004 to 2007)**

<b>Address (Ground Floor Use)</b>	<b>Assessments<sup>1</sup></b>			<b>Real Estate Taxes</b>			<b>Cost of 5¢ Add-on Tax</b>
	<b>2004</b>	<b>2007</b>	<b>% Increase</b>	<b>2004</b>	<b>2007</b>	<b>% Increase</b>	
810 King Street (Flying Fish, Random Harvest)	\$5,736,500	\$7,052,000	23%	\$57,078	\$58,532	2.5%	+\$3,526
821 King Street (Bittersweet)	\$1,473,000	\$2,146,200	46%	\$14,696	\$17,813	22%	+\$1,073
1115 King Street (Arts Afire)	\$ 857,100	\$1,241,520	45%	\$ 8,528	\$10,305	21%	+\$ 621
1120 King Street (Vermillion)	\$1,120,900	\$1,654,590	48%	\$11,153	\$13,733	23%	+\$ 827

<sup>1</sup>Assessments reflect entire building, including upper floors which in some cases have non-retail uses on the upper floors.

washingtonpost.com

## Alexandria Weighs Tax Hike, Legacy of Va. Transportation Bill

By Kirstin Downey  
Washington Post Staff Writer  
Monday, December 31, 2007; B01

Joseph Egerton, owner of a glassware shop in Old Town Alexandria, was too busy selling, wrapping and packing gift items during the hectic holiday season to do more than glance at some placards he saw denouncing a new tax increase.

He hardly noticed when the Alexandria City Council passed a resolution Dec. 15 to create a tax code that will allow the city to boost the tax rate for commercial properties such as the Arts Afire Glass Gallery he leases at 1117 King St. Now that the Christmas rush is over, Egerton is learning more about a tax that he fears could upset the fragile economic balance for small retail shops competing with big-box retailers and online competitors who pay no sales tax at all.

"It'll put a number of stores in jeopardy here," Egerton said. "A lot of businesses are teeter-tottering in this economy, and this could be the straw that breaks the camel's back."

The new tax is a provision of the landmark transportation funding deal reached in Richmond in April. Facing a transit crisis that has made the Washington area one of the nation's most congested urban areas, the state legislature and Democratic Gov. Timothy M. Kaine (D) negotiated an agreement on a package of taxes, including abusive-driver fines and car registration fees, to fund road improvements and mass transit.

The compromise bill was heralded as the first major initiative in the state in decades to fund vitally needed road work. Business trade groups were widely lauded for helping overcome entrenched opposition from anti-tax Republicans downstate.

The agreement permits local governments in Northern Virginia to impose a surcharge of up to 25 cents for each \$100 in assessed valuation on commercial buildings. In the past, tax rates for commercial and residential properties were the same.

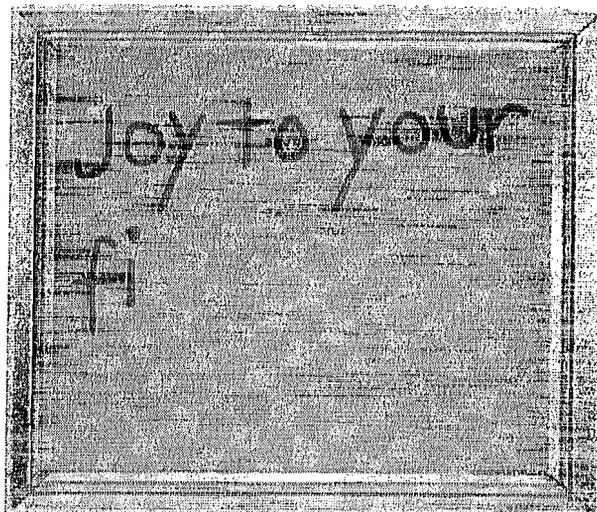
Lobbyists for big businesses and trade associations helped negotiate the deal, which is expected to generate more than \$1 billion. But some people are beginning to realize that some businesses will be affected more than others. Large property owners can pass on the costs of tax increases to tenants; large, successful multinational corporations can shift operations elsewhere or charge customers more. Businesses that survive on a shoestring, such as small retailers and nonprofit organizations, could be more adversely impacted.

"They could end up putting the small retailers out of business," said Rob Kaufman, owner of PMA Properties, which owns 12 buildings in Old Town. "I respect the purposes, but I'm not sure this is the right place we should be asking to shoulder the burden."

Kaufman said businesses are straining because of the run-up in real estate prices that caused property assessments to soar. A 1,000-square-foot store that paid \$2,400 a year in taxes three years ago now pays \$4,800, he said.

"They are struggling, working hard to stay above the curve, and we are coming into a completely different economic time," he said.

Advertisement



## Alexandria Weighs Tax Hike, Legacy of Va. Transportation Bill

In Fairfax and Arlington counties, officials are proceeding with plans for the new tax, but in the face of widespread opposition from business groups, officials in Prince William County have decided not to enact it.

In Alexandria, officials are growing skittish about how to implement the tax increase without hurting fragile retail businesses. The city's retail core is composed of many small, independently owned businesses, and city officials are fiercely protective of the unique quality of the urban landscape and its historic setting.

The city, a Democratic enclave where all seven members of the council belong to the same party, had intended to push ahead in imposing the tax. Now, Vice Mayor Redella S. "Del" Pepper said officials have decided to ask a task force to investigate the impact on small business.

Many state business leaders remain supportive of the new taxes.

"We've not wavered at all in terms of our position," said Brian Gordon, a vice president of the Apartment and Office Building Association of Metropolitan Washington. "Our members understand the critical nature of the transportation crisis in Northern Virginia."

Gordon acknowledged, however, that his members represent large property owners who are likely to be able to pass on higher tax costs. For some small businesses, it could be a "big blow," he said.

Bob Chase, who as president of the Northern Virginia Transportation Alliance helped negotiate the compromise measure, said it was not a perfect solution but the "best that could be achieved given the environment that exists in the General Assembly."

"Whenever you raise taxes and fees, some people are impacted and some people are in a better position to pay than others," Chase said. "A better transportation system will affect all business, big and small."

Those arguments don't convince jeweler David M. Martin, owner of Goldworks, a retail store, and president of the Old Town Business and Professional Association. "We're paying the maximum we can pay right now," Martin said. "To pay for statewide highways and streets is not on my agenda."

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