



2018 FINANCE POLICY STATEMENT

1 Goals and Principles 41
2 The American economy is dynamic, 42
3 transforming from agrarian to industrial, 43
4 from industrial to services-driven, and 44
5 evolving now to Internet-based businesses 45
6 harnessing the power of the Digital Age. 46
7 The growth in online-enabled platforms that 47
8 connect customers with companies and 48
9 private individuals offering services and 49
10 property for sale or lease is fundamentally 50
11 restructuring the business landscape. As the 51
12 Internet takes a greater hold in American 52
13 business and as Virginia weans itself from 53
14 the economic stimulus of federal defense 54
15 spending, local governments must 55
16 reexamine the services provided to citizens 56
17 and the means to pay for them. State laws, 57
18 local ordinances, tax structures, licenses and 58
19 regulations will have to be re-evaluated and 59
20 re-tooled without sacrificing the overall 60
21 quality of basic government services, 61
22 including education, public health, and 62
23 public safety. 63
24
25 To that end, these principles are essential: 64
26 • Local revenue sources should be 65
27 balanced and diversified over three 66
28 broad bases – assets (property), 67
29 consumption (sales), and income; 68
30 • The local tax system should be logical 69
31 and professionally administered. 70
32 Taxpayers should be treated fairly, and 71
33 compliance costs should be 72
34 minimized; 73
35 • The burden of taxation, as well as the 74
36 benefits of services, should be shared 75
37 and enjoyed by all whether they are 76
38 residents or local businesses. 77
39 • Tax policy should recognize the 78
40 different economic, demographic, and 79
80

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 industry;
• State-imposed changes on local tax
structures should be simple to
administer and, at a minimum, be
revenue neutral; and
• State-mandated tax relief programs
should not use local revenues. State-
adopted tax relief programs should rely
only on state revenues.
• The State should not create real estate
tax relief programs unless it is willing
to pay for the cost of the programs.
• Local tax dollars should not be
claimed by the state to cover the
Commonwealth’s revenue needs. This
includes, but is not limited to, local
fines and forfeitures.
• Any legislation with local fiscal impact
should be introduced no later than the
first week of a General Assembly
session. Such legislation should be
pre-filed prior to the convening of a
regular legislative session.
• Local government representatives
should be included on any “blue
ribbon” commission or other body
established by the state that has as its
purpose changes to local revenue
authority or governance.

1 **Fiscal Challenges Confronting Local**
2 **Governments**

- 3 • The existing local tax structure is
4 overly dependent upon general
5 property taxes, specifically real estate
6 taxes.
- 7 • Unfunded and inadequately funded
8 state mandates and commitments strain
9 local government budgets and place
10 additional pressures on the real estate
11 tax. State-initiated services and
12 programs should be supported by state
13 funds, not rely on local funds to
14 supplant state dollars.
- 15 • Public demands for public services
16 continue to increase. These services
17 include education, mental health, other
18 human services programs, juvenile
19 programs, environmental initiatives,
20 economic development, recreation, and
21 public safety. These services have
22 both operating and capital costs and
23 must be funded.
- 24 • Local revenue collections and service
25 demands are also influenced by
26 variables outside the control of
27 councils and boards of supervisors.
28 These include changes in federal tax,
29 budget, and fiscal policies; long-term
30 economic trends; the aging of our
31 citizens; and global events.

33 **Strengthening the Local Tax Base**

34 Depending on the particulars of any given
35 proposal, possible options to broaden local
36 tax bases include reserving a portion of the
37 state income tax for locally-delivered
38 programs, authorizing a local option income
39 tax for both general and special purposes,
40 increasing the local option sales tax rate,
41 reducing the number of sales tax
42 exemptions, expanding the sales tax base,
43 and reducing the number of exemptions
44 from the business license tax.

46 The state can also take actions to prevent the
47 further erosion of local revenues **by not**
48 restricting local tax authority, imposing new
49 spending requirements or expanding existing
50 ones on services delivered by local
51 governments, shifting state funding
52 responsibilities onto local governments,
53 expanding retirement benefits, and placing
54 administrative burdens on local governments
55 for state or joint programs.

57 **Specific Tax Issues**

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

63 The state and federal government should
64 make payments-in-lieu-of-taxes for tax-
65 exempt properties in amounts equal to the
66 cost of the local services provided.

68 Counties should be granted taxing powers
69 equal to those granted cities and towns,
70 without decreasing, limiting or changing
71 town taxing authority. County excise taxes
72 must not be levied on town residents without
73 the explicit approval by a town’s governing
74 body.

76 VML supports the constitutional
77 requirement for fair market valuation of
78 property. State-imposed changes to the real
79 estate tax must be “local option.” The state
80 should not impose changes to processes
81 governing assessments and appeals for real
82 estate taxes that further degrade this revenue
83 source.

84 VML supports current state statutory
85 requirements governing the setting of real
86 estate tax rates and the integration of this
87 process with the budget development
88 process. Changes to these processes cannot
89 be addressed separately without placing
90 undue hardship and increased costs on local
91 taxpayers. Any future state legislative

1 change should be simple to administer and
2 not contradict, impede or hinder the others.

3
4 The Virginia Communication Sales and Use
5 Tax was enacted to establish a statewide tax
6 rate and to pre-empt local taxes on
7 communication sales and services. As such,
8 the revenues from this tax must be
9 distributed exclusively to eligible local
10 governments. VML supports setting the tax
11 rate on par with the state sales tax rate, and
12 broadening the coverage of the tax to
13 include audio and video streaming services
14 and prepaid calling services.

15
16 VML supports state legislation to make clear
17 that transient occupancy taxes and sales
18 taxes are applied on the cost of the room
19 paid by the consumer, regardless of the
20 means (such as on-line travel companies)
21 used to reserve a room.

22 **Specific Budget Issues**

23
24 In 1979, Virginia made sweeping changes in
25 local governmental boundary change and
26 transition issues, including a moratorium on
27 city annexations that remains in place. In
28 recognition of the lost revenue growth for
29 cities, the General Assembly approved some
30 changes in state funding commitments for
31 selective programs, and created a program
32 of state assistance to local police
33 departments (HB 599). Almost 70 percent of
34 Virginians now live in communities served
35 by police departments. The state has
36 increasingly de-emphasized its statutory
37 commitment to the “HB 599” program, but
38 has never compromised on the annexation
39 moratorium. VML calls on the state to honor
40 its commitment to public safety by funding
41 the program in amounts intended in the
42 enabling legislation.

43
44 The state must be a reliable funding partner
45 in accordance with the Virginia Constitution
46 and state statutes. The Standards of Quality

47 should recognize the resources, including
48 positions, required for a high-quality public
49 education system. The SOQ should reflect
50 prevailing practices across the state, and the
51 actual costs to educate Virginia’s children.
52 This includes the cost to educate at-risk
53 students, students in jeopardy of failing the
54 state’s Standards of Learning tests, students
55 with special needs, and school
56 construction/renovation/maintenance.

57
58 The state should fully recognize and fund
59 the costs of re-benchmarking of the various
60 educational programs, including the
61 Standards of Quality, incentive, categorical,
62 and school facilities programs as well as
63 support services. Changing the process of
64 re-benchmarking to artificially lower
65 recognized costs like inflation does not
66 change what it actually costs to provide
67 education. Instead, it simply transfers
68 additional costs to local governments and
69 the real estate tax base.

70
71 The Commonwealth should:

- 72 • Study the Standards of Accreditation
73 and Standards of Learning to determine
74 which standards impose costs on local
75 governments that are not recognized in state
76 funding formulas. In particular, changes
77 adopted since 2009 to SOAs and SOLs
78 should be examined, as state funding on a
79 per-pupil basis remains below 2009 levels.
- 80 • Re-examine those Standards of
81 Quality that the Board of Education has
82 recommended, but that the General
83 Assembly has not funded. These standards
84 reflect prevailing practices necessary to
85 improve children’s academic performance.
86 Student academic performance is required
87 for schools to meet the accountability
88 standards under the SOL and SOA. If
89 funding is not available to pay for prevailing
90 practices, the accountability standards
91 should be adjusted so that local governments
92 are not in the position of having to bear the

1 entire burden of meeting these unfunded
2 mandates.

3 • Conduct a study that examines how
4 other states fund education and whether the
5 Commonwealth should use a funding
6 strategy that establishes a more realistic base
7 foundation amount per pupil – plus add-on
8 funding to reflect higher costs for educating
9 at-risk, disabled, ESL, and gifted students,
10 etc. as well as funding for capital costs.

11
12 The state should provide sufficient funding
13 for highway construction and maintenance,
14 public transportation infrastructure and
15 maintenance, ports, airports, and freight and
16 passenger rail to promote economic
17 development and public safety.

18
19 The state should base its funding of
20 retirement plans based on the contribution
21 rates certified by the Virginia Retirement
22 System.

23
24 VML supports transparency in budgeting at
25 both the state and local level. To that effect,
26 the state should not disguise its budget
27 reductions by using unidentified or non-
28 specific reductions for aid to localities.

29
30 As a matter of fiscal reform, the state should
31 develop financial priorities that take into
32 account both spending and revenue actions.
33 The debate on such priorities should be
34 public, and should be transparent to the
35 public in the Governor’s Budget Bill and the
36 General Assembly’s Appropriation Act. For
37 example, should education funding be
38 afforded less priority than certain tax
39 preferences?

40 41 **Governmental Accounting Standards 42 Board (GASB)**

43 The Governmental Accounting Standards
44 Board (GASB) has put in place standards
45 regarding the reporting of unfunded
46 liabilities of cost-sharing plans. A cost-

47 sharing plan is one in which participating
48 government employers pool their assets and
49 their obligations for a defined benefit
50 pension, such as Virginia’s teacher
51 retirement plan. While the costs are shared,
52 the state sets the rules regarding what
53 benefits are required and what the state
54 contribution will be.

55
56 GASB requires that the unfunded liability be
57 apportioned among the participating
58 employers that pay the retirement
59 contributions to the pension plan. Teachers
60 are employees of the school boards, which
61 send retirement contributions to VRS.
62 Because of this the unfunded liability falls
63 solely on the school boards, even though the
64 retirement contributions are funded, in part,
65 by the state and the school board. This
66 means that the liability will be shown on the
67 city, county or town financial statement. The
68 intent of GASB rules is to encourage
69 transparency in pinpointing liabilities and
70 the current method of assigning those
71 teacher pension liabilities only to school
72 divisions contravenes the goal of
73 transparency.

74
75 Because there was not a process for
76 apportioning the liabilities for these cost
77 sharing plans, they previously had not been
78 reported at the local level.

79
80 The unfunded liability should be shared by
81 the state and localities based on the state’s
82 Standards of Quality and local composite
83 index and reflected as such in reporting.

84
85 VML supports state policy changes that
86 would provide for the Virginia Department
87 of Education to pay the Commonwealth’s
88 share of retirement costs directly to the
89 Virginia Retirement System to facilitate the
90 sharing of these liabilities.

91 92 **Government Reform**

1 VML supports a comprehensive review of
2 the services provided by state and local
3 governments. The purpose of the review is
4 to ascertain which services are truly
5 essential to support a productive economy
6 and healthy society; determine the
7 performance level of public services now in
8 place; evaluate the policies and practices
9 used by the state to assign responsibility and
10 accountability between the state and local
11 governments for providing public services;
12 and determine the most effective, efficient
13 and equitable ways to fund essential public
14 services. Such a review must start with a
15 dialog including state and local officials,
16 business interests, academia, and other
17 interested parties.

18

19

20 **Tax and Spending Reform**

21 Any state initiative aimed at tax reform
22 should first include a focus on state tax
23 reform and the financing of state services
24 including revenue sources. If the state paid
25 an appropriate share of its obligations for
26 locally-administered state mandated or
27 priority services, the reliance on local taxes
28 would be reduced. Local officials should be
29 included in any discussion that focuses on
30 local taxing authority.