
2009 FINANCE POLICY STATEMENT

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2

3 VML expects the state to honor its
4 commitments to local governments.
5 Unfunded mandates and limits on local
6 taxing authority hinder local ability to
7 provide appropriate services.

8
9 **STATE-LOCAL TAX STRUCTURE**
10 The state and local tax structure must be
11 able to sustain core government
12 responsibilities. Financially healthy
13 local governments are a key component
14 of any strategy to compete in the global
15 marketplace.

16
17 We are fortunate that Virginia is a
18 relatively low-tax state. Various
19 statistical rankings rate Virginia's state
20 and local tax burden as low to moderate.
21 [Note: For example, 2005
22 CNN/Money.com ranks Virginia 34th in
23 state/local taxes as a percentage of per
24 capita income.]

25
26 **Problems with the Current Structure**
27 A major problem from the local
28 government vantage point is that the
29 existing tax structure makes local
30 governments overly dependent on the
31 real estate tax. It is the only major un-
32 restricted local revenue source.

33
34 Unfunded and underfunded state
35 mandates and commitments place further
36 burdens on local governments and the
37 real estate tax.

38
39 In addition, service demands are
40 increasing in a number of services that
41 are shared by the state and its localities,
42 including school construction, education
43 technology, mental health and other
44 human services programs, juvenile
45 programs and environmental initiatives.

46 There is also increasing demand for
47 those services that are primarily funded
48 by local governments, such as police and
49 fire, anti-terrorism efforts and
50 emergency preparedness. Older
51 localities have many additional needs,
52 including aging infrastructure, and
53 human and public safety services related
54 to high levels of poverty. High growth
55 localities must try to stay ahead of the
56 curve in new infrastructure needs.

57
58 On a broader level, other factors are
59 changing beyond the borders of our state
60 that affect our abilities to raise revenues
61 and provide services:

- 62 • Federal tax changes impact many
63 state and local taxes, especially
64 in the areas of Internet sales and
65 telecommunications.
- 66 • Our country has moved from a
67 goods-based to a service-based
68 economy, while our tax system
69 continues to reflect the old
70 economies.
- 71 • The aging of our citizens will
72 have big impacts on government
73 services, and (through tax
74 exemption for the elderly) on
75 government revenues.
- 76 • Global changes have adversely
77 affected many of our state's
78 traditional economies, including
79 manufacturing, agriculture, and
80 mining, and the energy crisis will
81 impact our economy in a myriad
82 of ways that we cannot yet fully
83 assess.

84 **Solutions**

85 The state cannot ignore the national and
86 global changes that affect our economy.
87 At some point, the state will have to
88 address these changes and their
89

1 ramifications on the state’s tax system.
2 In the short term; however, to assist local
3 governments’ current problems, the state
4 should dedicate more general funds to
5 local governments, provide more
6 funding to meet state mandates or
7 commitments, or provide new local
8 taxing authority.

9
10 **Tax Principles**

11 In general, VML believes that a good
12 state-local tax structure should:
13 • be a system that sustains the-finances
14 of both local and state government
15 and ensures sufficient resources to
16 local governments for core
17 responsibilities;
18 • diversify revenue sources over broad
19 bases. State-local tax policy should
20 balance the amount of revenue
21 generated by the taxation of assets
22 (property), consumption (sales), and
23 income;
24 • ensure equity among taxpayers;
25 • raise revenue efficiently, minimize
26 compliance costs for taxpayers, and
27 guarantee ease of administration;
28 • be accountable; i.e. actions affecting
29 tax policy or rates must be made in a
30 public manner;
31 • allow local control to develop tax
32 policies that recognize each
33 individual community’s economy,
34 demographics, and demands for
35 services;
36 • recognize and account for economic
37 competitiveness with other regions,
38 states, and countries – develop fair
39 and equitable tax policies; and
40 refrain from enacting tax policies
41 that are too generous for one group,
42 thereby placing an undue tax burden
43 on other individuals, business or
44 industries.
45 • Changes by the state government to
46 local tax systems should be simple to

47 administer and at a minimum
48 revenue neutral.
49
50 Consistent with the goals of an equitable
51 and simple tax structure, the number of
52 state and local tax exemptions should be
53 minimal, and the decision to grant tax
54 exemptions should take into account
55 both the intended benefit and the amount
56 of revenue foregone. The state should
57 not mandate tax relief programs using
58 local revenues. Any tax relief program
59 adopted by the state should address taxes
60 raised by the state.
61
62 Although VML supports the overarching
63 goal of the national Streamlined Sales
64 Tax Project agreement (the collection of
65 the sales and use tax on remote sales,
66 including Internet sales), the League
67 opposes efforts to convert intrastate sales
68 tax collections from a point-of-sale basis
69 to a point-of-delivery basis.
70
71 The national Streamlined Sales Tax
72 Project agreement is intended to
73 establish a unified method for local and
74 state governments to collect sales and
75 use tax revenue from interstate retail
76 purchases (remote sales). The
77 remittance of the sales and use tax on
78 remote sales in the commonwealth will
79 generate an additional and estimated
80 \$200 million in annual tax collection
81 sources. However, the model agreement
82 calls on states to adopt a point-of-
83 delivery model.
84
85 VML supports efforts to ensure that
86 revenues resulting from the restructuring
87 of telecommunications taxes are at least
88 equal to the revenues local governments
89 received prior to the restructuring.
90

1 **LOCAL REVENUE ISSUES**

2 Local governments must retain control
3 of their existing revenue sources so that
4 they have a reliable revenue base to meet
5 the needs of their citizens. To ensure the
6 stability and long-term viability of
7 Virginia’s local governments and to
8 reduce their reliance on the real estate
9 tax, the state must broaden the revenue
10 sources available to local governments.
11 Viable options include a portion of the
12 state income tax, a local option income
13 tax, an increase in the local option sales
14 tax rate, a reduction in the number of
15 sales tax exemptions, an expansion of
16 the sales tax and a reduction in the
17 number of exemptions from the business
18 license tax.

19
20 Local control of revenue sources is
21 essential in light of local governments’
22 historical experience with state funding
23 commitments. A prime example is the
24 state’s past failure to meet its
25 commitment to the annexation
26 agreement that produced the HB 599
27 program, which distributes state funds to
28 localities with police departments. Over
29 time the cumulative deficit in this
30 program grew to a total of about \$500
31 million. Other areas of inadequate state
32 funding include education, funding for
33 constitutional officers, and juvenile
34 block grant funding.

35
36 The General Assembly should not
37 reduce or restrict local government
38 taxing authority. This includes:

- 39 • the elimination or restriction of any
40 local taxing authority;
- 41 • the imposition of caps or other
42 restrictions on existing local revenue
43 sources,
- 44 • any reduction or restriction of local
45 government’s authority to tax
46 property, or

- 47 • the repeal or restriction of the BPOL
48 tax.

49
50 The Virginia Constitution has granted
51 local governments certain taxing
52 authority. This should not be changed
53 without equivalent replacement authority
54 also granted through the Constitution.
55 For example, it is not acceptable to
56 repeal local authority to levy the
57 personal property tax, and replace it with
58 taxing authority or state aid that is not
59 Constitutionally-protected.

60
61 E911 services require reliable, adequate
62 revenue to ensure the public’s safety.
63 Taxes and fees levied for these services
64 should be used only for them.

65
66 State and federal governments should
67 make payments-in-lieu-of-taxes for tax-
68 exempt state and federal properties
69 located within a locality, in an amount at
70 least equal to the cost of services
71 provided. The property tax base of
72 several Virginia localities is seriously
73 eroded by government-owned property
74 within the locality.

75
76 Counties should be granted taxing
77 powers equal to those granted cities and
78 towns, without decreasing, limiting or
79 changing town taxing authority. County
80 excise taxes must not be levied on town
81 residents without the explicit approval
82 by the town’s governing body.

83
84 The formula for distributing sales tax to
85 towns should be re-evaluated.
86 Alternatives to the current method,
87 which is based on school-age population,
88 should be considered. The alternatives
89 evaluated should include use of total
90 population figures and point-of-sale
91 information. The Department of
92 Taxation should be asked to reconsider

1 the feasibility of tracking sales tax data
2 at the town level, in light of
3 technological improvements that have
4 occurred since this issue was last
5 considered.

6
7 VML opposes legislation limiting the
8 authority of local governments to impose
9 local taxes, such as local sales and use
10 taxes on tobacco products and
11 machinery and tools taxes.

12
13 VML opposes the imposition of new
14 federal or state mandates for service
15 provisions or administrative functions
16 without full federal or state funding.
17 VML proposes that the state fund 100
18 percent of the required costs associated
19 with certain mandated programs
20 including the Comprehensive Services
21 Act, constitutional officers, the operation
22 of juvenile detention centers, and the
23 construction and operation of jails.

24
25 Further, VML opposes the shifting of
26 costs to local governments through
27 continued under-funding, reduction, or
28 elimination of program and service
29 needs.

30
31 **Real estate taxes**

32 VML supports the current constitutional
33 requirement for fair market valuation of
34 property.

35
36 Any changes to the real estate tax must
37 be “local option” (adopted at the
38 discretion of the local governing body).
39 Local officials must bear the
40 responsibility for providing adequate
41 services; therefore, they should be able
42 to control the revenues to do so.

43
44 VML urges the timely adoption of
45 measures that can help to provide local
46 governments with tax flexibility.

47 VML supports legislation allowing for
48 the establishment of residential and non-
49 residential as separate classifications of
50 property, for purposes of taxation.

51
52 The processes for the setting of real
53 estate tax rates and budget development
54 and adoption already include ample
55 opportunity for public participation.

56
57 The processes for the setting of real
58 estate tax rates and the development and
59 approval of budgets currently are
60 integrated. The current processes
61 followed by local governments work,
62 and are effective in involving the public
63 and ensuring efficient tax administration.
64 Changes to these processes cannot be
65 addressed separately without placing
66 undue hardship and increased costs on
67 local governments and, ultimately, on
68 local taxpayers. Changes to any of these
69 processes should be simple to administer
70 and not contradict, impede or hinder the
71 others.

72
73 **Funding for Local Police Departments**
74 **(599 Program)**

75 VML urges continued state financial
76 support of the 599 program in
77 accordance with the provisions set out in
78 the *Code of Virginia*.

79
80 VML supports provisions set out in the
81 *Code of Virginia* and the Appropriations
82 Act requiring police departments to meet
83 minimum law enforcement standards
84 promulgated by the Virginia Department
85 of Criminal Justice Services.

86
87 **STATE BUDGET ISSUES**

88 If Virginia is to remain a competitive
89 state and an attractive place for
90 economic development, it must invest
91 the resources necessary to educate its
92 citizens, build a sound infrastructure,

1 and provide for the basic needs of the
2 less fortunate. For these reasons, the
3 state should strategically invest its
4 resources in:
5
6 • funding that reflects the prevailing
7 practices across the state, and the
8 actual costs to educate Virginia’s
9 children, including the cost to
10 educate at-risk students, students in
11 jeopardy of failing the state’s
12 Standards of Learning tests, and
13 students with special needs; school
14 construction, renovation, and
15 maintenance;
16 • The state should fully recognize and
17 fund the costs of rebenchmarking of
18 the various educational programs
19 including the Standards of Quality,
20 incentive, categorical, and school
21 facilities programs. Changing the
22 process of rebenchmarking to
23 artificially lower recognized costs
24 does not change what it actually
25 costs to provide education. Instead,
26 it simply transfers additional costs to
27 local governments, and ultimately to
28 the local real estate tax base.
29 • technology for elementary and
30 secondary education;
31 • Comprehensive Services Act and
32 other mandated human services
33 programs; and,
34 • funding for all modes of
35 transportation including highways,
36 public transportation, ports, freight
37 and passenger rail, and airports.
38
39 The Governor and General Assembly
40 should recognize the full cost of state-
41 mandated programs and new initiatives
42 when they adopt a biennial budget. This
43 includes teacher salary increases,

44 projected changes in student enrollment,
45 anticipated per diem reimbursements for
46 local jails, and the operating and capital
47 costs of facilities such as juvenile
48 detention homes.
49
50 State funds to local governments should
51 be allocated on a fair and equitable basis.
52 The special needs of both high-growth
53 and fiscally stressed localities must be
54 recognized in such allocations.
55
56 State funding to cities and towns for law
57 enforcement and street maintenance
58 should be equivalent to the state funding
59 or services provided to counties for these
60 services.
61
62 The state should provide timely
63 information to local governments
64 regarding the amount of funding for
65 state-shared programs and any related
66 local match requirements that must be
67 met. The timing of such information
68 should take into account local budget
69 cycles. The state should also ensure
70 expedited reimbursements to local
71 governments.
72
73 VML supports state aid in recognition of
74 extreme economic displacement or
75 disaster, patterned after aid that is
76 available in the wake of natural
77 disasters.
78
79 The goal of the Regional
80 Competitiveness Program is to foster
81 important regional initiatives to the
82 benefit of the state, its regions and its
83 individual localities. VML supports
84 state funding to achieve the goals of the
85 Regional Competitiveness Program.