DATE: March 1, 2006

SUBJECT: Request to advertise the personal property tax rate.

C. M. RECOMMENDATION:

Advertise for a public hearing on March 30, 2006 on the proposed 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 $0.878 per $100 of assessed value as requested to be advertised in the prior agenda item.

ISSUE: What personal property tax rate should be advertised?

SUMMARY: In order to establish a personal property tax rate for Calendar Year 2006 (Fiscal Year (FY) 2007), it is necessary to advertise a proposed personal property tax rate at this time. A public hearing will be held and completed on March 30, 2006 and the County Board will set the tax rate April 22, 2006 when the FY 2007 budget is to be adopted. It is necessary to advertise the recommended rates to allow the County Board maximum flexibility during the budget deliberation process. Under State law, by advertising the rate of $5.00 per $100 of assessed value for personal property and $0.878 per $100 of assessed value for public service corporations, this is the maximum rate that the County Board can adopt.

Personal Property tax rates have remained unchanged since 1987. At that time, residential property owners carried less than half of the real estate tax burden. Since then, the tax burden has shifted substantially to the residential homeowner. In addition to the shift in real estate tax burden, the State has now capped the amount of personal property tax revenue that they will reimburse to the County. Beginning in FY 2007, the County will begin receiving an annual fixed block grant from the state as a replacement of the 70% reimbursement for vehicle taxes assessed below $20,000 governed under the Personal Property Tax Relief Act (PPTRA) that was enacted in 1998. The amount of money (maximum amount $31.3 million) received from the state remains 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.

For personal property, the rate applied to business tangible property can not exceed vehicle personal property. There are options available to the County to mitigate some of the vehicle personal property tax increase on residents. Staff is preparing several proposals and these proposals and others will be vetted through the budget process with expected participation from the Fiscal Affairs Advisory Commission, the citizen appointed advisory panel.

BACKGROUND: In order to establish a personal property tax rate for Calendar Year 2006 (Fiscal Year (FY) 2007), it is necessary to advertise a proposed personal property tax rate at this time. A public hearing will be held and completed on March 30, 2006 and the County Board will set the tax rate April 22, 2006 when the FY 2007 budget is adopted. Under State law, by advertising the rate of $5.00 for personal property and $0.878 for public service corporations, this is the maximum rate that the County Board can adopt. The attached resolution has been drafted proposing an increase in the personal property tax rate to $5.00 per $100 of assessed valuation on taxable tangible personal property, machinery and tools. Pursuant to State law, tangible personal property of public service corporations and manufactured homes is taxed at the real estate tax rate. The tangible personal property of public service corporations and manufactured homes is proposed for advertisement at a rate of $0.878 per $100 of assessed value.

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 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 their FY 2004 – FY 2006 biennium budget. This adopted budget by the state eliminated the vehicle tax reimbursement to localities beginning in FY 2007 and instead adopted a fix block grant based on jurisdictions’ vehicle tax reimbursements (not to exceed $950 million).

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 would then use 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 $950 million. The Auditor of Public Accounts has informed jurisdictions of both their CY 2004 reimbursements ($28.5 million for Arlington) and our proportionate share of the $950 million set aside ($31.3 million for Arlington). At this time it is still not clear whether Arlington will receive the level of CY 2004 reimbursement ($28.5 million) or the County’s proportionate share of the $950 million ($31.3 million). Regardless, beginning in August 2006 (FY 2007), Arlington will begin receiving the state’s fixed block grant in four installments (August, November, February, May).
DISCUSSION: As mentioned above, changes adopted by the State General Assembly in 2004 fundamentally changed the Personal Property Tax Relief Act (PPTRA) enacted in 1998 (Virginia Code § 58.1-3523 et al.). 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. The increase to the personal property tax rate is being advertised at this time to allow the County Board maximum flexibility during the budget deliberation process. The increase will affect both vehicle owners and business tangible property since the rate applied to business tangible property can not exceed the rate applied to vehicle personal property.

Due to the tax impact of this rate increase on vehicle personal property, there are options available to the County to mitigate some of the vehicle personal property tax increase to citizens. Staff has prepared several proposals. These proposals, along with others, will be vetted through the budget process with expected participation from the Fiscal Affairs Advisory Commission, the citizen appointed advisory panel.

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: The personal property tax revenue proposed in the County Manager’s FY 2007 Proposed Budget is based on the current tax rate of $4.40 per $100 of assessed value and $0.878 per $100 on all public service corporation tangible personal property assets.

If the Board determines to increase the personal property tax rate the revenue generated will depend on the level of vehicle subsidy provided to taxpayers. If the Board increased the personal property tax rate to the maximum ($5.00 per $100) and did not provide any additional relief to vehicle owners other than the fixed block grant amount provided by the state, the revenue increase to the County would be approximately $9.5 million for FY 2007.
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 $0.878 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