Commission on Local Government

Estimate of Local Fiscal Impact
2006 General Assembly Session

Bill: HB 169 Patron: Delegate Lingamfelter Date: January 26, 2006

I. Bill Summary

Beginning in January 1, 2007, HB 169 caps the rate of real property tax that a locality may establish to one that would produce revenues no greater than 3% over the previous year's total real property tax levies. This bill also provides a single exception to this cap permitting a locality to raise its property tax levy by a rate equal to the sum of annual population growth plus the rate of inflation for the immediately preceding year. In no event, however, can the property tax rate be set at any amount that would produce more than 6% growth.

II. Fiscal Impact and Analysis

While the Commission on Local Government did not specifically request estimates of potential fiscal impact from localities on HB 169, five jurisdictions (the Cities of Charlottesville, Hopewell, Lynchburg, and Richmond, and Rappahannock County) indicated that the legislation would result in a net reduction of local revenue. The estimates of the local fiscal impact of HB 169 from the responding jurisdictions is as follows:

City of Charlottesville $3,900,000 Total First Year Revenue Reduction

The City's estimate is based on the current year's revenue projections increased by 3% for 2007, regardless of the anticipated increase in real property assessments.

City of Hopewell $213,000 Total First Year Revenue Reduction

Hopewell's estimate is based on reducing its historical annual increases in real property revenues of 5%.

City of Lynchburg $1,402,301 Total First Year Revenue Reduction

The City's estimate is based on reducing the actual growth in property tax levies to 3%.

City of Richmond $2,850,000 Total First Year Revenue Reduction

The City's estimate is based on reducing the 2007 projected growth in property tax levies to 3%.

<u>Rappahannock County $103,000 Total First Year Revenue Reduction</u>

The estimate provided by the County is based on the reduction of its real property tax levy to 3%.

The responding localities also noted that HB 169 may have additional fiscal impacts on local governments. If this bill is enacted, the localities that do not reassess real estate on an annual basis may confront major revenue constrictions during the year following a general reassessment. Further, the net revenue reduction from this legislation could increase exponentially in future year. In addition, where a local government, such as the City of Richmond, has provided incentives to the private sector to expand its property tax base, limiting the growth in the real estate tax levy would eliminate the economic benefits of those investments. Moreover, restrictions imposed by HB 169 could limit the ability of a locality to use unappropriated fund balances to undertake large capital projects, such as school construction or road improvement. Finally, this bill may also reduce the flexibility needed by local governments to increase or decrease real property tax rates to address local concerns or state or national economic conditions.

III. Conclusion

The fiscal impact of this bill would vary according to the relative dependence of an individual locality on the real property tax, the dynamics of the local real estate market, the timing for the reassessment of real property, demographic characteristics, and other factors. However, based on the analysis of fiscal impact received from responding localities, HB 169 could result in a significant net reduction in local revenue, especially in future years.