DATE: March 1, 2006

SUBJECT: Request to advertise proposed real estate tax rate.

C. M. RECOMMENDATION:

Advertise a proposed Calendar Year (CY) 2006 real estate tax rate of $0.878 for public hearing on March 30, 2006 using the attached advertisement (Attachment V).

ISSUE: What real estate tax rate should be advertised?

SUMMARY: The Fiscal Year (FY) 2007 Proposed Budget projects real estate tax revenue based on the current tax rate of $0.878 per $100 of assessed value. Due primarily to higher real estate assessments, overall tax revenue (based on the current rate) is sufficient to fund the basic operations of the County and the Schools and still leave a $26.1 million reserve that the County Board can utilize for tax relief and/or strategic investments. Under State law, the advertised rate becomes the maximum rate that may be adopted by the County Board; therefore, the rate adopted may be lower but not higher than the advertised rate. The actual real estate tax rate will be set at the County Board meeting on April 22, 2006, after the budget and tax rate public hearings (scheduled for March 28 and March 30, 2006 respectively) have been completed.

DISCUSSION: The budget proposed by the County Manager has set aside $26.1 million for the County Board to provide real estate tax relief and/or funding for strategic investments. This set aside is funded primarily from higher real estate assessments. These funds could also be used for capital needs or unfunded initiatives. The real estate tax rate is being advertised at the current rate to allow the County Board to hear the requests, needs, and desires of the public through the budget process, and to allow the County Board maximum flexibility during budget deliberations.

The Arlington Public Schools are funded with 47.7% of local tax revenues, excluding the revenues set aside for tax relief, affordable housing (incremental recordation tax earmarked for this purpose), and base PAYGo funding (incremental commercial utility tax earmarked for this purpose). Prior year strategic initiatives are also fully funded.
Based on the 2006 assessment data released in mid-January, the average assessment of a single-family residential dwelling\(^1\) has increased by 18.25\%, from $458,200 in 2005 to $541,800 for 2006. At the current $0.878 tax rate, this higher assessment translates into a $734 annual increase in the average single-family real estate tax bill in 2006. Overall, the real estate assessment base increased 19.4\% for CY 2006. Attachment I details the changes for residential and commercial properties.

Attachment II displays ten years of history of assessed valuation and taxes for Arlington. (It should be noted that the single-family residential value is an average calculation. A comparison of one year’s average assessment to another will not indicate the rate of appreciation in value because the average considers additions to the inventory of single-family dwellings from subdivision, new construction and declarations of condominium properties.)

Attachment III provides a history from Calendar Year 1970 to 2006 of the total real estate assessment values (excluding Public Service Corporations). The assessment base increase of 19.4\% is higher than any increase since 1988. However, also shown is how significantly the real estate market can and has changed. For example, the increase in the tax base from calendar year 1989 to 1990 is 12.9\%. The following year, the increase is only 3.0\%. The subsequent four years experienced negative assessment growth beginning with CY 1992.

Attachment IV is the resolution required to set the recommended advertised real estate property tax rate. Attachment V is the annual public “Notice of Proposed Real Property Tax Increase”, which satisfies the advertisement requirements set by State law for increasing tax rates.

**FISCAL IMPACT:** The Manager’s FY 2007 proposed budget sets aside $26.1 million to fund the cost of a $.05 tax cut to the real estate rate in FY 2007 and/or funding of strategic investments. If the $26.1 million set aside was used entirely to fund a real estate tax rate cut, the new CY 2006 tax rate would be $.828 per $100 of assessed value. The June 2006 or FY 2006 real estate tax revenue is impacted by a net change from both assessment increases (difference from what was in the FY 2006 adopted budget and actual assessment changes announced in January 2006) and the tax rate reduction. The fiscal impact of a tax rate reduction on FY 2006 real estate revenue will be accounted for during the Third-Quarter FY 2006 Review and FY 2007 budget deliberations.

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\(^1\) Since CY 1990, real estate assessors from area jurisdictions agreed upon a comparable definition of single-family residential property. The definition of single-family residential property includes all structures designed and used for occupancy by a single family. This includes detached dwellings, semi-detached dwellings, townhouses, and individual condominium and cooperative units. This definition captures the value of approximately 50,000 residential housing properties in Arlington.
RESOLUTION FIXING COUNTY REAL ESTATE LEVY

BE IT RESOLVED AND ORDERED by the County Board of Arlington County, Virginia, that there is hereby levied for the tax year (CY) 2006, a tax of $0.878 per one hundred dollars of assessed valuation of all taxable real estate located in this County for County and School purposes. The levy hereby ordered is also applicable to real estate of the public service corporations based upon the assessment thereof by Arlington County, the State Corporation Commission, and the State Department of Taxation, and duly certified.

IT IS FURTHER ORDERED that such taxes, when and if appropriated by the County Board of this County, shall be used to defray the County and School charges and expenses and all necessary charges incident to or arising from the execution of the lawful authority of the County Board of Arlington, and

IT IS FURTHER ORDERED that such taxes for County and School purposes appropriated or unappropriated and unused to defray County and School charges and expenses shall return to the General Fund of the County to be used to defray County and School charges and expenses and all necessary charges incident to or arising from the execution of the lawful authority of the County Board of Arlington County for the next fiscal year.
NOTICE OF PROPOSED REAL PROPERTY TAX INCREASE

The County of Arlington, Virginia, proposes to increase property tax levies.

1. **Assessment Increase:** Total assessed value of real property, excluding additional assessments due to new construction or improvements to property, exceeds last year's total assessed value of real property by 16.3 percent.

2. **Lowered Rate Necessary to Offset Increased Assessment:** The tax rate which would levy the same amount of real estate tax as last year, when multiplied by the new total assessed value of real estate with the exclusions mentioned above, would be $0.755 per $100 of assessed value. This rate will be known as the "lowered tax rate."

3. **Effective Rate Increase:** The County of Arlington, Virginia proposes to adopt a tax rate of $0.878 per $100 of assessed value. The difference between the lowered tax rate and the proposed rate would be $0.123 per $100, or 16.3 percent. This difference will be known as the "effective tax rate increase."

   Individual property taxes may, however, increase at a percentage greater than or less than the above percentage.

4. **Proposed Total Budget Increase:** Based on the proposed real property tax rate and changes in other revenues, the total budget of Arlington County will exceed last year's by 6.3 percent.

A PUBLIC HEARING ON THE INCREASE WILL BE HELD ON MARCH 30, 2006, AT 7:00 P.M. OR AS SOON THEREAFTER AS POSSIBLE AT THE COUNTY BOARD ROOM, 2100 CLARENDON BLVD, ARLINGTON COUNTY, VIRGINIA. AFTER THE HEARING, THE COUNTY BOARD MAY ADOPT A TAX RATE LOWER THAN $0.878 PER $100 OF ASSESSED VALUE, BUT IT CANNOT ADOPT A HIGHER RATE.

A copy of the proposed resolution fixing the real estate tax rate for CY 2006 is on file and available for review in the Office of the Clerk to the County Board, Room 300, #1 Courthouse Plaza, 2100 Clarendon Boulevard, weekdays between the hours of 8:00 a.m. and 5:00 p.m.

Antoinette Copeland, Clerk
Arlington County Board