

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 7, 2006

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #86: OPEN SPACE QUESTIONS

This memorandum is in response to Councilman Krupicka's various questions concerning funding for open space.

What percent of all the property tax did one penny represent when first dedicated?

When the City Council first dedicated one penny of the real estate tax rate to open space in the FY 2004 budget, one penny was equal to 0.97% of the total real estate tax revenue (1 cent/103.5 cents) or \$1,952,000. One cent now provides approximately \$3,289,000 per year.

What percent does it represent now?

The value of one penny is now 1.09% of the total real estate tax revenue (1 cent/91.5 cents). Under the City Manager's proposed budget it would be 1.18% of the total real estate tax revenue (1 cent/84.7 cents). Under the alternative target budget tax rate it would be 1.21% (1 cent/82.9 cents).

If reduced so the percent was the same now as when it started, what would the reduction be?

To maintain the same percentage now as when it was originally started, the percentage dedicated to open space would need to be approximately 1.00% of the real estate tax rate. So, if the underlying real estate tax rate remained at 91.5 cents, 0.915 cents would need to be dedicated to open space. The following table shows how this relationship would work to continue to dedicate 1.00% of the real estate tax to open space:

If Real Estate Tax Rate =	Dedication to Maintain 1.00%
91.5 cents	0.915 cents
84.7 cents	0.847 cents
82.9 cents	0.829 cents

Another simple method to accomplish this objective, if Council wishes to change its current policy, would be simply to specify 1.00 percent of the real estate taxes collected be dedicated to open space instead of a fraction of a penny. An amendment to Section 3-1-2(b) to change the 1 cent rate to another rate, not exceeding 10 cents per \$100, may be expressed as a fixed percent of real estate tax revenues either on a fiscal year or calendar year basis. The effective date of any amendment could not commence until July 1, 2006. Since this would not be a change to the actual real estate tax rate in total for fiscal year 2007, no special advertising is required for such an ordinance. The ordinance even could be introduced and adopted in May or even June, since either cycle would place the ordinance in effect prior to the commencement of FY 2007.

How much is currently in reserves and what is total bonding capacity?

Page 101 of the FY 2007 Proposed Capital Improvement Program shows the estimated year end balances in the open space fund for FY 2006 and FY 2007 if there is no more land acquired from the date of its publication. Those balances are \$13.4 million at the end of FY 2006 and \$15.7 million at the end of FY 2007. However, it is very likely that there will be additional purchases during the remainder of FY 2006 and FY 2007 using a substantial amount of these funds.

The annual debt service on \$10 million already borrowed previously for open space land acquisition is running about \$0.9 million to \$0.8 million a year. At an assumed an AAA rated municipal bond interest rate of 4.5%, a 20 year repayment period and level repayment of principal and interest (as opposed to typical municipal bond declining repayments), and about \$3.3 million a year in revenue available annually to the open space fund, the additional, remaining bonding capacity would be equal to about \$32 million (such that the combination of bond interest and principal repayments on existing and new debt would equal about \$3.3 million a year).

How much has land value increased since the open space fund began?

The value of existing vacant land appreciated by 14.74% in CY 2004 and 24.11% in CY 2005, for an approximate compounded rate of growth over the two years since the open space fund began of 42.4%. This appreciation has increased the price of the open space that the City is seeking to acquire, which is why the bonding route makes economic sense. If open space funds become depleted in FY 2007, staff will bring forward a new bonding proposal to Council.