City of Falls Church

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<tr><td>Meeting Date:

1-13-14</td><td colspan="2">Title: ORDINANCE TO ALIGN THE REAL ESTATE TAX YEAR WITH THE FISCAL YEAR ORDINANCE TO ALIGN THE REAL ESTATE TAX YEAR WITH THE FISCAL YEAR <u>BY AMENDING CHAPTER 40 “TAXATION” OF THE FALLS CHURCH CITY CODE, SECTION 214, “HOW ASSESSED” AND SECTION 283 “TAX ASSESSMENT”</u> (TO13-30)</td><td>Agenda No.:

10 (a) (1)</td></tr>
<tr><td colspan="4">Proposed Motion: MOVE final approval of (TO13-30) .</td></tr>
<tr><td colspan="2">Originating Dept. Head:
Wyatt Shields
City Manager
703.248.5004
FWS</td><td colspan="2">Disposition by Council:</td></tr>
<tr><td>City Manager:
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703.248.5004
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J. Patrick Taves
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RAL 1-09-14</td></tr>
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REQUEST: Council is requested to amend the City code to align the fiscal year and the tax year for real estate taxes. The ordinance is scheduled for public hearing and final adoption on January 13, 2014.

Text changes in purple are made by the City Clerk to clarify the Code changes and to meet Charter requirements for preparing ordinances (re initial clause).

<u>Text changes in red reflect the proposed City code amendment that the City Council saw and acted upon at 1st Reading.</u>

RECOMMENDATION: Approve (TO13-30) on second reading.

BACKGROUND: Currently, the City tax year begins January 1 and the fiscal year begins July 1. The City regularly experiences significant revenue uncertainty due, in part, to the fact that the tax year for real estate is not aligned with the City’s fiscal year. Bringing the City tax year and fiscal year into alignment, as other localities have done, would restore greater certainty to real estate revenue forecasting in the annual budget process.

Real estate taxes account for 60% of total City revenues. Last year, the City Council requested and the General Assembly approved a Charter change to allow the City to align its tax year and its fiscal year. Consideration of the merits of making this change is on the Council Work Plan for the current year.

The City Council adopts a budget and a tax rate necessary to fund that budget in April of each year. The tax rate adopted in April applies, however, to the second half of the current fiscal year, and the first half of the next fiscal year. The second half of the fiscal year is subject to change in both the assessed value of real estate as well as the real estate tax rate. As a result, forecasts are often significantly different from actual results for the second half of every fiscal year.

Example 1: falling real estate values. In 2009, the assessed value of real estate fell by 10%, but the budget adopted for that fiscal year assumed that real estate values would be flat in the 2nd half of the fiscal year. The City had to make significant mid-year cuts and draw on fund balance.

Example 2: rising real estate values. In 2004, real estate values went up by 25% in one year. but the budget assumed 8% growth in assessed value for the second half of the year. A sizeable surplus was the result.

In each example, the City Council adjusted tax rates in the subsequent budget cycle. As it did so, however, it had to be mindful that its decision on the tax rate for the upcoming budget also had a significant impact on the finances of the current fiscal year. Attention is naturally focused on the coming budget year during budget adoption, and it is confusing to the public (and aggravating for elected officials) to have to consider the unintended consequences to the current fiscal year of any tax rate changes.

The misalignment stems from a decision many local governments in Virginia made decades ago. Prior to 1994, the City collected real estate taxes in two billings – the 1st bill in July and the 2nd in December. With that billing schedule, the misalignment of tax year and fiscal year caused none of the problems described above, as both billings were collected in one fiscal year.

In the mid-90’s, the City moved the July billing back one month to June. By doing so, the City realized a one-time financial benefit of three real estate collections in one fiscal year. If the City moves the June billing back to July, the City would experience a one-time loss of ½ of the annual RE tax receipts (approximately $18 million) in that fiscal year, which presents a tremendous obstacle to that option.

Proposed Solution:

Several Cities in Virginia (Salem, Manassas, and Harrisonburg, for example) have addressed this problem by delaying the effective date of real estate assessments and tax rates to July 1. By doing so, when the Council adopts a budget and a tax rate, one assessed value and tax rate applies to the entire fiscal year.

Most Cities and many Counties in Virginia have the misalignment in tax year and fiscal year that exists in the City of Falls Church and are content with it. Several Cities have taken action to bring them functionally back into alignment. The ordinance below is modelled after those adopted by these Cities.

FISCAL IMPACT:

There is a one-time financial cost to bringing the Tax Year and Fiscal Year into alignment. Currently, when the Chief Financial Officer forecasts revenues for the coming fiscal year, he projects what the assessed value will be for the June bill. In the FY15 budget forecast presented to the School Board and City Council on November 14, the assumed growth in assessed value for the June 2015 Real Estate bill was 1.5%. If that assumption were changed to 0% growth (i.e., the same assessed value is used for the December bill and the June bill), the revenue decrease for FY15 will be revised down by approximately $400,000. This number reflects the cost to the City of delaying the benefit of a tax rate increase or an assessed value increase to the City coffers from June 2015 to December 2015. Once the transition is made, there is no recurring annual fiscal impact to the change.

Fund Balance and Pay as You Go Capital: The City will need to build into its operating budget appropriations for capital projects. In the City's history, the unplanned surpluses generated by the misalignment of tax year and fiscal year are programed through the CIP for "pay as you go" capital improvements. Surpluses will largely end with this change, and it will be necessary to build "pay as you go" capital into the tax rate, rather than rely on surpluses.

Deficits and Surpluses: As large surpluses will become a thing of the past, so will large mid-year deficits. The variance from revenue projections will still come from sales, meals, BPOL and other local taxes, but these sources of revenue generate 25% of total revenue, whereas real estate generates 60% of revenue.

Certainty in Forecasting: The current misalignment of the tax year and fiscal year builds uncertainty into the annual budget and financial condition of the City. Both surpluses and deficits tend to erode confidence in the financial management of the local government. Compounding the uncertainly, when Council adopts a tax rate for the coming fiscal year, it also must consider the impact on the current fiscal year.

TIMING: Routine.

Attachments: None

(TO13-30)

ORDINANCE TO ALIGN THE REAL ESTATE TAX YEAR WITH THE FISCAL YEAR ORDINANCE TO ALIGN THE REAL ESTATE TAX YEAR WITH THE FISCAL YEAR **BY AMENDING CHAPTER 40 "TAXATION" OF THE FALLS CHURCH CITY CODE, SECTION 214, "HOW ASSESSED" AND SECTION 283 "TAX ASSESSMENT"**

THE CITY OF FALLS CHURCH HEREBY ORDAINS that Chapter 40, "Taxation," Section 214, "How Assessed" and Section 283, "Tax Assessment" of the Code of the City of Falls Church, Virginia be amended and reenacted as follows:

Sec. 40-214. How assessed.

(a) In accordance with the Code of Virginia, all real property will be assessed at 100 percent of fair market value.

(b) There is established a permanent board of equalization consisting of five members appointed to staggered terms as provided by law. The board shall have all powers, and shall conduct its business, as provided for under applicable law.

(c) Applications for relief made by property owners or lessees must be received by the board no later than the first ~~Friday in July~~ Friday in April of the year for which application is made.

Sec. 40-283. Tax assessment.

(a) ~~Payment terms; installments. All taxes assessed on real estate in the city each tax year shall be due and payable to the city treasurer, without discount, on or before June 5 of the year in which assessed, but may be paid in two equal installments, the first to be paid not later than June 5 and the last installment not later than December 5. The amount of such installment shall be delinquent as of that date, and if the second installment is not paid on or before December 5, the amount of such second installment shall be delinquent as of that date. Any payment made on real estate taxes after a penalty has accrued on the first half installment shall be applied first to the payment of the first half installment.~~

Effective January 1, 2015, a short calendar year real estate tax shall begin on January 1, 2015, and end on June 30, 2015. All real estate

taxes shall be payable by the person who on January 1, 2014 of the short calendar year is the owner thereof. Effective July 1, 2015 and thereafter, however, the tax year for real property shall be the first day of July each year and end on the thirtieth day of June each year.

Beginning on July 1, 2015, and thereafter, the annual assessment and reassessment and equalization of assessments for real estate in the city shall have an effective tax date of July 1.

Payment terms; installments. All taxes assessed on real estate in the city each tax year shall be due and payable to the city treasurer, without discount, on or before December 5 of the year in which assessed, but may be paid in two equal installments, the first to be paid not later than December 5 and the last installment not later than the following June 5. The amount of such installment shall be delinquent as of that date, and if the second installment is not paid on or before June 5, the amount of such second installment shall be delinquent as of that date. Any payment made on real estate taxes after a penalty has accrued on the first half installment shall be applied first to the payment of the first half installment.

(b) Delinquency; penalties. To all real estate taxes that may be delinquent, there shall be added and collected as a part thereof a penalty as follows: On the first one-half installment, a penalty of ten percent or the sum of $10.00, whichever shall be the greater, if not paid on or before ~~June~~ **December** 5. On the second one-half installment, a penalty of ten percent, or the sum of $10.00, whichever shall be the greater, if not paid on or before ~~December~~ **June** 5. In addition to such penalties, interest of ten percent per annum shall be due on such taxes and penalties from the first day of the month following the month in which such taxes are due to be paid as required by subsection (a) of this section.

1st Reading: 11-25-13
2nd Reading: 01-13-14
Adoption: ______
(TO13-30)