

City of Alexandria, Virginia
FY 2024 Proposed Operating Budget & CIP
Budget Questions & Answers

April 4, 2023

Question: What are the budget and policy implications of various clean fuel vehicle tax options? Update to [FY23 BM 02](#)

Response:

Extrapolating to 2023 from NADA data obtained for tax year 2022, staff estimates there are roughly 1,176 electric and electric hybrid vehicles in the City in 2023 and 6,275 regular hybrids. Pursuant to Va. Code §58.1-3506(A)(40), Council has the option to adopt a reduced tax rate on motor vehicles powered solely by electricity. Each reduction of one penny from the current rate of \$5.33 on this class of vehicles would reduce General Fund revenue by an estimated \$3,829 (assuming the use of a 90% Assessment Ratio) in FY 2024. The reduced tax rate can only be applied to full electric and electric plug-in vehicles. It does not apply to regular hybrid vehicles (gas + battery assist).

Council also has the legal authority to adjust the distribution of the State Car Tax credit (Personal Property Tax Relief Act, or PPTRA). However, there is no practical application for this in FY 2024. This would entail substantial computer programming changes that are very different from the City's existing structure and could not be accomplished in time for an FY 2024 implementation. Compounding this issue, the Department of Finance is close to concluding a multi-year computer conversion from a decades old legacy system to the proprietary software system of a third-party vendor. Making substantive changes at this stage in the project are not recommended.

Finally, Council also has the authority under Va. Code §58.1-3506(A)(22) to adopt a reduced tax rate for vehicles which use "clean special fuels." Clean special fuels include "compressed natural gas, liquefied natural 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. 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), 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.