

## 2023~~4~~ Finance Policy Statement

More than three years removed from the start of an unprecedented and devastating worldwide pandemic, local governments continue to navigate the road back to “normalcy.”

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 uncertainty, it’s imperative that counties, cities, and towns, be afforded the latitude to address long-standing and emerging issues without the burden of additional state mandates or red tape.

~~More than two years after the onset of a global pandemic, local governments must reexamine the array of critical services provided to our citizens and the means we have at our disposal to pay for them. State laws, local ordinances, tax structures, licenses and regulations will have to be re-evaluated and re-tooled without sacrificing the overall quality of basic government services, including education, public health, and public safety.~~

~~As the nation progresses on its path forward from COVID-19, there are important economic trends to recognize.~~

~~At the same time, the federal government provided significant one-time financial support to states and localities, presenting officials with an opportunity to make service and infrastructure improvements that better reflect the needs of a twenty-first century society.~~

~~The American economy is dynamic, continually transforming from agrarian to industrial, from industrial to services-driven, and from largely brick-and-mortar to increasingly internet-based businesses harnessing the power of the Digital Age. The growth in online-enabled platforms that connect customers with companies and private individuals offering services and property for sale or lease has fundamentally restructured the business landscape.~~

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.

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

29  
30 **FISCAL CHALLENGES CONFRONTING LOCAL GOVERNMENTS**  
31 The existing local tax structure is overly dependent upon general property taxes, specifically real  
32 estate taxes, which are regressive to many taxpayers. Local governments should be given the  
33 option to increase revenues to address needs identified in their communities (i.e., a 1% local  
34 option sales tax for school renovations and construction).

35  
36 Unfunded and inadequately funded state mandates and commitments strain local government  
37 budgets and place additional pressures on the real estate tax. State-initiated services and  
38 programs should be supported by state funds, not rely on local funds to supplant state dollars.  
39 Line of Duty benefits for First Responders is one such example.

40  
41 Demands for public services continue to increase. These services include education, behavioral  
42 ~~mental~~ health, other human services programs, juvenile programs, environmental initiatives,  
43 economic development, recreation, and public safety. These services have both operating and  
44 capital costs and must be funded.

1 Local revenue collections and service demands are also influenced by variables outside the  
2 control of councils and boards of supervisors. These include changes in state and federal tax  
3 policy, state and federal budget decisions, and fiscal policies; local economic conditions and  
4 long-term economic trends; the aging of our citizens; and global events.

## 6 **STRENGTHENING THE LOCAL TAX BASE**

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

12  
13 The state can also take actions to prevent the further erosion of local revenues by not restricting  
14 local tax authority, imposing new spending requirements, or expanding existing mandates ~~ones~~  
15 on services delivered by local governments, shifting state funding responsibilities onto local  
16 governments, expanding retirement and other healthcare benefits, and placing administrative  
17 burdens on local governments for state or joint programs.

## 19 **SPECIFIC TAX ISSUES**

20 VML opposes the repeal or restriction of locally-administered BPOL, machinery and tools, or  
21 excise taxes unless, ~~at a minimum,~~ dynamic and reliable ~~suitable~~ revenue-neutral replacement  
22 sources are provided.

23  
24 VML opposes the exemption of groceries and hygiene products from the local option sales tax  
25 unless the General Assembly can establish a viable revenue replacement to local governments.

26  
27 VML supports permissive local authority to levy an excise tax on vaping and cannabis products.  
28 ~~VML supports permissive local authority to levy an excise tax on cannabis products.~~

29  
30 The state and federal government should make payments-in-lieu-of-taxes for tax-exempt  
31 properties in amounts equal to the cost of the local services provided as well as related  
32 infrastructure improvements.

33  
34 State-imposed changes to the real estate tax must be a “local option.” The state should not  
35 impose changes to processes governing assessments and appeals for real estate taxes that further  
36 degrade this revenue source.

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

43  
44 The Virginia Communication Sales and Use Tax was enacted to establish a statewide tax rate  
45 and to preempt local taxes on communication sales and services. As such, the revenues from this  
46 tax must be distributed exclusively to eligible local governments. VML supports setting the tax

1 rate on par with the state sales tax rate and broadening the coverage of the tax to include audio  
2 and video streaming services and prepaid calling services.

3  
4 In taking state action to regulate private enterprises employing a business model that emphasizes  
5 the use of the internet to either provide retail or facilities or ride-sharing services, local  
6 government interests should be acknowledged, and localities should be included in the decision-  
7 making.

8  
9 As general principles, VML believes state and local policies should 1) encourage a level playing  
10 field for competing services in the market place; 2) not provide a tax preference or tax policy  
11 advantage for one group at the expense of another group in the competitive field; 3) seek to  
12 preserve state and local revenue; 4) ensure safety, reliability, and access for consumers,  
13 providers, and the public; and 5) protect local government's ability to regulate businesses  
14 whether they are traditional, electronic, Internet-based, virtual or otherwise.

15  
16 VML also believes that the state should not prohibit the sharing of financial information between  
17 the Commonwealth and appropriate local authorities that is normally treated as part of the public  
18 domain. VML further believes that the state should not prohibit a locality from exercising its  
19 authority to enter into voluntary collection agreements provided that such agreements include  
20 provisions to protect the public's interest.

21  
22 Article X of the Virginia Constitution mandates that all real and personal property be assessed at  
23 fair market value and that all property not constitutionally exempt be taxed.

24  
25 Taxpayers have the right to contest property assessments through administrative and legal  
26 means. Taxpayers pay no local fees to challenge real property and personal property  
27 assessments. If taxpayers are displeased with the determinations made by their local  
28 commissioner of the revenue or other local assessing official, additional real property appeals  
29 can be submitted to the local Boards of Equalization. Taxpayers can also appeal real and  
30 personal property assessments in the Circuit Courts and, if still aggrieved, may appeal to the  
31 Virginia Supreme Court.

32  
33 Reforms enacted in the 2011 Session of the General Assembly lowered the level of proof  
34 required by the taxpayer (from "clear preponderance" to "preponderance") to prove property is  
35 valued at more than fair market value or that the assessment is not uniform in its application and  
36 that it was not developed in accordance with generally accepted appraisal practices and  
37 applicable Virginia law relating to property valuation.

38  
39 In 2017, there were more than 3.1 million taxable parcels and 20,777 appeals of which 10,472  
40 were administratively resolved. Another 2,341 appeals were granted by local Boards of  
41 Equalization. Taxpayers filed 18 appeals in circuit courts of which seven were granted.

42  
43 VML does not believe the assessment appeals process is flawed or in need of major policy  
44 changes and opposes statutory changes that would upend a process that protects taxpayers and  
45 the public.

1 **SPECIFIC BUDGET ISSUES**

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

8  
9 The state has increasingly de-emphasized its statutory commitment to the “HB 599” program but  
10 has never compromised on the annexation moratorium. VML calls on the state to honor its  
11 commitment to public safety by funding the program in amounts intended in the enabling  
12 legislation and restoring the “funding floor.”

13  
14 The state must be a reliable funding partner in accordance with the Virginia Constitution and  
15 state statutes. The Standards of Quality should recognize the resources, including positions and  
16 capital needs, required for a high-quality public education system. The SOQ should reflect  
17 prevailing practices across the state, and the actual costs to educate Virginia’s children. This  
18 includes the cost to educate at-risk students, students in jeopardy of failing the state’s Standards  
19 of Learning tests, students with special needs, and school construction, renovation, and  
20 maintenance.

21  
22 The state should fully recognize and fund the costs of rebenchmarking of the various educational  
23 programs, including the Standards of Quality, incentive, categorical, and school facilities  
24 programs as well as support services. Changing the process of rebenchmarking to artificially  
25 lower recognized costs like inflation does not change what it actually costs to provide education.  
26 Instead, it simply transfers additional costs to local governments and the real estate tax base.

27  
28 The Commonwealth should:

- 29
- 30 • Study the Standards of Accreditation and Standards of Learning to determine which  
31 standards impose costs on local governments that are not recognized in state funding  
32 formulas. In particular, changes adopted since 2009 to SOAs and SOLs should be  
33 examined, as state funding on a per-pupil basis and accounting for inflation and  
34 enrollment growth remains below 2009 appropriated levels.
  - 35 • Re-examine those Standards of Quality that the Board of Education has recommended,  
36 but that the General Assembly has not funded. These standards reflect prevailing  
37 practices necessary to improve children’s academic performance. Student academic  
38 performance is required for schools to meet the accountability standards under the SOL  
39 and SOA. If funding is not available to pay for prevailing practices, the accountability  
40 standards should be adjusted so that local governments are not in the position of having  
41 to bear the entire burden of meeting these unfunded mandates.
  - 42 • Conduct a study that examines how other states fund education and whether the  
43 Commonwealth should use a funding strategy that establishes a more realistic base  
44 foundation amount per pupil – plus add-on funding to reflect higher costs for educating  
45 at-risk, disabled, ESL, and gifted students, etc. as well as funding for capital costs.
- 46

1 The state should provide sufficient funding for highway construction and maintenance, public  
2 transportation infrastructure and maintenance, ports, airports, and freight and passenger rail to  
3 promote economic development and public safety.

4  
5 The state should continue to base its funding of retirement plans based on the contribution rates  
6 certified by the Virginia Retirement System.

7  
8 VML supports increased state funding for the statewide network of planning district  
9 commissions/regional councils (PDCs). PDCs carry out efforts supported by state and local  
10 policy makers to advance and sustain regional coordination, cooperation, and technical  
11 assistance for the benefit of regions across the Commonwealth.

12  
13 VML supports transparency in budgeting at both the state and local level. To that effect, the state  
14 should not disguise its budget reductions by using unidentified or non-specific reductions for aid  
15 to localities.

16  
17 As a matter of fiscal reform, the state should develop financial priorities that account for both  
18 spending and revenue actions. The debate on such priorities should be public and should be  
19 transparent to the public in the Governor's Budget Bill and the General Assembly's  
20 Appropriation Act. For example, should education funding be afforded less priority than certain  
21 tax preferences?

## 22 **GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB)**

23  
24 The Governmental Accounting Standards Board (GASB) has put in place standards regarding the  
25 reporting of unfunded liabilities of cost-sharing plans. A cost-sharing plan is one in which  
26 participating government employers pool their assets and their obligations for a defined benefit  
27 pension, such as Virginia's teacher retirement plan. While the costs are shared, the state sets the  
28 rules regarding what benefits are required and what the state contribution will be.

29  
30 GASB requires that the unfunded liability be apportioned among the participating employers that  
31 pay the retirement contributions to the pension plan. Teachers are employees of the school  
32 boards, which send retirement contributions to VRS.

33 Because of this the unfunded liability falls solely on the school boards, even though the  
34 retirement contributions are funded, in part, by the state and the school board. This means that  
35 the liability will be shown on the city, county, or town financial statement.

36  
37 The intent of GASB rules is to encourage transparency in pinpointing liabilities and the current  
38 method of assigning those teacher pension liabilities only to school divisions contravenes the  
39 goal of transparency.

40  
41 Because there was not a process for apportioning the liabilities for these cost sharing plans, they  
42 previously had not been reported at the local level.

43  
44 The unfunded liability should be shared by the state and localities based on the state's Standards  
45 of Quality and local composite index and reflected as such in reporting.

1 VML supports state policy changes that would provide for the Virginia Department of Education  
2 to pay the Commonwealth’s share of retirement costs directly to the Virginia Retirement System  
3 to facilitate the sharing of these liabilities.  
4

5 **GOVERNMENT REFORM**

6 VML supports a comprehensive review of the services provided by state and local governments.  
7 The purpose of the review is to ascertain which services are truly essential to support a  
8 productive economy and healthy society; determine the performance level of public services now  
9 in place; evaluate the policies and practices used by the state to assign responsibility and  
10 accountability between the state and local governments for providing public services; and  
11 determine the most effective, efficient, and equitable ways to fund essential public services. Such  
12 a review must start with a dialog including state and local officials, business interests, academia,  
13 and other interested parties.  
14

15 **TAX AND SPENDING REFORM**

16 Any state initiative aimed at tax reform should first include a focus on state tax reform and the  
17 financing of state services including revenue sources. If the state paid an appropriate share of its  
18 obligations for locally administered state mandated or priority services, the reliance on local  
19 taxes would be reduced. Local officials should be included in any discussion that focuses on  
20 local taxing authority.  
21

22 **LOCAL FISCAL DISTRESS MONITORING**

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