
2022~~1~~ DRAFT FINANCE POLICY STATEMENT

~~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)~~

42 **Specific Budget Issues**

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.