

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 15, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: BUDGET MEMO #11 : STATE REIMBURSEMENT UNDER THE PERSONAL PROPERTY TAX RELIEF PROGRAM

The Auditor of Public Accounts for the Commonwealth of Virginia has recently certified that the City will receive a reimbursement of \$23.6 million in fiscal year (FY) 2007 under the Personal Property Tax Relief Act (PPTRA). The 2004 General Assembly passed legislation capping the Commonwealth's total reimbursement to local jurisdictions at \$950 million, beginning in FY 2007. The City's 2.48 percent portion of the \$950 million is calculated by dividing the City's total PPTRA reimbursements for tax year 2004, which were received from the Commonwealth through December 31, 2005, by the total PPTRA reimbursements paid to all localities for tax year 2004 during the same period.

As we indicated at the budget work session on revenues, the Finance Department will be calculating the State tax relief and taxpayer percentage shares in August when the 2005 car tax base is fully compiled and the book values known (NADA has not yet published their car value data which nearly all jurisdictions use). We do not expect to have the problem of the State reimbursement percentage changing very much from 70% because we are a slower growing jurisdiction than the outer suburbs whose car tax bases are growing far more than ours. In a perverse way (from a tax policy viewpoint), the State required formulae for jurisdictions to use to calculate the reimbursement percentage hurts taxpayers in jurisdictions which have substantial annual growth in the number of cars is that their State car tax reimbursements will drop substantially year after year. This is why Loudoun's car tax relief dropped to 59% and why Prince William and Fairfax Counties may also drop. However, if those jurisdictions decided to drop their personal property tax rates, then they could keep closer to the 70% tax relief rate, but that would mean revenue forgone which they do not want to do.

For more mature, older slower growing jurisdictions without a lot of growth in the number of vehicles in the car tax base, the reimbursement rates will not change much. Finance has run some "what if" numbers with the following results:

**City of Alexandria
Alternative PPTRA Reimbursement Calculations
for FY 2007 (Tax Year 2006)¹**

If tax base changes:	-3%	0%	3%	+6%
Resultant Tax Relief	73%	71%	69%	67%
Taxpayer Share	27%	29%	31%	33%

Finally, it should be noted that in future years if the State reimbursement appropriation does not change, then the car tax relief percentage will drop each year as the City's car tax base slowly grows.

¹Calculations apply to the first \$20,000 of vehicle value. All taxed value above \$20,000 will continue to be 100% taxpayer paid. All vehicles below \$1,000 in value will continue to get 100% tax relief.