

EXHIBIT NO. 1

30
12-9-08

~~22~~
~~11-25-08~~

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 20, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER *J*
SUBJECT: CONSIDERATION OF A REPORT ON PROPOSED CHANGES IN
DELINQUENT TAX COLLECTION METHODS

ISSUE: Efficacy of current and proposed tax collection methods.

RECOMMENDATION: That Council receive this report, and schedule the following for Council action at its legislative meeting on Tuesday, December 9, 2008:

- (1) Approve the use of additional delinquent tax enforcement and collection methods, including bank liens, wage liens, third party liens, real estate liens, credit agency reporting, till taps, more frequent use of collection agencies, use of seizures, use of the State set-off-debt to collect delinquent real estate taxes, expansion of the DMV Stop Program to include business vehicles as outlined in this report, and annual reporting of tax delinquencies to credit reporting agencies;
- (2) Approve using these more frequent and aggressive tax collection methods only after other tax collection methods, such as a series of late or delinquent tax notification letters, do not induce the taxpayer to settle his or her delinquent taxes with the City;
- (3) Retain the annual issuance of the windshield vehicle decal, and fully implement Vehicle Automatic Registration; and
- (4) Continue to explore the use of tax payment bonds for restaurant meals and transient occupancy taxes where the business establishes a pattern of late payment of taxes consumer-paid taxes.

BACKGROUND: Historically, the City's tax collection efforts, while effective, primarily have relied on less than the full range of legally permitted collections processes. In a memorandum (Attachment I) dated September 25, 2007, Councilman Justin Wilson asked that City staff consider changes to the enforcement of the personal property tax and to analyze several options for personal property tax enforcement. As part of this detailed analysis, staff thoroughly reviewed the tax collection methods currently used, benchmarked the City's methods against other Virginia jurisdictions and conducted an analysis of how delinquent collections could be

augmented or enhanced in light of current economic conditions. Staff also reviewed the effectiveness of the personal property tax windshield decal.

The results of this review indicates this tax collection approach used progressively more assertive collections, but did not take full advantage of some enforcement tools available to Virginia localities. For example, the City does regularly use both the Commonwealth's Set-Off Debt and Department of Motor Vehicles Vehicle Registration Withholding (DMV Stop) Programs, which raises nearly \$2.0 million annually. However, DMV Stop has not been previously used for business vehicles. Through the Set-Off-Debt Program, the Virginia Department of Taxation may withhold a delinquent taxpayer's income tax refund and remit the amount to the City for payment of delinquent taxes. Through the DMV Stop Program, DMV withholds vehicle registration and renewal on any taxpayer who owes personal property taxes or parking fines to the City. Staff also sends delinquent tax accounts, when other tax collection efforts have not succeeded, to a collection agency semiannually. In-house collection methods conducted by staff include a series of demand for payment letters, collection calls and field visits to businesses. Other collection methods, like wage and bank liens, distress warrants, till taps and seizures, have been used judiciously or rarely, and would be more frequently and aggressively used to increase the City's delinquent tax collections.

Considering the potential difficulties of the current economic environment, staff anticipates an increase in tax delinquency. In order to maintain or slightly increase current collection rates, Finance staff recommends using additional enforcement and collection tools to ensure compliance. While these existing tax collection methods have been largely successful (see delinquent tax collection report also on this docket), based upon a thorough review of all available options under Virginia law, it does appear that the use of additional, more severe tax collection methods is warranted.

It should be noted that before any of these delinquent tax collection methods are employed, the Finance Department writes numerous letters to delinquent taxpayers requesting that delinquent taxes be paid, or if the delinquent tax amount is not correct requests that the taxpayer contact the City to correct the City's information. Most City residents and businesses pay their tax obligations on time. However, not all City residents pay their tax obligations, thereby unfairly shifting the cost of government services to those who pay their taxes. It is only equitable that the City use the tax collection tools authorized under State law to collect the taxes that are due from City residents and businesses.

While some of the tax collection tools discussed in this report may seem harsh, the mere mention of those tools in letters to delinquent taxpayers often is an effective collection technique. The Finance Department has a history of working cooperatively with delinquent taxpayers in establishing payment plans. In these cases, a delinquent taxpayer can schedule a multi-month payment plan for the back taxes due, and if that taxpayer keeps to the agreed to payment plan, then the City suspends further extraordinary collection efforts. It is when delinquent taxpayers refuse to cooperate that the tax collection tools detailed in this report would be utilized.

SUMMARY: Staff recommends that Council approve the proposed increase and/or expansion of the use of some collections methods, as well as an increase and/or expansion of the use of some methods the City currently has previously not used frequently, such as bank and wage liens, methods that are used routinely by many other jurisdictions in Virginia.

Collections Methods by Jurisdiction							
	DMV Stop	Set-Off Debt	Bank Liens	Wage Liens	Seizures	Distress Warrants	Collection Agency
Alexandria	Yes	Yes	Judiciously	Judiciously	Rarely	Rarely	Yes
Arlington	Yes	Yes	Yes	Yes	Yes	Yes	No
Chesapeake	Yes	Yes	For returned checks	Yes	Yes	Yes	No
Fairfax County	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fredericksburg	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hampton	Yes	Yes	Yes	Yes	Yes	Yes	No
Loudoun	Yes	Yes	Yes	Yes	Rarely	Rarely	No
Manassas City	Yes	Yes	Yes	Yes	Yes	Yes	No
Newport News	Yes	Yes	No	Yes	No	Yes	No
Norfolk	Yes	Stopped	No	No	No	No	No
Prince William	Yes	Yes	Yes	Yes	No	No	No
Stafford	Yes	Yes	Yes	Yes	No	No	No

A. Changing Delinquent Tax Collection Methods: As a result of its analysis of Councilman Wilson's recommendation that the City implement automatic registration using DMV files, the Finance Department is currently implementing a transition to automatic registration, whereby staff will automatically assess the personal property tax based on a file periodically received from DMV. This is in lieu of waiting until the taxpayer registers his or her vehicle(s) with the City. Automatic registration will enhance collections by allowing staff to record vehicles owned by taxpayers who may otherwise fail to register with the City. This program will not apply to vehicles with out-of-state license plates.

With Council's approval, staff would pursue greater use of bank liens, wage liens, third party liens and real estate liens. For wage liens, the Finance Department, working in conjunction with the Virginia Employment Commission, can make arrangements with the taxpayer's employer to place a lien against the taxpayer's wages in the amount that is owed. (It may be necessary to place a lien against more than one paycheck in order to satisfy the tax liability.) For bank liens, the City can make arrangements with the taxpayer's bank to recover the amount owed from the taxpayers' account(s). These would be placed both by in-house staff and, with Council's approval, by the collection agency currently contracted with the City to collect delinquent tax debts. For third party liens, Finance staff applies in writing to any person holding assets belonging to the taxpayer. For real estate liens, an automatic lien is placed on any property for which taxes are owed, and an additional court lien is placed after three years delinquency. Staff recommends accelerating the usage of real estate liens by placing court liens sooner.

The Finance Department recommends expanding the use of the Set-Off Debt Program to include collection of real estate taxes and to work with the Sheriff's Department and Police Department to boot and tow the vehicles of delinquent taxpayers on a more regular basis. The Finance

Department would also report delinquent tax accounts more frequently to a collection agency and have the delinquency appear on the taxpayer's credit report.

Pursuant to Virginia Code Section 58.1-3924, staff seeks Council's approval to report delinquent tax debts to credit reporting agencies as part of the annual request for the publication of delinquent taxpayer listings. While some Virginia localities currently report tax delinquencies to credit agencies, the City currently does not.

Finance staff would also propose to increase the use of additional till taps, whereby City staff prepares a Distress/Seizure Warrant for the Sheriff's Office to enter a business and remove cash from the cash register for payment of delinquent taxes, and to expand the use of the DMV Stop Program to include vehicles owned by businesses that owe delinquent taxes in addition to making greater use of bank liens, third party liens and collection agencies. Currently, only a few till taps are initiated per year, and then have been used only against restaurants, where the restaurant has been in serious arrears in regard to meals taxes that patrons have paid and the restaurant has not forwarded to the City. Till taps are a near last resort mechanism when other collection methods have failed.

Finally, the Finance Department will consider a bond program similar to that used by the City of Norfolk for businesses that manage "in trust accounts" for fiduciary taxes such as meal sales and transient lodging taxes. These businesses would be required to place a bond that can later be claimed if the business fails to pay these taxes. This would be used only if the restaurant habitually fails to pay its meals taxes in a timely manner.

B. Tax Collection Policies, Procedures and Practices: The City participates in several other successful collection tools including the Commonwealth's Set-Off Debt and DMV Vehicle Registration Withholding Programs (which together raise \$2.0 million annually). If the City proceeded with more aggressive collection methods, primarily using wage liens, more aggressive use of bank liens, and referring delinquent taxpayers to credit reporting agencies, the City could increase its tax collections by about \$300,000 (for business, real estate and vehicle taxes) annually. The table displayed earlier in this report outlined the collection methods and the frequency of their use by the City and other jurisdictions.

Staff would want City Council's specific approval to pursue greater use of bank liens, wage liens and third party liens, which are now not frequently used. Pursuant to Virginia Code Section 58.1-3924, staff would annually seek Council's permission to report delinquent tax debts to credit reporting agencies as part of the annual request for the publication of delinquent taxpayer listings. While some Virginia localities currently report tax delinquencies to credit agencies, the City currently does not. A more aggressive collections stance would lead to some increased complaints from some delinquent taxpayers to Council.

1. **DMV STOP:** This method which the City currently uses allows the Virginia DMV to withhold vehicle registration renewal, if the City notifies DMV that the owner has delinquent tax or parking tickets.

2. **Set-Off-Debt:** This process entails the City notifying the Virginia Department of Taxation of outstanding taxes and parking tickets. If a taxpayer has an income tax refund due, the Department of Taxation deducts the amounts due to localities from the refund amount, and remits those deductions to localities. Legislation has been proposed at the federal level to put in place a State and Local Tax Offset to federal IRS income tax refunds.
3. **Bank Liens:** This represents the attachment of a delinquent taxpayer's checking or money market account in an amount to cover all or some of the delinquent tax amount due. For bank liens to be filed, the City would need to know where the delinquent taxpayer banks (which may be on file with the City if the taxpayer has previously paid a tax bill with a check).
4. **Wage Liens:** This represents the attachment of a delinquent taxpayer's paycheck. This may or may not be done with a court order. The City would work with the Virginia Employment Commission to determine where the delinquent taxpayer was employed. If the taxpayer is employed outside of the Commonwealth of Virginia, this lien method is more difficult to execute.
5. **Seizures:** This method allows the City to seize property if a taxpayer is delinquent on taxes or parking tickets. It can be effectively used for unpaid parking tickets or vehicle personal property taxes. If the seizure does not result in the taxpayer paying the parking tickets or taxes, then the vehicle may be sold by the City to satisfy the outstanding obligation.
6. **Distress Warrants:** Virginia law states: "any goods or chattels, money and bank notes in the county, city or town belonging to the person or estate assessed with taxes, levies or other charges collected by the treasurer may be distrained therefore by the treasurer, sheriff, constable or collector." This is a last-stage tax collection tool after numerous attempts at collection have failed. Finance staff would work with the Sheriff's office to distrain property and/or assets for delinquent taxes. A deputy would serve the warrant to the taxpayer and any personal property could be sold at auction to satisfy the debt if the account is not satisfied before the sale date. In nearly all cases, a distress warrant would only be used to seize a taxpayer's vehicle, with the most likely outcome of the taxpayer paying taxes due before the vehicle is sold. In those cases, it is likely that what the taxpayer owes is either delinquent personal property taxes or a volume of delinquent parking tickets.
7. **Collection Agency:** When the City has been unable to effect the collection of delinquent taxes, a collection agency may be requested to collect the outstanding taxes. This is most effective when a delinquent taxpayer no longer lives in Virginia. Collection agencies are not used for real estate delinquencies, as 100% of real estate taxes eventually get collected, so hiring a collection agency (which often gets as much as one-third of the taxes they collect) is not a cost effective way to collect real estate taxes.

8. **Till Taps:** This is periodically used to collect consumer paid meals tax revenue from restaurants, but can be used for other businesses. It is a last step measure when all other collection methods have failed and when the business refuses to comply.
9. **Tax Payment Bonds:** These instruments can be used when a business periodically is late or months in arrears in paying its consumer paid meals or hotel occupancy taxes. Bonds ensure City payment of taxes, that if an entity enters the bankruptcy process would likely be not paid (unlike real estate taxes, other local taxes due are not a priority for payment during a bankruptcy settlement).

C. Vehicle Automatic Registration: The Virginia Department of Motor Vehicles offers local jurisdictions the ability to receive a data file from DMV (“COR” file), which provides a listing of all new vehicle registrations with a matching jurisdiction where DMV believes these vehicles to be garaged (i.e., have “situs”) and information on changes to existing vehicle records. Localities that receive this information can automatically establish a tax liability for the vehicles listed in this file. Taxpayers with out-of-state license plates on their vehicles would not be in the DMV file.

City staff conducted a survey of 30 jurisdictions throughout the State concerning automatic vehicle registration. Of those jurisdictions, 21 follow this procedure in some form and two are considering implementing it in the future. Most report that automatic registration works well but that it is not error free. The DMV file for jurisdictions that have mailing addresses greater than the jurisdictional boundaries (such as Alexandria) have the largest DMV data problem. For example, DMV files show Alexandria to have 139,000 cars (which represents about one car for every man, woman and child in the City). Fairfax City and Falls Church also have mailing addresses that are greater than their jurisdictional boundaries and show more cars than their population. Arlington, Loudoun, Fairfax and Prince William Counties all average less than one vehicle per capita. Based upon data cited below, it appears that about 35% of the DMV records in regard to the jurisdictional situs of vehicles is incorrect. The cause of this appears to be one of self-reporting to DMV by vehicle owners who believe their mailing address (i.e., an Alexandria mailing address in Fairfax County) to be the jurisdiction they live in (or believe that DMV wants them to cite their mailing address). DMV does not use any sort of street address checking system to determine the correct jurisdictional situs of a vehicle when it is registered with DMV.

The City currently receives and reviews the DMV COR File monthly, but does not automatically establish tax liability. After removing any inaccuracies from the file, staff sends letters to taxpayers explaining that they must register their vehicles with the City. The original COR monthly file contains an average of 4,500 records; approximately 65 percent are eventually verified as having valid City addresses, with 35 percent not having valid City addresses.

Approximately 52 percent of taxpayers respond by registering their vehicles after the first notice. If the taxpayer does not respond within 45 days after the initial letter is mailed, the City sends up to two reminder letters. If no response is received, City staff creates a new account and then bills the taxpayer.

The Finance Department, after reviewing and researching Councilman Wilson's recommendation, plans implementing a level of automatic registration, and is reengineering this process so that instead of sending out two letters asking car owners to register with the City, City Staff will scrub the DMV list using a computerized address file monthly and then send the car owners a bill. This should result in more and earlier car tax payments. This process might increase the number of accounts potentially eligible for collection, but would also alleviate most residents from having to register their vehicles with both DMV and the City and have some customer service benefits. Although there may be some data integrity issues associated with automatic registration, these issues can be resolved in most cases.

Automatic registration might decrease a resident's need to come to City Hall, and improve customer service. Car owners would still be required to register with the City within 30 days, but if they did not the automatic registration by the City would occur. This automatic registration would cut the process time between the first letter, subsequent letter and the eventual billing. It would accelerate when some tax revenues would be earned, and may result in additional tax revenues being earned. Further review of how to cut the processing time between the receipt of the DMV COR file is underway.

The DMV COR file contains information on newly purchased vehicles, vehicles moved into the City and disposed vehicles only. Residents who move within or out of the City are not identified (such as those new residents who do not tell DMV of a change of address, or new City residents who do not register with DMV after moving into the City), and would still need to notify the City of any address change. Finance staff will be requesting DMV to reprogram its files to provide this data, but DMV is not planning on making any computer modifications for the next two to three years.

To help improve the data integrity of the DMV COR system in regard to vehicle situs, staff also recommends that the Finance Department continue to analyze the pros and cons of the City participating in the DMV Select Program, which could alleviate some of the situs data problems associated with automatic registration. DMV Select represents a partnership between DMV, local governments and private entities, whereby the localities or private entities are authorized to conduct selected vehicle-related transactions for residents, as well as businesses. A locality in effect could become a mini-DMV handling vehicle registration, but not driver's license issues. There would likely be a net cost to the City of up to \$80,000 per year (DMV does provide a small commission on transactions). Since the DMV on Mill Road is overcrowded and long lines and waits for service often occur, having City Hall serve as a DMV site has appeal. The State has placed the City on a waiting list, pending State resources. However, it is also possible that the desire to avoid the long DMV lines at Mill Road would divert many customers to City Hall (where parking during business hours is often at a premium).

D. Annual Certification: Filing by Exception Letter (FBE): In Code of Virginia Sections 58.1-3523 and 58.1-3524(D), the Commonwealth requires that each Virginia municipality to annually identify and certify qualifying vehicles for the Personal Property Tax Relief Act (PPTRA). Currently, certification is part of the City's regular assessment process and is

conducted based on taxpayer filings, DMV records, online certifications and/or certification forms signed by taxpayers at the counter.

The FBE serves not only as verification of PPTRA status on pre-existing accounts but also as a means for taxpayers to report a variety of other changes to their accounts. All jurisdictions in Virginia currently conduct an annual mailing or FBE process to identify qualifying vehicles for PPTRA.

While not required, the City does mail FBE letters annually, which serves two purposes: to certify vehicles for the state requirement and to assist staff in the administration and maintenance of vehicle accounts prior to the billing cycle. The letter allows taxpayers to confirm or change the reported personal or business use of a vehicle, to report having moved or disposed of a vehicle during the course of the year, and to provide information about new vehicles. These confirmations can be provided by mail, by fax or by email. Often, information has not yet been reported to DMV.

City staff uses this annual mailing in the spring to make adjustments to accounts and to ensure the timely mailing of accurate personal property tax bills. The City sent 96,000 this year and with more than 20,000 returned. In addition, the City has received notification of almost 10,000 new vehicles as a result of the FBE. Staff has made more than 267,000 changes to tax record fields as a result of the FBE. This reduces the number of personal property tax bills mailed in August of each year that might be returned to the City as non-deliverable. Also, since inaccurate tax bills could lead to problems for the taxpayer, making account adjustments prior to the billing cycle is better for customer service. In the future, the City could consider moving to an on-line FBE process; however, not all residents have access to the Internet, as well as the mail serves as a reminder trigger for residents. The City also uses press releases and eNews prior to sending out bills to remind taxpayers to change their address.

Staff recommends maintaining the FBE letter and process as a customer service tool.

E. Combined Billing: As part of this review process, Finance Department staff reviewed the idea that through combined billing, personal property tax bills could be combined with real estate tax bills for those taxpayers who pay their real estate tax directly rather than through an escrow account. City staff conducted a survey on the billing procedures of other jurisdictions. Of those surveyed, no jurisdiction in Virginia currently combines real estate and personal property tax billings.

At this time, just over 15,000, or about a third, of real estate tax accounts are paid directly by the taxpayer rather than through mortgage companies. This represents approximately 20 percent of personal property tax accounts. If combined billing was implemented, this means the City would have to make major modifications to the billing process for only 20 percent of personal property taxpayers. There are also other complexities, such as who owns a car registered at a residence versus who owns the residence.

Currently, real estate tax bills have due dates of June 15 and November 15 while personal property tax bills have a due date of October 5. Combined billing would require changes in the

current personal property tax due date, which means the City could no longer participate in the regional enforcement agreement. October 5 is the personal property tax due date in all Northern Virginia localities that are members of the Northern Virginia Joint Compact (NVJC). This agreement helps ensure consistent enforcement and reduce confusion about tax due dates.

Being responsible for both second half real estate tax and full or partial payment of personal property tax on the same date would be more burdensome for those residents and eliminated a 40-day difference in those two tax due dates. City cash flow would also be negatively affected by shifting the personal property tax due dates to November 15. This shift would delay the collection of \$16 million in taxes by 30 days. Shifting the real estate tax due date to an earlier date would improve City cash flow, but it also would shorten by more than one month the current five month interval between the current June 15 and November 15 real estate tax due dates. This might be an issue for some of the 15,000 property owners who pay their real estate taxes directly and not through an escrow agent.

F. Periodic Billing: Under this option, through billing, taxpayers would pay their personal property taxes in multiple payments rather than in a single annual payment. Currently, the City mails most personal property tax bills in one annual mailing. Out of 276 counties, cities and towns in Virginia, 42 jurisdictions permit taxpayers to meet their personal property tax obligation through multiple payments.

The City previously billed separately for the City decal and personal property tax. Decal fees were due in the spring and personal property taxes in the fall. At the time, citizens considered this a nuisance and the City received a large number of complaints leading in part to the eventual combined billing of the decal and personal property tax. Periodic billing would require some additional staffing and additional cost to accommodate both the new billing process and account maintenance requirements. Staff estimates that periodic billing would cost an additional \$0.1 million annually to administer. Prior to the existence of personal property tax relief, this option had more merit, but now with most cars getting 69% tax relief and the average car tax being about \$192, the need for periodic billing has diminished significantly

G. DMV Local Vehicle Registration Program: The Virginia Department of Motor Vehicles Local Vehicle Registration Program (LVR) was instituted in 2003 and allows DMV to collect local decal fees/motor vehicle license taxes based on the garage jurisdiction listed in the DMV record. The money collected is deposited in a special account and reimbursed to localities on a monthly basis. Virginia Beach (which was the first jurisdiction in Virginia to eliminate the windshield decal) is currently the only jurisdiction enrolled in this program. It is important to note that this program does not allow for the collection of personal property tax.

Based on discussions with DMV and Virginia Beach personnel, staff believes that implementing this program has challenges. DMV staff informed City staff that with the advent of on-line payments and the use of the DMV Vehicle Registration Withholding Program, they believe LVR is no longer needed and is not useful for localities like Alexandria that combine the tax and decal fee into one bill. As stated earlier, DMV vehicle situs information is incorrect 35% of the time. Since the LVR program collects fees based on the situs listed in the DMV records, relying on LVR for the collection of fees may lead to taxpayers being charged fees in the wrong jurisdiction

or in more than one jurisdiction. LVR complicates the process of refunding and/or prorating local fees, and the City would still have to address these issues, as they cannot be handled through the LVR program.

LVR is difficult to administer for taxpayers who are exempt from local fees and taxes, such as those who are military non-taxable. The City would have to provide and maintain a listing of all persons exempt from paying the fee. DMV staff reports that there have been complications involving exempt taxpayers being refused vehicle registration and DMV staff having to refund fees collected from them. This could pose a significant customer service problem for the City's more than 3,000 tax-exempt vehicles (mostly owned by military personnel). DMV staff has also encountered problems with collecting the fee on leased and newly purchased vehicles registered by dealers. Dealers frequently do not include the local fee when submitting paperwork for DMV registration. While DMV has withheld registration in those cases where the dealer did not pay the local fee, dealers have argued that the Code of Virginia provides them with a grace period to register with DMV but not pay the local tax or fee. Virginia Beach staff reports that DMV now allows newly purchased vehicles to be registered then sends a follow-up invoice for the local fee or tax.

Based on the average number of vehicles actively registered with the City over the past four tax years and the \$1.34 fee that DMV charges for each transaction, staff estimates that the program would cost approximately \$0.1 million per year, and have more drawbacks than benefits.

H. License Plate Scanner Technology: One potential effective method of personal property tax enforcement could be the use of license plate scanner technology to determine whether a vehicle which is parked in the City is delinquent, owes personal property taxes, has unpaid parking tickets, or should be registered with the City and has not yet registered. In order to make this work effectively, it means having a scanner technology which works well (i.e., ability to read plates quickly without substantial manual manipulation), as well as laptop based personal property records which can find and match license plates to one or more City and DMV databases as quickly as it can scan plates. To date, this first generation on-the-street technology has not been able to match early hopes. However, as this technology progresses, the scanners may become an effective enforcement tool. The Police Department has acquired a new type of plate scanning equipment that may be able to have applicability for personal property tax enforcement use. Ideally, if the technology worked very well and had efficient interfaces with the personal property tax/DMV databases, then it might be possible someday to eliminate the windshield decal. However, use of the scanning devices to collect unpaid parking tickets and personal property taxes is not yet at the stage where the technology can produce the desired results.

I. Translating personal property web site information into Spanish: During the course of this study, a Finance Department employee recommended that the City's web pages describing the personal property tax, the vehicle decal, as well as how to register one's vehicle with the City on line, be translated into Spanish. It appears that many of those residents who come to City Hall to register their cars and/or to pay their taxes are native Spanish speakers who could and would use on-line services to register their cards and/or to pay their taxes, if the could better

understand how the personal property tax system works. Finance staff will be working in the coming year on implementing this Spanish language initiative.

J. Automated Payment of Taxes Via ATM: The Finance Department staff is currently exploring the use of ATMs to pay City taxes and parking tickets. A pilot program with the Commonwealth Credit Union is under discussion. Expansion to ATMs located in convenience stores will also be considered.

K. Personal Property Tax Vehicle Windshield Decals: In Councilman Wilson's memorandum (Attachment I), he asked that City staff review in detail the City's historic practices in regard to tax administration including the issuance of vehicle decals, as well as the enforcement and collection of the personal property tax, and analyze options for enhancing Personal Property Tax enforcement. The purpose of the outcome of the review was to improve the process for City vehicle owners by improving customer service and/or the vehicle tax enforcement and collection processes so as to increase personal property tax collections. The proposed options reviewed included: (a) elimination of the personal property tax decal or the transition to a permanent personal property tax decal; (b) automatic registration for personal property taxation using Virginia Department of Motor Vehicles records; (c) adoption of alternatives to the annual Personal Property Tax Relief Act (PPTRA) certification mailing; (d) implementation of the DMV Local Vehicle Registration Program; and (e) transition to periodic and/or combined billing of personal property taxes.

The following text details the results of that review and concludes that the vehicle windshield decal is a very cost effective compliance and enforcement mechanism as it results in more than \$2.8 million in annual tax collections. However, tax collection processes could be improved, and some \$300,000 in additional personal property taxes could likely be collected annually.

Virginia Code § 46.2-755 authorizes the City to levy and assess taxes on motor vehicles. The decal serves as evidence of payment of the motor vehicle license tax (decal fee) and personal property tax, as well as proof that there are no outstanding parking tickets for the vehicle. Currently, City residents must remove and replace the windshield decal annually. The City Code requires taxpayers to obtain the decal within 30 days of acquiring a vehicle or moving a vehicle into the City.

After car tax relief was approved by the General Assembly and the "market" value of a stolen or illegally transferred decal decreased, the City switched to easy peel decals. In 2004, the City began issuing advance decals with the annual tax billing to those taxpayers who had no outstanding personal property tax debt. This saved the City printing and mailing costs by eliminating one mailing. In addition to the advance decals, the City mails decals to newly registered and previously delinquent taxpayers after tax and decal payment is received. In 1998 the State initiated car tax relief, and in 2007 the State switched car tax relief to a lump sum payment to the jurisdiction. This change to a lump sum basis made the net revenue gain to the City for each individual vehicle drop from 100% of taxes to 31% of taxes due. This change made the financial risks of non-collection of vehicle personal property taxes drop dramatically.

In 2006, the Virginia General Assembly clarified the ability of jurisdictions to eliminate the decal requirement. In 2007, the Virginia General Assembly passed new transportation legislation, HB 3202, giving localities the authority to increase the decal fee on motor vehicles to raise funds strictly for transportation uses. In June 2007, City Council increased the decal fees from \$25 to \$33 for transportation needs. In FY 2007, the City collected \$2.4 million in General Fund revenue from decal sales. Staff estimated the increase in the decal fee for transportation would generate an additional \$0.7 million during FY 2008 for total decal revenue of \$3.1 million. Vehicle personal property taxes are estimated to generate \$18.6 million in taxes in FY 2008, as well as \$23.6 million from the State for car tax relief. In total, the City collects \$42.2 million through vehicle taxes, fees, and State provided tax relief revenues.

In recent years, 30 out of 276 Virginia counties, cities and towns have eliminated the windshield decal. In Northern Virginia, Fairfax County eliminated the decal (as well as the decal fee). Most of the jurisdictions which have eliminated the decal are down-state. Historically, prior to eliminating the decal, many of these jurisdictions began enforcement immediately upon the due date of the personal property tax rather than granting a 30-day grace period for tax enforcement action, as the City and all of Northern Virginia does. This immediate enforcement practice caused the decal to be negatively viewed by the residents of those jurisdictions. It also caused long lines at municipal buildings around the tax due date, as car owners waited until the last minute to pay their car taxes and decal fee. Northern Virginia's multi-week grace period, the advance mailing of decals, and the ability pay taxes on line have eliminated these problems.

In a survey of Virginia jurisdictions, some jurisdictions surveyed stated that elimination of the decal has been successful from a customer service standpoint; others reported some problems with the policy. There are a number of reasons for and against eliminating the vehicle decal.

1. **Reasons for Considering Eliminating the Decal:**

- a) **Potential improvement in customer service.** Over 70,000 taxpayers would no longer have to remove or affix decals annually. Instead, the City would bill its list of registered vehicle owners annually. For new registrants, rather than coming to City Hall in person to pick up a decal, taxpayers could register and pay taxes online, by phone or through the mail and not wait to receive a decal.
- b) **City could continue to collect the \$3.2 million in annual revenue from the decal fee, while saving on annual decal costs.** Several Virginia jurisdictions that have eliminated the use of the decal continue to charge their residents an annual fee. Fairfax County eliminated the decal fee when they eliminated the decal. With the elimination of the decal, there may be a public expectation that the decal fees should also be eliminated.
- c) **If the decal were eliminated, the City could realize nearly \$28,600 in cost savings from not purchasing the windshield decals.**

- d) **Potential cost savings through elimination of tag enforcement program.** Currently, the Police Department commits the equivalent of 3 full-time Parking and Tag Enforcement officers to the enforcement of the City decal. With the elimination of the decal, these positions would be eliminated and the City could reduce the expenditures by \$0.2 million annually. However, there would be a substantial tax revenue loss (see 2e below).

2. **Reasons for Considering Continuing the Vehicle Decal:**

- a) **The decal is a very effective collection enforcement tool.** The windshield decal is a highly successful collection tool for the City and serves as an annual reminder to taxpayers that they must pay their personal property tax. As of January, 2008, the City collected on 68,879 accounts which represented 84 percent of 2007 personal property tax accounts with advance decals and 32 percent of accounts for which the decal was withheld due to prior year tax delinquency. By the end of FY 2008, car tax revenues totaled \$18.6 million in revenue (plus the \$23.6 million in State car tax reimbursement).

Collections on Advanced and Non-Advanced Decals (as of 1/08)				
	Total	Unpaid	Paid	Percent Collected
Advanced	79,675	12,700	66,975	84%
Non-Advanced	5,890	3,986	1,904	32%
Total	85,565	16,686	68,829	80%

Most importantly from a tax collection perspective, a visible decal also assists the City's Police Department Tag Enforcement Officers in determining if vehicles are properly registered in the City. City windshield decals also ensure that zone parking bumper decals are placed only on cars which have situs in the City. While there are less efficient or less effective ways of providing these officers with a list or database of delinquent taxpayers, comparing these lists to cars on the street would be time consuming and reduce the number of cars that could be reviewed each day. This situation could change when license plate scanner technology (particularly reading license plates at night) becomes far more reliable, and the speed at which a large vehicle database can be searched improves. A workaround to the City's current outdated personal property system would also need to occur (but that can be done once the license plate automatic reader technology becomes a more reliable tool).

- b) **With the decal, the City has a better ability to track vehicles with out-of-State tags for personal property taxation.** Tag Enforcement is especially effective for the regulation of out-of-state vehicles. There are currently over 2,800 vehicles in Alexandria's personal property tax system with out-of-state license plates. An informal survey of two large rental properties in the City conducted by Police Department Tag Enforcement Officers showed that approximately 7 percent of the vehicles in those buildings had out-of-state license plates. Since many of these vehicles are parked, stored or garaged in the City for more than 30 days per year, they should be registered for personal property taxation. These 2,800 vehicles likely generate \$0.5 million in personal property tax revenue annually, as well as \$0.7 million in car tax relief revenues for a total revenue value of \$1.2 million.

Results of Police Department Survey				
	Number of Vehicles	With Out-of-State Plates	Without Decals	With Expired Decals
Building 1:	1,584	118 (7%)	108 (7%)	23 (1%)
Building 2:	2,142	148 (7%)	164 (8%)	11 (0.5%)
Total	3,726	266 (7%)	272 (7%)	34 (1%)

The City windshield decal is the primary method of ensuring that vehicles with out-of-state plates or those garaged in areas adjacent to Arlington and Fairfax are tax compliant. Since the absence of a decal on a car routinely parked in the City indicates noncompliance, residents are able to readily identify these vehicles and inform the City about possible unregistered vehicles in their neighborhoods. Without a visible decal, residents would no longer be able to assist in ensuring these residents pay taxes.

With the elimination of the decal, the City may never become aware of many out-of-state vehicles located in the City. Many taxpayers choose to retain out-of-state plates until they expire. Others are able to renew out-of-state plates by mail, avoiding their obligation to register with Virginia DMV. The Finance staff cannot monitor vehicles with out-of-state tags through the Virginia DMV, nor can they use the DMV Vehicle Registration Withholding Program to bill and collect taxes due on these vehicles. (This program allows Tax Enforcement staff to block vehicle registrations and renewals for taxpayers with delinquent City personal property taxes and unpaid parking tickets.) Staff estimates that out-of-state vehicles comprise about \$0.5 million of total estimated annual revenue.

- c) **The vehicle decal is a tool in monitoring the City's transitory automobile population.** The City of Alexandria has a large transient population. In tax year 2006, 26,704 new vehicles were purchased, or

moved into the City. In that same period, almost 10,000 accounts were prorated as "moved out." The 2006 America's Community Survey reported that 22,324, or 16.4%, of Alexandria's 136,123 residents did not live in the City in the prior year. In addition, 7,505, or 5.6%, of Alexandria residents had moved within the City in the prior year. This rate of annual turnover is driven largely by the city's housing stock which based on the same 2006 survey is 52.1% rental. This turnover, which is larger than most jurisdictions and when coupled with vehicle turnover caused by the buying and selling of vehicles, makes tracking vehicles for tax purposes very difficult. The windshield decal is a simple, visual enforcement mechanism. The fact that most states, including Virginia, also use a windshield decal to note vehicle inspection, and license plate decals to note valid registration, underscores the value of the personal property tax windshield decal.

In the informal survey discussed above, Tag Enforcement Officers found that approximately 7 percent of vehicles parked overnight did not have a City decal and another 1 percent had expired decals. Since many taxpayers do not promptly report moves between jurisdictions to DMV or the localities, decal enforcement is a vital tool for identifying these vehicles. Most localities, including Fairfax, that have eliminated the decal have a smaller percentage of transitory vehicles than Alexandria.

New Accounts for Tax Years 2005 – 2007			
Tax Year	2005	2006	2007
Total Number of Vehicles in System	128,097	123,767	109,759 (thru 1/08)
Vehicles with Location Dates in the Calendar Year	30,062 (24%)	26,704 (22%)	19,704 (18%)
Moved In	14,956 (12%)	13,344 (11%)	9,110 (8%)
Newly Purchased	15,106 (12%)	13,360 (11%)	10,594 (10%)

*Percentages represent portion of total vehicles in system.

- d) **The vehicle decal assists in enforcement of the overnight parking restriction.** The decal serves as a means to enforce overnight parking restrictions in areas where Alexandria borders other jurisdictions, such as Fairfax and Arlington. Overnight parking permits for City residents and their visitors are issued in conjunction with a decal for residents of those border areas. Without the decal, staff would have to take extra measures to ensure that overnight parking permits are issued only to City residents. However, pursuant to Code Sections 5-8-73 and 5-8-76, the City could create additional "parking districts" with decals for those areas.
- e) **The decal enables the Police Department Tag Enforcement staff to efficiently identify vehicles which should be registered with the City.** In FY2007, the City collected about \$0.2 million for decal related citations

from about 4,000 vehicles. In addition, \$1.1 million was collected in tax revenues generated from these non-registered vehicles. Because of the way the Personal Property Tax Relief Act is written, if the \$1.1 million in car tax revenues were not received by the City, the City would also lose \$1.5 million indirectly. This is because the lump sum State-paid car tax relief which was granted to those cars the Tag Enforcement Officers cited would be re-allocated to all other vehicle tax bills in the City, thereby reducing those vehicle tax bills by \$1.5 million annually. In total, the Tag Enforcement Officers' efforts net the City \$2.6 million annually (\$1.1 million in new tax collections + \$0.2 million in citations + \$1.5 million in car tax relief not reallocated - \$0.2 million in collection costs = \$2.6 million).

- f) **The annual decal issuance is considered an effective enforcement tool by tax collectors in Northern Virginia.** With the exception of Fairfax County whose staff indicate it is too early to tell what the impact of eliminating the decal was, all other Northern Virginia jurisdictions have kept the annual vehicle decal in place. Arlington County's Treasurer, who is considered the most effective tax collector in Virginia (and one of the most effective local tax collectors in the U.S.), believes that the annual windshield decal is the least costly, most valuable tool in collecting vehicle personal property taxes. Fairfax County staff also believed the decal was an effective enforcement mechanism.

3. **Permanent Decal Alternative**

Rather than eliminating the decal, another option Finance staff analyzed was the establishment of a permanent decal. Taxpayers could purchase and apply the decal once - when the vehicle is originally registered with the City. The decal could be valid for that car only while owned by the registered owner. The decal would not be valid for any subsequent car purchased by that owner, or for any other owner who may subsequently purchase that car. A permanent decal would eliminate the need for taxpayers to replace their decals annually, decrease decal costs and allow Tag Enforcement Officers to continue enforcement efforts.

Through use of a permanent decal, Tag Enforcement could continue to use a visible decal to enforce current City decal regulations, but with a less effective impact. This would permit Tag Enforcement to continue enforcement against out-of-state vehicles and to address the overnight parking issues. Residents could still report vehicles without decals to the City for investigation.

One potential drawback of the permanent decal is that it would not be useful in enforcing collections for taxpayers who became delinquent after the first year the vehicle is registered in the City. Based on prior year data, some 5,890, or 7%, of vehicle owners who paid taxes in the prior year did not pay the taxes when due. Eventually, some 32%, or 1,904, of the owners did pay the taxes due. These taxes

are valued at \$0.4 million in direct taxes and likely would increase each year. With a permanent decal, these taxes would probably not have been paid. Currently, vehicles with expired decals are easily spotted. Our primary enforcement tools like Set-Off Debt and DMV Stop are primarily for existing taxpayers, so we do have methods in place that target these taxpayers. In a survey conducted by staff, most jurisdictions that have switched to a permanent decal reported that it is too soon to tell what impact the transition will have on tax collections.

After the first year of implementation, staff estimates that the City would have to purchase approximately 30,000 vehicle decals and 700 motorcycle and trailer decals annually for a cost savings of \$24,000. The City would continue to mail annual permit parking zone decals, as making those decals permanent would be problematic given that the scarcity of parking compared to demand makes the parking decals a valuable commodity.

FISCAL IMPACT: While difficult to measure, it is estimated that the employment of additional delinquent tax collection methods will result in an increase of \$300,000 in annual tax collection revenues, as well as protect the current level of delinquent tax collections.

ATTACHMENT: Councilman Wilson's Personal Property Tax Enforcement Memorandum

STAFF:

Mark Jinks, Deputy City Manager

Laura Triggs, Director of Finance

Debbie Kidd, Division Chief, Revenue Administration

David Clark, Division Chief, Treasury

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.