



BETTER COMMUNITIES THROUGH SOUND GOVERNMENT

2022 FINANCE POLICY STATEMENT

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

6
7 As the nation progresses on its path forward from COVID-19, there are important economic
8 trends to recognize.

9
10 At the same time, the federal government is providing financial support to states and localities at
11 historic levels, presenting officials with an opportunity to make service and infrastructure
12 improvements that better reflect the needs of a twenty-first century society.

13
14 The American economy is dynamic, continually transforming from agrarian to industrial, from
15 industrial to services-driven, and from largely brick-and-mortar to increasingly internet-based
16 businesses harnessing the power of the Digital Age. The growth in online-enabled platforms that
17 connect customers with companies and private individuals offering services and property for sale
18 or lease has fundamentally restructured the business landscape

19
20 To that end, these principles are essential:

- 21 • Local revenue sources should be balanced and diversified over three broad bases – assets
22 (property), consumption (sales), and income.
- 23 • The local tax system should be logical and professionally administered. Taxpayers should
24 be treated fairly, and compliance costs should be minimized.
- 25 • The burden of taxation, as well as the benefits of services, should be shared and enjoyed
26 by all whether they are residents or local businesses.
- 27 • Tax policy should recognize the different economic, demographic, and service demands
28 among localities, and should foster local control to develop tax policies best suited for
29 their communities.
- 30 • Tax policy should recognize and be responsive to the competitive nature of the free
31 market, should refrain from enacting policies that are too generous for one group, and
32 should not place undue burdens on particular groups, including business and
33 manufacturers.
- 34 • State-imposed changes on local tax structures should be simple to administer and, at a
35 minimum, be revenue neutral to the locality.



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- 1 • State-mandated tax relief programs should not use local revenues. State-adopted tax relief
2 programs should rely only on state revenues.
- 3 • The State should not create real estate tax relief programs unless it is willing to pay for
4 the cost of the programs.
- 5 • Local tax dollars should not be claimed by the state to cover the Commonwealth’s
6 revenue needs. This includes, but is not limited to, local fines and forfeitures, recordation
7 fees, and revenues tied to the Communications Sales and Use Tax.
- 8 • Any legislation with local fiscal impact should be introduced no later
9 than the first week of a General Assembly session. Such legislation should be pre-filed
10 prior to the convening of a regular session.
- 11 • Local government representatives should be included on any “blue ribbon” commission
12 or other body established by the state that has as its purpose changes to state and local
13 revenue authority or governance.
- 14

15 **Fiscal Challenges Confronting Local Governments**

16 The existing local tax structure is overly dependent upon general property taxes, specifically real
17 estate taxes, which are regressive to many tax payers.

- 18
- 19 • Unfunded and inadequately funded state mandates and commitments strain local
20 government budgets and place additional pressures on the real estate tax. State-initiated
21 services and programs should be supported by state funds, not rely on local funds to
22 supplant state dollars. Line of Duty benefits for First Responders is one such example.
- 23 • Demands for public services continue to increase. These services include education,
24 mental health, other human services programs, juvenile programs, environmental
25 initiatives, economic development, recreation, and public safety. These services have
26 both operating and capital costs and must be funded.
- 27 • Local revenue collections and service demands are also influenced by variables outside
28 the control of councils and boards of supervisors. These include changes in federal tax,
29 budget, and fiscal policies; long-term economic trends; the aging of our citizens; and
30 global events.
- 31

32 **Strengthening the Local Tax Base**

33 Depending on the particulars of any given proposal, possible options to broaden local tax bases
34 include reserving a portion of the state income tax for locally-delivered programs, authorizing a
35 local option “piggy-back” income tax for both general and special purposes, increasing the local



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1 option sales tax rate, reducing the number of sales tax exemptions, expanding the sales tax base,
2 and reducing the number of exemptions from the business license tax.

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

10 **Specific Tax Issues**

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

13
14 The state and federal government should make payments-in-lieu-of-taxes for tax-exempt
15 properties in amounts equal to the cost of the local services provided as well as related
16 infrastructure improvements.

17
18 State-imposed changes to the real estate tax must be at “local option.” The state should not
19 impose changes to processes governing assessments and appeals for real estate taxes that further
20 degrade this revenue source.

21
22 VML supports current state statutory requirements governing the setting of real estate tax rates
23 and the integration of this process with the budget development process. Changes to these
24 processes cannot be addressed separately without placing undue hardship and increased costs on
25 local taxpayers. Any future state legislative change should be simple to administer and not
26 contradict, impede or hinder the others.

27
28 The Virginia Communication Sales and Use Tax was enacted to establish a statewide tax rate
29 and to preempt local taxes on communication sales and services. As such, the revenues from this
30 tax must be distributed exclusively to eligible local governments. VML supports setting the tax
31 rate on par with the state sales tax rate and broadening the coverage of the tax to include audio
32 and video streaming services and prepaid calling services.

33
34 In taking state action to regulate private enterprises employing a business model that emphasizes
35 the use of the internet to either provide retail or facilities or ride-sharing services, local



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1 government interests should be acknowledged, and localities should be included in the decision-
2 making.

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

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

16
17 Article X of the Virginia Constitution mandates that all real and personal property be assessed at
18 fair market value and that all property not constitutionally exempt be taxed.

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

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

32
33 In 2017, there were more than 3.1 million taxable parcels and 20,777 appeals of which 10,472
34 were administratively resolved. Another 2,341 appeals were granted by local Boards of
35 Equalization. Taxpayers filed 18 appeals in circuit courts of which seven were granted.



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1 VML does not believe the assessment appeals process is flawed or in need of major policy
2 changes and opposes statutory changes that would upend a process that protects taxpayers and
3 the public.
4

5 **Specific Budget Issues**

6 In 1979, Virginia made sweeping changes in local governmental boundary change and transition
7 issues, including a moratorium on city annexations that remains in place. In recognition of the
8 lost revenue growth for cities, the General Assembly approved some changes in state funding
9 commitments for selective programs and created a program of state assistance to local police
10 departments (HB 599). Almost 70 percent of Virginians now live in communities served by
11 police departments.
12

13 The state has increasingly de-emphasized its statutory commitment to the “HB 599” program but
14 has never compromised on the annexation moratorium. VML calls on the state to honor its
15 commitment to public safety by funding the program in amounts intended in the enabling
16 legislation and restoring the “funding floor.”
17

18 The state must be a reliable funding partner in accordance with the Virginia Constitution and
19 state statutes. The Standards of Quality should recognize the resources, including positions and
20 capital needs, required for a high-quality public education system. The SOQ should reflect
21 prevailing practices across the state, and the actual costs to educate Virginia’s children. This
22 includes the cost to educate at-risk students, students in jeopardy of failing the state’s Standards
23 of Learning tests, students with special needs, and school construction, renovation, and
24 maintenance.
25

26 The state should fully recognize and fund the costs of rebenchmarking of the various educational
27 programs, including the Standards of Quality, incentive, categorical, and school facilities
28 programs as well as support services. Changing the process of rebenchmarking to artificially
29 lower recognized costs like inflation does not change what it actually costs to provide education.
30 Instead, it simply transfers additional costs to local governments and the real estate tax base.
31

32 The Commonwealth should:

- 33
- 34 • Study the Standards of Accreditation and Standards of Learning to determine which
35 standards impose costs on local governments that are not recognized in state funding
36 formulas. In particular, changes adopted since 2009 to SOAs and SOLs should be



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- 1 examined, as state funding on a per-pupil basis and accounting for inflation and
2 enrollment growth remains below 2009 appropriated levels.
- 3 • Re-examine those Standards of Quality that the Board of Education has recommended,
4 but that the General Assembly has not funded. These standards reflect prevailing
5 practices necessary to improve children’s academic performance. Student academic
6 performance is required for schools to meet the accountability standards under the SOL
7 and SOA. If funding is not available to pay for prevailing practices, the accountability
8 standards should be adjusted so that local governments are not in the position of having
9 to bear the entire burden of meeting these unfunded mandates.
 - 10 • Conduct a study that examines how other states fund education and whether the
11 Commonwealth should use a funding strategy that establishes a more realistic base
12 foundation amount per pupil – plus add-on funding to reflect higher costs for educating
13 at-risk, disabled, ESL, and gifted students, etc. as well as funding for capital costs.
- 14
- 15 The state should provide sufficient funding for highway construction and maintenance, public
16 transportation infrastructure and maintenance, ports, airports, and freight and passenger rail to
17 promote economic development and public safety.
- 18
- 19 The state should continue to base its funding of retirement plans based on the contribution rates
20 certified by the Virginia Retirement System.
- 21
- 22 VML supports increased state funding for the statewide network of planning district
23 commissions/regional councils (PDCs). PDCs carry out efforts supported by state and local
24 policy makers to advance and sustain regional coordination, cooperation, and technical
25 assistance for the benefit of regions across the Commonwealth.
- 26
- 27 VML supports transparency in budgeting at both the state and local level. To that effect, the state
28 should not disguise its budget reductions by using unidentified or non-specific reductions for aid
29 to localities.
- 30
- 31 As a matter of fiscal reform, the state should develop financial priorities that account for both
32 spending and revenue actions. The debate on such priorities should be public and should be
33 transparent to the public in the Governor’s Budget Bill and the General Assembly’s
34 Appropriation Act. For example, should education funding be afforded less priority than certain
35 tax preferences?
36



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1 **Governmental Accounting Standards Board (GASB)**

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

7
8 GASB requires that the unfunded liability be apportioned among the participating employers that
9 pay the retirement contributions to the pension plan. Teachers are employees of the school
10 boards, which send retirement contributions to VRS.

11
12 Because of this the unfunded liability falls solely on the school boards, even though the
13 retirement contributions are funded, in part, by the state and the school board. This means that
14 the liability will be shown on the city, county, or town financial statement.

15
16 The intent of GASB rules is to encourage transparency in pinpointing liabilities and the current
17 method of assigning those teacher pension liabilities only to school divisions contravenes the
18 goal of transparency.

19
20 Because there was not a process for apportioning the liabilities for these cost sharing plans, they
21 previously had not been reported at the local level.

22
23 The unfunded liability should be shared by the state and localities based on the state’s Standards
24 of Quality and local composite index and reflected as such in reporting.

25
26 VML supports state policy changes that would provide for the Virginia Department of Education
27 to pay the Commonwealth’s share of retirement costs directly to the Virginia Retirement System
28 to facilitate the sharing of these liabilities.

29
30 **Government Reform**

31 VML supports a comprehensive review of the services provided by state and local governments.
32 The purpose of the review is to ascertain which services are truly essential to support a
33 productive economy and healthy society; determine the performance level of public services now
34 in place; evaluate the policies and practices used by the state to assign responsibility and
35 accountability between the state and local governments for providing public services; and
36 determine the most effective, efficient, and equitable ways to fund essential public services. Such



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1 a review must start with a dialog including state and local officials, business interests, academia,
2 and other interested parties.

3

4 **Tax and Spending Reform**

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