

INTRODUCED: November 14, 2022

AN ORDINANCE No. 2022-304

To return surplus real estate tax revenues to taxpayers pursuant to Va. Code § 15.2-2511.1.

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.

WHEREAS, section 15.2-2511.1 of the Code of Virginia (1950), as amended, authorizes the Council of the City of Richmond to adopt an ordinance to develop a method for returning surplus real . . . property tax revenues . . . to taxpayers who are assessed such taxes in any fiscal year in which the [City] reports a surplus;” and

WHEREAS, the Council, by Ordinance No. 2022-_____, adopted _____, 202__, created the 2022 Real Estate Tax Relief Reserve composed of surplus revenues collected in the fiscal year commencing July 1, 2021, and ending June 30, 2022, in the amount of \$18,000,000.00, and, by Ordinance No. 2022-_____, adopted _____, 202__, appropriated such funds for the purpose of making payments under this ordinance; and

AYES: 9 NOES: 0 ABSTAIN: _____

ADOPTED: DEC 12 2022 REJECTED: _____ STRICKEN: _____

WHEREAS, the Council desires to provide a method for returning surplus real property tax revenues to taxpayers who are assessed such taxes in 2022;

NOW, THEREFORE,

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That:

(a) **Definitions.** For purposes of this ordinance, these words, terms, and phrases, when used in this ordinance, have the meanings ascribed to them as follows:

(1) *Eligible Property.* “Eligible Property” means a parcel of real estate separately assessed for real estate taxes by the City on January 1, 2022, provided that the term “Eligible Property” does not include any parcel of real estate that is entirely exempt from real estate taxation or for which no tax bill would otherwise be issued.

(2) *Eligible Taxpayer.* “Eligible Taxpayer” means the person or persons listed as the owner of an Eligible Property in the 2022 records of the City Assessor as of the date on which the Department of Finance issued bills for the second half real estate tax payment due on June 14, 2022.

(b) **Amount of Payment.** For each Eligible Property, the Director of Finance shall pay the Eligible Taxpayer \$0.05 for every \$100.00 of the assessed value of the Eligible Property on January 1, 2023, after the application of any partial exemption pursuant to Chapter 26, Article V, Divisions 3, 4, 10, or 11 of the Code of the City of Richmond (2020), as amended.

(c) **Method of Payment.**

(1) *Generally.* Only one payment will be made for each Eligible Property, regardless of the number of persons who are listed as the Eligible Taxpayer for the Eligible

Property. Payments under this ordinance will be made by check or credit, as described in this subsection (c).

(2) *Payments by Check.* Except as otherwise provided by this ordinance, the Director of Finance shall mail to each Eligible Taxpayer a bank check payable to the Eligible Taxpayer at the mailing address shown in the 2022 records of the City Assessor. The Director of Finance shall mail all checks no later than March 31, 2023. If an Eligible Taxpayer is the owner of more than one Eligible Property, the Director of Finance may, but is not required to, combine payments for all Eligible Properties owned by the Eligible Taxpayer into a single check.

(3) *Payments of Less Than \$30.00 as a Credit.* If the payment due is less than \$30.00, the Director of Finance may apply the payment as a credit on the next real estate tax bill for the Eligible Property in lieu of issuing a check. The Director of Finance shall apply the credits prior to the calculation and distribution of 2023 second-half real estate bills.

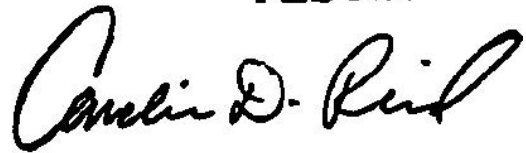
(4) *Payments for Delinquent Accounts.* For any Eligible Property for which taxes are delinquent or penalties or interest are owed as of June 14, 2022, the Director of Finance will apply the payment due under this ordinance against any such delinquent taxes, penalties, and interest and pay any remainder as a credit on the next real estate tax bill for the Eligible Property.

(5) *Lost, Damaged, Void, or Otherwise Invalid Checks.* For any check issued under this ordinance that is lost, damaged, void, or invalid for any reason, the Director of Finance may choose to either issue a replacement check to the Eligible Taxpayer or record a credit on the next real estate tax bill for the Eligible Property.

(6) *Source of Payments.* All payments under this ordinance will be made solely from fund balances resulting from surplus revenue appropriated for that purpose.

§ 2. This ordinance shall be in force and effect upon adoption and shall expire at the last moment of June 30, 2023.

**A TRUE COPY:
TESTE:**

A handwritten signature in black ink, appearing to read "Carolin D. Reed". The signature is written in a cursive style with a large initial 'C'.

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 10:11 EDT)

THROUGH: Sheila D. White, Director of Finance 

THROUGH: Jason May, Director of Budget and Strategic Planning 
Jason May (Nov 4, 2022 09:08 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 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.

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 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 a one-time, five-cent rebate. \$18,000,00 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.

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

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.

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. 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 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.

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

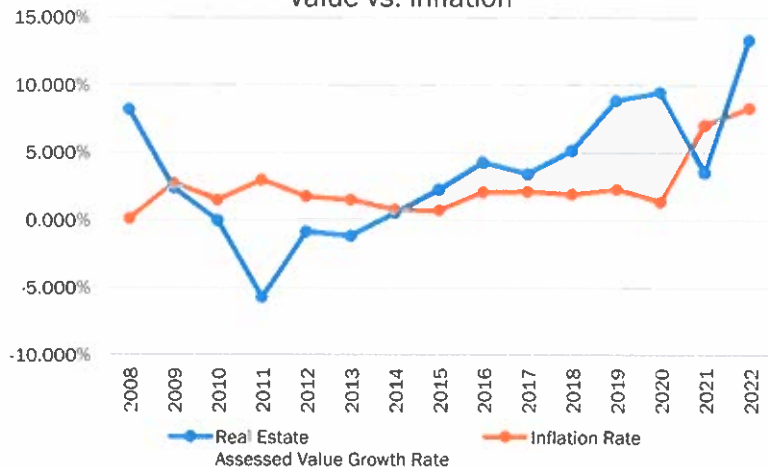
Davenport & Company LLC, in our capacity as Financial Advisor to the City of Richmond (the “City”), was asked to review the reasonableness of the City maintaining its \$1.20 (per \$100 of assessed valuation) Real Estate Tax Rate in light of the recent increases in taxable real estate assessed values.

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

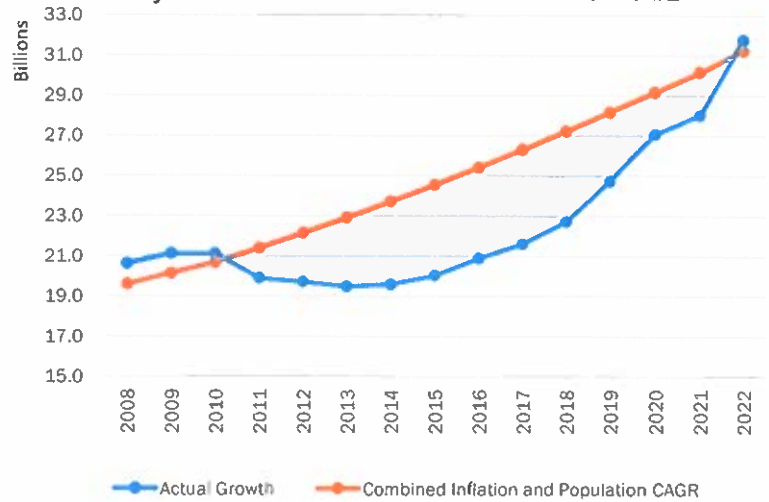
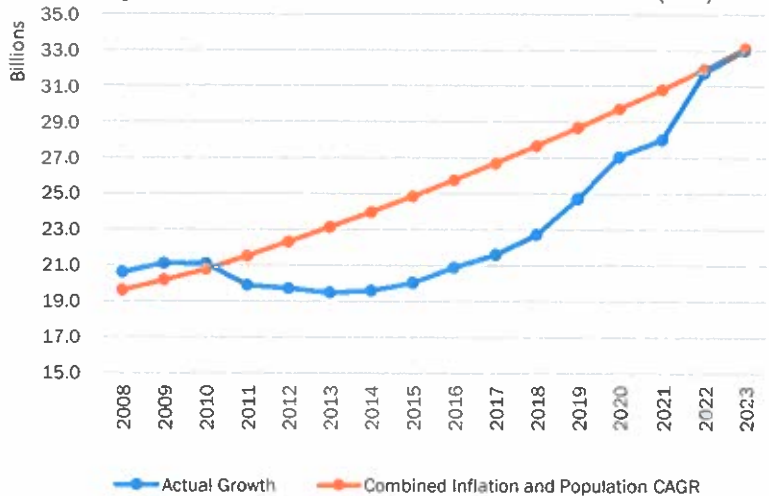


Figure C. YoY Change in Actual vs Inflation Adjusted Real Estate Values FY 2008-2023 (est)














RE Tax Rebate Ordinance Request #3

Final Audit Report

2022-11-04

Created:	2022-11-03
By:	Jeffrey Crawford (jeffrey.crawford@richmondgov.com)
Status:	Signed
Transaction ID:	CBJCHBCAABAoy-LHobhdlxReTFWWkvTPjW0chuOBjyk

"RE Tax Rebate Ordinance Request #3" History

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2022-11-03 - 10:49:53 PM GMT
-  Email viewed by jason.may@rva.gov
2022-11-04 - 1:07:59 PM GMT- IP address: 73.251.113.38
-  Signer jason.may@rva.gov entered name at signing as Jason May
2022-11-04 - 1:08:10 PM GMT- IP address: 73.251.113.38
-  Document e-signed by Jason May (jason.may@rva.gov)
Signature Date: 2022-11-04 - 1:08:12 PM GMT - Time Source: server- IP address: 73.251.113.38
-  Document emailed to Sheila White (sheila.white@rva.gov) for signature
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-  Signer sabrina.joy-hogg@rva.gov entered name at signing as Sabrina Joy-Hogg
2022-11-04 - 2:11:32 PM GMT- IP address: 65.202.206.129



Adobe Acrobat Sign

 Document e-signed by Sabrina Joy-Hogg (sabrina.joy-hogg@rva.gov)

Signature Date: 2022-11-04 - 2:11:34 PM GMT - Time Source: server- IP address: 65.202.206.129

 Agreement completed.

2022-11-04 - 2:11:34 PM GMT