

effective July 1, 2019.

DISCUSSION: City Council has discussed various components of the City Code related to vehicle decal and local registration fees over the past two months. At the March 12 Legislative Meeting, City Council set a maximum tax rate of \$5.56 for personal property tax on vehicles to allow for the flexibility to consider eliminating both the decal and what would be referred to as the local registration fee.

On March 16, 2019 City Council approved the elimination of the decal. This did not have a revenue impact because the City Code was revised to allow a local registration fee to be charged for vehicles.

Subsequently, at the March 27 budget work session, City Council discussed options to eliminate the local registration fee and to offset the loss in revenue with an increase to the Personal Property tax rate. The vehicle decal fee of \$33 per vehicle is estimated to generate \$3.85 million in FY 2020 General Fund revenue. If Council were to eliminate the local registration fee, the vehicle Personal Property tax rate on vehicles would need to be increased by only 33 cents in order to have a revenue neutral impact on the FY 2020 budget. This would increase the rate from \$5.00 to \$5.33. The \$5.56 advertised rate was based on an erroneous calculation by staff.

Only seven (including Alexandria) out of 237 cities, counties and towns in the Commonwealth apply a progressive sliding scale to the State Car Tax subsidy (PPTRA), whereby the amount of the subsidy declines as the value of the car increases. Because of this, while the absolute tax rate in the City would be \$5.33, the effective tax rate would be less for personal use vehicles. Based on the FY 2019 subsidy rates, cars valued below \$1,000 would pay no tax; cars valued between \$1,001 and \$20,000 would have an effective tax rate of \$2.37; and cars over \$20,000 would have progressively higher effective tax rates starting at or around \$2.90. As the value of the car increases, the effective tax rate also increases. Based on the most expensive car in the City's tax base, the highest that the effective tax rate would ever reach on personal use vehicles is \$5.20. Business vehicles do not receive the State Car Tax subsidy.

According to the latest information from the Weldon Cooper Center for Public Service, if Council decides to eliminate the local registration fee, it appears the City would become the first jurisdiction in Virginia to do so. In general, a tax rate based on the value of the car is a more progressive tax structure than a fixed flat rate fee. Personal Property taxes are also a deductible expense for income tax purposes, whereas the vehicle registration fee is not. Swapping the decal fee for an increased tax rate would enhance the progressivity of the City's Car Tax.

FISCAL IMPACT: Elimination of the local registration fee will result in the loss of \$3.85 million in revenue in the FY 2020 proposed General Fund budget. In order to maintain the revenue associated with the elimination, an increase to the Vehicle Personal Property tax rate from \$5.00 to \$5.33 is recommended to offset this loss of revenue and allow the elimination of the decal and the elimination of the local registration fee to have a revenue neutral impact on the FY 2020 proposed budget.

ATTACHMENTS:

Attachment 1 - Proposed Ordinance Cover

Attachment 2 - Proposed Ordinance Amendments

Attachment 3 - Pertinent Slides from Budget Work Session, March 27, 2019

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