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To: City Council

Through: J. Randall Wheeler, City Manager

From: Tonya O'Connell, Asst. City Manager

Date: March 28, 2022

Subject: Resolution to Apply an Assessment Ratio to the Value of Certain Automobiles and Trucks as Authorized by Code of Virginia §58.1-3503(B) for the Calendar Tax Year Beginning January 1, 2022

The automobile industry due to the pandemic of COVID-19 suffered shortage in workers and a key material component that almost every passenger vehicle requires, the computer chip. The impact of the disruptions to the industry caused shortage of new vehicles which lead to a substantial increase in the demand for used automobiles and passenger trucks. That demand has driven values higher, for an asset that generally trends down in value over its useful life.

The Commissioner of the Revenue ("Commissioner") is required to value all taxable property at its fair market value. Pursuant to Code of Virginia §§58.1-3503(A)(3) and (A)(4), automobiles and trucks of less than 2 tons ("trucks") described therein must be valued by using a recognized uniform pricing guide, or a percentage of cost if a vehicle is not yet listed in any such pricing guide. Those classifications include the majority of passenger vehicles driven by Poquoson citizens. The Commissioner utilizes the pricing guide produced by the J.D. Power (formerly National Automobile Dealers Association) and 90% of total original cost (for the initial year) for automobiles and trucks not yet represented in that guide. In the normal course, automobiles and trucks are taxed based on 100% of the fair market value determined by the Commissioner. By action of Council last May, the tax rate applicable to automobiles and trucks for calendar year 2022 is \$4.15 per \$100 of assessed value.

For calendar year 2022, the Commissioner reports based on J. D. Power an average 38% increase in the values of automobiles and trucks, it is anticipated that the automobile industry will recover over the course of the year, and that the increase in values experienced this year will prove to be an anomaly. Code of Virginia §58.1-3503(B) allows the Commissioner, with the concurrence of the City Council, to apply an assessment ratio to fair market value. An assessment ratio effectively functions as a component of the tax rate, and when that assessment ratio is anything less than 100%, the net impact is an effective tax rate that is less than the nominal rate.

For the Tax Year beginning January 1, 2022, the Commissioner along with myself recommends, that an assessment ratio of ninety percent (90%) should be applied to the automobile class described in Code of Virginia §58.1-3503(A)(3) and the trucks of less than 2 tons class described in Code of Virginia §58.1-3503(A)(4).

The impact to the citizens based on the 90% assessment ratio, when combined with the regular tax rate, will produce a reduced tax amount. In addition, the lower taxable values that result when the assessment ratio is applied will be the basis for the allocation of Personal Property Tax Relief, resulting in a greater benefit to taxpayers.

**A RESOLUTION OF COUNCIL TO APPLY AN ASSESSMENT RATIO TO THE
VALUE OF CERTAIN AUTOMOBILES AND TRUCKS AS AUTHORIZED BY THE
CODE OF VIRGINIA §58.1-3503(B) FOR THE CALENDAR TAX YEAR BEGINNING
JANUARY 1, 2022**

WHEREAS, the COVID-19 pandemic caused widespread closures and market disruptions;

WHEREAS, the automobile industry experienced a shortage in workers, necessary parts, and equipment, including vitally important computer chips;

WHEREAS, the unexpected challenges in new automobile production have led to a decreased supply of new automobiles, and a substantially increased demand for used automobiles;

WHEREAS, historically, used car values progressively decline over the life of the vehicle;

WHEREAS, because of the shift in demand, used car fair market values have increased over the last year an average of thirty-eight percent (38%);

WHEREAS, that increase is uncharacteristic and material, and is also expected to be short-lived;

WHEREAS, the majority of Poquoson citizens own and operate vehicles categorized in two distinct statutorily defined classes for valuation purposes;

WHEREAS, pursuant to Code of Virginia §58.1-3503(A)(3), the Commissioner of the Revenue must annually determine the fair market value of automobiles described therein by using a recognized pricing guide, or by a percentage of cost if an automobile is not in any such pricing guide;

WHEREAS, pursuant to Code of Virginia §58.1-3503(A)(4), the Commissioner of the Revenue must annually determine the fair market value of trucks of less than 2 tons described therein by using a recognized pricing guide, or by a percentage of cost if an automobile is not in any such pricing guide;

WHEREAS, those automobiles and trucks have historically been assessed at 100% of fair market value;

WHEREAS, Code of Virginia §58.1-3503(B), authorizes the Commissioner of the Revenue, with the concurrence of City Council, to apply an assessment ratio of less than 100% to one or more of the classes described in Code of Virginia §58.1-3503(A);

WHEREAS, the Commissioner of the Revenue and the City Council concur that due to the current circumstances, an assessment ratio of ninety percent (90%) shall be applied to the fair market value of each of those automobiles valued by the Commissioner in accordance with Code of Virginia §58.1-3503(A)(3), and each of those trucks of less than 2 tons valued in accordance with Code of Virginia §58.1-3503(A)(4), which are the classifications that include the majority of passenger vehicles driven by Poquoson citizens:

NOW THEREFORE, be it ordained by the City Council of the City of Poquoson, Virginia in concurrence with the Commissioner of the Revenue of the City of Poquoson, Virginia that, in accordance with Code of Virginia §58.1-3503(B), an assessment ratio of ninety percent (90%) shall be applied to all those automobiles valued by the Commissioner of the Revenue in accordance with Code of Virginia §58.1-3503(A)(3) and trucks of less than 2 tons valued in accordance with Code of Virginia §58.1-3503(A) (4) for the calendar tax year beginning January 1, 2022.

AND, be it further ordained that the assessment ratio adopted herein shall apply solely qualifying assessments for the calendar tax year beginning January 1, 2022, and no other.

Section 1: That this resolution shall become effective immediately upon adoption.

ADOPTED: _____

TESTE: _____

City Clerk