City of Alexandria, Virginia
FY 2023 Proposed Operating Budget & CIP
Budget Questions & Answers

March 29, 2022

Question: In FY2022 a lot of people were surprised by higher personal property tax bills than they paid in FY2021 on the same vehicles. Do we have a sense if they would be facing higher bills yet again in FY2023 on the same vehicles? And if there has been a decline from the spike in FY2022, how do we expect car tax bills to compare to what residents paid in FY2021?

Please provide the impact on the distribution of Personal Property Tax relief if the City applied state relief funds to allow for full exemption of the first $5,000 or $3,000 of vehicle value from taxation (versus the current $1,000 threshold)? Additionally, please include the impact if an exemption specifically for clean-fuel vehicles were provided.

Response:
Economic factors associated with the COVID-19 pandemic have wrought unprecedented spikes in car valuations on a national basis. All jurisdictions in Virginia are realizing a huge surge in market values as reflected in the National Automobile Dealers Association (NADA) pricing guide published by J.D. Power as of January 1, 2022. This is the recognized pricing guide used by all jurisdictions in compliance with state law.

In a normal market, most vehicles depreciate from year to year. For example, in Tax Years 2018 and 2019, both preceding the pandemic, an average of only 1% of vehicles appreciated in value. However, preliminary estimates indicate that the Tax Year 2022 (FY 2023) assessed values are increasing approximately 26% for roughly 87% of our tax base. This is an historic aberration never before seen at these levels. Based on early projections, it appears this surge could increase FY 2023 Car Tax revenue by an estimated $20.96 million over the proposed budget.

Should Council desire to offset this increase, staff recommends the application of an Assessment Ratio as the most efficacious means for doing so. According to state law, the City is required to assess vehicles using a recognized pricing guide as of January 1. However, Section 58.1-3503(B) of the Code of Virginia goes on to say that "assessment ratios" can also be used "with the concurrence of the local governing body" as long as the ratio is applied uniformly. In such instance the assessment ratio would be an effort to adjust for the abnormal market surge.

At this time, staff estimates that an Assessment Ratio of approximately 75% would be required to eliminate the surplus entirely. Alternatively, an Assessment Ratio of 77% is estimated to generate approximately $2 m. in additional revenue over the FY 2023 Proposed Budget should Council desire to program this for other budget requirements.

Each year, the City receives $23,578,531 in funds from the State's Personal Property Tax Relief Act (PPTRA). As required by law, this is allocated as a partial subsidy on the first $20,000 of assessed value of all Personal Use vehicles. Because of the surge in car values, the City's current allocation of PPTRA funds would have to drop as follows (i.e., most vehicles would get a smaller percentage of the State funds):

PPTRA Structure (Relief up to the 1st $20,000 on Personal Use vehicles)	Cars Valued $1,000 and Below	Cars Valued $1,001 - $20,000	Cars Valued $20,001 - $25,000	Cars Valued Over $25,000
Current	100%	52%	41%	31%
Revised (Before Assessment Ratio)	100% 4,331 cars Max Relief $53	40% 64,394 cars Max Relief $426	32% 8,896 cars Max Relief $341	24% 20,401 Max Relief $256

Applying an Assessment Ratio of 77% would not only eliminate almost $19 m. of the Car value revenue surplus, it would also provide better distribution of the State PPTRA funds:

PPTRA Structure (Relief up to the 1st $20,000 on Personal Use vehicles)	Cars Valued $1,000 and Below	Cars Valued $1,001 - $20,000	Cars Valued $20,001 - $25,000	Cars Valued Over $25,000
With a 77% Assessment Ratio	100% 6,136 cars Max Relief $53	45% 72,905 cars Max Relief $480	34% 7,655 cars Max Relief $362	24% 11,326 cars Max Relief $256

If Council wanted to accelerate the PPTRA structure to provide greater relief to cars of less value, Council could provide full relief to cars valued up to $5,000 instead of $1,000:

PPTRA Structure (Relief up to the 1st $20,000 on Personal Use vehicles)	Cars Valued $5,000 and Below	Cars Valued $5,001 - $20,000	Cars Valued $20,001 - $25,000	Cars Valued Over $25,000
With a 77% Assessment Ratio and Up to $5,000	100% 32,214 cars Max Relief $267	43% 46,827 cars Max Relief $458	25% 7,655 cars Max Relief $267	15% 11,326 cars Max Relief $160

Again, because the State funds are fixed at $23.5 m., if more relief is given to low value cars, less relief must be given to more expensive cars. Assessment Ratios proposed by the Department of Finance can be adopted by Council resolution. Changes to the PPTRA distribution can be handled by resolution but also require an amendment to Section 3-2-224 of the City Code.

A number of jurisdictions throughout the state are presently reviewing their options in regard to surging Car Tax revenue. Staff is aware several counties in Northern Virginia are considering adopting assessment ratios. Thus far the following jurisdictions have articulated their present status--

- Loudoun County formally adopted an Assessment Ratio of 80% on March 1, 2022, estimating that approximately 65% of their vehicles appreciated this year an average of 23%.

- Fairfax County staff recently briefed their Board that approximately 90% of their vehicles are appreciating an average of 33%, and staff is proposing an Assessment Ratio of 80%.

- Fairfax City staff briefed their Council that 88% of their vehicles have appreciated approximately 25% on average. They are looking at Assessment Ratios between 80% - 90%.

Other jurisdictions in Northern Virginia are continuing to review the matter and the Department of Finance is in regular contact concerning these efforts. Outside of Northern Virginia, the Commissioner of the Revenue for the City of Lynchburg indicates they anticipate adopting an assessment ratio of 75%.

It is important to note that even with the use of an assessment ratio, many taxpayers will still see an increase on their specific vehicle. This is because while the overall average increase is about 25%, the range of increases varies widely. Everyone with an increase greater than the average valuation change will still see an increase even with an assessment ratio, whereas those with an increase less than the average will see a value decrease from the prior year.

Clean Vehicle Exemption

Analysis on potential exemptions for clean-fuel vehicles will be addressed separately with Budget Question #2, "What are the budget and policy implications of various clean fuel vehicle tax options?"

Economics of Valuation

It is important to understand that the economics behind the surge in valuation are directly related to the impact of the COVID-19 pandemic and are without precedent. During the height of pandemic lockdowns consumer demand for cars declined. Semiconductor microchips power numerous vehicle computer components today, and with the decline in demand manufacturers shifted focus on production from cars to other consumer goods which spiked during massive global teleworking (computers, mobile phones, etc.). Manufacturing of vehicles themselves also were impacted by COVID-19 shutdowns. Again, these were worldwide phenomena, and most microchips are produced outside of the United States. Because of earlier changes, the supply of microchips decreased, and vehicle supply suffered major backlogs, further compounded by the enormous shipping backlog and bottlenecks at ports of entry. During the pandemic there was also less churn among leasing companies and major fleets, also reducing the number of used cars available on the market. Around this time consumer demand for goods also began a sustained spike.

These factors resulted in rising prices as dealers had less inventory to sell. For example, according to J.D. Power, dealer inventories were down -59.1% in January 2022 compared to January 2021; and 11.3 million fewer vehicles were produced due to microchip shortages.

As a result of supply and demand, the Bureau of Labor Statistics reports that used-car prices nationally rose 40.5% in January 2021 over January 2020, and average new car prices at dealerships topped $45,000 for the first time ever.

According to J.D. Power, the shortage of supply is expected to continue to impact sales through at least the first half of 2022. They report that dealers continue to sell most inventory as soon as it hits their lots. As such, they forecast that vehicle prices will continue to increase in the first two quarters of 2022 before depreciation begins to return. It is too early to know what this means for car values in FY 2024.