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## 2012 FINANCE POLICY STATEMENT

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### 1 **Goals and Principles**

2 The state and local tax structures must be  
3 able to sustain core government  
4 responsibilities, providing resources for  
5 mandated and high-priority services in the  
6 most efficient and effective ways possible.

7  
8 To that end, these principles are essential:

- 9 • Local revenue sources should be  
10 balanced and diversified over three  
11 broad bases – assets (property),  
12 consumption (sales), and income;
- 13 • The local tax system should be logical  
14 and professionally administered.  
15 Taxpayers should be treated fairly, and  
16 compliance costs should be  
17 minimized;
- 18 • The burden of taxation, as well as the  
19 benefits of services, should be shared  
20 and enjoyed by all whether they are  
21 residents or local businesses.
- 22 • Tax policy should recognize the  
23 different economic, demographic, and  
24 service demands among localities, and  
25 should foster local control to develop  
26 tax policies best suited for their  
27 communities;
- 28 • Tax policy should recognize and be  
29 responsive to the competitive nature of  
30 the free market, should refrain from  
31 enacting policies that are too generous  
32 for one group, and should not place  
33 undue burdens on particular groups,  
34 including business and industry;
- 35 • State-imposed changes on local tax  
36 structures should be simple to  
37 administer and, at a minimum, be  
38 revenue neutral; and
- 39 • State-mandated tax relief programs  
40 should not use local revenues. State-  
41 adopted tax relief programs should rely  
42 only on state revenues.

43

### 44 **Fiscal Challenges Confronting Local 45 Governments**

- 46 • The existing local tax structure is  
47 overly dependent upon general  
48 property taxes, specifically real estate  
49 taxes.
- 50 • Unfunded and inadequately funded  
51 state mandates and commitments strain  
52 local government budgets and place  
53 additional pressures on the real estate  
54 tax. State-initiated services and  
55 programs should be supported by state  
56 funds, not rely on local funds to  
57 supplant state dollars.
- 58 • Public demands for public services  
59 continue to increase. These services  
60 include education, mental health, other  
61 human services programs, juvenile  
62 programs, environmental initiatives,  
63 economic development, recreation, and  
64 public safety. These services have  
65 both operating and capital costs.
- 66 • Local revenue collections and service  
67 demands are also influenced by  
68 variables outside the control of  
69 councils and boards of supervisors.  
70 These include changes in federal tax,  
71 budget, and fiscal policies; long-term  
72 economic trends; the aging of our  
73 citizens; and global events.

### 75 **Strengthening the Local Tax Base**

76 Depending on the particulars of any given  
77 proposal, possible options to broaden local  
78 tax bases include reserving a portion of the  
79 state income tax for locally-delivered  
80 programs, authorizing a local option income  
81 tax for both general and special purposes,  
82 increasing the local option sales tax rate,  
83 reducing the number of sales tax  
84 exemptions, expanding the sales tax base,  
85 and reducing the number of exemptions  
86 from the business license tax.

1  
2 The state can also take actions to prevent the  
3 further erosion of local revenues **by not**  
4 restricting local tax authority, imposing new  
5 spending requirements or expanding existing  
6 ones on services delivered by local  
7 governments, shifting state funding  
8 responsibilities onto local governments,  
9 expanding retirement benefits, and placing  
10 administrative burdens on local governments  
11 for state or joint programs.

### 12 **Specific Tax Issues**

13 VML opposes the repeal or restriction of  
14 BPOL, machinery and tools, or excise taxes  
15 unless, at a minimum, suitable revenue-  
16 neutral replacement sources are provided.

17  
18  
19 The state and federal government should  
20 make payments-in-lieu-of-taxes for tax-  
21 exempt properties in amounts equal to the  
22 cost of the local services provided.

23  
24 Counties should be granted taxing powers  
25 equal to those granted cities and towns,  
26 without decreasing, limiting or changing  
27 town taxing authority. County excise taxes  
28 must not be levied on town residents without  
29 the explicit approval by a town's governing  
30 body.

31  
32 VML supports the constitutional  
33 requirement for fair market valuation of  
34 property. State-imposed changes to the real  
35 estate tax must be "local option."

36  
37 VML supports current state statutory  
38 requirements governing the setting of real  
39 estate tax rates and the integration of this  
40 process with the budget development  
41 process. Changes to these processes cannot  
42 be addressed separately without placing  
43 undue hardship and increased costs on local  
44 taxpayers. Any future state legislative  
45 change should be simple to administer and  
46 not contradict, impede or hinder the others.

47 The communication sales and use tax is a  
48 local tax and should be treated as such.

### 49 **Specific Budget Issues**

50 VML urges full state financial support of the  
51 '599' program in accordance with the  
52 provisions set out in state law. This  
53 program is important to local police  
54 departments throughout the Commonwealth.

55  
56  
57 The state must be a reliable funding partner  
58 in accordance with the Virginia Constitution  
59 and state statutes. The Standards of Quality  
60 should recognize the resources, including  
61 positions, required for a high-quality public  
62 education system. The SOQ should reflect  
63 prevailing practices across the state, and the  
64 actual costs to educate Virginia's children.  
65 This includes the cost to educate at-risk  
66 students, students in jeopardy of failing the  
67 state's Standards of Learning tests, students  
68 with special needs, and school  
69 construction/renovation/maintenance.

70  
71 The state should fully recognize and fund  
72 the costs of re-benchmarking of the various  
73 educational programs, including the  
74 Standards of Quality, incentive, categorical,  
75 and school facilities programs as well as  
76 support services. Changing the process of  
77 re-benchmarking to artificially lower  
78 recognized costs like inflation does not  
79 change what it actually costs to provide  
80 education. Instead, it simply transfers  
81 additional costs to local governments and  
82 the real estate tax base.

83  
84 The state should provide sufficient funding  
85 for highway construction and maintenance,  
86 public transportation infrastructure and  
87 maintenance, ports, airports, and freight and  
88 passenger rail to promote economic  
89 development and public safety.

90  
91 The state should refrain from the practice of  
92 under-funding retirement rates. VML

1 supports continued study of the  
2 sustainability and desirability of the defined  
3 benefit retirement plan.

4  
5 VML supports transparency in budgeting at  
6 both the state and local level. To that effect,  
7 the state should not disguise its budget  
8 reductions by using unidentified or non-  
9 specific reductions for aid to localities. The  
10 current practice of including unspecified,  
11 across the board cuts in state aid to localities  
12 forces local governing bodies to assume the  
13 General Assembly's responsibility for  
14 cutting the state budget.

15  
16 As a matter of fiscal reform, the state should  
17 develop financial priorities that take into  
18 account both spending and revenue actions.  
19 The debate on such priorities should be  
20 public, and should be transparent to the  
21 public in the Governor's Budget Bill and the  
22 General Assembly's Appropriation Act. For

23 example, should education funding be  
24 afforded less priority than certain tax  
25 preferences?

26

### 27 **Government Reform**

28 VML supports a comprehensive review of  
29 the services provided by state and local  
30 governments. The purpose of the review is  
31 to ascertain which services are truly  
32 essential to support a productive economy  
33 and healthy society; determine the  
34 performance level of public services now in  
35 place; evaluate the policies and practices  
36 used by the state to assign responsibility and  
37 accountability between the state and local  
38 governments for providing public services;  
39 and determine the most effective, efficient  
40 and equitable ways to fund essential public  
41 services. Such a review must start with a  
42 dialog including state and local officials,  
43 business interests, academia, and other  
44 interested parties.

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## 2011 FINANCE POLICY STATEMENT

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*Essential components of this statement are included in the proposed 2012 policy statement. The steering committee asked that the statement be rewritten to be more concise and direct; the policy committee adopted the new statement. This old statement would be deleted.*

~~VML expects the state to honor its commitments to local governments. Unfunded mandates and limits on local taxing authority hinder local ability to provide appropriate level of services.~~

### ~~STATE-LOCAL TAX STRUCTURE~~

~~The state and local tax structure must be able to sustain core government responsibilities. Financially healthy local governments are a key component of any economic development strategy to compete in the global marketplace.~~

~~We are fortunate that Virginia is a relatively low-tax state. Various statistical rankings rate Virginia's state and local tax burden as low to moderate. [Note: For example, according to an 2010 JLARC report, Virginia ranks # 46 in terms of state and local revenue as a percentage of personal income. The state, itself, is ranked 39<sup>th</sup> in state revenue as a percentage of personal income.]~~

### ~~Problems with the Current Structure~~

~~A major problem from the local government vantage point is that the existing tax structure makes local governments overly dependent on the real estate tax. It is the only major unrestricted local revenue source. Unfunded and underfunded state mandates and commitments place further burdens on local governments and the real estate tax.~~

~~In addition, service demands are increasing in a number of services that are shared by the state and its localities, including school construction, education technology, mental health and other human services programs, juvenile programs and environmental initiatives. There is also increasing demand for those services that are primarily funded by local governments, such as police and fire, anti-terrorism efforts and emergency preparedness. Older localities have many additional needs, including aging infrastructure, and human and public safety services related to high levels of poverty. High growth localities must try to stay ahead of the curve in new infrastructure needs.~~

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

- ~~• Federal tax changes impact many state and local taxes, especially in the areas of Internet sales and telecommunications.~~
- ~~• Our country has moved from a goods-based to a service-based economy, while our tax system continues to reflect the old economies.~~
- ~~• The aging of our citizens will have big impacts on government services, and (through tax exemption for the elderly) on government revenues.~~
- ~~• Global changes have adversely affected many of our state's traditional economies, including~~

1 manufacturing, agriculture, and  
2 mining, and the energy crisis will  
3 impact our economy in a myriad  
4 of ways that we cannot yet fully  
5 assess.

### 6 **Solutions**

8 The state cannot ignore the national and  
9 global changes that affect our economy.  
10 At some point, the state will have to  
11 address these changes and their  
12 ramifications on the state's tax system.  
13 In the short term; however, to assist local  
14 governments' current problems, the state  
15 should either provide more funding to  
16 meet state mandates or commitments, or  
17 provide new local taxing authority.

### 19 **Tax Principles**

20 In general, VML believes that a good  
21 state local tax structure should:  
22 •—be a system that sustains the finances  
23 of both local and state government  
24 and ensures sufficient resources to  
25 local governments for core  
26 responsibilities;  
27 •—diversify revenue sources over broad  
28 bases. State local tax policy should  
29 balance the amount of revenue  
30 generated by the taxation of assets  
31 (property), consumption (sales), and  
32 income;  
33 •—ensure equity among taxpayers;  
34 •—raise revenue efficiently, minimize  
35 compliance costs for taxpayers, and  
36 guarantee ease of administration;  
37 •—be accountable; i.e. actions affecting  
38 tax policy or rates must be made in a  
39 public manner;  
40 •—allow local control to develop tax  
41 policies that recognize each  
42 individual community's economy,  
43 demographics, and demands for  
44 services;  
45 •—recognize and account for economic  
46 competitiveness with other regions;

47 states, and countries—develop fair  
48 and equitable tax policies; and  
49 refrain from enacting tax policies  
50 that are too generous for one group,  
51 thereby placing an undue tax burden  
52 on other individuals, business or  
53 industries.

54 •—Changes by the state government to  
55 local tax systems should be simple to  
56 administer and at a minimum  
57 revenue neutral.

58  
59 Consistent with the goals of an equitable  
60 and simple tax structure, the number of  
61 state and local tax exemptions should be  
62 minimal, and the decision to grant tax  
63 exemptions should take into account  
64 both the intended benefit and the amount  
65 of revenue foregone. The state should  
66 not mandate tax relief programs using  
67 local revenues. Any tax relief program  
68 adopted by the state should address taxes  
69 raised by the state.

70  
71 Although VML supports the overarching  
72 goal of the national Streamlined Sales  
73 Tax Project agreement (the collection of  
74 the sales and use tax on remote sales,  
75 including Internet sales), the League  
76 opposes efforts to convert intrastate sales  
77 tax collections from a point of sale basis  
78 to a point of delivery basis.

79  
80 The national Streamlined Sales Tax  
81 Project agreement is intended to  
82 establish a unified method for local and  
83 state governments to collect sales and  
84 use tax revenue from interstate retail  
85 purchases (remote sales). The  
86 remittance of the sales and use tax on  
87 remote sales in the commonwealth will  
88 generate additional annual tax  
89 collections. However, VML opposes  
90 any model agreement that calls on states  
91 to adopt a point of delivery model.

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 Possible options include reserving a  
12 portion of the state income tax,  
13 implementing a local option income tax,  
14 increasing the local option sales tax rate,  
15 reducing the number of sales tax  
16 exemptions, expanding the sales tax base  
17 and reducing the number of exemptions  
18 from the business license tax.  
19  
20 Local control of revenue sources is  
21 essential in light of the state's wavering  
22 funding commitments to pay for core  
23 public education and public safety  
24 services, constitutional officers, and  
25 juvenile block grant funding.  
26  
27 The General Assembly should not  
28 reduce or restrict local government  
29 taxing authority. This includes:  
30 • the elimination or restriction of any  
31 local taxing authority;  
32 • the imposition of caps or other  
33 restrictions on existing local revenue  
34 sources;  
35 • any reduction or restriction of local  
36 government's authority to tax  
37 property, or  
38 • the repeal or restriction of the BPOL  
39 tax.  
40  
41 The Virginia Constitution has granted  
42 local governments certain taxing  
43 authority. This should not be changed  
44 without equivalent replacement authority  
45 also granted through the Constitution.  
46 For example, it is not acceptable to

47 repeal local authority to levy the  
48 personal property tax, and replace it with  
49 taxing authority or state aid that is not  
50 Constitutionally protected.  
51  
52 E911 services require reliable, adequate  
53 revenue to ensure the public's safety.  
54 Taxes and fees levied for these services  
55 should be used only for them.  
56  
57 State and federal governments should  
58 make payments in lieu of taxes for tax-  
59 exempt state and federal properties in an  
60 amount at least equal to the cost of  
61 services provided. The property tax base  
62 of several Virginia localities is seriously  
63 eroded by government-owned property  
64 within the locality.  
65  
66 Counties should be granted taxing  
67 powers equal to those granted cities and  
68 towns, without decreasing, limiting or  
69 changing town taxing authority. County  
70 excise taxes must not be levied on town  
71 residents without the explicit approval  
72 by the town's governing body.  
73  
74 The formula for distributing sales tax to  
75 towns should be re-evaluated. The  
76 alternatives evaluated should include use  
77 of total population figures and point-of-  
78 sale information. The Department of  
79 Taxation should be asked to reconsider  
80 the feasibility of tracking sales tax data  
81 at the town level, in light of ever-  
82 improving information technologies.  
83  
84 VML opposes legislation limiting the  
85 authority of local governments to impose  
86 local taxes, such as local sales and use  
87 taxes on tobacco products and  
88 machinery and tools taxes.  
89  
90 VML opposes the imposition of new  
91 federal or state mandates for service  
92 provisions or administrative functions

1 without full federal or state funding.  
2 VML proposes that the state fund 100  
3 percent of the required costs associated  
4 with certain mandated programs  
5 including the Comprehensive Services  
6 Act, constitutional officers, the operation  
7 of juvenile detention centers, and the  
8 construction and operation of jails.

9  
10 Further, VML opposes the shifting of  
11 costs to local governments through state  
12 actions to under fund, reduce, or  
13 eliminate state imposed programs and  
14 services.

### 16 Real estate taxes

17 VML supports the current constitutional  
18 requirement for fair market valuation of  
19 property.

20  
21 Any changes to the real estate tax must  
22 be “local option” (adopted at the  
23 discretion of the local governing body).  
24 Local officials must bear the  
25 responsibility for providing adequate  
26 services; therefore, they should be able  
27 to control the revenues to do so.

28  
29 VML urges the timely adoption of state  
30 measures that can help to provide local  
31 governments with tax flexibility.

32  
33 The processes for the setting of real  
34 estate tax rates and budget development  
35 and adoption already include ample  
36 opportunity for public participation.

37  
38 The processes for the setting of real  
39 estate tax rates and the development and  
40 approval of budgets currently are  
41 integrated. The current processes  
42 followed by local governments work,  
43 and are effective in involving the public  
44 and ensuring efficient tax administration.  
45 Changes to these processes cannot be  
46 addressed separately without placing

47 undue hardship and increased costs on  
48 local governments and, ultimately, on  
49 local taxpayers. Changes to any of these  
50 processes should be simple to administer  
51 and not contradict, impede or hinder the  
52 others.

### 54 Funding for Local Police Departments 55 (599 Program)

56 VML urges full state financial support of  
57 the 599 program in accordance with the  
58 provisions set out in the *Code of*  
59 *Virginia*.

60  
61 VML supports provisions set out in the  
62 *Code of Virginia* and the Appropriations  
63 Act requiring police departments to meet  
64 minimum law enforcement standards  
65 promulgated by the Virginia Department  
66 of Criminal Justice Services.

### 68 STATE BUDGET ISSUES

69 If Virginia is to remain a competitive  
70 state and an attractive place for  
71 economic development, it must invest  
72 the resources necessary to educate its  
73 citizens, build a sound infrastructure,  
74 and provide for the basic needs of the  
75 less fortunate. For these reasons, the  
76 state should strategically invest its  
77 resources in:

- 78
- 79 •—funding that reflects the prevailing  
80 practices across the state, and the  
81 actual costs to educate Virginia’s  
82 children, including the cost to  
83 educate at-risk students, students in  
84 jeopardy of failing the state’s  
85 Standards of Learning tests, and  
86 students with special needs; school  
87 construction, renovation, and  
88 maintenance;
- 89 •—The state should fully recognize and  
90 fund the costs of rebenchmarking of  
91 the various educational programs  
92 including the Standards of Quality,

1 incentive, categorical, and school  
2 facilities programs as well as support  
3 services. Changing the process of  
4 rebenchmarking to artificially lower  
5 recognized costs does not change  
6 what it actually costs to provide  
7 education. Instead, it simply  
8 transfers additional costs to local  
9 governments, and ultimately to the  
10 local real estate tax base.

- 11 • technology for elementary and  
12 secondary education;
- 13 • Comprehensive Services Act and  
14 other mandated human services  
15 programs; and,
- 16 • funding for all modes of  
17 transportation including highways,  
18 public transportation, ports, freight  
19 and passenger rail, and airports.

20

21 The Governor and General Assembly  
22 should recognize the full cost of state-  
23 mandated programs and new initiatives  
24 when they adopt a biennial budget. This  
25 includes teacher salary increases,  
26 projected changes in student enrollment,  
27 anticipated per diem reimbursements for  
28 local jails, and the operating and capital  
29 costs of facilities such as juvenile  
30 detention homes.

31

32 State funds to local governments should  
33 be allocated on a fair and equitable basis.  
34 The special needs of both high-growth  
35 and fiscally stressed localities must be  
36 recognized in such allocations.

72

37

38 State funding to cities and towns for law  
39 enforcement and street maintenance  
40 should be equivalent to the state funding  
41 or services provided to counties for these  
42 services.

43

44 The state should provide timely  
45 information to local governments  
46 regarding the amount of funding for  
47 state-shared programs and any related  
48 local match requirements that must be  
49 met. The timing of such information  
50 should take into account local budget  
51 cycles. The state should also ensure  
52 expedited reimbursements to local  
53 governments.

54

55 VML supports state aid in recognition of  
56 extreme economic displacement or  
57 disaster, patterned after aid that is  
58 available in the wake of natural  
59 disasters.

60

61 VML has grave concerns over the  
62 underfunding of the Virginia Retirement  
63 System. The General Assembly should  
64 refrain from the practice of underfunding  
65 retirement rates. Further, VML believes  
66 that despite the changes in retirement  
67 adopted in 2010, there will need to be  
68 continued study of the sustainability and  
69 desirability of the defined benefit  
70 retirement plan.

71