
2019 FINANCE POLICY STATEMENT

1	Goals and Principles	43	
2	The American economy is dynamic,	44	
3	transforming from agrarian to industrial,	45	
4	from industrial to services-driven, and	46	
5	evolving now to Internet-based	47	
6	businesses harnessing the power of the	48	
7	Digital Age. The growth in online-	49	
8	enabled platforms that connect	50	
9	customers with companies and private	51	
10	individuals offering services and	52	
11	property for sale or lease is	53	
12	fundamentally restructuring the business	54	
13	landscape. As the Internet takes a	55	
14	greater hold in American business and as	56	
15	Virginia weans itself from the economic	57	
16	stimulus of federal defense spending,	58	
17	local governments must reexamine the	59	
18	services provided to citizens and the	60	
19	means to pay for them. State laws, local	61	
20	ordinances, tax structures, licenses and	62	
21	regulations will have to be re-evaluated	63	
22	and re-tooled without sacrificing the	64	
23	overall quality of basic government	65	
24	services, including education, public	66	
25	health, and public safety.	67	
26		68	
27	To that end, these principles are	69	
28	essential:	70	
29	• Local revenue sources should be	71	
30	balanced and diversified over three	72	
31	broad bases – assets (property),	73	
32	consumption (sales), and income;	74	
33	• The local tax system should be	75	
34	logical and professionally	76	
35	administered. Taxpayers should be	77	
36	treated fairly, and compliance costs	78	
37	should be minimized;	79	
38	• The burden of taxation, as well as	80	
39	the benefits of services, should be	81	
40	shared and enjoyed by all whether	82	
41	they are residents or local	83	
42	businesses.	84	
		85	
			• Tax policy should recognize the different economic, demographic, and service demands among localities, and should foster local control to develop tax policies best suited for their communities;
			• Tax policy should recognize and be responsive to the competitive nature of the free market, should refrain from enacting policies that are too generous for one group, and should not place undue burdens on particular groups, including business and industry;
			• State-imposed changes on local tax structures should be simple to administer and, at a minimum, be revenue neutral; and
			• State-mandated tax relief programs should not use local revenues. State-adopted tax relief programs should rely only on state revenues.
			• The State should not create real estate tax relief programs unless it is willing to pay for the cost of the programs.
			• Local tax dollars should not be claimed by the state to cover the Commonwealth’s revenue needs. This includes, but is not limited to, local fines and forfeitures and revenues tied to the Communications Sales and Use Tax.
			• Any legislation with local fiscal impact should be introduced no later than the first week of a General Assembly session. Such legislation should be pre-filed prior to the convening of a regular legislative session.
			• Local government representatives should be included on any “blue

1 ribbon” commission or other body
2 established by the state that has as
3 its purpose changes to state and
4 local revenue authority or
5 governance.
6

7 **Fiscal Challenges Confronting Local** 8 **Governments**

- 9 • The existing local tax structure is
10 overly dependent upon general
11 property taxes, specifically real
12 estate taxes.
- 13 • Unfunded and inadequately funded
14 state mandates and commitments
15 strain local government budgets
16 and place additional pressures on
17 the real estate tax. State-initiated
18 services and programs should be
19 supported by state funds, not rely
20 on local funds to supplant state
21 dollars. Line of Duty benefits for
22 First Responders is one such
23 example.
- 24 • Public demands for public services
25 continue to increase. These
26 services include education, mental
27 health, other human services
28 programs, juvenile programs,
29 environmental initiatives,
30 economic development, recreation,
31 and public safety. These services
32 have both operating and capital
33 costs and must be funded.
- 34 • Local revenue collections and
35 service demands are also
36 influenced by variables outside the
37 control of councils and boards of
38 supervisors. These include
39 changes in federal tax, budget, and
40 fiscal policies; long-term economic
41 trends; the aging of our citizens;
42 and global events.

44 **Strengthening the Local Tax Base**

45 Depending on the particulars of any
46 given proposal, possible options to

47 broaden local tax bases include reserving
48 a portion of the state income tax for
49 locally-delivered programs, authorizing
50 a local option income tax for both
51 general and special purposes, increasing
52 the local option sales tax rate, reducing
53 the number of sales tax exemptions,
54 expanding the sales tax base, and
55 reducing the number of exemptions from
56 the business license tax.

57
58 The state can also take actions to prevent
59 the further erosion of local revenues **by**
60 **not** restricting local tax authority,
61 imposing new spending requirements or
62 expanding existing ones on services
63 delivered by local governments, shifting
64 state funding responsibilities onto local
65 governments, expanding retirement and
66 other benefits, and placing
67 administrative burdens on local
68 governments for state or joint programs.
69

70 **Specific Tax Issues**

71 VML opposes the repeal or restriction of
72 BPOL, machinery and
73 tools, or excise taxes unless, at a
74 minimum, suitable revenue-neutral
75 replacement sources are provided.
76

77 The state and federal government should
78 make payments-in-lieu-of-taxes for tax-
79 exempt properties in amounts equal to
80 the cost of the local services provided as
81 well as related infrastructure
82 improvements.
83

84 Counties should be granted taxing
85 powers equal to those granted cities and
86 towns, without decreasing, limiting or
87 changing town taxing authority. County
88 excise taxes must not be levied on town
89 residents without the explicit approval
90 by a town’s governing body.
91

1 VML supports the constitutional
2 requirement for fair market valuation of
3 property. State-imposed changes to the
4 real estate tax must be “local option.”
5 The state should not impose changes to
6 processes governing assessments and
7 appeals for real estate taxes that further
8 degrade this revenue source.
9
10 VML supports current state statutory
11 requirements governing the setting of
12 real estate tax rates and the integration of
13 this process with the budget
14 development process. Changes to these
15 processes cannot be addressed separately
16 without placing undue hardship and
17 increased costs on local taxpayers. Any
18 future state legislative change should be
19 simple to administer and not contradict,
20 impede or hinder the others.
21
22 The Virginia Communication Sales and
23 Use Tax was enacted to establish a
24 statewide tax rate and to pre-empt local
25 taxes on communication sales and
26 services. As such, the revenues from
27 this tax must be distributed exclusively
28 to eligible local governments. VML
29 supports setting the tax rate on par with
30 the state sales tax rate and broadening
31 the coverage of the tax to include audio
32 and video streaming services and
33 prepaid calling services.
34
35 VML supports state legislation to make
36 clear that transient occupancy taxes and
37 sales taxes are applied on the cost of the
38 room paid by the consumer, regardless
39 of the means (such as on-line travel
40 companies) used to reserve a room.
41
42 **Specific Budget Issues**
43 In 1979, Virginia made sweeping
44 changes in local governmental boundary
45 change and transition issues, including a
46 moratorium on city annexations that

47 remains in place. In recognition of the
48 lost revenue growth for cities, the
49 General Assembly approved some
50 changes in state funding commitments
51 for selective programs and created a
52 program of state assistance to local
53 police departments (HB 599). Almost 70
54 percent of Virginians now live in
55 communities served by police
56 departments. The state has increasingly
57 de-emphasized its statutory commitment
58 to the “HB 599” program but has never
59 compromised on the annexation
60 moratorium. VML calls on the state to
61 honor its commitment to public safety by
62 funding the program in amounts
63 intended in the enabling legislation.
64
65 The state must be a reliable funding
66 partner in accordance with the Virginia
67 Constitution and state statutes. The
68 Standards of Quality should recognize
69 the resources, including positions,
70 required for a high-quality public
71 education system. The SOQ should
72 reflect prevailing practices across the
73 state, and the actual costs to educate
74 Virginia’s children. This includes the
75 cost to educate at-risk students, students
76 in jeopardy of failing the state’s
77 Standards of Learning tests, students
78 with special needs, and school
79 construction/renovation/maintenance.
80
81 The state should fully recognize and
82 fund the costs of re-benchmarking of the
83 various educational programs, including
84 the Standards of Quality, incentive,
85 categorical, and school facilities
86 programs as well as support services.
87 Changing the process of re-
88 benchmarking to artificially lower
89 recognized costs like inflation does not
90 change what it actually costs to provide
91 education. Instead, it simply transfers

1 additional costs to local governments
2 and the real estate tax base.
3
4 The Commonwealth should:
5 • Study the Standards of
6 Accreditation and Standards of Learning
7 to determine which standards impose
8 costs on local governments that are not
9 recognized in state funding formulas. In
10 particular, changes adopted since 2009
11 to SOAs and SOLs should be examined,
12 as state funding on a per-pupil basis and
13 accounting for inflation and enrollment
14 growth remains below 2009 appropriated
15 levels.
16 • Re-examine those Standards of
17 Quality that the Board of Education has
18 recommended, but that the General
19 Assembly has not funded. These
20 standards reflect prevailing practices
21 necessary to improve children's
22 academic performance. Student
23 academic performance is required for
24 schools to meet the accountability
25 standards under the SOL and SOA. If
26 funding is not available to pay for
27 prevailing practices, the accountability
28 standards should be adjusted so that
29 local governments are not in the position
30 of having to bear the entire burden of
31 meeting these unfunded mandates.
32 • Conduct a study that examines
33 how other states fund education and
34 whether the Commonwealth should use
35 a funding strategy that establishes a
36 more realistic base foundation amount
37 per pupil – plus add-on funding to reflect
38 higher costs for educating at-risk,
39 disabled, ESL, and gifted students, etc.
40 as well as funding for capital costs.
41
42 The state should provide sufficient
43 funding for highway construction and
44 maintenance, public transportation
45 infrastructure and maintenance, ports,
46 airports, and freight and passenger rail to

47 promote economic development and
48 public safety. If the General Assembly
49 chooses a funding approach that
50 emphasizes regional efforts, then such
51 opportunities should be made available
52 across the Commonwealth.
53
54 The state should continue to base its
55 funding of retirement plans based on the
56 contribution rates certified by the
57 Virginia Retirement System.
58
59 VML supports transparency in budgeting
60 at both the state and local level. To that
61 effect, the state should not disguise its
62 budget reductions by using unidentified
63 or non-specific reductions for aid to
64 localities.
65
66 As a matter of fiscal reform, the state
67 should develop financial priorities that
68 account for both spending and revenue
69 actions. The debate on such priorities
70 should be public and should be
71 transparent to the public in the
72 Governor's Budget Bill and the General
73 Assembly's Appropriation Act. For
74 example, should education funding be
75 afforded less priority than certain tax
76 preferences?
77
78 **Governmental Accounting Standards**
79 **Board (GASB)**
80 The Governmental Accounting
81 Standards Board (GASB) has put in
82 place standards regarding the reporting
83 of unfunded liabilities of cost-sharing
84 plans. A cost-sharing plan is one in
85 which participating government
86 employers pool their assets and their
87 obligations for a defined benefit pension,
88 such as Virginia's teacher retirement
89 plan. While the costs are shared, the
90 state sets the rules regarding what
91 benefits are required and what the state
92 contribution will be.

1 GASB requires that the unfunded
2 liability be apportioned among the
3 participating employers that pay the
4 retirement contributions to the pension
5 plan. Teachers are employees of the
6 school boards, which send retirement
7 contributions to VRS. Because of this
8 the unfunded liability falls solely on the
9 school boards, even though the
10 retirement contributions are funded, in
11 part, by the state and the school board.
12 This means that the liability will be
13 shown on the city, county or town
14 financial statement. The intent of GASB
15 rules is to encourage transparency in
16 pinpointing liabilities and the current
17 method of assigning those teacher
18 pension liabilities only to school
19 divisions contravenes the goal of
20 transparency.

21
22 Because there was not a process for
23 apportioning the liabilities for these cost
24 sharing plans, they previously had not
25 been reported at the local level.

26
27 The unfunded liability should be shared
28 by the state and localities based on the
29 state's Standards of Quality and local
30 composite index and reflected as such in
31 reporting.

32
33 VML supports state policy changes that
34 would provide for the Virginia
35 Department of Education to pay the
36 Commonwealth's share of retirement
37 costs directly to the Virginia Retirement
38 System to facilitate the sharing of these
39 liabilities.

40
41 **Government Reform**
42 VML supports a comprehensive review
43 of the services provided by state and
44 local governments. The purpose of the
45 review is to ascertain which services are
46 truly essential to support a productive

47 economy and healthy society; determine
48 the performance level of public services
49 now in place; evaluate the policies and
50 practices used by the state to assign
51 responsibility and accountability
52 between the state and local governments
53 for providing public services; and
54 determine the most effective, efficient
55 and equitable ways to fund essential
56 public services. Such a review must
57 start with a dialog including state and
58 local officials, business interests,
59 academia, and other interested parties.

60
61 **Tax and Spending Reform**
62 Any state initiative aimed at tax reform
63 should first include a focus on state tax
64 reform and the financing of state
65 services including revenue sources. If
66 the state paid an appropriate share of its
67 obligations for locally-administered state
68 mandated or priority services, the
69 reliance on local taxes would be
70 reduced. Local officials should be
71 included in any discussion that focuses
72 on local taxing authority.