Commission on Local Government Regular Meeting

November 4, 2021 11:00 A.M. Henrico County Economic Development Authority & Virtually through Google Meet

Roll Call Vote of Members of the Commission

Dr. Davis

Approval of the Draft Agenda

Dr. Davis

This item requires Commission approval.

Approval of Minutes from the Special Meeting on October 15, 2021

Dr. Davis

This item requires Commission approval.

Public Comment Period

Dr. Davis

Policy Administrator's Report

Mr. Conmy

Mandatory Property Tax Exemption Study Staff Presentation of Draft Report All Staff

Mandatory Property Tax Exemption Study

November 4th, 2021



SCOPE OF STUDY:

Budget Bill - HB1800 (Chapter 552) Item 117; Authority: Title 15.2, Subtitle III, Code of Virginia.

A. The Commission on Local Government will review the fiscal effects of mandatory property tax exemptions on the capacity of local governments to deliver essential services to the public. As part of the review, the Commission will ascertain the impact of the exemptions on property tax collections, the shift to and reliance on other local revenues to compensate for exempted properties, the additional fiscal stress placed on non-exempted properties and non-exempted local taxpayers, and the ability of local governments to meet spending needs. In addition, the Commission will develop and include in its review potential recommendations to mitigate the fiscal impacts on local governments tied to these state tax exemption initiatives. The Commission will report its findings to the Governor, the Joint Subcommittee on Local Government Fiscal Stress, and the Chairs of the House Committee on Finance, and the House Committee on Appropriations and the Senate Committee on Finance and Appropriations by November 1, 2021.



SCOPE OF STUDY

- Two Exemptions Selected;
 - [real] property tax exemption for certain veterans and their surviving spouses and surviving spouses of soldiers killed in action," and
 - "One motor vehicle owned and used primarily by or for a veteran of the armed forces of the United States or the Virginia National Guard who has been rated by the United States Department of Veterans Affairs or its successor agency pursuant to federal law with a one hundred percent service-connected, permanent, and total disability....
- Represent areas of major fiscal and economic importance statewide and direct amendments to the Constitution.



SCOPE OF STUDY

- April; budget language adopted.
- May stakeholder kick-off meeting
- July August; Fielded Survey to localities.
- August September analysis of survey results & research.
 - September 28th Stakeholder meeting.
- October Drafting and finalizing of report;
 - October 15th CLG meeting.



DATA ANALYSIS

- Three data sources were used during analysis:
 - CLG: Survey of local administrators and finance officers.
 - Includes responses from 114 of 133 localities.
 - Provides data on real property and personal property exemption.
 - Covers the impact of exemptions on local government finances, administrative workload, and non-exempt citizens.
 - VA TAX: Fiscal data on the real property exemptions for tax year 2020.
 - Includes data from all localities.
 - Provides data on only real property exemptions.
 - APA: FY2019 Comparative Report of Local Government Revenues and Expenditures.
 - Includes data from all localities.
 - Provides data on local revenues and budgets.



ANALYSIS PARAMETERS

- Results include only cities and counties.
 - Complexity and quality of data provided by towns have limited the amount of analysis staff could perform.
- Results are aggregated to provide anonymity.
- Survey results include some FY 2020 and FY 2021 data whatever was the most recently available.
- Results for personal property are estimates/projections from localities.



NUMBER OF CLAIMS FOR EXEMPTIONS

Number of Citizens Applying for Real and/or Personal Property Exemptions per Locality – Statewide Summary Statistics

Summary Statistics	Real Property	Personal Property	
	Disabled Veterans	Surviving Spouse	Exemption ²
Average	252	13	244
Median	95	4	79
Minimum	3	0	0
Maximum	2,682	326	3,100
Total Claims	27,400	1,300	27,800

¹ Source: Department of Taxation, Summary of Tax Exempt and Tax Immune Real Property, Tax Year 2020. N = 133.

² Source: Commission on Local Government, Commission on Local Government Mandatory Property Tax Exemptions Study, 2021. N = 114. Amounts are estimated.



NUMBER OF CLAIMS FOR EXEMPTIONS





FOREGONE TAX REVENUE FROM EXEMPTIONS

Foregone Tax Revenue from Real or Personal Property Exemptions per Locality – Statewide

Summary Statistics (values rounded to nearest hundredths)

Summary Statistics	Real Property Exemption ¹			Personal Property
	Disabled Veteran	Killed In Action	Total	Exemption ²
Average	\$534,100	\$13,000	\$542,900	\$164,000
Median	\$75,800	\$0	\$77,900	\$39,000
Minimum	\$0	\$0	\$0	\$0
Maximum	\$16,514,00	\$730,400	\$16,601,200	\$2,300,000
Total Foregone Tax Revenue	\$71,033,500	1,717,600	\$72,751,100	\$18,527,900

¹ Source: Department of Taxation, Summary of Tax Exempt and Tax Immune Real Property, Tax Year 2020. N = 133.

² Source: Commission on Local Government, Commission on Local Government Mandatory Property Tax Exemptions Study, 2021. N = 114. Amounts are estimated.



FOREGONE TAX REVENUE FROM EXEMPTIONS





FOREGONE TAX REVENUE v. TOTAL REVEUES





IMPACT ON NON-EXEMPT PROPERTY

- ~A third of localities stated that the real property exemption would cause their revenues to decrease.
 - However, ~50% of respondents (54 for real estate, and 61 for personal property), stated that their revenues would remain constant, despite the tax exemptions.
- On average, the lost revenue from the real estate exemption represents 8 tenths of 1 cent (0.008/100\$assessed value) of real estate taxes.
 - The median value reported was 0.003 cents per \$100 in assessed value
 - 19 localities indicated that the loss tax revenue equaled at least a cent on their real estate rate, and only 5 stated the loss revenue was greater than two cents.



- Many localities stated that the exemptions had minimal impacts on local workloads and/or and were assumed by their existing fiscal or finance operations.
- Additionally, the burden of advertising the exemptions were marginal for nearly all localities.
 - Most provide information of the exemptions through existing platforms, including webpages, phone messages, mailer, and a variety of other methods.



RECCOMENDATIONS

• Reimbursement:

- Reimbursement of a portion of the revenue loss experienced by localities. This could take into account a range of variables, including:
 - Varying percentages of reimbursement.
 - Flat percentage rate across state.
 - Cost share of total costs, or cost share above certain total or percentage threshold.
 - Fiscal stress index scoring of the locality.
 - \$19.3 and \$5.7 million in relief for real property and/or personal property if 100% relief to above average/high stress localities.



RECCOMENDATIONS

• Process Improvements:

- Instituting a first day introduction requirement on legislation with a local fiscal impact
- Legislature education
- "Speed bumps"
 - Policy that could place a minimum fiscal impact on legislation causing a net reduction on local revenues.
 - Creation of a policy that would trigger interim legislative studies on legislation that exceeds certain fiscal impact thresholds

Continued analysis of exemptions not studied in this report.



Mandatory Property Tax Exemption Study Commission Deliberation and Action

Dr. Davis

This item requires Commission approval.

2021 Cash Proffer Survey and Report Staff Presentation

Mr. Anderson

2020-2021 CASH PROFFER SURVEY

Cody Anderson

Policy Analyst

Virginia Department of Housing and Community Development





Proffers

A proffer is a voluntary offer from a property owner as implied by § 15.2-2296 Code of Virginia and can be an act, donation of money, a product or services that limit or qualify how the property subject of the conditions will be used or developed.

Cash Proffers

Cash Proffers are a form of conditional zoning that are generally used to offset the impacts of a particular development



WHO IS ELIGIBLE?

§ 15.2-2303: County with an urban county executive form of government (Fairfax) or any city, county or town with certain adjacent/contiguous proximity to counties with urban executive form.

§ 15.2-2298: Any locality with a decennial census growth rate >5% or cities, counties, and towns with certain adjacent/contiguous proximity to localities with a 5% growth rate

§ 15.2-2303.1: New Kent County

Localities Authorized to Accept Cash Proffers in Virginia



FY2021 SURVEY

Results

- Expenditures equaled \$103 million, which was a 108.2% increase.
- Revenues collected equaled \$101 million, which was a 21.6% increase
- 4 Cities, 22 Counties, and 4 Towns reported cash proffers collected or expended in FY 2021



LOCALITIES REPORTING CASH PROFFER ACTIVITY, FY2000-FY2021

⊠ Towns ⊠ Cities ⊠ Counties









TRENDS

2019 Legislation

Effects of the 2019 legislation are yet to be determined. While slightly less localities utilized cash proffer collection, revenues rose substantially. It should also be noted that three localities that traditionally accepted proffers failed to complete the survey, and had they reported, the number of loclaities collecting proffers would have remained constant.

Revenue & Expenditures

Consistent with the FY2020 data, both revenues and expenditures grew in FY2021. There was an extreme jump in expenditures, however this can be attributed to an outlier where a single locality expended over \$45 million on parks, recreation, and open space. This was a dramatic climb of 48.74% in that category due to a single locality.

Compliance

As a result of the 2016 legislative change that limited the categories which proffers may be collected for (transportation improvements, schools, public safety, and parks and recreation), three of those categories are the highest categories of expenditures. Localities have 12 years to expend collected proffers. It is also worth noting that those categories may continue to be utilized for proffers but only for commercial rezoning purposes.

2021 Cash Proffer Survey and Report Commission Deliberation and Action

Dr. Davis

This item requires Commission approval.

FY2019 Fiscal Stress Report Staff Presentation

Ms. Wheaton
Fiscal Stress Report FY 2019

November 4th, 2021





The **Fiscal Stress** of a locality is gauged through measuring the following elements:

- **Revenue Capacity**: An estimate of how much revenue a locality could generate if it taxed its population at statewide average rates.
- **Revenue Effort**: The ratio of actual tax collections by a locality to its computed revenue capacity.
- Median Household Income: The level at which exactly half of the households in a jurisdiction earn more and the other half earns less.

These items are averaged together to produce the **Fiscal Stress Index**, which provides a relative ranking of all localities. The statewide mean always equals 100, with higher scores indicating greater relative stress.





- Hopewell remains delinquent on their report to the APA for FY18 AND 19.
 - Per prior CLG practice, used FY2017-18 data for calculations.
- Retrospective two year lag in the data.
 - NO impacts from Covid-19 (see the Local Vulnerability Analysis)
 - But does provide insight as to the fiscal conditions of localities leading into the crisis.
- The Fiscal Stress Index is relative it compares localities to other localities and the state average.
 - Persistent divide between counties and cities in terms of fiscal health.



For a given year, the **Fiscal Stress** of a locality measures its ability to generate additional local revenues from its current tax base, relative to the state. For FY 2019:

- The average stress value for Virginia's cities (103.15) is substantially greater than the average for its counties (98.94).
- 70 localities, comprised of 32 cities and 38 counties, are experiencing above average or high fiscal stress.
 - Nearly all (22 of 23) high stress localities are cities.
- Since FY 2018, 6 localities improved their stress category, while 3 declined.



FISCAL STRESS

Highest Stress Localities			
Locality	Score	Rank	
Emporia City	107.60	1	
Bristol City	107.51	2	
Martinsville City	106.97	3	
Petersburg City	106.60	4	
Franklin City	106.24	5	
Hopewell City	106.19	6	
Covington City	106.16	7	
Buena Vista City	106.10	8	
Galax City	106.10	9	
Danville City	105.84	10	

Lowest Stress Localities		
Locality	Score	Rank
Clarke County	94.37	124
Fauquier County	93.99	125
Rappahannock County	93.62	126
Fairfax City	93.48	127
Fairfax County	92.95	128
Bath County	92.02	129
Loudoun County	91.90	130
Arlington County	91.55	131
Goochland County	91.13	132
Falls Church City	90.40	133









REVENUE CAPACITY

Revenue Capacity estimates how much revenue a locality could generate if it taxed its population at statewide average rates (including only own-source revenues). For FY2019:

- The average per capita Revenue Capacity statewide was \$2,557.78. The average per capita Revenue Capacity for counties was \$2,760.99 or \$2,032.15 for cities.
- The maximum per capita Revenue Capacity was \$5,824.97 in Bath County, and the lowest value was \$1011.17 in Radford City.
- Average Revenue Capacity growth increased from 1.81% to 2.81% from FY 2018 to FY 2019.
- Greensville County is an outlier, increasing their Revenue Capacity 25% from FY 2018 to FY 2019.



REVENUE CAPACITY





Revenue Effort measures how much revenue a locality collects compared to its computed Revenue Capacity. For FY 2019:

- The maximum Revenue Effort was 1.7173 in Bristol City, and the lowest was 0.5026 in Bedford County.
- The statewide average for Revenue Effort was 1.0067. The average Revenue Effort was 0.8843 for counties or 1.2904 for cities.
 - Revenue Effort for all cities (except Poquoson) is greater than the state average.
- The average annual percent change in Revenue Effort since 2010 was 0.38%.



REVENUE EFFORT





Median Household Income represents the level at which exactly half of the households in a locality earn more and the other half earns less. For FY 2019:

- The maximum Median Household Income was \$151,806 in Loudon County, and the lowest was \$35,878 in Lee County.
- The statewide average for Median Household Income was \$62,429.89; 86 localities report a Median Household Income lower than that statewide average.
- The average annual percent change in Median Household Income since 2010 was 2.80%.



MEDIAN HOUSEHOLD INCOME





Many of the elements of the Fiscal Stress Report remain similar year to year.

- The difference between city and county stress levels, revenue capacity, and revenue effort are persistent themes.
- However, there are a few changes year to year worth consideration, such as Greensville County.

Looking forward . . .

- FY 2020 will include the first quarter with COVID-19 data.
 - This report will provide valuable information as to which localities were impacted the greatest by the pandemic.
- Impacts of reversion on scores.



Municipal Utility Data Reports Staff Presentation

Mr. Anderson

Fall 2021 Utility Reports

Cody Anderson, Policy Analyst



VIRGINIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT Partners for Better Communities

Reporting Requirements

Item 4-14.00 Paragraph 7h of the 2020 Appropriations Act, as amended:

h. Utilities not subject to regulation by the Commission shall submit information on the status of customer accounts to the Commission on Local Government managed by the Department of Housing and Community Development, including (a) the number and value of accounts that are at least 30 days in arrears; (b) the number and value of accounts that are at least 60 days in arrears; (c) the number, total value, and average debt of accounts that are participating in the Repayment Plan, or another repayment plan as set forth by the utility; (d) the number of accounts removed from the Repayment Plan, or another repayment plan as set forth by the utility, categorized by reason; (e) the amount of and average debt still remaining for accounts removed from the Repayment Plan or another repayment plan as set forth by the utility; (f) the carrying costs of the debt for accounts participating in a repayment plan and any associated administrative costs incurred; (g) the number, total value, and average debt of accounts offset by the funds provided in Item 479.10, paragraph B.2. of this act and local programs using Coronavirus Relief Funds, categorized by days in arrears, customer account type, and Coronavirus Relief Fund type; and, (h) the cumulative level of customer arrearages by locality. The Commission on Local Government shall provide the Chairs of the House Committees on Labor and Commerce and Appropriations, the Senate Committees on Commerce and Labor and Finance and Appropriations, and the Secretary of Commerce and Trade an aggregated anonymized report by utility containing such compiled information by December 31, 2020, within 90 days of the expiration of the universal prohibition established in clause 7.a., and annually, on or before December 31st, thereafter for the following two years. The report due on December 31, 2020 shall cover the period from March 16, 2020 through December 15, 2020. The report due within 90 days of the end of the universal prohibition established in clause 7.a. shall cover the period from December 16, 2020 to the end of the universal prohibition established in clause 7.a. Annual reports shall cover the period from the end of the universal prohibition established in clause 7.a. to December 16th of the year the report is due.

For the purposes of this presentation, I will refer to this as "Old Budget".

Chapter 1 of Special Session II of the 2021 Acts of Assembly:

e) The Department of Housing and Community Development shall survey municipal utilities to determine the amount of unspent utility assistance funds previously provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), as well as the level of outstanding customer arrearages as of August 31, 2021, from March 12, 2020. The information collected shall include the number and value of accounts that are at least 60 days in arrears disaggregated by residential, business, and industrial users. Utilities not subject to the regulation of the State Corporation Commission shall submit the required information to the Department in a timely manner. The Department shall submit a report on its findings to the Governor and the Chairs of the House Appropriations Committee and Senate Finance and Appropriations Committee by November 1, 2021.

Old Budget Data

December 16, 2020, through the end of the Moratorium on Disconnection of Utilities (August 31, 2021)

Questions

- The number and value of accounts that are at least 30 days in arrears;
- The number and value of accounts that are at least 60 days in arrears;
- The number, total value, and average debt of accounts that are participating in the Repayment Plan, or another repayment plan as set by the utility;
- The number of accounts removed from the Repayment Plan, or another repayment plan as set forth by the utility, categorized by reason;
- The amount of and average debt still remaining for accounts removed from the Repayment Plan or another repayment plan as set forth by the utility;
- The carrying costs of the debt for accounts participating in a repayment plan and any associated administrative costs incurred;
- The number, total value, and average debt of accounts offset by the funds provided in Item 479.10, paragraph B.2. of this act and local programs using Coronavirus Relief Funds, categorized by days in arrears, customer account type, and Coronavirus Relief Fund Type; and;

• The cumulative level of customer arrearages by locality Old Budget; Reporting Period: Dec. 16 2020 - Aug. 31, 2021



General Accounts Data

Number of Accounts



Value of Accounts



Repayment Plan Data

- Accounts Participating in Repayment Plans: 26,391
- Total Outstanding Debt of Accounts Participating in Repayment Plans: \$17,969,401.97
- Total Debt of Accounts Removed from Plans: \$3,286,645.54
- Debt Average Range:
- Debt Average Median:

Accounts Removed from Plans



Accounts Removed From Repayment Plan for Becoming Current (6,168)
Accounts Removed from Repayment Plan for Other Reasons (7,692)

Repayment Plan Administrative and Carrying Costs

• Very few utility providers tracked additional administrative and carrying costs associated with operating repayment plans.

Carrying and Admin Costs



Residential Accounts 30 or More Days in Arrears Offset by Various Funding Methods

Number of Accounts



Value of Accounts



Residential Accounts 60 or More Days in Arrears Offset by Various Funding Methods

Number of Accounts



Value of Accounts



Non-Residential Accounts 30 or More Days in Arrears Offset by Various Funding Methods

Number of Accounts



Value of Accounts



Non-Residential Accounts 60 or More Days in Arrears Offset by Various Funding Methods

Number of Accounts



Value of Accounts



Comparative Analysis

December 2020 Report (March 16, 2020 – December 15, 2020) v. November 2021 Report (December 15, 2020 – August 31, 2021)

Accounts in Arrears and Values of Accounts



Repayment Plan Statistics

Accounts Removed From Repayment Plans



Debt of Accounts Removed from Repayment Plans

TOTAL DEBT OF ACCOUNTS REMOVED FROM REPAYMENT PLANS



Repayment Plan Statistics

Number of Accounts on Repayment Plans



Debt of Accounts on Repayment Plans



Municipal Utility Relief Program Comparison (60 or More Days in Arrears)



New Budget Data

March 12, 2020, through August 31, 2021

Questions

- What is the total value of unspent CARES Act utility assistance funds in your accounts?
- What is the total amount of customer arrearages as of 8/31/2021?
- What is the number and value of residential accounts as of 8/31/2021?
- What is the number and value of business accounts as of 8/31/2021?
- What is the number and value of industrial accounts as of 8/31/2021?

New Budget; Reporting Period: March 12, 2020 - Aug. 31, 2021



Unspent CARES v. Outstanding Customer Arrearages



New Budget

Accounts and Values of Accounts 60 or More Days in Arrears

Number of Accounts

Number of Accounts 60+ Days in Arrears



Value of Accounts



New Budget; Reporting Period: March 12, 2020 - Aug. 31, 2021

Municipal Utility Data Reports Commission Deliberation and Action

Dr. Davis

This item requires Commission approval.

Schedule of Regular Meetings: Proposed 2022 Schedule Staff Presentation

Mr. Anderson

Schedule of Regular Meetings: Proposed 2022 Schedule

- Based on 2021 Commission Meeting Cycle: 2nd Thursdays in odd-numbered months
- Thursday, January 13, 2022
 - Martin Luther King, Jr., Day: Monday, January 17, 2022
 - 2nd day of 2022 General Assembly Session (tentative)
 - Consider Thursday, January 6, 2022, as an alternative
- Thursday, March 10, 2022
- Thursday, May 12, 2022
 - Mother's Day: Sunday, May 8, 2022
- **Thursday, July 14, 2022**
 - Independence Day: Monday, July 4, 2022

- Thursday, September 8, 2022
 - Labor Day: Monday, September 5, 2022
- Thursday, November 10, 2022
 - Election Day: Tuesday, November 8, 2022
 - Veterans Day: Friday, November 11, 2022
 - 2022 Virginia Governor's Housing Conference: usually week before Thanksgiving (November 24, 2022)
 - Consider Thursday November 3, 2022, as an alternative
- Proposed Meeting Location
 - Henrico County EDA
 - Others?

Schedule of Regular Meetings: Proposed 2022 Schedule Commission Deliberation and Action

Dr. Davis

This item requires Commission approval.

Upcoming Events of Interest

Mr. Anderson

Upcoming Events of Interest

2021 Virginia Association of Counties Annual Conference

- November 13th 16th in Norfolk
- 2021 Virginia Governors Housing Conference
 - ► November 10th through 12th in Norfolk

Other Items?

Dr. Davis

Adjournment

Dr. Davis