Caroline County
Board of Supervisors Agenda
Executive Summary

Meeting Date: **May 24, 2022**

Title: **Unfinished Business – Further Discussion of Personal Property Tax**

(Check Mark)

____ Consent	_____ Closed Meeting
____ Action	_____ Public Hearing
____ No Action (Information Only)	_____ Ordinance
____ Resolution	_____ PowerPoint Presentation

Background: At its April 12, 2022 meeting, the Board of Supervisors voted unanimously to adopt tax rates for Tax Year 2022 (January 1, 2022 through December 31, 2022) as recommended by the County Administrator. The vote followed a public hearing (as required by §58.1-3007 of the Code of Virginia) with no speakers.

Adoption of the Tax Year 2022 rates included a reduction in the personal property tax rate from $3.80/$100 of assessed value to $3.50/$100. Despite the reduction, many taxpayers will pay more in 2022 since the equalized rate was determined to be $3.05/$100 of assessed value. The tax rate reduction to $3.50/$100 and the elimination of the Vehicle License Tax did not completely neutralize the sharp increase in the assessed value of cars and trucks (the Commissioner of the Revenue's Office had previously determined that assessments for Tax Year 2022 are up approximately 34% compared to Tax Year 2021).

Following the adoption of the Tax Year 2022 rates by the Board on April 12, the Commissioner of the Revenue's Office delivered the personal property tax book and the Treasurer's Office mailed out the June bills with the new $3.50/$100 rate in place.

The Commissioner's Office has based personal property value assessments on the J.D. Power (NADA) "clean trade in" vehicle condition definition since 2013. Commissioner of the Revenue Mark Bissoon believes "clean trade in" is the most accurate definition for Caroline County because it can be associated with all vehicles that are available for immediate safe use. By definition, average trade-in considers that the vehicle may require some repairs/servicing to pass all necessary inspections and need a fair degree of reconditioning to be ready for resale.

At its April 12 meeting, the Board also approved the elimination of the Vehicle License Tax, which previously added an additional $30 charge ($25 for motorcycles and other two wheel vehicles) to the June personal property tax bill. This resulted in the loss of approximately $1.1 million in revenue for the County.

The Commissioner's Office previously determined that a reduction in the personal property tax rate to approximately $3.05/$100 would be required to "equalize" tax revenue due to the increase in assessed values. It was also determined that each 1-cent reduction in the rate would cost the County $46,985 in annual revenue.

Update: Members of the Board of Supervisors have previously asked whether the Board can take any action to provide further personal property tax relief to citizens for either the June 5 or the December 5, 2022 tax bills.

Virginia Code §58.1-3012 provides the following language related to changing tax rates during the calendar year:

> "The governing body of any county, city or town which levies taxes on real estate, tangible personal property and machinery and tools on a calendar-year basis is authorized and empowered to change the rate of its tax on real estate, tangible personal property and machinery and tools during any calendar year*, <u>provided such change is made prior to the date on which the personal property and land books are delivered to the treasurer of the applicable county, city or town</u>."*

Since Caroline County levies taxes on a calendar-year basis and the Commissioner of the Revenue's Office has already delivered the personal property tax book to the Treasurer for Tax Year 2022, the Board has no ability to change the personal property tax rate until 2023.

However, a bill signed into law by Governor Youngkin in April allows localities to return **<u>surplus</u>** personal property tax revenues to taxpayers. The legislation, effective July 1, 2022, amends and reenacts § 15.2-2511.1 of the Code of Virginia to read as follows:

> *Any locality may by ordinance develop a method for returning surplus real or personal property tax revenues, or both, to taxpayers who are assessed ~~real property~~ such taxes in any fiscal year in which the locality reports a surplus. The locality may reduce a taxpayer's refund by the amount of any taxes, penalties, and interest that are due from such taxpayer, or any past-due taxes, penalties, and interest that have been assessed within the appropriate period of limitations.*

Henrico County is utilizing the new legislation to provide personal property tax relief to its citizens. Henrico has determined (and the county attorney concurs) that it cannot apply the reduction to the June 5 tax bills because the legislation adopted by the General Assembly does not take effect until July 1, 2022.

Staff and the County Attorney's Office agree that the key to a locality's ability to provide personal property tax relief under the new legislation is to determine conclusively that a surplus in personal property tax revenues does in fact exist. It will not be known until late August or early September whether a surplus exists when personal property tax revenue estimates in the current fiscal year (FY 2021/2022) can be compared to actual revenues. If it is determined that a surplus exists, the Board could provide a credit on the personnel property tax bill due December 5 in an amount up to, but not exceeding, the percentage of the surplus.

The issue can be placed back on the agenda for further discussion at the September 13, 2022 Board meeting, at which time the Treasurer's Office should be able to determine if a surplus in personal property tax revenue for FY 2022 will be achieved.

If a surplus does in fact exist, another factor to consider is whether it is of sufficient size to provide meaningful tax relief to individual taxpayers. The Commissioner of the Revenue's Office will provide information at Tuesday's meeting estimating the amount of personal property tax relief provided to individual taxpayers in the event the County achieves a surplus of $300,000, $500,000 and $1 million in personal property tax revenues and address questions raised during the previous discussion.

If the Board decides to pursue the approach outlined above, the County Attorney will need to prepare an ordinance for public hearing.

Recommended Actions: The County Administrator's Office recommends the following action at the May 24 Board of Supervisors meeting:

- Continue discussion at September 13, 2022 Board of Supervisors meeting when it can be determined if a surplus in personal property tax revenues exists for FY 2022.

The County Administrator's Office does not recommend reducing the personal property tax rate below the $3.50/$100 rate previously approved by the Board. This 30-cent reduction from the previous rate of $3.80/$100, combined with the elimination of the $30 Vehicle License Tax (a loss of $1.1 million in revenue for the County), constitutes the equivalent of a $0.53 reduction in the personal property tax rate. This brings Caroline County within $0.23 of the equalized rate of $3.05/$100, which is more than what many localities have done to reduce the personal property tax burden on their citizens (and is essentially the equivalent of what Henrico County is now proposing).

Despite the additional personal property revenue anticipated for the June and December bills, the adopted FY 2022/2023 budget projects a need to withdraw approximately $1.2 million from the Unassigned General Fund Balance to support expected expenditures. Therefore, the increased personal property tax revenue cannot be deemed to be a surplus from the standpoint of the overall County budget in any true sense of the word even if it results in a surplus in the sole subcategory of personal property tax revenue.

In Fiscal Year 2019 and Fiscal Year 2020, the County dipped into its fund balance in the amounts of $837,490 and $1,722,354 to meet its expenditures. While the Unassigned General Fund Balance did increase by $5,882,831 in FY 2020/2021, the increase was based on one-time, non-sustainable sources of revenue including federal CARES Act dollars. Without these one-time enhancements, revenues were only $815,069 higher than expenditures in FY 2020 ($697,739) of which came from Caroline County Public Schools, and has already been committed back to the schools for the Caroline Middle School HVAC replacement project).

Davenport & Company, the County's financial advisor, has previously advised the Board that the trend of fund balance spending cannot continue without negatively impacting the County's excellent AA bond rating that enables us to borrow funds at highly favorable interest rates.