

# Appendix D: Affordable Housing Trust Fund: Revenue Options Analysis



City of Richmond, Virginia  
November 6, 2014



## Appendix D: Affordable Housing Trust Fund: Revenue Options Analysis



### PREPARED FOR:

Economic Development and Planning  
City of Richmond, Virginia  
900 East Broad Street  
Richmond, Virginia 23219



### PREPARED BY:

#### **David Paul Rosen & Associates**

1330 Broadway, Suite 937  
Oakland, CA 94612  
510-451-2552  
510-451-2554 Fax  
david@draconsultants.com  
www.draconsultants.com



3941 Hendrix Street  
Irvine, CA 92614  
949-559-5650  
949-559-5706 Fax  
nora@draconsultants.com  
www.draconsultants.com





## Table of Contents

- Funding Strategies: General Fund or Dedicated Revenue..... 2**
- General Obligation Bonds..... 3**
- Limitations on Local Taxing Powers ..... 3**
- Revenue Profiles of Existing Taxes and Fees ..... 4**
- New Fees and Taxes..... 4**
  - 1. Residential and Commercial Impact Fees ..... 4
  - 2. Inclusionary Housing In-Lieu Fees ..... 5
  - 3. Real Estate Transfer Tax ..... 5
  - 4. Sale of City-Owned Land..... 6
  - 5. Expiring Rehabilitation Property Tax Exemptions ..... 6
  - Table 1: Projected Revenue Accrual ..... 6
  - 6. Tax Increment Financing ..... 7
  - 7. Rainy Day Fund, Unassigned Funds, Other Reserves ..... 8
  - 8. Condominium Conversion Fees..... 8
  - 9. Parking Violations ..... 8

## Appendices

- Appendix D1: Revenue Source Summary
- Appendix D2: Revenue Profiles





DRA has conducted an evaluation of potential revenue sources for the Richmond Affordable Housing Trust Fund (AHTF). For purposes of this analysis, the term “revenue source” means funds allocated to the AHTF that the AHTF in turn loans or grants to support the creation or preservation of affordable housing. The AHTF may also use such funds, in whole or in part, to pay debt service on bonds, the proceeds of which AHTF would use to invest in affordable housing.

In a memo from David Saltzman to Peter Chapman and Daniel Cohen dated April 15, 2014, DRA proposed to review various taxes and fees currently assessed by the City and detailed as budgetary line items of the General Fund Revenue Summary of the Richmond Biennial Fiscal Plan for Fiscal year 2015. In the same memo, DRA also proposed various new revenue options. In subsequent correspondence, Mr. Chapman and Mr. Cohen authorized DRA to proceed with an analysis of the revenue options detailed in the April 15 memo.

The Revenue Profiles, attached as Appendix D2, examine most of the existing revenue sources listed in the April 15 memo. When we have not prepared a Revenue Profile for a specific revenue option, we discuss that option in the body of this report. This is the case for each of the “new revenue options” enumerated in the April 15 Memo. Note that the Revenue Profiles include an analysis of one revenue option that we did not identify in our April 15 memo: a cigarette and tobacco tax. This tax is levied by most cities in Virginia but not by Richmond. Thirty cities in Virginia levy this tax, accounting for 1.12 percent of total city tax collections in the State.

In Appendix D1, Revenue Source Summary, we summarize the most feasible sources of AHTF revenue. We provide a more detailed discussion of these alternatives in Appendix D2.



## A. Trust Fund Revenue Sources: Top Prospects

The list below identifies revenue sources that DRA believes represent the best funding source options for the AHTF. DRA developed this list in consultation with City staff, taking into consideration two principal criteria: (1) revenue generation potential and (2) year-to-year consistency of revenue flow. The City should consider distributing tax and fee increases among a combination of the revenue sources listed below in order to maximize AHTF revenue while minimizing the impact on specific groups of taxpayers. The assumptions underlying revenue increase projections are detailed in Appendix D2 and Section E below.

<b>Existing Taxes</b>	<b>Revenue Increase Range</b>
1. Expiring Rehabilitation Tax Exemptions	\$0.6 - 5.6 million
2. Personal Property Tax on Vehicles	\$2.0 - 3.3 million
3. Machinery and Tools Tax	\$1.5 - 3.1 million
4. Prepared Food Tax	\$2.5 - 5.1 million
5. Lodging (Hotel Tax)	\$0.9 - 1.7 million
6. Vehicle License Fee	\$0.7 - 2.1 million
<b>New Tax</b>	
7. Cigarette and Tobacco Tax	\$4.1 - 6.7 million
<b>Total Annual Revenue</b>	<b>\$11.3 - 27.6 million</b>
<b>Reserve Funds</b>	
8. Asset Renewal/other	Available balances, if any TBD. Not a reoccurring revenue source

## B. Funding Strategies: General Fund or Dedicated Revenue

In considering AHTF revenue options, the City may choose among three primary options: (1) create a dedicated revenue stream from specified taxes and fees, (2) support the AHTF from annual appropriations out of its general fund, or (3) utilize a combination of options 1 and 2 above. If the AHTF is supported as a General Fund expenditure, then the City may not feel that its is necessary or appropriate to identify specific AHTF sources of revenue. Still, DRA's revenue analysis will be



valuable to the City, particularly if it chooses to contribute more than \$1 million to \$2 million per year to the AHTF, and needs to identify new revenue options to support higher contribution levels.

An advantage of a dedicated revenue stream is that it provides better assurances of long-term funding availability in comparison to general fund support. Dedicated funding would make the AHTF less vulnerable to the uncertainties of annual appropriations, although, depending on the funding source, there may still be significant year-to-year fluctuations in funding amounts.

### **C. General Obligation Bonds**

The City may issue general obligation (GO) bonds, deposit the bond proceeds with the AHTF to fund affordable housing projects, and use any of the revenue sources identified in this report to make debt service payments on the bonds. GO bond proceeds would obviously provide an immediate infusion of capital into the AHTF but would, in turn, reduce future income because funding sources would be diverted to pay bond debt service.

### **D. Limitations on Local Taxing Powers**

Virginia is a Dillon Rule state, giving the State legislature jurisdiction over local taxing powers, and prohibiting a local government from levying a new tax or increasing an existing tax unless it has the expressed authority to do so under State law. Many of the City's existing taxes and fees detailed in our April 15 memo are at their maximum levels permitted under State law, and the implication of the Dillon Rule is that the City cannot increase these taxes unless the State passes new legislation that increases the existing caps. The following taxes and fees are at their statutory ceilings in Richmond:

- Residential gas and electric utility taxes;
- Most business license fees;
- Local sales and use tax;
- Communications tax;
- Recordation tax; and
- Bank franchise tax.

## **E. Revenue Profiles of Existing Taxes and Fees**

For ease of review, we have organized the Revenue Profiles in Appendix D2 into two sections. The first section consists of taxes and fees that the City can currently increase without new State legislation, and the second section consists of the above noted taxes and fees that under current State law the City cannot increase. With regard to this latter category of taxes and fees, we have assumed that they are not realistic AHTF revenue options and, accordingly, we do not provide revenue projections.

The Revenue Profiles include revenue projection estimates, showing the revenue implications of “small” and “large” increases in taxation rates. The projections establish a realistic range of increased revenue. We established the upper end of the range by giving consideration to two primary constraints: (1) State statutory rate caps and (2) the reasonableness of the rate level relative to comparable jurisdictions.

We have provided comparable tax and fee rates, where available, from the following localities identified by City staff as appropriate comparable jurisdictions: Arlington, Chesapeake, Norfolk and Roanoke. The principal source of comparative tax data is a report on 2012 local tax rates titled Virginia Local Tax Rates, 2012, by John L. Knapp and Stephen C. Kulp. This report, which is updated annually, provides detailed tax and fee information on all cities and counties and selected incorporated towns.

## **F. New Fees and Taxes**

Except for the Cigarette and Tobacco Tax, the Revenue Profiles do not include evaluations of new taxes and fees. This is principally because, upon investigation, we have determined that many of the new revenue options identified in our April 15 memo are not authorized under State law, or because there is no reliable basis for projecting future revenue.

### **1. Residential and Commercial Impact Fees**

Virginia Code does not appear to authorize localities to impose impact fees on new development for any purpose other than to pay for the cost of road improvements. Absent expressed authority to impose impact fees on new development for other purposes, the Dillon Rule may preclude the City from assessing impact fees to generate revenue for the AHTF.



## **2. Inclusionary Housing In-Lieu Fees**

Division 10.1 of the City's Zoning Ordinance creates a voluntary Affordable Dwelling Units (ADU) program pursuant to Virginia Code § 15.2-2305. The City's ADU program allows a developer to increase the density of a residential development when it provides affordable dwelling units at the site. Several jurisdictions in Virginia have developed in-lieu fee rules that authorize developer contributions as an alternative means of compliance with inclusionary zoning requirements. These jurisdictions include Alexandria, Arlington and Fairfax. Section 36.H.6 of the Zoning Ordinance of the County of Arlington contains specific instructions on the calculation of in-lieu fees. Section 2-8145 of the Fairfax Zoning Ordinance authorizes the Affordable Dwelling Units Advisory Board to approve contributions to the Fairfax County Housing Trust Fund in lieu of building the required number of affordable units. The Alexandria in-lieu fee option appears to be a program policy, but it is not specifically mentioned in the zoning ordinance. Richmond's ADU program does not include an in-lieu fee option.

Based on discussions with City officials as well as DRA's review of residential development trends, it appears that developers seeking special use permits have requested higher residential densities for developments in certain City locations, including the Central Business District, Shockoe Bottom, and Manchester. Accordingly, market conditions in some City locations appear to be fueling the type of higher-density development that would allow the City to capture some in-lieu fee income for the AHTF. While in-lieu fee income will probably be small relative to the overall funding goals of AHTF, and would likely produce irregular revenue flows, it may be worthwhile to develop an in-lieu fee policy. Such a measure would create a more flexible ADU program that over time can promote more participation and, and at the very least provide intermittent revenue for the AHTF. However, it is important to emphasize the City cannot depend on in-lieu fees alone to sustain AHTF at a level of funding that will allow the City to meaningfully address its affordable housing needs.

## **3. Real Estate Transfer Tax**

Real Estate transfer taxes do not appear to be authorized under State law.



#### 4. Sale of City-Owned Land

As a matter of policy, the City does not own land and buildings where the current or intended future use of the property is for housing or other non-governmental purpose. Rather, the Richmond Redevelopment & Housing Authority (RRHA) is the principal public entity responsible for acquiring and controlling blighted properties. Based on conversations with City officials, we believe that most RRHA-owned properties possess characteristics that limit their value as a source of AHTF revenue. For example, many of the properties are blighted and have limited economic value. In addition, in some instances RRHA, as a public housing authority, may face restrictions on the use of property sale revenues due to HUD program income rules. Finally, when affordable housing is the intended end-use of an RRHA property, then we assume that RRHA will convey the properties to the purchasers by donation or seller financing. If the City/RRHA employ seller-financing (and loans are not forgiven over time), then they may receive loan repayment revenues over time that could, subject to HUD program income rules, serve as a modest and intermittent source of AHTF funding.

#### 5. Expiring Rehabilitation Property Tax Exemptions

Expiring rehabilitation property tax exemptions represent a potentially significant source of revenue for the AHTF. The City Assessor has prepared an analysis of expiring exemptions, which we reproduce below. We note that the proposed ordinance 2013-119 seeks to tap these funds for affordable housing, education and rapid transit. In the chart below, we assume that the AHTF receives one-third of the additional revenue that the City collects from expiring exemptions.

**Table 1: Projected Revenue Accrual**

Land Book Year	Expiring Applications	Revenue Accrual From Proposed Ordinance #2013-119									
		Calendar Year									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2015	318	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628	\$ 767,628
2016	305		\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363	\$ 1,139,363
2017	534			\$ 1,201,200	\$ 1,201,200	\$ 1,201,200	\$ 1,201,200	\$ 1,201,200	\$ 1,201,200	\$ 1,201,200	\$ 1,201,200
2018	884				\$ 2,642,400	\$ 2,642,400	\$ 2,642,400	\$ 2,642,400	\$ 2,642,400	\$ 2,642,400	\$ 2,642,400
2019	1026					\$ 2,606,896	\$ 2,606,896	\$ 2,606,896	\$ 2,606,896	\$ 2,606,896	\$ 2,606,896
2020	1074						\$ 2,637,091	\$ 2,637,091	\$ 2,637,091	\$ 2,637,091	\$ 2,637,091
2021	1073							\$ 3,007,715	\$ 3,007,715	\$ 3,007,715	\$ 3,007,715
2022	892								\$ 2,881,577	\$ 2,881,577	\$ 2,881,577
2023	588									\$ 2,720,680	\$ 2,720,680
2024	281										\$ 1,381,453
<b>Annual Accumulation (at current)</b>		<b>\$767,628</b>	<b>\$1,906,991</b>	<b>\$3,108,191</b>	<b>\$5,750,591</b>	<b>\$8,357,487</b>	<b>\$10,994,578</b>	<b>\$14,002,292</b>	<b>\$16,883,869</b>	<b>\$19,604,549</b>	<b>\$20,986,003</b>
Housing 1/3 share		255,876	635,664	1,036,064	1,916,864	2,785,829	3,664,859	4,667,431	5,627,956	6,534,850	6,995,334
10/16/13											
Prepared by City Assessor										<b>10 Yr Accum.</b>	<b>\$ 102,362,180</b>



## 6. Tax Increment Financing

Tax Increment Financing (TIF) is a strategy that the City could employ to maximize TIF investment in the new construction and rehabilitation of affordable housing. In comparison to local governments in other states, localities in Virginia appear to use TIF relatively infrequently. This in large part is probably because Virginia's TIF statute prohibits local jurisdictions from making direct pledges of TIF revenue to private developers, a restriction that limits the number of scenarios in which affordable housing developments would qualify for meaningful financial assistance under the State's TIF law. Generally, these scenarios would be limited to projects that have significant site assembly or public infrastructure costs—costs that are typically TIF-eligible under the Virginia TIF statute.

Given the limitations of the State's TIF law, many jurisdictions in Virginia use an alternative TIF structure called TIF-by-Agreement. According to Bonnie France of McGuire Woods, a locality receiving incremental tax revenues through the TIF-by-Agreement structure must first pay those funds to an Economic Development Agency (EDA). In the case of Richmond, TIF payments could flow through either the local EDA or RRHA, but she noted that if the project is housing they might need to flow through RRHA. The City, for example, could enter into a TIF-by-Agreement with RRHA whereby it agrees to pay a specified percentage of taxes in support of a development. This structure allows for the use of various taxes and fees, including but not limited to real estate taxes, sales taxes, personal property taxes on vehicles, meals taxes, hotel taxes and others.

If Richmond wishes to pursue TIF strategies to finance affordable housing, we suggest further analysis to determine ownership structure requirements of the entity that owns the project receiving TIF funds, and if the City must use RRHA as the pass-through entity for affordable housing projects. With regard to ownership structure, Ms. France was not prepared to confirm that TIF revenues provided through a TIF-by-Agreement could finance a development owned by a for-profit limited partnership, a common ownership structure for affordable rental housing development financed with Low Income Housing Tax Credits.

## **7. Rainy Day Fund, Unassigned Funds, Other Reserves**

The City of Richmond General Fund maintains a Rainy Day Fund/Unassigned Fund balance of \$72.9 million in Fiscal Year 2014. The City proposes a Rainy Day Fund/Unassigned Fund balance of \$75 million for Fiscal Year 2015.

In addition, the City maintained other reserves of \$33.75 million in FY 2014 with that amount declining to a proposed \$20.3 million for FY 2015.

## **8. Condominium Conversion Fees**

Some jurisdictions suffering rapid real estate condominium speculation and conversion adopt condominium conversion fees to assist the jurisdiction in compensating from the loss of rental housing. Often, some speculative condominium conversions occur at the expense of low and moderate income renter households, who typically lose their homes when the units convert to condominium ownership. Currently, Richmond is not experiencing active conversion of apartments to condominiums. The City may wish to consider adopting a condominium conversion fee, perhaps triggered by market indicators that precede the rapid loss of rental stock to condominium conversions.

## **9. Parking Violations**

In Fiscal Year 2014, the City collected \$1.2 million in parking fees and permits and an additional \$5.2 million in revenues from parking violations. However, for Fiscal Year 2015, no General Fund revenue is projected from parking fees, permits or violations. It appears that parking fee and violation revenue is now dedicated to an enterprise fund of the City and not available to the General Fund.



# Appendix D1: Revenue Source Summary



**Appendix A: Revenue Source Summary**

<b>Revenue Source</b>	<b>Current Revenue</b>	<b>Revenue Increase Projections</b>	<b>Advantages</b>	<b>Disadvantages</b>
1. Real Property Taxes	\$219,000,000	\$1.0 million- \$3.8 million		City's Current tax rate is highest among comparable jurisdictions.
1.1. Expiring Rehabilitation Property Tax Exemptions	0	Housing allocation based on 1/3 share of increment: 2015: \$0.2 million 2016: \$0.6 million 2017: \$1.0 million 2018: \$1.9 million 2019: \$2.8 million 2020: \$3.7 million 2021: \$4.7 million 2022: \$5.6 million	Significant revenue after 6 years. Does not require rate increase.	Proposed ordinance shares revenue with education and transit. Revenues escalate over time, with small inflows in early years, especially if housing receives 1/3 share.
2. Personal Property Tax On Vehicles	\$29,791,300	\$2.0 million- \$3.3 million	Nominal rate is less than statewide median, although effective rate is slightly higher than median.	
3. Machinery & Tools Tax	\$15,500,000	\$1.5 million- \$3.1 million		Limited revenue.
4. Consumer Utility Taxes	\$16,800,000	NA		City can only increase non-residential rates, as residential rates are at the state max. Existing rates appear high relative to comparable jurisdictions.

5. Prepared Food Tax	\$30,000,000	\$2.5 million- \$5.0 million		Current rate is higher than all comps except Norfolk.
6. Lodging (Hotel) Tax	\$7,100,000	\$0.9 million \$1.7 million		Limited revenue. Potential restrictions related to obligation to support Richmond Convention Center
7. Business License Fees	\$34,000,000	NA		Limited revenue as most fees are at maximum rate allowed by the State.
8. Vehicle License Fee	\$3,700,000	\$0.7 million \$2.1 million		Limited revenue.
9. Cigarette and Tobacco Tax	0	\$4.1 million \$6.7 million	Significant revenue potential. All comps assess tax and it is widely used throughout State.	
10. Inclusionary Housing In-Lieu Fees	0	NA	Funds must be used for affordable housing	Limited and uneven revenue.
11. Sale of City-Owned Land	0	NA		Limited and uneven revenue.
12. Reserve Funds	<u>2015 Balances:</u> Rainy Day/ unassigned: \$75,000,000 Asset Renewal/other: \$20,268,786	Available balances, if any, TBD	Possible AHTF one-time "start up" capital. Asset renewal fund may be an appropriate funding source for RRHA properties	



# Appendix D2: Revenue Profiles

<b>Real Property Taxes.....</b>	<b>D2-1</b>
<b>Personal Property Tax On Vehicles .....</b>	<b>D2-2</b>
<b>Machinery &amp; Tools Tax.....</b>	<b>D2-3</b>
<b>Consumer Utility Taxes .....</b>	<b>D2-4</b>
<b>Prepared Food Tax .....</b>	<b>D2-6</b>
<b>Lodging (Hotel) Tax.....</b>	<b>D2-7</b>
<b>Business License Fees .....</b>	<b>D2-8</b>
<b>Vehicle License Fee .....</b>	<b>D2-9</b>
<b>Cigarette and Tobacco Tax.....</b>	<b>D2-10</b>
<b>Local Sales and Use Tax .....</b>	<b>D2-11</b>
<b>Communications Tax.....</b>	<b>D2-12</b>
<b>Recordation Tax .....</b>	<b>D2-13</b>
<b>Bank Franchise Tax.....</b>	<b>D2-14</b>



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Real Property Taxes

<b>Current Assessment Level</b>	<b>Real Property Taxes</b>	<b>2014</b>	<b>2015 Proposed</b>
	Current Taxes	\$217,507,000	\$219,000,000
	Delinquent	\$8,597,200	\$9,000,000
	<b>TOTAL</b>	<b>\$224,104,200</b>	<b>\$228,000,000</b>

Tax Rate: \$1.20 per \$100 assessed valuation

**Current Uses**      General Fund

**Approval Process**      City Ordinance

<b>Revenue Projection</b>	<b>Tax Rate per \$100 AV</b>	<b>Assessment</b>	<b>Change</b>
	\$1.20 ( <i>Current Rate</i> )	\$228,000,000	\$0
	\$1.205	\$228,950,000	\$950,000
	\$1.21	\$229,900,000	\$1,900,000
	\$1.22	\$231,800,000	\$3,800,000

<b>Comparisons</b>	<b>City</b>	<b>Statutory Tax Rate per \$100 AV</b>	<b>Effective Rate per \$100 AV</b>	<b>Typical Tax on Residence</b>
	<i>Richmond</i>	\$1.20	\$1.21	\$2,280
	Arlington	\$1.00	\$0.92	
	Chesapeake	\$1.05	\$1.01	\$2,257
	Norfolk	\$1.15	\$1.11	\$2,214
	Roanoke	\$1.19	\$1.13	

**Discussion**      The Code of Virginia, §§ 58.1-3200 through 58.1-3389, authorizes localities to levy taxes on real property. There is no restriction on the tax rate that may be imposed.

One potential mechanism of funding support for the AHTF would be to capture a portion of the incremental tax revenue arising from the expiration of rehabilitation tax abatements. A detailed discussion of this option appears in the memo that accompanies this report.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Personal Property Tax On Vehicles

Current Assessment Level		2014	2015 Proposed
	<b>Personal Property Tax</b>		\$26,793,600
Personal Property Tax Relief		\$16,708,700	\$16,708,700
Delinquent		\$5,978,000	\$11,000,000
<b>TOTAL</b>		<b>\$49,480,300</b>	<b>\$57,500,000</b>

Tax Rate: \$3.70 per \$100 of assessed value for passenger vehicles, boats, farming equipment and trucks with a gross vehicle weight of less than 10,000 lbs. \$2.30 per \$100 of assessed value for trucks, for-hire or apportioned, with a gross vehicle weight of 10,000 lbs. or more. (Fiscal Plan, P 10-5; Individual (Vehicle) Personal Property Tax FAQ, Richmond.gov web site).

<b>Current Uses</b>	General Fund
<b>Approval Process</b>	City Ordinance

**Revenue  
Projection**

Personal Property tax Statutory Rate Per \$100	Adjusted Effective per \$100	Revenue	Increase
\$3.70 (current)	\$3.11 (Current)	\$40,491,300	\$0
\$3.885 (5% increase)	\$3.27 (est.)	\$42,830,865	\$2,039,565
\$4.00 (8.11% increase)	\$3.36 (est.)	\$44,095,395	\$3,304,095

Adjusted effective rates were derived by Knapp and Kulp to account for different valuation methods employed by jurisdictions. This allows for more accurate comparisons across jurisdictions. We assume that assessments on any other category of personal property that is not assessed at the current rate of \$3.70 per \$100 of assessed valuation will increase proportionately, including for-hire trucks that weigh in excess of 10,000 lbs. These trucks are currently taxed at a rate of \$2.30 per \$100 of assessed valuation.

We assume that the Personal Property Tax Relief reimbursement is a fixed amount that is not subject to change without state legislation.

Comparisons	City	Nominal Rate per \$100	Adjusted Effective Rate per \$100
	<i>Richmond</i>	\$3.70	\$3.11
	Arlington	\$5.00	\$3.75
	Chesapeake	\$4.08	\$3.00
	Norfolk	\$4.33	\$3.25
	Roanoke	\$3.45	\$2.59

**Discussion** Richmond's current nominal rate of \$3.70 is less than the median rate of \$4.00 for cities in Virginia, and its adjusted effective rate of \$3.11 is slightly higher than the median adjusted effective rate of \$3.06 for cities in Virginia.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

**Machinery & Tools Tax**

<b>Current Assessment Level</b>		<b>2014</b>	<b>2015 Proposed</b>
	<b>Machinery &amp; Tools Tax</b>	\$15,519,200	\$15,500,000

Tax Rate: Statutory rate \$2.30 per \$100 assessed value (original cost), adjusted annually, based upon the age of the equipment as follows: 90% of original cost 1st year, descending 10%/yr to 40% in 6th year and thereafter.

<b>Current Uses</b>	General Fund
---------------------	--------------

<b>Approval Process</b>	City Ordinance
-------------------------	----------------

<b>Revenue Projection</b>	<b>Tax Rate per \$100</b>	<b>Revenue</b>	<b>Tax on 5-year-old \$100,000 Property</b>	<b>Change</b>
	\$2.30 (Current Rate)	\$15,500,000	\$1,150	\$0
	\$2.53 (10% increase)	\$17,050,000	\$1,265	\$1,550,000
	\$2.76 (20% increase)	\$18,600,000	\$1,380	\$3,100,000

<b>Comparison</b>	<b>City</b>	<b>Statutory Tax Rate per \$100</b>	<b>Adjusted Effective per \$100</b>	<b>Tax on 5-year-old \$100,000 Property</b>
	<i>Richmond</i>	<b>\$2.30</b>	90% of original cost 1st year, descending 10%/yr. to 40% in 6th and thereafter	\$1,150
	Arlington	\$5.00	80% of original cost 1st year, descending 10%/yr. to 20% in 7th and thereafter	\$2,000
	Chesapeake	\$1.00	20% of original cost every year	\$640
	Norfolk	\$4.25	40% of original cost every year	\$1,700
	Roanoke	\$3.45	60% of original cost 1st year, descending 10%/yr. to 20% 5th and thereafter	\$690

Rates among jurisdictions are not directly comparable given different effective rates and assessment schedules.

**Discussion**



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Consumer Utility Taxes

---

**Current  
Assessment Level**

<b>Consumer Utility Taxes</b>	<b>2014</b>	<b>2015 Proposed</b>
Electric Consumer Tax	\$12,146,100	\$12,200,000
Gas Consumer Tax	\$4,654,700	\$4,600,000

**Tax Rates:**

**Residential Electric:** \$1.40 plus \$0.015116 per kwh not to exceed \$4.00 per month.

**Commercial Electric:** \$2.75 plus \$0.016462 per kwh.

**Industrial Electric:** \$2.75 plus \$0.11952 per kwh

**Residential Gas:** \$1.78 plus \$0.10091 per 100 CCF not to exceed \$4.00 per month.

**Commercial and Industrial Gas:**

Small volume user: \$2.88 plus \$0.1739027 per ccf

Large volume user: \$24.00 plus \$0.07163081 per ccf

Industrial user: \$120.00 plus \$0.011835 per ccf

---

**Current Uses**

General Fund

---

**Approval Process**

Residential gas and electric are at their maximum rates permitted by state statute and cannot be increased without state legislation. Commercial and industrial consumer utility taxes are not subject to a statutory cap and may be increased by City ordinance.

---

**Revenue  
Projection**

*(We need a breakdown of residential and commercial/industrial tax revenue to prepare a revenue projection)*

---



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

<b>Comparisons</b>	<b>City</b>	
	Richmond	<b>Commercial Electric:</b> \$2.75+\$0.016462 per kwh. <b>Industrial Electric:</b> \$2.75 +\$0.11952 per kwh <b>Commercial and Industrial Gas:</b> Small volume user: \$2.88 plus \$0.1739027 per ccf Large volume user: \$24.00 plus \$0.07163081 per ccf Industrial user: \$120.00 plus \$0.011835 per ccf
	Arlington	<b>Commercial Electric:</b> \$1.15 + \$0.004989/kwh <b>Industrial Electric:</b> \$1.15 + \$0.008022/kwh <b>Commercial Gas:</b> \$0.845 + \$0.05017/ccf; interruptible <b>Non-residential:</b> \$4.50+ \$0.00913/ccf <b>Industrial Gas:</b> \$0.845 + \$0.05017/ccf; interruptible
	Chesapeake	<b>Commercial Electric:</b> \$2.87+\$0.0171/kwh; \$112.50 Maximum <b>Industrial Electric:</b> \$2.87/meter + \$0.0251/kwh\$112.50 Maximum <b>Commercial Gas:</b> \$4.00/meter + \$0.155/ccf; \$112.50 max <b>Industrial Gas:</b> \$4.00/meter + \$0.155/ccf; \$112.50 max
	Norfolk	<b>Commercial Electric:</b> \$1.38 + \$0.017933/kwh on first 537 kwh; \$0.006330/kwh thereafter <b>Industrial Electric:</b> \$2.87 + \$0.017933/kwh on first 3,625,100 kwh; \$0.004014/kwh thereafter; \$53,000 max <b>Commercial Gas:</b> \$3.225 + \$0.167821/ccf on first 70 ccf; \$0.161552/ccf, on 70-430 ccf; \$0.15363/ccf thereafter; \$500 max <b>Industrial Gas:</b> \$3.225 + \$0.167821/ccf on first 70 ccf; \$0.161552/ccf, on 70-430 ccf; \$0.15363/ccf thereafter; \$599 max
<b>Comparisons (Continued)</b>	Roanoke	<b>Commercial Electric:</b> \$0.00800/kwh on first 1,000 kwh; \$0.00540/kwh thereafter; or 12% times min. provider charge <b>Industrial Electric:</b> \$0.00680/kwh on first 1,000 kwh; \$0.00395/kwh thereafter; or 12% times min. provider charge <b>Commercial Gas:</b> Greater of \$0.08/ccf or 12% min. provider charge <b>Industrial Gas:</b> Greater of \$0.08/ccf or 12% min. provider charge

**Discussion** Note that the residential user caps of \$4.00 mean that large homes pay the same tax as small homes because the cap is reached after just 172 kwh consumption.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Prepared Food Tax

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Prepared Food Tax</b>	\$28,328,500	\$30,000,000

Prepared Food: 6% on prepared foods in addition to the sales tax.

**Current Uses**

General Fund

**Approval Process**

City Ordinance

**Revenue  
Projection**

<b>Tax Rate</b>	<b>Assessment</b>	<b>Change</b>
<i>6.0% (Current Rate)</i>	<i>\$30,000,000</i>	<i>\$0</i>
6.5%	\$32,500,000	\$2,500,000
7.0%	\$35,000,000	\$5,000,000

Estimates based on \$500 million in prepared food sales.

**Comparisons**

<b>City</b>	<b>Statutory Tax Rate %</b>
<i>Richmond</i>	<i>6.0</i>
Arlington	4.0 (4% limits for counties only)
Chesapeake	5.5
Norfolk	6.5
Roanoke	5.0

**Discussion**

The 6.0% prepared food tax rate levied by Richmond is also the median rate among all cities in Virginia.

**Meals Tax Rates, 2012**

Rate	#Cities
3.1-4%	7
4.1-5%	5
5.1-6%	16
6.1-7%	8
7.1-8%	3



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Lodging (Hotel) Tax

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Hotel Tax</b>	\$5,938,300	\$7,100,000

**Current Uses**

Hotel Tax pledged to the Greater Richmond Convention Center.

**Approval Process**

City Ordinance.

**Revenue  
Projection**

<b>Tax Rate</b>	<b>Assessment</b>	<b>Change</b>
8% ( <i>Current Rate</i> )	\$7,100,000	\$0
9%	\$7,987,500	\$887,500
10%	\$8,875,000	\$1,775,000

Tax receipt estimates are based on hotel room rental receipts of \$88,750,000 multiplied by the applicable tax rate.

**Comparisons**

<b>City</b>	<b>Statutory Tax Rate %</b>
<i>Richmond</i>	8.0
Arlington	5.2
Chesapeake	8.0
Norfolk	8.0 + \$1 per night
Roanoke	8.0

**Discussion**

The City's 8.0% rate is above the statewide median of 6% for cities and 5% for counties and towns. Among 37 cities surveyed by Knapp, only 2 had rates over 8% (Emporia and parts of Virginia Beach), and no counties had rates above 8%.

The tax appears to support the operation of the Greater Richmond Convention Center. Accordingly, there may be restrictions on its use for other purposes.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

**Business License Fees**

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Business License Fees</b>	\$30,830,100	\$34,000,000

For all categories with \$100,000 or less in gross receipts: \$30 fee (only).  
 Wholesale Merchants: \$0.22 per \$100 of gross purchases.  
 Retail Merchants: \$0.20 per \$100 of gross receipts.  
 Professional Occupations: \$0.58 per \$100 of gross receipts.  
 Contractors: \$0.19 per \$100 of gross contracts and/or 1.50% of fees from contracts on a fee basis.  
 Personnel Services: \$0.36 per \$100 of gross receipts .

**Current Uses**

General Fund

**Approval  
Process**

Approved and administered by City, subject to State statutory maximums. Statutory maximum rates vary by business classification, as detailed below.

Flat Fees: Per §58.1-3703, there appears to be a statutory max fee of \$50. The City imposes a flat fee of \$30 for business with \$100,000 or less in gross receipts.  
 Wholesale Merchants: The City's rate of \$0.22 is above the statutory maximum of \$0.05 and presumably operates under the statute's grandfather clause.  
 Retail Merchants: The statutory maximum is \$0.20.  
 Professional Occupations: The statutory maximum is \$0.58.  
 Contractors: The City's rate of \$0.19 is above the statutory maximum of \$0.16 and presumably operates under the statute's grandfather clause.  
 Personnel Services: The statutory maximum is \$0.36.

Based on the discussion above, most business licensee fees and taxes are at the maximum rate allowed under State statute. We believe that the City could increase fees charged to businesses with \$100,000 or less in gross receipts to \$50 from the current level of \$30.

**Revenue  
Projection**

Per State statute, the only fee the City can increase is the \$30 "Flat Fee" that it imposes on businesses with less than \$100,000 in gross receipts, and which is subject to a the statutory cap of \$50. All other categories of business license fees are at their respective statutory caps.

We are not able to provide an estimate of additional revenue resulting from an increase in the business license fee from its current level of \$30 because we do not have information on the number of business with \$100,000 or less in gross receipts.

**Discussion**

Business license fees are not a realistic source of funding for the Trust Fund, as the Flat Fee is the only category of fee the City can increase, and even a \$20 increase, up to the State statutory maximum of \$50, would yield limited incremental revenue.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

**Vehicle License Fee**

**Current Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Vehicle License Fee</b>	\$3,362,200	\$3,700,000

**Private Passenger Vehicles:** \$23 on 4,000 lbs. or less; \$28 on 4,001 lbs. or more

**Trucks:** Rates graduated in accordance with gross weight; Minimum rate \$24; maximum rate \$250.

**Current Uses**

General Fund

**Approval Process**

The City may increase the vehicle license subject to State statutory limits of \$38 for vehicles 4,000 pounds or less and \$43 for heavier vehicles.

**Revenue Projection**

<b>Vehicle License Fee</b>	<b>% Increase</b>	<b>Revenues</b>	<b>Change</b>
<b>A. &lt;= 4,000 lbs.</b>			
<b>B. &gt; 4,000 lbs.</b>			
A. \$23 (Current Rate)	0%	\$3,700,000	\$0
B. \$28 (Current Rate)			
A. \$27.6	20%	\$4,440,000	\$740,000
B. \$33.6			
A. \$38 (Maximum Rate)	A. 65%	\$5,883,000*	\$2,183,000
B. \$43 (Maximum Rate)	B. 54%		

\*Assumes a blended increase of 59%.

**Comparisons**

<b>City</b>	<b>4,000 Lbs. &amp; Under</b>	<b>Over 4,000 LBS</b>
Richmond	\$23.00	\$28.00
Arlington	\$33.00	\$33.00
Chesapeake	\$23.00	\$28.00
Norfolk	\$26.00	\$31.00
Roanoke	\$20.00	\$20.00

**Discussion**

The City's \$23.00 rate for vehicles 4,000 lbs. and under is less than the statewide median of \$26.00, placing it in the 1<sup>st</sup> quartile among cities. No city assesses the maximum rate allowed under state law.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Cigarette and Tobacco Tax

**Current Assessment Level**

	2014	2015 Proposed
<b>Cigarette and Tobacco Tax</b>	NA	NA

**Current Uses**

NA

**Approval Process**

City Ordinance

**Revenue Projection**

The table below estimates potential cigarette tax revenue in Richmond by comparing Richmond with cities that have similar populations and that impose a cigarette tax, and then deriving an estimate by extrapolation.

City	Population	Revenue per Capita	2015 Budget Projection
Richmond	204,214	<i>Estimates</i>	<i>Estimates</i>
		\$20.33	\$4,152,000
		\$28.77	\$5,875,000
		\$32.93	\$6,724,344
Chesapeake	222,209	\$20.33	\$4,518,150
Newport News	180,719	\$28.77	\$5,200,000
Norfolk	242,803	\$32.93	\$7,995,000

**Comparisons**

City	Tax
Richmond	\$0
Arlington	\$0.30 (20 cig)
	\$0.375 (25 cig)
Chesapeake	\$0.50 (20 cig)
	\$0.625 (25 cig)
	\$0.75 (30 cig)
Norfolk	\$0.85 (20 cig)
	\$0.935 (25 cig)
Roanoke	\$0.54

**Discussion**

Richmond does not levy a cigarette and tobacco tax; however, 30 cities in Virginia levy this tax at a median rate of \$0.33 per pack. In 2011 it accounted for 1.12 percent of the taxes collected by cities. Other than Arlington and Fairfax, no counties in Virginia assess a cigarette tax.



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Local Sales and Use Tax

---

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Local Sales &amp; Use Tax</b>	\$31,925,700	\$32,500,000

The Code of Virginia § 58.1-605 permits cities and counties to establish a retail sales tax at a rate of 1%. The City assessment appears to be at the maximum rate allowed under state law.

---

**Current Uses**            General Fund

---

**Approval Process**            State legislation is required to increase the current rate.

---

**Revenue  
Projection**            NA

---

**Discussion**            The local sales and use tax is not a realistic source given requirement of state legislation to authorize an increase.

---



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Communications Tax

---

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Communications Tax</b>	\$17,048,800	\$17,200,000

---

**Current Uses**

General Fund

---

**Approval Process**

State legislation is required to increase the communications tax.

---

**Revenue  
Projection**

NA

---

**Discussion**

The state collects the tax and distributes funds to the localities.

---



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Recordation Tax

---

**Current  
Assessment Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Recordation Tax</b>	\$820,100	\$750,000

**Deeds:** The state assesses a tax of \$0.25 on every \$100 of the value of the property conveyed. An additional tax may be imposed by localities equal to one-third of the state tax, or \$0.083 on the first \$10 million.

**Deeds of Trust or Mortgages:**

(figures in parentheses are rates applied to refinancings)

On the first 10 million, \$0.25 (\$0.18) on every \$100 or portion thereof;

On the next 10 million, \$0.22 (\$0.16) on every \$100 or portion thereof;

On the next 10 million, \$0.19 (\$0.14) on every \$100 or portion thereof;

On the next 10 million, \$0.16 (\$0.12) on every \$100 or portion thereof;

Over 40 million, \$0.13 (\$0.10) on every \$100 or portion thereof.

An additional tax may be imposed by localities equal to one-third of the state tax.

Grantor Tax: \$0.50 on every \$500 of the or value of the interest.

Richmond appears to access the maximum recordation tax permitted by state law.

---

**Current Uses**

General Fund

---

**Approval Process**

State legislation is required to increase the local recordation tax rate.

---

**Revenue  
Projection**

NA

---

**Discussion**

*(We need to confirm that the City imposes the maximum rate, as the recordation tax revenue seems low.)*

---



**Affordable Housing Trust Fund Revenue Options  
City of Richmond**

## Bank Franchise Tax

---

**Current  
Assessment  
Level**

	<b>2014</b>	<b>2015 Proposed</b>
<b>Bank Franchise Tax</b>	\$8,386,700	\$8,800,000

Tax Rate: \$0.80 on each \$100 of value of bank stock.

---

**Current Uses**

General Fund

---

**Approval  
Process**

State legislation is required to increase the local Bank Franchise Tax rate. The City's portion of the Bank Franchise Tax is currently at the maximum level permitted under state law (Knapp. Pp. 256-257).

---

**Revenue  
Projection**

NA

---

**Discussion**

State approval required for an increase in the tax rate.

---

