

**CITY OF CHARLOTTESVILLE, VIRGINIA
CITY COUNCIL AGENDA**



Agenda Date:	September 6, 2022
Action Required:	Repeal Sec. 15-36 through Sec. 15-38 of the Charlottesville City Code
Presenter:	Todd Divers, Commissioner of the Revenue, Jason Vandever, City Treasurer
Staff Contacts:	Todd Divers, Commissioner of the Revenue Jason Vandever, City Treasurer
Title:	Repealing Sec. 15-36 through Sec. 15-38 of the Charlottesville City Code to Eliminate Local Vehicle License Fees for Certain Motor Vehicles, Trailers, and Semi-Trailers (1 reading)

Background

§46.2-752 of the Code of Virginia authorizes cities, counties, and towns to levy a license fee on motor vehicles, trailers, and semitrailers. The amount of the fee may not be greater than the annual vehicle license fee imposed by the state. In Charlottesville, this takes the form of a Local Vehicle License Fee (VLF) codified in Chapter 15, Article II of the Charlottesville City Code.

Until 2006, the City required that a physical decal be placed on vehicles as evidence of payment of the fee, and charged for this decal based on type and size of vehicle. This decal was not only a source of revenue, but an enforcement tool in that it could not be purchased until all previously billed taxes had been paid. The Treasurer's DMV Stop/fee process now provides an incentive for the payment of all billed taxes. In 2006, the physical decal was eliminated, but the fee was retained. The fee applies to all vehicles, regardless of age, value, or condition, as long as there is an active license plate on the vehicle. It is prorated quarterly (as opposed to taxes, which are prorated monthly) and also applies to many (but not all) tax-exempt vehicles.

Charlottesville's schedule of vehicle license fees is below:

License Type	Situs Date Jan. 15— Mar. 31 Amount (\$)	Situs Date April 1— June 30 Amount (\$)	Situs Date July 1— Sept. 30 Amount (\$)	Situs Date Oct. 1— Dec. 15 Amount (\$)
Passenger car, 4,000 pounds or less	\$28.50	\$21.38	\$14.25	\$7.13
Passenger car, more than 4,000 pounds, and trucks	33.50	25.13	16.75	8.38
Motor vehicles operated or used for rent or hire, up to 13,000 pounds:				

5,499 or less	22.70	17.03	11.35	5.68
5,500—10,000	29.35	22.01	14.68	7.34
10,001—10,499	30.70	23.03	15.35	7.68
10,500—11,000	32.40	24.30	16.20	8.10
11,001—11,499	33.90	25.43	16.95	8.48
11,500—12,000	35.75	26.81	17.88	8.94
12,001—12,499	37.35	28.01	18.68	9.34
12,500—13,000	39.40	29.55	19.70	9.85
Motor vehicles operated or used for rent or hire, more than 13,000 pounds	69.40	52.05	34.70	17.35
Motorcycles	8.50	6.38	4.25	2.13
Trailers and semitrailers:				
Registered gross weight (pounds) 1,500 or less	10.00	7.50	5.00	2.50
Registered Gross Weight (pounds) 1,501—4,000	20.50	15.38	10.25	5.13
More than 4,000	25.50	19.13	12.75	6.38

According to the Weldon Cooper Center's 2018 compilation of local tax rates, 84 counties and 33 cities still had some version of a vehicle license tax or fee - some requiring decals, others having eliminated the decal while keeping the fee. According to a recently completed survey by the Commissioners of the Revenue Association, that is now down to 81 counties and 30 cities.

Discussion

Administering the vehicle license fee is time-consuming and cumbersome, as it adds to the complexity of billing and adjustments - often requiring additional research to determine the appropriate fee to bill or if an adjustment is due. Because personal property tax on vehicles is prorated monthly, and VLF's are pro-rated quarterly, a taxpayer could conceivably have no tax liability (based on their move-in and move-out dates), but still owe up to one half year VLF.

Vehicle License Fees - Advantages

- Fees apply to (some) otherwise tax-exempt items and owners (specifically churches and non-profit organizations). Under a license fee billing model, everyone pays SOMETHING.
- Fees apply to vehicles valued under \$1,000, who otherwise would have no tax liability.

Vehicle License Fees – Disadvantages

- Applies to tax-exempt entities. (They are supposed to be tax-exempt for a reason, after all);
- Regressive (all owners pay the same based on weight regardless of vehicle value or age);

- Administrative burden:
 - Different proration rules from taxes;
 - Additional series of book completion activities – adds more complexity/more chance for errors;
 - Requires additional adjustments beyond tax;
 - Staff must often manually check with other jurisdictions in order to complete VLF adjustments (whereas we can largely rely on DMV data for tax adjustments).
 - Creates an abundance of very low dollar bills that must be billed and collected each year
- No longer serves its original purpose as a visible indicator that tax has been paid;

Cost to Eliminate VLF

Vehicle License Fees typically generate around \$900,000 annually for the City. Under normal circumstances, such a reduction would necessitate an offsetting increase elsewhere, most likely by increasing the personal property tax rate. However, based on projected personal property revenues for FY23, we appear to be headed for an additional \$2 million surplus above what was originally anticipated due to much-discussed vehicle valuation increases. This means that eliminating the VLF can be revenue neutral in FY23 and possibly FY24.

An Important and Highly Visible Gesture to Taxpayers

Recent economic indicators point to high inflation and a potential economic slowdown on the horizon. Consumers are nervous, and taxpayers feel pinched. Eliminating Vehicle License Fees would be a tangible and easily achievable form of tax relief arriving just in time for many struggling families, without having to change any tax rates.

Alignment with City Council's Vision and Strategic Plan

This change aligns with the City’s Organizational Values of **Leadership, Trust, Creativity, and Excellence**.

This change aligns with the following City Goals:

- 1.4 Enhance financial health of residents*
- 5.1 Integrate effective business practices and strong fiscal policies*
- 5.3 Provide responsive customer service*

Community Engagement

NA

Budgetary Impact

If approved, this measure will go into effect on January 1, 2023, and will reduce current year Vehicle License revenue (GL 400150) by approximately \$800,000 due to the timing of the billing. FY24 revenue would be reduced by approximately \$900,000. This reduction will be offset completely in FY23 by increased vehicle assessments.

Recommendation

Approval of the resolution to repeal Chapter 15, Article II of the Charlottesville City Code to eliminate Local Vehicle License Fees.

Suggested Motion: *“I move the ORDINANCE repealing Sec. 15-36 through Sec. 15-38 of the City Code, thereby repealing vehicle license fees for certain motor vehicles, trailers, and semi-trailers”.*

Alternatives

Council could elect to retain the Vehicle License Fee program.

Attachments

1. Council Ordinance
2. Excerpt from Weldon Cooper 2018 Local Tax Rates Book_Section 15
3. Commissioners of the Revenue Association Survey Results