DATE: April 10, 2006

SUBJECT: Adoption of the personal property tax rate.

C. M. RECOMMENDATIONS:

1) Adopt a Calendar Year 2006 personal property tax rate of $5.00 per $100 of assessed value using the attached resolution (Attachment I) and for public service corporations the real estate tax rate of $0.818 per $100 of assessed value as adopted in the prior agenda item.

2) Defer until July consideration of a resolution fixing the methodology that shall be utilized in distributing the State’s fixed block grant.

ISSUE: The method of distributing the State’s fixed block grant.

SUMMARY: It is recommended that the County Board adopt a personal property tax rate of $5.00/$100 for personal property and $.818/$100 for public service corporations. A public hearing was held and completed on March 30, 2006.

It is also recommended that a resolution setting the distribution method of State monies ($31.3 million) be deferred until the most appropriate option can be determined. Staff will bring forward alternatives for the County Board to consider later this spring and recommend adoption of a resolution in July fixing the methodology to be utilized. These alternatives will propose methods to allocate the state subsidy with at least one alternative for a method of progressive allocation of relief.

BACKGROUND: Personal property tax rates have remained unchanged since 1987. Prior to 1998, vehicle owners were liable for the full taxable amount on the assessed value of their cars. In 1998, the Virginia General Assembly adopted the Personal Property Tax Relief Act (PPTRA) which relieved vehicle owners from a percentage of taxation due on vehicles below $20,000 in assessed value and compensated localities for the lost revenue. In FY 2000, the state reimbursed localities for the 47.5% of the personal property vehicle tax which the state exempted. The scheduled vehicle tax phase out, which was originally adopted to go to 100%, was frozen at 70% by the 2002 General Assembly. It remained at 70% until the 2004 General Assembly adopted the FY 2004 – FY 2006 biennium budget. This adopted budget eliminated the vehicle tax.

County Manager: _____________

County Attorney: _____________

Staff: Mark Schwartz, Deputy Chief Financial Officer, Department of Management and Finance
Chuck Gubisch, Budget Director, Department of Management and Finance
Richard Stephenson, Revenue Analyst, Department of Management and Finance
reimbursement to localities beginning in FY 2007 and instead adopted a fixed block grant ($950 million) to be distributed based on jurisdictions’ 2004 vehicle tax reimbursements.

The amount of funds distributed to localities will remain fixed regardless of the growth in the number of vehicles or vehicle value. The County is required to use this block grant money to reduce the tax liability on vehicle value below $20,000 and indicate on tax bills the amount of tax relieved due to the state monies. Over time, as vehicle personal property value increases, this subsidy will become a smaller proportion of total personal property tax revenue increasing the cost to Arlington taxpayers.

Localities were given until December 31, 2005, to report to the state all vehicles that resided in their locality for tax year 2004. The state then used the statewide tax base to calculate all Virginia localities proportionate share of the $950 million appropriated for the fixed block grant dispersal. On February 23, 2006, the State’s Auditor of Public Accounts informed jurisdictions that the total amount of vehicle tax reimbursements for CY 2004 was less than the State set aside of $950 million. The Auditor of Public Accounts informed jurisdictions of both their CY 2004 reimbursement (totaling $28.5 million for Arlington) and their proportionate share of the $950 million set aside ($31.3 million for Arlington). Beginning in August 2006 (FY 2007), Arlington will begin receiving the state’s $31.3 million fixed block grant in four installments (August, November, February, May).

**DISCUSSION:** A personal property tax rate of $5.00 per $100 was advertised and a public hearing was held and completed on March 30, 2006. A change to the personal property tax rate would affect both vehicle owners and business tangible property. During the budget deliberation process, the Fiscal Affairs Advisory Commission (FAAC) was provided with an array of options available to the County in implementing the new state block grant funds and the various methods of taxation localities now have since the State General Assembly fundamentally changed the Personal Property Tax Relief Act (PPTRA) enacted in 1998 (Virginia Code § 58.1-3523 et seq.).

FAAC did not recommend a specific taxation methodology but it did provide the County Board with guidance on how any increase in revenue due to the rate increase should be spent.

In the summer of CY 2006, the Commissioner of Revenue will receive information from the National Automobile Dealer Association (NADA) that will be used to generate the October 5, 2006, billing of vehicle personal property. With this update of the County’s vehicle tax base, the County will be able to more accurately project the individual vehicle impact of spreading the State’s fixed block grant ($31.3 million). In addition, delaying the adoption of the tax resolution fixing the method of distributing the state monies will allow for the County to have further discussions with other jurisdictions and have additional time to analyze the most appropriate tax relief method.

Tax rates for personal property and the resulting revenue for Fiscal Years 1987 to 2007 are shown in Attachment II. The current (calendar year 2005) adopted real estate and personal property rates of neighboring jurisdictions are shown in Attachment III.
FISCAL IMPACT: Increasing the personal property tax rate to $5.00 per $100 of assessed value would generate $9.5 million of additional revenue which is included in the FY 2007 budget.
RESOLUTION FIXING COUNTY PERSONAL PROPERTY LEVY

IT IS HEREBY RESOLVED AND ORDERED by the County Board of Arlington County, Virginia, as follows:

1. That there be levied for the year 2006 a tax of $5.00 per one hundred dollars of assessed valuation on all taxable tangible personal property as defined in Sections 58.1-3500, 58.1-3501, 58.1-3502, 58.1-3503, 58.1-3506 and on machinery and tools as defined by Section 58.1-3507 of the Code of Virginia, except as otherwise provided in this paragraph. Without any limitation on the foregoing provisions, such property shall be considered to include all automobiles and trucks of public service corporations based upon the duly certified assessment thereof by the State Corporation Commission. Excluded from the levy of this paragraph (1) are the following:

   (a) All other personal property of public service corporations;
   (b) All classes of household goods and personal effects as classified by Section 58.1-3504 of the Code of Virginia; and
   (c) Manufactured homes as defined in Section 36-85.3 of the Code of Virginia.

2. That pursuant to Section 58.1-3506.A.8. there be levied for the calendar year 2006 a tax of $0.818 per one hundred dollars of assessed valuation on all manufactured homes as defined in Section 36-85.3 of the Code of Virginia and pursuant to Section 58.1-2606 on all other tangible personal property of public service corporations based upon the duly certified assessment of the State Corporation Commission.

IT IS FURTHER ORDERED hereby that such taxes are levied for County and School purposes, and, when and if appropriated by the County Board of this County, shall be used to defray the County and School charges and expenses and all necessary charges incident to or arising from the execution of the lawful authority of the County Board of Arlington; and

IT IS FURTHER ORDERED that such taxes for County purposes appropriated or unappropriated and unused to defray County and School charges and expenses shall return to the General Fund of the County to be used to defray County charges and expenses on all necessary charges incident to or arising from the execution of the lawful authority of the County Board of Arlington County for the next fiscal year.

Antoinette Copeland, Clerk
Arlington County Board