

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

April 5, 2023

Question: Can you breakdown the extent to which, FY24 vehicle property tax recommendations accounts for the current vehicle pricing market? What would be the potential budget impacts of creating an automobile tax structure that incorporated weight considerations, such as those vehicles weighing above 5,000 or above 6,000 pounds? What resources does the City use to insure that those vehicles “parked, stored or garaged in the City for more than 30 days” are assessed the Vehicle Personal Property Tax? What additional resources would be effective to insure that such vehicles are identified and assessed within our property tax system?

Response:

The FY 2024 Proposed Budget includes the Current Personal Property estimate of \$46,180,000 from the Car Tax. This estimate assumes adoption of a 90% Assessment Ratio. This ratio is necessary in order to hold revenue at approximately 3.3% growth, the historical average between FY 2016 and FY 2021.

Vehicle appreciation resulting from economic forces at play during the pandemic has dropped significantly since January 1, 2022, but it has not yet completely returned to normal. Overall, vehicles appreciated 1.94% on average based on the January 1, 2023 values published by the National Automobile Dealers’ Association (NADA). Virginia law requires the use of a recognized pricing guide for valuation purposes, and all jurisdictions in Virginia use NADA values. The Department of Finance is also allowed by law to apply an Assessment Ratio with the concurrence of Council.

While this is an improvement over the prior year, it is still above normal market. The range of value change is also significant:

- Tax Year 2022 – 87% of vehicles appreciated in value, appreciating an average of 26%
- Tax Year 2023 – 44% of vehicles appreciated in value, appreciating an average of 14.09%

An Assessment Ratio has an inverse relationship to value. The lower the ratio, the greater the reduction from actual value. So, in FY 2023 an Assessment Ratio of 78.8% was needed to bring values into a more normal range (a discount of 21.2%). In FY 2024, staff recommends an Assessment Ratio of 90% to achieve similar results (a discount of 10%). Staff estimates that this ratio will hold Personal Property revenue at the level already projected in the FY 2024 Proposed Budget. The chart below shows the estimated range of impact in FY 2024 (as of 1/1/2023), with and without a 90% Assessment Ratio:

2023 Changes in Value from 2022 Discounted Value	January 1, 2023 Baseline	January 1, 2023
	WITHOUT a Ratio (Count and Ave Appreciation)	WITH 90% Assessment Ratio (Count and Ave Appreciation)
Increases	45,566 14.09%	21,762 12.22%
No Change	461 0.00%	7 0.00%
Decreases	57,730 -7.63%	81,988 -13.68%
	103,757 1.94%	103,757 -8.25%

As to creating an alternate tax structure, the Code of Virginia does not allow localities to alter taxation based upon the weight of a vehicle. Weight only comes into play in regards to the State Car Tax credit. Personal Use vehicles that weigh more than 7,501 pounds do not qualify for the State Car Tax credit (except qualifying pickup or panel trucks, which can weigh up to 10,000 pounds). Business Use vehicles do not qualify for the State Car Tax credit regardless of weight. For perspective, the following tables depict the weight range of vehicles as of January 1, 2023, excluding motorcycles and trailers:

Personal Use			Business Use		
Vehicle Type	Count	Average Weight	Vehicle Type	Count	Average Weight
Automobile	57,033	3,252	Automobile	1,030	4,104
Sport Utility/Jeeps	34,135	4,744	Sport Utility/Jeeps	823	5,181
Pickup Trucks, Trucks, Vans	6,655	5,778	Pickup Trucks, Trucks, Vans	2,053	8,857
Heavy Trucks	17	46,768	Heavy Trucks	518	30,025
Motor Homes	12	10,450	Motor Homes	7	13,075
			Buses	10	16,242
Total	97,852	3,953	Total	4,441	9,585

Combined Total	102,293	4,197
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Finally, in regards to ensuring vehicles normally “parked, stored or garaged” in the City are assessed for taxation, the Department of Finance operates the RADAR program (Research and Discover All Registrations). Approved as part of the FY 2020 budget, this program funded two positions, a car, and an electronic license plate camera reader for field discovery efforts. Staff drive throughout the City and collect license plates for research back at the office. Once research is conducted, the data is eliminated if not relevant to a tax liability. There can be many reasons why a vehicle with out-of-state plates is not subject to the City’s Personal Property tax. For example, given the historic and inviting nature of our community, the City has many out of town visitors, as well as active-duty military domiciled in other states. In conducting due diligence research, staff looks for indications that the owner of a vehicle is indeed a local resident, presumably subject to taxation. Such research includes a review of information the Department of Finance is legally authorized to access, such as online records of State Income Taxes, the DMV, the Virginia Employment Commission, and a proprietary database to which staff subscribes. Research is also done on Real Estate records, the internet, and apartment tenant lists. Staff also researches information provided by City residents complaining of neighbors that appear to possibly be evading taxes.

Given the numerous reasons that a vehicle may not be subject to taxation, it is not surprising that a relatively low percentage of vehicles are added to the tax roll from this program. For example, in FY 2021, only 12% of 3,517 vehicles researched were assessed and added to the tax roll. Another 26% were already on the tax roll, 24% had situs and were being taxed in another jurisdiction; 31% had no discernable situs (visiting); and about 0.6% were tax exempt or rentals. The remainder were still pending research.

Even though the percentage is relatively small, the program yields positive results and helps assure the public that all efforts are being taken to maintain equity in taxation. In FY 2021, the 12% of vehicles that were added to the tax roll generated \$327,429 in Personal Property tax levy. About 40% came from vehicles with out-of-state plates, and 60% came from Virginia licensed vehicles that staff identified as part of weekly research.

An additional \$38,200 was assessed in out-of-state plate fees. If a person does not properly register their vehicle and display Virginia license plates, the law allows staff to impose a \$100 annual surcharge, plus a one-time \$250

penalty. Staff cannot make the owner obtain Virginia plates, but the surcharge is imposed in addition to regular tax until a Virginia plate is displayed. HB 2340 proposed to increase the amount of the surcharge, but the bill died in committee during the 2023 session of the Virginia General Assembly.

Unfortunately, RADAR was put on hold during the pandemic, as the Virginia DMV and other state DMV's radically curtailed their operations and citizens experienced significant delays in being able to properly register their vehicles. However, the program has resumed in earnest in FY 2023.

Even with access to online data, conducting due diligence research is a time-consuming laborious effort. While adding staff is always helpful in conducting such research, the Department of Finance believes the existing program is a cost-effective balance. Regardless of how much time it may take, all license plates obtained by RADAR are researched and an assessment decision is made. Depending on the results of the research, a vehicle may be liable for up to the current and three prior years, plus penalties and interest.