

City of Manassas Park, Virginia

Questions and Answers About Aligning Real Estate Tax Assessments with Fiscal Year Budget

Issue Summary: The Governing Body of the City of Manassas Park is considering aligning calendar year real estate tax assessments with the fiscal year budget in order to accurately anticipate changes in the real property tax revenues for the City that affect each budget year. Current estimates show that real estate tax assessments may decline 22% in 2009, resulting in a budget shortfall for the City of more than \$2.4 million in real estate tax revenue (\$1.1 million for City and \$1.3 for Schools). According to Virginia Code, the Governing Body can adopt ordinances that change the effective date for the real estate tax assessment year from January 1 to July 1, and other ordinances that relate to real estate tax assessment and Board of Equalization activities in order to comply with this date change.

The following questions and answers are presented to help the citizens of Manassas Park and other stakeholders in the real estate tax assessment process or who use such information in the real estate industry.

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Question 1: Why is the Governing Body considering aligning calendar year real estate tax assessments with the fiscal year budget cycle?

Response: Current estimates show that real estate tax assessments may decline 22% in 2009, resulting in a budget shortfall for the City of more than \$2.4 million in real estate tax revenue (\$1.1 million for City and \$1.3 for Schools).

The desire of the Governing Body in aligning the real estate tax assessment year with the fiscal year budget process is to accurately anticipate changes in the real property tax revenues for the City that affect each budget year. For the current FY 2008-2009 general fund budget, real estate tax revenues represent approximately 52% of general fund revenues.

Each spring, as part of the City's fiscal year budget process the Governing Body considers and adopts a real estate tax rate to be levied against the City's real property tax base for the current calendar year assessments (January 1 through December 31) and estimates how the tax base may change for the upcoming assessment. The City's fiscal year budget covers the period from July 1 through June 30.

For example, for the FY 2009 budget year the City Assessor provided the Director of Finance with the CY 2008 assessments on February 19, 2008 (that had an effective date of Jan. 1, 2008) and estimated that the CY 2009 real property tax base would decline 3.5% (11.25% depreciation in properties values offset by an expected \$100 million in expected new construction value). The challenge is estimating how real estate values will change in more than 10 months (February through December) under unique and changing real estate market conditions.

The prevailing residential real estate market for 2008 is characterized as a buyer's market where sellers are motivated by actions in lieu of foreclosure (short sales and third-party sales) or bank-owned properties are being sold. 85.2% of the real estate transactions that took place during the first six months of CY 2008 in the City of Manassas Park were pre and post-foreclosure sales. And because pre and post-foreclosure sales are such a major force in the market, all other sales are indicating a similar decline in market value in order to compete. These conditions are not expected to change in any substantive way to alter prevailing market conditions.

For the 2008 real estate assessments (that were effective January 1, 2008, and considered sales during 2007) and prior assessments, pre and post foreclosure sales were not a prevailing part of market and, therefore, were not considered in determining property assessment changes from year to year.

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Question 2: Under what authority can the Governing Body change the real estate tax assessment date?

Response: Virginia Code Sections 58.1-3010 and 58.1-3011 provide that a governing body may adopt ordinances that change the effective date for the real estate tax assessment year from January 1 to July 1, and other ordinances that relate to real

estate tax assessment and Board of Equalization activities in order to comply with this date change.

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Question 3: What has the Governing Body already done to proactively respond to this situation?

Response: As part of their September 9, 2008, meeting, the Governing Body heard a presentation by the City Assessor related to an expected decline in the City's real estate tax base of 22%. After the presentation on assessments, Mayor Jones outlined how the Governing Body was proactively responding to the situation, which included:

- Zero-based review of all City-provided services through in-depth study by City staff
- Identification of costs, alternatives, and impact options by City staff
- Prioritizing list of cost saving recommendations by City staff
- Hiring to all vacant City positions halted (individual vacancies evaluated on a case-by-case basis, considering impact to City health, safety, and welfare)
- Curtail spending
- Coordinate City's actions and response with surrounding localities
- Consider citizen input

As part of a meeting of the Governing Body on October 14, budget reductions of \$1.1 million for the FY 2009 budget were approved.

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Question 4: What other options are being considered by the Governing Body?

Response: Mayor Jones' presentation of September 9 also outlined the options that the Governing Body planned to consider, which included:

- Review and modify City services and staffing levels, if appropriate
- Outsource and partner with other jurisdictions
- Use City's emergency reserve (one time solution, not ongoing or long term solution)

- Re-baseline real estate tax rate, but not increase the amount of real estate tax bill to the citizens
- Final estimated impact of decline in real estate assessments after City Assessor studies market and reports changes up to the time when budget decisions need to be made (March/April 2009)

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Question 5: How can I voice my concerns to the Governing Body on this issue?

Response: The Governing Body will hold a public hearing on Wednesday, November 12 on the issue of aligning real estate tax assessments with the fiscal year. The meeting time will be advertised in advance and an agenda available on the City's main website. Citizens are encouraged to sign-up to speak on any item or notify the City Clerk at the meeting. The City website (<http://www.cityofmanassaspark.us>) also includes contact information for the Governing Body.

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Question 6: Are other cities considering a similar change?

Response: According to a 2006 survey by the Virginia Department of Taxation, 53% of Virginia cities, or 21 of 40 cities, have changed their real estate tax assessment year to align with the fiscal budget year. Virginia cities that have changed their real estate tax assessment year to align with the fiscal budget year include Chesapeake, Hampton, Harrisonburg, Newport News, Norfolk, Petersburg, Portsmouth, Suffolk, and Virginia Beach, all of whom also assessment real estate each year.

Because real estate assessments are generally prepared in the fall and winter, and the typical budget process will not begin until about February 2009, it is too early to tell if other cities will consider a similar change.

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Question 7: Will the alignment of the real estate tax assessment year with the fiscal budget year affect other taxes?

Response: No, the alignment of the real estate tax assessment year with the fiscal budget year will not affect other taxes, just the real estate tax. The process for personal property taxes will remain the same.

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Question 8: Will all types or classes of real estate be affected by this change?

Response: All types or classes of real estate will be affected by the aligning of the real estate tax assessment year with the fiscal year budget. The classes of taxable real estate in the City currently include residential properties (single family detached homes, townhomes, and residential condominiums), commercial properties (apartments, offices, and general retail properties) and industrial properties (distribution, storage, and manufacturing warehouses and facilities).

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Question 9: How will the real estate tax assessment process change when it is aligned with the fiscal year budget?

Response: The real estate tax assessment process will change in five different ways when it is aligned to with the fiscal budget year. These five key topic areas are explained below in the date order that they will most likely occur.

1. No reassessment will take place on January 1. Instead the last reassessment will remain at 2008 (which had an effective date of January 1, 2008) until the FY 2009-2010 reassessment is completed (with an effective date of July 1, 2009).
2. Notices of Assessment will not be mailed in February of 2009 as previously done. Notices for the FY 2009-2010 property assessments are expected to be mailed to all property owners on May 20, 2009.
3. The deadline for filing a Request for Review of Assessment form with the Office of the City Assessor will be changed from April 15 to June 19.
4. The deadline for filing an Appeal of Real Estate Assessment form with the Board of Equalization will be changed from June 1 to August 1.
5. City staff will work with lenders who have real estate tax escrow accounts and real estate brokers and settlement agents who prorate real estate taxes so that these changes have a smooth transition.

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Question 10: Will real estate taxes still be due June 5 and December 5 as in past years?

Response: Yes, real estate tax bills will still be due June 5 and December 5 as they have in past years. However, on a fiscal year basis the first installment will be due December 5 and the second installment due June 5. City staff will work with lenders who have real estate tax escrow accounts and real estate brokers and settlement agents who prorate real estate taxes so that these changes have a smooth transition.

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Question 11: What other changes will this alignment cause?

Response: Question 9 (pages 4-5 above) outlined the real estate tax assessment process changes that are expected when the real estate tax assessment year is aligned with the fiscal year budget. City staff has considered all of the areas that would be affected and discussed the change with their counterparts in several Virginia cities where they have aligned calendar year real estate tax assessments with the fiscal year budget.

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Other Available Resources:

Proactive Approach to Expected Assessment Decline

http://www.cityofmanassaspark.us/Public_Documents/ManassasParkVA_WebDocs/2008%20Assessment%20Process%20Issue%20--%20FJ%20Changes.pdf

Update on Assessments (2009)

[http://www.cityofmanassaspark.us/Public_Documents/ManassasParkVA_WebDocs/Update%20on%20Assessments%20\(revised\).pdf](http://www.cityofmanassaspark.us/Public_Documents/ManassasParkVA_WebDocs/Update%20on%20Assessments%20(revised).pdf)

FY 2009 Cost Saving Measures

http://www.cityofmanassaspark.us/Public_Documents/ManassasParkVA_BBoard/021971DD-000F8513.0/FY%202009%20Financial%20Update-for%20PUBLIC%20on%2010-14-08.ppt

City of Manassas Park website

<http://www.cityofmanassaspark.us>

Meetings Calendar

http://www.cityofmanassaspark.us/Public_Documents/ManassasParkVA_Calendar/?formid=158

The following is a calendar of activities related to aligning calendar year (CY) real estate taxes with the fiscal year (FY) budget.

Calendar for Remainder of CY 2008 (October – December 31, 2008)

Nov. 12 Governing Body to hold public hearing on aligning the effective date for real estate tax assessment year with fiscal year budget cycle

December 5 Calendar year (CY) 2008 real estate tax bill for second half installment due

Calendar for Short CY 2009 (January 1 – June 30, 2009)

January 1	Because of alignment of real estate tax assessments to fiscal year (FY) budget period no reassessment to be effective until July 1, 2009
February 28	Because of alignment of real estate tax assessments to FY budget cycle Notices of Assessment for FY 2009-2010 (effective July 1, 2009) are not expected to be mailed until May
April 15	Because of alignment of real estate tax assessments to FY budget cycle the deadline for filing a Request for Review of Assessment form with the Office of the City Assessor concerning the FY 2009-2010 assessments is expected to change to June 19
April	Governing Body to advertise and hold a public hearing on short CY 2009 and FY 2009-2010 real estate tax rates, as part of FY 2009-2010 City budget process
April	Governing Body to adopt short CY 2009 and FY 2009-2010 real estate tax rates
May 1	Real estate tax bills mailed for short CY 2009 to be levied against last assessment (2008)
May 20	Notices of Assessment for FY 2009-2010 to be mailed to all owners of real estate
June 1	Because of alignment of real estate tax assessments to FY budget cycle the deadline for filing an Appeal of Real Estate Assessment form with the Board of Equalization concerning the FY 2009-2010 assessments is expected to change to August 1
June 5	Short CY 2009 real estate tax bills due (levied against last reassessment in 2008)
June 19	Deadline for filing a Request for Review of Assessment form concerning the FY 2009-2010 assessments with the Office of the City Assessor

Calendar for FY 2009-2010 (July 1, 2009 – June 30, 2010)

July 1	Effective date for FY 2009-2010 real estate tax assessment year
July 1	City's FY 2009-2010 budget year begins
August 1	Deadline for filing an Appeal of Real Estate Assessment form with the Board of Equalization concerning the FY 2009-2010 assessments
November 1	First installment of FY 2009-2010 real estate tax mailed
December 5	First installment of FY 2009-2010 real estate tax due
April	Governing Body to advertise and hold public hearing on FY 2010-2011 real estate tax rate, as part of FY 2010-2011 City budget process
April	Governing Body to adopt FY 2010-2011 real estate tax rates

- May 1** Real estate tax bills mailed for FY 2009-2010 levied against FY 2009-2010 real estate assessments
- May 20** Notices of Assessment for FY 2010-2011 to be mailed to all owners of real estate
- June 5** Second installment of FY 2009-2010 real estate tax bills due (levied against FY 2009-2010 real estate reassessments)
- June 19** Deadline for filing a Request for Review of Assessment form concerning the FY 2010-2011 assessments with the Office of the City Assessor