Response to Questions on the FY 2012 Budget

Request By: Supervisor McKay

Question: Explain why the level of delinquent collections is similar between Real Estate and Personal Property Taxes. Are there additional procedures that the County could be employing to increase the collection rate for the personal property tax?

Response: While the receipts from delinquent collections are similar between the two taxes, the collection rate is much higher for the Real Estate Tax. Real Estate Delinquent real estate tax collections for FY 2012 are estimated to be $9,691,914. This reflects an annual delinquency rate of approximately 0.39 percent and these taxes are then collected in subsequent years. Delinquent personal property tax collections for FY 2012 are estimated to be $9,293,588. This represents an annual delinquency rate of approximately 2.2 percent, and again these taxes are then collected in subsequent years. The FY 2012 delinquent collections are from unpaid taxes assessed in prior years.

Historical data for Real Estate and Personal Property Taxes show consistently high collection rates in the current year:

Real Estate Tax Collection Rates

Fiscal Year	Collection Rate		Fiscal Year	Collection Rate
1997	99.56%		**2005**	99.62%
1998	99.54%		**2006**	99.62%
1999	99.50%		**2007**	99.64%
2000	99.63%		**2008**	99.66%
2001	99.53%		**2009**	99.66%
2002	99.65%		**2010**	99.71%
2003	99.67%		**2011 (estimated)**	99.61%
2004	99.61%		**2012 (estimated)[1]**	99.61%

Personal Property Tax Collection Rates

Fiscal Year	Collection Rate		Fiscal Year	Collection Rate
1997	97.3%		**2005**	97.9%
1998	97.3%		**2006**	98.1%
1999	97.3%		**2007**	98.3%
2000	97.3%		**2008**	98.0%
2001	97.1%		**2009**	97.9%
2002	96.3%		**2010**	97.8%
2003	96.8%		**2011 (estimated)**	97.8%
2004	96.9%		**2012 (estimated)[1]**	97.8%

Given the severe economic downturn over the last couple of years, the fact that the Personal Property collection rate has continued to remain near 98 percent is excellent.

Unlike real estate, personal property is mobile and taxes are not escrowed as part of mortgage payments. Also, real estate taxes are required to be paid at settlement upon sale of the property (i.e., the tax liability is a lien on the land). This is not the case with vehicle sales (i.e., the tax liability is with the individual owner, not with the property itself). Also, when real estate owners fail to pay their taxes, mortgage companies are often apt to pay the lien to avoid real estate auctions. This is seldom the case with vehicles. All of these factors help explain why 97.8 percent is a strong collection rate for personal property, whereas real estate rates exceed 99 percent.

The County already utilizes all collection tools authorized by Virginia law to collect Personal Property Taxes. In addition to sending delinquent tax bills, the Department of Tax Administration (DTA) uses a broad array of collection tools such as issuing bank liens, wage liens, boot and tow seizures, state income tax set-off, DMV holds, court judgments and vehicle auctions.

As part of the FY 2010 Lines of Business, the Board outsourced collections to DTA's private collection agency under the close supervision of DTA. This process is working extremely well and high collection rates have been maintained. The agent also uses outbound telephone call technology along with substantial skip trace capabilities.

Additionally, DTA charges a $30 administrative fee for the collection of personal property delinquencies which helps defray the impact of these liabilities. In FY 2012 for example, this $30 administrative fee is estimated to generate $1.48 million in General Fund revenue. This is in addition to the $9.29 million delinquent personal property tax collections and is reflected in Fines and Forfeitures.

If the Governor signs legislation currently proposed by the General Assembly (HB 1425), DTA will be able to place unpaid accounts with its collection agent within three months of being delinquent. Current law says accounts must be delinquent for at least six months before being placed. While DTA works these accounts during the first six months, earlier placement may help further increase collection efficiency.