

INTRODUCED: April 11, 2022

A RESOLUTION No. 2022-R024

To set the rate of personal property tax relief for qualifying vehicles for the 2022 tax year pursuant to City Code §§ 26-495—26-497.

Patrons – Mayor Stoney and Ms. Lambert

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: APR 25 2022 AT 6 P.M.

WHEREAS, Ordinance No. 2005-302-258, adopted November 14, 2005, ordained sections 26-495 through 26-497 to the Code of the City of Richmond (2020), as amended; and

WHEREAS, section 26-496(b) of the Code of the City of Richmond (2020), as amended, required the City Council to annually set the rate of personal property tax relief at such a level as is anticipated to exhaust fully the personal property tax relief funds provided to the City by the Commonwealth of Virginia; and

WHEREAS, the Council desires to set the rate of personal property tax relief as required by section 26-496(b) of the Code of the City of Richmond (2020), as amended, to facilitate the timely issuance of personal property tax bills by the City;

NOW THEREFORE,

AYES: 8 NOES: 0 ABSTAIN: _____

ADOPTED: APR 25 2022 REJECTED: _____ STRICKEN: _____

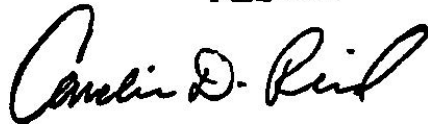
BE IT RESOLVED BY THE COUNCIL OF THE CITY OF RICHMOND:

1. That, pursuant to section 26-496(b) of the Code of the City of Richmond (2020), as amended, the Council hereby sets the rate of personal property tax relief by authorizing the Director of Finance to establish a personal property tax relief rate (i) of 100 percent for the 2022 tax year on the value of qualifying vehicles with an assessed value of \$1,000 or less in accordance with section 26-496(b) of the Code of the City of Richmond (2020), as amended, and (ii) not greater than 50.4 percent for the 2022 tax year on the value of qualifying vehicles with an assessed value greater than \$1,000 but less than or equal to \$20,000. Vehicles with an assessed value greater than \$20,000 shall not be eligible for tax relief on that portion of the assessed value in excess of \$20,000.

2. This resolution shall be in force and effect as of January 1, 2022.

A TRUE COPY:

TESTE:

A handwritten signature in black ink, appearing to read "Carolin D. Reed". The signature is written in a cursive, flowing style.

City Clerk



City of Richmond

Intracity Correspondence

O&R REQUEST

DATE: 04/04/2022

EDITION: 1

TO: The Honorable Members of City Council

THROUGH: The Honorable Levar M. Stoney, Mayor

THROUGH: J.E. Lincoln Saunders, Chief Administrative Officer

THROUGH: Sabrina Joy-Hogg, Deputy Chief Administrative Officer

FROM: Sheila White, Director of Finance

RE: 2022 Personal Property Tax Relief Rate Resolution

ORD. OR RES. No. TBD

PURPOSE: To authorize the Director of Finance of the City of Richmond to establish the personal property tax relief rate for the 2022 tax year at such a level that is anticipated to fully exhaust personal property tax relief funds provided to the City by the Commonwealth of Virginia.

REASON: To implement the personal property tax relief rate for the City of Richmond pursuant to Ordinance 2005-302-258 adopted by City Council on November 28, 2005.

RECOMMENDATION: The City Administration recommends adoption of this resolution.

BACKGROUND: The 2005 Session of the Virginia General Assembly changed the Personal Property Tax Relief Act of 1998. Instead of reimbursing localities for property taxes assessed on personal use vehicle at a percentage of the tax assessment, The Commonwealth's obligation for tax relief was capped at \$950 million annually.

Each locality receives a portion of the \$950 million appropriated for tax relief based on the reimbursements from the Commonwealth in the 2004 tax year. The City of Richmond receives \$16.708 million from the Commonwealth. In November 2005, Richmond City Council adopted an ordinance to establish the general manner in which tax relief would be allocated.

In the 2022 tax year, the City will allocate the amount received from the Commonwealth to owners of vehicles that qualify for tax relief based in the assessed values of vehicles as of January 1, 2022. In order to fully exhaust the funds provided by the Commonwealth for tax relief, the rate of relief should be set as follows:

- 50.4% for owners of qualifying vehicles with an assessed value greater than \$1,000 but less than \$20,001.
- For those owners whose vehicles are assessed with a value of greater than \$20,000, they will receive tax relief at a rate of 50.4% for the amount of the assessment up to \$20,000. For the assessment that exceeds \$20,000, the taxpayer will receive no tax relief.
- Owners of vehicles with an assessed value of \$1,000 or less shall receive property tax relief of 100% as directed by Richmond City Council on November 28, 2005 with Ordinance 2005-302-258.

FISCAL IMPACT / COST: N/A

FISCAL IMPLICATIONS: This will ensure that the City, through a stair-stepped approach, receives its due portion of both local personal property taxes and State personal property tax relief with minimized impact to taxpayers in light of recent NADA value increases.

BUDGET AMENDMENT NECESSARY: N/A

REVENUE TO CITY: N/A

DESIRED EFFECTIVE DATE: Upon adoption

REQUESTED INTRODUCTION DATE: 04/11/2022

CITY COUNCIL PUBLIC HEARING DATE: 04/11/2022

REQUESTED AGENDA: Consent

RECOMMENDED COUNCIL COMMITTEE: Finance & Economic Development

CONSIDERATION BY OTHER GOVERNMENTAL ENTITIES: None

AFFECTED AGENCIES: Department of Finance

RELATIONSHIP TO EXISTING ORD. OR RES.: Ord. No. 2005-302-258

REQUIRED CHANGES TO WORK PROGRAM(S): None

ATTACHMENTS: WHITE PAPER: Setting the PPTRA Percentage for 2022

STAFF: Jeff Crawford, Program and Operations Manager



DEPARTMENT OF
FINANCE

WHITE PAPER: Setting the PPTRA Percentage for 2022

Offsetting NADA value increases to reduce supply
chain impacts on Richmond's taxpayers
through a Stair-step Approach.

04/04/2022

INTRODUCTION TO THE PERSONAL PROPERTY TAX RELIEF ACT (PPTRA)

The Personal Property Tax Relief Act of 1998 (PPTRA) created a statewide program governed by [Chapter 35.1. Personal Property Tax Relief](#) to provide relief for owners of personal-use motor vehicles and their locality personal property taxes up to the first \$20,000 of valuation. However, the cost of the program skyrocketed for the state versus projections due to a number of factors:

- New car values increased faster than inflation;
- Car dealers provided incentives to purchase new vehicles;
- More people moved into the state while vehicle ownership per household rose;

As a result of these increasing costs, the state shifted its strategy for personal property tax relief.

The legislative strategy shift froze the dollar value of tax relief. Additionally, instead of the state providing relief directly to taxpayers as a check, it provided the same amount of relief annually to localities to apply directly to tax bills. The amount of relief provided to the City of Richmond, since the freezing of the value in 2005, was set at \$16,708,749.

This \$16.7M, as guided by the Code of Richmond [Division 7. – Personal Property Tax Relief](#), must be distributed annually, as follows:

- To eliminate the personal property taxation of each qualifying vehicle with an assessed value of \$1,000.00 or less;
- With respect to qualifying vehicles with an assessed value of greater than \$1,000.00 but less than or equal to \$20,000.00 at a rate that, in combination with the following, is estimated to fully utilize all available State personal property tax relief;
- With respect to qualifying vehicles with assessed values greater than \$20,000 provided at a rate fixed annually by the City Council and applied up to the first \$20,000.00 of each qualifying vehicle;

In summary, the City must set a level of funding for personal property tax relief that is annually divided by a larger number, so long as there is growth. The generalized formula is presented below:

$$\frac{PPTQVV^1 > \$1K, \leq \$20K}{(\$16.7M - PPTQVV \leq \$1K)} = PPTRA \%$$

As applied to three hypothetical vehicles the impact is presented in Table 1, below:

TABLE 1: Example Impact by Valuation Category²

CATEGORY	LOW-VALUE VEHICLE	MID-VALUE VEHICLE	HIGH-VALUE VEHICLE
PPTRA Category	≤ \$1,000	> \$1,000, ≤ \$20,000	> \$20,000
Vehicle Valuation	\$990	\$19,300	\$289,000
Original Tax	\$37	\$714	\$10,693
PPTRA Valuation	\$990	\$19,300	\$20,000
PPTRA Tax Amount	\$37	\$714	\$740
Example PPTRA %	100.0%	50.0%	50.0%
PPTRA \$	\$37	\$357	\$370
Adjusted Tax	\$0	\$357	\$10,323

¹ Note: PPTQVV = Personal Property Tax for Qualifying Vehicle Valuation

² Note: All values rounded to nearest dollar

As the table displays, the full personal property tax for a vehicle valued at ≤ \$1,000 is paid, the PPTRA percentage is applied to the full tax amount for a vehicle valued > \$1,000 and ≤\$20,000, and the PPTRA percentage is applied only to the first \$20,000 for vehicles valued >\$20,000.

INCREASES IN NADA VALUES DECREASES THE PPTRA PERCENTAGE

The Department of Finance, like all Virginia localities, does not actively set the value of vehicles. Instead this data is provided to the Department by the Virginia Department of Motor Vehicles (DMV) and is largely based on National Automobile Dealers Association (NADA) valuations. While NADA values typically increase on a year to year basis, the economic impact of the ongoing COVID-19 pandemic have driven values at an unprecedented rate for 2021 and 2022.

According to NADA Chief Economist Patrick Manzi, "The major theme for new-vehicle sales in 2021 was constrained inventory. The coronavirus pandemic and resulting microchip shortage and production cuts significantly constrained new-car and truck inventory at dealerships across the country. Constraints further led to suppressed new-vehicle sales, as well as used-vehicle inventory shortages and increased vehicle prices."³

These economic truths are evident in the data for 2022. Determining the tax levy for vehicles valued at ≤ \$1,000 is a critical initial step in setting the PPTRA rate as it must be subtracted from the total portion of PPTRA funds prior to setting the rate. The total percentage of the levy for vehicles valued at ≤ \$1,000 has reached an all-time low of just 0.2%. Used cars, even at the lowest end of the spectrum, have seen considerable valuation increases.

The increasing valuation of used vehicles is the result of constrained inventory induced by microchip shortages and other supply chain issues which have increased the price and valuation of new vehicles. It is anticipated that 11.3 million vehicles will not be produced globally as a result of these supply chain constraints.⁴ As a result of these interrelated valuations, in 2021 the average price for new vehicles increased 13 percent for consumers while the price of new vehicles increased by 41 percent.⁵

The amount of PPTRA funds (denominator) remains stagnant while the number of qualifying vehicles, individual assessments, and total levy (numerator) has been increasing – this data dictates a drop in the PPTRA percentage.

This is not a challenge unique to Richmond. Based upon conversation from a recent Virginia Government Officer's Association training event, numerous localities – particularly those who have not accurately adjusted their rates and have kept them at 70% - are grappling with the realities of these valuation changes. The Administration of the City of Richmond is proposing a strategy that will benefit personal property tax payers while protecting general fund revenues in the future.

THE 2022 PPTRA PERCENTAGE

Due to previously outlined economic factors increasing personal property valuations, the 2022 PPTRA percentage has been calculated to be 30.4 percent for 2022. This percentage, as dictated by [City Code Sec.26-497. – Allocation of relief among taxpayers](#), is, "estimated to fully utilize all available State personal property tax relief."

However, given the considerable drop in the calculated 2022 PPTRA rate versus past rates, the Administration is proposing an alternative rate strategy. COVID-19 and the resultant impacts to supply chains, the consumer price index, and the very lives of those we serve cannot be understated. The Administration recommends freezing the PPTRA Rate at 50.4% in 2022 and taking a stair step approach to decreasing the PPTRA rate through 2024 as necessary.

³ Source: Manzi, Patrick (2022) [NADA Issues Analysis of 2021 Auto Sales, 2022 Sales Forecast](#)

⁴ Source: Manzi, Patrick (2022) [NADA Issues Analysis of 2021 Auto Sales, 2022 Sales Forecast](#)

⁵ Source: Manzi, Patrick (2022) [The Facts About New Vehicle Pricing](#)

The Stair-step Approach will freeze the PPTRA Rate in 2022. Subsequently, 2023's PPTRA Rate will be calculated and adjusted by only half of difference between 2023's calculated rate and 2022's frozen rate. Finally, the 2024 PPTRA Rate will be calculated as actual.

A specific example of the beneficial impact to qualifying taxpayers under the proposed approach would be as follows:

Will Foushee is the owner of a 2013 Honda CRV, which in 2022 is valued at \$18,030. He, like many vehicle owners, is concerned that his valuation has increased and he will have to pay additional taxes this year. If the PPTRA rate decreases, as is it should with growth, – not only is his car value more, the percentage he is required to pay on that increasing valuation will be more.

Here is a breakdown of the example of the Administration's recommendation and how it would benefit the example taxpayer.

TABLE 3: PPTRA Stair-step Approach Example Comparative Benefit for Individual Taxpayer⁶

	2022	2023	2024
2013 CRV Valuation	\$18,030	\$18,030	\$18,030
Total Tax	\$667	\$667	\$667
<i>Stair-step Approach PPTRA %</i>	<i>50.4%</i>	<i>~40.4%</i>	<i>~30.4%</i>
PPTRA Amount	\$336	\$270	\$203
Owner Amount	\$331	\$398	\$464
<i>Calculated Approach PPTRA %</i>	<i>30.4%</i>	<i>~30.4%</i>	<i>~30.4%</i>
PPTRA Amount	\$203	\$203	\$203
Owner Amount	\$464	\$464	\$464
Savings of Stair-step Approach	\$133	\$67	\$ -

Will Foushee, 2013 Honda CRV owner, under the Stair-step Approach can anticipate saving a total of \$200 versus the Calculated Approach over the next two years. In 2022 the rate will be set at 50.4%, in 2023 this rate will be calculated and halved, and in 2024 the PPTRA percentage will be aligned with the calculated value.

This proposed approach is a hybrid approach that maximizes the City's general fund revenues while minimizing the impact to taxpayers. It should be noted that the 2024 amount may not reach as low as 30.4% if supply chain issues are rectified, production increases, and NADA values decrease in response. The goal of the Stair-step Approach to bring the PPTRA percentage into alignment while reducing the impact to personal property owners.

⁶ Note: All values rounded to nearest dollar, '~' Denotes the estimate of an unknown future value