

**REPORT OF THE
COMMISSION ON STATE AND LOCAL REVENUES
AND EXPENDITURES AND RELATED MATTERS
to
THE GOVERNOR
and
THE GENERAL ASSEMBLY OF VIRGINIA**



COMMONWEALTH OF VIRGINIA

Department of Purchases and Supply

Richmond

1963

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SECTION I
CREATION AND ORGANIZATION OF COMMISSION
REPORT OF
THE COMMISSION TO STUDY STATE AND LOCAL REVENUES AND
EXPENDITURES AND RELATED MATTERS

Richmond, Virginia, November 14, 1963

To:

HONORABLE A. S. HARRISON, JR., *Governor of Virginia*

and

THE GENERAL ASSEMBLY OF VIRGINIA

The needs of an expanding population for governmental services, and the change of our society from a largely rural to a predominantly urban society, has confronted Virginia with increasing revenue requirements. The General Assembly of 1962, aware of these factors and desiring information upon which to base changes, as required in public policy, adopted Chapter 4 providing for the creation of a Commission to Study State and Local Revenues and Expenditures and Related Matters and to report thereon. The complete Act is printed in Section VI and Sections 3 and 4 thereof are now set forth:

3. The Commission shall make a thorough study of all State and local taxes, revenues, receipts, and expenditures; the apportionment between the State and the localities of the sources of revenue; the demands on the State and the localities of governmental services and the ability of the State and the localities to meet them; and the allocation of governmental functions as between the State on the one hand and the localities on the other; the foregoing shall include consideration of State and local support of functions that are jointly financed by the State and the localities. Such study shall also include the ascertainment and appraisal of the existing burden of local taxes on real estate, tangible personal property, machinery and tools, merchants' capital, licenses and other subjects that are taxable locally, and the economic consequences thereof, and any inequities that may exist; and the ascertainment and appraisal of the existing burden of State taxes on each of the subjects of taxation on which the State imposes a tax and the economic consequences, and any inequities that may exist. The Commission shall include in its report such recommendations with respect thereto as it may make under this Act.

4. The Commission shall also make a thorough study of (a) the question of such new or additional revenue sources, State and local, as may be thought to be necessary, and if any, what adjustments or repeals if any, should be enacted respecting existing subjects of taxation, State and local; and (b) what method of distribution of the proceeds of such new or additional sources of revenue, if proposed, as between the State and the localities should be adopted, or whether the proceeds, or a part of the proceeds should be employed in increas-

ing State aid appropriations to the localities for governmental functions that are jointly financed by the State and the localities. The Commission shall also include in its report tentative drafts of such legislation as it deems necessary to carry into effect such recommendations as it shall make under this Act.

Pursuant to the Act, the Governor appointed the following members: Honorable Thos. B. Stanley, Chairman, former Governor of Virginia, businessman, Stanleytown; Alan S. Donnahoe, Assistant Publisher, Richmond Newspapers, Richmond; W. Fred Duckworth, former Mayor, City of Norfolk, businessman, Norfolk; Burr P. Harrison, former member of Congress, Attorney, Winchester; Daniel C. Lewis, Assistant to the President, Chesapeake Corporation of Virginia, businessman, West Point; Waldo G. Miles, State Board of Education, Attorney, Bristol; C. W. Peebles, businessman, Lawrenceville; C. Braxton Valentine, Jr., Attorney, Alexandria; and C. H. Morrisett, State Tax Commissioner, ex officio member, Richmond. The Speaker of the House of Delegates appointed the following from the membership of the House: John Warren Cooke, Mathews; Lewis A. McMurran, Jr., Newport News; Samuel E. Pope, Drewryville; and H. Ray Webber, Low Moor. Upon the untimely death of Mr. Webber, Earle M. Brown, Lynchburg, was appointed to fill the vacancy; the President of the Senate appointed from the membership of the Senate Dr. J. D. Hagood, Clover; E. O. McCue, Jr., Charlottesville; and FitzGerald Bemiss, Richmond. The Governor was authorized to designate the Chairman of the Commission and appointed former Governor Stanley to fill this office. Dr. Hagood was elected Vice-Chairman.

The Commission met May 21, 1962, discussed its assignment, and authorized the appointment by the Chairman of an Executive Committee. He appointed the following: Messrs. Stanley and Hagood, ex officio; Bemiss, Cooke, Duckworth, Harrison, and Morrisett. John B. Boatwright, Jr. was appointed secretary.

Dr. Lorin A. Thompson was suggested as consultant to the Commission. An outline of the study was developed by Dr. Thompson after meeting with members of the Executive Committee. This was presented to the full Commission at its meeting on June 25, 1962, at which time Dr. Thompson was formally asked to serve as consultant. Subsequently, Dr. Thompson prepared extensive source material on the revenues, expenditures, and general finances of the State and local governments.

The Commission held five public hearings. These were held in 1962 at Wytheville, October 2; Roanoke, October 3; Norfolk, October 9; Richmond, October 10; and Warrenton, October 11. These meetings were publicized well in advance and persons or organizations wishing to be heard were advised to prepare memoranda or written statements in behalf of their cause to file in addition to their oral presentations. Many useful documents were filed with the Commission, recommending changes and modifications in the existing tax structure. The suggestions were studied and given careful consideration by the Commission.

The Chairman divided the work of the Commission into three general subject areas and appointed three Committees to work specifically in these areas. The Committees and their membership are as follows:

Committee I—Committee on Local Revenues and Expenditures; FitzGerald Bemiss, Chairman; W. Fred Duckworth, Earle M. Brown, C. W. Peebles, and Samuel E. Pope.

Committee II—Committee on the Study of Grants-in-Aid; Lewis A. McMurran, Jr., Chairman; Daniel C. Lewis, E. O. McCue, and Waldo G. Miles.

Committee III—Committee on State Revenues and Expenditures; John Warren Cooke, Chairman; Alan S. Donnahoe, C. Braxton Valentine, Jr., and Burr P. Harrison.

The ex officio members of all three committees are Governor Stanley and Dr. Hagood. Dr. Thompson and Mr. Morrissett attended the committee meetings to assist in gathering and analyzing facts and recommendations.

SECTION II

INTRODUCTION

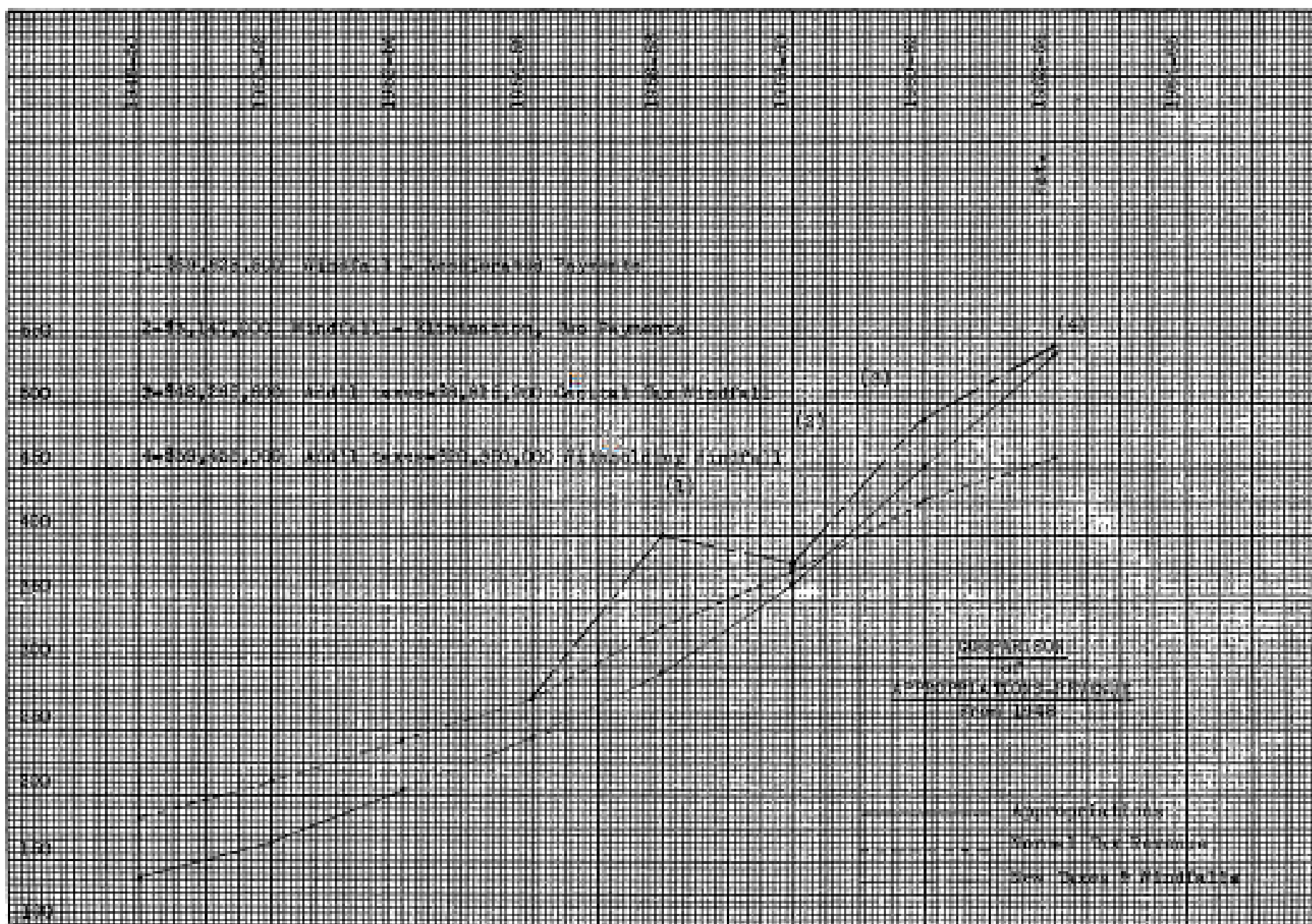
Virginia's present major avenues of taxation and the allocation of these avenues between the State and localities were largely established in the broad Constitutional changes of 1928. Within this framework there have been numerous changes in the potential and the application of these taxes as Virginia has experienced large population growth, a constantly improving economy, and a strong transition from a rural agricultural economy to an urban industrial economy. These changes have caused a steady increase in the quantity and quality of State and local services and, of course, a steady increase in State and local budgets.

The last broad increase of rates in certain State taxes was made in 1948. It is remarkable that since that time the State has met most of its needs out of the revenues from these taxes. These taxes at first, in fact, generated sufficient surplus to allow the appropriation of \$75 million of General Fund money to the localities for school construction. But since that time the rate of increase in expenditures has exceeded the rate of increase of revenues. The crossing of the lines on a graph which would indicate these respective rates has been forestalled in recent years by certain tax windfalls and selective sales taxes. The "windfalls" were as follows:

1957	Acceleration of payment of income and public service taxes	\$69.7 million
1959	Elimination of legally deferred items of individual income tax	\$ 3.1 million
1961	Accelerated payments of capital taxes	\$ 8.8 million
1963	Withholding and declaration of estimated income	\$31.1 million

The imposition of selective sales taxes, the "temporary" tobacco and liquor taxes of 1960 and 1962 produce approximately \$26 million per year.

It is generally agreed that there are no remaining "windfalls" and that extension of the selective sales tax practice will lead to inequitable treatment of certain industries and segments of the taxpaying public. Furthermore, while it is recognized that at this moment Virginia offers a generally reasonable tax picture, it is clear that important elements of business and commerce are now bearing a disproportionately high tax burden, notably in the area of license and inventory taxes. To delay in making needed adjustments is not only unfair but poor business. So we must acknowledge that the system which has been so satisfactory for so many years cannot be expected indefinitely to meet the needs of government with reasonable fairness to taxpayers and encouragement to economic growth.



The localities, perhaps to a greater extent than the State, are pinched by the inequities and inadequacies of the present tax system and its application. In general, the movement of people and industry from the farm to urban centers has caused the greatest difficulties on the finances of the small rural county and on the large city. The former with limited resources has had to rely heavily on State Grants and frequently unreasonable burdens on fairly barren avenues of taxation. Sixty of the 91 rural counties receive over 50% of their revenues in State Grants. The latter, the large city, with limited boundaries, has seen its high income residents move to suburban counties and be replaced by lower income migrants from rural counties. The city's costs are those of the hub or service center for a large area of the State, while its revenues are confined more nearly to its boundaries.

Apart from this generality about the finances of the small rural county and the large city, there are a number of localities making notably poor effort to meet their own needs out of their own resources and thereby impose harshly on their neighbors and the State General Fund and cause a highly uneven burden of local taxation.

Local governments are not economic islands; they are highly interdependent creatures of the State. When a locality discourages industry with arbitrary and unsound local taxes, the entire State suffers. If a locality undertaxes itself and overtaxes its public service property, it simply passes its cost on to its neighbor. If one locality benefits from unsound distribution of school funds, then others must suffer.

The Commission has tried not to overlook important local considerations, but has made a special effort to look at the total long-range benefit to the economy of Virginia. At the moment there appears to be no insurmountable problem in balancing the 1964-66 Budget. This, of course requires careful attention. But we see our principal usefulness in providing a blueprint for the longer term. Some of our recommendations are simple and subject to immediate adoption. Others, like the distribution of school money and the taxation of public service corporations, are complicated and it is likely that corrections must be adopted gradually.

The present tax structure has served Virginia and her localities well. To accommodate changing circumstances it has been stretched and patched and, in certain instances, stretched beyond reasonable limits. State and local governments, even with the stringent economy which is so vital, must have a total, reliable, long-range plan of taxation which will provide the necessary revenue, encourage the State's growth, with the burdens and the benefits equitably distributed.

SECTION III

SUMMARY OF RECOMMENDATIONS

Here follows a brief listing of all of the Commission's recommendations. In the following chapters the background and rationale, where needed, will be supplied in greater detail.

1. *Prohibit the imposition of any local license or gross receipts tax on manufacturers, for the privilege of manufacturing and selling at the place of manufacture, and repeal any provision to the contrary in any city or town charter.* This tax is not authorized by general law, but authorization is found in some municipal charters. Although the tax is nominal and produces negligible sums of revenue in all but three cities, it is a serious threat to any manufacturer contemplating location in any city

of the State—a potential means of gross tax discrimination which should be removed. Present levies may be eliminated in equal steps over a five year period.

2. *Prohibit any locality from levying a tax on machinery and tools that will exceed \$1.00 per \$100 of actual value.* Like Recommendation 1, this has as its purpose the removal of a threat to industrial development.

3. *Exclude money from the definition of capital not otherwise taxed.* This tax causes large sums of money to be transferred out of the State at the end of the year to avoid this tax. Occasionally this money does not return after the first of the year. It is costly to the State's economy.

4. *Reduce the rate on remaining capital not otherwise taxed from 65¢ to 60¢ on January 1, 1967, to 55¢ on January 1, 1969, and to 50¢ on January 1, 1971. No change is recommended for the biennium 1964-66.* The present tax is unduly burdensome and puts Virginia at a competitive disadvantage.

5. *Levy only once the tax on agricultural products that must be stored or aged for more than one year before completion or conversion into manufactured products.* Cigarette manufacture is one of our most important industries. Cigarette tobacco must be aged approximately two and one half years. Under the present tax system the same tobacco can be taxed two or three times. Neighboring states have recognized this inequity and as a result Virginia is in a severely non-competitive position.

6. *Reduce the wholesale license tax from 13¢ to 10¢ per \$100 of purchases on any amount over \$10,000 on January 1, 1965, and from 10¢ to 5¢ per \$100 on January 1, 1967.* Virginia's wholesale license tax puts it in a disadvantageous competitive position. Virginia is ideally situated as a distribution center and principally because of its present tax rate is not developing its potential. Revenue losses in the case of this recommendation and of number 5 above are expected to be offset by economic growth in the industries affected. Localities should be confined to the State's maximum rate and where local rates are above the State rates, the locality will be given up to five years to reduce its rate to that of the State.

7. *Amend the Virginia law so as to provide for the non-recognition of gain on the liquidation of a subsidiary of a parent corporation to correspond with Section 332 of the Internal Revenue Code of 1954.* This is justified inasmuch as no true present gain has been realized by the parent corporation.

8. *Amend the Virginia law to correspond with Section 351 of the Internal Revenue Code of 1954 which relates to the conversion of a proprietorship or partnership into a corporation, etc., with the qualification that this will not involve the exchange of assets for membership in a mutual fund.* This is desirable because it would eliminate present tax liability resulting solely from a change in the form of business organization.

9. *Augment the appraisal staff of the Division of Real Estate Appraisal and Mapping.* This is to promote better administration of existing statutory requirements.

10. *Strengthen the mapping staff of the Division of Real Estate Appraisal and Mapping.* This Division cannot meet current demand for new maps and revision of old ones. This recommendation would not only remove the backlog but would accelerate the mapping program.

11. *Reassess minerals and mineral lands at the same time as other locally assessable real property and provide that the Department of Taxation shall furnish trained personnel and rules and definitions for arriv-*

ing at fair market value. These important properties are taxed unequally and irregularly across the State. More careful and more professional attention is required.

12. Deny any locality failing to comply with the statutes relating to frequency of reassessments its share of State ABC money until it has complied with the statutes. A few localities do not comply and consequently cannot even attempt proper performance of property taxing responsibilities. The act may be made effective January 1, 1966.

13. Require the State Department of Taxation to estimate the true values of locally taxable wealth every two years so that such values will be available to the General Assembly preceding each regular session. Current estimates of true values are necessary to sound local decisions and clearly necessary to the fair distribution of State aid to localities.

14. Require all counties and cities to separately classify, assess, and levy taxes on machinery and tools and provide that the Department of Taxation shall make technical help available. There is a lack of uniformity here which must be removed in the interest of fair taxation.

15. Continue the present principles of taxation of forest properties and provide that the Department of Taxation furnish more and better technical aid so that this important subject may bear its fair share of the total tax load in order to remove some of the variation in treatment between localities.

16. Eliminate the inequitable taxation of public service, real and personal property in relation to non-utility real and personal property. This can be accomplished either by "equalizing" the tax treatment of utility and non-utility property or by fixing a maximum true tax rate for public utilities, letting the locality collect half and the State collect the other half, distributing it on the basis of population. A later chapter is devoted to this subject.

17. Require cities and towns to adopt the State's fiscal year and uniform fiscal year accounting procedures satisfactory to the Auditor of Public Accounts by July 1966 so that city and town financial data can be included in COMPARATIVE COST OF LOCAL GOVERNMENT. Comparative figures on cities and towns are needed for a full, clear picture of the finances of all local governments. This important information is not now available.

18. Extend to all localities general licensing powers. The counties should be permitted to choose between a merchants license tax and a tax on merchants capital. This makes available a new source of revenue to most counties.

19. Urge localities which tax household goods and personal effects to permit taxpayers the option of either making a complete report of such property or of accepting as a measure 10% of the assessed value of real estate occupied as a residence or 50% of the annual rental on rented real estate. This should achieve some reasonable degree of compliance and uniformity in localities electing to use this tax.

20. Provide that personal property, tangible in fact, used or employed in all businesses taxable on capital, other than the manufacturing and mining businesses, shall be subject to local taxation as tangible personal property, except for inventory of stock on hand held for resale directly or indirectly.

21. *Direct the Comptroller to show in his annual report the distribution of State ABC profits, wine money and common carrier tax money, by localities.* The Comptroller's Report includes the total distributed but nowhere is the breakdown by locality published. This information is important to a true picture of income to localities.

22. *Provide that the rolling stock of all motor vehicle carriers of property shall be assessed locally.* The rolling stock of a common carrier of property by motor vehicles operating over regular routes under certificates of public convenience and necessity issued by the State Corporation Commission is now assessable by the Commission and the State levy of \$2.50 per \$100 is collected by the State and distributed among the localities on a mileage basis. This means that this particular class of motor carriers is treated differently from the class operating under permits issued by the Interstate Commerce Commission and from contract carriers where rolling stock is assessable locally.

23. *Permit all localities to enact public utility consumer taxes.* This would provide a new source of revenue for some localities.

24. *Require all localities to tax personal property of public service corporations at the same rate as that applied to the real estate of public service corporations.* This should be enacted as a part of the total reform of public service taxation.

25. *Approve the proposal of the State Corporation Commission to assess Electric Co-operative property on the same basis as investor owned utility property.* The former is currently assessed at a lower rate than the latter. The present economic situation of Electric Co-operatives does not justify continued preferred treatment.

26. *Eliminate the tax of 50¢ on every \$100 of assessed value of intangibles owned by railroads, and the tax of 20¢ on every \$100 of money owned by railroads.*

27. *Reduce the State franchise tax upon gross transportation receipts from 2% to 1.5% at annual steps of .1% over a five year period.*

28. *Reduce the State tax on rolling stock of railroads from \$2.50 to \$1.60.*

Recommendations 26, 27, and 28 are in accordance with Virginia Advisory Legislative Council recommendations—Senate Document No. 14, 1961. Recommendations 27 and 28 should be pursued as a part of the total reform of public service taxation.

29. *Revise the present formula providing for State grants-in-aid to localities for public education, including the funding of the employers' share of social security and teachers retirement. It is recommended that the present basic appropriation and Minimum Education Program fund be combined into a single fund and that local requirements for obtaining State grants-in-aid be clearly defined.* There is urgent need for revision in order to establish a sound basis for determining the respective responsibilities of the State and the localities in financing public free schools. This subject is treated more fully in Chapter IV of Section IV.

SECTION IV

RATIONALE OF RECOMMENDATIONS

This section is devoted to more detailed reasons for the recommendations which have been summarized above.

Chapter I

Greater Equity in State Taxes and Encouragement of Industrial Growth

It is apparent that the only alternative to more burdensome taxation or curtailment of vital governmental services is the creation of new wealth through industrial growth. Many factors contribute to the expansion of commerce and industry but one of the more important factors is tax structure. Recommendations 1 through 8 are aimed at correcting certain taxes which the Commission feels are clearly putting Virginia in an uncompetitive position and, therefore, impairing its rate of growth. Some of these recommendations involve a tax decrease, but these recommendations are made on the conviction that the growth in these industries will more than offset the apparent immediate tax loss. The Commission's inquiry into the specific areas of cigarette manufacture and wholesale distribution provide the best cases in point.

As localities have been pushed for more revenue, they have tended to put the burden where there is the least danger of immediate voter reaction; as a consequence there is a tendency to raise local taxes on the very businesses that are most important to the communities total economic health.

To illustrate the need for certain tax revisions, and to make Virginia more attractive to new industry and business, the tobacco industry serves as an example.

This industry has a special problem in that it must store tobacco for three or four years prior to manufacture, and under present Virginia law must pay a capital tax of 65¢ per \$100 on such inventory three or four times, as the case may be. Otherwise it is similar to other industries.

Notwithstanding its historic association with Virginia, and the locational advantages to be found in this State, the cigarette industry has shown little or no growth in Virginia for many years, in sharp contrast to Kentucky, in particular, where cigarette production has increased at a very rapid rate. The following exhibits on pages 17b and 17c make clear the differences in the expansion of this industry in Virginia as compared to North Carolina and Kentucky.

It is believed by many that the capital tax as now levied in Virginia is a deterrent to tobacco companies in particular, and affects some other industries adversely.

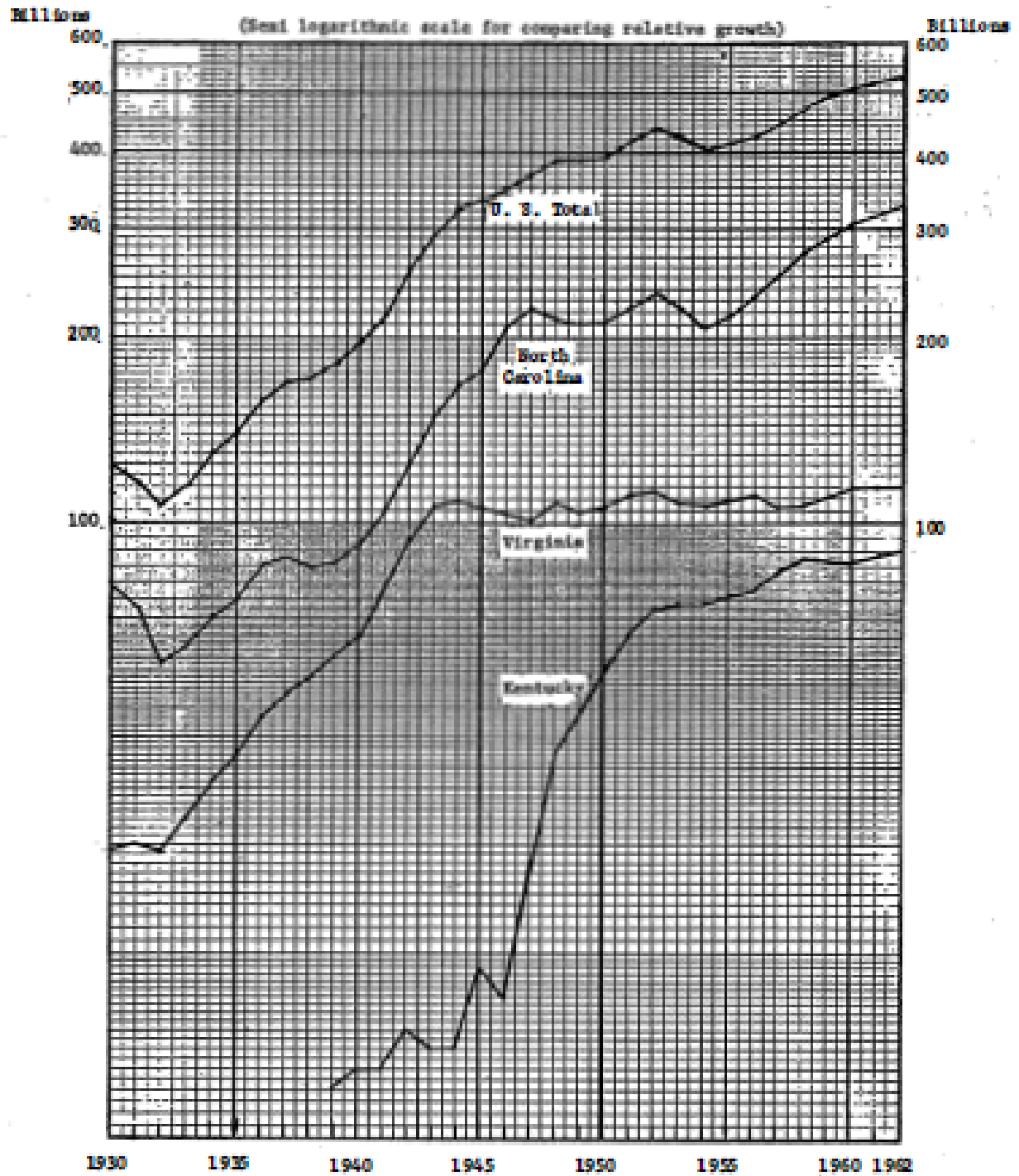
It is the purpose of the tax revision recommendations to improve Virginia's business climate by removing impediments to the growth of manufacturing, banking, and wholesale distribution.

CIGARETTE PRODUCTION

Cigarettes Manufactured (000,000)						Percentage Distribution Total U.S.=100%				
Year	U.S.	N.C.	Va.	Ky.	Other	Year	Va.	N.C.	Ky.	Other
1930	123,802	78,972	29,100		15,730	1930	23.5	63.8		12.7
1931	117,064	73,469	29,540		14,055	1931	25.2	62.8		12.0
1932	106,632	58,668	28,981		18,983	1932	27.2	55.0		17.8
1933	114,874	63,358	32,827		18,689	1933	28.6	55.2		16.2
1934	129,976	69,661	38,277		22,038	1934	29.4	53.6		17.0
1935	139,966	75,244	41,887	-	22,835	1935	29.9	53.8		16.3
1936	158,894	85,393	48,320		25,181	1936	30.4	53.7		15.9
1937	169,969	88,233	53,073		28,663	1937	31.2	51.9		16.9
1938	171,686	85,277	56,380		30,029	1938	32.8	49.7		17.5
1939	180,667	86,308	61,489	12,314	20,556	1939	34.0	47.8	6.8	11.4
1940	189,371	92,316	64,734	12,719	19,602	1940	34.2	48.7	6.7	10.4
1941	217,935	104,976	78,210	13,008	21,741	1941	35.9	48.2	6.0	9.9
1942	257,521	123,206	93,852	14,751	25,712	1942	36.4	47.8	5.7	10.1
1943	296,173	148,957	105,687	13,573	27,956	1943	35.7	50.2	4.6	9.5
1944	323,584	168,031	109,369	14,259	31,925	1944	33.8	51.9	4.4	9.9
1945	332,165	176,379	105,919	19,264	30,602	1945	31.9	53.1	5.8	9.2
1946	350,038	210,101	104,313	17,137	18,488	1946	29.8	60.0	4.9	5.3
1947	369,683	222,950	101,434	26,788	18,510	1947	27.4	60.3	7.2	5.1
1948	386,826	216,226	109,356	42,234	19,009	1948	28.3	55.9	10.9	4.9
1949	384,962	209,868	104,708	50,530	19,856	1949	27.2	54.5	13.1	5.2
1950	391,956	211,044	105,535	57,922	17,454	1950	26.9	53.8	14.8	4.5
1951	418,802	225,974	111,500	66,244	15,084	1951	26.6	54.0	15.8	3.6
1952	435,547	237,014	112,673	72,220	13,640	1952	25.9	54.4	16.6	3.1
1953	423,070	225,438	108,191	74,175	15,266	1953	25.6	53.3	17.5	3.6
1954	401,848	209,476	107,026	74,172	11,173	1954	26.6	52.1	18.5	2.8
1955	412,309	217,139	109,898	76,460	8,812	1955	26.7	52.7	18.5	2.1
1956	424,246	231,334	111,194	78,261	3,458	1956	26.2	54.5	18.4	.9
1957	442,327	250,462	107,013	83,674	1,178	1957	24.2	56.6	18.9	.3
1958	470,067	274,260	106,802	88,123	883	1958	22.7	58.3	18.7	.3
1959*	489,900					1959*	23.1	59.6	17.2	.1
1960	506,127	304,534	115,278	85,759	556	1960	22.8	60.2	16.9	.1
1961	518,031	314,127	115,110	88,557	237	1961	22.2	60.6	17.1	.1
1962	529,883	325,212	114,663	89,998	10	1962	21.6	61.4	17.0	.1

* No calendar year total available for individual states. Percentage distribution based on six months figures. Subsequent data are for fiscal years ending June 30th of years indicated.

TRENDS IN PRODUCTION OF CIGARETTES BY STATES



Chapter II

Local Assessment of Non-Utility Real Estate and Personal Property

Taxation of real estate and tangible personal property is a major revenue source for local governments. Some local governments pursue this source thoroughly and fairly. Others, for want of either skill or will, or both, do not. It is important in terms of equity and economy that every locality develop this potential revenue source as thoroughly and as fairly as possible. This chapter's purpose is to describe and comment on the process of appraisal, assessment, and property taxation in various localities.

The Constitution provides that all assessments shall be at fair market value. The courts have sanctioned the universal breach of the requirement of assessment at fair market value. Non-utility real estate is assessed at an average statewide ratio of 32.1%; the county average is 23.7% and the city average 47%. The average includes assessments from a low of 6.6% to a high of 84.7%. Public utility property is assessed at a uniform statewide average of 40% of the values established by the State Corporation Commission.

The average nominal tax rate is \$2.86; in the counties \$3.23—in the cities \$2.52. The average effective true tax rate on real estate is 92¢; in the counties 77¢—in the cities \$1.19. The average effective true tax rate on public service property is approximately \$1.30.

Counties covered by general statutes are required to undergo general reassessment every six years. This must be performed more frequently as the present law permits, if growing localities are to have useful and reliable figures on local values. To enable the General Assembly to act soundly in the distribution of State aid when this aid is related to local wealth and for other important uses, the Department of Taxation should be required to prepare estimates of true value of locally taxed property in each county and city every two years beginning in 1964.

Fifteen cities have provided for annual assessments and reassessments of real estate and employ a permanent, full-time staff of real estate assessors. Six additional cities are on the same schedule but employ part-time personnel; and 15 cities continue to use quadrennial general assessments.

Ninety-one counties undergo general reassessment every six years; five urban counties have annual assessment or reassessment and employ either full-time or part-time assessors; two counties have continuing Boards of Equalization.

For the periodic general assessments in cities and counties, real estate assessors are generally named by the judge of the court of record. Permanent and part-time real estate assessors where used are employed by the governing bodies and serve varying periods. In many localities a periodic general assessment is a very casual affair which results in indefensibly low assessments. An example is a farm assessed for the last twenty years at \$1,600 recently sold for \$125,000 cash. A startling extension of this sort of thing occurred recently when a board of supervisors attempted to direct a board of assessors not to assess any land at over \$120 per acre. This occurred in a locality with some of the most valuable real estate in Virginia.

No concerted effort has been made to obtain equal assessment treatment of real estate between taxing districts. There has, however, been considerable effort to encourage localities to inventory taxable real property and record reasonably accurate estimates of full market value on real estate record cards. In the larger cities thorough scientific assessment procedures have been necessary to produce revenue. Also, high assessments are of great importance to the credit standing of a locality. Elsewhere the improvements have been made as localities availed themselves of the technical help offered by the State. This progress has been sound but far too slow. We note the following major weak spots in the local assessing practices:

- (a) Inadequate staff in the State Division of Real Estate Appraisal and Mapping for answering the requests made by localities for assistance. Only 53 out of 96 counties have real property identification maps. Present forces can provide only three additional maps per year.
- (b) Inadequate technical advice for localities on taxation of mineral and timber lands. There is great unevenness within localities and between localities in the assessment of these values. In some instances these resources—notably quarries—are virtually untaxed.
- (c) Some failures of localities to comply with statutes relating to frequency of assessments.
- (d) Failure of certain Commissioners of the Revenue to keep current, accurate lists of local property, and inclination of some Treasurers simply to accept taxes rather than go out and collect taxes due.
- (e) Inadequate local requirements on separate classification, assessment, and taxation of machinery and tools used in the mining and manufacturing business. Several localities consider these items as tangible personal property and others as real estate (see 1961-62 Report of Department of Taxation, Table 18, p. 45). Also, inadequate rules, definitions, and technical assistance from the Department to the localities in the assessment of machinery and tools.
- (f) The unavailability of current estimates of true values of locally taxable wealth. The present six year span is too great, particularly in times of rapid growth. The State has paid dearly for requiring local school effort on values as distant as those of 1956.

But probably the major weakness is the broad practice of not certifying taxable values at some reasonable percentage of the fair market value. If the local assessor could be required to build records on the basis of true market value, then one of the major weaknesses and inequities in the total tax burden would be substantially corrected.

As it is now, when a locality uses the professional help offered by the Department of Taxation, the professional help goes on the payroll of the local board of supervisors and his evaluation of individual pieces of property may or may not be accepted by the board of assessors.

The personal property tax on household effects is a subject of great annoyance to many individuals. For good reasons with which we are all familiar, the General Assembly has given localities the authority to do away with this tax if they choose. But this annoying and inequitable

tax where imposed should certainly be imposed by some uniform standard. The cities which have used a personal property tax form which allows the taxpayer the option of reporting 10% of the value of the real estate occupied (or 50% annual rental) or reporting on actual full value have found that this procedure produces greater uniformity and yield.

The spread of urbanization into neighboring rural areas has brought about increased assessments in these areas as governing bodies have been called upon for more revenue to furnish more services. Persons owning farm land in these areas have felt a tax burden which is high in relation to the productivity of the land. Accordingly, there has been agitation to assess rural property in urban fringes on the basis of productivity. This, even if it were based on sound principle, would require elaborate constitutional and statutory amendments, plus absolute regulation of this process by the State government. Generally, land outside the urban fringes which is truly farm or timber land is assessed largely on the basis of its productivity and use, which, of course, is directly related to true market value. One must be sympathetic to the "bona fide farmer" whose farm is engulfed by urban sprawl. But it must be recognized that anyone might be a victim of change and progress. He generally realizes a huge capital gain when he sells his land for its full and proper commercial development.

The local assessment and taxation of non-utility property is strongly influenced by the presence and the assessment of utility property. This subject is covered elsewhere in this report under the heading of "Public Utilities". It is sufficient to say here that inequitable treatment of non-utility real estate in many localities is made possible by the circumstance of location of major public utility installations. In past years the 40% assessment of public service property was settled upon and defended because this was substantially the same as the average statewide real estate ratio. While this may have achieved a rough degree of "equalization" of utility and non-utility property on a statewide basis, it did not correct the disparities existing locally.

Chapter III

Public Utilities

The statewide assessment of public service property at a uniform 40% enables and encourages the people of a locality with large public service values to tax public service corporations disproportionately and thereby pass the cost of their own government on to the public service consumers of another locality.

This is accomplished simply by increasing the nominal tax rate and proportionately decreasing the local non-utility real estate assessment ratio.

This manipulation produces unequal and unfair tax burdens on individual taxpayers. A man with a farm in a locality having a large public utility installation frequently pays on his farm only half the local real estate taxes paid by a man on a similar farm receiving similar services but living in an adjoining locality with a small public utility installation.

The manipulation is unfair to utility consumers. Our public service systems are franchised and regulated by the State for the equal benefit of all the people. This is why we establish monopolies and regulate rates. But this purpose is effectively evaded when, for example, a county establishes a 6.2% ratio and a \$9.30 rate, achieving a 58¢ true tax rate on locally owned property and a \$3.72 rate on a public service generating

plant which serves a large area of the State. The statewide average true tax rate on public utilities is approximately \$1.30. On local real estate the average is 92¢ (77¢ in the counties and \$1.19 in the cities).

The manipulation takes its toll from the State General Fund, for the process directly erodes the will of some localities to pay a reasonable share of the cost of their own government out of their own resources. Generally, the extremely low assessment ratios and high nominal tax rates are found in localities with large public utility installations. The result is a low true tax rate on non-utility real estate—in other words low local effort—and generally a high degree of State aid.

Each year this abuse of one taxpayer or locality at the expense of another becomes more serious. This is because public service values are increasing more rapidly than other local values and because public service values are increasingly concentrated. Between 1956 and 1962 the value of public service property increased 53% while other property increased 42%. In 18 counties the assessed value of public service property is over 25% of the assessed value of all property. In one county the assessed value of public service property is 73% of the assessed value of all property.

The example below of two adjoining counties shows the results of this development and the nature of the abuse:

	X	Y
Assessment Ratio	9.2%	22.4%
Nominal Tax Rate	\$4.70	\$4.00
True Tax Rate	.43	.90
Real Estate-True Value	66,862,000	27,614,000
Public Service-True Value	7,329,000	2,365,000
Real Estate Value subject to Local Tax	6,151,000	6,189,000
Public Service Value subject to Local Tax	2,932,000	946,000
Local Tax on Real Estate	289,000	248,000
Local Tax on Public Service	138,000	38,000
Local per ADA Real Estate Tax	\$55.75	\$109.20

Note that the true value of real estate in county X is approximately 2-1/2 times that of county Y. But county X applies a 9.2% assessment ratio while county Y applies 22.4%. The result is that the non-utility real estate tax base of county X is reduced to that of county Y. X can afford this reduction because it has substantial public utility investment assessed by the Corporation Commission at 40%. County X gets \$138,000 from the public service company while county Y gets \$38,000. And the county X taxpayer pays half what the county Y taxpayer pays.

The problem then which has defied a generation of legislators and study groups, is first, how to achieve reasonably uniform tax burden and revenue benefit between localities and taxpayers; and second, how to accomplish this with reasonable consideration for local finances.

The Commission has reviewed various approaches and has selected two plans. The principal factors of each plan are set out below. Elsewhere in this report are the details and supporting tables of each plan.

There are two logical approaches that can be followed in the taxation of public service property, to conform in each case with two different concepts of uniformity.

(1) The true tax rate on such properties can be made the same as that levied on all other property in a given locality. This would be accomplished through Plan A.

(2) The same true tax rate can be levied on all public service property in the State, wherever located without reference to local tax rates. This is the basis for Plan B.

As the concepts differ, the results will vary accordingly in terms of tax revenue from one locality to another.

Both concepts can be supported in logic; a preference for either may be subject to some question. But, however, this may be decided, there can be little doubt that either approach would be far superior to the system—or lack of system—that now prevails in Virginia.

Plan A

This is considered the best and indeed the only plan which treats the basic inequities within the restrictions of the Constitution. The principle here is a reasonable degree of equalization of taxation of utility and non-utility property.

The elements of Plan A are:

- (1) To close the gap between the assessment ratio of public service property and the assessment ratio of non-utility real estate in even steps over a five year period. The State Corporation Commission will continue to appraise public service property and will assess this property, raising or lowering the public service ratio in stages to the real estate ratio chosen by the locality. At the end of the five year period public service property and other property within the locality will be assessed and taxed at the same rate.
- (2) To provide localities with additional revenue or opportunities to produce the revenue required to assume the burden which is presently transmitted to others through public utility property taxation. These sources include:
 - (a) Extension to counties of public utility consumer tax up to a maximum statewide level.
 - (b) Distribution of the proposed utility equalization franchise tax to localities (see details of Plan A).
 - (c) Extension to counties of business, occupational and professional license taxing powers.
 - (d) Greatly accelerated State assistance in improving local assessment practices.
 - (e) Extension to counties of $\frac{1}{2}\%$ utilities gross receipts.
- (3) To require that all property of public utilities be subject to local taxation at the real estate rate.

Plan B

This plan assumes that the rate of growth and concentration of public utility installations makes equalization less and less practical or possible at the local level. Plan B requires the amendment of Section 171 of the Constitution which segregates real estate and tangible personal property (except the rolling stock of public service corporations) for local taxation only.

The elements of Plan B are:

- (1) The present average true tax rate of public utilities is approximately \$1.30. This plan continues the present total tax burden

on utilities and the present total benefit to localities. It merely provides for a fairer distribution of the revenue, recognizing both the situs and the consumer by letting the locality collect half the average true tax rate directly and receive the other half on the basis of population.

- (2) The State Corporation Commission will continue to evaluate public service properties. Each locality will be empowered to levy a true tax rate up to a maximum of 65¢ on \$100 of full value of public service property.
- (3) The State Corporation Commission will levy a tax of 65¢ per \$100 full value of public service property within each locality. It will collect this tax and redistribute it to the localities on the basis of current population estimates, treating counties and towns as does § 4-24(a) (State tax on wines).
- (4) To require that all property of public utilities be subject to local taxation at the real estate rate.

The Commission realizes that treatment of this problem is bound to be controversial and complicated. But it feels that present inequities deserve the positive attention of the General Assembly, and it emphasizes that the inequities are growing at a very rapid rate, which will make correction increasingly difficult. If neither Plan A nor Plan B or some real version of them is passed, an open invitation will have been delivered to the localities to pursue the present abuse even more flagrantly than they are now being pursued. Correction will be entirely beyond reach. The very least that should be done, and this by no means should be represented as a consequential correction of basic ills, is to direct the Corporation Commission to adjust the assessments in those localities where manipulation is flagrantly abusive.

Plan A

Public Utilities

- (a) The only system of taxation that will not appear arbitrary and unequal in some locality is one that applies to utility property exactly the same assessment ratios and tax rates that apply to other realty in that same locality. Once this is done, the system can be understood by everyone and an important handicap removed from standardizing real estate assessment practices throughout the Commonwealth. The logical appeal of this approach is so obvious that it has been proposed from time to time, though apart from a general modernization of the tax laws, and in the absence of appropriate safeguards that would assure its practical operation. For that reason it has so far failed of approval. The most conspicuous defect is that some counties would immediately lose revenue by the new system (a disadvantage to the county) but would then in all likelihood immediately reimburse themselves by collecting some new form of tax in an equal or greater amount from the same utility. So the localities with less than a 40% ratio would collect new taxes for the difference and the localities with a greater than 40% ratio would automatically receive a corresponding increase in their tax revenue (a disadvantage to the utility). The aim of reform should be equality and not an increase in existing discrimination.
- (b) The first and most important practical safeguard that would assure an orderly institution of such a new system is to provide

for its becoming effective in graduated steps over a period of 5 years.

The State Corporation Commission will, of course, continue to appraise Public Service property. It must also continue to assess Public Service property, fixing a ratio in relation to the ratio fixed by the local governing body on local real estate.

If a locality with a ratio of more or less than 40% wishes to keep its present ratio it may do so. But the Public Service ratio will be raised or lowered by the SCC in five steps to the ratio chosen by the locality. The steps would be in five yearly steps as follows:

One Fifth the First Year
One Quarter the Second Year
One Third the Third Year
One Half the Fourth Year
One Whole the Fifth Year

It is reasonable to expect that responsible local governments viewing the local and general benefits of the total tax reform plan will want to bring these ratios together in the orderly steps which are allowed for gradual adjustment.

For example, County X has a 21.5% ratio. It decides to raise its ratio 2% per year. The ratio gap would be closed as follows:

		lowering of Public
		Service ratio
1st Yr:	1/5 of the gap between 40% and 21.5% = 3.7	
2nd " :	1/4 of the remaining gap (36.3-23.5) = 3.2	" "
3rd " :	1/3 of the remaining gap (33.1-25.5) = 2.53	" "
4th " :	1/2 of the remaining gap (30.57-27.5) = 1.535	" "
5th " :	Public Service Property is 29.035 and local ration is raised only 1.5% to match it.	

Thereafter, any changes in local assessment ratios by local authorities is simply matched annually by the SCC on Public Service property to keep the two together.

The only compulsion in this plan is the very simple fact that if a locality with assessment lower than 40% does not raise its ratio, the Public Service assessment is nevertheless coming down in the above mentioned steps. So the locality will be compelled to raise its rates to produce the same amount of money.

By the same rule, if a locality with ratio higher than 40% does not lower its ratio, the Public Service assessment is nevertheless coming up. So the locality must lower its rates to produce the same amount of money.

In contrast, an immediate equalization of the utility assessment ratio with that applied to other realty would, in the absence of any other change, largely reduce local revenue (by \$9,146,910 in 1962). But the graduated equalization would give the localities both incentive and opportunity to raise their general assessment ratios. It should be noted that the adjustment has increased from \$3.5 million in 1956 to \$9.147 million in 1962. Utility growth is rapid and existing inequities will become rapidly greater and more difficult to correct. A special provision is recommended (to follow) to prevent any windfall to the utilities in the transition period.

- (c) It is to be emphasized that an essential condition for the practicality of this approach is to require that all taxes on public utility property shall be at the rate applicable to real estate, since tangible personal property of individuals often goes without any substantial tax and in any case has no ascertainable assessment ratio. Such a rule would have an important additional administrative convenience in that utility property, while normally fixed and having the characteristics of real estate, is technically difficult to classify in point of law as between real or personal property and there are no adequate and workable rules to permit the application of dual standards.

Many localities have a higher tax rate on personal property than on real estate. This has come about to a large extent because a great part of personal property is assessed at absurdly low fractions of actual value. This has encouraged local governing bodies to make up for this by raising the nominal tax rate on these items. But the local governing body can also apply this higher nominal tax rate on personal property to Public Service property they themselves classify as personal rather than real property. In one locality a piece of major equipment tied to the structure (for example, the central dial system in the C & P building at Richmond) might be classified as personal property and in another locality the same equipment is classified as real estate. This creates a great unevenness of tax burden and is clearly a flaw which should be eliminated.

- (d) The third requirement of the new system would be a clear definition of the other taxes, if any, that may be imposed on utilities by the localities. No standardized system can remain if the localities are to be free to invent unforeseeable exactions under novel names in accordance with local wishes from time to time. The State should define some clear and workable tax measure that would be available for all localities desiring it and should at the same time forbid all other types of local taxes on utilities. The utility consumer tax is understandably opposed by the utilities as a discriminatory sales tax that does not apply to other consumers or other forms of competing energy. Nevertheless, it has demonstrated its virtues as a practical and economical means of raising revenue in the larger population centers. As the counties of Virginia become more urbanized, both in population density and in the nature of the problems and expenses they must face, it seems justifiable to extend to them an equivalent taxing power. This will cushion the financial stress that might otherwise result from the readjustment of their assessment practices. It is important, however, to moderate the discriminatory aspects of this utility consumer tax, and avoid its tendency to discourage the development of industry, by prescribing appropriate maximum limits of revenue that may be taken into account in the application of the tax and the appropriate maximum rate of tax that may be levied. For this purpose, revenue limits of \$10 per month per residential customer for electric and telephone service, \$5 per month for gas service and \$100 per month per commercial or industrial customer seem appropriate, with a maximum tax rate limit of 10%. In the case of a residential customer, for example, this would mean a maximum utility consumer tax of 10% on the first \$10 of each monthly electric and telephone bill. The new law should expressly provide that these ceilings and limits

supersede any greater ceilings or rates at the time applicable under local ordinances, since the localities would be more than reimbursed in most cases by the upward adjustment of the utility assessment ratios; thus permitting uniformity to be attained without financial loss. It is to be noted that the resulting uniformity of practice would promote economy of collection and administration. And as an assurance of equal treatment it should be provided that if and when a sales tax should be enacted, the utility consumer tax should be reduced to the same rate. It is estimated that the above proposal will yield an additional \$7,-202,000 in local taxes.

- (e) It is important to observe that this proposal would not require any change in the constitutional procedure now in effect. The State would continue to collect its gross receipts tax from all public service companies, which is one of its important sources of revenue (the so-called franchise tax, Code § 58-603). The State Corporation Commission would continue to assess all property of public service corporations as directed by the Constitution (Section 169), a task which no local agency could conceivably perform. There appears to be no justification for continuing the practice of assessing Electric Co-op. property at 40% of only 65% of original cost of plant while assessing investor-owned utilities at 40% of 80% of original cost. The present economic situation of Electric Co-ops. is vastly improved over that of 22 years ago when this policy was established.

In 1941 the sixteen electric co-operatives made a strong plea to the SCC that because they were performing such a useful service and were so hard up financially their property ought to be assessed at a lower ratio than the property of the investor-owned utilities. The Commission accordingly, for the last 22 years, has been assessing the co-op. property at a ratio that is approximately 23% lower than the ratio applied to the other utilities. (Roughly, 40% of 65% instead of 40% of 80% of original cost of plant other than land.)

Now that the electric co-ops. are making money instead of losing money (and are investing at 4% funds borrowed from the federal government at 2%) the reasons for granting them that concession no longer apply; they should be assessed on the same basis as the other utilities.

Each locality would be free to adopt such assessment ratio and such tax rate as it might prefer, applying its choice equally to real estate and all public service property within its political boundaries. It would also remain free to adopt, in any degree up to the permitted maximum, the utility consumer tax outlined above. But these two taxes would be the exclusive source of local revenue from utilities and no other taxes would be allowed in respect to their property, operations, revenue, income or otherwise. As a part of this general modernization of the tax laws, there would be much logic to eliminate the special $\frac{1}{2}\%$ levy on gross receipts now permitted to cities, towns and certain counties (§ 58-603), since they would then be collecting more through higher assessment ratios on the utilities. But the utilities have not sought any decrease in their overall taxes and this does not seem an opportune time for eliminating this particular source of revenue. It seems preferable to continue this tax as an admitted exception, emphasizing that $\frac{1}{2}\%$ shall be the absolute

maximum and extending the power equally to all cities, counties and towns (except that if any county and a town within it both impose the tax, each shall be allowed only half the maximum).

- (f) These modernizations would equalize the taxing system within each locality and prevent the manipulative practices that have undermined the local will for raising revenue from local sources. Their combined effect, moreover, would be to encourage a gradual increase in all the lower assessment ratios.
- (g) These incentives to local autonomy and local responsibility could consequentially reduce the demand on the State's General Fund. Equally important—if the sales tax should become necessary—the suggested reforms would provide a consistent and workable basis upon which those new levies might be superimposed. When the people are assured that the General Assembly has done everything possible to eliminate disparities and bring about an equal sharing of the burden of government, they can more readily bear any new impositions that the growing urbanization of the State and complexities of governmental problems may necessitate.

To prevent what might be called a windfall to utilities, it is proposed that a temporary "Utility Equalization Franchise Tax" be enacted.

This would be levied by the General Assembly on the privilege of conducting the utility business and as an incident to the power of the General Assembly to prescribe the manner in which public utility property shall be assessed for local taxation.

The Utility Equalization Franchise Tax would be constitutional. The subject of the tax is the privilege of continuing to conduct a utility business and it is only measured by actual assessed value of utility property at a particular past period. It is thus not a tax on real property or tangible personal property within the meaning of Section 171 of the Virginia Constitution. Cf. *Railway Express Agency v. Virginia*, 347 U. S. 359 (1954). The tax would also not violate Section 50 of the Virginia Constitution since it in no way refers to any other "law" or "tax" but merely to assessed value of public service corporation property at a particular time, which is a "fact". Cf. *City Nat'l Bank of Clinton v. State Tax Comm'n.*, 102 N. W. 2d 381 (Iowa 1960).

Hopefully, the adoption of Plan A would encourage many localities in Virginia to raise their assessment ratios to a more realistic level, to avoid or minimize a loss in taxes from public service property.

It may be argued, however, that this will not occur, with the result that the total of local taxes paid by public service corporations will be reduced, during and after the five-year adjustment period.

Assuming no change in assessment ratios and no growth in public service property, this reduction would range from about \$1.8 million the first year to about \$9.1 million per year after the transition period.

It can be argued, on the other side, that this reduction should be made, inasmuch as it simply reflects the amount that public service corporations have been paying *in excess* of the proper amount that should have been levied. On this theory, if these corporations reap any substantial advantage, it would be taken into account by the State Corporation Commission in fixing rates that can be charged.

However, if the view is to be taken that public service corporations should not benefit directly from Plan A, rightfully or otherwise, then the following procedure could be followed.

A "Utility Equalization Franchise Tax" would be enacted, to be levied on the total assessed value (at 40%) of all public service corporation property as of January 1, 1962. The initial rate of taxation would be 0.2% of such assessed value, which would produce a tax revenue of about \$1.5 million per annum.

This rate would be adjusted each biennium, to equal the difference between local property taxes paid by all public service corporations and the total of \$25,913,323 paid in 1962. When—due to growth in property investment and values—the taxes thus paid exceed the specified total levied in 1962, the tax would be eliminated.

Revenue thus created would be paid into the General Fund, for special relief to localities sustaining the heavier losses of revenue, or for such other distribution to localities the General Assembly might prefer.

The net effect would be that public service corporations, in aggregate, would not receive any savings in total tax dollars as a result of Plan A.

This may be illustrated, in general terms, by an example drawn from a specific situation. The County of Fluvanna raised \$435,000 in tax revenues in 1962. The full appraised value of all property in the County was approximately \$65,000,000, of which \$40,000,000 was public utility property and \$25,000,000 was other real estate and tangible personalty. If the tax requirements of the County had been drawn proportionately from all this property at equal rates, a true tax rate of about 67 cents per \$100 would be indicated. Applying that figure separately to each class of property would raise \$268,000 from public utility property and \$167,000 from other property. The result would be to decrease utility taxes by roughly \$68,000 and increase other property taxes by an equal amount. This is the equalization that would be accomplished over a 5-year period, in graduated steps. To aid in meeting its revenue needs despite this equalization, the County would be given new taxing powers through the 1½% utility gross receipts tax and the permitted limits of utility consumer tax up to 10% on specified amounts of revenue billing. These new taxes should substantially offset and diminish the deficiency. Moreover, as the utility investment grows, its tax burden will increase and the deficiency tend to disappear. Meanwhile, the other sources of revenue contemplated by an equitable sharing with localities in the new taxes proposed elsewhere in the Commission's report would in all probability leave the counties without any deficiency at all, but rather with a greater total revenue with which to meet their local needs. This is, in short, a unique opportunity for equalizing and modernizing the basis of all local property taxation in circumstances that permit the reform to be accomplished without any financial burden to the local taxing districts.

See attached table for impact of this reform on individual localities.

It should be recognized that Plan A is based on the fact that taxpayers in some localities are in effect using the public service corporations to pass a share of their obligations on to the taxpayers of other localities. Plan A assumes that this is wrong and seeks to correct it. This raises the question of the reasonableness of the Utility Equalization Franchise Tax in principle, since it simply extends the inequity for the transition period. Plan A can be pursued without it, and the State Corporation Commission can be expected to adjust rates downward if and as utilities experience tax relief.

SUMMARY

Use of Local Real Estate Assessment Ratios and Local Real Estate Rates

Summary of the gains and losses in local revenues resulting from the use of local real estate assessment ratios and rates in the assessment of public service corporation property for the tax year 1962.

<i>Loss</i> in revenue to 98 counties	\$ — 8,893,699
<i>Loss</i> in revenue to incorporated towns	— 366,885
<i>Loss</i> in revenue to 25 cities	— 893,953
<i>Gain</i> in revenue to 9 cities	+ 1,007,627

<i>Net loss</i> in revenue to counties, cities and towns	\$ — 9,146,910
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COUNTY	PLAN A					PLAN B		DIFFERENCE IN PRESENT LEVIES & PLAN A (6) - (5) (8)	(8) AS A % OF LOCAL LEVIES ON ALL TAXABLE PROPERTY 1962 (9)	DIFFERENCE IN PRESENT LEVY AND PLAN B (7) - (5) (10)	(10) AS A % OF LOCAL LEVIES ON ALL TAXABLE PROPERTY 1962 (11)
	TRUE TAX RATE ON REAL ESTATE 1962 (2)	TRUE TAX RATE ON PUB. SER. PROPERTY 1962 (3)	RATIO OF RATES ON PUB. SER. TO REAL ESTATE (4)	TOTAL COUNTY & TOWN LEVIES & CITY LEVIES ON PUB. SERV. (ACTUAL) 1962 (5)	TOTAL COUNTY & TOWN LEVIES & CITY LEVIES HAD LOCAL R. EST. RATIO BEEN USED (6)	AMOUNT OF LOCALITY @ 65¢ PER \$100 FULL VALUE + AMT. OF LOC. ON BASIS OF SHARE OF 1962 POP. (7)					
Accomack	.65	1.49	2.3	\$ 159,719	\$ 70,038	\$ 155,282	89,681	11.2	4,437	.6	
Albemarle	.46	1.54	3.3	270,016	80,637	211,510	-189,379	- 12.6	- 58,506	- 3.9	
Alleghany	.77	1.44	1.9	100,676	53,835	81,962	- 46,841	- 8.9	- 18,714	3.5	
Amelia	.72	1.18	1.6	18,276	10,966	34,026	- 7,310	- 2.9	+ 15,750	+ 6.2	
Amherst	.47	1.47	3.1	172,314	54,720	146,905	-117,594	- 21.1	- 25,409	- 4.6	
Appomattox	.57	1.10	1.9	120,707	62,543	97,870	- 58,164	- 16.1	- 22,837	- 6.3	
	1.23	1.71	1.4	1,209,383	870,717	988,397	-338,666	1.8	-220,986	1.1	
	.73	1.16	1.6	158,414	99,689	209,401	- 58,725	3.4	+ 50,987	+ 3.0	
	.90	1.06	1.2	21,961	18,711	28,752	- 3,250	1.1	+ 6,791	+ 2.4	
	.60	1.46	2.4	230,516	94,734	199,137	-135,782	- 12.2	- 31,379	- 2.8	
	Bland	.64	2.02	3.2	29,909	9,491	28,688	- 20,418	- 14.1	1,221	.8
Botetourt	.67	1.60	2.4	192,041	80,417	129,667	-111,624	- 14.4	- 62,374	- 8.0	
Brunswick	.53	1.20	2.3	82,251	36,339	95,545	- 45,912	- 8.5	+ 13,294	+ 2.4	
Buchanan	.39	1.60	4.1	138,450	33,780	170,482	-104,670	- 18.0	+ 32,032	+ 5.5	
Buckingham	.62	.83	1.3	56,752	41,886	76,683	- 14,866	- 5.6	+ 19,931	+ 7.6	
Campbell	.65	1.20	1.8	234,973	127,233	227,770	-107,740	- 8.6	- 7,203	.6	
Caroline	.54	1.20	2.2	93,058	41,873	87,853	- 51,185	- 13.1	- 5,205	1.3	
Carroll	.43	1.88	4.4	141,543	32,380	118,751	-109,163	- 21.7	- 22,792	- 4.5	
Charles City	.76	1.48	1.9	33,525	16,986	31,036	- 16,539	8.4	- 2,489	1.3	
Charlotte	.46	1.40	3.0	77,195	25,368	75,489	- 51,827	- 13.1	1,706	.4	

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Chesterfield	.81	1.06	1.3	697,867	535,839	675,078	162,028	- 3.6	- 22,789	.5	
Clarke	.38	1.06	2.8	46,950	16,830	51,622	- 30,120	- 10.4	+ 4,672	+ 1.6	
Craig	.65	1.28	2.0	14,814	7,294	18,534	7,520	- 7.8	+ 3,720	+ 3.9	
Culpeper	.41	.86	2.1	88,836	42,387	109,684	- 46,449	- 8.5	+ 20,848	+ 3.8	
Cumberland	.68	1.45	2.1	29,893	14,117	32,542	- 15,776	- 8.3	+ 2,649	+ 1.4	
Dickenson	.69	2.80	4.1	204,837	50,483	109,367	- 154,354	- 24.7	- 95,470	- 15.3	
Dinwiddie	.49	1.00	2.0	129,506	63,461	151,118	- 66,045	- 13.3	+ 21,612	+ 4.4	
Essex	.66	1.45	2.2	22,579	10,040	29,736	- 12,539	- 4.2	+ 7,157	+ 2.4	
Fairfax	1.14	1.59	1.4	1,579,783	1,138,758	1,498,854	- 441,025	- 1.8	- 80,929	.3	
Fauquier	.43	1.06	2.5	185,705	74,987	179,032	- 110,718	- 9.1	6,673	.5	
Floyd	.90	1.61	1.8	38,312	21,549	47,118	- 16,763	- 4.7	+ 8,806	+ 2.5	
Fluvanna	.43	.80	1.9	335,857	180,524	295,454	- 155,333	- 34.0	- 40,403	- 8.8	
Franklin	.67	1.92	2.9	172,888	60,340	135,972	- 112,548	- 13.3	- 36,916	- 4.4	
Frederick	.43	1.12	2.6	90,561	34,721	121,927	- 55,840	- 7.6	+ 31,366	+ 4.3	
Giles	.47	1.40	3.0	816,664	274,097	388,948	- 542,567	- 45.3	- 427,716	- 35.7	
Gloucester	.59	1.00	1.7	30,003	17,700	56,326	- 12,303	- 2.8	+ 26,323	+ 6.0	
Goochland	.56	.99	1.8	61,357	34,362	69,091	- 26,995	- 7.0	+ 7,734	+ 2.0	
Grayson	.46	2.40	5.2	60,837	11,689	71,121	- 49,148	- 12.8	+ 10,284	+ 2.7	
Greene	.48	1.21	2.5	34,714	13,886	32,772	- 20,828	- 19.0	1,942	- 1.8	
Greensville	.45	1.09	2.4	72,007	29,469	85,820	- 42,538	- 10.5	+ 13,813	+ 3.4	
Halifax	.49	.94	1.9	79,684	41,533	156,958	- 38,151	- 5.7	+ 77,274	+ 11.5	
Hanover	.62	1.24	2.0	140,799	70,410	161,868	- 70,389	- 6.8	+ 21,069	+ 2.0	
Henrico	.87	1.19	1.4	420,362	305,979	612,103	- 114,383	- 1.6	+ 191,741	+ 2.6	
Henry	.48	1.40	2.9	132,596	45,462	193,536	- 87,134	- 8.2	+ 60,940	+ 5.8	
Highland	.64	1.30	2.0	6,301	3,099	13,168	3,202	- 2.5	+ 6,867	+ 5.3	

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Isle of Wight	.64	1.26	2.0	92,262	46,849	99,506	- 45,413	- 5.9	+ 7,244	+ .9	
James City	.62	1.21	2.0	56,698	29,295	72,618	- 27,403	- 5.7	+ 15,920	+ 3.3	
King George	.56	1.19	2.1	29,360	13,703	40,032	- 15,657	- 7.8	+ 10,672	+ 5.3	
King & Queen	.75	.98	1.3	12,469	9,953	26,404	2,516	- 1.2	+ 13,935	+ 6.9	
King William	.38	.81	2.1	33,382	16,258	46,108	- 17,124	- 8.3	+ 12,726	+ 6.2	
Lancaster	.46	.95	2.1	21,156	9,898	41,626	- 11,258	- 3.6	+ 20,470	+ 6.5	
Lee	.82	3.68	4.5	231,053	51,552	117,417	- 179,501	- 28.0	- 113,636	- 17.7	
Loudoun	.40	1.12	2.8	218,375	77,995	197,742	- 140,380	- 9.1	- 20,633	- 1.3	
Louisa	.40	.92	2.3	86,606	37,668	98,847	48,938	14.5	+ 12,241	+ 3.6	
Lunenburg	.41	1.16	2.8	56,631	20,047	65,610	- 36,584	- 12.2	+ 8,979	+ 3.0	
Madison	.65	1.34	2.1	30,795	14,834	39,951	- 15,961	- 5.9	+ 9,156	+ 3.4	
Mathews	.48	.93	1.9	14,843	7,742	32,072	7,101	- 2.7	+ 17,229	+ 6.7	
Mecklenburg	.56	1.14	2.0	130,213	63,945	162,101	- 66,268	- 8.9	+ 31,888	+ 4.3	
Middlesex	.69	1.28	1.9	23,739	12,599	31,979	- 11,140	- 3.8	+ 8,240	+ 2.8	
Montgomery	.63	1.42	2.3	177,580	78,939	183,216	- 98,641	- 10.7	+ 5,636	+ .6	
Nansemond	.49	1.20	2.4	127,579	52,093	170,561	- 75,486	- 10.8	+ 42,982	+ 6.2	
Nelson	.52	1.24	2.4	98,767	41,418	89,868	- 57,349	- 15.8	8,899	- 2.5	
New Kent	.49	1.39	2.8	50,343	17,620	37,342	- 32,723	- 15.5	- 13,001	- 6.1	
Norfolk	.64	.80	1.3	608,908	487,130	659,823	- 121,778	- 6.1	+ 50,915	+ 2.5	
Northampton	.93	1.42	1.5	113,305	74,302	98,604	- 39,003	- 8.5	- 14,701	- 3.2	
Northumberland	.56	.89	1.6	19,807	12,600	46,366	7,207	- 1.8	+ 26,559	+ 6.7	
Nottoway	.79	1.33	1.7	107,968	64,629	93,730	- 43,339	- 8.7	- 14,238	- 2.8	
Orange	.52	1.23	2.4	198,642	84,039	136,634	- 114,603	- 18.3	- 62,008	- 9.9	
Page	.68	2.02	3.0	155,143	52,433	93,723	- 102,710	- 18.9	- 61,420	- 11.3	
Patrick	.60	1.20	2.0	36,570	18,291	64,682	- 18,279	- 4.6	+ 28,112	+ 7.1	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Pittsylvania	.50	.96	1.9	228,725	119,132	338,932	- 109,593	- 9.0	+ 110,207	+ 9.1
Powhatan	.52	.99	1.9	20,253	10,530	34,750	9,723	- 5.3	+ 14,497	+ 7.9
Prince Edward	.14	.40	2.9	35,588	12,831	90,846	- 22,757	- 17.9	+ 55,258	+ 43.4
Prince George	.69	1.08	1.6	95,925	61,286	131,385	- 34,639	- 6.2	+ 35,460	+ 6.4
Prince William	.69	1.82	2.6	1,332,437	505,681	650,446	- 826,756	- 26.8	- 681,991	- 22.1
Princess Anne	.66	2.68	4.1	498,842	122,991	417,005	- 375,851	- 11.4	- 81,837	- 2.5
Pulaski	.68	1.72	2.5	287,076	113,486	186,067	- 173,590	- 16.6	- 101,009	- 9.6
Rappahannock	.40	1.42	3.6	17,693	5,056	24,724	12,637	8.3	+ 7,031	+ 4.6
Richmond	.61	1.07	1.8	33,744	19,409	37,827	- 14,335	- 5.0	+ 4,083	+ 1.4
Roanoke	.74	.90	1.2	238,084	195,805	363,853	- 42,279	- 1.6	+ 125,769	+ 4.7
Rockbridge	.63	1.14	1.8	140,141	77,732	145,265	- 62,409	- 6.5	+ 5,124	+ .5
Rockingham	.61	1.08	1.8	133,928	75,632	208,653	- 58,296	- 4.0	+ 74,725	+ 5.1
Russell	.39	.95	2.4	762,376	313,641	602,207	- 448,735	- 42.7	- 160,169	- 15.2
Scott	.80	3.23	4.0	260,519	64,721	130,295	- 195,798	- 26.0	- 130,224	- 17.3
Shenandoah	.38	1.04	2.7	115,503	42,291	135,052	- 73,212	- 10.6	+ 19,549	+ 2.8
Smyth	.45	2.09	4.6	214,342	46,056	152,448	- 168,286	- 19.6	- 61,894	- 7.2
Southampton	.48	1.33	2.8	83,556	31,679	102,534	- 51,877	- 8.7	+ 18,978	+ 3.2
Spotsylvania	.76	.91	1.2	40,436	33,402	74,283	7,034	- 1.4	+ 33,847	+ 6.5
Stafford	.42	.97	2.3	58,421	25,561	95,433	- 32,860	- 7.6	+ 37,012	+ 8.5
Surry	.44	.93	2.1	21,036	10,060	33,758	- 10,976	- 5.3	+ 12,722	+ 6.2
Sussex	.58	1.40	2.4	103,886	43,032	84,194	- 60,854	- 12.8	- 19,692	- 4.1
Tazewell	.72	2.00	2.8	216,804	77,720	198,773	- 139,084	- 11.9	- 18,031	- 1.5
Warren	.45	1.10	2.4	169,700	69,430	141,674	100,270	14.3	28,026	4.0
Washington	.58	3.68	6.3	417,116	60,999	183,572	- 356,117	- 26.9	- 233,544	- 17.6
Westmoreland	.87	1.15	1.3	36,798	27,596	53,316	9,202	- 1.7	+ 16,518	+ 3.0
Wise	.85	2.07	2.4	234,666	96,236	199,472	- 138,430	- 11.1	- 35,194	- 2.8
Wythe	.68	1.80	2.6	147,621	55,796	115,656	- 91,825	- 11.9	- 31,965	- 4.1
York	.46	.95	2.1	429,937	207,172	363,589	- 222,765	- 18.7	- 66,348	- 5.6
Total Counties	.77	1.34	1.7	18,142,738	8,882,154	16,535,526	-9,260,584	- 7.6	-1,607,212	- 1.3

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Alexandria	1.37	1.53	1.1	1,681,991	1,503,589	1,001,639	178,402	1.9		680,352	7.1
Bristol	.87	1.07	1.2	23,543	19,514	67,914	4,029	.7	+	44,371	7.3
Buena Vista	1.11	1.47	1.3	23,194	17,394	30,503	5,800	- 2.0	+	7,309	2.5
Charlottesville	.96	1.40	1.5	138,116	94,704	160,632	- 43,412	- 2.2	+	22,516	1.2
Clifton Forge	1.10	1.30	1.2	74,181	62,766	53,597	- 11,415	- 3.4	-	20,584	6.2
Colonial Heights	1.02	.91	.9	20,252	22,328	47,244	+ 2,076	+	.4	26,992	5.2
Covington	1.09	1.44	1.3	48,942	37,049	55,110	- 11,893	- 1.9	+	6,168	1.0
Danville	.92	1.01	1.1	90,421	81,816	205,108	8,605	.3	+	114,687	4.5
Fairfax	1.17	1.66	1.4	101,198	71,358	86,629	29,840	1.8		14,569	.9
Falls Church	1.43	1.60	1.1	46,935	41,942	50,810	4,993	.4	+	3,875	.3
Franklin	.71	1.71	2.4	18,028	7,491	29,715	- 10,537	- 3.8	+	11,687	4.2
Fredericksburg	.85	.80	.9	64,360	68,383	95,468	+ 4,023	+	.6	31,108	4.6
Galax	.75	2.62	3.5	45,587	13,148	27,902	- 32,439	- 10.2	-	17,685	5.6
Hampton	1.00	1.59	1.6	362,379	228,170	446,727	- 134,209	- 3.0	+	84,348	1.9
Harrisonburg	.94	1.05	1.1	31,360	27,815	58,600	3,545	.5	+	27,240	3.8
Hopewell	.98	1.20	1.2	90,138	73,598	108,498	- 16,540	- 1.0	+	18,360	1.2
Lynchburg	1.28	1.14	.9	271,631	304,986	330,117	+ 33,355	+	.8	58,486	1.5
Martinsville	.83	.76	.9	32,264	36,188	89,293	+ 3,924	+	.4	57,029	5.8
Newport News	.96	1.25	1.3	775,478	594,115	775,605	- 181,363	- 2.7	+	127	0.0
Norfolk	1.29	1.20	.9	1,356,276	1,457,997	1,703,553	+ 101,721	+	.6	347,277	2.2
Norton	.85	2.01	2.4	48,140	20,290	30,754	- 27,850	13.7		17,386	8.5
Petersburg	1.35	1.18	.9	150,261	171,329	195,508	+ 21,068	+	1.0	45,247	2.1
Portsmouth	1.06	1.00	.9	230,760	244,606	520,793	+ 13,846	+	.4	290,033	8.6
Radford	.87	1.08	1.2	28,989	23,351	47,923	5,638	- 1.6	+	18,934	5.3
Richmond	1.59	.83	.5	894,545	1,705,577	1,376,624	+ 811,032	+	4.1	482,079	2.4

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Roanoke	1.02	1.18	1.2	653,503	566,814	668,511	86,689	- 1.3	+	15,008	+ .2
South Boston	.83	1.31	1.6	22,858	14,591	31,745	8,267	- 3.2	+	8,887	+ 3.4
South Norfolk	1.25	1.04	.8	82,343	98,925	122,553	+ 16,582	+ 1.5	+	40,210	+ 3.7
Staunton	.95	1.14	1.2	82,184	68,058	116,408	14,126	- 1.3	+	34,224	+ 3.2
Suffolk	1.06	1.18	1.1	58,402	53,138	71,950	5,264	.6	+	13,548	+ 1.6
Virginia Beach	1.11	1.75	1.6	69,253	43,679	50,974	25,574	- 2.9		18,279	- 2.1
Waynesboro	.82	1.40	1.7	68,051	39,860	81,122	28,191	- 2.5	+	13,071	+ 1.2
Williamsburg	.95	1.40	1.5	39,853	27,189	40,191	12,664	- 2.6	+	338	+ .1
Winchester	.82	.87	1.1	45,169	42,501	81,944	2,668	.3	+	36,775	+ 4.5
Total Cities	1.19	1.20	1.0	7,770,585	7,884,259	8,861,664	+ 113,674	+ .1		+1,091,079	+ 1.2
Total State	.92	1.30	1.4	25,913,323	16,766,413	25,397,190	- 9,146,910	- 4.2	-	516,133	- .2

Chapter IV

The Grant-In-Aid Programs

Grants-in-Aid from the state to the localities are derived principally from the General Fund of the State and also from certain special funds of the State and from special funds granted the State by the federal government for redistribution to the localities.

Such functions as:

1. Public elementary and secondary schools;
2. Public welfare;
3. Public health; and
4. Highways, roads and streets, are financed by the localities with Grants-in-Aid from the State and federal governments.

The State also jointly finances with the localities, the cost of the courts and constitutional officers.

Two-thirds of the profits derived from the operations of the Alcoholic Beverage Control Board are distributed by the State to the localities in aid of local governmental expenses.

Public Education

Public education in Virginia is financed jointly by the State and local governments with limited assistance from the federal government except in federally impacted areas.

At present, all expenditures for capital outlays and debt service must be provided from local revenues. In addition the locality must provide at least 30% of the cost of maintenance and operation, excluding the employer's share of teacher retirement and social security which is paid entirely by the State. Exceptions were granted to Halifax and Wise counties in 1962-63. In each case, the local share of maintenance and operation costs was reduced to 25% in accordance with current provisions of law.

State Grants-in-Aid to localities for public schools fall into four main groups: basic salary grant; minimum education program fund; teachers retirement and social security; and a miscellaneous group consisting of twelve programs dealing with pupil transportation, vocational education, and various incentive programs designed to strengthen and improve school administration and provide broader programs.

The basic salary grant available to all localities underwrites 60% of the cost of teacher salaries for State aid teaching positions. These are defined as 30 elementary students in average daily attendance (hereinafter written as ADA), and 23 secondary students in ADA. Depending on professional qualifications and experience of the teachers, the State grants for each State aid teaching position in the past year ranged from \$1,200 to \$2,790. This year, 1963-64, the corresponding maximum moves up to \$2,940. The average State grant per State aid teaching position for 1962-63 was about \$2,500.

The minimum education program fund (hereinafter written as M.E.P.) is available to localities on the following basis: Briefly, a locality is eligible

for M.E.P. fund money, if the sum of the following amounts is less than \$255 x ADA:

1. Yield from 60¢ true tax rate applied to 1956 full values of locally taxable wealth.
2. Other State funds such as the basic appropriation, transportation, vocational education and the other incentive funds.
3. Federal funds.

A locality is ineligible for M.E.P. money if the amount of money derived from the application of a 60¢ true tax rate on the 1956 values of taxable property plus other State and federal grants is equal to or more than the amount of the M.E.P. (\$255 x ADA). The eligibility of a community for M.E.P. fund grants depends upon whether the yield from applying the 60¢ true rate to 1956 taxable value together with other State and federal grants produces enough revenue to equal the M.E.P. (\$255 x ADA).

The employer's contributions for teachers retirement and social security are presently paid entirely by the State although the teachers are all local and not State employees. This particular program cost the State \$13,229,000 in 1962-63; and is estimated to cost \$14,963,000 in 1963-64; \$16,470,000 in 1964-65; and \$18,307,000 in 1965-66; an increase of 34% over 1962-63. These costs represent 7.38% of the total local salary scales regardless of the State minimum salary scale. They range from \$10 per pupil in ADA in one locality to \$27 per pupil in ADA in another. These amounts are not deducted in the M.E.P. formula.

The funds received under the twelve other programs are deducted in the M.E.P. formula. The amounts received by the localities range from \$4 per pupil in ADA in certain localities to \$54 per pupil in ADA in another.

The federal funds for vocational education; for school lunches; for school milk; for the National Defense Education Act; and for Rehabilitation are granted to the State for redistribution to the localities. These funds are all deducted in the M.E.P. formula.

There are other federal funds available under Public Law 874 which are distributed in lieu of taxes to pay certain federally impacted localities for the education of federally related pupils in ADA. These payments vary from \$189 to \$283 for each federally related pupil in ADA. These funds are also deducted in the M.E.P. formula. The lowest amount represents one-half of the national ADA average and is paid to eligible localities which spend per pupil in ADA the national average or less. The highest amount represents one-half the amount actually spent in a locality which spends more per pupil in ADA than the national average.

There are several weaknesses in the present formula. It behaves oddly because the ADA is a current measure 1962-63 and the measure for determining local ability (60¢ rate applied to taxable wealth) is for 1956, almost eight years out of date. This weakness was recognized in the 1962 Appropriation Act. That Act required that 1962 values be used for 1963-64, if available by January 1, 1963. This was an unrealistic requirement. The date should have been April 1, 1963.

The application of a 60¢ true tax rate to 1956 full values of all local taxable wealth produces \$87,502,614 and the same rate applied to 1962 values produces \$126,958,950. The increase is 45.1%. A locality which has experienced an increase in ADA and a larger increase in total

taxable wealth will qualify for more M.E.P. money on 1956 values than on 1962 values because need as measured by ADA expands and ability as measured by a constant (1956) value of taxable property remains the same. Thus, need appears to be increasing faster than ability. The *joker* is that ability by definition is held constant unless the rate applied thereto is changed.

This may be illustrated for the State as a whole. The minimum education program as defined for 1962-63 is \$255 x ADA. Substituting, this becomes \$255 x \$836,893 or \$213,417,715. If the minimum local requirement of 60¢ per \$100 of locally taxable wealth (full value) is applied to 1956 values the State share in public school becomes \$213,417,715 minus \$87,502,614 or \$125,905,101. If the State's share is computed on 1962 values the amount is reduced to \$86,448,765. The State share for the support of public schools is \$39,456,336 less when computed on 1962 full values than on 1956 values, all other factors being equal. The result is that some communities have received more M.E.P. money than they would have received if both basic measures were current. Other communities have received less.

This dilemma can be cured in two ways. The first is to base the measure of local effort on a formula which uses current values of taxable property. The application of 1962 true values to the present formula would have reduced the State M.E.P. liability by \$32,000,000 in the current biennium, or approximately \$16,000,000 for each fiscal year.

The second way is to require the locality to provide from its own local sources of revenue, a minimum percentage of the maintenance and operating cost of the minimum education program as defined. Detailed examination of Virginia counties and cities shows that all localities can provide one-third of the cost of the minimum education program as currently defined, 1/3 of \$255 or \$85 per pupil in ADA if they wish. In some areas this will require greater tax effort than at present. If the community spends less than \$255 per pupil in ADA then State aid should be limited to \$2 for each \$1 of local sources up to \$170 per pupil in ADA.

Of the two alternatives, the second one is much better because local effort in the support of schools is measured by the amount the locality appropriates for this purpose and is not as dependent upon the calculation of the so-called full values of taxable property. The first plan imposes on the State Department of Taxation the responsibility of preparing, at least every other year, an estimate of the full value of total taxable wealth. Certain communities now are exercising the option of not requiring local taxpayers to include household and personal effects in tangible personal property. Some communities levy a merchants' capital tax; others do not. In brief, the components of total local taxable wealth are no longer identical in Virginia from one locality to another. This difficulty is an added reason for defining the principal local requirement for State aid as a percentage of maintenance and operation costs. Some have advocated that tangible personal property should be eliminated from the 60¢ base. This would amount to nearly a 15% reduction in the local effort now required. If it is desirable to use only real property and public utility properties for the base, then a 70¢ rate should be used to sustain relatively the same local effort.

The present M.E.P. formula in effect reappropriates the federal funds received under Public Law 874 by certain federally impacted localities to all localities participating in the M.E.P. fund. Virginians generally oppose federal aid to education, except for the present limited programs and the aid to federally impacted areas, and yet the State in effect reappropriates

such aid, given directly by the federal government to certain specific localities because of special needs, to all localities eligible for the M.E.P. fund.

Consideration was given to deducting that portion of federal aid for each pupil in ADA which was in excess of the amount spent in local funds by each locality for locally related pupils in ADA. However, this was rejected when detailed analysis showed that the only localities affected were the poorer ones and all that would be accomplished would be to lower the standard of education they could provide.

The need of people everywhere in Virginia, and in the United States for an education is recognized by an overwhelming majority of our citizens. Since people move freely from one part of the State and nation to another, some standardization of elementary and secondary education is essential. One out of every five Virginians is a student in an elementary or secondary public school. One out of every 100 Virginians is a public school teacher. One out of every 25 employed Virginians is a public school teacher. These figures help to dramatize the economic importance of our school system to our present economy as well as its accepted importance to the future well-being of our economy and social and political systems.

To insure the proper support of this all-important responsibility of our State and local governments, it is essential that the overwhelming majority of our citizens be convinced that our grants-in-aid from the State are fairly distributed. While the present distribution formula represents an improvement over the more recently discarded formulas, it is still too complicated and the resulting distributions among localities in many cases is so absurd that suspicion is aroused of legislative and administrative legerdemain.

One difficulty with all formulas is the practice of insuring that no locality shall get less than it got under a prior discarded formula. This practice, while justifiable for the first year of a biennium to give a locality that loses, a chance to adjust its finances, should not be continued indefinitely as it compounds the inequity of the abandoned formulas and encourages the locality affected to become completely dependent upon the State as a free-loader.

Certainly, the most reliable, as well as understandable, measure of local need in financing the public schools is the number of pupils in ADA.

The most reliable measure of a locality's ability to finance its share of a minimum education program is the true value of real estate; tangible personal property, including machinery and tools; and public service property available for local tax levy. For Virginia as a whole, this source represents 50% of the local revenues and 80% of the local sources of revenue. The average true tax rate on all classes of property in Virginia is \$1.02 per \$100 at 1962 true values subject to local levies. Since such property represents 50% of all local revenue sources, the total revenue sources—local, State, and federal—provide the localities with average revenue equivalent to a yield of \$2.04 per \$100 of 1962 true property values subject to local levy.

The maintenance and operating costs of the public schools represents 45.84 per cent of the statewide average of local expenditures. This is the equivalent of 93.5¢ per \$100 of the 1962 true value of property subject to local tax levy. It is worthy of note that Lee County, the poorest locality in the Commonwealth in per capita personal income, \$776, has a true tax rate of \$1.14 per \$100 of the 1962 true value of property subject to local tax levy.

**EFFECT OF DISTRIBUTION UNDER PUBLIC LAW 874 OF FEDERAL FUNDS TO CERTAIN LOCALITIES OF FEDERALLY RELATED PUPILS IN ADA IN 1961-62
AS COMPARED WITH LOCAL EXPENDITURES FOR LOCALLY RELATED PUPILS IN ADA**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AREA	TOTAL PUPILS IN ADA	NO. FEDERALLY RELATED PUPILS IN ADA	NO. LOCALLY RELATED PUPILS IN ADA (1) - (2)	FEDERAL FUNDS DISTRIBUTED UNDER P.L. 874	LOCAL FUNDS FOR M & O	FEDERAL FUNDS PER FED. PUPIL	LOCAL FUNDS PER LOCAL PUPIL	DIFFERENCE (6) - (7)
ACCOMACK	5,813	179.5	5,633.5	\$ 32,265.13	\$ 573,061	\$ 179.75	\$ 101.72	\$ 78.03
ARLINGTON	22,808	6,249	16,559	1,676,231.76	8,741,258	268.24	527.89	- 259.65
CAROLINE	3,192	109	3,083	19,592.75	241,612	179.75	78.37	101.38
CHARLES CITY	1,473	65.5	1,407.5	11,773.63	122,326	179.75	86.91	92.84
CLARKE	1,647	75	1,572	13,481.25	192,897	179.75	122.71	57.04
DINWIDDIE	3,949	154.5	3,794.5	27,771.38	351,148	179.75	92.54	87.21
FAIRFAX	61,968	15,989.5	45,978.5	4,021,746.42	13,139,327	251.52	285.77	- 34.25
FAUQUIER	5,031	260.5	4,770.5	46,824.88	746,091	179.75	156.40	23.35
FLOYD	2,271	95	2,176	17,076.25	214,293	179.75	98.48	81.27
GILES	4,231	88.5	4,142.5	15,907.88	673,341	179.75	162.54	17.21
GLOUCESTER	2,384	317.5	2,066.5	57,070.63	243,460	179.75	117.81	61.94
ISLE OF WIGHT	4,141	76	4,065	13,661.00	403,506	179.75	99.26	80.49
KING GEORGE	1,416	350.5	1,065.5	63,002.38	149,001	179.75	139.84	39.91
LOUDOUN	5,467	179.5	5,287.5	32,265.13	877,611	179.75	165.98	13.77
MATHEWS	1,261	95	1,166	17,076.25	179,089	179.75	153.59	26.16
MONTGOMERY	6,336	609	5,727	109,467.75	554,528	179.75	96.83	82.92
RAMSEY	7,632	611.5	7,020.5	109,917.13	279,577	179.75	39.82	139.93
NEW KENT	1,070	57	1,013	10,245.75	127,600	179.75	125.96	53.79
NORFOLK	14,859	2,542.5	12,316.5	518,263.20	1,835,648	203.84	149.04	54.80
NORTHAMPTON- CAPE CHARLES	3,528	23.5	3,504.5	4,224.13	316,818	179.75	90.40	89.35
PRINCE GEORGE	4,160	1,554	2,606	279,331.50	299,544	179.75	114.94	64.81
PRINCE WILLIAM	10,410	1,922.5	8,487.5	384,442.33	1,382,394	199.97	162.87	37.10
PRINCESS ANNE	21,086	5,746	15,340	1,032,843.50	1,471,210	179.75	95.91	83.84
PULASKI	6,368	519	5,849	93,290.25	614,374	179.75	105.04	74.71
ROANOKE	13,550	301	13,249	54,104.75	1,533,622	179.75	115.75	64.00

	{1}	{2}	{3}	{4}	{5}	{6}	{7}	{8}
SPOTSYLVANIA	3,190	75	3,115	13,481.25	300,613	179.75	96.50	83.25
STAFFORD	3,559	525.5	3,033.5	94,458.63	338,865	179.75	111.71	68.04
WESTMORELAND	2,563	142	2,421	25,524.50	280,764	179.75	115.97	63.78
WYTHE	4,918	149.5	4,768.5	26,872.63	468,803	179.75	98.31	81.44
YORK	4,971	1,467.5	3,503.5	264,150.00	699,443	180.00	199.64	- 19.64

ALEXANDRIA	13,313	2,602	10,711	630,985.00	3,966,891	242.50	370.36	-127.86
BRISTOL	3,501	71.5	3,429.5	12,852.13	515,174	179.75	150.22	29.53
COLONIAL HEIGHTS	2,120	258.5	1,861.5	46,465.38	251,752	179.75	135.24	44.51
FAIRFAX	(INCLUDED IN FAIRFAX COUNTY)							
FALLS CHURCH	1,829	442.5	1,386.5	108,620.48	694,898	245.47	501.19	-255.72
FREDERICKSBURG	2,303	139	2,164	24,985.25	442,090	179.75	204.29	- 24.54
HAMPTON	17,703	3,551.5	14,151.5	638,382.13	1,965,804	179.75	138.91	40.84
HOPEWELL	3,983	245.5	3,737.5	46,490.34	722,378	189.37	193.28	- 3.91
NEWPORT NEWS	23,142	3,515	19,627	660,026.55	3,517,423	188.31	179.21	9.10
NORFOLK	48,643	10,016.5	38,626.5	2,556,310.97	7,190,302	255.21	186.15	69.06
PETERSBURG	6,904	486	6,418	87,358.50	1,347,870	179.75	210.01	- 30.26
PORTSMOUTH	21,364	4,560	16,804	964,029.60	2,764,598	211.41	164.52	46.89
RADFORD	1,888	214	1,674	38,466.50	280,358	179.75	167.48	12.27
SOUTH NORFOLK	4,893	582.5	4,310.5	104,704.38	728,748	179.75	169.06	10.69
SUFFOLK	2,233	96	2,137	17,256.00	368,949	179.75	172.65	7.10
VIRGINIA BEACH	1,199	170.5	1,028.5	30,647.38	295,699	179.75	287.51	-107.76
WILLIAMSBURG & JAMES CITY COUNTY	2,983	391.5	2,591.5	70,372.13	433,803	179.75	167.39	12.36

Any measure of local ability substantially less than 93.5¢ per \$100 of true value amounts to an inequitable appropriation by the General Assembly of the tax resources of certain localities for the benefit of other localities that are not appropriating from local sources a fair share of the cost of public schools.

A major weakness of all minimum education program formulas has been the failure to require a local appropriation, for the support of public schools, of a sum equivalent to a levy equal to a certain true tax rate. The State is not primarily interested in the levy. It is interested in the appropriation. We have tried to buy local compliance, with State imposed standards, without requiring first an adequate local effort as a condition precedent to securing additional aid intended to insure a truly poor locality a minimum education program.

Grants-in-Aid for Public Schools—A Recommended Solution

It is recommended that State funds to localities for public schools be distributed in the following manner.

The State at present has fifteen local school aid funds to aid the localities in the maintenance and operation of the elementary and secondary schools; namely: those providing aid for:

1. Teachers salaries;
2. A minimum education fund;
3. Teacher retirement, pensions, and social security;
4. Vocational education;
5. Transportation of pupils;
6. Local administration;
7. Local guidance positions;
8. Local supervision of instruction;
9. Special education;
10. Teachers sick leave with pay;
11. Providing free text books;
12. Twelve months principals;
13. Maintaining libraries and other teaching materials;
14. Purchase of mathematics, science, and foreign language equipment; and
15. In-service training programs.

These funds should be combined into a single *Local School Aid Fund*.

The purpose of this combined fund should be to provide a minimum standard of education in every political subdivision in Virginia. It is proposed that this be based on an expenditure for maintenance and operation (M & O) of the schools of at least \$230 per year by each locality for each pupil in average daily attendance (ADA) in elementary schools and \$300 for each pupil in ADA in the secondary schools. The State will reimburse the localities on the basis of \$2. for each \$3. spent for maintenance and operation of the schools for each child in ADA up to the above

defined minimum. In other words, a sufficient appropriation would be made to allow reimbursement of up to \$153.33 of each \$230 spent for maintenance and operation for each elementary pupil in ADA and up to \$200 of each \$300 spent for each secondary pupil in ADA.

This would provide a total up to \$4,600 for each State aid teaching position from the State, if the locality matches with \$2,300 from sources available to the locality. It should be noted that any percentage of the above amounts of \$230 per elementary pupil in ADA and \$300 per secondary pupil in ADA, either greater or less, could be used depending upon the availability of State funds.

A State aid teaching position will remain one State aid teacher for each 30 pupils in ADA in elementary school and one State aid teacher for each 23 pupils in ADA in secondary school. The locality shall not pay less than the present State minimum salary scale.

To receive reimbursement from the State in the above amounts, the locality must appropriate its one-third and also provide a minimum education program approved by the State Board of Education in each of the programs it elects to operate.

Federal funds are currently available to a locality which meets the federal standards for eligibility for:

1. Vocational education;
2. School lunch program;
3. School milk program;
4. National Defense Education Act; and
5. Any other programs that may be provided.

Such federal funds shall be in addition to the two-thirds reimbursement made by the State.

The federal funds received by certain localities for federally related pupils attending the local schools under Public Law 874 are in lieu of local taxes. Such funds may be counted by the locality as local funds as to the specific federally-related pupils in ADA to meet the one-third local requirement for full reimbursement by the State of its two-thirds.

If any locality, after appropriating for the M & O of its schools an amount equal to a levy of 60¢ per \$100 of 1962 true value of all real estate, all tangible personal property, including machinery and tools, and all public service property subject to local taxation, shall fail to raise \$76.57 for each non-federally related elementary pupil in ADA and \$100 for each non-federally related secondary pupil in ADA, such subdivision shall be entitled to a supplemental reimbursement in an amount sufficient to enable the locality to spend a total of \$230 for each elementary pupil in ADA and \$300 for each secondary pupil in ADA. In future fiscal years, the above 60¢ per \$100 of true value standard should be rapidly raised to at least 90¢ per \$100 true value, if a realistic and equitable standard for supplemental reimbursement is to be used.

No subdivision shall receive less in State aid school funds in fiscal year 1964-65 than it did in 1963-64, except for any reduction due to fewer pupils in ADA. All subdivisions which gain under the 1964-65 distribution plan shall contribute their pro-rata share of such gain to a gap fund to guarantee against any such losses.

In fiscal year 1965-66 any difference between the amount a subdivision is entitled to in that year and a greater amount received in 1963-64 shall be halved; and such half difference shall be paid pro-rata by those that gained in 1965-66, except for reductions due to fewer pupils in ADA.

The distribution program should permit any locality to have a minimum salary scale tailored to its own needs and the standard of living in the locality. Teachers salaries in the rural counties represent from 70% to 80% of M & O expenses. Therefore, an average salary scale of from \$4,500 to \$5,000 could be paid by any locality under this program.

The program should also permit every locality to know exactly how much they can count upon from the State. Combined payments under funds number 4 through 15 above ranged, in 1961-62, from a low of \$4 per pupil in ADA in Colonial Heights and Winchester to a high of \$54 per pupil in ADA in Highland County. Payments under fund number 3 above, teacher retirement, pensions, and social security, ranged from a low of \$10 per pupil in ADA in Buchanan County to a high of \$27 per pupil in ADA in Arlington County. The same wide variations existed in the first two funds combined from a low of \$90 per pupil in ADA in Norfolk and Richmond to a high of \$146 per pupil in ADA in Buena Vista. These extremes indicate the difficulty that members of the General Assembly and the school boards have in understanding the present distribution formulas.

The State provides the employer's contribution for the Virginia Supplemental Retirement System (VSRS) for all school teachers at the full local salary scale and reimburses the locality for matching all such employees' contributions for social security under the present system. Until this study was made there was no tabulation available of how much this program cost the State for the credit of each locality.

Under the present plan, the General Assembly has surrendered control of the State's maximum liability to the several local school boards. VSRS and social security contributions are fringe benefits connected with the salary and wage payments and are in reality a part of the wage and salary cost. The proposed program will require that the cost of this fund be included in the *Local School Aid Fund* and shared two-thirds by the State and one-third by the locality. An alternate possibility would be to require the locality to assume the employers' share of social security contributions or a part thereof.

The bulk of State General Fund revenues are collected from citizens throughout the Commonwealth on the basis of ability to pay. The per capita income varies from a low of \$776 in Lee County to a high of \$3,455 in Arlington County. The ratio of pupils in ADA to total population varies from a little more than 13% in Arlington County to 28% in Charles City County. This difference is compensated for when we distribute school funds on the basis of pupils in ADA as the measure of a locality's need.

It should be borne in mind that a minimum program is quite different from an average program. Such a minimum program should be designed and funded to provide every school child in Virginia, regardless of where he lives, a sound basic education. The State cannot afford to provide frills. These can only be provided by the localities themselves to the extent that their local resources permit and they desire.

The proposed program gives additional aid to those few localities that are actually too poor in local resources after they have appropriated

an amount equal to 60¢ per \$100 of 1962 true value of locally taxable property, if such amount is insufficient to provide the locality's one-third share.

It is believed that this program will encourage every locality to make a greater effort on behalf of its public schools and will effectively eliminate the free-loading of a few at the expense of the rest of the State. Capital outlay and debt service will remain the full responsibility of each locality.

The following localities would be entitled to additional aid after they have appropriated for M & O of public schools an amount equivalent to the yield of a true tax rate of .60¢ per \$100 of 1962 true value of all property subject to local levy. The amount of such additional aid would have been as indicated in 1962-63:

Brunswick	\$ 21,002	Northampton	19,798
Buchanan	75,581	Scott	106,569
Dickenson	38,306	Tazewell	142,278
Lee	189,246	Wise	228,440
Mecklenburg	14,665	Total	\$835,885

The Present State Minimum Teachers Salary Scale

A study of the local teachers salary scale for 1962-63 reveals that 96 school divisions paid annual increments of less than \$150; 29 school divisions paid annual increments of \$150; only three paid annual increments of above \$150. In other words the present State minimum salary scale contained the maximum annual increments paid except for three school divisions. This is certainly an anomaly for a minimum salary scale.

Forty-seven school divisions actually used annual increments of \$100 or less.

Of the seventy school divisions which voluntarily extended beyond the nine annual steps of the 1962-63 minimum teachers salary scale, 21 paid an increment of less than \$100 each year after the ninth year; 42 paid annual increments of \$100; and seven paid annual increments of more than \$100.

In view of the above local practices by school boards that are much more familiar with local needs and economic conditions than the State Board of Education or the General Assembly possibly could be, it would be unrealistic for the State to require additional increments of more than \$100 in a State-wide compulsory minimum teachers salary scale.

As a matter of actual practice in the face of local conditions, 45 school divisions did not pay beyond the top step of the minimum State scale. Of these, 19 paid the minimum State scale across the board. The other 26 telescoped their pay scale, starting higher than the State minimum for the first and succeeding steps until reaching the final step in the State pay scale, using annual increments of less than \$150.

These practices would indicate that the State would have been more realistic in using \$100 annual increments across the board for degree teachers just as it has for special certificate teachers.

The proposed single Local School Aid Fund would permit localities to continue to increase the local salary scale at their option in accord with

local conditions until they have reached an average salary scale of from \$4500 to \$5000 per year exclusive of teacher retirement and social security benefits.

An example of such a local salary scale would be a salary scale in 1964-65 beginning at \$3650 with a maximum of \$5000 in eleven steps, with ten annual steps of \$125 per year and an eleventh step of \$100; and for 1965-66 such a scale could begin at \$3900 with a maximum of \$5100 in twelve annual steps of \$100 each year. Such a scale should produce an average salary of about \$4500 per year. There are infinite variations possible. The scale could run from \$4400 to \$5600 in twelve steps of \$100 per year, or an average of \$5000 per year, and be financed by each locality with the money available in the proposed single Local School Aid Fund.

Public Welfare

The public welfare programs provide various amounts of financial assistance to older people, dependent children, and permanently and totally disabled people as joint federal, state and local programs; and general relief and foster care as joint state and local programs. The eligibility for participation in any of the public welfare programs is set forth by federal, state and local laws. In Virginia at the present time, welfare grants in most categories are among the lowest in the Nation. Virginia also has one of the lowest rates of unemployment in the Nation.

The welfare programs in Virginia cost \$38,681,358 in 1961-62. Of this amount \$21,888,734 was paid with federal funds; \$7,901,567 was paid with State funds; and \$8,891,057 was paid with local funds.

The welfare problem in cities is much more acute than in rural areas. This is the result of many circumstances over the years. People from rural areas migrate to the cities. Many of these migrants lack both training and skill. As industry, commerce and business have improved their methods of operation, the need for people with limited education and few skills has diminished and such people have found it difficult to find regular and profitable employment. Most of these people have long since lost the opportunity to return to the local areas from which they came. Cities, because of their large population, have large numbers of needy and dependent people. Public welfare departments and agencies deal with the needs of such people. To some extent, the fact that the cities have these facilities tends to attract the needy and indigent from other areas.

The largest cities have found it difficult to meet the needs of such people because the State appropriations have not been sufficient to enable the cities to take full advantage of the federal funds available for the administration of their various public welfare programs. It is suggested that the Governor and the General Assembly should inform themselves as to the extent of these needs and the availability of unused federal funds, and that sufficient State funds be appropriated to enable the localities to avail themselves of the federal funds.

A survey made for the Commission covering the insufficiency in State appropriations over the past five years disclosed that such insufficiency resulted in an average annual cost to 12 cities and one urban county of \$429,000. Many of the welfare programs are also related and bound up with medical care, nursing and hospitalization programs. These are joint State and local programs.

The juvenile and domestic relations courts and juvenile detention homes are jointly financed by the State and the locality. This aid from the State amounted to \$947,600 in 1961-62.

The localities are also reimbursed for the care of State prisoners at jails and jail farms. This amounted to \$1,184,200 in 1961.

Public Health

State aid to counties and cities for public health programs is on an administrative basis. The formulas require that a minimum of 20% and a maximum of 40% of the total budget be in local funds for the operation of the local health department. These local funds are deposited in advance with the Treasurer of Virginia. All expenses of the local health department are then paid by the State Health Department using matching federal and State funds. In 1962 the amount of State funds expended in localities for various health programs was \$2,620,300, and the amount of federal support of these programs was \$517,460, or a total of \$3,137,760. To match this amount the localities appropriated \$1,367,953. The State and federal funds accounted for about 7/10 of the funds for the operation of the local departments.

No proposals have been received for a modification of the method for distributing these public health funds.

Highways, Roads and Streets

The Virginia Department of Highways is charged with the responsibility of constructing and maintaining all highways in the State. All of the roads and streets in the counties, except for Arlington and Henrico, are included in the State Highway System and generally represent no expense to the local government. Most of the highways are constructed by the Highway Department with varying amounts of federal aid, but the maintenance of the highways is financed wholly with State funds. These funds are derived from the special gas and license taxes levied by the State.

All cities and towns are responsible for the construction and maintenance of all streets, roads and highways within their boundaries. There are limited federal urban aid funds and State urban aid funds available for streets in municipalities of 3,500 population and over. Matching funds, State and federal, are available for constructing the primary roads which pass through cities and towns. The cost to the locality for many such improvements is 25% of the total construction cost.

Cities and towns of 3,500 population and over are eligible for State funds for street maintenance on a rate-per-mile basis. The amount of aid to city and town governments is about 7.5% of the total funds available for highways (or about 9.25% of State funds available). The urban areas—all municipalities over 3,500 population—have 44% of the State's total population; 3% of the total area; and 10% of the total road mileage.

For the State as a whole, the cities and towns appropriate from local funds one dollar for every one dollar received of State and federal street aid funds. This has averaged over \$16,000,000 a year for the past three years. In a number of cities, however, the allocation of State and federal funds provides less than one-third of the total cost of street maintenance.

The difference in the cost of local government, as between cities and towns, as compared with counties, is influenced by the amount of general

tax money from property and other sources which must be used for the construction, maintenance and repairs of streets and roads. Streets and roads in the counties are maintained by the Department of Highways and are not a direct cost to property owners. The same streets after they cross the city or town lines must be maintained by the cities or towns. The grants-in-aid to the cities and towns for street maintenance is only partial. The request for larger grants-in-aid for street maintenance in urban areas is based on the above facts.

Since a special study commission is reviewing the operations of the State Highway Department, the Tax Study Commission is not making any recommendations concerning this problem.

Courts and Constitutional Officers

The State jointly finances with the localities the cost of the courts and constitutional officers. The State Compensation Board supervises the costs and salaries of the constitutional officers. The State's share varies from 50% in most cases to two-thirds and 100% in others.

ABC Profits

Two-thirds of the profits derived from the operations of the Alcoholic Beverage Control Board are distributed by the State to the localities in aid of local governmental expenses. The present basis of such distribution is the population of each locality as determined by the decennial federal census. Since the cost of public education is the single greatest expense of local government, it is recommended that these funds should be distributed on a current ADA basis. This would help localities with growing school populations to currently meet their problems and it would also prevent static communities from facing a heavy loss every ten years.

Recommended single LOCAL SCHOOL AID FUND

Column (2) equals total State Grant-in-Aid to each locality including cost of teacher retirement and social security; basic salary fund; MEP fund; and all other local school aid funds; plus the full amount of the losses in Column (8) and less than thirty per cent (30%) of the gains in Column (9).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	SUM OF ADA COSTS \$230 FOR ELEM. \$300 " SECON.	TWO-THIRDS OF COLUMN (1)	AMOUNT PAID IN TEACHERS RETIREMENT & SOC. SEC.	COLUMN (2) MINUS COLUMN (3)	AMOUNT PAID IN OTHER STATE FUNDS	DISTRIBUTION IN LIEU OF BASIC + MEP (4) - (5)	BASIC SALARY + MEP FUNDS 1962-63 (ADJUSTED FOR PENALTIES)	LOSSES (6) - (7)	GAINS (6) - (7)	ADJUSTED DISTRIBUTION IN LIEU OF BASIC + MEP 1962-63	ADJUSTED TOTAL GRANTS-IN-AID *
Accomac	1,500,950	1,000,633	77,390	923,243	142,877	780,366	744,227		+	36,139	769,524
Albemarle	1,376,250	917,500	91,180	826,320	169,042	657,278	585,822		+	71,456	635,841
Alleghany	717,150	478,100	34,420	443,680	43,986	399,694	372,246		+	27,448	391,460
Amelia	471,350	314,234	26,000	288,234	60,183	228,051	270,364	- 42,313			270,364
Amherst	1,091,450	727,633	49,595	678,038	95,788	582,250	644,112	- 61,862			644,112
Appomattox	504,300	336,200	31,155	305,045	92,738	212,307	272,823	- 60,516			272,823
Arlington	5,932,900	3,955,267	604,460	3,350,807	343,872	3,006,935	2,392,560		+	614,375	2,822,622
Augusta	2,096,840	1,397,893	113,325	1,284,568	209,561	1,075,007	1,020,254		+	54,753	1,058,581
Bath	272,510	181,673	16,770	164,903	37,654	127,249	117,990		+	9,259	124,471
Bedford	1,727,900	1,151,933	89,540	1,062,393	157,683	904,710	869,336		+	35,374	894,098
Bland	327,100	218,067	16,375	201,692	61,834	139,858	184,571	- 44,713			184,571
Botetourt	928,450	618,967	53,055	565,912	90,721	475,191	452,167		+	23,024	468,284
Brunswick	1,125,160	750,107	58,105	692,002	122,666	569,336	673,328	- 103,992			673,328
Buchanan	2,306,000	1,537,333	89,780	1,447,553	87,696	1,359,857	1,131,285		+	228,572	1,291,285
Buckingham	641,450	427,633	34,725	392,908	93,914	298,994	370,116	- 71,122			370,116
Campbell	1,963,000	1,308,667	110,345	1,198,322	185,313	1,013,009	1,201,382	- 188,373			1,201,382
Caroline	829,100	552,733	40,910	511,823	95,254	416,569	425,662	9,093			425,662
Carroll	1,311,500	874,333	59,015	815,318	106,089	709,229	701,501		+	7,728	706,911
Charles City	398,000	265,333	19,880	245,453	40,185	205,268	240,761	- 35,493			240,761
Charlotte	782,580	521,720	41,280	480,440	104,243	376,197	451,055	- 74,858			451,055

*Column (11) = Column (10) + net additional aid above 60¢ per \$100 of true value in 1962

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Chesterfield	4,395,000	2,930,000	236,825	2,693,175	202,967	2,490,208	2,191,255		+	298,953	2,400,522
Clarke	427,100	284,733	23,965	260,768	53,790	206,978	187,230		+	19,748	201,054
Craig	179,740	119,827	8,125	111,702	22,249	89,453	87,529		+	1,924	88,876
Culpeper	840,000	560,000	46,285	513,715	92,420	421,295	373,567		+	47,728	406,977
Cumberland	417,100	278,067	21,130	256,937	60,204	196,733	237,248	- 40,515			237,248
Dickenson	1,288,500	859,000	61,420	797,580	106,980	690,600	811,966	-121,366			811,966
Dinwiddie	1,117,900	745,267	52,870	692,397	122,782	569,615	493,907		+	75,708	546,903
Essex	383,300	255,533	21,295	234,238	49,781	184,457	181,570		+	2,887	183,591
Fairfax	17,293,540	11,529,027	1,247,145	10,281,882	786,962	9,494,920	6,632,850		+	2,862,070	8,636,299
Fauquier	1,329,250	886,167	70,480	815,687	113,968	701,719	517,610		+	184,109	646,486
Floyd	575,850	383,900	30,390	353,510	91,684	261,826	289,435	- 27,609			289,435
Fluvanna	412,200	274,800	24,255	250,545	55,712	194,833	179,710		+	15,123	190,296
Franklin	1,433,500	955,667	71,065	884,602	152,977	731,625	869,175	-137,550			869,175
Frederick	1,229,700	819,800	57,575	762,225	108,509	653,716	616,974		+	36,742	642,693
Giles	1,092,100	728,067	68,420	659,647	110,587	549,060	447,026		+	102,034	518,450
Gloucester	614,500	409,667	31,300	378,367	57,883	320,484	253,805		+	66,679	300,480
Goochland	485,650	323,767	24,125	299,642	56,641	243,001	237,586		+	5,415	241,376
Grayson	916,500	611,000	41,990	569,010	92,823	476,187	514,633	- 38,446			514,633
Greene	249,860	166,573	11,560	155,013	27,070	127,943	163,869	- 35,926			163,869
Greensville	1,020,000	680,000	45,965	634,035	66,941	567,094	623,407	- 56,313			623,407
Halifax	2,032,250	1,354,834	98,925	1,255,909	211,692	1,044,217	1,296,597	-252,380			1,296,597
Hanover	1,559,500	1,039,667	81,640	958,027	155,699	802,328	789,351		+	12,977	798,435
Henrico	6,344,180	4,229,453	398,785	3,830,668	306,192	3,524,476	3,341,686		+	182,790	3,469,639
Henry	2,475,100	1,650,067	114,870	1,535,197	190,782	1,344,415	1,483,826	-139,411			1,483,826
Highland	151,300	100,867	9,155	91,712	31,316	60,396	65,750	- 5,354			65,750
Isle of Wight	1,072,640	715,093	55,685	659,408	112,210	547,198	551,224	- 4,026			551,224
James City	(included in Williamsburg)										
King George	371,860	247,907	19,970	227,937	47,398	180,539	154,165		+	26,374	172,627
King & Queen	355,400	236,933	20,270	216,663	59,682	156,981	168,509	- 11,528			168,509
King William	426,300	284,200	21,170	263,030	52,374	210,656	131,567		+	79,089	186,929

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Lancaster	481,400	320,933	26,280	294,653	50,406	244,247	227,930		+ 16,317	239,352	
Lee	1,580,500	1,053,667	77,835	975,832	148,099	827,733	874,245	- 46,512		874,245	1,063,491
Loudoun	1,386,980	924,653	87,365	837,288	118,548	718,740	558,090		+ 160,650	670,545	
Louisa	770,510	513,673	37,685	475,988	96,850	379,138	374,427		+ 4,711	377,725	
Lunenburg	735,950	490,633	38,860	451,773	106,313	345,460	416,076	- 70,616		416,076	
Madison	450,650	300,433	20,615	279,818	55,731	224,087	239,209	- 15,122		239,209	
Mathews	322,450	214,967	19,755	195,212	37,747	157,465	137,420		+ 20,045	151,451	
Mecklenburg	1,913,100	1,275,400	99,605	1,175,795	198,448	977,347	1,226,435	- 249,088		1,226,435	1,241,100
Middlesex	354,650	236,433	20,030	216,403	44,838	171,565	166,270		+ 5,295	169,976	
Montgomery	1,624,250	1,082,833	85,505	997,328	139,652	857,676	805,928		+ 51,748	842,152	
Nansemond	1,898,300	1,265,533	86,025	1,179,508	129,982	1,049,526	992,525		+ 57,001	1,032,426	
Nelson	682,200	454,800	33,695	421,105	93,360	327,745	368,638	- 40,893		368,638	
New Kent	270,800	180,533	14,680	165,853	37,396	128,457	119,860		+ 8,597	125,878	
Northampton	901,450	600,967	46,045	554,922	94,604	460,318	453,356		+ 6,962	458,229	478,027
Northumberland	547,500	365,000	31,620	333,380	62,540	270,840	251,812		+ 19,028	265,132	
Nottoway	881,190	587,460	49,345	538,115	84,300	453,815	484,879	- 31,064		484,879	
Orange	722,050	481,367	40,655	440,712	80,440	360,272	298,845		+ 61,427	341,844	
Page	817,500	545,000	42,275	502,725	55,742	446,983	407,565		+ 39,418	435,158	
Patrick	879,000	586,000	46,355	539,645	115,795	423,850	495,943	- 72,093		495,943	
Pittsylvania	3,417,980	2,278,653	164,510	2,114,143	337,196	1,776,947	2,163,466	386,519		2,163,466	
Powhatan	328,710	219,140	18,775	200,365	49,896	150,469	157,623	7,154		157,623	
Prince Edward											
Prince George	1,103,850	735,900	54,865	681,035	87,579	593,456	450,410		+ 143,046	550,542	
Prince William	3,059,650	2,039,767	164,795	1,874,972	163,008	1,711,964	1,181,131		+ 530,833	1,552,714	
Pulaski	1,591,000	1,060,667	80,800	979,867	102,296	877,571	754,337		+ 123,234	840,601	
Rappahannock	276,450	184,300	13,630	170,670	37,011	133,659	131,852		+ 1,807	133,117	
Richmond	358,450	238,967	20,345	218,622	56,184	162,438	167,592	5,154		167,592	
Roanoke	3,583,340	2,388,893	199,350	2,189,543	209,790	1,979,753	1,961,230		+ 18,523	1,974,196	
Rockbridge	1,171,100	780,733	72,545	708,188	105,318	602,870	397,645		+ 205,225	541,302	
Rockingham	2,244,440	1,496,293	111,765	1,384,528	205,264	1,179,264	1,044,912		+ 134,352	1,138,958	

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Russell	1,575,500	1,050,333	80,045	970,288	120,527	849,761	1,051,242	- 201,481		1,051,242	
Scott	1,574,000	1,049,333	69,775	979,558	139,004	840,554	882,081	41,527		882,081	988,650
Shenandoah	1,200,000	800,000	61,505	738,495	118,818	619,677	561,481	+ 58,196		602,218	
Smyth	1,766,000	1,177,333	88,470	1,088,863	137,412	951,451	926,968	+ 24,483		944,106	
Southampton	1,559,000	1,039,333	83,750	955,583	126,091	829,492	918,088	88,596		918,088	
Spotsylvania	812,450	541,633	41,800	499,833	82,946	416,887	413,770	+ 3,117		415,952	
Stafford	949,380	632,920	42,815	590,105	64,232	525,873	473,789	+ 52,084		510,248	
Surry	374,400	249,600	18,205	231,395	43,982	187,413	190,670	3,257		190,670	
Sussex	787,500	525,000	41,045	483,955	78,418	405,537	442,402	36,865		442,402	
Tazewell	2,801,450	1,867,634	118,550	1,749,084	173,181	1,575,903	1,534,370	+ 41,533		1,563,443	1,705,721
Warren	548,000	365,334	38,580	326,754	45,841	280,913	218,368	+ 62,545		262,149	
Washington	1,831,000	1,220,667	109,195	1,111,472	242,568	868,904	878,882	9,978		878,882	
Westmoreland	560,400	373,600	35,010	338,590	74,475	264,115	277,749	13,634		277,749	
Wise	2,700,150	1,800,100	137,140	1,662,960	244,166	1,418,794	1,841,884	423,090		1,841,884	2,070,324
Wythe	1,237,050	824,700	66,820	757,880	154,366	603,514	597,411	+ 6,103		601,683	
York	1,375,000	916,667	81,845	834,822	113,390	721,432	448,444	+ 272,988		639,536	
Towns	(410,700)	273,800)		273,800)		273,800)	716,027)	(- 442,227)			
Total Counties	133,211,140	88,807,427	7,594,120	81,213,307	11,070,099	70,143,208	66,697,866	-3,812,404	+7,257,746	71,062,260	71,898,145
Alexandria	3,482,900	2,321,933	319,895	2,002,038	105,545	1,896,493	1,387,380	+ 509,113		1,743,759	
Bristol	897,000	598,000	58,200	539,800	40,792	499,008	451,593	+ 47,415		484,783	
Buena Vista	340,800	227,200	18,160	209,040	7,656	201,384	219,744	18,360		219,744	
Charlottesville	1,276,800	851,200	81,830	769,370	72,165	697,205	479,790	+ 217,415		631,980	
Chesapeake	5,401,250	3,600,833	287,015	3,313,818	376,164	2,937,654	2,962,944	25,290		2,962,944	
Clifton Forge	275,150	183,433	18,770	164,663	10,124	154,539	125,112	+ 29,427		145,711	
Colonial Heights	592,230	394,820	30,915	363,905	8,811	355,094	292,270	+ 62,824		336,247	
Covington	582,750	388,500	43,840	344,660	26,777	317,883	263,331	+ 54,552		301,517	
Danville	2,488,180	1,658,787	158,360	1,500,427	104,377	1,396,050	1,214,911	+ 181,139		1,341,708	
Fairfax											

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Falls Church	485,880	323,920	48,635	275,285	18,222	257,063	185,490		+	71,573	235,591
Franklin											
Fredericksburg	614,590	409,727	42,035	367,692	36,000	331,692	239,740		+	91,952	304,106
Galax	275,900	183,933	18,170	165,763	26,049	139,714	122,895		+	16,819	134,668
Hampton	4,739,080	3,159,387	264,530	2,894,857	167,182	2,727,675	2,150,515		+	577,160	2,554,527
Harrisonburg	598,940	399,293	39,115	360,178	22,801	337,377	241,524		+	95,853	308,621
Hopewell	1,063,630	709,087	66,975	642,112	46,090	596,022	394,500		+	201,522	535,565
Lynchburg	2,653,810	1,769,207	189,555	1,579,652	123,661	1,455,991	1,164,537		+	291,454	1,368,555
Martinsville	1,063,780	709,187	75,920	633,267	59,240	574,027	523,667		+	50,360	558,919
Newport News	6,033,130	4,022,087	362,870	3,659,217	309,282	3,349,935	2,521,254		+	828,681	3,101,331
Norfolk	12,680,000	8,453,333	802,735	7,650,598	416,877	7,233,721	4,658,130		+	2,575,591	6,461,044
Norton	298,300	198,867	15,255	183,612	14,331	169,281	174,408	5,127			174,408
Petersburg	1,775,600	1,183,733	123,760	1,059,973	80,833	979,140	823,099		+	156,041	932,328
Portsmouth	5,807,100	3,871,400	325,380	3,546,020	164,929	3,381,091	2,647,380		+	733,711	3,160,978
Radford	486,880	324,587	32,140	292,447	14,064	278,383	218,051		+	60,332	260,283
Richmond	8,865,970	5,910,647	689,400	5,221,247	396,847	4,824,400	3,517,740		+	1,306,660	4,432,402
Roanoke	4,643,750	3,095,833	325,535	2,770,298	231,167	2,539,131	1,814,010		+	725,121	2,321,595
South Boston	346,600	231,067	18,470	212,597	16,501	196,096	165,991		+	30,105	187,064
South Norfolk											
Staunton	960,950	640,633	55,450	585,183	34,854	550,329	374,070		+	176,259	497,451
Suffolk	569,450	379,633	36,480	343,153	40,923	302,230	241,950		+	60,280	284,146
Virginia Beach	6,407,850	4,271,900	287,200	3,984,700	277,827	3,706,873	2,778,306		+	928,567	3,428,303
Waynesboro	893,160	595,440	55,550	539,890	35,861	504,029	364,870		+	139,159	462,281
Williamsburg	792,220	528,147	46,870	481,277	60,136	421,141	370,260		+	50,881	405,877
Winchester	731,900	487,933	45,745	442,188	11,680	430,508	285,490		+	145,018	387,003
					(188,739)	(- 188,739)		(- 188,739)			
Total Cities	78,125,130	52,083,687	4,984,760	47,098,927	3,546,507	43,552,420	33,374,952	- 237,516	+10,414,984	40,665,439	
Total State	211,336,670	140,891,114	12,578,880	128,312,234	14,616,606	113,695,628	100,072,818	-4,049,920	+17,672,730	111,727,699	112,563,584

ADJUSTED TOTAL GRANTS-IN-AID UNDER SINGLE LOCAL SCHOOL FUND COMBINING COLUMN 3 (TEACHER RETIREMENT AND SOCIAL SECURITY) COLUMN 5 (OTHER FUNDS) AND COLUMN 10 OR 11 (ADJUSTED DISTRIBUTION IN LIEU OF BASIC APPROPRIATION + MEP + SUPPLEMENTARY GRANTS-IN-AID)

STATE	\$139,495,555	TOTAL COUNTIES	\$90,487,586	TOTAL CITIES	\$49,007,967		
ACCOMACK	989,791	FLOYD	401,509	HAISEMOND	1,248,433	WARREN	346,570
ALBEMARLE	896,063	FLUYANNA	270,263	NELSON	495,693	WASHINGTON	1,230,645
ALLEGANY	469,866	FRANKLIN	1,093,217	NEW KENT	177,954	WESTMORELAND	387,234
AMELIA	356,547	FREDERICK	808,777	NORTHAMPTON	618,676	WISE	2,451,630
AMHERST	789,495	GILES	697,457	NORTHUNDERLAND	359,292	WYTHE	822,869
APPOMATTOX	396,316	GLOUCESTER	399,663	NOTTOWAY	618,524	YORK	834,771
ARLINGTON	3,770,954	GOOCHLAND	322,142	ORANGE	462,939	ALEXANDRIA	2,169,199
AUGUSTA	1,381,467	GRAYSON	649,446	PAGE	533,175	BRISTOL	583,775
BATH	178,895	GREENE	202,499	PATRICK	628,093	BUENA VISTA	245,560
BEDFORD	1,141,321	GREENSVILLE	736,313	PITTSYLVANIA	2,665,172	CHARLOTTESVILLE	785,975
BLAND	262,780	HALIFAX	1,607,214	POMPATAM	226,294	CLIFTON FORGE	174,605
BOTETOURT	612,060	HANOVER	1,035,774	PRINCE EDWARD	692,986	CHESAPEAKE	3,626,123
BRUNSWICK	875,101	HENRICO	4,174,616	PRINCE GEORGE	692,986	COLONIAL HEIGHTS	375,973
BUCHANAN	1,544,342	HENRY	1,789,478	PRINCE WILLIAM	1,880,517	COVINGTON	372,134
BUCKINGHAM	498,755	HIGHLAND	106,221	PULASKI	1,023,697	DANVILLE	1,604,445
CAMPBELL	1,497,040	ISLE OF WIGHT	719,119	RAPPAHANNOCK	183,758	FALLS CHURCH	302,448
CAROLINE	561,826	JAMES CITY	248,461	RICHMOND	244,121	FREDERICKSBURG	382,141
CARROLL	872,015	KING AND QUEEN	248,461	ROANOKE	2,383,336	GALAX	178,887
CHARLES CITY	300,826	KING GEORGE	239,995	ROCKBRIDGE	719,165	HAMPTON	2,986,239
CHARLOTTE	596,578	KING WILLIAM	260,473	ROCKINGHAM	1,455,987	HARRISONBURG	370,537
CHESTERFIELD	2,840,314	LANCASTER	316,038	RUSSELL	1,251,814	HOPEWELL	648,630
CLARKE	278,809	LEE	1,289,425	SCOTT	1,197,429	LYNCHBURG	1,681,771
CRAIG	119,250	LOUDOUN	876,458	SHEMANGOAN	782,541	MARTINSVILLE	694,079
CULPEPER	545,682	LOUISA	512,260	SNYTH	1,169,988	NEWPORT NEWS	3,773,483
CUNDESLAND	318,582	LUNEBURG	561,249	SOUTHAMPTON	1,127,929	NORFOLK	7,680,656
DICKENSON	1,018,672	MADISON	315,555	SPOTSYLVANIA	540,698	NORTON	203,994
DINWIDDIE	722,555	MATHEWS	208,953	STAFFORD	617,295	PETERSBURG	1,136,921
ESSEX	254,667	MECKLENBURG	1,539,153	SURRY	252,857	PORTSMOUTH	3,651,287
FAIRFAX	10,670,406	MIDDLESEX	234,843	SUSSEX	561,865	RADFORD	306,487
FAUQUIER	830,934	MONTGOMERY	1,067,309	TAEEMELL	1,997,452	RICHMOND	5,518,649
						ROANOKE	2,878,297
						SOUTH BOSTON	222,035
						STAUNTON	587,755
						SUFFOLK	361,549
						VIRGINIA BEACH	3,993,330
						WAYNESBORO	553,692
						WILLIAMSBURG	512,883
						WINCHESTER	444,428

Chapter V

New Sources of Revenue

At the time this report is written, no precise forecast can be made as to the revenue needs of the General Fund in the next biennium.

The general indication is that our surplus at the end of the current biennium may be materially greater than earlier estimates, and probably will be sufficient—with a firm rein on expenditures and a continuation of the special revenue measures enacted in 1960—to meet our needs for the next biennium.

Recommendations for tax adjustments found elsewhere in this report involve a relatively small amount of revenue (\$6 million, more or less, for the biennium, equal to less than one per cent of all General Fund revenues) which should have no material effect upon the foregoing conclusion.

Thus, if the problem is confined to one of simply meeting essential needs for the next biennium, and making the adjustments recommended by this Commission, it would appear that little or no additional revenue will be needed beyond the amount provided by existing tax sources.

If a relatively small addition should be needed, it might be obtained by changing our basic income tax exemptions to \$600 per person, including dependents, with an extra \$1,200 for each person over 65 years of age.

This would produce about \$7 million in extra revenue in the next biennium and about \$14 million extra in the following biennium. The Commission finds no basic objection to this change if it should be required for revenue purposes.

Beyond this, the Commission is reluctant to suggest the imposition of any more selective excise taxes such as those levied in 1960. There are not many unused sources of this type remaining, and most of them would not yield a significant amount of revenue.

This, then, brings us to the larger question of what the State should do in terms of any further overhaul of its revenue system to provide a greater degree of equity among taxpayers, to stimulate an even more rapid rate of economic growth, and to meet future governmental needs. There are two basic reasons why the Commission addressed itself to this more complex and difficult question:

1. While the recommendations listed elsewhere in this report represent a significant improvement in our tax structure, many members of the Commission feel that far more sweeping changes would be highly desirable, and in the best interests of the Commonwealth.

2. While there appears to be no immediate need for additional revenue in any significant amount, insofar as the next biennium is concerned, the outlook may be different in the future.

A sales tax should not be enacted by the General Assembly unless further changes are made in the present tax structure in the interest of fairness and economic growth.

Over the years, many changes have been made in our tax structure, but there has been no overall revision of the system.

Realistically, if any further material changes in our tax system are to be made, it must be done at the time a sales tax is enacted, or any substantial increase is made in income tax rates. If these changes are not accomplished at that time they are unlikely to be made, in the opinion of the Commission.

More specifically, the present tax on capital, consisting mainly of the inventories of manufacturers, should be eliminated, and license fees on other types of business should be sharply reduced to what would be, in effect, a regulatory rather than a revenue producing basis. The Commission concurs in the recommendations of the Virginia Advisory Legislative Council studies that tax relief be given to the railroads.

These changes would improve the present tax structure, and put Virginia in a superior competitive position to attract new business and industry and thereby increase correlated taxable values.

In the long run, this is the most constructive action that can be taken, because an acceleration in our rate of economic growth is the most significant and direct means of increasing our economic wealth and standard of living of the people of Virginia with the accompanying increase in taxable values.

It should also be possible to distribute some portion of sales tax revenues to local governments, but only when the General Assembly is fully satisfied that the local governments are making full and equitable use of their tax resources and powers.

Parenthetically, for any such distribution of sales tax proceeds to localities, the Commission would recommend that the total be allocated, one-half in proportion to where the tax is collected and one-half in proportion to school population.

This distribution formula not only takes into account the varying needs of rural and urban areas, but would provide sufficient revenue to make needed reform in local tax structures.

It would be most salutary, for example, if the General Assembly would place ceilings on local license taxes that could be levied on professional, business, and service activities. It would be highly desirable to have these ceilings no higher than the present level of State taxes on the same subjects, but this would involve a significant revenue loss to many cities of Virginia. As a realistic matter, therefore, these changes cannot be made without substantial offsetting revenues, such as those which a sales tax could provide.

In this discussion, we have confined ourselves to basic principles and directions that we might follow, with no attempt to work out all the details involved. These would vary according to the rate of sales tax and definition of items to be taxed, making possible a great many combinations that might be adopted. This is illustrated in tables incorporated in the Appendix to this report.

Estimated state revenues, expenditures, and deficits under the present tax system for the bienniums 1964-66, 1966-68, 1968-70 are summarized as follows:

	1964-66	1966-68	1968-70
	(in millions)		
Estimated surplus at beginning			
of biennium	40.0		
General Fund collections			
from regular sources	546.5	612.2	684.2
from temporary sources	58.8	60.6	62.4
Total	645.3	672.8	746.6
Estimated expenditures including			
capital outlay	656.8	747.9	861.0
Deficit	— 11.5	— 75.1	—114.4

It should be pointed out that the above estimates concern continuation of the recent trend of substantial increases in the general fund budgets in excess of the population growth, cost-increase, and economic growth of the State. The estimates are based on approximately a 15% increase in appropriations for each biennium. The combined increase in population and the cost-of-living increase has amounted to approximately 6% per biennium which is well below the economic growth of the State. If, for each biennium, we assume a 10% increase in expenditures over the preceding biennium, a substantial surplus would be available each biennium for improved programs, capital outlays, or further tax reductions without the necessity of further tax increases. Reversions have averaged over 11.5 million dollars in the last three bienniums.

The recommendations that the Commission has made for improvement of the State tax structure involve the subjects and General Fund revenue losses as set out below:

Changes (Losses)	1964-66	1966-68	1968-70
1. Exclusion of money from capital not otherwise taxed	\$2,665,000	\$2,800,000	\$2,920,000
2. Application of tax only once on agricultural products stored more than one year	2,260,000	2,355,000	2,710,000
3. Reduction of capital not otherwise taxed from			
65¢ to 60¢ on 1/1/67		620,000	
60¢ to 55¢ on 1/1/69			945,000
4. Wholesale license tax reduced			
a) 13¢ to 10¢ on 1/1/65	675,000	900,000	900,000
b) 10¢ to 5¢ on 1/1/67		1,146,000	1,500,000
		2,046,000	2,400,000
5. Increased cost of tax assessment program	234,000	234,000	234,000
Revenue loss and increased cost (1 - 5)	\$5,834,000	\$8,055,000	\$9,209,000

Obviously, some amount of new revenue may be needed in the future to avoid a General Fund deficit if the recent budget trends are continued. Below is set out a list of sources of new revenue with estimated yields. These are considered the only practical major new sources, and obviously the degree of practicability is highly debatable in each case. These are not listed in order of priority or preference.

	1964-66	1966-68	1968-70
Increase in tax on liquor		(in millions)	
10% to 15% (added amount)	\$ 11.5	\$ 11.8	\$ 11.9
Increase in cigarette tax			
3¢ to 5¢ per pack	20.0	20.8	21.5
Income tax changes			
a) Change in exemptions to \$600 per person and an allowance of \$1,800 for persons 65 and over	7.0	13.0	14.3
b) Increase from 2% to 3% on lowest taxable income	59.8	70.5	82.6
c) Increase from 3% to 4% on taxable income between \$3,000 and \$5,000	13.4	15.8	18.6
d) Sum of (b + c)	73.2	86.3	101.2
e) Increase from 5% to 6% on taxable income above \$5,000	19.5	22.9	26.9
f) Sum of (d + e)	92.7	109.2	128.1

g) Increase corporate income from 5% to 6%	12.0	12.0	12.0
General sales tax, no exemptions, 5% allowance for collection, plus cost of administration			
a) Yield at 1%	95.4	105.4	116.5
b) Yield at 2%	193.3	213.4	225.6
c) Yield at 3%	291.2	321.3	344.6

Each of the above listed sources of revenue is discussed below:

Increase liquor tax from 10% to 15%

If the tax were 15% the total yield for the 1964-66 biennium would be about \$34.6 million. Of this amount \$23.1 million would result from the current tax of 10% and \$11.5 million from the additional 5%. It should be noted that estimated revenue from this source in the fiscal year ending June 30, 1963, was \$10.9 million, which is \$600,000 below the \$11.5 million estimated by the Assembly. This may indicate that this source is now at the point of diminishing returns. When the 10% tax on liquor was imposed in 1960 the total volume of sales decreased somewhat. There were several factors in this situation. The first was that the public was notified that the tax would become effective on July 1, 1960. This brought about widespread buying for future consumption. The 10% tax also encouraged people in Northern Virginia to buy their liquor in the District of Columbia where the prices were more favorable. Prior to the enactment of the 10% liquor tax the prices in the Virginia ABC stores were lower on many items than those of the corresponding items in the District. As a result the total volume of liquor sales in Virginia decreased from \$117.9 million in the fiscal year 1960 to \$106.5 million in 1961 and \$105.1 million in 1962.

The purpose of the ABC Board is to regulate the sale and use of alcoholic beverages in the State. As the taxes on alcoholic beverages are increased the task of regulating the manufacture and sale of liquor becomes more difficult. This would be the risk involved in increasing the tax beyond the present level.

Increase on cigarette tax from 3¢ to 5¢

In early 1963 the majority of states, or 33 states, had cigarette taxes of 5¢ or more. North Carolina has no cigarette tax, and Colorado and Oregon have certain constitutional provisions which restrict the taxation of cigarettes. At the beginning of 1963 there were 14 states in which the cigarette tax was less than 5¢, but eight of these had a tax of 4¢. New Hampshire has a tax of 3.5¢; Virginia, California, and Indiana have a tax of 3¢; Kentucky, 2.5¢; and Arizona, 2¢. There were nine states with a tax of 5¢; 11 states with a tax of 6¢; seven states with a tax of 7¢; and six states with a tax of 8¢.

Increase in income taxes

Individual and corporate income taxes have been among the important sources of taxation in Virginia for sometime. Whenever new revenue is needed this source of taxation is always considered even though increased income tax rates may appear to be unpopular. Yet in one respect the income tax is superior to most other subjects of taxation—the tax is paid out of earnings and in proportion to the amount of earnings.

Several variations of the income tax are shown in the preceding table. The first of these is *a* which proposes a change in exemptions to \$600 per person and an additional allowance of \$1,200 for a total of \$1,800 for a

person 65 years of age and over. If this provision were adopted—and it was suggested to the General Assembly in 1962 when the withholding provision was adopted—single persons and family groups of less than four would have their taxes increased; families of larger than four would have their taxes decreased. It is estimated that this change would produce about \$7 million in revenue during the first biennium in which it is adopted. In 1964-66 it would produce about \$7 million; in 1966-68, about \$13 million; and in 1968-70, about \$14.3 million.

If the lowest rate on the individual income tax were increased from 2% to 3%—that is all taxable income of less than \$3,000—such an increase would produce about \$59.8 million in the biennium 1964-66; \$70.5 million in 1966-68; and \$82.6 million in 1968-70. Such an adjustment would affect all individual income taxpayers. If the rate on taxable income from \$3,000 to \$5,000 were increased from 3% to 4%, this would yield about \$13.4 million in 1964-66; \$15.8 million in 1966-68; and \$18.6 million in 1968-70. If these two measures were combined, that is if the taxable income under \$3,000 were taxed at 3% and the income from \$3,000 to \$5,000 were taxed at 4%, the total yield for the biennium 1964-66 would be \$73.2 million; 1966-68, \$86.3 million; and 1968-70, \$101.2 million. If the top rate were increased—that is on all taxable income above \$5,000—from 5% to 6%, the additional yields for the next three bienniums would be \$19.5; \$22.9; and \$26.9 million, respectively.

Finally, if the corporate income tax in Virginia were increased from 5% to 6%, the increase would be about \$6 million a year or \$12 million for the biennium.

It should be made clear, however, that the present rate on corporate income and the maximum rate on individual income are relatively high true tax rates when compared to other states.

General sales tax

Each time additional revenue has been needed in the State over the past twenty years the possibility of raising such a revenue from a sales tax has been considered. There are many people who consider the sales tax as a subject of last resort. Views differ around the country. For example, in Pennsylvania there has been strong opposition to an income tax, and as a result Pennsylvania raised the sales tax to 4.5%.

The prospective yield from a sales tax is shown in the preceding table. Precise estimates of the yields from these taxes depend on the manner in which the bill is drawn, the subjects which are to be exempted, and the matter of allowance to the merchant who collects the tax, plus the increased cost of administration. The estimates which appear in item 7 are based on the proposition that 56% of the personal income payments would be spent on commodities subject to the general sales tax. Roughly this corresponds to the businesses classified as retail trade. If certain items are exempt, the percentage of income that would be spent for items subject to a general sales tax would be reduced. On the basis of 56% of personal income, and \$2.5 million per biennium for increased cost of administration, the yield for the biennium 1964-66 at 1% would be \$95.4 million; for the following biennium, \$105.4 million; and the biennium 1968-70, \$116.5 million. The yields at 2% to 3% are also calculated on the same basis.

Soft Drink Tax and Hotel and Motel Room Tax

Periodically taxes on soft drinks have been proposed. No recent estimate has been made on the current yield from a tax on soft drinks.

However, within the last two to four years preliminary estimates were prepared by the State Department of Taxation which indicated that something like \$8 million to \$10 million might be realized from this source per year, or about \$20 million per biennium. This tax is used by very few states and is generally unpopular. It is alleged that it is a tax on school children and workers and therefore unfair.

A tax on hotel and motel rooms has been proposed many times. This tax has been violently opposed by the tourist groups in the State despite the fact that such taxes are pretty generally applied and are levied in all surrounding states. Such a tax would probably produce about \$5.6 million during the 1964-66 biennium and larger amounts thereafter as the State continues to grow. Those who promote tourism feel that the imposition of a room tax tends to deter travelers from stopping. It is worthy of consideration that although no action has even been taken by the State of Virginia there are taxes on hotel and motel rooms currently levied by Alexandria, Arlington, and Virginia Beach, which produce important amounts of revenue in these localities. Some years ago the City of Roanoke had such a tax but later abandoned it.

The adoption by the State of a source of revenue which has previously been used by a locality creates many problems in the revenue structure of the locality. The practice in Virginia has been to divide the subjects of taxation between the State and the localities. While the division is not hard and fast, the question is always raised when a new tax is proposed as to whether it should be levied by the State or the localities. It is usually presumed that if the tax is used by the localities, local governments have preempted this field.

SECTION V

CONCLUSION

The Commission has reviewed the broad spectrum of State and local revenues and expenditures. Listed below is a general summary of its principal observations:

1. Virginia's tax picture in relation to other states is wholesome and competitive except in a few instances of excessive burdens on particular segments of business and industry. Recommendations have been made to correct these exceptions.
2. Though a sizeable surplus is indicated at the end of the current biennium, some added revenue may be needed to implement tax improvements and to balance the anticipated budget. Recommendations have been made to close this relatively small gap.
3. Further revision of the State tax structure involves major revenue losses which can only be replaced with substantial new revenue from either the sales tax or increase in income taxes. The Commission has indicated the area of further revision and certain principles on distribution of any major new tax revenue.
4. The two elements in the State and local financial structure most in need of corrective treatment are the State's distribution of school funds to localities and the local taxation of public service corporation property.

Plans have been offered for each case.

5. The fiscal situation of local governments varies greatly. Too many are making sub-standard use of local tax resources and

powers with consequent imposition through the State's General Fund on other localities. Recommendations on improvement of local assessment procedures and on public service property taxation are designed to enable and encourage a fair degree of local effort. Other localities have been driven by growth to overburdening certain tax avenues. Recommendations have been made to limit the extent of application of some local taxes and provide for the replacement of these revenues elsewhere. It is obvious that a number of small rural localities have the resources to meet only a small part of their own needs. These localities should be given every encouragement to consolidating local governmental functions in the interest of economy and efficiency.

6. The surest and soundest way to raise the living standards of Virginians, to meet the cost of wider and better government services, and to do so with a reasonable tax system is to accelerate the rate of growth of Virginia's economy. Many recommendations are based on this conviction which is equally applied to State and local government. The Commission recommends no special tax privileges or improper inducements, knowing that permanent, high quality industry expects to pay its fair share of taxes.
7. A major tax study such as this one involves extensive accumulation and analysis of facts and figures. It also involves a long period of education and orientation for the staff and Commission membership. The general subject—State and local revenues and expenditures—is a large, technical, and changing one. It is really not possible for a “one shot” Commission to draw a realistic blueprint for years to come nor is it sufficient. All these problems suggest the creation of a “Permanent State Tax Policy Commission”, which could maintain current information and analysis and spot inequities and flaws as they appeared.

SECTION VI

OTHER MATTERS BEFORE THE TAX STUDY COMMISSION

“SENATE JOINT RESOLUTION NO. 34.

Requesting the Commission . . . to consider and report upon the local taxation of certain gross receipts of insurance companies.

Whereas, for many years the license tax on gross premium income and the tax on real estate and tangible personal property held by insurance companies has been in lieu of all other fees and taxes, State, local, or otherwise; and

Whereas, certain insurance companies are deriving substantial income from the rental of real property, other than the offices of such companies and such property is owned or held by such companies for the purpose of producing rental income; and

Whereas, certain localities of the State have imposed local business privilege license taxes on persons engaged in the business of renting property, and the insurance companies above referred to have heretofore been exempt from such taxation, with the result that persons similarly situated are subjected to different tax burdens, and it is proper that the Commission to Study State and Local Revenues and Expenditures and Related Matters, heretofore created by Chapter 4 of the Acts of Assembly of

nineteen hundred sixty-two, should consider this among the other matters falling within its jurisdiction; now, therefore, be it

Resolved by the Senate, the House of Delegates concurring, That the Commission on State and Local Revenues and Expenditures and Related Matters heretofore created, is requested to make a study and report upon, in addition to the other matters under its jurisdiction, the question of whether insurance companies which derive income from the rental of real property owned or held by such companies for the purpose of producing rental income should be subject to any local business privilege license tax imposed on persons engaged in the business of renting property, and what, if any, exemptions should be allowed from the imposition of any such tax upon the gross receipts of any such company from any such property."

Under Virginia Code Section 58-500, the license tax on gross premium income of insurance companies (a State tax) and taxes on real estate and tangible personal property (local taxes) are "in lieu of all fees, licenses, taxes and levies whatsoever, State, county, or municipal". Therefore, under existing law, insurance companies are not subject to local business privilege license taxes with respect to rental property owned or held for the production of rental income.

The ownership of rental income property is an insurance investment activity permitted and regulated by the insurance laws of Virginia (Chapter 5 of Title 38.1). Such investments are necessary for an insurer in meeting the long term obligations of life insurance and annuity contracts.

The system of taxation applicable to insurance companies in Virginia, as in most other states, is entirely different from that pertinent to other businesses and individuals. It allocates to the State a license tax on gross receipts (premiums) and the licensing of agents; and to the localities the taxation of real and personal property. The difference between this system and the methods by which other businesses and individuals are taxed does not necessarily render it discriminatory. It has been in operation substantially unchanged for 48 years and has been a constantly increasing source of revenue to both the State and the localities.

Under retaliatory laws in effect in 42 other states, if a local tax on rental income is permitted in Virginia, a like tax would automatically be imposed by each such state in determining the total tax payable by Virginia companies receiving rental income in such state. Thus, the tax would be multiplied by the number of such states in which rental property is held.

Accordingly, in the judgment of this Commission it would be unwise to change the system of taxation of insurance companies so as to permit the imposition of a local business privilege license tax.

"HOUSE JOINT RESOLUTION NO. 77

Directing the Commission . . . to make a study and report upon matters relating to the assessment of real estate.

Whereas, under the Constitution real estate, with exceptions, is required to be assessed at fair market value, and therefore certain categories of real estate may thereby bear a heavier tax burden than is appropriate to the income derived therefrom; now, therefore, be it

Resolved by the House of Delegates, the Senate concurring, that the Commission on State and Local Revenues and Expenditures and Related Matters is directed to make a comprehensive study of alternate methods of assessing real estate privately owned. The Commission shall consider

methods and means whereby such real estate may be assessed upon a basis under which the tax will be more equitably related to the income or other benefits derived from the property. All agencies of the State shall assist the Commission in its study. The Commission shall conclude its study and make its report and recommendations to the Governor and General Assembly as provided by law."

In reviewing this subject the Commission ascertained that Virginia farm and timber land, particularly in rural areas, is generally assessed largely on the basis of its productivity and use. It noted that in a great many instances it is assessed well below this basis. It appears that this Resolution applies particularly to real estate in the urban fringes where commercial development has increased the market value of land. Several states have attempted the preferential assessment of real estate in urban fringes. In Virginia, as it has in other states, this would involve elaborate constitutional and legal changes. It would also, as it has elsewhere, necessitate the centralization of all assessing authority in the State Department of Taxation, giving that Department full authority to apply and enforce uniform procedures. The Commission recommends neither a change in the State Constitution from the fair market value basis nor the centralization of assessing authority which preferential assessment of real estate in urban fringes would require.

The Commission on State and Local Revenues and Expenditures and Related Matters was created by an act of the General Assembly at its 1962 Session and approved on February 7, 1962.

The Act (Chapter 4) is as follows:

"Be it enacted by the General Assembly of Virginia:

1. § 1. A commission to be known as the Commission on State and Local Revenues and Expenditures and Related Matters, hereinafter referred to as "Commission", is hereby created. The Commission shall be composed of fifteen members, three of whom shall be appointed by the President of the Senate from the membership of that body; four by the Speaker of the House of Delegates from the membership of that body, and eight by the Governor. The Governor shall designate the chairman of the Commission. The members of the Commission shall receive a per diem of twenty dollars for their services and shall be reimbursed their actual expenses incurred in the performance of their duties under this Act. The appointing authorities are requested to make such appointments with reasonable dispatch.

§ 2. The Commission shall begin its work forthwith and shall complete its study and make its report to the Governor and to the General Assembly not later than September first, nineteen hundred and sixty-three; provided, however, that the Governor may, in his discretion, require the Commission to complete its work and file its report prior to such date. A copy of the report shall be promptly mailed to each member of the General Assembly. The Commission shall hold such public hearings in various parts of the State as it may deem necessary or advisable. The Commission may call upon any officer or agency of the State for information and assistance, may avail itself of the services of the Division of Statutory Research and Drafting, and may employ such other technical and secretarial personnel as it deems necessary in its work.

§ 3. The Commission shall make a thorough study of all State and local taxes, revenues, receipts, and expenditures; the apportionment between the State and the localities of the sources of revenue; the demands on the State and the localities for governmental services and the ability of the State and the localities to meet them; and the allocation of governmental

functions as between the State on the one hand and the localities on the other; the foregoing shall include consideration of State and local support of functions that are jointly financed by the State and the localities. Such study shall also include the ascertainment and appraisal of the existing burden of local taxes on real estate, tangible personal property, machinery and tools, merchants' capital, licenses and other subjects that are taxable locally, and the economic consequences thereof, and any inequities that may exist; and the ascertainment and appraisal of the existing burden of State taxes on each of the subjects of taxation on which the State imposes a tax, and the economic consequences, and any inequities that may exist. The Commission shall include in its report such recommendations with respect thereto as it may make under this Act.

§ 4. The Commission shall also make a thorough study of (a) the question of such new or additional revenue sources, State and local, as may be thought to be necessary, and if any, what adjustments or repeals, if any, should be enacted respecting existing subjects of taxation, State and local; and (b) what method of distribution of the proceeds of such new or additional sources of revenue, if proposed, as between the State and the localities should be adopted, or whether the proceeds, or a part of the proceeds should be employed in increasing State aid appropriations to the localities for governmental functions that are jointly financed by the State and the localities. The Commission shall also include in its report tentative drafts of such legislation as it deems necessary to carry into effect such recommendations as it shall make under this Act.

2. For the purpose of defraying the cost of the study, including the printing of the report, there is hereby appropriated to the Commission out of the general fund of the State treasury, a sum not exceeding fifty thousand dollars.

3. An emergency exists and this Act is in force from its passage."

Respectfully submitted,

THOS. B. STANLEY, Chairman

*J. D. HAGOOD, Vice-Chairman

FITZGERALD BEMISS

*EARLE M. BROWN

*JOHN WARREN COOKE

ALAN S. DONNAHOE

W. FRED DUCKWORTH

BURR P. HARRISON

*DANIEL C. LEWIS

LEWIS A. McMURRAN, JR.

*WALDO G. MILES

*C. W. PEEBLES

*C. BRAXTON VALENTINE, JR.

* Statement attached.

Note: C. H. Morrisett served as an ex-officio member at the request of Governor Harrison; he did not vote upon any matter.

STATEMENTS OF MEMBERS OF THE COMMISSION

STATEMENT OF EARLE M. BROWN

I am in agreement generally with the recommendations contained in this report but must respectfully reserve the right, in particular, to support any proper additional proposals that may be made in lieu of the plans recommended in the taxation of public service property.

The proposed plans, designed to correct the abuse of certain localities which favor low ratios in assessing non utility property at the expense of public service corporations, would be exceedingly complicated and without equality or equity.

Earle M. Brown

STATEMENT OF JOHN WARREN COOKE

I cannot agree with the proposals made in this report for revision of public utility taxation. Neither Plan A nor Plan B appear to me to be an improvement over the existing system. In my opinion both plans are impractical and should not be approved by the General Assembly.

John Warren Cooke

STATEMENT OF J. D. HAGOOD

The Report outlines certain deficiencies in connection with the taxation of the property of public service companies, and the distribution of State school funds; proposals are made to correct these deficiencies. I am not now able to support in full the proposals for changes. Much additional information is required on these matters and I must reserve the right to act upon them upon the basis of much more information than I now have and in the light of future developments.

The proposal to distribute ABC funds on the basis of average daily attendance is not supported by data to indicate the effect on all counties and cities; without that information I must reserve my action on this matter.

The discussion of the sales tax contemplates distribution of the local share upon the basis on the one hand of a portion on population and a portion on the volume of retail sales; on the other hand distribution on the basis of a portion on average daily attendance and a portion on the volume of retail sales is discussed. Neither of these plans is compared with a distribution on the basis of population solely. In the absence of this information, I am not able to support or oppose the proposal.

The report discusses the need for certain tax adjustments. I agree in principle with the need for adjustments, but until I have more adequate information about the financial situation confronting the General Assembly of 1964 and subsequent years, I am unable to reach a final decision upon them.

J. D. Hagood

STATEMENT OF DANIEL C. LEWIS

I sign the report of the Commission subject to the comments concerning Recommendations 2 and 23.

Recommendation 2. Prohibit any locality from levying a tax on machinery and tools that will exceed \$1.00 per \$100 of actual value. Like Recommendation 1, this has as its purpose the removal of a threat to industrial development.

The recommendation to limit the localities to a tax on machinery and equipment of "\$1.00 per \$100 of actual value" is motivated by the fear that localities are prone to increase taxes on the voteless corporate taxpayer and thus frighten away potential or existing industry. A favorable tax climate does play an important part in industry's choice of a location to build a new plant or to expand an existing one. However, this is but one factor which must be considered along with such other considerations as nearness to raw materials, availability of trained or trainable labor, and access to markets. Corporations generally are aware that unusually low taxes usually indicate a lack of public services or an inferior quality of services. The favorable business climate necessary to attract industry is characterized by a good highway system, an excellent educational system, good hospitals, law enforcement, recreation facilities and a stable good government. No industry assumes that these services are gratis. Management wants to discharge its corporate responsibility and wants to provide the necessary revenue through an *equitable* tax structure. Therefore, corporations are interested not only in how much they have to pay in taxes, but also in what they (and their employees) get for their money.

Virginia's tax structure is characterized by the reserving of certain areas of taxation for the exclusive use by localities. Machinery and tools is one of the classes of property so reserved to the localities. In order for a locality to have an equitable tax structure, it must have the authority to set the tax rates and assessed values at the level necessary to produce the revenue to provide the services demanded by the people in that locality. It is axiomatic that when preferential treatment is given to one group of taxpayers the burden must be more heavy on another group. However, localities should not let the policy of tax expediency eclipse the principle of tax equity.

Recommendation 23. Extend to counties the power to enact public utility consumer taxes.

I concur with the majority of the Commission that the same taxing powers afforded the cities should be extended to the counties. I dissent to the public utility consumer tax because it becomes discriminatory in cities and would further complicate the tax structure of counties.

From a tax theory standpoint, there is no sound reasoning why one person who uses gas or electricity to heat their home should pay a tax on the cost of fuel when the person next door utilizes coal or oil and pays no tax on the cost of fuel to heat his home. Either there should be a tax on all fuel or a tax on none. Likewise, why should one industry be taxed on gas or electricity utilized in the manufacturing process while another industry which utilizes coal or oil in its processing be exempt from the utility sales tax. Furthermore, since manufacturing concerns are the largest individual users of public utility services in a community the public utility consumer tax tends to destroy equity in the local tax structure.

In so far as the counties are concerned, it is my opinion that the consumption of utility services in rural areas is proportional to the amount of real estate owned. Therefore, there is little reason to create an additional form of tax upon the same taxpayers. The logic would appear to be in improving the quality of property tax assessments.

Daniel C. Lewis

DISSENTING STATEMENT OF EDWARD O. McCUE, JR.

The Commission's work and its majority report are a real disappointment to me. Examined with the experienced eye of a member of the General Assembly whose service covers 30 years with chairmanships of several major Legislative committees including the chairmanship of the Virginia Advisory Legislative Council, and membership on a number of Legislative study groups, I cannot agree with the major recommendations of the majority of the Commission. There are some minor recommendations with which I do concur.

Unfortunately, it was necessary for me to undergo surgery which caused me to miss a number of the meetings of the Commission when the findings were being evaluated. However, after careful study of the minutes of each of these meetings, and upon conferences with some of the Commission members, I realize that my attendance at all of them would not have changed my present views on the Commission's work or final report. The pattern was the same from start to finish.

Proposed Change in Localities' Right to Tax Public Utility Property

It has not been too long ago since the newspapers carried a story that one of the major power companies in Virginia was splitting its stock. This is an indication of a company which is highly profitable. During the late summer of 1963, the newspapers in an article dealing with the same power company quoted a member of the State regulatory body which has supervision over the rates and service of power companies to the effect that a rate of return as high as 7% is not out of line. Anyone can turn to financial publications and see at once that the major telephone companies and the subsidiaries of the major telephone companies, are highly profitable operations with constantly expanding profits. These power and telephone companies are monopolies in their respective fields.

The report of the majority, if adopted, will greatly increase the already high profits of the public service companies referred to in the preceding paragraph. This will be done by giving them tax relief to which all other taxpayers in the State will contribute; in the case of the power and major telephone companies, this relief will come out of the pockets of the hard pressed home owners and farmers of the counties, cities and towns.

I cannot conceive of a more unjust plan. It violates every principle of taxation by giving relief to those who do not need it at the expense of those who do.

Disregarding the doubtful validity of the proposals, I wish to make my position perfectly clear on them as policy.

I have not been elected to the Senate of Virginia nor did I accept appointment to this Commission to give tax relief to highly profitable monopolistic public service companies by transferring a part of their tax burden to the pocketbooks of the home owners and farmers of Virginia in the form of higher electric light and telephone bills, and higher taxes.

Very little is said in the report of the majority about the different methods of assessing the property of public service companies as compared to property owned by private individuals. In the case of the power and telephone companies, the assessment is 80% of cost. Forty per cent of this 80% is then certified back to the county or city for local taxation. This, then, really makes only a rate of 32% and not 40% as claimed. State-wide, the tax rate for non-utility property averages about 32.1%. Some localities are already imposing a higher rate of tax on private property than on the property of public service companies.

Businessmen and tax consultants know the real tax saving involved in depreciation on income producing property or property used in a trade or business. They know also that an individual's dwelling house is not so favored in the field of taxation. The depreciated assessment of 80% of utility property is one of the few remaining tax savings and capital assets additives and wealth accumulations accorded by the present tax laws.

Much is made of the fact in the majority report that the location of public service company property in a locality operates to enrich that locality at the expense of other areas served by the public service company. If this analogy were followed to its logical conclusion, the cities of Virginia would be confronted with the following demand: since they serve as the focus of a trading area and thereby have large values in the form of retail establishments and the like, they would have to contribute the taxes arising from these resources to a fund to be distributed to the State at large from whence the customers of such establishments come. To state the proposition is to demonstrate its absurdity. If a locality is fortunate enough to have local tax resources within its boundary, it should use them for its own requirements. Its taxation of such property is an operation of local self government at the grass roots level. If these two sources are taken away from the localities, as recommended by the majority report, it will multiply the additional requests for State assistance.

Nothing is said in the report of the majority about the additional burdens which a locality must bear as a result of the location within it of public utility property. Yet the children of the employees of such plants must be educated. This is a local expense. There are others which might be cited.

Under Plan A on pages 37 and 38, the report discusses the taxation of public utilities with reference to Fluvanna County which is located in my Senatorial District. (It is useless to discuss Plan B of the report because it would require a constitutional amendment.) The majority report very astutely omitted mentioning the great gains to be made by the City of Richmond, let alone the City of Norfolk, while it showed the small rural community of Fluvanna losing 34% of its tax sources costing it \$155,333. The City of Richmond gained \$811,032 for a net gain difference between Fluvanna and Richmond, in Richmond's favor, of \$966,365, making almost a million dollar difference in favor of the City of Richmond. This illustration can be applied in varying degrees in the tax loss to the other 97 counties amounting to \$8,738,366; to the other smaller cities, \$893,953; to the towns, \$366,885. In conclusion, nine cities gained \$1,007,627 while all the other counties, cities and towns lost \$9,146,910—a real political bonanza for the City of Richmond, which would receive the lion's share, and to a lesser degree, the City of Norfolk.

Every member of the Legislature knows that, if this amount of money is siphoned away from the counties, cities and towns of the State, a drastic raise in local and State taxes will be necessary. However, I have no fear that the 1964 General Assembly will waste much time in listening to such a tax maneuver.

It might be said that a number of the localities are not pulling their weight insofar as schools are concerned and the State is called upon to carry more than its fair share in these localities. Should such a drastic change in the utility tax structure be adopted by the Legislature (and I don't think that it will be), every county, city and town in the Commonwealth, outside of the nine cities favored by the change, would have their officials with hats in hand at the Capitol, begging for additional assistance from the State. In other words, taxwise, in a number of instances, the poorer counties would be made poorer and would be driven nearer tax pauperism. Instead of improving the local tax situation, the very antithesis would take place. The hue and cry would be for additional help with more and more taxes at the State level.

Every knowledgeable legislator knows that should a bill be offered to carry out this recommendation, and should it be seriously considered, every member of the Boards of Supervisors as well as members of the Town and City Councils, outside of the nine favored cities, would descend en masse on the Legislature. They would oppose the scheme and ask for State tax help. A worse conglomeration and political mess, I could not imagine for the coming 1964 Session.

Reduction of License Taxes Generally

The majority report gives the impression that license taxation is bearing heavily upon retail and wholesale establishments. In the case of the presently ailing old time wholesale establishments, this may be true, but they are being reduced in number mainly and simply because more and more retail establishments are a part of a chain which buys direct from the manufacturer. Neither tax relief nor subsidy to the old time wholesaler is going to change this trend. These stimuli might retard this latter movement but surely they will not cure it. Such tax relief could make it possible that new chain store distribution centers would evolve also in the State from a reduction in this tax.

In the case of retail merchants, the papers are full of articles about the establishment of new shopping centers and the location of branch stores. If these operations were not profitable, surely they would not be undertaken. There is no evidence whatsoever to indicate that large retail establishments are not profitable. The experienced businessmen who plan and operate these establishments are not going to operate at a loss. They are operating at a profit and the report of the majority would increase these profits, again at the expense of the general taxpayer. If this tax were repealed, a considerable portion of their savings would be dissipated by increased federal income tax of 52% and a State income tax of 5%.

Adoption of Tax Reduction Measures at 1964 Session to Become Effective in Future Years

The report of the majority contains a number of proposals providing for the adoption of legislation at the 1964 Session under which tax reduction would be granted to certain businesses and industries in future years. If tax reduction is justified, it should be granted now; if it is not, it should be denied. The plan of the majority to give tax relief in future

years is merely a device to maneuver us into a position whereby a sales tax will become inevitable. To this type of legislative procedure, I am unalterably opposed.

If and when tax reductions are in order, the railroads should be among the first to receive relief. For many years, they have faithfully borne their full share of taxes at all levels of government. It may be that tax relief and practical plans can be devised to help the presently ailing old time wholesalers, too; tax relief alone will not do the job.

Sales Tax

Many of those who support a sales tax do so in order to secure some special benefit for themselves at the expense of the general public.

The report of the majority does not contain a discussion of benefits which certain groups expect to receive should the State adopt a sales tax. Such a tax was considered at the Session of 1960. According to data furnished by State tax authorities, the tax relief which retail operations would enjoy from the adoption of a sales tax is almost beyond belief. They would be paid for collecting the tax. (No one is paid for withholding State taxes from the income of his employees, and paying the same into the State treasury.) The State retail merchants license tax would have been abolished. This would have represented a tax saving in excess of ten million dollars a year to the State retail merchants. Retail establishments would have been allowed to keep the "breakage"; that is, they would have paid the sales tax upon the basis of their gross sales and if they had sold four items for 25¢ each they would have collected 4¢ in tax and paid in only 3¢. The retention of this breakage could amount to millions of dollars annually. All of this additional tax relief to privileged groups and special benefits for them would have been paid by families throughout the State of Virginia who would have had to pay the tax for the food in their mouths, the clothes on their backs and the coffins in which they would have been laid to rest. Truly, no greater inequity could be devised.

The report discusses the distribution of the local share of a sales tax on two alternative bases: In both cases, part would be distributed on a locality's share of total State retail sales; one method would distribute the remainder on the basis of population and the other method would distribute the remainder on the basis of average daily attendance. I disagree with both alternatives. Every proposal that I have seen for the distribution of unrestricted State revenue has been upon the basis solely of population. (The wine tax, which is a small sum, is distributed on the basis of population of school age.)

Distribution of any part of the local share on the basis of retail sales will constitute the greatest incentive to annexation in the history of the State. The distribution of grants to the localities should not be employed as a device to encourage annexation. This proposal would serve, in a backhand way, to upset the present annexation laws. The Virginia Advisory Legislative Council is now making a study of this subject and we should not take action to give a financial incentive to the bringing of annexation suits which will then be tailored to bring into the annexing locality shopping centers and other retail activities which serve the population of a large county area. Also, the locality in which retail establishments are located will have their own license taxes and be deriving substantial revenues therefrom.

The plan to distribute a part of sales tax proceeds on the basis of average daily attendance has a number of defects. I will discuss the major ones: A county such as Warren and a city such as Charlottesville, which have part of their students in public schools and part in private schools, would be severely penalized; this observation applies to other localities also. In addition, a locality which has numbers of school children in the sectarian schools would be heavily penalized.

My own view is that the localities' shares should be parceled out on the basis of population. This has stood the test of time and is fair to all.

Distribution of School Funds

The report of the majority contemplates a major change in the distribution of school funds. I agree with the need for departing from the minimum salary scale; this has imposed too great a burden upon many localities. I cannot, however, agree that the State should participate in paying a part of the school salaries up to the levels that exist in areas such as Arlington and Fairfax. In such areas, the high level of prosperity generated by federal spending permits a quality and quantity of public services which people elsewhere in Virginia cannot even imagine. The State should participate in the payment of salaries up to a certain level. Beyond that point, the localities should bear the cost. The amount which would be saved by my proposal can be used to raise the level of public education in those localities which, after making every effort, are unable to provide for the vocational and educational training which their children so desperately require.

There is merit in the plan of the majority to require certain localities to carry more of the burden of public schools. All of us know that some areas have shared in the minimum education fund when they were not entitled to do so. This should never have been permitted in the first place and should be stopped at the first opportunity.

Much is made of the financial plight of the cities. In part, at least, this is brought about by too ambitious a program of providing public service and facilities on a scale not found throughout the State, generally. The entire State of Virginia should not be called on to aid in the construction of elaborate buildings and the furnishing of excessive and expensive services.

Another proposal in the report which greatly disturbs me is the plan to distribute A.B.C. funds on the basis of average daily attendance. A.B.C. funds have been sent back to the localities on the basis of population for almost thirty years. It appears to have worked well and to have been fair to all concerned by using this method. The plan to distribute the local share on the basis of average daily attendance has been vigorously opposed every time it has ever been presented on the theory that it makes direct connection between the liquor business and the public schools. I share these sentiments.

Elsewhere in my statement I have outlined my objections to distributing sales tax proceeds on the basis of average daily attendance; briefly, such a plan penalizes localities which have students gaining an education outside the public school systems whether they do so in sectarian or nonsectarian schools; its effect on counties such as Warren and the City of Charlottesville is referred to. The same objections apply to distributing A.B.C. profits on the basis of average daily attendance. Those who offer such plans either have a misunderstanding of their effect

or do not disclose all of the implications in their proposals. The people of Virginia should know these things and I have sought to outline them briefly here.

Here again, the Commission's recommendations on distribution of school funds favor the larger cities and suburban counties at the expense of the rural counties and smaller State subdivisions. Two illustrations will demonstrate the inequities and unfairness of these recommendations. They can be multiplied many fold.

For the fiscal year 1962-63, the City of Norfolk would have gained \$2,575,591 while Greene County (also in my Senatorial District) with a population of only 4,715 would lose \$35,926. The City of Richmond would gain \$1,306,660 while Cumberland County with a population of only 6,360 would lose \$40,515. Fairfax County gained \$2,862,070 and Arlington, \$614,375.

Also, the cities—and mainly the larger ones—would have had a net gain in school funds for the fiscal year of 1962-63 of \$10,177,468 while the counties would have a net gain of only \$3,445,342, with Fairfax and Arlington receiving \$3,476,445. While not quite half the counties would lose \$3,812,404, the towns in Virginia would have a net loss of \$442,227.

These examples demonstrate the majority report's political bonanzas afforded the larger cities and suburban counties at the expense of the poorer rural counties, small cities and towns. A worse raid on school funds of the rural counties, smaller cities and towns, one could hardly envision.

Economy

It had been my hope that the report of the Commission would contain statements of where economies could be brought about in State and local governments. I am disappointed to find the report wholly silent upon this subject. Thomas Jefferson, one of the patron saints of this State, was aware of this need when he referred in his writings to the wisdom of economy and clearing of debts in time of peace; for our purposes, we might substitute "prosperity" in lieu of "peace." I wholly share the sentiments of Mr. Jefferson and restate them here for such benefit as others may derive from them.

Lest it be said that I point out errors in the majority report without offering any solutions, I make reference to the following: First, I refer to my former Legislative positions recommending the appointment of a business manager to cover the many operations of the State. As a previous instance of what can be done, having a business manager in the State hospital system has resulted in more efficient and effective operation. The rest of the State service cries out for similar guidance. For an illustration, the State rents a number of expensive business machines, the rental of each costing around \$1,200 per month. These machines stand idle in each department during a considerable portion of the year. Separate agencies under the same roof could make use of the same machine at a substantial saving to the State. It would only be necessary to stagger their use to cover several State departments.

The misappropriation of over one-half million dollars of State school funds by Scott County is another example of poor management of State monies, and demonstrates another lack of business supervision in our State.

Also, I refer to the top heavy departmental organization of the State Department of Education and the supervisory staff of the public school systems throughout the State of Virginia. The classroom teacher is the one who does the work and educates our children. In all too many cases, the upper levels make this more difficult.

As another instance of an area in which savings might be made, Virginia is seventh in the entire country in the number of State Troopers, yet more State Troopers have been requested for the Commonwealth. It is well known that these men are being called upon to spend more and more time duplicating the work of local law enforcement officers and less and less time on the highways which they are paid to patrol. They should be returned to their original highway police duties as practiced in North Carolina.

Today, it seems that success in government operation is judged by how much we spend and not by how little or how wisely we do it. Our public construction of today is a prime example. In spite of the tremendously high cost of construction on State and local levels, our building program is given to fabulous and magnificent buildings rather than to utilitarian and functional usage. The cost varies significantly in difference per cubic foot per room in the same type of building for the same purposes in different sections of the State.

The State needs over all and continuous business advice and supervision in its capital expenditures. Likewise, the communities need the same. Although they are spending their local funds, their extravagant building costs are indirectly reflected in their increased demands on the State treasury. What this State lacks and what the report was silent on were recommendations on economy and more businesslike handling of our one and one-half billion dollar State operations. We are fast joining our federal counterpart in Washington in increases in the number of State employees and the amount of State expenditures.

We have an office of Civil Defense when Congress itself refuses to appropriate one cent for a shelter program. Everything that is done of a fruitful nature by the Civil Defense Agency can be performed by the office of the Adjutant General, Department of State Police, and the State Highway Department, without the employment of even an additional file clerk, with such expense as may be required coming from the ample resources of the federal Civil Defense agency.

Extensive travel at home and some to foreign countries at the State's expense should be held in check. This is another area in a State business manager's field.

There are other areas in which economies can be made in the operation of the State government but time does not permit them to be listed here. Viewed in the light of 30 years of continuous Legislative service, my comments probably may cast me as one with old fashioned notions of businesslike and economical handling of public funds. If this be true, I would not have it otherwise.

Page 87 of the report recommends, in a backhanded way, the creation of a "permanent State Tax Policy Commission." There are at least two objections to this proposal: One, it would create an additional and useless agency which would inevitably require the spending of large additional sums of money. In the second place, it is unnecessary. Both the Legis-

lature and State fiscal authorities are entirely capable of finding additional revenue, if and when needed; the task of gaining familiarity with State and local revenue and expenditure problems is a considerable one, as members of this Commission can attest; but the State fiscal authorities and the Legislature already have this information. The capacity of the Legislature to find additional revenues when needed is clearly demonstrated by its performance at the Session of 1960 when large additional revenues were raised without a sales tax, even though it was said to be inevitable. Finally, the establishment of such a Commission would be a long step down the road for more taxes and especially to the adoption of a needless sales tax, for it would lend itself to being pressured by the groups which seek to escape State and local taxation to the greatest degree by the adoption of an unnecessary sales tax with the many short-comings which I have outlined above.

The Tenor of the Report

From the beginning, I have been concerned about the material which was placed before us for study. No one man (however competent) specialized in his field, with his staff, could cover the expanse of study necessary to comply with the authority setting up the Commission.

The report largely represents a compilation of old data presented in new and varied forms. I had hoped that the study would, in fact, be an exhaustive monetary and tax study for improvements derived from other state systems of both state and local taxation and their relation with each other. I do not recall having seen in it a single worthwhile proposal to save money in our State operation, or any suggestion for an over all improved and simplified State tax structure such as that used in Indiana. In the beginning, to no avail, I complained about the need for outside expert tax counsel conversant with other states' tax laws and their subdivisions.

The Commission's report demonstrates that a large portion of it was lifted from the Virginia State Chamber of Commerce Tax Report of 1962. The Commission's report represents a backyard rehash of a portion of Virginia's governmental operation and tax structure with no worthwhile and complete study of comparisons and evaluations with other state and local tax systems.

An impartial view of the Tax Commission's entire report leaves one with the feeling that its philosophy has been dominated by the mania for high spending, so characteristic of the federal government and larger cities in Virginia. I believe that the growth in the Virginia economy will provide increased revenues to reasonably expand existing services without the addition of new taxes by the General Assembly in 1964. However, if the spending desires of certain groups are to be accommodated, half a dozen sales taxes will not provide enough revenue.

The report is definitely partial to the larger cities at the expense of the poorer counties, smaller cities and all the towns of the State. In major recommendations, it is more of a political paper than an actual tax study report. It grinds the political axes of those who represent the larger cities at the expense of those who do not.

To sum up, the report of the majority may be labeled as an attempt unheard of in the history of this State to give tax relief to those who do not need it at the expense of those who do.

Respectfully submitted,

/s/ Edward O. McCue, Jr.

Edward O. McCue, Jr.

November 12, 1963.

STATEMENT OF WALDO G. MILES

I am in general agreement with the findings and recommendations of the Commission, and have, therefore, signed the report. However, I wish to make the following statement:

As a member of the State Board of Education I voted for the Board's recommended revision of the formula by which State funds are distributed to the localities. For this reason, I abstained from voting when the distribution formula recommended by the Commission was being considered. The objective of both recommended formulas is to eliminate existing inequities and to provide an understandable formula.

I have some reservations about the Commission's recommendations to correct the apparent inequity existing in some counties with respect to the taxation of public service corporations.

To help the counties help themselves, I favor enabling legislation which would give counties the same taxing powers as are now granted to cities generally.

Waldo G. Miles

STATEMENT OF C. W. PEEBLES

The report contains valuable information and many suggested improvements to our tax structure. There are several plans or suggestions of which I do not approve. These are:

I

The *Grant-In-Aid* to elementary and secondary schools does not appear to give enough consideration to the school districts with limited financial resources. The present school formula, with some improvements and adjustments would be, in my opinion, a better solution.

II

Public Utilities-Real Property. The plan to bring the assessed values of public utilities and private real property together has some merit. The methods of appraising the properties seem to be good. The State Corporation Commission and the State Department of Taxation, I think, are doing an excellent job. However, in appraising public utilities property, the factor of depreciation is given consideration, while in private property, both depreciation and appreciation are factors in determining values. With-

out going into a detailed discussion of these factors—it appears to me that 32% is the goal or true figure of utilities values which should be used to bring private property values up to or down to—depending on which side of the fence you are on. (40% of 80 = 32)

III

I do not approve of the recommendation that a maximum true rate of 1.30 be placed on public utilities property, and that half of the tax should go to the situs of the property and half to the State. That is 65¢ to each. In my opinion, the rate should be the same as on other real property—and all tax should go to the jurisdiction where the property is located.

C. W. Peebles

DISSENTING STATEMENT OF SAMUEL E. POPE

The majority report substantially ignores the financial plight of the localities in Virginia. The limited additional taxing powers given to local governments are wholly inadequate to enable them to meet the steadily increasing costs which they are facing or to carry the heavy debt service which they have been forced to incur because of their limited resources in the past.

Furthermore, the proposal of the majority for a change in the basis of taxation of public utilities, while it might benefit some few localities, would throw tremendous additional burdens on taxpayers in others.

A change in distribution of school funds is proposed with the avowed purpose of increasing the share of school costs for operation which are being borne by some counties and cities to the full extent of their present resources; and almost all of the localities of the State have, in addition to steadily increasing operating expenses for schools, an overwhelming debt burden as well.

The majority recognizes that even the State, with its relatively broad taxing power, cannot continue to operate its steadily expanding services without going to some new or additional taxation. While no specific recommendation is made, the report of the majority clearly contemplates, as the principal device to meet the State's needs, increases in rates of taxation on those who presently carry the major portion of the load.

No basic readjustment of the State-local financial picture is contemplated by the majority report. Adoption of its recommendations would perpetuate the present situation which has brought the taxpayers of the locality to the end of their financial capabilities, without any hope of relief.

It is my belief that a sales tax in Virginia is inevitable and is the only source which will tax all residents of the State and will provide sufficient funds to make the adjustments in the tax structure which the majority appear to think desirable—and at the same time give local governments the hope that they can continue to meet their advancing costs through the adoption of a proper distribution of the proceeds of the tax as between the State and its component political subdivisions. We should not

go further in the mire of local debt, inadequate State services, and other shortcomings of our system before adopting a sales tax, which all agree is inevitable.

Samuel E. Pope

STATEMENT OF C. BRAXTON VALENTINE, JR.

My name appears on this report as an indication of the belief that it is a valuable document. It contains considerable information and makes a number of proposals, most of which can be justified on the basis of being steps in the right direction. At the same time, a close reading of the report will reveal gaps and inconsistencies which I believe to be attributable in large measure to the absence of an overall plan or policy. I find this lack of an overall plan very disturbing inasmuch as before this study was undertaken, many people believed that an equitable overhaul of the tax laws of Virginia in major proportion was needed and the report confirms this basic belief though it fails to deal exhaustively with the solution.

Continued reliance upon selective sales taxes, capital levies, license taxes based upon gross receipts, each of which can be broken down further into a multiplicity of separate taxes, but none of which is geared to a net income concept or based upon ability to pay, will continue to impose an unequal burden of approximately 100-150 million dollars per year upon a relatively narrow sector of the taxpaying public. Furthermore, even within this category, a dollar of profit from one type of business seldom bears the same tax burden as does a dollar of profit from another.

In addition, references were made in the report to the fiscal difficulties now being encountered by the localities. There are variations in the limitations upon their taxing authority and jurisdiction and in some instances sources of revenue are virtually exhausted. In spite of this, the net effect of the proposals made in the report upon the localities is mixed to the extent that there may be quite a difference of opinion as to whether on balance they would be helped or hurt.

Obviously then, the purpose of any overhauling of the tax structure should be to spread the tax burden more evenly and over a broader base, and to divide and distribute the proceeds in such a way as to meet the revenue needs of the State and to afford a measure of relief to the localities. In my opinion, it is regrettable that this report does not deal exhaustively with the problem of shifting and spreading the tax burden over a broader base in accord with modern theories of State taxation. The apparent reason for this centers around the fact that inherent in the report is the view that, since it is not now thought that there will be any insurmountable problem in balancing the State budget for 1964-66, emphasis upon the need for an equitable overhaul should be subordinate. Apparently, if the budget can be held in balance, it is felt that it is not necessary to eliminate archaic concepts of taxation.

While I find no historic basis for it, the inference seems to be that somehow, an even tighter revenue picture in the future may permit us to adopt sounder tax policy. It should be noted, however, that with respect to systems of taxation in which self-assessment is one of the cornerstones, equity is of the utmost importance in the operation of the law. While we may take pride in the sound administration we have enjoyed thus far, in spite of our conceptually outmoded tax laws, it is quite apparent that the

matter of taxation at the State level, as opposed to the federal, is playing an increasingly important role. As we approach another milestone in our history and experience, however, it is equally apparent that to promote a growing economy a modern tax law properly documented with Committee reports that reflect legislative history, interpretative regulations and rulings, is needed. It is only in this way that taxpayers can be assured that increasingly complex factual situations will continue to be dealt with uniformly.

C. Braxton Valentine, Jr.

APPENDIX I

THE OUTLOOK FOR ECONOMIC GROWTH AND GENERAL FUND REVENUES IN VIRGINIA, 1964 TO 1970

by

Lorin A. Thompson, Director
Bureau of Population and Economic Research
University of Virginia

Note: All tables and estimates are those of the author. They are not official estimates, but have been prepared as informational items to illustrate the developing patterns in Virginia.

Virginia's Economic Growth

For more than a decade Virginia's economic growth has closely paralleled that of the Nation. Between 1950 and 1962 personal income payments in Virginia increased from \$4,042 million to \$8,428 million, or 109 per cent. The annual growth rate of personal income payments in Virginia during this twelve year period has been about 6.5 per cent. The growth of personal income in the United States during this same period increased from \$225,473 million to \$439,661 million, or 95 per cent. The average annual rate of increase for the United States was about 6.0 per cent. During this period Virginia's share of the Nation's income increased from 1.78 per cent in 1950 to 1.92 per cent in 1962. Table 1 shows the figures by years for Virginia and the United States. It also gives the per capita income for the same period of years and compares the ratio of per capita income in Virginia with that of the United States. During this period per capita income in Virginia has fluctuated between 82 per cent and 85 per cent of the national average.

The changing composition of Virginia's income since 1950 is significant. Table 2, entitled "Income Payments by Source for Virginia", shows the structure of the State's income for 1950, 1955, 1960, and 1962. In 1950 wages and salaries in manufacturing industries accounted for 15 per cent of the personal income payments in the State; in 1960 manufacturing wages and salaries accounted for 15.5 per cent; and in 1962, for 15.6 per cent. Wages and salaries paid to farm workers in Virginia have changed very little since 1950. At that time they were estimated to be \$54 million per year and in 1962 only \$58 million. Farm proprietors' income in 1950 was \$246 million and had dropped to \$223 million in 1962.

On the other hand non-farm proprietors' income during this twelve year period increased from \$333 million to \$614 million, or 84 per cent. Attention is also called to the fact that there has been very little change in wages and salaries paid in mining. In 1950 wages and salaries in mining amounted to \$62 million and in 1962 the amount was \$66 million.

Personal Income Payments and Per Capita Income for Virginia and the United States, 1950-1962

Year	Income Payments (millions of dollars)		Virginia as % of U. S.
	Virginia	United States	
1950	\$4,024	\$225,473	1.78
1951	4,737	252,960	1.87
1952	5,130	269,050	1.91
1953	5,220	283,140	1.84
1954	5,256	285,339	1.84
1955	5,603	306,598	1.83
1956	6,094	330,380	1.84
1957	6,386	348,724	1.83
1958	6,641	357,498	1.86
1959	7,043	381,326	1.85
1960	7,379	399,028	1.85
1961	7,762	414,954	1.87
1962	8,423	439,661	1.92
% increase 1950-62	109.4	95.0	
Per Capita Income			
			Ratio of Va. to U.S.
1950	\$1,234	\$1,491	83
1951	1,393	1,649	84
1952	1,475	1,727	85
1953	1,484	1,788	83
1954	1,509	1,770	85
1955	1,571	1,866	84
1956	1,647	1,975	83
1957	1,671	2,043	82
1958	1,702	2,064	82
1959	1,793	2,163	83
1960	1,852	2,217	84
1961	1,893	2,267	84
1962	2,018	2,366	85
% Increase 1950-62	63.5	58.7	

Source: Survey of Current Business, U. S. Department of Commerce

Personal Income Payments by Source for Virginia, 1950, 1955, 1960-1962
(millions of dollars)

	1950	1955	1960	1961	1962
Personal Income	\$4,024	\$5,603	\$7,379	\$7,762	\$8,428
Wage and Salary Disbursements	2,823	4,104	5,401	5,651	6,164
Farms	54	53	61	62	58
Mining	62	58	67	65	66
Contract Construction	150	223	305	334	374
Manufacturing	605	852	1,144	1,190	1,317
Wholesale and Retail Trade	430	620	863	893	961
Finance, Insurance and Real Estate	91	150	211	226	250
Transportation	204	265	314	311	315
Communication and Public Utilities	63	97	138	146	155
Services	222	319	516	539	598
Government	934	1,456	1,764	1,867	2,052
Other Industries	8	11	18	18	18
Other Labor Income	54	93	170	180	203
Proprietors Income	579	679	753	784	837
Farm	246	225	196	212	223
Nonfarm	333	454	558	572	614
Property Income	388	579	822	864	933
Transfer Payments	248	273	457	518	551
Less Personal Contributions for Social Insurance	69	125	224	237	260

Source: Survey of Current Business, U. S. Department of Commerce

Other sectors of Virginia's economy show healthy increases. For example, wages and salaries in wholesale and retail trade increased from \$430 million to \$961 million, an increase of 123 per cent. Personal income from finance, insurance, and real estate increased from \$91 million to \$250 million, or 175 per cent. Income in the service industries increased from \$222 million to \$598 million, or 169 per cent.

Personal income from all governments increased from \$934 million to \$2,052 million. In 1950 personal income from government payments accounted for 23.2 per cent of the total personal income payments in the State. In 1962 this proportion had increased to 24.3 per cent. The largest single source of income in Virginia continues to be the federal government payrolls. Changes in the structure of income payments in the State are important in consideration of tax policies that may affect various groups in the economy. These are presented as a matter of background information.

The impact of taxation on the income of people of the State may be measured by relating the total General Fund revenues of the State to the total personal income payments. These items are shown in Table 3 for the fiscal years 1949-50 through 1962-63. The computations are made in two ways—one which includes General Fund revenues minus the ABC profits, and the other which includes ABC profits. It can be seen from Table 3 that the General Fund revenue has absorbed an increasing share of the personal income payments of people in the Commonwealth. If we include the ABC profits in 1950 the State's General Fund revenue amounted to 2.64 per cent of total personal income payments; by 1954-55 the percentage had dropped. At this time there were some readjustments due to income tax refunds. In 1956-57, however, there was a substantial "windfall" of approximately \$70 million that was due to accelerated pay-

ment of income taxes and state taxes on public service corporations. This year the share of income payments was 3.75 per cent. This ratio dropped the following year and then began to increase again.

Table 3
Personal Income Payments and General Fund Revenues in Virginia
(millions of dollars)

Year	(1) Personal Income Payments	(2) General Fund Revenues — ABC Profits	(3) General Fund Revenues + ABC Profits	General Fund Income (2) ÷ (1)	General Fund Income (3) ÷ (1)
1949-50.....	\$3,626	\$ 90.1	\$ 95.7	2.48	2.64
1954-55.....	5,256	125.6	130.9	2.39	2.49
1955-56.....	5,603	138.8	144.4	2.48	2.58
1956-57.....	6,094	222.6	228.4	3.65	3.75
1957-58.....	6,386	165.8	171.7	2.60	2.69
1958-59.....	6,641	175.0	181.5	2.64	2.73
1959-60.....	7,043	193.4	199.9	2.75	2.84
1960-61.....	7,379	231.6	237.4	3.14	3.22
1961-62.....	7,762	242.8	247.9	3.13	3.19
1962-63.....	8,428	286.3*	292.1*	3.40	3.47

Note: Income payments for calendar years; General Fund revenues for fiscal years.
* Preliminary

Source: Survey of Current Business, U. S. Department of Commerce, and Annual Reports of the Comptroller to the Governor of Virginia.

Between 1959-60 and 1960-61 the State's revenues again increased as the result of new taxes on cigarettes, spirituous liquors, wine and beer. In 1962-63 the percentage increased again. This in part reflects a "wind-fall" due to the inauguration of withholding on the individual income tax. This was made necessary by the increasing need for revenue to meet the obligations of the General Fund agencies.

Within the last decade or two, certain areas in Virginia have grown rapidly in terms of population and income. Associated with this development have been large increases in public expenditures and the necessity for investments in capital improvements. The growth of these areas has provided the revenues from which these improvements could be made and the necessary money for maintenance and operation. There are other areas of the State which have not grown much in terms of population or in total income. In these areas the demands for services have been correspondingly less. In the static areas, however, obsolete school plants and equipment have resulted in new capital investment for modernization. The local taxable resources on a relative basis in many of the slow growing areas have not increased as rapidly as the average for the State.

The pattern of growth in the State is diverse—some areas are growing rapidly, others are moving along at about the level of the State average, and still others are struggling to maintain their present position, or declining. The economic growth of the State as a whole determines the outlook for state revenues. These are based on the prospects for personal income payments. Table 4 projects the growth of personal income payments in Virginia at annual rates of increase at 3.5 per cent; 5.0 per cent; and 6.5 per cent. No one can be sure what the actual rate will be. It is important, however, to look closely at the potential rates of development and these can serve as a guide for the tax revenues which will be derived in future years.

In Table 1 the average annual rate of growth of personal income in Virginia from 1950 to 1962 was 6.5 per cent; that of the Nation was about 6.0 per cent. If this rate of growth is adjusted for population increase the growth is on the order of 4.0 per cent. There is the further problem of whether or not the economy of the State and the Nation will continue to grow at any specified rate. Although there is much talk about this among economists and students of government, a long look at the history of income development indicates that there are periods in which the annual rates of increase are very small. In depressions they actually decline. It is prudent, therefore, to at least note the patterns of development which might occur if the annual rates of growth in the next decade prove to be less than the normal expectation. This is the reason for inserting income growth at 3.5 per cent per year. As previously pointed out, however, the average annual increase in past years has been about 6.5 per cent.

Table 4
Estimates of Personal Income Payments in Virginia, 1963-1970

	Personal Income Payments (000,000)			Population (000)	Per Capita Income Payments Based on Increase in Amts.		
	@ 3.5%	@ 5.0%	@ 6.5%		@ 3.5%	@ 5.0%	@ 6.5%
1962.....	\$ 8,428*	\$ 8,428*	\$ 8,428*	4,126	\$2,018	\$2,018	\$2,018
1963.....	8,723	8,849	8,976	4,188	2,083	2,113	2,143
1964.....	9,028	9,291	9,559	4,251	2,124	2,186	2,249
1965.....	9,344	9,756	10,180	4,315	2,165	2,261	2,359
1966.....	9,671	10,244	10,842	4,380	2,208	2,339	2,475
1967.....	10,009	10,756	11,547	4,446	2,251	2,419	2,597
1968.....	10,359	11,294	12,298	4,513	2,295	2,503	2,725
1969.....	10,722	11,859	13,097	4,581	2,341	2,589	2,859
1970.....	11,097	12,452	13,948	4,650	2,386	2,678	3,000
Per Cent Increase 1962-70							
	31.7	47.7	65.5	12.7	18.2	32.7	48.7

* Estimate from Survey of Current Business, U. S. Department of Commerce

The General Fund revenues of Virginia which are determined by the State tax structure have moved along with increases in income payments. Individual income taxes have increased more rapidly than income payments. For example, the yield from individual income taxes and fiduciaries in Virginia has increased by 283.5 per cent between 1950 and 1962 as compared to 109.4 per cent in personal income payments. This is due to the continuous increase in the general wages and salaries and the fact that the eligibility requirement for paying individual income tax in Virginia have remained the same. The result has been to increase the number of income taxpayers and the amount of income taxes each taxpayer pays to the State. Corporate income taxes, on the other hand, have not increased as rapidly as total personal income payments. The increased competition in business and the cost-price squeezes have tended to keep corporate income tax payments from increasing as rapidly as other sectors of the tax structure. The estimates of personal income payments in Virginia as shown in Table 4 have been used as the basis for estimating the yield from the present tax structure for the next three bienniums. The rate of increase chosen was 5.0 per cent per year.

The foundation on which the estimates of the yield from existing State taxes during the next three bienniums was based is found in Table 5. This table shows the General Fund revenues in Virginia for 1950, 1955, and each year thereafter through 1962. Among the sources of General Fund

TABLE 5

GENERAL FUND REVENUES 1950, 1955-1962
(IN MILLIONS OF DOLLARS)

	1950	1955	1956	1957	FISCAL YEARS		1960	1961	1962	% CHANGE 1950 - 62
					1958	1959				
INCOME - INDIVIDUAL AND FIDUCIARY	\$ 23.7	\$ 41.6	\$ 45.7	\$105.5 (54.3*)	\$ 61.4	\$ 71.3	\$ 76.8	\$ 81.3	\$ 90.9	283.5
INCOME - CORPORATE	18.5	20.9	27.9	27.4	27.1	24.2	31.7	28.7	30.3	63.8
UTILITIES	11.3	14.8	15.1	35.0 (16.5*)	20.0	20.0	20.7	21.6	22.4	98.2
INSURANCE COMPANIES	5.1	8.0	8.9	9.4	10.1	10.6	11.7	12.4	13.3	160.8
INTANGIBLE PERSONAL PROPERTY	6.2	6.9	7.1	7.5	7.9	8.4	8.3	17.8 (8.5**)	10.1	62.9
ALCOHOLIC BEVERAGES	6.9	7.6	7.9	8.1	8.1	8.4	8.9	11.3	11.3	63.8
BUS. & PROF. LICENSES	8.3	10.7	11.6	12.2	12.5	12.1	12.7	12.9	13.4	61.4
BEVS.-STATE TAX								8.4	11.0	
TOBACCO PRODUCTS TAX								14.1	14.8	
ALL OTHER	10.1	15.1	14.6	17.5	18.7	20.0	22.6	23.1	25.3	150.5
TOTAL REVENUE	90.1	125.6	138.8	222.6	165.8	175.0	193.4	231.6	242.8	169.5
STATE'S SHARE OF ADC PROFITS	5.6	5.3	5.6	5.8	5.9	6.5	6.5	5.8	5.1	- 8.9
TOTAL RECEIPTS	95.7	130.9	144.4	228.4	171.7	181.5	199.9	237.4	247.9	159.0
NORMAL				158.7				228.1		
ACCELERATED				69.7				9.3		
					INCOME YEARS					1949-61
	1949	1954	1955	1956	1957	1958	1959	1960	1961	
PERSONAL INCOME	\$3,626	\$5,256	\$5,603	\$6,094	\$6,386	\$6,641	\$7,043	\$7,379	\$7,762	114.1
					PER CENT					
ALL GENERAL FUND REVENUES AS PER CENT OF INCOME***	2.64	2.49	2.58	3.75	2.69	2.73	2.84	3.22	3.19	
NORMAL				2.61				3.09		
ACCELERATED				1.14				.13		
INDIVIDUAL INCOME TAX AS PER CENT OF INCOME	.65	.79	.82	1.73	.95	1.07	1.09	1.10	1.17	
ALL OTHER REVENUES AS PER CENT OF INCOME***	1.99	1.70	1.76	2.02	1.73	1.66	1.75	2.12	2.02	

* NORMAL

**NORMAL-ESTIMATED

***INCLUDING ABC PROFITS

SOURCE: ANNUAL REPORTS OF THE COMPTROLLER TO THE GOVERNOR OF VIRGINIA.

revenues the yield from individual income taxes has shown the greatest growth. The yield from this tax will continue to be one of the important sources of State revenue. In Table 5, the yield from individual income taxes is expressed as a per cent of personal income payments. In 1950 this bite from personal income payments was .65 per cent; in 1955, .79 per cent; and in 1956, .82 per cent. During the fiscal year 1956-57, with the accelerated tax payments, the bite was 1.73 per cent. As incomes have risen and the requirements for the payment of the income tax have remained the same, the yield as a per cent of individual income payments has increased. In 1961-62 the yield was 1.17 per cent. By 1970 it is likely that the yield will increase to 1.5 per cent. Other sources of State tax revenue which appear likely to continue to increase are the funds from taxes on insurance companies and the gross receipts tax on public utilities. Table 6 shows the annual appropriations of the General Assembly for the major agencies and functions financed from General Fund revenue for 1950, 1955, and annually thereafter through 1963-64. It is of interest to note that between 1950 and 1962 General Fund revenues increased by 248 per cent (Table 5) and appropriations for operation and maintenance of General Fund activities increased by 232 per cent (Table 6).

Annual Appropriation from General Fund for Maintenance and Operation
1950 to 1964

(in thousands of dollars)

Per Cent Change

		Fiscal Years												
		<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	1950-62	1962-64	
83	State Board of Education	\$ 32,964	\$ 53,672	\$ 57,085	\$ 65,847	\$ 72,673	\$ 83,645	\$ 92,339	\$105,438	\$119,471	\$133,044	\$142,352	262.4	19.2
	Higher Education	5,343	11,174	11,380	13,162	13,375	16,454	16,674	19,472	20,160	24,072	24,831	277.3	23.2
	Hospitals	1,305	2,119	2,212	2,639	3,040	3,434	3,648	4,479	4,616	5,750	5,868	253.7	27.1
	Associated Educational Services	1,971	3,712	3,778	4,272	4,371	5,472	5,622	6,428	6,569	7,327	7,507	233.4	14.3
	Total Educational Services	41,583	70,677	74,455	85,920	93,459	109,005	118,283	135,817	150,816	170,193	180,558	262.7	19.7
	Public Health	3,839	8,184	8,371	8,513	8,774	9,350	9,392	10,009	10,156	10,915	10,997	164.5	8.3
	Welfare	6,380	10,592	10,824	11,014	12,429	14,112	14,347	17,055	17,549	18,910	19,862	175.1	13.2
	Mental Hygiene	5,839	12,583	12,945	15,571	16,016	17,745	18,385	20,239	20,953	23,005	23,717	258.9	13.2
	All Other	13,245	18,486	18,764	23,048	22,567	26,830	27,507	33,409	35,538	37,184	39,451	168.3	11.0
	Total Maintenance and Operation	70,886	120,522	125,359	144,066	153,245	177,042	187,914	216,529	235,012	260,207	274,585	231.5	16.8

Table 7 shows the revenue estimates from selected sources making up the General Fund of Virginia for the period from 1963-1970. These estimates are necessarily based on the *assumption* that the present revenue structure will be continued. The effects of proposed tax changes are shown in other sections of the report. The temporary taxes enacted in 1960 and re-enacted in 1962 are shown separately in the table. The estimated yields from the individual income tax reflect an amount from the "windfall" for 1963, the increase in collections during the fiscal year ending June 30, 1963, and improved collections under withholding.

The amount available from the surplus at the beginning of the current biennium and an estimate of the available surplus for the biennium regular sources and from temporary sources which include the liquor tax, tobacco tax, and the increase in the beer tax are shown as components of the total funds available for each biennium. Following this item are the estimated expenditures for maintenance and operation, non-recurring expenses, capital outlays, and total expenditures for each biennium. It appears now that the surplus at the end of the present biennium may be in the vicinity of \$40 million, which would be carried over into the 1964-66 biennium. It should be recognized that the surplus could be smaller or larger than the \$40 million.

Expenditure estimates used in Table 8 allow for future growth and increasing costs. The additional State revenue needed for the next biennium does not present any insurmountable problem. However, beginning in 1966 and thereafter, the outlook for meeting the General Fund agency needs from the present revenue structure seems most unlikely. Certainly by that time some substantial source of new revenue must be obtained.

Table 7

Estimates of General Fund Revenues, 1963 - 1970

(in millions of dollars)

	Fiscal Years									
	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	<u>Actual</u>	<u>Actual</u>								
Income - Individual and Fiduciary	\$ 81.3	\$ 91.0	\$128.3	\$113.3	\$123.3	\$134.0	\$145.4	\$157.6	\$170.7	\$184.7
Income - Corporate	28.7	30.3	31.6	32.6	33.5	34.5	35.5	36.5	37.4	38.4
Utilities	21.6	22.4	23.6	24.6	25.5	26.5	27.4	28.4	29.3	30.3
Insurance Companies	12.4	13.3	13.7	14.4	15.1	15.8	16.5	17.2	17.9	18.6
Intangible Personal										
Property	17.8	10.1	9.6	9.9	10.1	10.4	10.6	10.9	11.1	11.4
Alcoholic Beverages	9.3	9.3	8.6	8.9	9.2	9.5	9.8	10.0	10.3	10.6
Bus. & Prof. Licenses	12.9	13.4	13.8	14.2	14.6	15.1	15.5	15.9	16.3	16.8
All Other	23.1	25.2	25.9	27.3	28.7	30.1	31.5	32.9	34.2	35.6
Total Revenues from Regular Tax Sources	207.1	215.0	255.1	245.2	260.0	275.9	292.2	309.4	327.2	346.4
ABC Profits	5.8	5.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Wine Tax to Localities	.6	.6	.6	.6	.6	.6	.6	.6	.6	.6
Total	212.3	220.0	260.4	250.5	265.3	281.2	297.5	314.7	332.5	351.7
Temporary Tax Sources:										
Liquor Tax	8.4	11.0	11.3	11.4	11.5	11.6	11.7	11.8	11.9	12.0
Tobacco Tax	14.1	14.8	15.1	15.4	15.7	16.0	16.3	16.7	17.0	17.3
Increase in Beer Tax	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1
Total from All Sources	236.8	247.8	288.8	279.3	294.5	310.8	327.5	345.3	363.5	383.1
Biennium		484.6		568.1		605.3		672.8		746.6

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Table 8

Projections of the Operations of the General Fund of Virginia
By Bienniums, 1962-1970

(in millions of dollars)

	<u>1962-64</u>	<u>1964-66</u>	<u>1966-68</u>	<u>1968-70</u>
Available at beginning of biennium	\$ 32.0	\$ 40.0		
Est. General Fund Collections:				
From regular sources and ABC profits	510.9	546.5	612.2	684.2
From temporary sources	57.2	58.8	60.6	62.4
Total	568.1	605.3	672.8	746.6
Total Funds available	600.1	645.3	672.8	746.6
Estimated Expenditures:				
For maintenance and operation	534.8	619.6	715.7	816.6
Non-recurring expenses	6.3	7.2	8.3	9.4
Capital outlays	31.7	30.0	23.9	35.0
Total Expenditures	572.8	656.8	747.9	861.0
Available at the end of the biennium	27.3			
Additional revenue needed		- 11.5	75.1	114.4

Table 9 provides estimates of expenditures for maintenance and operation of the major General Fund activities such as public schools, higher education, and mental hospitals. The estimates were prepared after detailed study of past enrollment trends in the public schools, institutions of higher education, and mental hospitals, and of the trends in costs and expenditures of all General Fund activities. They allow for growth and some increases in the cost of services. They have been prepared to indicate the direction of the future needs of General Fund agencies rather than as precise estimates of cost.

The rate of income growth will influence General Fund revenues. In Table 4 personal income payments in Virginia are projected at three different rates—3.5, 5.0, and 6.5 per cent per year. Table 10 shows the prospective yield of the current General Fund tax structure in 1970. The General Fund revenue is shown in two parts and the total. The two parts are the individual income tax and “all other” components of the General Fund as presently constituted, including the temporary taxes on tobacco, spirituous liquors, wine and beer.

Table 9
Preliminary Estimate of General Fund Agency Needs for Bienniums
1962-64 to 1968-70

	(in thousands)				
	1960-62	1962-64	1964-66	1966-68	1968-70
1. State Board of Education	\$ 224,908	\$ 275,396	\$ 315,763	\$ 360,932	\$ 410,534
2. Higher Education	39,633	48,903	55,855	69,301	78,308
3. Hospitals	9,095	11,617	13,193	15,124	17,054
4. Associated Educational Agencies	12,997	14,835	17,200	19,700	22,600
5. Total Educational Services	(286,633)	(350,751)	(402,011)	(465,057)	(528,496)
6. Public Health	20,165	21,912	27,170	31,250	35,940
7. Welfare	34,603	38,772	45,800	52,800	60,700
8. Mental Hygiene ..	41,192	46,722	53,578	62,634	71,507
9. All Other	68,947	76,635	91,000	104,000	120,000
10. Total Maintenance and Operation....	451,542	534,792	619,559	715,741	816,643
11. % Increase over previous Biennium		18.4%	15.9%	15.5%	14.1%
12. Personal Income Estimate	15,094,000	17,161,000	18,920,000	20,859,000	22,997,000
13. General Fund Appropriation as % of Personal Income	2.99	3.12	3.27	3.43	3.55

Bureau of Population & Economic Research, August 15, 1963

Table 10
Estimates of Personal Income Payments in Virginia at Selected Annual Rates of Growth and Corresponding General Fund Revenues for 1970

Year	Personal Income (000,000)	Total General Fund Revenues	Yield from Individual Income Tax	"All Other" General Fund Revenues
1962*	7,762	247.8	91.0	156.8
1970 @ 3.5%	11,097	355.7	167.5	188.2
Difference 1962-70	3,335	107.9	76.5	31.4
%	43.0	43.5	84.1	20.0
1970 @ 5%	12,452	383.1	184.7	198.4
Difference 1962-70	4,690	135.3	93.7	41.6
%	60.4	54.6	103.0	26.5
1970 @ 6.5%	13,948	417.9	206.2	211.7
Difference 1962-70	6,186	170.1	115.2	54.9
%	79.7	68.6	126.6	35.0

* Calendar Year 1961.

It is of interest to note that the anticipated increase in General Fund revenue on the 3.5 per cent annual increase in personal income between 1961-62 and 1969-70 is \$107.9 million or 43.5 per cent. The increase in prospective General Fund revenue at the 5.0 per cent annual growth rate is \$135.3 million or 54.6 per cent. The corresponding increases at the 6.5 per cent annual growth rate is \$170.1 million or 68.6 per cent.

State and Local Taxes

Comparisons of expenditures by state governments for various functions and activities are matters of interest. Table 11 provides a simple comparison of per capita expenditures for selected purposes by state governments in the Nation. To point up this comparison the amounts spent in Virginia for selected activities are shown in the first column and the average amounts for the fifty states are shown in the second column. In Table 11 the total expenditures for State government in 1961 in Virginia amounted to \$124.36 per capita. The average value for the fifty states was \$159.82. The amounts spent for education in Virginia, including institutions of higher education, amounted to \$41.92 in 1961, and the average for the fifty states was \$53.54. The per capita amount for higher education in Virginia was \$14.82 as compared to \$17.40 for the fifty states. Per capita expenditures for highways were \$37.25 as compared to \$41.14. Public welfare expenditures were \$7.31 as compared to \$21.48. Expenditures for hospitals and health in Virginia are somewhat higher on the per capita basis than the average for the fifty states. These are the only two activities in which the relative expenditures in Virginia are higher than for the average. Many other comparisons could be made of the standing of Virginia among other states regarding taxation.

Table 11
Per Capita Expenditures for Selected Activities in
Virginia, and the Average for the Fifty States
1961

<i>Activity</i>	<i>Virginia</i>	<i>Average for Fifty States</i>
Total General Expenditures	\$124.36	\$159.82
<i>Education</i>	41.92	53.54
State institutions of higher learning	14.82	17.40
<i>Highways</i>	37.25	41.14
<i>Public Welfare</i>		
Total	7.31	21.48
Categorical public assistance	5.85	16.46
Hospitals	11.45	10.42
Health	2.42	1.89
Natural Resources	4.37	5.07
Correction	2.20	2.68
Financial Administration	3.90	4.04

Source: Compendium of State Government Finances 1961, Bureau of the Census, Table 35.

The total impact of State and local taxes in Virginia may be usefully compared with neighboring states and the Nation as a means of determining the relative tax burden. Table 12 shows the per capita general revenue of State and local governments in the United States, Virginia, and selected states for the year 1960. All general revenues from State and local sources in Virginia in 1960 amounted to \$172.38 per capita. The corresponding figure for all of the states in the Nation was \$241.86. Amounts for neighboring states and certain other industrial states are also given. For convenience of comparison the per capita revenue figures from all sources, from tax sources, and other charges have been expressed

as indexes. State and local revenues on a *per capita basis* in Virginia are about 71 per cent of the average for the Nation, somewhat higher than the corresponding per capita revenues in North Carolina, South Carolina, Alabama, Mississippi, and Kentucky; about half as large as those for New York State; and considerably less than New Jersey, Pennsylvania, and Ohio. The indexes for state and local taxes show a similar pattern. The figures in Table 12 show that the total impact of state and local taxes on a per capita basis is comparatively low in Virginia. This comparison is sharpened in the next table.

Table 12
Per Capita General Revenue of State and Local Governments
United States, Virginia, and Selected States, 1960

	All General Revenues from Own Sources	Taxes	Charges and Miscellaneous General Revenues	United States = 100		
				All Revenues	Taxes	Charges, etc.
Virginia	\$172.38	\$133.89	\$38.49	71.3	66.7	93.4
United States	241.86	200.67	41.19	100.0	100.0	100.0
Maryland	236.04	198.72	37.32	97.6	99.0	90.6
West Virginia	172.27	145.02	27.25	71.2	72.3	66.2
North Carolina	167.55	136.91	30.64	69.3	68.2	74.4
South Carolina	160.83	129.31	31.52	66.5	64.4	76.5
Alabama	152.95	117.60	35.35	63.2	58.6	85.8
Mississippi	161.42	129.95	31.47	66.7	64.8	76.4
Kentucky	146.96	118.67	28.29	60.8	59.1	68.7
New York	336.53	287.54	48.99	139.1	143.3	118.9
New Jersey	243.77	206.90	36.87	100.8	103.1	89.5
Pennsylvania	204.63	173.09	31.54	84.6	86.3	76.6
Ohio	229.08	184.73	44.35	94.7	92.1	107.7

Source: The Book of States, 1962-63, p. 215.

Table 13 shows the relation of general revenue of state and local governments to personal income payments for the United States, Virginia, and the same selected states as shown in Table 12. Table 13 is a more satisfactory comparison of the tax burden in that it shows the relationship of expenditures to income. The revenues, taxes, charges, and miscellaneous revenues are converted into indexes for convenience in comparison. State and local revenues in Virginia in the year 1960 were equal to about 9.3 per cent of total personal income payments or as expressed in the table, \$93.28 per \$1,000 of personal income. The corresponding figure for the United States was \$108.82. On this basis State and local revenues in Virginia when related to income level are about 85.7 per cent of the corresponding level in the Nation. By comparing the State and local revenues in relation to the level of personal income payments a truer measure of tax impact is obtained than in Table 12. In Table 12 the indexes of per capita revenue of state and local governments in North Carolina, South Carolina, Alabama, Mississippi, and Kentucky are less than Virginia. The per capita incomes in these states are also considerably less than in Virginia. Table 13 shows that these states are spending more in relation to their income than Virginia. The index of revenue for West Virginia is 94.6; for North Carolina, 97.8; South Carolina, 105.8; and Mississippi,

Table 13

Relation of General Revenue of State and Local Governments to Personal Income, United States, Virginia, and Selected States, 1960

State-local general revenue in fiscal 1960 per \$1,000 of personal income in calendar 1960

	All General Revenues from own Sources	Taxes	Charges and Miscellaneous General Revenues	United States = 100 All Revenues	Taxes	Charges, etc.
Virginia	\$ 93.28	\$ 72.45	\$20.83	85.7	80.2	112.4
United States	108.82	90.29	18.53	100.0	100.0	100.0
Maryland	98.58	83.00	15.59	90.6	91.9	84.1
West Virginia	102.89	86.62	16.28	94.6	95.9	87.9
North Carolina	106.42	86.96	19.46	97.8	96.3	105.0
South Carolina	115.15	92.58	22.57	105.8	102.5	121.8
Alabama	104.62	80.44	24.18	96.1	89.1	130.5
Mississippi	137.62	110.79	26.83	126.5	122.7	144.8
Kentucky	95.24	76.90	18.33	87.5	85.2	98.9
New York	120.67	103.11	17.57	110.9	114.2	94.8
New Jersey	91.46	77.63	13.83	84.0	86.0	74.6
Pennsylvania	90.32	76.40	13.92	83.0	84.6	75.1
Ohio	97.94	78.98	18.96	90.0	87.5	102.3

Source: *The Book of States*, 1962-63, p. 216.

126.5, as compared to Virginia's index of 85.7. New Jersey, Pennsylvania, and Ohio are states which have larger per capita incomes than Virginia; they are more industrialized and urbanized. The impact of state and local taxation in these three states, however, is a little below Virginia in the case of New Jersey and Pennsylvania, and a little higher in the case of Ohio. A comparison of taxation in Virginia with that of other states could be carried on at great length, but the attached three tables show that State and local tax burdens in Virginia as compared with those of other states are relatively low.

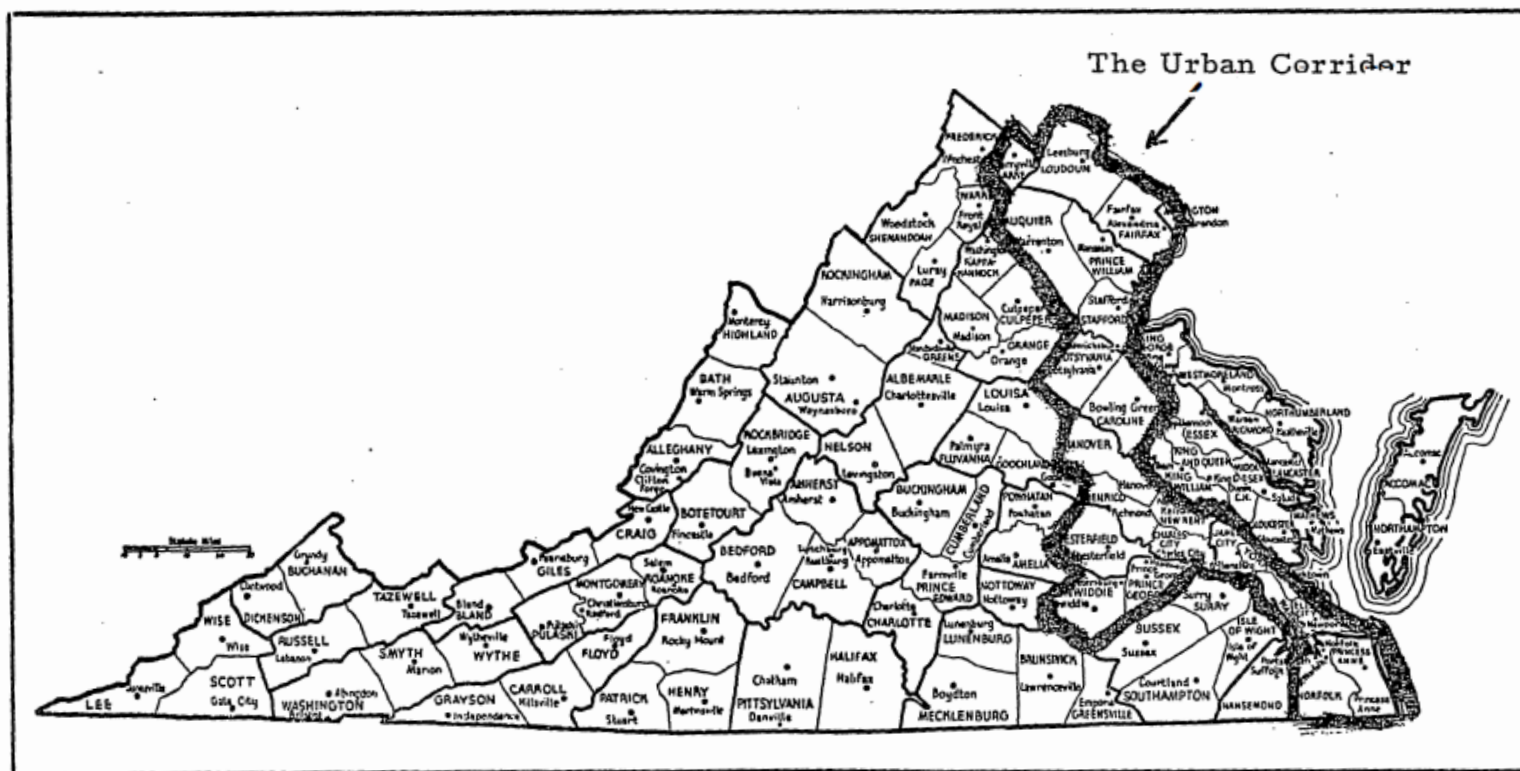
Population Changes

Virginia has experienced a number of major changes in the composition and distribution of its population. It has become increasingly an urban state. The areas of population growth during the last two decades have been in and around cities. The rural areas, except those immediately surrounding the cities and towns, have not grown appreciably. In fact many have declined. Agriculture and mining have diminished as sources of employment and income. The result has been a considerable outward migration of young people from those parts of Virginia where agriculture and mining have been dominant. Mechanization and improved production methods have contributed in a significant way to these changes by making it possible to produce more food and fiber per agricultural worker and to mine more coal per mine worker. The other side of this development has been the increasing investments of capital in machinery and equipment per farm and mine worker.

The foregoing changes are taking place in all sectors of the State's economy and there is every prospect that this pattern of development will continue into the future. If it does not continue, Virginia's economy will retrogress. A brief review of the major changes in population during the past two decades are especially pertinent. The areas of Virginia within the following boundaries may be described as Virginia's Metropolitan Corridor. The western boundary consists of Clarke, Fauquier, Stafford, Spotsylvania, Hanover, Henrico, Chesterfield and Dinwiddie counties,

including its southern boundary to the James River. The southern line follows the James River to the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, then moves across Hampton Roads to Hampton, Newport News, and York County. The boundary line continues along the northeast boundary of James City, New Kent and Hanover counties; thence northward along the eastern boundary of Caroline, Stafford, Prince William, and Fairfax counties to the Potomac River. The northern boundary of the Corridor consists of the northern boundaries of Arlington, Fairfax, Loudoun, and Clarke counties. Table 14 shows the census figures for the State, the Corridor, and the Rest of the State for 1940, 1950, and 1960.

Between 1940 and 1960 the Corridor increased by 115 per cent as compared to 10.3 per cent for the rest of the State. It is significant also, that the population gain for the decade 1950 to 1960 for the rest of the State was only 3.1 per cent, as compared to 40 per cent in the Corridor. There is another aspect of this pattern of change—the urban areas in the rest of the State have gained, while the rural areas have had either a little increase or a decline. For example, in the rest of the State the population increases between 1950 and 1960 in the following urban areas are of interest as shown in Table 15.



MAP OF VIRGINIA SHOWING COUNTIES, COUNTY SEATS AND CITIES

Table 14

Population Changes in Virginia, and Selected Areas, 1940, 1950, 1960

	1960	1950	1940
State	3,954,429	3,318,680	2,677,778
Metropolitan Corridor	2,064,984	1,418,663	965,066
Rest of State	1,889,445	1,832,017	1,712,707
Per Cent of State	100.0	100.0	100.0
Metropolitan Corridor	52.5	42.5	36.0
Rest of State	47.5	57.5	64.0
	Change between		
	1940-1960	1950-1960	1940-1950
State	48.0	19.5	23.5
Metropolitan Corridor	115.0	40.0	54.0
Rest of State	10.3	3.1	7.0

The changing pattern of cities and counties or urban and rural areas in Virginia has far reaching implications with respect to future tax policy for the State and local governments of Virginia. Table 15 brings out the fact that the cities and urbanized areas of the rest of the State have increased in population in most instances, while the remaining aggregate area has shown an absolute loss of 2.4 per cent for the decade. The population losses and gains reflect the changes in employment opportunities. The growth of employment opportunities is relatively better for the urban areas than for the rural areas.

The foregoing emphasis on urban areas in Virginia is in no way intended to overlook or neglect the problems of rural counties. Many rural areas have been undergoing radical changes with respect to employment opportunities. This has led to net outward migration, with consequent impact on teacher needs among the various school districts of the State. For example, estimates of the number of state-aid teaching positions, based on 30 students per elementary school teacher, and 23 students per secondary school teacher, from data furnished by the State Board of Education, show that 1,653 additional teachers are needed to fill the state-aid teaching positions between 1963-64 and 1965-66 in the metropolitan areas of Virginia. In the rest of the State, the corresponding increase needed is 318. The metropolitan areas referred to include Northern Virginia—Arlington, Alexandria, Falls Church, Fairfax County, Fairfax City, Loudoun and Prince William counties; Richmond, Henrico and Chesterfield; Norfolk, Portsmouth, Virginia Beach and Chesapeake; Hampton, Newport News, and York County; Lynchburg, Amherst and Campbell counties; and Roanoke City and Roanoke County. These are the metropolitan areas of Virginia as presently designated by the Bureau of the Census, with a minimum population of 100,000 in 1960. The data on prospective enrollment increases in the public schools follow the pattern of population increase in the State noted during the past two decades. Most of the rural counties of the State will have little or no increase in school population during the next few years. The growth of school population will be mainly in the urban metropolitan areas.

Table 15

Population Changes for Selected Cities and Adjacent Counties
Outside of the Metropolitan Corridor of Virginia. 1950-1960

	1960	1950	% Change 1950-1960
Roanoke and Roanoke County	158,803	133,407	19.0
Charlottesville-Albemarle	60,396	52,631	14.8
Winchester-Frederick	37,051	31,378	18.1
Harrisonburg-Rockingham	52,401	45,889	14.2
Staunton-Augusta-Waynesboro	75,289	66,438	13.3
Alleghany-Clifton Forge-Covington	28,458	28,934	- 1.7
Washington-Bristol, Virginia	55,220	53,490	3.2
Martinsville-Henry	59,133	48,470	22.0
Danville-Pittsylvania	104,873	101,162	3.7
Lynchburg-Campbell-Amherst	110,701	96,936	14.2
Total (Selected Areas)	742,325	658,735	12.7
Rest of State	1,889,445	1,832,017	3.1
Rest of State minus Selected Areas	1,147,120	1,173,282	- 2.2

As a way of summarizing the population, income, and tax characteristics of the cities, urban counties, and the 91 other counties, Table 16 has been prepared to illustrate the differences in the patterns of these three types of area. In the table population, average daily attendance, personal income, total assessed property values, total true property values, and total property levies are expressed as a per cent of the corresponding State total. These percentages are then converted into ratios or index numbers for comparative purposes.

Table 16

Selected Characteristics of Cities, Metropolitan Counties and Other Counties in Virginia, 1960-61

Ratios of Shares of Characteristics
to Shares of Population

	Cities	5 Metro. Counties	91 Non- Metro. Counties	State	Cities	5 Metro. Counties	91 Non- Metro. Counties	State
Population	40.0	17.8	42.2	100.0	100	100	100	
ADA	36.6	17.6	45.8	100.0	92	99	109	
Personal Income	44.1	25.3	30.6	100.0	110	142	73	
Total Assessed Value	50.3	25.0	24.7	100.0	126	140	59	
Total Full Value	38.7	23.3	38.0	100.0	97	131	90	
Total Property Levies	45.2	28.0	26.8	100.0	113	157	64	
Ratio of Areas to State								
Local Revenue from:								
Local Sources	68.7	69.5	43.7	61.8	111	112	71	100
State	26.7	20.4	53.5	32.9	81	62	163	100
Federal	4.6	10.1	2.8	5.3	87	191	53	100
Total	100.0	100.0	100.0	100.0				
Local Expenditures for Schools as % of Total Local Expenditures	40.9	64.0	79.8	57.4	71	111	139	100

To summarize the profile of Virginia cities, as a group they have about 8.0 per cent less ADA than population; 10 per cent more income, 26 per cent more assessed property value, 3.0 per cent less true value, and 13 per cent more property tax levies than would occur if they had the same share of the State total for each characteristic.

The summary for urban counties shows that as a group they have 1.0 per cent less ADA, 42 per cent more income, 40 per cent more assessed value, 31 per cent more true value, and 57 per cent more property tax levies than would occur if each characteristic bore the same relationship to the corresponding State total as their population does. These index numbers indicate that urban counties are doing far better than the cities and the other 91 counties in using property taxes as a source of local revenue. The index for the levies is higher than for personal income, assessed value, and true value.

As a group the 91 counties have 9.0 per cent more ADA, 27 per cent less personal income, 41 per cent less of total value, 10 per cent less of full value, and 36 per cent less of property tax levies than would occur if each characteristic occurred in the same proportion of the corresponding State total as the population. The indexes for the share of local expenditures borne by the counties, and the share of State aid further highlight the differences in the needs, resources, and financing practices among cities, metropolitan counties, and other counties of Virginia.

Measures of this type can be used to evaluate the effort of any individual county or city in meeting the costs of local government. It is expected that where the need of service such as ADA is relatively high, i.e., larger than the area's share of population, and its share of income relatively low, state-aid will have to provide a larger share of the cost of local government than in instances where the opposite is true. The indexes provide a basis for formulating policies with respect to State aid and local responsibility.

Appendix II

Taxing Powers of Virginia Counties Other Than Real and Personal Property

Virginia counties as a whole do not possess any broad power of taxation, but possess for the most part only individual licensing powers granted in specific terms by the legislature. Counties, then, rather than possessing a broad single grant of the licensing power possess many partial grants of power. The result of such a system is that counties generally possess a long list of grants, some of which are so unimportant as to be without financial significance.

The delegations of the licensing power which are granted by general law extend to 14 subjects of taxation:

1. Motor Vehicles
2. Amusements
3. Automobile graveyards
4. Beverages
5. Bus Terminals
6. Fortune Tellers
7. Machines operated on the coin-in-its slot principle
8. Trailers

9. Contractors, Plumbers, etc.
10. Dog Licenses
11. Public dance halls
12. Professional bondsmen
13. Pistol dealers
14. Photographers

Certain counties in the State are authorized to impose license taxes on other privileges and activities. Three counties in the State have been granted what might be called the full power of license taxation. Except when the imposition of a license tax is specifically prohibited by general law, Arlington, Pittsylvania, and Roanoke counties may, by definition, levy and collect taxes on all businesses, trades, professions, occupations and callings, and on the persons, firms, and corporations engaged therein, within the county. On these three counties there are two restrictions: (1) a county cannot levy a tax prohibited by general law and (2) no tax may be placed on radio or television stations. There are two further restrictions on Roanoke County: (1) any license imposed by Roanoke applies only in the county, not within the limits of any incorporated town situated in the county levying a particular similar tax, and (2) Roanoke is prohibited from levying both a license tax on merchants and property tax on merchants' capital.

The counties of Chesterfield, Henrico, and Fairfax are authorized by law to levy license taxes on any privilege for which a city adjacent to the county charges as license, provided the imposition of such a county tax is not specifically prohibited by statute.

Five counties—Arlington, Chesterfield, Henrico, Nansemond, and Prince William (Norfolk and Princess Anne were in this class prior to their mergers)—are granted by the terms of a statute the same licensing powers as cities and towns.

Several other counties possess additional licensing powers of a less significant nature. Rather than broad authorization to license several types of activities, they are permitted to license only one. An example is:

Taxicabs and other vehicles transporting passengers possessed by York, Arlington, Nansemond, Charlotte, and Spotsylvania.

An additional explanation is necessary concerning the taxation of motor vehicles. Although usually referred to as the automobile license fee or tax, the statute states specifically that the tax may be imposed on motor vehicles, trailers, and semi-trailers. The amount of the county license, regardless of the other conditions which may exist in any particular licensing situation, may not be greater than the amount of the State license on the same class of vehicle. The amount the State presently charges is \$10.

Two restrictions operate only when a town or towns within the county also levy a motor vehicle license tax. When a town located within a county imposes a license tax on vehicles, the county cannot also levy a tax on these vehicles if (1) the town constitutes a separate school district or (2) the town license tax is \$10.00, the minimum local tax. If, however, the town tax on automobiles is less than \$10.00, then the county could levy an additional tax up to \$10 on the automobiles licensed by the town.

Apart from licensing taxes, Virginia counties possess other taxing powers, that is, to levy recordation taxes, capitation taxes and taxes on bank stock.

In summation therefore:

1. 8 counties have special levy powers.
2. 88 of 96 counties levy dog license taxes locally.
3. 64 of 96 counties levy motor vehicle tax.
4. 56 of 96 counties impose one or more of the specific business or occupational licenses.
5. 46 of 96 counties levy recordation taxes.
6. 2 of 96 counties levy capitation taxes.
7. 25 of 96 counties levy bank stock taxes.

To state it another way:

8. 2 counties levy all types of taxes they are authorized to use.
9. 9 counties levy all types of taxes they are authorized to use except capitation taxes.
10. 15 counties levy all types of taxes they are authorized to use except capitation and bank stock taxes.
11. 9 counties levy no non-property taxes except dog tax.

1. *Special Levy Powers—8*

Arlington
Chesterfield
Fairfax
Henrico
Nansemond
Pittsylvania
Prince William
Roanoke

(Formerly, Norfolk and Princess Anne until merged.)

2. *Counties which do not levy dog tax locally—8*

Amelia
Bland
Buckingham
Craig
Essex
Grayson
Sussex
Washington

3. *Counties levying Motor Vehicle Tax—64*

Accomack	Dinwiddie
Allegheny	Essex
Amelia	Fairfax
Arlington	Fauquier
Augusta	Floyd
Bath	Gloucester
Bedford	Goochland
Bland	Grayson
Buckingham	Greene
Caroline	Halifax
Charles City	Hanover
Chesterfield	Henrico
Clarke	Highland
Culpeper	Isle of Wight
Cumberland	James City
Dickenson	King & Queen

King George
King William
Lancaster
Loudoun
Louisa
Lunenburg
Madison
Mecklenburg
Middlesex
Nansemond
Nelson
New Kent
Northampton
Northumberland
Nottoway
Page

Patrick
Pittsylvania
Powhatan
Prince George
Prince William
Rappahannock
Richmond
Roanoke
Rockbridge
Smyth
Spotsylvania
Surry
Sussex
Warren
Westmoreland
York

4. *Impose one or more of the Specific Business or Occupational Licenses*
—56

Accomack
Albemarle
Allegheny
Amherst
Arlington
Augusta
Bath
Bedford
Botetourt
Buchanan
Buckingham
Campbell
Caroline
Charlotte
Chesterfield
Culpeper
Dickenson
Dinwiddie
Fairfax
Fauquier
Floyd
Giles
Goochland
Grayson
Greene
Greensville
Halifax
Hanover

Henrico
Henry
James City
Loudoun
Louisa
Mecklenburg
Middlesex
Nansemond
Nelson
Northampton
Nottoway
Orange
Page
Pittsylvania
Powhatan
Prince George
Prince William
Rappahannock
Roanoke
Rockingham
Shenandoah
Smyth
Southampton
Stafford
Sussex
Tazewell
Wythe
York

5. *Levy Recordation Taxes*—46

Albermarle	Middlesex
Appomattox	Nansemond
Arlington	New Kent
Augusta	Nottoway
Caroline	Orange
Chesterfield	Pittsylvania
Culpeper	Powhatan
Cumberland	Prince George
Dickenson	Prince William
Fairfax	Rappahannock
Fauquier	Roanoke
Franklin	Rockbridge
Goochland	Rockingham
Greensville	Russell
Halifax	Shenandoah
Hanover	Smyth
Henrico	Spotsylvania
King George	Stafford
Lancaster	Sussex
Lee	Tazewell
Loudoun	Warren
Louisa	Wise
Mecklenburg	Wythe

6. *Levy Capitation Taxes*—2

Chesterfield
Henrico

7. *Levy Bank Stock Taxes*—25

Amelia	Hanover
Augusta	Henrico
Bland	Henry
Campbell	King George
Chesterfield	Lancaster
Dinwiddie	Loudoun
Fairfax	Mathews
Fauquier	Prince George
Franklin	Prince William
Frederick	Rappahannock
Gloucester	Rockbridge
Goochland	Westmoreland
Grayson	

8. *Counties Levying All Types of Taxes they are authorized to use*—2

Chesterfield
Henrico

9. *All Except Capitation Taxes*—9

Augusta	Loudoun
Fairfax	Prince George
Fauquier	Prince William
Goochland	Rappahannock
Hanover	

10. *All Except Capitation and Bank Stock Taxes—15*

Arlington	Middlesex
Caroline	Nansemond
Culpeper	Nottoway
Dickenson	Pittsylvania
Halifax	Powhatan
Louisa	Roanoke
Mecklenburg	Smyth
	Sussex

11. *None—Except Dog Tax—9*

Brunswick	Prince Edward
Carrol	Pulaski
Craig	Scott
Fluvanna	Washington
Montgomery	

Appendix III

Distribution of 1% Sales Tax to Localities for Biennium 1964-66

Column (1): Distribution of 1/2 of 1% on basis of 1962 population and 1/2 of 1% on volume of retail sales.

Column (2): Distribution of 1/2 of 1% on 1962-63 average daily attendance and 1/2 of 1% on volume of retail sales.

	Column (1) (000)	Column (2) (000)
State	\$103,070.0	\$103,070.0
Accomack	716.5	700.8
Albemarle	572.0	510.3
Alleghany	180.5	205.6
Amelia	139.0	156.6
Amherst	427.5	400.6
Appomattox	196.0	205.0
Arlington	5,504.0	4,766.5
Augusta	675.0	698.2
Bath	123.5	122.0
Bedford	623.5	654.9
Bland	108.0	114.6
Botetourt	330.0	345.4
Brunswick	376.0	427.3
Buchanan	773.0	873.6
Buckingham	216.5	239.5
Campbell	691.0	741.4
Caroline	273.0	319.9
Carroll	402.0	438.7
Charles City	82.5	108.7
Charlotte	258.0	285.2
Chesterfield	1,324.5	1,402.4
Clarke	191.0	196.8
Craig	72.0	74.9

	Column (1)	Column (2)
Culpeper	438.0	454.4
Cumberland	124.0	149.6
Dickenson	391.5	453.1
Dinwiddie	407.0	397.2
Essex	201.0	212.4
Fairfax	5,257.0	5,786.9
Fauquier	572.0	594.4
Floyd	201.0	210.2
Fluvanna	129.0	137.0
Franklin	541.0	567.5
Frederick	386.5	405.0
Giles	407.0	451.6
Gloucester	273.0	269.1
Goochland	149.5	150.2
Grayson	309.0	312.3
Greene	72.0	76.6
Greensville	391.5	443.0
Halifax	551.5	636.3
Hanover	613.5	630.8
Henrico	2,283.0	2,257.6
Henry	793.5	862.8
Highland	56.5	52.4
Isle of Wight	381.5	424.5
James City	216.5	*
King and Queen	108.0	121.6
King George	139.5	136.7
King William	216.5	227.0
Lancaster	252.5	256.9
Lee	479.5	548.3
Loudoun	639.0	653.7
Louisa	278.0	308.7
Lunenburg	252.5	277.4
Madison	154.5	162.0
Mathews	159.5	149.9
Mecklenburg	762.5	838.7
Middlesex	139.5	148.5
Montgomery	798.5	765.1
Nansemond	562.0	621.2
Nelson	221.5	236.3
New Kent	92.5	102.5
Northampton	443.5	452.0
Northumberland	211.5	216.4
Nottoway	381.0	406.3
Orange	365.5	382.7
Page	366.0	370.1
Patrick	278.0	302.4
Pittsylvania	1,020.5	1,104.3

* Included in Williamsburg City.

	Column (1)	Column (2)
Powhatan	129.0	116.8
Prince Edward	396.5	221.5
Prince George	366.0	339.1
Prince William	1,180.5	1,208.1
Pulaski	659.5	694.5
Rappahannock	103.0	103.7
Richmond	216.5	226.4
Roanoke	1,345.0	1,389.4
Rockbridge	556.5	541.3
Rockingham	866.0	883.2
Russell	484.5	541.8
Scott	500.0	565.4
Shenandoah	561.5	577.9
Smyth	706.0	743.1
Southampton	613.0	659.1
Spotsylvania	227.0	242.2
Stafford	298.5	304.9
Surry	118.5	133.4
Sussex	278.0	317.5
Tazewell	1,077.5	1,215.5
Warren	422.5	372.5
Washington	804.0	851.9
Westmoreland	257.5	279.8
Wise	989.5	1,117.0
Wythe	520.5	550.8
York	428.0	446.0
Total Counties	51,828.0	53,355.3

	Column (1)	Column (2)
Alexandria	3,051.0	2,722.8
Bristol	536.0	536.0
Buena Vista	175.5	176.7
Charlottesville	1,319.0	1,242.2
Chesapeake	1,577.0	1,927.5
Clifton Forge	190.5	189.8
Colonial Heights	237.0	246.4
Covington	396.5	398.0
Danville	1,525.5	1,535.1
Falls Church	871.0	857.3
Fredericksburg	726.5	698.7
Galax	242.0	242.1
Hampton	2,169.5	2,114.0
Harrisonburg	608.5	595.1
Hopewell	510.0	526.1
Lynchburg	1,819.0	1,752.5
Martinsville	675.0	691.0
Newport News	3,376.0	3,322.1
Norfolk	8,977.5	8,136.8
Norton	185.5	197.1
Petersburg	1,221.0	1,197.8
Portsmouth	2,922.0	2,836.1
Radford	288.5	283.0
Richmond	8,962.0	8,377.4
Roanoke	3,406.5	3,283.9
South Boston	273.5	280.4
Staunton	737.0	686.9
Suffolk	577.5	555.4
Virginia Beach	2,025.5	2,293.9
Waynesboro	572.0	587.3
Williamsburg	309.5	464.8
Winchester	778.5	760.5
Total Cities	51,242.0	49,714.7

Sources: 1962 population estimated by Bureau of Population and Economic Research.

Retail sales from Census of Retail Trade, 1958.

ADA from State Department of Education.

