



BETTER COMMUNITIES THROUGH SOUND GOVERNMENT

2021 Finance Policy Statement

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

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6 Within this sea of uncertainty local governments must reexamine the array of critical services provided to
7 our citizens and the means we have at our disposal to pay for them. State laws, local ordinances, tax
8 structures, licenses and regulations will have to be re-evaluated and re-tooled without sacrificing the overall
9 quality of basic government services, including education, public health, and public safety.

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11 Without minimizing the seriousness of the nation's current economic woes, there are important economic
12 trends to recognize.

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14 The American economy is dynamic, continually transforming from agrarian to industrial, from industrial to
15 services-driven, and evolving now to Internet-based businesses harnessing the power of the Digital Age. The
16 growth in online-enabled platforms that connect customers with companies and private individuals offering
17 services and property for sale or lease is fundamentally restructuring the business landscape. It is apparent
18 that for the foreseeable future the Internet will grab an even greater hold on American business even as
19 Virginia strives to wean itself from decades of economic stimulus fueled by federal defense spending.

20
21 To that end, these principles are essential:

- 22 • Local revenue sources should be balanced and diversified over three broad bases – assets (property),
23 consumption (sales), and income.
- 24 • The local tax system should be logical and professionally administered. Taxpayers should be treated
25 fairly, and compliance costs should be minimized.
- 26 • The burden of taxation, as well as the benefits of services, should be shared and enjoyed by all
27 whether they are residents or local businesses.
- 28 • Tax policy should recognize the different economic, demographic, and service demands among
29 localities, and should foster local control to develop tax policies best suited for their communities.

- 30 • Tax policy should recognize and be responsive to the competitive nature of the free market, should
31 refrain from enacting policies that are too generous for one group, and should not place undue
32 burdens on particular groups, including business and manufacturers.
- 33 • State-imposed changes on local tax structures should be simple to administer and, at a minimum, be
34 revenue neutral to the locality.
- 35 • State-mandated tax relief programs should not use local revenues. State-adopted tax relief programs
36 should rely only on state revenues.
- 37 • The State should not create real estate tax relief programs unless it is willing to pay for the cost of the
38 programs.
- 39 • Local tax dollars should not be claimed by the state to cover the Commonwealth's revenue needs.
40 This includes, but is not limited to, local fines and forfeitures in addition to revenues tied to the
41 Communications Sales and Use Tax.
- 42 • Any legislation with local fiscal impact should be introduced no
43 later than the first week of a General Assembly session. Such legislation should be pre-filed prior to
44 the convening of a regular session.
- 45 • Local government representatives should be included on any "blue ribbon" commission or other body
46 established by the state that has as its purpose changes to state and local revenue authority or
47 governance.

48

49 Topics addressed in this statement:

- 50 • Fiscal challenges confronting local governments
- 51 • Strengthening the local tax base
- 52 • Specific tax issues
- 53 • Specific budget issues
- 54 • Governmental accounting standards board (GASB)
- 55 • Government reform
- 56 • Tax and spending reform

57

58 **Fiscal Challenges Confronting Local Governments**

59 The existing local tax structure is overly dependent upon general property taxes, specifically real estate taxes,
60 which are regressive to many taxpayers.

- 61 • Unfunded and inadequately funded state mandates and commitments strain local government budgets
62 and place additional pressures on the real estate tax. State-initiated services and programs should be
63 supported by state funds, not rely on local funds to supplant state dollars. Line of Duty benefits for
64 First Responders is one such example.
- 65 • Public demands for public services continue to increase. These services include education, mental
66 health, other human services programs, juvenile programs, environmental initiatives, economic
67 development, recreation, and public safety. These services have both operating and capital costs and
68 must be funded.
- 69 • Local revenue collections and service demands are also influenced by variables outside the control of
70 councils and boards of supervisors. These include changes in federal tax, budget, and fiscal policies;
71 long-term economic trends; the aging of our citizens; and global events.

72

73 **Strengthening the Local Tax Base**

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

79

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

84

85 **Specific Tax Issues**

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

88

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

91

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

94

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

99

100 The Virginia Communication Sales and Use Tax was enacted to establish a statewide tax rate and to pre-
101 empt local taxes on communication sales and services. As such, the revenues from this tax must be
102 distributed exclusively to eligible local governments. VML supports setting the tax rate on par with the state
103 sales tax rate and broadening the coverage of the tax to include audio and video streaming services and
104 prepaid calling services.

105

106 VML supports state legislation to make clear that transient occupancy taxes and sales taxes are applied on
107 the cost of the room paid by the consumer, regardless of the means (such as on-line travel companies) used
108 to reserve a room.

109

110 **Specific Budget Issues**

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

116

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

121

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

128

129 The state should fully recognize and fund the costs of re-benchmarking of the various educational programs,
130 including the Standards of Quality, incentive, categorical, and school facilities programs as well as support
131 services. Changing the process of re-benchmarking to artificially lower recognized costs like inflation does
132 not change what it actually costs to provide education. Instead, it simply transfers additional costs to local
133 governments and the real estate tax base.

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135 The Commonwealth should:

- 136 • Study the Standards of Accreditation and Standards of Learning to determine which standards impose
137 costs on local governments that are not recognized in state funding formulas. In particular, changes
138 adopted since 2009 to SOAs and SOLs should be examined, as state funding on a per-pupil basis and
139 accounting for inflation and enrollment growth remains below 2009 appropriated levels.
- 140 • Re-examine those Standards of Quality that the Board of Education has recommended, but that the
141 General Assembly has not funded. These standards reflect prevailing practices necessary to improve
142 children’s academic performance. Student academic performance is required for schools to meet the
143 accountability standards under the SOL and SOA. If funding is not available to pay for prevailing
144 practices, the accountability standards should be adjusted so that local governments are not in the
145 position of having to bear the entire burden of meeting these unfunded mandates.
- 146 • Conduct a study that examines how other states fund education and whether the Commonwealth
147 should use a funding strategy that establishes a more realistic base foundation amount per pupil –
148 plus add-on funding to reflect higher costs for educating at-risk, disabled, ESL, and gifted students,
149 etc. as well as funding for capital costs.

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151 The state should provide sufficient funding for highway construction and maintenance, public transportation
152 infrastructure and maintenance, ports, airports, and freight and passenger rail to promote economic
153 development and public safety.

154

155 The state should continue to base its funding of retirement plans based on the contribution rates certified by
156 the Virginia Retirement System.

157

158 VML supports transparency in budgeting at both the state and local level. To that effect, the state should not
159 disguise its budget reductions by using unidentified or non-specific reductions for aid to localities.

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161 As a matter of fiscal reform, the state should develop financial priorities that account for both spending and
162 revenue actions. The debate on such priorities should be public and should be transparent to the public in the
163 Governor's Budget Bill and the General Assembly's Appropriation Act. For example, should education
164 funding be afforded less priority than certain tax preferences?
165

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

167 The Governmental Accounting Standards Board (GASB) has put in place standards regarding the reporting
168 of unfunded liabilities of cost-sharing plans. A cost-sharing plan is one in which participating government
169 employers pool their assets and their obligations for a defined benefit pension, such as Virginia's teacher
170 retirement plan. While the costs are shared, the state sets the rules regarding what benefits are required and
171 what the state contribution will be.
172

173 GASB requires that the unfunded liability be apportioned among the participating employers that pay the
174 retirement contributions to the pension plan. Teachers are employees of the school boards, which send
175 retirement contributions to VRS.
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177 Because of this the unfunded liability falls solely on the school boards, even though the retirement
178 contributions are funded, in part, by the state and the school board. This means that the liability will be
179 shown on the city, county or town financial statement.
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181 The intent of GASB rules is to encourage transparency in pinpointing liabilities and the current method of
182 assigning those teacher pension liabilities only to school divisions contravenes the goal of transparency.
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184 Because there was not a process for apportioning the liabilities for these cost sharing plans, they previously
185 had not been reported at the local level.
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187 The unfunded liability should be shared by the state and localities based on the state's Standards of Quality
188 and local composite index and reflected as such in reporting.
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190 VML supports state policy changes that would provide for the Virginia Department of Education to pay the
191 Commonwealth's share of retirement costs directly to the Virginia Retirement System to facilitate the
192 sharing of these liabilities.
193

194 **Government Reform**

195 VML supports a comprehensive review of the services provided by state and local governments. The
196 purpose of the review is to ascertain which services are truly essential to support a productive economy and
197 healthy society; determine the performance level of public services now in place; evaluate the policies and
198 practices used by the state to assign responsibility and accountability between the state and local
199 governments for providing public services; and determine the most effective, efficient and equitable ways to
200 fund essential public services. Such a review must start with a dialog including state and local officials,
201 business interests, academia, and other interested parties.
202

203 **Tax and Spending Reform**

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