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# 2022~~1~~ DRAFT FINANCE POLICY STATEMENT

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~~The challenges confronting the American economy today are the most formidable since the Great Depression. The number of unemployed has ballooned to the tens of millions. Small and large businesses struggle to stay financially afloat. The battle against the Coronavirus threatens our citizens' health both physically and mentally.~~

~~Within this sea of uncertainty More than a year into 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.~~

~~Without minimizing the seriousness of the nation's current economic woes, 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 is providing financial support to states and localities at historic levels, 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 ~~evolving now 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 ~~ishas~~ fundamentally restructuring the business landscape. ~~It is apparent that for the foreseeable future the Internet will grab an even greater hold on American business even as Virginia strives to wean itself from decades of economic stimulus fueled by federal defense spending.~~

To that end, these principles are essential:

- Local revenue sources should be balanced and diversified over three broad bases – assets (property), consumption (sales), and income.
- The local tax system should be logical and professionally administered. Taxpayers should be treated fairly, and compliance costs should be minimized.
- The burden of taxation, as well as the benefits of services, should be shared and enjoyed by all whether they are residents or local businesses.
- 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 manufacturers.
- State-imposed changes on local tax structures should be simple to administer and, at a minimum, be revenue neutral to the locality.

- 1 • State-mandated tax relief programs  
2 should not use local revenues. State-  
3 adopted tax relief programs should  
4 rely only on state revenues.
- 5 • The State should not create real  
6 estate tax relief programs unless it is  
7 willing to pay for the cost of the  
8 programs.
- 9 • Local tax dollars should not be  
10 claimed by the state to cover the  
11 Commonwealth’s revenue needs.  
12 This includes, but is not limited to,  
13 local fines and forfeitures,  
14 recordation fees, in addition to and  
15 revenues tied to the Communications  
16 Sales and Use Tax.
- 17 • Any legislation with local fiscal  
18 impact should be introduced no  
19 later than the first week of a General  
20 Assembly session. Such legislation  
21 should be pre-filed prior to the  
22 convening of a regular session.
- 23 • Local government representatives  
24 should be included on any “blue  
25 ribbon” commission or other body  
26 established by the state that has as its  
27 purpose changes to state and local  
28 revenue authority or governance.  
29

30 **Fiscal Challenges Confronting Local**  
31 **Governments**

32 The existing local tax structure is overly  
33 dependent upon general property taxes,  
34 specifically real estate taxes, which are  
35 regressive to many tax payers.

- 36
- 37 • Unfunded and inadequately funded  
38 state mandates and commitments  
39 strain local government budgets and  
40 place additional pressures on the real  
41 estate tax. State-initiated services  
42 and programs should be supported  
43 by state funds, not rely on local  
44 funds to supplant state dollars. Line

- 45 of Duty benefits for First Responders  
46 is one such example.
- 47 • ~~Public~~ Demands for public services  
48 continue to increase. These services  
49 include education, mental health,  
50 other human services programs,  
51 juvenile programs, environmental  
52 initiatives, economic development,  
53 recreation, and public safety. These  
54 services have both operating and  
55 capital costs and must be funded.
- 56 • Local revenue collections and  
57 service demands are also influenced  
58 by variables outside the control of  
59 councils and boards of supervisors.  
60 These include changes in federal tax,  
61 budget, and fiscal policies; long-term  
62 economic trends; the aging of our  
63 citizens; and global events.  
64

65 **Strengthening the Local Tax Base**

66 Depending on the particulars of any given  
67 proposal, possible options to broaden local  
68 tax bases include reserving a portion of the  
69 state income tax for locally-delivered  
70 programs, authorizing a local option “piggy-  
71 back” income tax for both general and  
72 special purposes, increasing the local option  
73 sales tax rate, reducing the number of sales  
74 tax exemptions, expanding the sales tax  
75 base, and reducing the number of  
76 exemptions from the business license tax.  
77

78 The state can also take actions to prevent the  
79 further erosion of local revenues by not  
80 restricting local tax authority, imposing new  
81 spending requirements or expanding existing  
82 ones on services delivered by local  
83 governments, shifting state funding  
84 responsibilities onto local governments,  
85 expanding retirement and other healthcare  
86 benefits, and placing administrative burdens  
87 on local governments for state or joint  
88 programs.  
89

1 **Specific Tax Issues**

2 VML opposes the repeal or restriction of  
3 BPOL, machinery and tools, or excise taxes  
4 unless, at a minimum, suitable revenue-  
5 neutral replacement sources are provided.  
6

7 The state and federal government should  
8 make payments-in-lieu-of-taxes for tax-  
9 exempt properties in amounts equal to the  
10 cost of the local services provided as well as  
11 related infrastructure improvements.  
12

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

19 VML supports current state statutory  
20 requirements governing the setting of real  
21 estate tax rates and the integration of this  
22 process with the budget development  
23 process. Changes to these processes cannot  
24 be addressed separately without placing  
25 undue hardship and increased costs on local  
26 taxpayers. Any future state legislative  
27 change should be simple to administer and  
28 not contradict, impede or hinder the others.  
29

30 The Virginia Communication Sales and Use  
31 Tax was enacted to establish a statewide tax  
32 rate and to preempt local taxes on  
33 communication sales and services. As such,  
34 the revenues from this tax must be  
35 distributed exclusively to eligible local  
36 governments. VML supports setting the tax  
37 rate on par with the state sales tax rate and  
38 broadening the coverage of the tax to  
39 include audio and video streaming services  
40 and prepaid calling services.  
41

42 In taking state action to regulate private  
43 enterprises employing a business model that  
44 emphasizes the use of the internet to either  
45 provide retail or facilities or ride-sharing  
46 services, local government interests should

47 be acknowledged, and localities should be  
48 included in the decision-making.  
49

50 As general principles, VML believes state  
51 and local policies should 1) encourage a  
52 level playing field for competing services in  
53 the market place; 2) not provide a tax  
54 preference or tax policy advantage for one  
55 group at the expense of another group in the  
56 competitive field; 3) seek to preserve state  
57 and local revenue; 4) ensure safety,  
58 reliability, and access for consumers,  
59 providers, and the public; and 5) protect  
60 local government’s ability to regulate  
61 businesses whether they are traditional,  
62 electronic, Internet-based, virtual or  
63 otherwise.  
64

65 VML also believes that the state should not  
66 prohibit the sharing of financial information  
67 between the Commonwealth and appropriate  
68 local authorities that is normally treated as  
69 part of the public domain. VML further  
70 believes that the state should not prohibit a  
71 locality from exercising its authority to enter  
72 into voluntary collection agreements  
73 provided that such agreements include  
74 provisions to protect the public’s interest.  
75 *(this language was moved from the 2021*  
76 *legislative program)*  
77

78 Article X of the Virginia Constitution  
79 mandates that all real and personal property  
80 be assessed at fair market value and that all  
81 property not constitutionally exempt be  
82 taxed.  
83

84 Taxpayers have the right to contest property  
85 assessments through administrative and  
86 legal means. Taxpayers pay no local fees to  
87 challenge real property and personal  
88 property assessments. If taxpayers are  
89 displeased with the determinations made by  
90 their local commissioner of the revenue or  
91 other local assessing official, additional real  
92 property appeals can be submitted to the

1 local Boards of Equalization. Taxpayers can  
2 also appeal real and personal property  
3 assessments in the Circuit Courts and, if still  
4 aggrieved, may appeal to the Virginia  
5 Supreme Court.

6  
7 Reforms enacted in the 2011 Session of the  
8 General Assembly lowered the level of  
9 proof required by the taxpayer (from “clear  
10 preponderance” to “preponderance”) to  
11 prove property is valued at more than fair  
12 market value or that the assessment is not  
13 uniform in its application and that it was not  
14 developed in accordance with generally  
15 accepted appraisal practices and applicable  
16 Virginia law relating to property valuation.

17  
18 In 2017, there were more than 3.1 million  
19 taxable parcels and 20,777 appeals of which  
20 10,472 were administratively resolved.  
21 Another 2,341 appeals were granted by local  
22 Boards of Equalization. Taxpayers filed 18  
23 appeals in circuit courts of which seven  
24 were granted.

25  
26 VML does not believe the assessment  
27 appeals process is flawed or in need of  
28 major policy changes and opposes statutory  
29 changes that would upend a process that  
30 protects taxpayers and the public.

31 *(This language was moved from the 2021*  
32 *Legislative Program)*

33  
34 ~~VML supports state legislation to make clear~~  
35 ~~that transient occupancy taxes and sales~~  
36 ~~taxes are applied on the cost of the room~~  
37 ~~paid by the consumer, regardless of the~~  
38 ~~means (such as online travel companies)~~  
39 ~~used to reserve a room. (2021 legislation~~  
40 ~~was approved)~~

## 41 **Specific Budget Issues**

42  
43 In 1979, Virginia made sweeping changes in  
44 local governmental boundary change and  
45 transition issues, including a moratorium on  
46 city annexations that remains in place. In

47 recognition of the lost revenue growth for  
48 cities, the General Assembly approved some  
49 changes in state funding commitments for  
50 selective programs and created a program of  
51 state assistance to local police departments  
52 (HB 599). Almost 70 percent of Virginians  
53 now live in communities served by police  
54 departments.

55  
56 The state has increasingly de-emphasized its  
57 statutory commitment to the “HB 599”  
58 program but has never compromised on the  
59 annexation moratorium. VML calls on the  
60 state to honor its commitment to public  
61 safety by funding the program in amounts  
62 intended in the enabling legislation and  
63 restoring the “funding floor.”

64  
65 The state must be a reliable funding partner  
66 in accordance with the Virginia Constitution  
67 and state statutes. The Standards of Quality  
68 should recognize the resources, including  
69 positions and capital needs, required for a  
70 high-quality public education system. The  
71 SOQ should reflect prevailing practices  
72 across the state, and the actual costs to  
73 educate Virginia’s children. This includes  
74 the cost to educate at-risk students, students  
75 in jeopardy of failing the state’s Standards  
76 of Learning tests, students with special  
77 needs, and school construction, renovation,  
78 and maintenance.

79  
80 The state should fully recognize and fund  
81 the costs of rebenchmarking of the various  
82 educational programs, including the  
83 Standards of Quality, incentive, categorical,  
84 and school facilities programs as well as  
85 support services. Changing the process of  
86 rebenchmarking to artificially lower  
87 recognized costs like inflation does not  
88 change what it actually costs to provide  
89 education. Instead, it simply transfers  
90 additional costs to local governments and  
91 the real estate tax base.

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

47 maintenance, ports, airports, and freight and  
48 passenger rail to promote economic  
49 development and public safety.  
50  
51 The state should continue to base its funding  
52 of retirement plans based on the contribution  
53 rates certified by the Virginia Retirement  
54 System.  
55  
56 VML supports increased state funding for  
57 the statewide network of planning district  
58 commissions/regional councils  
59 (PDCs). PDCs carry out efforts supported by  
60 state and local policy makers to advance and  
61 sustain regional coordination, cooperation,  
62 and technical assistance for the benefit of  
63 regions across the Commonwealth.  
64 *(This language was in the 2021 legislative*  
65 *program)*  
66  
67 VML supports transparency in budgeting at  
68 both the state and local level. To that effect,  
69 the state should not disguise its budget  
70 reductions by using unidentified or non-  
71 specific reductions for aid to localities.  
72  
73 As a matter of fiscal reform, the state should  
74 develop financial priorities that account for  
75 both spending and revenue actions. The  
76 debate on such priorities should be public  
77 and should be transparent to the public in the  
78 Governor’s Budget Bill and the General  
79 Assembly’s Appropriation Act. For  
80 example, should education funding be  
81 afforded less priority than certain tax  
82 preferences?  
83  
84 **Governmental Accounting Standards**  
85 **Board (GASB)**  
86 The Governmental Accounting Standards  
87 Board (GASB) has put in place standards  
88 regarding the reporting of unfunded  
89 liabilities of cost-sharing plans. A cost-  
90 sharing plan is one in which participating  
91 government employers pool their assets and  
92 their obligations for a defined benefit

1 pension, such as Virginia’s teacher  
2 retirement plan. While the costs are shared,  
3 the state sets the rules regarding what  
4 benefits are required and what the state  
5 contribution will be.  
6 GASB requires that the unfunded liability be  
7 apportioned among the participating  
8 employers that pay the retirement  
9 contributions to the pension plan. Teachers  
10 are employees of the school boards, which  
11 send retirement contributions to VRS.

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

19  
20 The intent of GASB rules is to encourage  
21 transparency in pinpointing liabilities and  
22 the current method of assigning those  
23 teacher pension liabilities only to school  
24 divisions contravenes the goal of  
25 transparency.

26  
27 Because there was not a process for  
28 apportioning the liabilities for these cost  
29 sharing plans, they previously had not been  
30 reported at the local level.

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

36  
37 VML supports state policy changes that  
38 would provide for the Virginia Department  
39 of Education to pay the Commonwealth’s  
40 share of retirement costs directly to the  
41 Virginia Retirement System to facilitate the  
42 sharing of these liabilities.

43

#### 44 **Government Reform**

45 VML supports a comprehensive review of  
46 the services provided by state and local

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

62

#### 63 **Tax and Spending Reform**

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