

INTRODUCED: November 14, 2022

AN ORDINANCE No. 2022-305

To amend Ord. No. 2022-055, adopted May 9, 2022, which adopted the Fiscal Year 2022-2023 General Fund Budget and made appropriations pursuant thereto, to (i) re-appropriate \$18,000,000.00 of the Fiscal Year 2021-2022 fund balance excess assigned to the 2022 Real Estate Tax Relief Reserve established by Ord. No. 2022-303, adopted December 12, 2022, (ii) create a new line item entitled “Real Estate Tax Relief - Department of Finance” in the Non-Departmental Agency, and (iii) appropriate such \$18,000,000.00 to such new line item in the Non-Departmental agency, for the purpose of returning surplus real property tax revenue to real estate taxpayers in the city of Richmond pursuant to Va. Code § 15.2-2511.1 through a one-time, five-cent rebate.

Patrons – Mayor Stoney, President Newbille, Mr. Addison, Ms. Lambert,
Ms. Jordan, Vice President Robertson, Mr. Jones and Ms. Lynch

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: DEC 12 2022 AT 6 P.M.

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That Ordinance No. 2020-055, adopted May 9, 2022, which adopted a General Fund Budget for the fiscal year commencing July 1, 2022, and ending June 30, 2023, and made appropriations pursuant thereto, is hereby amended by

AYES: 9 NOES: 0 ABSTAIN:

ADOPTED: DEC 12 2022 REJECTED: STRICKEN:

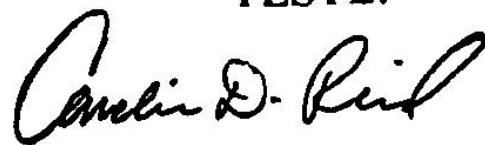
(a) Re-appropriating \$18,000,000.00 from that portion of the fund balance excess for the fiscal year commencing July 1, 2021, and ending June 30, 2022, assigned to the 2022 Real Estate Tax Relief Reserve established by Ordinance No. 2022-303, adopted December 12, 2022;

(b) Creating a new line item in the Non-Departmental agency entitled “Real Estate Tax Relief - Department of Finance;” and

(c) Appropriating the funds in the amount of \$18,000,000.00 re-appropriated by subsection (a) of this section to the new line item in the Non-Departmental agency created by subsection (b) of this section entitled “Real Estate Tax Relief - Department of Finance,” for the purpose of returning surplus real property tax revenue to real estate taxpayers in the city of Richmond pursuant to section 15.2-2511.1 of the Code of Virginia (1950), as amended, through a one-time, five-cent rebate.

§ 2. This ordinance shall be in force and effect upon adoption.

**A TRUE COPY:
TESTE:**

A handwritten signature in black ink, appearing to read "Camelin D. Reil". The signature is fluid and cursive, written over a white background.

City Clerk



City of Richmond

Intracity Correspondence

O&R REQUEST

DATE: November 3, 2022

EDITION: 1

TO: The Honorable Members of City Council

THROUGH: The Honorable Levar M. Stoney, Mayor

THROUGH: J.E. Lincoln Saunders, Chief Administrative Officer

THROUGH: Sabrina Joy-Hogg, Deputy Chief Administrative Officer for Finance and Administration

Sabrina Joy Hogg (Nov 4, 2022 10:21 EDT)

THROUGH: Sheila D. White, Director of Finance

THROUGH: Jason May, Director of Budget and Strategic Planning

Jason May (Nov 4, 2022 09:07 EDT)

FROM: Louisa Meyer, Research and Policy Analyst

RE: Real Estate Tax Relief Through a One-Time, Five-Cent Rebate

ORD. OR RES. No. _____

PURPOSE: To adopt an ordinance to appropriate up to \$18,000,000 of the Fiscal Year 2022 General Fund surplus to a non-departmental line item administered by the Department of Finance to fund the return of surplus payments to provide real estate tax relief through a one-time, five-cent rebate.

REASON: To provide tax relief through a one-time rebate to real estate property taxpayers.

RECOMMENDATION: The City Administration recommends adoption of this ordinance.

BACKGROUND: City residents have expressed concern with the increased real estate tax assessments. In response to these concerns, City Council has proposed ordinances to decrease the real estate tax rate by four cents and by ten cents.

Based on preliminary 2023 estimates, the city council's proposals of reducing the tax rate will have an estimated annual impact of around \$13.8 million for a four-cent reduction and \$34.5 million per year for a ten-cent reduction, incorporating estimated deductions for Elderly and Disabled Tax Relief and abatements.

The City Administration recommends adopting an ordinance to appropriate up to \$18,000,000 of the Fiscal Year 2022 General Fund surplus to a non-departmental line item administered by the Department of Finance to fund the return of surplus payments to provide a one-time, five-cent rebate. \$18,000,000 is more than ten percent of the Fiscal Year 2022 General Fund surplus. This rebate is recommended as an alternative to a permanent change to the tax rate, which is not recommended.

Historically, the real property tax rate has not been adjusted to align with prevailing economic conditions. Consequently, a reduction in the real estate tax revenue will result in lower financial reserves year-to-year and reduce the city's ability to afford debt. Good financial practices that lead to a AAA credit rating include a comprehensive tax compliance plan designed to improve revenue collections. The decrease in real estate tax revenue will result in a subsequent decrease in debt capacity will directly impact the city's creditworthiness. Thus, lowering the real estate tax revenue is contrary to achieving a AAA credit rating.

For reference, the following "Numbers to Know" have been calculated:

FY 2023 Real Estate Assessment Increase Effects:

- One penny on the tax rate is \$3,410,510.
- FY 2023 Adopted Real Property Taxes (9% increase over FY 2022) = \$376,849,976.
- FY 2023 Real Property Tax revenue updated with 13.04% increase in assessments = \$409,261,243, assuming a collection rate of 95%.
- Increase over FY 2023 Adopted Budget = \$32,411,275.
- Value of 1% assessment increase based on 13.04% = \$8,022,593.
- One penny reduction reduces debt capacity = \$4,265,650.

The city can expect the following fiscal impacts with a four-cent reduction to the real estate tax rate:

1. \$13,642,041¹ in lost surplus value; and
2. \$17,062,600² in the city's debt capacity.

Real estate tax revenue is the single largest source of local revenue of the General Fund. It is especially critical that this key revenue source for city operations is not reduced without careful consideration.

¹ \$3,410,510 per one cent of Real Estate tax rate reduction.

² \$4,265,650 per one cent of Real Estate tax rate reduction.

An analysis (Attachment A) prepared by the city's financial advisor, Davenport & Company, demonstrates that, when looking at the most recent fiscal year (FY 2023) and incorporating assumptions for inflation at five percent and potential slower growth in taxable assessed values at four percent over the next year, **the taxable real estate assessed values are just keeping up with inflation.**

For several years prior to FY 2018, the city's taxable assessed values either did not keep up with the inflation adjusted values or lost absolute value. The analysis concludes that:

- Reduction of the tax rate would only result in less tax revenues.
- "Cutting the tax rate" would not be viewed favorably by National Credit Rating Agencies, as taxable real estate assessed values are only just keeping pace with inflation and as there is no known and sustainable new source of revenue to the General Fund that would offset the reduction in real estate tax revenue.
- As a result, the city's ability to provide essential services, make advances in poverty reduction, and reduce liabilities through improved pension funding levels would be hindered.

The cost of a ten-cent reduction in the tax rate results in a revenue loss from the FY 2023 Adopted Budget of nearly \$2.1 million. This means that if a ten-cent reduction is adopted, the FY 2023 Adopted Budget will need to be reduced by approximately \$2.1 million:

Estimated Impact of Ten-Cent Reduction	
Additional Revenue of 13.04 Percent Increase over the 9.0 Percent FY 2023 Adopted Budget	\$32.4 million
Estimated Cost of Ten-Cent Tax Reduction	\$34.5 million
Estimated Reduction to the FY 2023 budget	(\$2.1 million)

As shown in "Numbers to Know" relating to the FY 2023 real estate assessment increase effects, the fiscal impact of a one-cent reduction to the real estate tax rate is equivalent to **\$4.3 million in lost debt capacity**. Below are impacts of tax reduction scenarios on debt capacity:

- A four-cent reduction equates to \$17.1 million in lost debt capacity; and
- A ten-cent reduction equates to \$42.7 million in lost debt capacity.

Because the economic future remains uncertain, it is recommended that a one-time, five-cent rebate be provided to taxpayers instead of a permanent tax reduction.

Program Administration:

Eligible taxpayers will be those who owed and/or paid real estate property tax as of the second billing of the fiscal year ending June 30, 2022. Taxpayers who paid Fiscal Year 2022 real property taxes in full on the January 2022 billing and are the property owner of record as of the second billing of the fiscal year ending June 30, 2022, are eligible to receive the rebate. Any of these

taxpayers who received a partial exemption will receive a five-cent rebate at a prorated amount. Any of these taxpayers who were fully exempt from real property tax will not be eligible for a rebate. Property owners will receive their rebates via a mailed check in February 2023. The cost to administer the one-time rebate program is estimated to be \$100,000.

Delinquent credits will be applied as part of the overall pool. Those who have a delinquent balance will see the rebate amount applied. The rebate will be first applied to the oldest delinquent amounts. If the rebate exceeds the delinquent amount, the balance will be credited to the next tax bill.

FISCAL IMPACT / COST: Up to \$18,000,000 of the Fiscal Year 2022 General Fund surplus to provide a five-cent rebate to real property taxpayers.

FISCAL IMPLICATIONS: Providing a one-time, five-cent rebate will have positive fiscal implications, especially when compared with any permanent reduction to the tax rate, which will be viewed unfavorably by National Credit Rating Agencies (see Attachment A).

BUDGET AMENDMENT NECESSARY: None.

REVENUE TO CITY: None.

DESIRED EFFECTIVE DATE: Upon adoption.

REQUESTED INTRODUCTION DATE: November 14, 2022.

CITY COUNCIL PUBLIC HEARING DATE: December 12, 2022.

REQUESTED AGENDA: Regular agenda.

RECOMMENDED COUNCIL COMMITTEE: City Administration recommends the committee process be waived.

CONSIDERATION BY OTHER GOVERNMENTAL ENTITIES: None.

AFFECTED AGENCIES: Department of Finance, Department of Budget and Strategic Planning.

RELATIONSHIP TO EXISTING ORD. OR RES.:

- **Ordinance No. 2022-270:** To amend and reordain City Code § 26-355, concerning the levy of tax on real estate, to establish a tax rate of \$1.20 for the tax year beginning Jan. 1, 2023, pursuant to Va. Code § 58.1-3321(b), and increasing such rate from the Rolled Back Tax Rate of \$1.072 as computed in accordance with Va. Code § 58.1-3321(a).
- **Ordinance No. 2022-271:** To amend and reordain City Code § 26-355, concerning the levy of tax on real estate, to establish a tax rate of \$1.16 for the tax year beginning

Jan. 1, 2023, pursuant to Va. Code § 58.1-3321(b), and increasing such rate from the Rolled Back Tax Rate of \$1.072 as computed in accordance with Va. Code § 58.1-3321(a).

- **Ordinance No. 2022-278:** To amend and reordain City Code § 26-355, concerning the levy of tax on real estate, to establish a tax rate of \$1.10 for the tax year beginning Jan. 1, 2023, pursuant to Va. Code § 58.1-3321(b), and increasing such rate from the Rolled Back Tax Rate of \$1.072 as computed in accordance with Va. Code § 58.1-3321(a).
- **Ordinance No. 2022-XXX:** To set out Council's assignment of up to \$18,000,000, more than ten percent, of the Fiscal Year 2022 General Fund surplus, notwithstanding the applicable provisions of City Code, to provide real estate tax relief through a one-time, five-cent rebate.
- **Ordinance No. 2022-XXX:** To provide for the return of up to \$18,000,000 of the Fiscal Year 2022 General Fund surplus in accordance with the Code of Virginia section 15.2-2511.1 to provide real estate tax relief through a one-time, five-cent rebate.

REQUIRED CHANGES TO WORK PROGRAM(S): None.

ATTACHMENTS:

- Attachment A: Richmond Real Estate Tax Rate Memo, Davenport & Company

STAFF:

- Louisa Meyer, Research and Policy Analyst, Office of the Deputy Chief Administrative Officer for Finance and Administration, 804-646-3856

Public Finance

Davenport & Company LLC
One James Center, 901 East Cary St.
Suite 1100, Richmond, VA 23219
T 804.697.2900

MEMORANDUM

To: Sabrina Joy-Hogg, DCAO for Finance and Administration
City of Richmond

From: David P. Rose, Senior Vice President and Manager of Public Finance
Roland M. Kooch, Jr. Senior Vice President

Date: October 11, 2022

RE: Real Estate Valuation and Real Estate Tax Rate – Observations and Recommendation

CC: Sheila White, Director of Finance
James Duval, Investment and Debt Portfolio Manager

Background

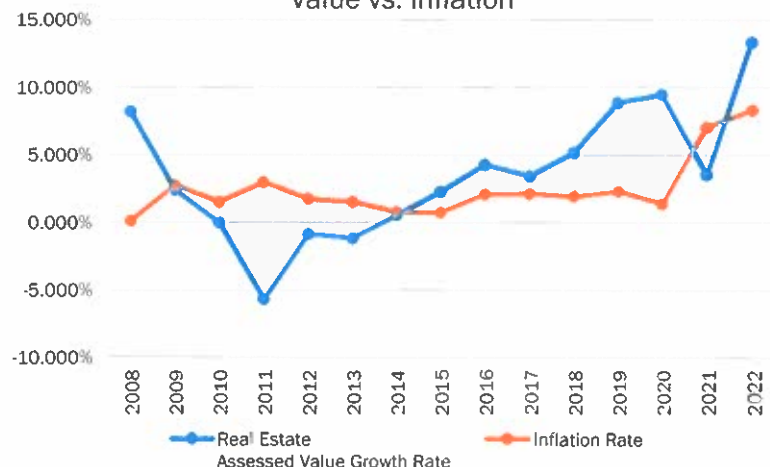
Davenport & Company LLC, in our capacity as Financial Advisor to the City of Richmond (the “City”), was asked to review the reasonableness of the City maintaining its \$1.20 (per \$100 of assessed valuation) Real Estate Tax Rate in light of the recent increases in taxable real estate assessed values.

We have been asked to prepare our analysis in recognition of the fact that Real Estate Tax Revenue comprises the single largest source of local revenue in the General Fund. Therefore, it is especially critical that this key revenue source for City operations is not reduced without careful consideration. As a result, Davenport has prepared a multi-year analysis which we believe is necessary in order to provide commentary and recommendations on setting/resetting the Real Estate Tax Rate. Our analysis incorporates the City’s historic growth in taxable real estate valuation, natural growth in the City as evidenced by increases in population, and inflation since 2008.

Initial Observations

While it is true that the City’s Year-over-Year (“YoY”) real estate values have increased significantly over the past two to four years (See Fig. A), it is important to recognize that for several years prior to FY 2018 the City’s taxable assessed values either did not keep up with the inflation adjusted values or lost absolute value (See Fig. B).

Figure A. YoY Change in Real Estate Assessed Value vs. Inflation



As shown in Fig. B, over time through FY 2022, taxable real estate assessed values have just recovered and caught up with combined growth that would be expected from inflation and population (i.e. natural growth).

The one constant in all of these years (since 2008) has been the City's \$1.20 (per \$100 of assessed valuation) Real Estate Tax Rate.

Therefore, the burden to the tax payers of the \$1.20 Real Estate Tax Rate is proportionate to simply keeping pace with inflation.

When looking at projections beyond FY 2022, double-digit growth in the City's tax base is not expected to continue year-over-year. When factoring in assumptions for inflation and return to a more normalized, lower single-digit growth rate for taxable assessed values for FY 2023, the City's tax base is merely keeping up with inflation (See Fig. C). As such, lowering the tax rate has a long-term impact on the City's ability to provide core essential services.

Credit Rating Agency Perspective

In analyzing a local government's tax supported (i.e. G.O.) credit, the National Credit Rating Agencies have dual considerations that factor into their analysis. These are a locality's (1) willingness and (2) ability to pay as evidenced through its tax rates and assessed valuations. Anything that is in conflict with these considerations, would be viewed unfavorably. In the case of Richmond, the City has demonstrated both and enjoys very strong "Aa1/AA+/AA+" credit ratings. Reduction of the tax rate would only result in less tax revenues. As a result, the City's ability to provide essential services, make advances in poverty reduction, and reduce liabilities through improved pension funding levels would be hindered. Therefore "cutting the tax rate" would not be viewed favorably absent a known and sustainable new source of revenue to the General Fund, which would offset the reduction in real estate tax revenue.

Davenport Recommendation

Based on the analysis herein, we do not recommend reducing the \$1.20 (per \$100 of assessed valuation) Real Estate Tax Rate. We recognize that not every district is the same, however, when blended together as "One City" the data clearly demonstrates that over time the relative burden on City tax payers has simply mirrored inflation. Should you have any questions, please do not hesitate to contact us.

Figure B. YoY Change in Actual vs Inflation Adjusted Real Estate Values FY 2008-2022

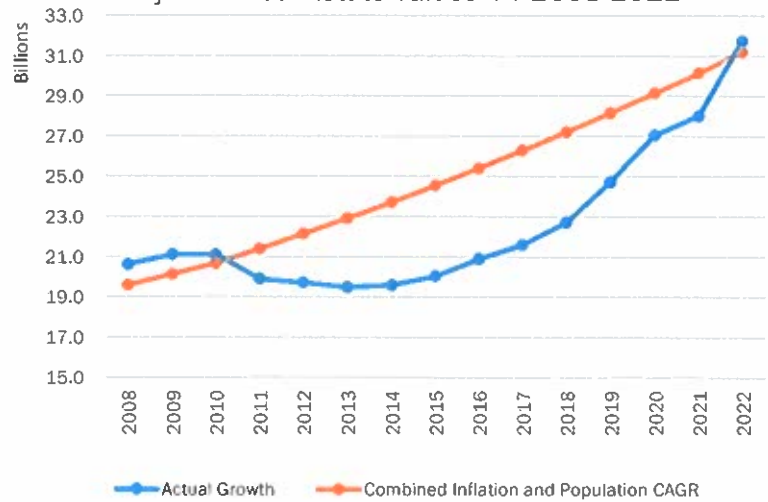
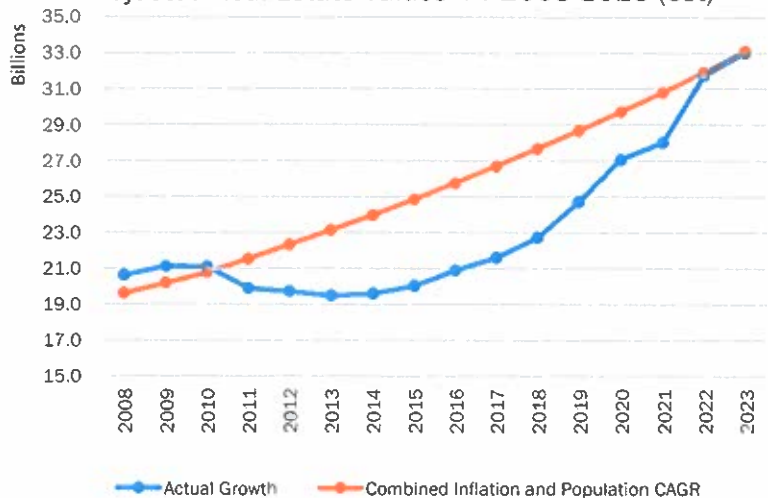


Figure C. YoY Change in Actual vs Inflation Adjusted Real Estate Values FY 2008-2023 (est)



RE Tax Rebate Ordinance Request #2

Final Audit Report

2022-11-04

Created:	2022-11-03
By:	Jeffrey Crawford (jeffrey.crawford@richmondgov.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAmeBtjH1Qc-NWRxBCIGxBo-R5rgZLBwP5

"RE Tax Rebate Ordinance Request #2" History

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2022-11-04 - 2:21:03 PM GMT- IP address: 65.202.206.129



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