City of Alexandria, Virginia
FY 2023 Proposed Operating Budget & CIP
Budget Questions & Answers

April 2, 2022

Question: What are the budget and policy implications of various clean fuel vehicle tax options? Please provide guidance about our local ability to provide rebates and/or tax reductions to the purchase of electric powered vehicles. Please include the impact if an exemption specifically for clean-fuel vehicles were provided. Please also provide any guidance about providing rebates and/or tax reductions related to the purchase of electric powered vehicles, landscaping tools and installation of solar or renewable energy tools in household contexts.

Response:
Staff has identified the following vehicles in our tax base as of the end of calendar year 2021:

- 1,163 Electric or Electric Plug-In vehicles
- 6,209 Regular Hybrids (battery and gas powered)

Type of Vehicle	Count	% of Total Vehicles	Average 2022 Value (Without Ratio)	Average 2022 Value (With 77% Ratio)
Electric, Personal Use	1,126		$40,728	$31,361
Electric, Business Use	37		$43,151	$33,226
Electric, Total	1,163	0.82%	$40,805	$31,420
Hybrid, Personal Use	5,938		$18,955	$14,595
Hybrid, Business Use	271		$15,013	$11,560
Hybrid, Total	6,209	4.37%	$18,782	$14,462
Combined, Personal Use	7,064		$22,425	$17,267
Combined, Business Use	308		$18,393	$14,163
Combined Total	7,372	5.19%	$22,257	$17,138
	Personal Use (excluding Electric & Hybrids)			$11,508

I. Council has the option of providing electric powered cars with a reduced tax rate lower than the General class of vehicles. Assuming the use of a 77 percent Assessment Ratio (see Budget Memo #5 on 2022 Car Tax value increases) each reduction of one penny from the current rate of $5.33 would reduce General Fund revenue by approximately $3,654. The separate rate can only be applied to full electric and electric plug-in vehicles. It does not apply to regular hybrid (gas + battery assist) vehicles.

II. Council also has the option to adjust the distribution of state revenue from the Personal Property Tax Relief Act (PPTRA). This could be done for electric vehicles, and for regular hybrid vehicles if Council so desired. Since this is just a reallocation of state money, this would not reduce General Fund revenue, but it would shift relief from other vehicle owners. Arlington County uses this method for providing additional tax relief to electric and regular hybrid vehicles. Staff can accommodate a separate and lower tax rate in FY 2023 for electric vehicles if Council so desires. This would require an amendment to Section 3-2-224(a) of the City Code. While a separate adjustment to the PPTRA allocation is allowed, this would entail substantial computer programming changes that are very different from the City's existing structure. Given the potential changes to the broader Car Tax valuation (Assessment Ratio and shifting more PPTRA allocation to lower value cars), staff does not recommend the application of a separate PPTRA allocation to clean fuel vehicles in FY 2023 as this introduces significant programming risk prior to billing of the Tax Year 2022 Car Tax bills.

Tax Rate Option:
Pursuant to Va. Code § 58.1-3506(A)(22), motor vehicles which use "clean special fuels" can have a tax rate lower than the rate for the general class of vehicles. Under this section, clean special fuels include "compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen, and hythane (a combination of compressed natural gas and hydrogen)." Staff has not been able to identify any of these vehicles in the City's tax base.
Under Va. Code § 58.1-3506(A)(40), the City Council may also adopt a tax rate lower than the rate for the general class of vehicles on motor vehicles powered solely by electricity. The value of 1 penny on the Personal Property Tax rate for approximately 1,163 electric vehicles at the present tax structure, before applying an Assessment Ratio, is approximately $4,746. This would apply to both personal use and business use vehicles.
If an assessment ratio of 77 percent were applied due to the potential action Council could take as a result of the surge in the value of cars (see 2022 Car Tax Value Budget Memo #5), the value of 1 penny on electric vehicles would drop to $3,654. While a full exemption is not allowed under state Code, the rate for these vehicles could be reduced to $.01 at a cost of $1.9 million.

PPTRA Redistribution:
In the City, electric and regular hybrid vehicles presently receive the same PPTRA allocation as all other personal use vehicles, based on the total value of the car (business use vehicles are not eligible to receive PPTRA funds).
Arlington County provides an accelerated PPTRA allocation for these clean fuel vehicles. For these vehicles Arlington exempts the first $3,000 in value (i.e., the tax is paid using PPTRA funds), and then applies a PPTRA rate of 50 percent to the remaining value up to $20,000 for all personal

use clean fuel vehicles regardless of the total value. Under State law the PPTRA funds can only be applied to the first $20,000 of assessed value on personal use vehicles.
Redistributing the PPTRA allocation in the City would reduce the average tax bill on this segment of vehicles but would not otherwise reduce General Fund revenue. the redistribution would, however, reduce the amount of PPTRA funds that can be distributed to all other vehicles. Staff does not recommend this option in FY 2023, but for perspective redistributing PPTRA funds at 50 percent like Arlington would shift approximately $1.2 million in PPTRA funds from all other personal use vehicles to clean fuel vehicles. This would increase the tax bill for all other personal use vehicles, on average, by approximately $13, and would decrease the tax bill for electric and regular hybrids by about $215 on average.
Looking at electric vehicles only, an average tax decrease of $215 is roughly equivalent to a tax rate decrease $0.69. While a PPTRA allocation change is revenue neutral, a tax rate decrease of $0.69 on electric vehicles would reduce General Fund revenue by approximately $252,000 in FY 2023.

It should be noted that some cost of ownership may be able to be recovered through federal tax credits on electric vehicles (up to $7,500 in federal income tax credit for some new electric vehicles purchased in or after 2010), along with savings on gas prices for electric and hybrids. This segment of the City's tax base is also expected to increase in the coming years.
The City's Electric Vehicle Charging Infrastructure Readiness Strategy (EVRS) estimates that subject to supportive shifts in federal, state, and local policies, the number of electric vehicles could precipitously grow to be nearly 40 percent of all new car registrations in Alexandria by 2030. As such, any changes to the current local tax structure should be reexamined in the future to evaluate the impact on the vehicle tax base and associated tax revenue.
As noted above, Arlington County provides a preferential PPTRA subsidy for this group of vehicles. It appears that the only other Northern Virginia locality that used to provide a subsidy was Loudoun County who discontinued the subsidy several years ago. According to Loudoun staff, taxpayers were buying these vehicles regardless of the tax benefit and the program was cancelled in light of the revenue impact and lack of incentive to change buying patterns.

The City does not have the authority under Virginia law to provide rebates or tax reductions related to the purchase of electric powered vehicles, landscaping tools and installation of renewable energy tools in household contexts.
The City does already have a tax exemption program established for "certified solar energy equipment, facilities or devices" under Section 3-2-288 of the Code of the City of Alexandria. The amount of the exemption is determined by applying the local real estate tax rate to the value of the certified property and subtracting this amount from the total real estate tax due on the real property to which such equipment, facilities or devices are attached. By law, the value of the property is deemed to be not less than the "normal cost of purchasing and installing the equipment, facilities or devices." The exemption is allowable for "a term of not less than five years."
As of Tax Year 2022, 42 properties are currently receiving the solar tax exemption, reducing FY 2023 General Fund revenue by approximately $13,500. This is significant growth from a level of only five properties in Tax Year 2018.