

Recommendations for Implementing Changes Enacted Last Session in the PPTRA Program



John M. Bennett
Secretary of Finance

January 18, 2005

Key Features of SB 5005, as Enacted

- Beginning January 1, 2006, for tax year 2006 and thereafter, the Commonwealth will pay a total of \$950 million per year to localities for tangible personal property tax relief.
- Each county's, city's, or town's share of the \$950 million will be based on a fixed percentage of total payments made to counties, cities and towns for tax year 2005 (as certified by the APA no later than March 1, 2006).
- The reimbursement for tax year 2006 will be paid over a 12-month period, beginning in **July, 2006**.
- The Secretary of Finance (in consultation with representatives of VACo and VML) will develop a schedule of payment dates and report those dates.
- Any county, city, or town with a tax due date that falls in the first six months of 2004 will be reimbursed by the Commonwealth for any interest expense associated with short-term financing.
- Local governing bodies shall establish a general tax rate for a vehicle's value above \$20,000; one or more reduced tax rates for a vehicle's value that is \$20,000 or below.
- Together the tax rates are intended to generate about the same amount of revenue, with the state payment, as would have been produced otherwise.
- A statement is to be included on each personal property tax bill indicating the reduced tangible personal property tax rate(s) applied to qualifying vehicles, and the rate applied to the general class of tangible personal property.

Issues That Were Raised by Local Governments

- A working group was established including local officials Commissioners of the Revenue, Treasurers, and VML and VaCo representatives (members listed in an Appendix). Officials raised several issues:
 - Budget impact of the delayed state payment on Spring Billers.
 - The payment schedule.
 - Bills for Tax Year 2005 and earlier that are “in the pipeline” as July 1, 2006 approaches.
 - A termination date for the 1998 PPTRA program (and authority to balance bill).
 - The date on which to determine the fixed share of the \$950 million payment.
 - Local bill formats and bifurcated rates.
- The product of the PPTRA Working Group’s recommendations is reflected in the Governor’s proposed budget amendments to Item 503 (the PPTRA section) in SB 700/HB 1500.
 - A report setting forth the proposed payment schedule was transmitted to the Governor and each member of the General Assembly, on January 1, 2005.

Impact on Spring Billers

- The legislation had the most clear impact on the Spring Billers -- 44 counties, cities and towns that collect car taxes from January 1 through June 30.
 - Because the legislation delayed the car tax payments for TY 2006 until after July 1 (FY 2007), “Spring Billers” are faced with delays in

state reimbursement, compared to historical experience. The delay ranges from one to about four months beginning in FY 2006.

- For spring billers, the initial apprehension was that this change created both revenue and cash flow problems.
- However, all counties and cities operate on a modified accrual system of accounting – meaning that as long as they receive the state payment within their own “availability period” (typically 45 or 60 days following June 30), they may count the revenue as being received in the prior fiscal year.
 - Accordingly, the payment schedule provides for spring billers to receive on July 31 of each year the same proportion of their total PPTRA payment as each historically received in May and June.
 - To minimize the potential lost investment interest, the balance of each spring billing locality’s share of the \$950 million (the amount not paid by July 31) will be paid in its entirety during the first half of each fiscal year – 40% on August 15 and 60% on November 15.
 - A total of 37 localities are included in this schedule.
- “Intent of the General Assembly” language is added to express an intent to continue paying spring billers prior to August 15 each year.
- The Commonwealth will have to carry a liability on its GAAP-based balance sheet of about \$200 million, to reflect a liability incurred in one year but paid in another.

Payment Schedule for Other Localities

- In setting a payment schedule, the principal objective was to implement the new law with as little impact as possible on localities’ cash flow.
 - An effort was made to match the schedule with the payment patterns to which localities have become accustomed, while minimizing state and local administrative costs.

- Localities were divided into four groups, with a different reimbursement schedule for each.
 1. Spring Billers (Counties and Cities with Spring Billing Dates)
 2. Counties and Cities Receiving More Than \$20 million per year
 3. Counties and Cities Receiving Less Than \$20 million per year
 4. Towns
 - ***Counties and Cities Receiving More Than \$20 Million (and are not Spring Billers - 4 localities)***
 - Have historically received an average of 89% of their reimbursement amounts during the July 1 to December 31 period, with the remainder spread out over the remaining six months.
 - The reimbursement schedule provides for receipt of 95% by November 15 (50% on August 15 and 45% on November 15), with the balance of 5% paid out on February 15 and May 15.
 - ***Counties and Cities Receiving less than \$20 Million in Reimbursements (93 localities)***
 - Have historically received an average of 61% of their PPTRA reimbursement amounts during the July 1-December 31 timeframe, with the remaining payments made in the final six months of the year.
 - The payment schedule provides for receipt of 80% by November 15 (5% on August 15 and 75% on November 15), with the balance of 20% paid out on February 15 and May 15.
 - **Towns** will be paid in a single lump sum on August 15.
 - The seven spring billing towns will be paid out in the spring on approximately the same schedule as they presently receive their reimbursements. Four use cash accounting.

Other Issues

- Bills for Tax Year 2005 and earlier that are “in the pipeline” as July 1, 2006 approaches.
 - Under the existing program, localities continue to pursue collections and submit reimbursements for a considerable time after initial billing.
 - Past payment patterns would predict that \$24 to \$36 million in reimbursements would still be in the pipeline after the amount appropriated last year for FY 2006 is exhausted (100,000 to 150,000 vehicles).
 - The governor’s budget adds \$24 million to the appropriation for FY 2006 to address the bills “in the pipeline.”
- A termination date for the 1998 PPTRA program (and authority to balance bill).
 - The Working group recommended setting a firm termination date for the program on September 1, 2006.
 - Taxpayers whose bills remain delinquent after that date can be billed at the full amount of the original personal property tax levy, without regard to what the state would have paid.
 - Language establishes that on September 1 (or after the appropriation is fully spent, whichever is first), the state’s obligation under the existing program ends.
- Date for Determining the fixed Share of the \$950 million.
 - Statute provided fixed percentage of total payments made to counties, cities and towns for tax year 2005 (as certified by the APA no later than March 1, 2006). The problem is that substantial reimbursement for Tax Year 2005 will still be outstanding at that point.

- Working group recommended basing the fixed percentage on tax year 2004, as collected through December 31, **2005**, in order to give all localities a chance to have the base computed on a full collection cycle.

- Local bill formats and bifurcated rates.
 - As adopted, the statute would have required multi-tiered rates.

 - Budget language allows localities to show the car tax relief as a specific amount for each vehicle, in the same manner as under the present system, and adopt the formula for allocation of the state reimbursement as part of the local budget process.

- Special provision is made for the payment to the City of Winchester.
 - Winchester bills for car tax in the month each vehicle is re-registered, and bills for 12 months in arrears.

 - Language allows Winchester to continue to receive state reimbursement until April 1, 2007 for tax year 2005 payments, if a car tax appropriation is still available under the existing program, or to balance bill for the amount not paid by the Commonwealth.

Appendix A

Counties and Cities with Billing Dates Between January and June (Spring Billers)

(July 31-Estimate and percentage of spring bills normally paid through June 30, 2006, based on TY 2005; Balance of each spring biller's share will be paid during the first half of each fiscal year – 40% on August 15 and 60% on November 15)

Albemarle County	Dinwiddie County	King George County	Richmond City
Buena Vista, City of	Emporia, City of	Lexington City	Roanoke City
Caroline County	Fluvanna County	Loudoun County	Roanoke County
Charlottesville	Frederick County	Nelson County	Salem City
Chesapeake	Fredericksburg, City of	Newport News	Spotsylvania County
Chesterfield County	Greene County	Norfolk	Stafford County
Clarke County	Hampton, City of	Petersburg, City of	Virginia Beach
Colonial Heights	Henrico County	Poquoson	Winchester City
Covington	James City County	Portsmouth	York County
Danville			

Counties and Cities Receiving More Than \$20 Million Per Year

(August 15-50%; November 15-45%; February 15-3%; May 15-2%)

Alexandria
Arlington County
Fairfax County
Prince William

Counties and Cities Receiving Less Than \$20 Million Per Year

(August 15-5% November 15-75% February 15-15% May 15-5%)

Accomack County	Falls Church City	Madison County	Rockingham County
Alleghany County	Fauquier County	Manassas City	Russell County
Amelia County	Floyd	Manassas Park City	Scott County
Amherst County	Franklin City	Martinsville City	Shenandoah County
Appomattox County	Franklin County	Mathews County	Smyth County
Augusta County	Galax City	Mecklenburg County	Southampton County
Bath County	Giles County	Middlesex County	Staunton City
Bedford City	Gloucester County	Montgomery County	Suffolk City
Bedford County	Goochland County	New Kent	Surry County
Bland County	Grayson County	Northampton County	Sussex County
Botetourt County	Greensville County	Northumberland County	Tazewell County
Bristol City	Halifax County	Norton City	Warren County
Brunswick County	Hanover County	Nottoway County	Washington County
Buchanan County	Harrisonburg City	Orange County	Waynesboro City
Buckingham County	Henry County	Page County	Westmoreland County
Campbell County	Highland County	Patrick County	Williamsburg City
Carroll County	Hopewell	Pittsylvania County	Wise County
Charles City County	Isle of Wight County	Powhatan County	Wythe County
Charlotte County	King and Queen County	Prince Edward County	
Craig County	King William County	Prince George	
Culpeper County	Lancaster County	Pulaski County	

Cumberland County	Lee County	Radford City
Dickenson County	Louisa County	Rappahannock County
Essex County	Lunenburg County	Richmond County
Fairfax City	Lynchburg City	Rockbridge County

Towns which Bill Between January and June Each Year

(Paid in the Spring of FY 2006, pursuant to language proposed in HB 1500/SB 700)

Edinburg	Strasburg
New Market	Pamplin
Toms Brook	Woodstock
Vinton	

All Other Towns

(By August 15)

Other

Winchester

(Bills for prior 12 months, based on anniversary date of the vehicle license. Language is proposed in HB 1500/SB 700 to extend the potential payments for Winchester.)

Note: Payment dates are based on the latest available information. If a locality is listed above in an incorrect category, actual payments will be determined by the correct billing date(s).

Appendix B
Working Group of Local Officials

Commissioners of the Revenue

Charles D. Crowson, Jr., City of Newport News

Mitchell W. Nuckles, City of Lynchburg

Treasurers

Richard Cordle, Chesterfield County Treasurer

C. William "Bill" Orndoff, Jr. Frederick County Treasurer

Virginia Association of Counties

Virgil Hazelett, County Manager, Henrico County

Kevin Greenlief, Fairfax County

Virginia Municipal League

Elmer Hodge, County Administrator, Roanoke County

Catheryn Whitesell, Budget Director, City of Virginia Beach

Other Local Representatives

Ellen R. Davenport, VACo

Michael L. Edwards, VML

Mary Ann Curtin, Chesterfield County

Alan D. Albert, LeClair Ryan