

City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 25, 2007

TO: JAMES K. HARTMANN, CITY MANAGER

CC: THE HONORABLE MAYOR & MEMBERS OF THE CITY COUNCIL

FROM: COUNCILMAN JUSTIN M. WILSON

SUBJECT: PERSONAL PROPERTY TAX ENFORCEMENT

To improve customer service and efficiency, I believe the City should consider changes to our enforcement of the Personal Property Tax. I would like the appropriate departments to analyze the following options (as well as any others deemed pertinent) for enforcement of our Personal Property tax. Please docket the results of that analysis (including costs/savings) and any required ordinance changes for consideration by the Council so that any changes may be implemented in FY 2009 and included in the FY 2009 proposed budget.

Elimination of the Decal: Removal of the requirement that vehicle owners display a Personal Property Tax decal. Please include analysis of replacing the annual decal with a permanent decal that a vehicle owner would obtain upon initial registration and retain throughout ownership of the vehicle in the City. Please include analysis of alternate enforcement mechanisms either existing or available.

Automatic Registration: New residents are currently required to register their vehicles with the City, as well as the Department of Motor Vehicles (DMV) upon moving to Alexandria. Alexandria has access to the DMV registration data and may automatically register vehicles using that data. Many jurisdictions have made this change to eliminate the added step for the taxpayer. Vehicles with out of state license plates garaged within the City would still be required to register.

Periodic Billing/Combined Billing: A number of jurisdictions have moved to allowing semi-annual (or quarterly) billing for Personal Property Tax, as is currently done with the real estate tax. In addition, please include analysis of the feasibility of combining Personal Property Tax billing with the billing of the real estate tax, for those homeowners currently paying the real estate tax directly (not from escrow).

Annual Certification: The City currently mails a notice to each vehicle owner asking them to certify whether the vehicle is still eligible for reimbursement under PPTRA.

Please provide feedback as to whether there might be more efficient ways to accomplish that certification in lieu of a separate mailing to every vehicle owner.

DMV Local Vehicle Registration Program: The Department of Motor Vehicles currently offers localities the option of collecting the decal fee on behalf of jurisdictions¹. Currently, the City of Virginia Beach is the only jurisdiction participating in this program. Please include analysis of potential participation in this program.

Background:

The Personal Property Tax is assessed on both individual personal property (primarily vehicles) and business personal property (which includes motor vehicles, machinery, computers, and furniture). The vehicle portion of the tax accounts for a projected \$16.6 million in locally collected revenues in FY 2008 and \$23.6 million in intergovernmental revenues from the Commonwealth. The rate is currently 4.75% of value. That rate has remained fixed since 1989².

Since the passage of the Personal Property Tax Relief Act (PPTRA) by the General Assembly during its 1998 Special Session³, the tangible personal property tax has undergone significant change as a revenue stream for the City—transitioning from what was primarily a local government revenue that was assessed and collected by the City, to a shared revenue stream coming partially from City taxpayers and primarily as intergovernmental revenues from the Commonwealth.

Further change occurred during the 2004 General Assembly Special Session, when the Commonwealth's reimbursements were capped at \$950 million statewide⁴, regardless of the amount of taxation each locality had assessed. For Alexandria, our allocation was capped at \$23.6 million—which currently covers 69% of the taxation on the value of vehicles up to \$20,000⁵. The remaining portion is covered by our taxpayers.

In January 2004, City Council altered the decal issuance procedure to allow for advance issuance of the decals, assuming that the vehicle owner had paid all previous year Personal Property Tax obligations⁶, thus allowing for one mailing annually to vehicle owners—containing both the decal and bill itemizing the tax obligation and the Vehicle Registration Fee (decal fee).

During FY 2007, Fairfax County removed the requirement that its residents purchase and display a decal signifying the payment of the vehicle personal property tax. Although many jurisdictions around the Commonwealth have also chosen to eliminate the decal as their primary method of enforcement for payment of the Personal Property Tax, Fairfax

¹ <http://www.dmv.virginia.gov/webdoc/citizen/vehicles/lvrp.asp>

² City of Alexandria, "FY 2008 Proposed Operating Budget," Page 4-28.

³ Senate Bill 4005. 1998 Special Session. General Assembly of Virginia.

⁴ Senate Bill 5005. 2004 Special Session. General Assembly of Virginia.

⁵ City of Alexandria, "FY 2008 Proposed Operating Budget," Page 4-28.

⁶ Sunderland, Philip. "An Ordinance to Provide For An Advanced Decal Process for Motor Vehicles in the City, and to Discontinue to Proration of Vehicle Decal Fees." January 8, 2004.

County became the first jurisdiction in Northern Virginia to make such a change. Fairfax County made this change primarily for customer service purposes, but they anticipated administrative savings due to the change as well⁷. As the largest jurisdiction in the Commonwealth and in the Northern Virginia Decal Enforcement Compact, this change is believed to hasten the elimination of the decal as an enforcement method across the Commonwealth.

Around the Commonwealth, there are 37 jurisdictions that do not require decals and 23 jurisdictions in the process of eliminating decals. In addition, there are 5 jurisdictions that have adopted a permanent decal⁸.

During the 2006 General Assembly session, the General Assembly unanimously endorsed and clarified the ability of jurisdictions to eliminate the decal requirement⁹. Given the Commonwealth's aversion to tax/licensure policy differing between jurisdictions, it is not unreasonable to anticipate a subsequent change from the General Assembly forcing localities to eliminate the decal.

Recommendations for changes to Alexandria's enforcement of the Personal Property Tax have been included in the annual report from the Budget & Fiscal Affairs Advisory Committee (BFAAC) for FY 2007 and FY 2008.

Alexandria generated \$189,814 in ticket fines from the enforcement of the Personal Property Tax Decal in FY 2005¹⁰. That amount dropped to \$135,818 in FY 2006.

cc: Mark Jinks, Deputy City Manager
Bruce Johnson, Director, OMB
Laura Triggs, Acting Director, Finance
Ignacio Pessoa, City Attorney

⁷ Fairfax County, "Fiscal Year 2008 Advertised Budget Plan."

⁸ Fauquier County Board of Supervisors, "Minutes of Regular Meeting." December 14, 2006.

⁹ House Bill 1284.

¹⁰ Neckel, D. A. "Questions on Personal Property Tax Collection/Decals." February 28, 2006.