



BETTER COMMUNITIES THROUGH SOUND GOVERNMENT

2025 2026 Finance Policy Statement

As we continue to move another year away from the start of an unprecedented and devastating worldwide pandemic, local governments continue to navigate the road back to “normalcy.”

That path has become rocky as the federal government embarks upon unprecedented changes in the scope and financing of its own operations and resets its fiscal relationship with state and local governments, creating unknown challenges for cities, counties, and towns in Virginia.

To maximize the ability of state and local officials to navigate these uncharted financial waters, it’s imperative that state officials provide as much specific information as possible to inform the development of a viable and affordable fiscal plan in the years ahead. (EXPLANATION => Updates context to reflect current economic environment.)

~~The pandemic not only wreaked havoc on the lives of the citizens in our communities, it also fundamentally disrupted aspects of our economy, including employment, housing, and revenues just to name a few.~~

~~The assistance of much-needed federal funding, provided by two successive administrations, helped to mitigate the damage inflicted on our communities. But that temporary aid also contributed to inflationary pressures that were compounded by pent-up demand for goods and services as well as global supply chain issues. This unexpected rise in inflation contributed to additional challenges that local governments must face related to employee compensation, the cost of providing public services, and completion of capital projects.~~

~~During this time of economic recovery, it’s imperative that cities, counties, and towns, be afforded the latitude to address long-standing and emerging issues without the burden of additional state mandates or red tape. (EXPLANATION => Removes outdated language.)~~

To that end, these principles are essential:

- Local government representatives should be included on any “blue ribbon” commission or other body established by the state that has as its purpose changes to state and local revenue authority or governance.
- State-imposed changes to local tax structures should account for disparate impacts in localities, be simple to administer and revenue neutral to local governments.
- State-mandated tax relief programs should rely upon state dollars and not local revenues

1 to implement.

- 2 • The State should refrain from creating additional mandatory real estate tax relief
- 3 programs until the General Assembly quantifies the current cost of tax relief programs
- 4 and unless it is willing to pay for the cost of the programs.
- 5 • Local revenue sources should be balanced and diversified over three broad bases – assets
- 6 (property), consumption (sales), and income.
- 7 • The local tax system should be logical and professionally administered. Taxpayers should
- 8 be treated fairly, and compliance costs should be minimized.
- 9 • The burden of taxation, as well as the benefits of services, should be shared and enjoyed
- 10 by all whether they are residents or local businesses.
- 11 • Tax policy should recognize the different economic, demographic, and service demands
- 12 among localities, and should foster local control to develop tax policies best suited for
- 13 their communities.
- 14 • Tax policy should recognize and be responsive to the competitive nature of the free
- 15 market, should refrain from enacting policies that are too generous for one group, and
- 16 should not place undue burdens on particular groups, including business and
- 17 manufacturers.
- 18 • Local tax dollars should not be claimed by the state to cover the Commonwealth's
- 19 revenue needs. This includes, but is not limited to, local fines and forfeitures, recordation
- 20 fees, and revenues tied to the Communications Sales and Use Tax.
- 21 • Any legislation with local fiscal impact should be introduced no later than the first week
- 22 of a General Assembly session. Such legislation should be pre-filed prior to the
- 23 convening of a regular session.

24

25 **FISCAL CHALLENGES CONFRONTING LOCAL GOVERNMENTS**

26 The existing local tax structure is overly dependent upon general property taxes, specifically real
27 estate taxes, which are regressive to many taxpayers. Local governments should be given the
28 opportunity to diversify their revenue base to address needs identified in their communities (i.e.,
29 a one percent local option sales tax for school renovations and construction).

30
31 Unfunded and inadequately funded state mandates and commitments strain local government
32 budgets and place additional pressures on the real estate tax. State-initiated services and
33 programs should be supported by state funds, and not rely on local funds to supplant state
34 dollars. Line of Duty benefits for First Responders is one such example.

35
36 Demands for public services continue to increase. These services include education, behavioral
37 health, other human services programs, juvenile programs, environmental initiatives, economic
38 development, recreation, and public safety. These services have both operating and capital costs
39 and must be funded.

40
41 Local revenue collections and service demands are also influenced by variables outside the
42 control of councils and boards of supervisors. These include changes in state and federal tax
43 policy; state and federal budget decisions; local economic conditions and long-term economic
44 trends; the aging of our citizens; and global events.

STRENGTHENING THE LOCAL TAX BASE

Depending on the particulars of any given proposal, possible options to broaden local tax bases include reserving a portion of the state income tax for locally-delivered programs, authorizing a local option “piggy-back” income tax for both general and special purposes, increasing the local option sales tax rate, reducing the number of sales tax exemptions, expanding the sales tax base, and reducing the number of exemptions from the business license tax.

The state can also take actions to prevent the further erosion of local revenues by not restricting local tax authority, imposing new spending requirements, or expanding existing mandates on services delivered by local governments, shifting state funding responsibilities onto local governments, expanding retirement and other healthcare benefits, and placing administrative burdens on local governments for state or joint programs.

SPECIFIC TAX ISSUES

VML opposes the repeal or restriction of locally administered BPOL, machinery and tools, or excise taxes unless dynamic and reliable revenue-neutral replacement sources are provided.

VML opposes the exemption of groceries and hygiene products from the local option sales tax unless the General Assembly can establish a viable revenue replacement to local governments.

VML supports permissive local authority to levy an excise tax on vaping and cannabis products.

The state and federal government should make payments-in-lieu-of-taxes for tax-exempt properties in amounts equal to the cost of the local services provided as well as related infrastructure improvements.

State-imposed changes to the real estate tax must be a “local option.” The state should not impose changes to processes governing assessments and appeals for real estate taxes that further degrade this revenue source.

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

The Virginia Communication Sales and Use Tax was enacted to establish a statewide tax rate and to preempt local taxes on communication sales and services. As such, the revenues from this tax must be distributed exclusively to eligible local governments. VML supports setting the tax rate on par with the state sales tax rate and broadening the coverage of the tax to include digital streaming services.

In taking state action to regulate private enterprises employing a business model that emphasizes the use of the internet to either provide retail or facilities or ride-sharing services, local government interests should be acknowledged, and localities should be included in the decision-making.

1 As general principles, VML believes state and local policies should 1) encourage a level playing
2 field for competing services in the market place; 2) not provide a tax preference or tax policy
3 advantage for one group at the expense of another group in the competitive field; 3) seek to
4 preserve state and local revenue; 4) ensure safety, reliability, and access for consumers,
5 providers, and the public; and 5) protect local government's ability to regulate businesses
6 whether they are traditional, electronic, Internet-based, virtual or otherwise.

7
8 VML also believes that the state should not prohibit the sharing of financial information between
9 the Commonwealth and appropriate local authorities that is normally treated as part of the public
10 domain. VML further believes that the state should not prohibit a locality from exercising its
11 authority to enter into voluntary collection agreements provided that such agreements include
12 provisions to protect the public's interest.

13 Article X of the Virginia Constitution mandates that all real and personal property be assessed at
14 fair market value and that all property not constitutionally exempt be taxed.

15
16 Taxpayers have the right to contest property assessments through administrative and legal means.
17 Taxpayers pay no local fees to challenge real property and personal property assessments. If
18 taxpayers are displeased with the determinations made by their local commissioner of the
19 revenue or other local assessing official, additional real property appeals can be submitted to the
20 local Boards of Equalization. Taxpayers can also appeal real and personal property assessments
21 in the Circuit Courts and, if still aggrieved, may appeal to the Virginia Supreme Court.

22
23 Reforms enacted in the 2011 Session of the General Assembly lowered the level of proof
24 required by the taxpayer (from "clear preponderance" to "preponderance") to prove property is
25 valued at more than fair market value or that the assessment is not uniform in its application and
26 that it was not developed in accordance with generally accepted appraisal practices and
27 applicable Virginia law relating to property valuation.

28
29 In 2017, there were more than 3.1 million taxable parcels and 20,777 appeals of which 10,472
30 were administratively resolved. Another 2,341 appeals were granted by local Boards of
31 Equalization. Taxpayers filed 18 appeals in circuit courts of which seven were granted.

32
33 VML does not believe the assessment appeals process is flawed or in need of major policy
34 changes and opposes statutory changes that would upend a process that protects taxpayers and
35 the public.

36 37 **SPECIFIC BUDGET ISSUES**

38 In 1979, Virginia made sweeping changes in local governmental boundary change and transition
39 issues, including a moratorium on city annexations that remains in place. In recognition of the
40 lost revenue growth for cities, the General Assembly approved some changes in state funding
41 commitments for selective programs and created a program of state assistance to local police
42 departments (HB 599). Almost 70 percent of Virginians now live in communities served by
43 police departments.

44
45 The state has increasingly de-emphasized its statutory commitment to the "HB 599" program but
46 has never compromised on the annexation moratorium. VML calls on the state to honor its
47 commitment to public safety by funding the program in amounts intended in the enabling

1 legislation and restoring the “funding floor.”

2
3 The state must be a reliable funding partner in accordance with the Virginia Constitution and
4 state statutes. The Standards of Quality should recognize the resources, including positions and
5 capital needs, required for a high-quality public education system. The SOQ should reflect
6 prevailing practices across the state, and the actual costs to educate Virginia’s children. This
7 includes the cost to educate at-risk students, students in jeopardy of failing the state’s Standards
8 of Learning tests, students with special needs, and school construction, renovation, and
9 maintenance.

10
11 The state should fully recognize and fund the costs of rebenchmarking of the various educational
12 programs, including the Standards of Quality, incentive, categorical, and school facilities
13 programs as well as support services. Changing the process of rebenchmarking to artificially
14 lower recognized costs like inflation does not change what it actually costs to provide education.
15 Instead, it simply transfers additional costs to local governments and the real estate tax base.

16
17 The Commonwealth should:

- 18 • Study the Standards of Accreditation and Standards of Learning to determine which
19 standards impose costs on local governments that are not recognized in state funding
20 formulas. In particular, changes adopted since 2009 to SOAs and SOLs should be
21 examined, as state funding on a per-pupil basis and accounting for inflation and
22 enrollment growth remains below 2009 appropriated levels.
- 23 • Re-examine those Standards of Quality that the Board of Education has recommended,
24 but that the General Assembly has not funded. These standards reflect prevailing
25 practices necessary to improve children’s academic performance. Student academic
26 performance is required for schools to meet the accountability standards under the SOL
27 and SOA. If funding is not available to pay for prevailing practices, the accountability
28 standards should be adjusted so that local governments are not in the position of having to
29 bear the entire burden of meeting these unfunded mandates.
- 30 • Conduct a study that examines how other states fund education and whether the
31 Commonwealth should use a funding strategy that establishes a more realistic base
32 foundation amount per pupil – plus add-on funding to reflect higher costs for educating
33 at-risk, disabled, ESL, and gifted students, etc. as well as funding for capital costs.

34
35 The state should provide sufficient funding for highway construction and maintenance, public
36 transportation infrastructure and maintenance, ports, airports, and freight and passenger rail to
37 promote economic development and public safety.

38
39 The state should continue to base its funding of retirement plans based on the contribution rates
40 certified by the Virginia Retirement System.

41
42 VML supports increased state funding for the statewide network of planning district
43 commissions/regional councils (PDCs). PDCs carry out efforts supported by state and local
44 policy makers to advance and sustain regional coordination, cooperation, and technical assistance
45 for the benefit of regions across the Commonwealth.

46
47 VML supports transparency in budgeting at both the state and local level. To that effect, the state

1 should not disguise its budget reductions by using unidentified or non-specific reductions for aid
2 to localities.

3
4 As a matter of fiscal reform, the state should develop financial priorities that account for both
5 spending and revenue actions. The debate on such priorities should be public and should be
6 transparent to the public in the Governor's Budget Bill and the General Assembly's
7 Appropriation Act. For example, should education funding be afforded less priority than certain
8 tax preferences?

9 10 **GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)**

11 The Governmental Accounting Standards Board (GASB) has put in place standards regarding the
12 reporting of unfunded liabilities of cost-sharing plans. A cost-sharing plan is one in which
13 participating government employers pool their assets and their obligations for a defined benefit
14 pension, such as Virginia's teacher retirement plan. While the costs are shared, the state sets the
15 rules regarding what benefits are required and what the state contribution will be.

16
17 GASB requires that the unfunded liability be apportioned among the participating employers that
18 pay the retirement contributions to the pension plan. Teachers are employees of the school
19 boards, which send retirement contributions to VRS. Because of this the unfunded liability falls
20 solely on the school boards, even though the retirement contributions are funded, in part, by the
21 state and the school board. This means that the liability will be shown on the city, county, or
22 town financial statement.

23
24 The intent of GASB rules is to encourage transparency in pinpointing liabilities and the current
25 method of assigning those teacher pension liabilities only to school divisions contravenes the
26 goal of transparency.

27
28 Because there was not a process for apportioning the liabilities for these cost sharing plans, they
29 previously had not been reported at the local level.

30
31 The unfunded liability should be shared by the state and localities based on the state's Standards
32 of Quality and local composite index and reflected as such in reporting.

33
34 VML supports state policy changes that would provide for the Virginia Department of Education
35 to pay the Commonwealth's share of retirement costs directly to the Virginia Retirement System
36 to facilitate the sharing of these liabilities.

37 38 **GOVERNMENT REFORM**

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

1 **TAX AND SPENDING REFORM**

2 Any state initiative aimed at tax reform should first include a focus on state tax reform and the
3 financing of state services including revenue sources. If the state paid an appropriate share of its
4 obligations for locally administered state mandated or priority services, the reliance on local
5 taxes would be reduced. Local officials should be included in any discussion that focuses on
6 local taxing authority.

7
8 **LOCAL FISCAL DISTRESS MONITORING**

9 The Commonwealth has a process in place to identify and notify local governments that may be
10 in fiscal distress. Absent cause, this relatively new process should not be used as a tool to force
11 local governments to enact specific changes at the direction of the Commonwealth without the
12 consent of the local governing body. Local governments shall oppose any efforts to do so.

13
14 *Recommended for approval by VML's Finance Policy Committee on July 16, 2025.*