

the Director of Finance has determined that the cost of collecting such balances would exceed the recoverable amount, provided that the Director of Finance will not include any balance for which she has reason to believe the taxpayer has intentionally paid less than the amount due and owed; and

- (3) Authorize the Director of Finance to destroy records associated with taxes paid in calendar year 2016 and prior years in accordance with Code of Virginia §58.1-3129(A).

BACKGROUND: Code of Virginia §58.1-3924 provides for the Director of Finance to present City Council with listings of delinquent local property taxes annually. To meet this provision, the Director of Finance compiles the following lists of delinquent taxes as of June 30:

1. A list of delinquent real estate taxes;
2. List(s) of delinquent personal property taxes;
3. List(s) of delinquent property taxes amounting to less than twenty dollars; and,
4. List(s) of uncollected property taxes amounting to less than twenty dollars for which no bills were sent.

These lists are available for public inspection upon appointment in the Director of Finance's Office located in City Hall, Suite 1600.

Code of Virginia §58.1-3129 states, "The treasurer may, with the consent of the governing body, destroy all paid tax tickets at any time after five years from the end of the fiscal year during which taxes represented by such tickets were paid, in accordance with retention regulations pursuant to the Virginia Public Records Act (§ 42.1-76 et seq.)." In accordance with this section, the Director of Finance seeks City Council's permission to destroy records pertaining to taxes paid for calendar year 2016 and prior years.

DISCUSSION: The Finance Department has compiled seven lists of various categories of delinquent City taxes and associated penalties, interest and fees as required by the Code of Virginia. Summary data for Lists 1 through 4 can be found in Table I. Summary data for Lists 5 through 7 can be found in Table II.

List 1 Listing of Real Estate Taxes for Tax Years 2017 through 2021 delinquent as of June 30, 2022.

List 2 Listing of Individual Personal Property Taxes for Tax Years 2017 through 2021 delinquent as of June 30, 2022.

List 3 Listing of Personal Property Taxes on Business Vehicles for Tax Years 2017 through 2021 delinquent as of June 30, 2022.

List 4 Listing of Business Personal Property Taxes for Tax Years 2017 through 2021 delinquent as of June 30, 2022.

List 5 Listing of Uncollected Individual Personal Property Taxes for Tax Year 2021 amounting to twenty dollars or less as of June 30, 2022.

List 6 Listing of Uncollected Personal Property Taxes on Business Vehicles for Tax Year 2021 amounting to twenty dollars or less as of June 30, 2022.

List 7 Listing of Uncollected Business Personal Property Taxes for Tax Year 2021 amounting to twenty dollars or less as of June 30, 2022.

Table I

Delinquent Real Estate and Personal Property Taxes for Tax Years 2017 to 2021
As of June 30, 2022
(Amounts in millions)

List	Tax Type	Tax Levied	Taxes Collected	Percentage Collected	Taxes Due	Total Due
1	Real Estate	\$2,246.0	\$2,244.1	99.9%	\$ 1.9	\$ 2.0
2&3	Vehicle Personal Property	\$ 301.3	\$ 293.9	97.5%	\$ 7.4	\$ 9.3
4	Business Personal Property	\$ <u>81.4</u>	\$ <u>79.9</u>	<u>98.1%</u>	<u>\$ 1.5</u>	<u>\$ 2.0</u>
	TOTAL:	\$2,628.7	\$2,617.9	99.6%	\$10.8	\$13.3

Table II

Delinquent Personal Property Taxes for Tax Year 2021
As of June 30, 2022
Tax amounts less than \$20

List	Tax Type	Total Tax Due	Number of Taxpayers	Average Balance Due
5	Individual Vehicles	\$ 8,064	657	\$12.27
6	Business Vehicles	\$ 117	12	\$ 9.75
7	Business Tangible Personal Property	\$ <u>6,359</u>	<u>975</u>	<u>\$ 6.52</u>
	TOTAL	\$14,540	1,644	\$ 8.84

Summary of Real Estate Tax Collection Statistics: As displayed in Table I, the Finance Department has collected \$2.244 billion, or 99.9 percent, of the real estate taxes levied for tax years 2017 through 2021. The “Top Twenty” delinquent real estate taxpayers comprise \$0.97 million or 49 percent of the total outstanding delinquency (Attachment I).

The Finance Department uses a variety of tools to monitor and collect delinquent taxes. These tools may include delinquency notifications and summons notices issued to delinquent taxpayers, as well as rent liens, bank liens, wage liens, and Circuit Court judgments placed against property owners. Whereas the Department previously worked with the City Attorney's Office to initiate formal judicial sale procedures against delinquent taxpayers, beginning in FY 2020 the Department was authorized to refer delinquent Real Estate tax accounts to the City's third-party collection attorneys, Taxing Authority Consulting Services, PC (TACS). This initiative is an efficiency measure designed to ensure maximum coverage of delinquent accounts and outsource this workload from the City Attorney's Office. This added effort is at no cost to the City as the delinquent taxpayer is responsible for collection costs as authorized by State law. However, placement of delinquencies with TACS was deferred during the height of the COVID-19 pandemic, with referrals to TACS finally beginning in the spring of 2022. With only a few months of activity, TACS collected \$215,908 for the City in FY 2022. The Department of Finance will occasionally utilize the expertise of TACS to assist in the collection of particularly difficult cases involving other tax types, such as business licenses or trustee taxes as necessary.

The City uses the litigation option cautiously, to avoid whenever possible taking a person's home via judicial sale because collection can often be achieved through other means. Merely initiating the judicial sale process often incentivizes either the property owner or the mortgage holder to pay the taxes due. Real estate taxes on a property must be delinquent for three years before a Virginia locality can begin judicial proceedings. In the interim, TACS is an excellent resource to encourage delinquent taxpayers to begin the payment process, establish payment plans, and avoid litigation. Staff also promotes Tax Relief for the Elderly and Disabled to ensure property owners are aware of the program. The Department of Finance also coordinates with the Office of Housing and the Department of Community & Human Services in cases of particular need.

Ample advance notice is given to taxpayers before outsourcing to TACS in order to encourage them to avoid additional costs and aggravation. The Department of Finance maintains complete oversight of the collection program, and TACS works closely with both the Department of Finance and the City Attorney's Office. While pursuing statutory collections, staff continues to utilize compassionate, customer-focused payment plans whenever possible.

To preserve the City's interest in the collection of delinquent real estate taxes, Virginia Code §58.1-3340 provides that a priority lien is automatically placed (by operation of law) on property with outstanding real estate taxes. This tax lien is a claim by the City for payment of the tax debt and begins on the day following the payment due date. The lien is recorded against delinquent properties on the City's computerized Real Estate system pursuant to Virginia Code § 58.1-3930, and remains in effect until the outstanding taxes, penalties and interest have been paid in full. The statutory lien ensures that the City will collect any delinquent real estate taxes when the owner sells the property or applies for a mortgage. This includes delinquent Stormwater Management Fees. Pursuant to Section 5-6-237(C) of the Code of the City of Alexandria, delinquent Stormwater Management Fees "constitute a lien on the property ranking on parity with liens for unpaid taxes and shall be collected in the same manner as provided for the collection of unpaid taxes." Virginia law allows staff to pursue delinquent real estate taxes for a period of 20 years.

Summary of Vehicle Personal Property Tax Collection Statistics: As shown in Table I, the Finance Department has collected \$293.9 million, or 97.5 percent, of the vehicle personal property taxes levied for Tax Years 2017 through 2021. Because a relatively large portion of the City's population is very transient, collecting personal property taxes on vehicles is far more challenging than collecting real estate taxes.

Once taxes have been delinquent for three months, accounts are placed with the department's private collection agency for Personal Property, Nationwide Credit Corporation (NCC). Similar to TACS, this outsourcing is at no

cost to the City as the delinquent taxpayer is responsible for NCC's 20% collection fee, as authorized by Va. Code § 58.1-3958.

As with Real Estate, many collection actions were paused during the height of the pandemic, but resumed in full during in the spring of 2022. In FY 2022, NCC collected \$1.6 million in delinquent Personal Property taxes for the City.

Again, taxpayers are given ample opportunity to avoid the added costs and hassle of delinquent collections as the Department of Finance sends appropriate warning letters in advance of placement. Staff is also liberal in its use of extended payment plans. Pursuant to the Code of Virginia, the statute of limitations for the collection of delinquent Car Taxes is five years, except in cases where the taxes have been reduced to judgment. Typically, however, older debt is harder to collect.

In addition to collections, staff also engages in the discovery process to guard against tax evasion. Under this program, the Department of Finance undertakes weekly computer matching to records of the Virginia DMV. However supplementary field discovery efforts in the community were put on hold due to limited 'on-site' staff resources during the pandemic. These discovery efforts are resuming in FY 2023 as 'on-site' staffing has returned to normal.

Summary of Business Personal Property Tax Collection Statistics: As shown in Table I, the Finance Department has collected \$79.9 million, or 98.1 percent, of the business personal property taxes levied for Tax Years 2017 through 2021. As allowed by Virginia law, the delinquent amount includes statutory assessments made on the best information available pending the filing of timely tax returns. Staff works with businesses throughout the year to obtain returns, and to adjust and collect the appropriate amounts. Staff had planned to place delinquent Business Personal Property taxes with NCC as previously authorized. As with Car Taxes however, staff withheld outsourcing delinquent Business Personal Property taxes during the pandemic. Staff will begin placement of delinquent Business Personal Property taxes with NCC in FY 2023. The statute of limitations for collection is five years.

FISCAL IMPACT: Staff efforts resulted in the collection of approximately \$6.8 million in delinquent taxes, penalties, and interest in FY 2022. The Department of Finance anticipates collecting a comparable amount in FY 2023.

ATTACHMENT: Top Twenty Delinquent Real Estate Taxpayers for Tax Years 2021 and Prior as of October 13, 2022.

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