

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 1, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: DISCUSSION AND REVIEW OF ESTABLISHING A REDUCED PERSONAL PROPERTY TAX RATE FOR HYBRID ELECTRIC VEHICLES

ISSUE: Consideration of a personal property tax reduction for alternative fuel vehicles.

RECOMMENDATION: That City Council discuss and review the option of establishing a reduced personal property tax rate for alternative fuel vehicles (including hybrid electric).

BACKGROUND: At the March 29, 2005, budget work session, Councilman Macdonald requested staff explore methods by which the City could provide tax incentives to citizens owning hybrid vehicles garaged in the City. The mechanism under State law to provide tax incentives to persons owning or driving hybrid vehicles would be to establish a different personal property tax rate for the assessment of hybrid vehicles, as well as other alternative fuel vehicles.

DISCUSSION: In response to Councilman Macdonald's request, staff reviewed the applicable laws relating to the assessment and taxation of personal property. The Code of Virginia, §58.1-3506, provides local taxing jurisdictions with the authority to tax certain classes of tangible personal property at a different tax rate. Subsection 20 establishes, "Motor vehicles which use clean special fuels as defined in §46.2-749.3" as a separate class for taxation. In other words, City Council could establish an ordinance that provides a different tax rate than that currently used to assess personal property by the City.

The Code of Virginia requires all vehicles that use clean special fuels be provided with the same tax rate. "Clean special fuels" are defined in Virginia Code §46.2-749.3 which reads as follows:

"As used in this section, 'clean special fuel' means any product or energy source used to propel a highway vehicle, the use of which, compared to conventional gasoline or reformulated gasoline, results in lower emissions of oxides of nitrogen, volatile organic compounds, carbon monoxide or particulates or any combination thereof. The term includes compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, hythane (a combination of compressed natural gas and hydrogen) and electricity."

Below is a list of vehicles, which staff compiled from the Virginia Division of Motor Vehicles (DMV) and manufacturer's records, that are fueled by compressed natural gas, liquefied natural gas, liquefied petroleum gas, electricity and hybrid electricity.

| Make/Manufacturer | Model | Fuel Type |
|--------------------------|--------------------------------------|-----------------------------------|
| Dodge/Daimler Chrysler | Ram Van | Compressed Natural Gas |
| Dodge/Daimler Chrysler | Ram Maxi Van | Compressed Natural Gas |
| Dodge/Daimler Chrysler | Ram Wagon | Compressed Natural Gas |
| Dodge/Daimler Chrysler | Ram Maxi Wagon | Compressed Natural Gas |
| Ford | Crown Victoria | Compressed Natural Gas |
| Ford | E250/E350 Vans & Wagons | Compressed Natural Gas |
| Ford | Econoline Van (2001) | Compressed Natural Gas |
| Ford | Escape Hybrid | Hybrid Electric |
| Ford | F-150 (2003,2004) | Compressed Natural Gas |
| Ford | Think City (2002) | Electric |
| General Motors/Chevrolet | Silverado | Natural Gas |
| General Motors/GMC | Savana | Compressed Natural Gas |
| General Motors/GMC | Sierra | Natural Gas |
| Honda | Accord Hybrid | Hybrid Electric |
| Honda | Civic Hybrid | Hybrid Electric |
| Honda | Civic GX | Natural Gas |
| Honda | Insight | Hybrid Electric |
| Nissan | Altra/Altra-EV (select Fleets CA) | Electric |
| Nissan | Hypermini | Electric |
| Quantum and ProCon | Express G2500 & G3500 Van (2002) | Liquefied Petroleum Gas (propane) |
| Quantum and ProCon | Savana G2500 & G3500 Van (2002) | Liquefied Petroleum Gas (propane) |
| Solectria | Citivan | Electric |
| Solectria | Flash | Electric |
| Solectria | Force | Electric |
| Toyota | Camry (2001 - fleet customers only) | Compressed Natural Gas |
| Toyota | Highlander | Hybrid Electric |
| Toyota | Lexus RX 400h | Hybrid Electric |
| Toyota | Prius | Hybrid Electric |
| Toyota | RAV-4EV (2001 - fleet customer only) | Electric |

According to the State law, all alternative fuel vehicles, including hybrid electric, that use clean special fuels need to be assessed at the same tax rate. Section 46.2-749.3 provides some guidance as to the types of fuel which qualify as "clean special fuels." However, staff would be required to finalize with DMV a definitive comprehensive list of all vehicles that run on these fuels.

FISCAL IMPACT: If the City were to completely exempt clean special fuel powered vehicles from taxation (i.e., a 1 cent tax rate with no billing) it is staff's initial projection that the program would cost approximately \$320,000 in personal property tax revenue for the 575 alternative fuel vehicles now in the City. In FY 2006 only about \$100,000 of this \$320,000 would benefit vehicle owners, as the remaining \$220,000 would represent lost State car tax reimbursement. In FY 2007 and beyond because the how the State is reimbursing the City changes while the alternative vehicle owners would only get about a \$100,000 benefit, the \$220,000 aid loss to the City would not occur. However, this cost could be less depending on the tax rate set by City Council on this class of motor vehicles. For example, if City Council imposed the same tax rate that is applied to handicapped equipped vehicles (\$3.55 per \$100 of assessed value) the reduction would cost the City approximately \$130,000 in taxpayer and State revenue.

The estimated number of special fuel vehicles currently in the City is 575. This estimated revenue loss is based on the 2004 prorated tax amounts for vehicles matched by vehicle identification number within the City's personal property tax system against Virginia Department of Motor Vehicle records for vehicles located in the City that had a vehicle fuel type other than "gas", "non-powered" or "diesel." At this time, Finance Department staff is working with the City's Information Technology Services Department (ITS) to confirm the number of qualified vehicles subject to the proposed tax reclassification.

The fiscal impact on City tax revenues would depend on the number of qualifying vehicles provided with a reduced tax rate. As technology reduces the production cost and consumer demand increases for these clean special fuel vehicles and increases their availability, the City will experience a substantial increase in these vehicles on the City's tax rolls. For example, more manufacturers, such as Lexus, are increasing the number of their models that offer the hybrid electric option. This increase in clean special fuel vehicles will likely result in a commensurate substantial further reduction in personal property tax revenues in FY 2006 and beyond.

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