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A Staff Report to the Revenue Resources  
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# Fiscal Prospects and Alternatives

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By  
John L. Knapp, Ph.D.

In Association With:  
Richard D. Brown, Barry E. Lipman, Gail V. Tatum

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Prepared and Published in  
The Division of State Planning and Community Affairs

HJ

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## ACKNOWLEDGMENTS

This study for the Revenue Resources and Economic Study Commission has been prepared by members of the Office of Research and Information, Division of State Planning and Community Affairs who were on loan to the Commission. The authors are Dr. John L. Knapp, Chief of the Office of Research and Information, and economists Richard D. Brown, Barry E. Lipman, and Gail V. Tatum. Elizabeth S. Biehn, Dianne B. Chesson, Robert J. Griffis, and Paula K. Wright provided technical assistance. The secretarial staff was composed of Carolyn C. Grubbs, supervisor; Betty E. Hoffer, Phyllis A. Houston, and Terry L. Sweet. In addition, Earl A. Scott, Chief of the Technical Support Section; Richard V. Scott, Supervisor of the Print Shop; and Maryland Holmes, Assistant Supervisor of the Print Shop, all of this Division, provided valuable aid in preparation of the final printed report.

Many persons gave generous assistance in the preparation of the study, but it is impossible to mention each one. Particular recognition is due Dr. Thomas C. Atkeson, Chancellor Professor of Taxation, College of William and Mary, and Dr. Lorin A. Thompson, Chancellor, George Mason College, the two special consultants to the Commission, for their advice and encouragement. From the Department of Taxation, W. H. Forst, Tax Commissioner; S. W. Connock, Assistant Tax Commissioner; W. H. White, former Assistant Tax Commissioner, W. J. West, Director, Corporation Tax Division; J. M. Carpenter, Director, Division of Data Processing; F. C. Forberg, Director, Real Estate Appraisal and Mapping Division; and W. B. Harvie, Jr., Director, Division of Research and Statistics, supplied valuable ideas and historical data. Our efforts were aided considerably by J. R. McCutcheon, Director, Division of the Budget, and E. J. Crockin, Deputy Director, and by C. R. O'Bier, Jr., Budget Examiner, who worked up the historical appropriations data. Assistance was also provided

by W. W. Craigie, Jr., Treasurer, Commonwealth of Virginia; F. B. Miller, Jr., Assistant Treasurer; H. R. Fields, Director of Accounts, Department of Accounts; J. S. Barret, Assistant Director for Capital Outlay, Division of Engineering and Buildings; L. B. Younger, Director, Public Utilities Taxation Division, State Corporation Commission; Dr. John Shannon, Assistant Director, Taxation and Finance Staff, Advisory Commission on Intergovernmental Relations; E. S. Cohen, Assistant Secretary of the U. S. Treasury for Tax Policy; and Dr. Edith Mosher, Assistant Professor, School of Education, University of Virginia.

Several more individuals merit recognition. Special mention must be made of the advice and data provided by J. G. Blount, Jr., Assistant Superintendent for Administration and Finance, Department of Education, and W. L. Lukhard, Assistant Director, Department of Welfare and Institutions. Others who were most cooperative were W. R. Harton, Jr., Director of Administration; A. E. Price, Fiscal Director; and T. A. Stephens, Program Analyst, Department of Health; A. E. H. Ruth, Assistant Commissioner for Administration, Department of Mental Hygiene and Hospitals; L. D. Crooks, Associate Director for Administration and Finance, Department of Community Colleges; J. E. Stevenson, Fiscal Director, Department of Vocational Rehabilitation; A. F. Page, Director, Division of Accounts and Stock Control, Alcoholic Beverage Control Board; T. J. Bise, Fiscal Officer, Commission for the Visually Handicapped; L. O. Bolton, Engineer, Urban Division, Department of Highways; P. M. Ware, Economist, Division of Industrial Development; and W. M. Anderson, Jr., Coordinator, Programs and Enrollment, Council of Higher Education.

Any errors that remain in the report are the sole responsibility of the authors and should not be attributed to any of the above-mentioned persons. The opinions and conclusions are those of the authors and do not necessarily represent the views of the Division of State Planning and Community Affairs or other offices of state government.

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Richmond  
April, 1971

June 23, 1971

ERRATA SHEET

A Staff Report to the Revenue Resources and Economic Study Commission

FISCAL PROSPECTS AND ALTERNATIVES

1. The assessment ratio, average effective true tax rate, and coefficient of dispersion for Arlington County in 1970 as published by the Department of Taxation has been changed. This change also affects the county and statewide weighted averages. Although we were able to incorporate these changes into Appendix Table A.30, we received them too late to change the text. Portions affected are the following:

Chart 5.1 - p. 276: The number of localities with a true tax rate of \$1.30-1.39 will be increased by 1 and the number with a rate of \$1.70-1.79 will be decreased by 1.

Table 5.18 - p. 280: Arlington County assessment ratio is changed from .447 to .358. Arlington County coefficient of dispersion is changed from 9.3 to 9.6.

2. The third column of figures in Table 6.5, page 307, should be corrected as follows:

As Shown	Corrections
<u>50,000 &amp; Over</u>	<u>50,000 &amp; Over</u>
\$35,227,780	\$23,734,041
<u>14,985,412</u>	<u>9,188,191</u>
\$50,213,192	\$32,922,232
\$ 9,645,277	\$ 5,792,168
17,204,339	10,600,731
1,947,728	1,661,170
<u>14,315,057</u>	<u>10,055,215</u>
\$43,112,401	\$28,109,284
5,332,185	2,921,256
<u>4,923,519</u>	<u>4,326,170</u>
\$53,368,105	\$35,356,710

3. On page 318, the sentence on the fourth, fifth and sixth lines should read:

To reduce his burden, a credit for the District taxes would be allowed against state individual income tax liability, but this would be costly for the state.



## CHAPTER I

### SUMMARY

#### Introduction

The purpose of this study is to assist the Revenue Resources and Economic Study Commission in making decisions by developing a framework for analysis. To do this, we make projections, investigate alternatives, and evaluate the results. Final recommendations are not provided, since they are the prerogative of the members of the commission.

The authors are members of the Office of Research and Information in the Division of State Planning and Community Affairs who have been on loan to the commission. The authors have been given a free hand in preparing the study, and therefore, the opinions and conclusions are their own and do not necessarily represent the views of the Division of State Planning and Community Affairs or other offices of state government.

This summary chapter is followed by five major chapters and a statistical appendix. Chapter II provides background on state and local finances. It contains information on population, income, measures of fiscal burden, and major features of governmental finances in Virginia. Chapters III and IV furnish revenue and expenditure projections for the state's general fund and explore ways of increasing revenues. The next chapter provides the revenue and expenditure projections for local governments. In addition, Chapter V

supplies some fiscal measurements for central cities, and an analysis of local revenue systems with particular emphasis on the real property tax. Chapter VI is devoted to ways in which the state might give additional fiscal assistance to local governments.

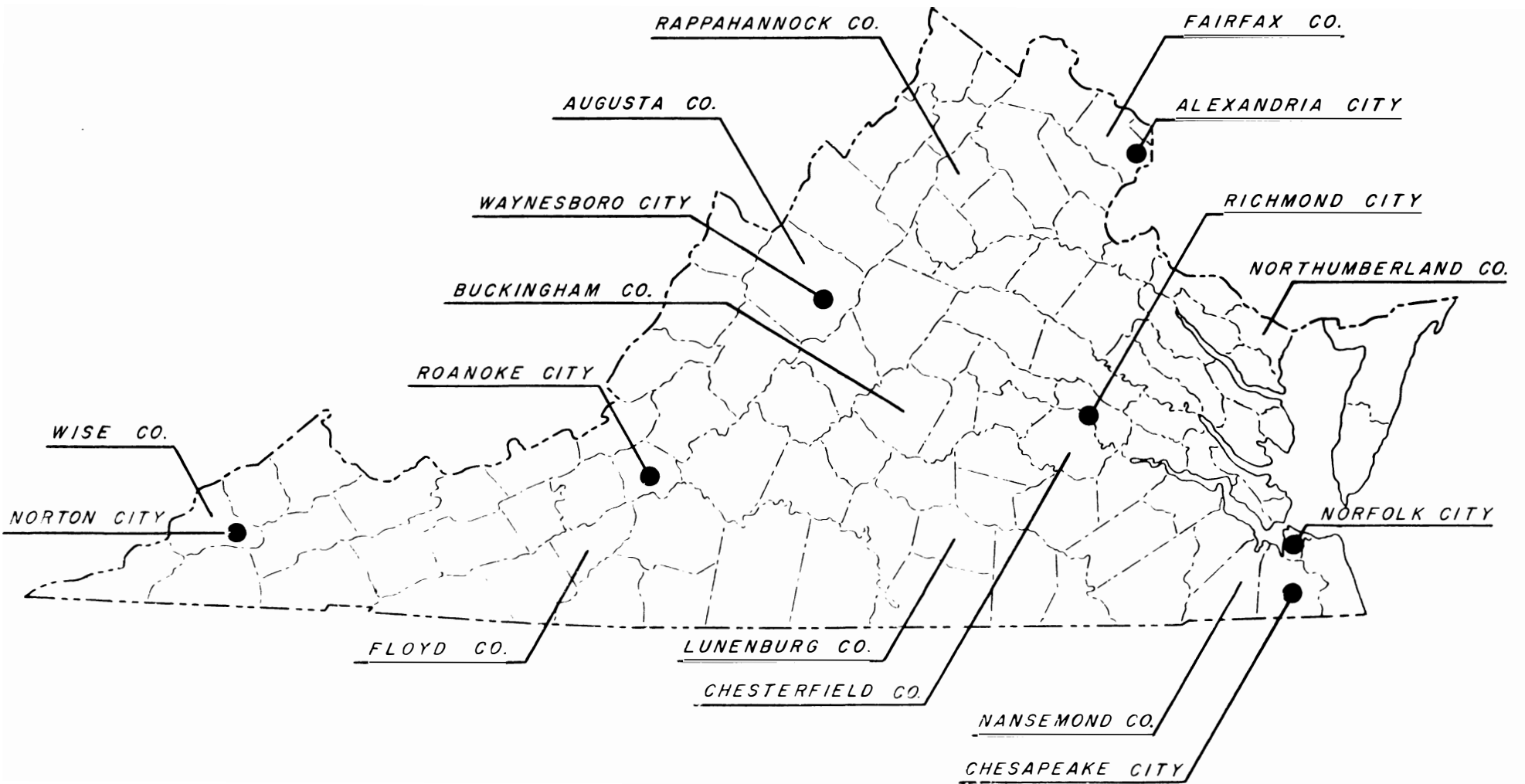
The projection period used in the study is to 1977-78, a seven-year period from the current fiscal year, or three bienniums ahead if measured from the present biennium. At various points in the study, data are presented for individual localities. Because of time and space limitations, we could not provide figures for each of the 134 cities and counties. Instead, we use a representative sample of seventeen cities and counties which are shown in Chart 1.1. The selection of sample areas was based on a desire to show effects due to size, geographic location, city or county status, and degree of urbanization.

The remainder of this chapter is devoted to a summary of the study's highlights. To insure brevity and readability, several of the technical discussions are omitted, and some of the topics are discussed out of the sequence in which they are treated in later chapters.

#### General Fund Revenues and Expenditures

The general fund currently represents less than half of total revenues; yet, because it is the focus of most of the legislative appropriation process, the general fund receives a large amount of attention. Moreover, much of the revenue outside of the general fund comes from the federal government or represents state taxes earmarked for highways. Thus, while not denying the dollar magnitude of special funds, our analytic efforts are centered on the general fund.

CHART I.1-CITIES AND COUNTIES IN 17 AREA SAMPLE



## Revenue Projections

Baseline general fund revenues are projected assuming no change in the present tax structure and rates. The projections are based on the relationship of revenues to predictive variables for each of the major sources. For example, projections of individual income tax receipts are based on projected changes in personal income.

During the 1960's, general fund revenue growth received several "shots in the arm" from one-time events such as the adoption of individual income tax withholding, the new sales and use tax, and changes in administrative procedures resulting in an acceleration of collections. Furthermore, the 1960's were a time of economic prosperity with only a minor recession in 1960-61 and the beginning of another in the last few months of the decade. Price inflation, which usually stimulates revenues, was quite moderate in the first half of the decade, but accelerated toward the end. The combined effect of these factors was a sharp jump in general fund revenues, particularly in the most recent bienniums. Instead of "normal" growth of about 20 to 22 percent per biennium, revenues rose by 41 percent in 1966-68 and by 46 percent in 1968-70.

The official estimate for 1970-72 shows a gain of only 16 percent, reflecting the impact of the current recession, an expected slowdown in the rate of inflation, and the fact that the base for calculating the relative change was swollen by one-time windfalls in the 1968-70 biennium.

Our projections for the next three bienniums show relative gains of 19 percent in 1972-74, 23 percent in 1974-76, and 22 percent in 1976-78. Thus, unless new or increased taxes are enacted, general fund revenues will not show percentage gains in the 1970's as high as those experienced in some bienniums of the previous decade.

Among the various sources of revenue, the individual income tax is now, and will continue to be preeminent. It presently accounts for 40 percent of

general fund revenues and is expected to represent one-half by 1976-78. Although the sales and use tax will continue to rank second in importance, its share of the total is expected to drop from 29 percent in the current biennium to 24 percent in 1976-78.

### Expenditure Projections

The projection methodology for expenditures involves projection of maintenance and operation expenditures (current outlays) assuming no changes in scope or quality of programs but allowing for growth in population-workloads and for price increases. These forecasts are called baseline projections. Forecasts of future population workloads for specific functions (e.g., students in community colleges) were obtained from the responsible state agencies. The workload figures are crude estimates, and we take full responsibility for them--they are not to be confused with more detailed requests used in the regular budget process. Table 1.1 summarizes actual appropriations for the current biennium and projected baseline expenditures for the future. Through the next three bienniums, elementary-secondary education, higher education, and public welfare combined with medicaid are expected to account for about 70 percent of the operating expenses. For elementary-secondary education, enrollment is projected to decline slightly through fiscal year 1977-78. However, the annual rate of inflation will more than offset the enrollment decline and will cause outlays to rise. In other words, the number of students will decrease, but the cost per student will increase. In higher education, expenditures will increase as enrollment grows in all types of institutions. The rate of growth of enrollment is, however, projected to be lower than in recent years. Public welfare outlays will more than double in the 1972-74 biennium, as the state assumes the local share of the program costs of the four

TABLE 1.1--GENERAL FUND OPERATING EXPENSES: ACTUAL APPROPRIATIONS AND PROJECTED BASELINE EXPENDITURES, 1970-72 TO 1976-78

<u>Function</u>	<u>Actual Appropriations 1970-72</u>	<u>Projected Expenditures 1972-74</u>	<u>Percent Change from Previous Biennium</u>	<u>Projected Expenditures 1974-76</u>	<u>Percent Change from Previous Biennium</u>	<u>Projected Expenditures 1976-78</u>	<u>Percent Change from Previous Biennium</u>
<b>EDUCATION</b>							
Elementary-Secondary Education	\$825,392,410	\$933,400,000	+13.1	\$1,033,600,000	+10.7	\$1,129,500,000	+9.3
Higher Education	279,709,730	361,600,000	+29.3	438,500,000	+21.3	533,200,000	+21.6
Other Education and Cultural	5,586,090	6,200,000	+11.0	7,000,000	+12.9	7,800,000	+11.4
<b>HEALTH AND WELFARE</b>							
Mental Health	110,848,930	122,900,000	+10.9	134,900,000	+9.8	145,400,000	+7.8
Public Health	55,203,330	62,200,000	+12.7	70,400,000	+13.2	78,000,000	+10.8
Medicaid	57,504,670	75,500,000	+31.3	91,300,000	+20.9	108,300,000	+18.6
Public Welfare	75,317,315	169,400,000	+124.9	218,000,000	+28.7	246,600,000	+13.1
Vocational Rehabilitation	5,787,635	6,700,000	+15.8	7,700,000	+14.9	8,700,000	+13.0
ADMINISTRATION OF JUSTICE	118,906,730	134,300,000	+12.9	152,200,000	+13.3	169,200,000	+11.2
RESOURCE AND ECONOMIC DEVELOPMENT	45,883,605	51,200,000	+11.6	58,100,000	+13.5	64,500,000	+11.0
<b>GENERAL ADMINISTRATION AND LEGISLATIVE</b>							
General Administration	49,024,890	55,300,000	+12.8	62,600,000	+13.2	69,600,000	+11.2
Legislative	5,348,850	6,900,000	+29.0	7,800,000	+13.0	8,700,000	+11.5
TRANSPORTATION	8,146,615	7,700,000	-5.5	8,700,000	+13.0	9,700,000	+11.5
<b>UNALLOCATED BY FUNCTION</b>							
Employee Benefits	32,843,380	44,200,000	+34.6	50,100,000	+13.3	55,700,000	+11.2
State Aid to Localities--							
Shared Revenues	31,711,354	32,405,677	+2.2	34,200,000	+5.5	36,000,000	+5.3
Debt Service	18,716,600	17,800,000	-4.9	16,700,000	-6.2	15,600,000	-6.6
Other	25,508,170	31,400,000	+23.1	35,600,000	+13.4	39,600,000	+11.2
<b>TOTAL OPERATING EXPENSES</b>	<b>\$1,751,440,304</b>	<b>\$2,119,105,677</b>	<b>+21.0</b>	<b>\$2,427,400,000</b>	<b>+14.5</b>	<b>\$2,726,100,000</b>	<b>+12.3</b>

Source: Table 4.20.

federally funded programs and as the number of recipients rises sharply. In the following two bienniums, the rate of growth of program receipts and expenditures is projected to decline. Outlays for medicaid will grow at a fairly constant rate as the number of cases in each of its two major programs increases at average annual rates of 2.4 and 5 percent. In the other functional categories, the population served is projected to remain nearly constant (mental health) or to increase in proportion to general population growth (e.g., public health, vocational rehabilitation, and resource and economic development).

After obtaining baseline projections, we rework the data to yield projections that allow for increases in maintenance and operation expenditures due to improvements in scope and quality. These are defined as new programs or expansion of old ones. For example, an increase in the share of welfare costs borne by the state would be an expansion in scope and quality. Scope and quality expenditures grew by roughly 3.5 to 4.5 percent annually in the 1960's, and for the future, we use an average annual rate of 4 percent.

Projections of current outlays without allowance for capital outlays are unrealistic, particularly if one allows for increases in scope and quality. Two sets of projections are made for capital outlays. The first assumes that only baseline maintenance and operation expenditures will be made. The second assumes that such expenditures will be increased to allow for changes in scope and quality. Both sets are projected by assuming that capital outlays will represent 7 percent of current outlays.

#### Revenue-Expenditure Gaps

We have discussed the method for deriving the baseline revenue projection and four projections of expenditures. Putting them all together, we get the following results:

TABLE 1.2.--SUMMARY OF GENERAL FUND REVENUES AND EXPENDITURES,  
1972-74 TO 1976-78 BIENNIUMS  
(Millions of Dollars)

	<u>1972-74</u>	<u>1974-76</u>	<u>1976-78</u>
Baseline revenues	\$2,062.7	\$2,534.2	\$3,094.3
Expenditures			
Baseline	2,119.1	2,427.4	2,726.1
Scope and quality	2,228.1	2,728.8	3,278.1
Baseline plus capital outlay	2,267.4	2,597.3	2,916.9
Scope and quality plus capital outlay	2,384.0	2,919.8	3,507.5
Gap			
Baseline	-56.4	+106.8	+368.2
Scope and quality	-165.4	-194.6	-183.8
Baseline plus capital outlay	-204.7	-63.1	+177.4
Scope and quality plus capital outlay	-321.3	-385.6	-413.2

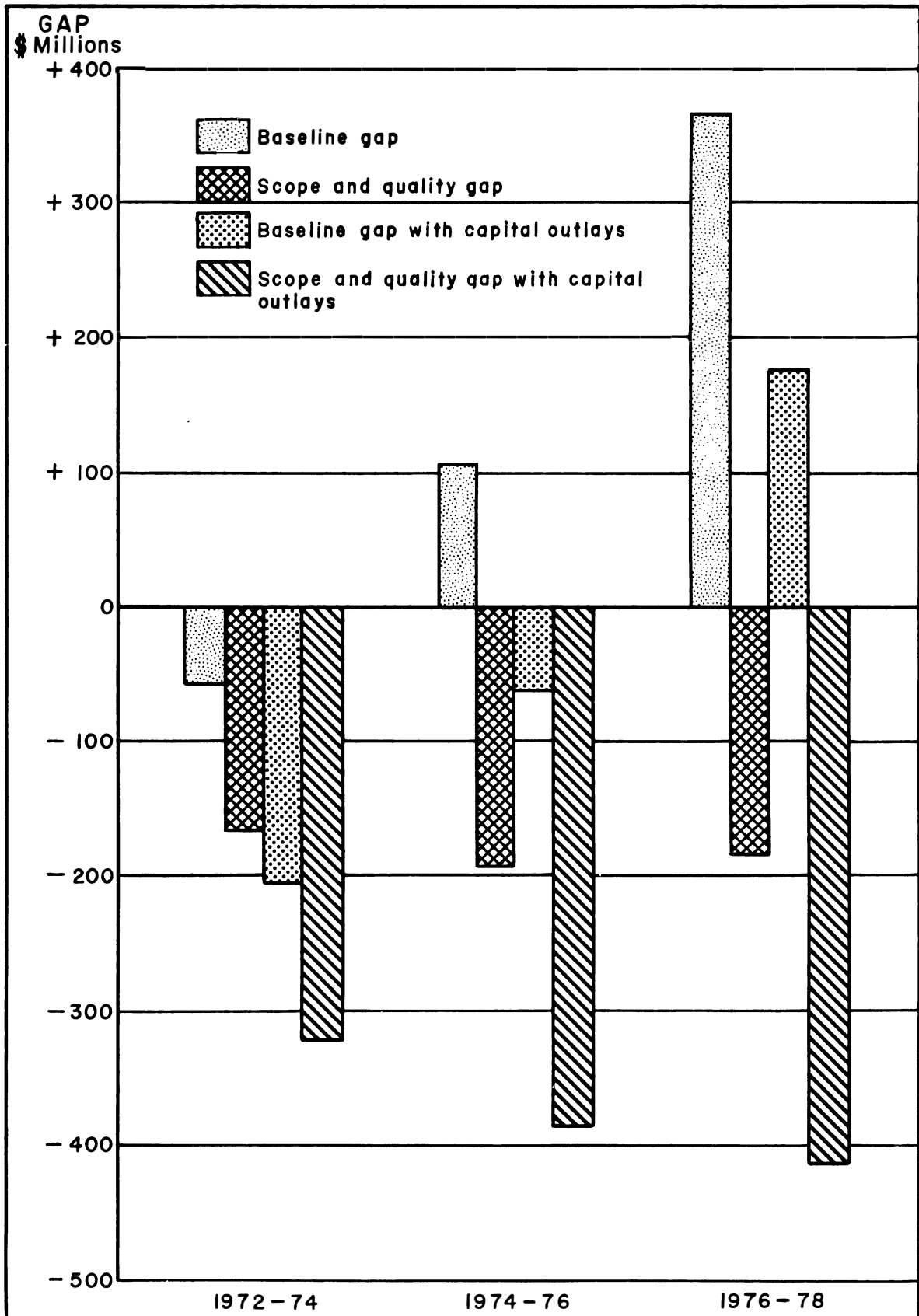
Source: Tables 3.2 & 4.20.

Chart 1.2 displays graphically the "gaps" (revenues minus expenditures) that are projected. In the 1972-74 biennium, we project a negative gap or deficit for each of the four concepts ranging from \$-56.4 million to \$-321.3 million. In the following biennium, a positive gap or surplus of \$+106.8 million is forecast for the baseline budget. However, adding scope and quality and/or capital outlays causes a deficit ranging from \$-63.1 million to \$-385.6 million. In the 1976-78 biennium, positive gaps are forecast with baseline expenditures (\$+368.2 million) and with baseline expenditures plus capital outlay (\$+177.4 million). Deficits are forecast (\$-183.8 million and \$-413.2 million), as in each of the other bienniums, when we take account of scope and quality outlays.

The gaps that are forecast are projections based on reasonable assumptions but are, of course, subject to error. Such a residual measure is



CHART 1.2 - GENERAL FUND REVENUE-EXPENDITURE GAP, BIENNIUMS 1972-74 TO 1976-78



Note: Gap equals projected revenues minus projected expenditures.

particularly sensitive to estimating errors, since a small change in projected revenues or expenditures will have a magnified impact on the gap.

The methodology used for making expenditure projections has an upward bias, since it assumes that all current expenditure programs will continue at baseline levels or will be expanded for improvements in scope and quality. There is no allowance for new priorities that would lower or eliminate expenditures on some programs. Nor is there any provision for lower cost new methods of fulfilling program requirements.

#### Methods for Financing Negative Gaps

If the projected deficits are "in the ballpark", then there are several approaches to financing them--trim expenditures until they match revenues, increase taxes and charges, borrow for capital outlay, and obtain new federal aid. The first course of action is beyond the scope of this study. The other approaches are discussed in the study, and the highlights appear below.

#### New Revenue Sources

General fund tax sources are studied to see how they could be modified to raise additional revenues or, in a few cases, to improve equity. We also develop some data on sources not in the general fund (e.g., the motor vehicle sales and use tax) and sources not now used (e.g., pari-mutuel betting). The estimated revenue impacts of these modifications are summarized in Table 1.3. Since three-fourths of general fund revenue comes from three sources--the individual income tax, the sales and use tax, and the corporate income tax--any significant increase in revenues would require raising one or more of these taxes.

TABLE 1.3.--PROJECTED REVENUES FROM ALTERNATIVE  
CHANGES IN REVENUE STRUCTURE AND/OR RATES,  
1972-74 BIENNIAL  
(Millions of Dollars)

Revenue Source	1972-73		1973-74	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
<b>PUBLIC SERVICE CORPORATION TAXES</b>				
Present structure; present rates	\$ 40.4	\$ ...	\$ 42.8	\$ ...
20% increase in effective rates	48.5	+8.1	51.4	+8.6
Taxed as regular corporations; 5% rate	9.7	-30.7	10.3	-32.5
<b>INDIVIDUALS AND FIDUCIARIES--</b>				
<b>INCOME TAX</b>				
Conformity structure; present rates	421.8	...	485.6	...
Conformity structure; rate schedule 1	465.2	+43.4	535.6	+50.0
Conformity structure; rate schedule 2	555.9	+134.1	640.0	+154.4
Conformity structure; rate schedule 3	472.4	+50.6	543.9	+58.3
Conformity structure; rate schedule 4	485.9	+64.1	559.4	+73.8
Conformity structure; rate schedule 5	480.8	+59.0	553.6	+68.0
Conformity structure; rate schedule 6	396.5	-25.3	456.5	-29.1
Conformity structure; rate schedule 7	452.2	+30.4	520.6	+35.0
Conformity structure; rate schedule 8	528.9	+107.1	608.9	+123.3
Conformity structure; rate schedule 9	531.0	+109.2	611.4	+125.8
<b>TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION)</b>				
\$12 credit per exemption	-57.2	-57.2	-58.4	-58.4
\$12 credit per exemption but limited to AGI of \$5,000 or under	-19.0	-19.0	-19.4	-19.4
<b>CORPORATIONS--INCOME TAX</b>				
Present structure; present rates	57.2	...	60.3	...
Present structure; 6% rate	68.6	+11.4	72.4	+12.1
<b>INHERITANCE TAX</b>				
Present structure; present rates	17.4	...	19.6	...
Present structure with inclusion of insurance; present rates	18.1	+0.7	20.4	+0.8
Proposed structure; proposed rates	19.2	+1.8	21.6	+2.0
<b>CROWN TAX ON SOFT DRINKS</b>				
West Virginia structure and rates	16.0	+16.0	17.2	+17.2
<b>TOBACCO PRODUCTS TAX</b>				
Present structure; present rates	14.3	...	14.3	...
Present structure; 5 cent rate; no change in sales	28.6	+14.3	28.6	+14.3
Present structure; 5 cent rate; 5% drop in sales	27.2	+12.9	27.2	+12.9
Present structure; 5 cent rate; 10% drop in sales	25.7	+11.4	25.7	+11.4
Present structure; 5 cent rate; 20% drop in sales	22.9	+8.6	22.9	+8.6
<b>STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION)</b>				
Present structure; present rate	262.5	...	285.1	...
Present structure; 4% rate	349.1	+86.6	379.2	+94.1
Excluding food purchases; present rate	199.8	-62.7	217.0	-68.1
Excluding food purchases; 4% rate	267.8	+5.3	290.8	+5.7
Excluding food and nonprescription drugs; present rate	195.3	-67.2	212.1	-73.0
Excluding food and nonprescription drugs; 4% rate	260.4	-2.1	282.8	-2.3
Adding selected services; present rate	278.2	+15.7	302.2	+17.1
Adding selected services; 4% rate	372.8	+110.3	404.8	+119.7

(Table continued on next page.)

TABLE 1.3.--PROJECTED REVENUES FROM ALTERNATIVE  
CHANGES IN REVENUE STRUCTURE AND/OR RATES,  
1972-74 BIENNIUM (CONCL.)  
(Millions of Dollars)

Revenue Source	1972-73		1973-74	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
<b>MOTOR VEHICLES SALES AND USE TAX</b> (EXCLUDING LOCAL OPTION)				
Present structure; present rate	40.7	...	46.0	...
Change in treatment of trade-ins; 2% rate	32.4	-8.3	36.7	-9.3
Change in treatment of trade-ins; inclusion of federal excise tax in tax base; 2% rate	33.9	-6.8	38.4	-7.6
Present structure; 3% rate	61.0	+20.3	69.0	+23.0
Change in treatment of trade-ins; 3% rate	48.6	+7.9	55.0	+9.0
Change in treatment of trade-ins; inclusion of federal excise tax in tax base; 3% rate	50.9	+10.2	57.5	+11.5
<b>LOTTERY AND PARI-MUTUEL BETTING</b>				
Lottery	Estimated receipts for a year range between \$2 million and \$9 million depending on the degree of acceptance by the public.			
Racing; mile thoroughbred track	Estimated receipts for a year's operation (100 days) on a fully established track range between \$5.2 million and \$7.1 million. It would not be possible in Virginia to have a track built and in full operation during the 1972-74 biennium.			
Racing; mile thoroughbred and one other type of track (half-mile thoroughbred, standardbred, or greyhound)	Estimated receipts for 100 days of racing on both tracks at full operation range between \$6.3 million and \$10.5 million. These conditions cannot be completely fulfilled by the 1972-74 biennium.			

Note: For a summary of the methodology, see notes to Table 3.40. For additional detail, see the discussion of each source in Chapter III.

#### Income Tax on Individuals and Fiduciaries

The rate schedule has not been changed since 1948, but the structure has been modified since then. Changes of particular importance were the increase in the dependent exemption from \$200 to \$300 in 1968, and the adoption of legislation in 1971 which will substantially conform the state tax structure with federal provisions. Compared with other states that have an income tax, Virginia's tax is moderate. However, if a change were desired, it could assume many forms. We limit our analysis to rate changes in view of the recent conformity legislation. The nine alternatives studied are shown in Table 1.4. Alternative rate schedule 6 would result in a reduction in revenues from the

TABLE 1.4.--THE PRESENT RATE SCHEDULE AND ALTERNATIVE RATE SCHEDULES  
FOR THE TAX ON INDIVIDUALS AND FIDUCIARIES

<u>PRESENT SCHEDULE</u>			
<u>Taxable Income</u>		<u>Rate</u>	
First \$3,000		2%	
\$3,001-\$5,000		3%	
\$5,001 and over		5%	

<u>PROPOSED RATE SCHEDULES</u>			
Maintain Present Brackets But Change Rates			
<u>Schedule 1</u>		<u>Schedule 2</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	3%
\$3,001-\$5,000	3%	\$3,001-\$5,000	4%
\$5,001 and over	6%	\$5,001 and over	6%

Maintain Lower Brackets But Extend Brackets			
<u>Schedule 3</u>		<u>Schedule 4</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	2%
\$3,001-\$5,000	3%	\$3,001-\$5,000	3%
\$5,001-\$10,000	5%	\$5,001-\$10,000	6%
\$10,001-\$20,000	7%	\$10,001 and over	7%
\$20,001 and over	8%		

Change Brackets, 2% for Lowest Bracket			
<u>Schedule 5</u>		<u>Schedule 6</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$5,000	2%
\$2,001-\$5,000	3%	\$5,001-\$8,000	3%
\$5,001-\$10,000	5%	\$8,001-\$12,000	5%
\$10,001 and over	7%	\$12,001 and over	7%

Change Brackets with Initial Rate Below 2%			
<u>Taxable Income</u>		<u>Rate</u>	
First \$1,500		1%	
\$1,501-\$3,000		2%	
\$3,001-\$5,000		4%	
\$5,001-\$8,000		5%	
\$8,001-\$12,000		6%	
\$12,001 and over		7%	

Change Brackets with Lowest Rate 3%			
<u>Schedule 8</u>		<u>Schedule 9</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$5,000	3%	First \$5,000	3%
\$3,001-\$10,000	5%	\$5,001-\$8,000	5%
\$10,001 and over	7%	\$8,001-\$12,000	6%
		\$12,001 and over	7%

current tax; the others would increase revenues by \$30 to \$134 million in the first year of the next biennium and by \$35 to \$154 million in the second year.

#### Sales and Use Tax

An increase in the base, an increase in the rate, or a combination of the two would add to revenues. The most likely way to increase the base would be to make the tax applicable to selected services not now taxed. This would provide about a 6 percent increase, or roughly \$16 to \$17 million per year in the next biennium. A 4 percent rate instead of the present rate would increase revenues significantly. The gain would be about 33 to 42 percent, depending on whether or not selected services were also taxed. In dollar terms, the gains would range from \$87 to \$110 million in fiscal year 1972-73, and from \$94 to \$120 million in fiscal year 1973-74.

We also consider changes that would reduce sales tax revenues. Exclusion of food for home consumption would reduce the present tax base about one-fourth with a loss of revenue of about \$63 million in the first year of the biennium and \$68 million in the second year. Additional exclusion of nonprescription drugs would raise the cost about \$5 million per year. These estimates are restricted to the state's 3 percent tax. New exclusions would also effect local revenues from the 1 percent local option.

Another way to give relief for the sales tax on food and nonprescription drugs would be to use a tax credit.<sup>1/</sup> A \$12 credit per exemption would cost about \$57 to \$58 million per year in the next biennium. If the credit were limited to eligible persons with adjusted gross income of \$5,000 or less, the annual cost would be about \$19 million.

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<sup>1/</sup> We follow conventional terminology in calling the proposal a "credit." Actually, it would not be a credit, since all eligible persons would be entitled to the full amount regardless of their tax liability.

### Corporate Income Tax

Virginia's present corporate income tax of 5 percent is low when compared with effective income tax rates in many competing states. However, when consideration is given to the total state and local taxes facing a corporation, the state's competitive position is not as good. Nevertheless, should Virginia increase its corporate rate to 6 percent, the additional revenues forthcoming would probably be \$11 to \$12 million per year in the next biennium.

### Other Sources

Several other possible sources of revenue are discussed in Chapter III and summarized in Table 1.3. Pari-mutuel betting, a revenue source no longer prohibited by the state constitution, is included. However, anticipated yields at full operation could not be achieved in the next biennium due to time lags in planning, constructing, and establishing race track operations.

### Borrowing

It is not necessary to finance all capital outlays from general fund revenues; general obligation borrowing could be another source. Under the amended constitution, limitations for general obligation borrowing have been liberalized to allow more borrowing than formerly. Under a conservative interpretation of the constitutional formula, the following maximum amounts of borrowing could be authorized:

<u>Year</u>	<u>Millions of Dollars</u>
1972	\$ 82.1
1974	114.6
1976	46.5

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Source: Table 4.25.

The maximum debt that could be authorized in any of the three bienniums would not completely substitute for general fund revenues as a means of financing projected capital outlays. For example, in the 1972-74 biennium, the new debt that could be authorized would finance only about one-half of the \$155.9 million projected capital outlays (\$148.3 million in baseline capital outlays and \$7.6 million in scope and quality capital outlays). Furthermore, any new authorized debt would have to be serviced out of general fund revenues. We estimate the following amounts for debt service in the next three bienniums if the maximum amount of general obligation borrowing were authorized:

<u>Biennium</u>	<u>Millions of Dollars</u>
1972-74	\$12.0
1974-76	31.8
1976-78	42.3

Source: Table 4.26.

#### New Federal Aid

The federal government is already an important source of funds for the state, and expansion of its role beyond existing program commitments would provide a measure of fiscal relief. Recently, a new type of aid--revenue sharing--has been in the limelight. The Nixon general revenue sharing proposal would provide Virginia with about \$238 million in the 1972-74 biennium, with the state government share \$148 million and the local share \$90 million. Proposals for expanded federal aid are not limited to general revenue sharing. Other suggestions now being debated are special revenue sharing (also known as block grants), a federal tax credit for state income taxes, and federalization of welfare.



### Local Government Revenues and Expenditures

State and local finances are closely intertwined--localities are limited to revenue sources permitted by the state, and many of their expenditure programs depend upon state aid in the form of cash transfers or services rendered. In order to obtain some idea of future requirements at the local level, we make projections of local revenues and expenditures to complement the state's general fund projections.

#### Local Revenue Projections

Using a methodology similar to the one developed for projecting state general fund revenues, we project local baseline revenues from own sources. For state transfers from the general fund, we use figures developed for that fund, and for other types of federal and state aid, we use a variety of techniques.

According to our projections, local revenues will grow at an average annual rate of 7.7 percent during the next seven years. This compares with an annual growth rate of 13.2 percent from 1964-65 to 1970-71. The major reason for the difference was the adoption of sales and use taxes during the earlier period. Separating revenues into their two major components, we project a 7.6 percent average annual increase in local sources and a 7.7 percent annual increase in state and federal transfers.

#### Local Expenditure Projections

The basic projection methodology is the same as for general fund outlays, but due to lack of detailed data, we merge current and capital outlay expenditures. The results of our baseline and capital outlay projections are shown in Table 1.5. From 1970-71 to 1977-78, total expenditures are projected to grow at an average annual rate of 5.8 percent. While education,

TABLE 1.5 --LOCAL GOVERNMENT DIRECT EXPENDITURES: PROJECTED BASELINE EXPENDITURES WITH CAPITAL OUTLAYS,  
FISCAL YEARS 1970-71 TO 1977-78  
(Millions of Dollars)

Function	Projected Expenditures														
	Amount 1970-71	Amount 1971-72	% Change	Amount 1972-73	% Change	Amount 1973-74	% Change	Amount 1974-75	% Change	Amount 1975-76	% Change	Amount 1976-77	% Change	Amount 1977-78	% Change
Education	\$ 822.3	\$ 878.2	+6.8	\$ 923.1	+5.1	\$ 967.0	+4.8	\$1,010.7	+4.5	\$1,050.4	+3.9	\$1,086.4	+3.4	\$1,127.1	+3.7
Highways	59.1	59.9	+1.4	61.8	+3.2	64.0	+3.6	66.1	+3.3	68.0	+2.9	70.3	+3.4	72.6	+3.3
Public welfare	222.6	267.7	+20.3	313.2	+17.0	359.0	+14.6	408.0	+13.6	442.6	+8.5	468.8	+5.9	498.5	+6.3
Health and hospitals	31.2	33.5	+7.4	35.7	+6.6	38.0	+6.4	40.4	+6.3	42.8	+5.9	45.0	+5.1	47.3	+5.1
Interest on general debt	46.8	44.2	-5.6	41.6	-5.9	39.0	-6.2	36.4	-6.7	33.8	-7.1	31.2	-7.7	28.6	-8.3
All other general expenditures	<u>400.1</u>	<u>430.1</u>	+7.5	<u>459.3</u>	+6.8	<u>489.5</u>	+6.6	<u>521.7</u>	+6.6	<u>552.8</u>	+6.0	<u>581.9</u>	+5.3	<u>613.1</u>	+5.4
Total direct expenditures	\$1,582.1	\$1,713.6	+8.3	\$1,834.7	+7.1	\$1,956.5	+6.6	\$2,083.3	+6.5	\$2,190.4	+5.1	\$2,283.6	+4.2	\$2,387.2	+4.5
Redemption for long-term general debt	<u>\$ 74.3</u>	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...	<u>\$ 74.3</u>	...
Total outlays	\$1,656.4	\$1,787.9	+7.9	\$1,909.0	+6.8	\$2,030.8	+6.4	\$2,157.6	+6.2	\$2,264.7	+5.0	\$2,357.9	+4.1	\$2,461.5	+4.4

Source: Table 5.8.

public welfare, highways, and debt service will remain the major expenditure items, accounting for 73 percent of total expenditures in fiscal year 1977-78, there will be shifts in their ranking. Due to the large projected increase in public welfare outlays, it is expected to become the second largest category of expenditure next to education. Debt service will then rank third and highways fourth.

Scope and quality changes are allowed for by assuming a 4.4 percent average annual increase in the baseline projections of outlays financed from own sources in fiscal year 1969-70.

#### Local Revenue-Expenditure Gaps

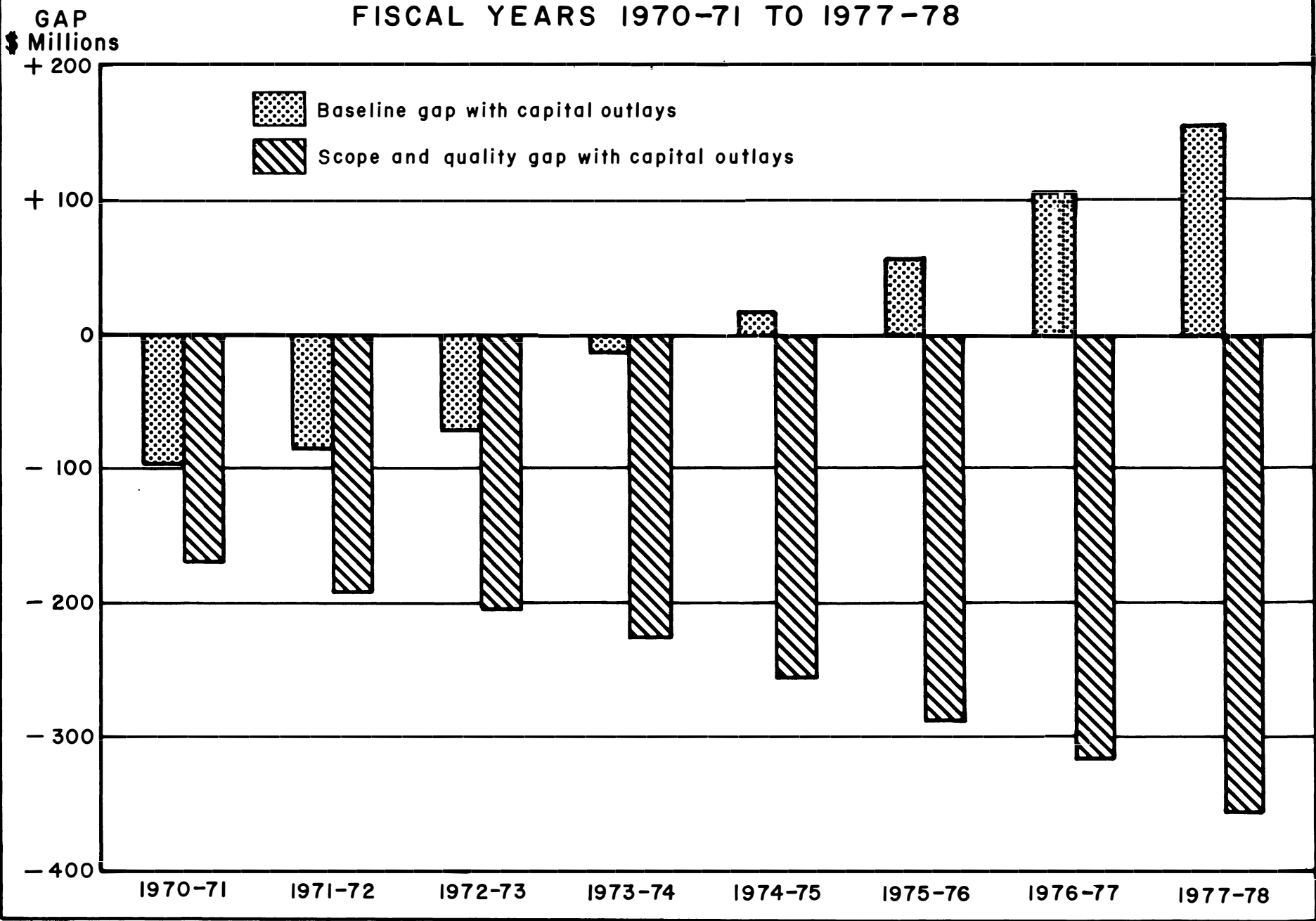
As shown in Table 1.6, deficits are forecast using either the baseline or scope and quality concept in each fiscal year through 1973-74. Beyond that year, positive baseline gaps are forecast, but the scope and quality gaps remain negative. The gap estimates are subject to the same limitations as previously mentioned for the general fund.

TABLE 1.6.--SUMMARY OF LOCAL GOVERNMENT REVENUES AND EXPENDITURES,  
FISCAL YEARS 1971-72 TO 1977-78  
(Millions of Dollars)

	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
Revenues	\$1,702.6	\$1,864.8	\$2,015.7	\$2,176.6	\$2,323.5	\$2,464.9	\$2,617.5
Expenditures							
Baseline plus capital outlay	1,787.9	1,909.0	2,030.8	2,157.6	2,264.7	2,357.9	2,461.5
Scope and quality plus capital outlay	1,894.9	2,068.1	2,241.8	2,432.1	2,610.2	2,779.8	2,972.6
Gap							
Baseline plus capital outlay	- 85.3	- 44.2	- 15.1	+ 19.0	+ 58.8	+107.0	+156.0
Scope and quality plus capital outlay	-192.3	-203.3	-226.1	-255.5	-286.7	-314.9	-355.1

Source: Tables 5.10 and 5.12.

CHART 1.3 - LOCAL GOVERNMENT REVENUE-EXPENDITURE GAP,  
FISCAL YEARS 1970-71 TO 1977-78



Note: Gap equals projected revenues minus projected expenditures.

These gaps assume no borrowing--a rather unrealistic premise if one considers the past behavior of Virginia local governments which have regularly borrowed for capital outlays. If local governments increase their debt at a rate consistent with past growth (about 8.5 percent annually), then the following amounts will be available from borrowing in each fiscal year:

	(Millions of Dollars)						
	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
Borrowing	\$148.6	\$161.3	\$175.0	\$189.8	\$206.0	\$223.5	\$242.5
Less allowance for debt service <sup>a/</sup>	32.2	47.6	64.2	81.9	100.9	121.2	143.1
Amount available <sup>a/</sup>	116.4	113.7	110.8	107.9	105.1	102.3	99.4

<sup>a/</sup> Although debt service costs would come from current outlays we have assumed they would have the effect of reducing total funds available for financing a negative gap.

Source: Table 5.13.

Borrowing of this magnitude would cover easily the modest negative baseline plus capital outlay gaps forecast for the next few years.<sup>1/</sup> Such borrowing would also do much to cover larger outlays due to increases in scope and quality.

Another factor to consider is that the baseline revenue projections allow for no new taxes, and no changes in the structure or rates of existing taxes. A more reasonable assumption is that local taxes will rise. The weighted average true tax rates per \$100 of real estate were as follows in the recent past: 1962 (\$0.92); 1964 (\$0.99); 1966 (\$1.00); 1968 (\$1.05); and 1970 (\$1.10). Continuation of this trend, even by a modest amount, would offer a substantial increase in revenues. Also, new federal and state aid would be additional sources of revenue not included in the baseline revenue projections.

The results of this analysis appear at odds with much of what is said by spokesmen for local governments, and particularly central cities. How can we explain the disparity? No single explanation suffices, but the following factors all apply: (1) The current situation is not necessarily indicative

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<sup>1/</sup> We assume that the negative gaps could be translated into capital outlay requirements. Deficit borrowing for current outlays would not be possible.

of what will happen in the future. Welfare, a major cost item for some of the central cities, is fast becoming a federal and state obligation. Next fiscal year the local share of certain administrative costs will be reduced and a state takeover in January, 1972 of the local share of four federal programs is virtually assured. Another expenditure function likely to change is education. Due to the downturn in births experienced in the 1960's, elementary and secondary school enrollment will not show the dramatic gains of the past. In fact, the number of children in school is expected to drop beginning in 1972-73, and by the end of our projection period to be about 8,000 students lower than in 1970-71. Although there will be continued pressures for increases in the scope and quality of education, they will apply to a slightly declining base compared to a growing one in the past. (2) Inflation has been a major problem for local governments. Although inflation affects revenues as well as expenditures, property taxes and some other components of the local revenue base receive less immediate stimulation than expenditures. For the future, we forecast a slower rate of price increases. If realized, this will benefit local governments, especially if they continue to adjust tax bases for past inflation. (3) Statements of local fiscal requirements may be based on one-sided reasoning that does not allow for normal capital outlay borrowing, assumes a continuation of current expenditure obligations that will soon change, or equates requests with "needs." (4) The fiscal projections in this study are for all local governments and the estimates are done on an overall, not an additive basis. Therefore, projections do not necessarily indicate the financial outlook for a particular city or county. In fact, based on information in this study and other reports, it appears that the fiscal outlook for large central cities is not as sanguine as for local governments in general.

The major ways in which the local governments can remedy their projected deficits are by reducing expenditures until they match revenues; increasing revenues by enlarging their tax bases, raising rates, imposing new taxes, and administering old ones more efficiently; borrowing for capital outlay purposes; and receiving aid from other levels of government, either in the form of a takeover of functions, categorical aid, shared revenues, borrowing subsidies, or permission to impose taxes not presently allowed.

Chapter VI covers the principal devices that the state could use to help local governments, and a synopsis is provided here. Before discussing them, mention should be made of the present status of the real property tax--the most important single source of local tax revenue. In many localities the tax is not being administered in an equitable or efficient manner. Different classes of property such as residential, commercial, and farm property are often assessed at different ratios and even within classes, ratios show large differences. Only 14 cities and 6 counties employ full-time assessors, and many localities assess only as required by law--every four years for cities and every six years for counties. Often, this is too infrequent for an age marked by population change, new land use patterns, and inflation. Although some areas have fairly high true tax rates by Virginia standards, many have very low rates. In 1970, the weighted average for all localities was \$1.10 per \$100 of true value. But this measure was strongly affected by the heavily populated urban areas; 111 of the localities had rates lower than the weighted average. Reflecting this, the median rate was only \$0.71.

#### State Aid to Localities

Should the state wish to increase aid to localities it can do so in a variety of ways that fall under three broad categories--revenue sharing, participation in local expenditure programs, and provision of new local tax powers.

### Revenue Sharing

The term "revenue sharing" is now popularly associated with proposals for federal aid, but the concept also applies to state government. In Virginia, we already have revenue sharing in respect to the sales and use tax, A.B.C. profits, and the wines and spirits tax. Although additional revenue sharing could be applied to many sources of revenue, we concentrate on the two largest sources, the individual income tax and the sales and use tax. An increase in the individual income tax could be shared with localities, the amount available depending on the increase in rates. From our earlier analysis of several rate schedules that would increase yields, the amount available in 1972-73 would vary from \$30 to \$134 million. How to distribute the money is the big question with this or any other proposal for revenue sharing. Distribution on the basis of taxpayer residence would help the higher income localities. A per capita distribution would help lower income localities. And a distribution by place of primary employment would help central cities that have a large number of net in-commuters.

A 1 percentage point increase in the state sales and use tax could be shared with localities in the same way as the existing local share (on the basis of school-age population) or a new allocation such as place of sale could be used. The latter approach would, of course, be preferred by central cities and other areas with well developed retail sales centers. The amount available for distribution would be about \$87 million in fiscal year 1972-73.

### Participation in Local Expenditure Programs

The state already plays a major role in financing local governments. In 1968-69, 34 percent of local funds came from the state government either as appropriations of state funds or as federal revenues passed through the state government. There are numerous programs receiving state aid and many possibilities for expansion. We shall limit our analysis to four important areas--



education, welfare, health, and highways.

### Education

Education is the largest category of expenditure in local budgets and, statewide, the state government bears about 45 percent of the cost. Present state aid is concentrated in the basic school aid formula, the local share of the sales and use tax, and state payment of teacher benefits such as retirement and social security. Amounts received by localities vary greatly in accordance with the different criteria used in the distribution formulas. If the state were to increase aid for education, the policy alternatives are nearly limitless, ranging from modification of existing formulas to a complete overhaul of the system. Current state formulas do not provide extra assistance to localities that have a high proportion of disadvantaged children who require high-cost compensatory programs, and a new formula to take account of this factor could be incorporated in a revision of the current aid program. The primary beneficiaries would be rural areas and central cities. Any policy involving a moderate expansion in state aid would provide substantial assistance to local governments, or conversely, a large outlay by the state. There are about 1 million pupils in average daily attendance so that for each additional \$10 of state aid per pupil, the cost would be about \$10 million.

### Welfare

Federal and state aid provide for the bulk of welfare funding, but the local share can be a heavy burden when a locality has a disproportionate number of welfare recipients. Recently the local share of certain administrative costs was reduced, effective fiscal year 1971-72, and there is virtual assurance that beginning January, 1972 the state will take over the full local share of assistance costs for aid to families with dependent children, old age

assistance, aid to the permanently and totally disabled, and aid to the blind. This step will reduce local burdens but localities will still be responsible for a share of administrative costs and part of the assistance cost of general relief, foster care, and hospitalization for the indigent, three programs with high incidence in central cities.

At the request of the General Assembly, the Department of Welfare and Institutions is now studying a complete state takeover of local welfare programs. Such a step would have saved localities about \$11.1 million in fiscal year 1969-70.<sup>1/</sup>

### Health

The State Department of Health now operates all but one local health department with the state bearing the major share of their costs (the state share varies from 55 percent to 82 percent of the costs depending upon local ability to pay as measured by the true value of real property). Generally, the central cities pay larger percentages of cost than rural areas. A new method of deriving local shares could be developed which would pay the same share for all localities. Ninety percent funding by the state in 1969-70 would have required an additional \$5.8 million.

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<sup>1/</sup> This figure assumes the state were already funding the full local share of assistance costs for the previously mentioned four federal welfare programs and that the local share of administrative costs were the ratio that will go into effect in fiscal year 1971-72.

### Highways

Highways are an important cost item to the municipalities and two counties which maintain their own systems. Revisions could be made in the level and method of funding. Reversal of the present approximate two to one ratio of local to state funding would have provided about \$19 million extra in fiscal year 1969-70 for local governments maintaining their own highways.

### New Local Tax Powers

Local governments receive their tax powers from the state and, as a consequence, they are subject to several statutory limitations. For example, they are not permitted to levy taxes on income, and they cannot impose a sales and use tax exceeding 1 percent.

If it were felt desirable to expand local tax powers, there are several possibilities including, but not restricted to, a local surtax on the state individual income tax (a so-called piggyback tax), another 1 percent local option on the sales tax, a local motor fuels tax, a local motor vehicle sales and use tax, a local crown tax, a local rolling stock tax, and acceleration of the equalization of public service corporation assessments with other types of property. The details of these alternatives are shown in Chapter VI. Here, we shall limit discussion to the two proposals involving large dollar amounts a local income tax and another 1 percent local option sales tax.

Local Income Tax

A local income tax would be a new and significant source of revenue for local governments. The tax could take many forms but those with the greatest administrative feasibility would utilize the present state individual income tax. Then a local tax could be administered by the state with great savings in costs and convenience. The tax could be a surtax on the state tax or could take the form of progressive rates for different brackets of taxable income. Neither form would be in any sense a commuter tax since revenue would be returned to the taxpayer's resident community. If a local tax took one of these forms and had an effective rate equivalent to a 20 percent surtax on the state tax on individuals and fiduciaries, it would raise about \$84 million in fiscal year 1972-73. Incidentally, if such a tax were adopted by all localities, it would be the same as an equivalent state individual income tax increase earmarked for distribution to local governments on the basis of place of taxpayer residence.

Additional 1 Percent Local Option Sales and Use Tax

All localities impose a 1 percent local option sales tax which is collected by the state and returned to localities on the basis of place of sale. As an alternative to the present system, the limit on the local rate could be raised to 2 percent. Assuming all localities exercised the new option, the revenue impact would be virtually the same as an additional 1 percent state levy distributed on the basis of place of sale. Thus, about \$87 million would be made available in fiscal year 1972-73.

### An Overview

The figures mentioned in regard to possible new revenue sources for the state are meant to be considered individually since they are not necessarily additive. For example, it is extremely unlikely that the General Assembly would want to increase the state sales and use tax at the same time it authorized another 1 percent local option. Or, if the state greatly expanded its role in financing primary and secondary education, then revenues from a higher individual income tax would probably be reserved for education and not available for revenue sharing with localities.

The size of any tax increase, whether state, local, or a combination of the two, would be limited by popular notions of overall burden. By national standards we are a low tax state. In fiscal year 1968-69, state and local taxes were 92.6 percent of the national average when related to personal income, and 82.6 percent when related to population. Thus, there may be "unused capacity." How much unused capacity and the willingness of voters to approve increases are difficult questions. No answer will be attempted for the voter approval question, but in regard to unused capacity, a crude estimate would be from \$90 to \$160 million in fiscal year 1972-73.<sup>1/</sup>

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<sup>1/</sup> The high estimate was derived by multiplying the difference between Virginia state and local taxes per dollar of personal income in fiscal year 1968-69 and the national average by projected Virginia personal income in calendar year 1972 (\$19,384 million). For the low estimate we assumed that taxes could be increased by 4.3 percent, the relative gain estimated by ACIR using its concept of "average effort." The fiscal year 1972-73 taxes were forecast by multiplying projected calendar year 1972 personal income by the fiscal year 1968-69 amount of Virginia state and local taxes per dollar of personal income (\$0.10387). Both estimates were rounded to the nearest \$10 million. For additional detail see Chapter II.



## CHAPTER II

### BACKGROUND ON STATE AND LOCAL GOVERNMENT FINANCES

A subject as big as fiscal prospects and alternatives cannot be tackled without first laying some groundwork regarding salient features of the state's economy and of its existing revenue structure. This chapter develops four important topics essential to an understanding of the more detailed analysis which follows in later chapters. The topics are population, personal income, state and local government finances, and intergovernmental relationships.

#### Population

In 1970, the census count for Virginia was 4,648,494. This was equivalent to a 1.6 percent average annual growth rate since 1960--a rate of increase about one-third higher than the national average. The state's natural increase rate (births minus deaths per 1,000 population) is now quite close to the national average, so differences in growth are attributable mainly to migration.

The pattern of growth during the last decade was familiar since it was a replay of events in the 1950's. From most rapid to slowest growth, the cities and counties can now be grouped as follows:





	1960-70	
	<u>Total % Change</u>	<u>Average Annual Rate of Change</u>
State total	+17.6	+1.6
Urban areas	+27.4	+2.5
central cities	+6.5	+0.6
established suburban areas	+50.5	+4.2
developing suburban areas	+11.4	+1.1
small urban areas	+7.2	+0.7
Rural areas	-2.6	-0.3

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Note: Grouping of individual cities and counties is shown in appendix Table A.1.

In looking to the future, Virginia's population is likely to reach 5,415,000 by 1980 for a total increase of approximately 766,000 from the 1970 Census count (see Table 2.1). The projected 1980 figure will represent an increase of 16 percent for the decade and an average annual increase of 1.5 percent. The rates of population increase projected for the 1970's are slightly less than experienced in the last decade. There are several reasons for the slower growth rates anticipated in the 1970's. Chief among them is the generally lower birth rate reflected by Virginia's lower natural increase rate experienced in recent years. The overall natural increase rate in Virginia for the 1960's averaged 13 per thousand annually, but in the last few years of the decade, it was only about 11 per thousand.

For net in-migration, a downward trend also appears. The net in-migration experienced by Virginia is closely related to federal civilian and military activity. About three-fourths of total net in-migration during the 1960's was accounted for by Northern Virginia and Hampton Roads, two regions

heavily affected by the presence of the federal government. Another factor significantly influencing in-migration to Virginia was manufacturing growth.

In both federal governmental activity and manufacturing, the greatest growth occurred in the early and mid-1960's, with much more modest growth in the last few years of the decade. Since these activities have a direct bearing on in-migration, we assume that net in-migration also tapered off in the last few years of the 1960's to more modest levels than earlier in the decade. Thus, with a slowing trend evident in both natural increase and net in-migration, population growth for the 1970's is projected at a lesser rate than that experienced in the 1960's.

Based on the fertility assumptions of Census Series D, there will be a slight increase in the birth rate and consequently the natural increase rate, over current levels due to a larger proportion of the population being in the prime child-bearing age groups. As a result, Virginia's natural increase rate is expected to rise to 12 per thousand annually in the 1970's. This natural increase rate is above the rate experienced in the last few years of the 1960's, but not as high as the 13 per thousand annual rate experienced for the decade. At the same time, the rate of in-migration is expected to decline from 4 per thousand annually in the 1960's to 3 per thousand in the 1970's. The reasons for this anticipated decline in net in-migration is that the build-up in federal governmental activities experienced in the early and mid-1960's, which significantly affected the Northern Virginia and Hampton Roads areas, is not expected to be duplicated in the 1970's. However, manufacturing growth is expected to continue at a rapid pace in the 1970's and will partially offset the lesser anticipated growth in federal governmental activity. Nevertheless, the offset will not be great enough to maintain the in-migration rate at the level experienced in the 1960's.

TABLE 2.1--PROJECTED VIRGINIA POPULATION, 1970 TO 1980

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<u>Year</u>	<u>Population</u>
1970 (Census) April 1	4,648,494
1971 July 1	4,736,000
1972 July 1	4,807,000
1973 July 1	4,879,000
1974 July 1	4,952,000
1975 July 1	5,026,000
1976 July 1	5,102,000
1977 July 1	5,178,000
1978 July 1	5,256,000
1979 July 1	5,335,000
1980 July 1	5,415,000

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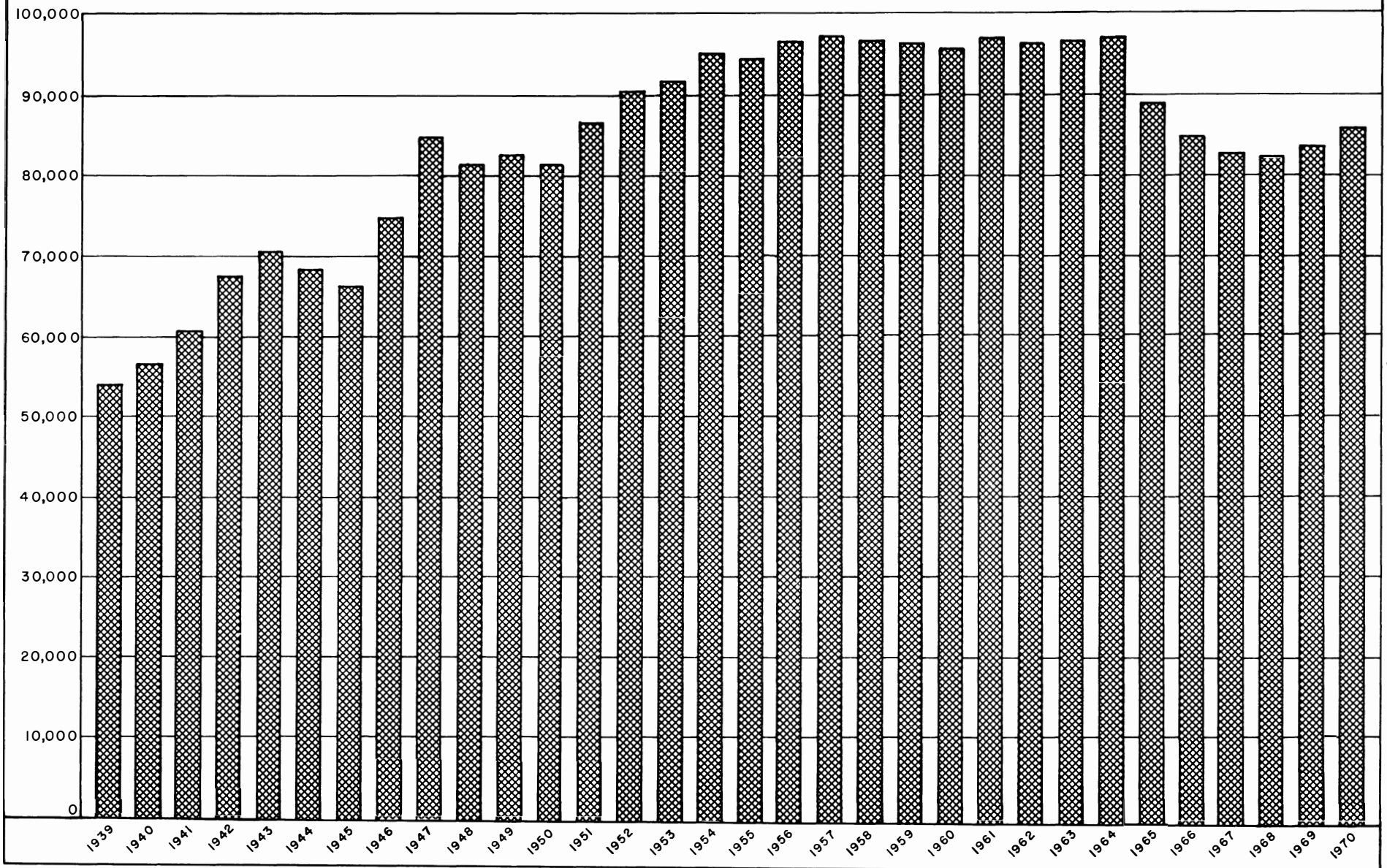
Source: Robert J. Griffis, "Virginia's Population", a staff paper prepared in the Office of Research and Information, Division of State Planning and Community Affairs (December 3, 1970).

The age distribution of the population is an important determinant of the size of public outlays. Of particular importance are the number of persons of school age (5 to 17) and of college age (18 to 21).

Birth data are an excellent indicator of future age distributions. Thus, by analyzing Chart 2.1, the reader can see a major reason why college enrollment spurted upward in the 1960's. Persons who were 18 to 21 during that decade were born from 1939 to 1952, a period in which births rose sharply. In the 1970's, college enrollment will not be subject to as much population pressure. Persons who will be 18 to 21 during the 1970's were born from 1949 to 1962, a period in which births did not increase as much as during the previous decade.

The lag time between births and enrollment is very brief for public schools, amounting to only five years. The early grades in primary schools

CHART 2.1 VIRGINIA BIRTHS, 1939 TO 1970



Source: Virginia Department of Health.

are now being affected by the downturn in births that began in 1965, and the low number of births in the 1960's will have a dramatic effect on public school enrollment for the remainder of the current decade. In some years of the 1970's public school enrollment will be lower than in the 1960's.

Projected age distributions for 1980, along with actual age distributions for 1960 and 1970, are shown in Tables 2.2 and 2.3. These projections were derived by applying survival ratios to the 1970 population with provision for births and net in-migration.

TABLE 2.2--AGE DISTRIBUTION OF VIRGINIA'S POPULATION, 1960 TO 1980

	1960 <u>Actual</u>	1970 <u>Actual</u>	1980 <u>Projected</u>
	<u>Number of Persons</u>		
Total	3,954,429	4,648,494	5,415,000
0 to 4	456,885	393,005	549,000
5 to 17	1,006,130	1,197,456	1,168,000
18 to 21	244,677	360,033	381,000
22 to 64	1,965,176	2,332,288	2,854,000
65 and over	281,561	365,712	463,000
	<u>Percent of Total</u>		
Total	100.0	100.0	100.0
0 to 4	11.6	8.4	10.1
5 to 17	25.4	25.8	21.6
18 to 21	6.2	7.7	7.0
22 to 64	49.7	50.2	52.7
65 and over	7.1	7.9	8.6

Methodology and sources: 1960 data--U.S. Bureau of the Census, 1960 Census of Population, Vol. 1, Characteristics of the Population, Part 48, Virginia (Washington: Government Printing Office, 1963), Table 94, p. 315; 1970 data--unpublished computer data from the first count of the 1970 Census of Population and Housing; 1980--Survival rates, with interpolation where necessary, came from U.S. Bureau of the Census, "Projections of the Population of the United States by Age and Sex: 1964 to 1985", Series P-25, No. 286 (Washington: Government Printing Office, July, 1964), p. 64; net in-migration was assumed to be 16,650 per year with an age distribution the same as displayed by national interstate migration from 1968 to 1969 see U.S. Bureau of the Census, "Mobility of the Population of the United States, March 1968 to March 1969," Series P-20, No. 193 (Washington: Government Printing Office, December 26, 1969), p. 10. Survival ratios were applied to the net in-migrants. Births were projected to be 1,034,000 with 482,000 occurring from 1970 to 1975.

TABLE 2.3--CHANGE IN AGE DISTRIBUTION OF VIRGINIA'S POPULATION,  
1960-70 AND 1970-80

	<u>1960-70 (Actual)</u>		<u>1970-80 (Projected)</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Total	+694,065	+17.6	+767,000	+16.5
0 to 4	-63,880	-14.0	+156,000	+39.7
5 to 17	+191,326	+19.0	-29,000	-2.4
18 to 21	+115,356	+47.1	+21,000	+5.8
22 to 64	+367,112	+18.7	+522,000	+22.4
65 and over	+84,151	+29.9	+ 97,000	+26.6

Source: Table 2.2.

#### Personal Income

Personal income is a good measure of total economic activity. In the last ten years, Virginia's personal income has grown at an average annual rate of 8.2 percent, a rate higher than the national average of 6.9 percent. Most of the difference reflected an improvement in individual incomes, although a portion was due to Virginia's faster growth of population. Per capita income, which adjusts for population differences, provides a good measure of Virginia's relative gain. In 1959, Virginia per capita income was 81.9 percent of the national average; ten years later, it was 89.7 percent (see Table 2.4).

Composition of personal income in Virginia is unlike the nation in several respects. The outstanding difference is the relative importance of the federal government whose wage and salary payments currently account for 20 percent of all personal income in the Commonwealth compared with 5.5 percent nationally. This is due to the large number of federal civilian employees living in Northern Virginia and the location in Virginia of several big military installations of which the naval complex in Hampton Roads is paramount.

TABLE 2.4.--VIRGINIA PERSONAL INCOME, TOTAL AND PER CAPITA,  
1950 TO 1969

Year	Personal Income			
	Total		Per Capita	
	(\$ Mil.)	% of U. S.	Dollars	% of U. S.
1950	\$ 4,070	1.80	\$ 1,228	82.1
1951	4,763	1.88	1,387	84.0
1952	5,150	1.91	1,470	84.8
1953	5,292	1.85	1,488	82.5
1954	5,338	1.86	1,502	84.1
1955	5,638	1.83	1,571	83.7
1956	6,084	1.84	1,635	82.8
1957	6,349	1.82	1,652	80.8
1958	6,593	1.84	1,684	81.4
1959	6,994	1.84	1,770	81.9
1960	7,339	1.84	1,841	83.1
1961	7,776	1.88	1,896	83.7
1962	8,448	1.92	2,015	85.1
1963	8,984	1.94	2,093	85.2
1964	9,909	2.00	2,263	87.5
1965	10,725	2.00	2,417	87.4
1966	11,688	2.00	2,607	87.5
1967	12,740	2.04	2,804	88.7
1968	14,154	2.07	3,074	89.8
1969	15,441	2.07	3,307	89.7

Note: Includes Alaska and Hawaii for 1960-69, but not in earlier years.

Source: Survey of Current Business, Vol. 50, No. 8 (August, 1970), pp. 34 and 35.

Wage and salary payments are the principal form of income for both the state and the nation, but there is a significant difference in their relative importance. Virginians do not derive as much relative income from property and proprietorships as the national average. That is the major reason why wage and salary payments represent a larger percentage of income in Virginia (74.2 percent) than nationally (67.8 percent).

The composition of Virginia's personal income has changed significantly in the last twenty years (see Table 2.5). Since 1950, wage and salary payments are a much more important source of income having moved from 68.9 percent to 74.2 percent of the total. The relative decline of agriculture was the major reason for this change, as people switched away from operating their own farms to jobs paying wages and salaries. Proprietors' farm income fell from 6.4 percent of income in 1950 to 1.4 percent in 1969.

Another development was the growth of government as a source of income. Already big in 1950, it has become even larger. The gains were due to much larger payments by federal civilian government and state and local government. The relative importance of federal military wage and salary payments was less in 1969 than in 1950, but was greater than in many of the intervening years. The Korean War made military payments in 1950 extra large, just as the Vietnam War is now affecting current outlays.

Several important types of revenue--individual income taxes and sales taxes, particularly--bear a close relationship to personal income. Thus, projections of personal income are needed to make revenue projections. The method of projecting income was as follows: since Virginia personal income has a close correlation with gross national product (GNP), an elasticity measure was computed for the 1960-61 to 1969-70 period. It showed that for each 1 percent gain in GNP, personal income rose by about 1.2 percent. The



TABLE 2.5-PERCENTAGE DISTRIBUTION OF PERSONAL INCOME PAYMENTS BY SOURCE,  
VIRGINIA, 1950 TO 1969, AND UNITED STATES, 1969

Type of Income	Percent of Total				United States 1969
	Virginia				
	1950	1960	1965	1969	
Total personal income.....	100.0	100.0	100.0	100.0	100.0
Wage and salary disbursements....	68.9	72.7	72.8	74.2	67.8
Farm.....	1.3	0.8	0.4	0.3	0.4
Mining.....	1.5	0.9	0.7	0.6	0.7
Contract construction.....	3.6	4.0	4.7	4.3	4.1
Manufacturing.....	15.1	15.8	15.6	15.3	21.2
Wholesale and retail trade.....	10.0	10.6	10.4	10.3	11.1
Fin., ins., and real estate....	2.2	2.7	2.8	2.8	3.3
Transportation, communications, and public utilities.....	6.5	6.3	5.3	4.9	5.0
Services.....	5.6	7.1	7.5	8.0	8.5
Government.....	22.8	24.3	25.3	27.5	13.4
Federal, civilian.....	10.4	11.4	11.8	12.0	3.4
Federal, military.....	8.2	7.0	6.8	7.7	2.1
State and local.....	4.2	6.0	6.7	7.8	7.9
Other industries.....	0.2	0.1	0.1	0.1	0.1
Other labor income.....	1.4	2.5	3.0	3.0	3.7
Proprietors' income.....	15.0	9.7	8.2	6.6	9.0
Farm.....	6.4	2.6	1.9	1.4	2.2
Nonfarm.....	8.6	7.0	6.3	5.2	6.8
Property income.....	10.0	11.5	12.2	12.1	14.3
Transfer payments.....	6.2	6.2	6.6	7.6	8.7
Less: personal contributions for social insurance.....	1.5	2.5	2.7	3.5	3.5

Note: Details may not add to totals due to rounding.

Source: Survey of Current Business, Vol. 50, No. 8 (August, 1970); Unpublished data from the U.S. Department of Commerce, Office of Business Economics.

elasticity measure was applied to projections of GNP in order to develop figures for personal income. In making projections of GNP, it was broken into two elements--real growth (an increase in actual output) and growth due to higher prices. At the present time, we are experiencing very little real growth and a large amount of inflation. In our projections we have assumed an upturn in real growth until it reaches a long-term rate of 4.3 percent annually beginning with fiscal year 1972-73. Price inflation is assumed to have reached its peak rate in the fourth quarter of calendar year 1970. In the future we forecast a slowing to 2.9 percent annually in the mid-1970's and 2.2 percent thereafter. When the figures for real growth and price increases are combined, we have projections for GNP in current dollars. On the basis of the preceding assumptions, the annual rate of growth in GNP will average about 7 percent for our projection period (1972-73 to 1977-78).

Table 2.6 shows actual Virginia personal income adjusted to fiscal years for 1958-59 to 1969-70 and projections to 1977-78. The projections anticipate growth close to the high rates of the late 1960's.

#### State and Local Government Finances

State governments differ in their responsibilities (e.g., in some states the state government bears the brunt of financing schools and highways; in others, these functions are mainly the responsibility of local governments). Because of the diversity of state government functions, comparisons of revenue burdens involve problems similar to comparing apples and pears. To get around this problem, it is best to compare combined revenue burdens of state and local governments.

In 1968-69, general revenues of all Virginia governments (state and local) from their own sources represented 12.7 percent of personal income compared

TABLE 2.6.--GROSS NATIONAL PRODUCT AND VIRGINIA PERSONAL INCOME, CURRENT DOLLARS,  
 ACTUAL: FISCAL YEARS 1958-59 TO 1969-70, AND  
 PROJECTED: FISCAL YEARS 1970-71 TO 1977-78

<u>Fiscal Year</u>	<u>Gross National Product</u> (Current Dollars)		<u>Virginia Personal Income</u> (Current Dollars)		<u>Percent Change</u> <u>Virginia Income</u> <u>÷ Percent Change GNP</u>
	<u>Amount</u> (Billions)	<u>Percent Change from</u> <u>Preceding Year</u>	<u>Amount</u> (Millions)	<u>Percent Change from</u> <u>Preceding Year</u>	
<u>Actual</u>					
1958-59	\$ 469.2	...	\$ 6,794	...	...
1959-60	495.6	+5.6	7,166	+5.5	0.98
1960-61	506.5	+2.2	7,558	+5.5	2.50
1961-62	541.7	+6.9	8,112	+7.3	1.06
1962-63	574.5	+6.1	8,716	+7.4	1.21
1963-64	611.6	+6.5	9,446	+8.4	1.29
1964-65	655.6	+7.2	10,293	+9.2	1.28
1965-66	718.5	+9.4	11,228	+8.6	0.91
1966-67	771.3	+7.4	12,163	+9.2	1.24
1967-68	827.5	+7.3	13,425	+9.9	1.35
1968-69	899.6	+8.8	14,790	+10.1	1.15
1969-70	956.2	+6.3	16,159	+9.2	1.46
<u>Projections</u>					
1970-71	1,010.8	+5.7	17,250	+6.7	1.18
1971-72	1,076.7	+6.5	18,576	+7.7	1.18
1972-73	1,155.3	+7.4	20,192	+8.7	1.18
1973-74	1,238.5	+7.3	21,928	+8.6	1.18
1974-75	1,327.7	+7.3	23,814	+8.6	1.18
1975-76	1,419.3	+7.0	25,790	+8.3	1.18
1976-77	1,511.6	+6.6	27,802	+7.8	1.18
1977-78	1,609.9	+6.6	29,970	+7.8	1.18

Sources: GNP, Data for 1957.3-1967.1: BCD (December, 1969), p. 108; Data for 1967.2-1970.3: Survey of Current Business (November, 1970), p. S-1; Virginia Personal Income, Data for Years 1957-1963: Survey of Current Business (August, 1969), p. 14; Year 1964: Survey of Current Business (October, 1967), p. 9; Year 1965: Survey of Current Business (October, 1968), p. 18; Year 1966: Survey of Current Business (October, 1969), p. 15; Years 1967-1970.2: Survey of Current Business (October, 1970), p. 13.

with the national average of 14.0 percent.<sup>1/</sup>

Since 1958-59, a year chosen for convenience because it allows a backward glance stretching over a decade, Virginia state and local government revenues have risen sharply. In 1958-59, state and local government revenues from Virginia sources represented 9.4 percent of total personal income. Since then there has been an almost steady rise in the figure (see Table 2.7 and Chart 2.2).

How does the burden of financing Virginia state and local governments compare with other states? Before this question can be answered, it is necessary to arrive at a means for measuring burden. This report employs two widely used approaches--per capita revenues and revenues per \$1,000 of personal income. These measures consider only one side of the fiscal equation--the revenue side--and a strong case can be made for also considering the amount and incidence of expenditure benefits. However, analysis of the expenditure side is beyond the scope of this inquiry.

#### Per Capita Revenue

Virginia's general revenue from its own sources<sup>2/</sup> was 81.4 percent of the national average in 1968-69, which placed it thirty-eighth in rank (see Table 2.8). Although the state's national position was low when compared with neighboring states, Virginia's per capita revenue was higher than in Kentucky, West Virginia, North Carolina, and Tennessee. Only Maryland and the District of Columbia exceeded Virginia.

The preceding measure was of general revenue which includes other revenues in addition to taxes. Table 2.9 shows Virginia's rank for per capita taxes.

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<sup>1/</sup> Source: U.S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970), p. 50.

<sup>2/</sup> All revenue except utility revenue, liquor store revenue, insurance-trust revenue, and transfers from the federal government.

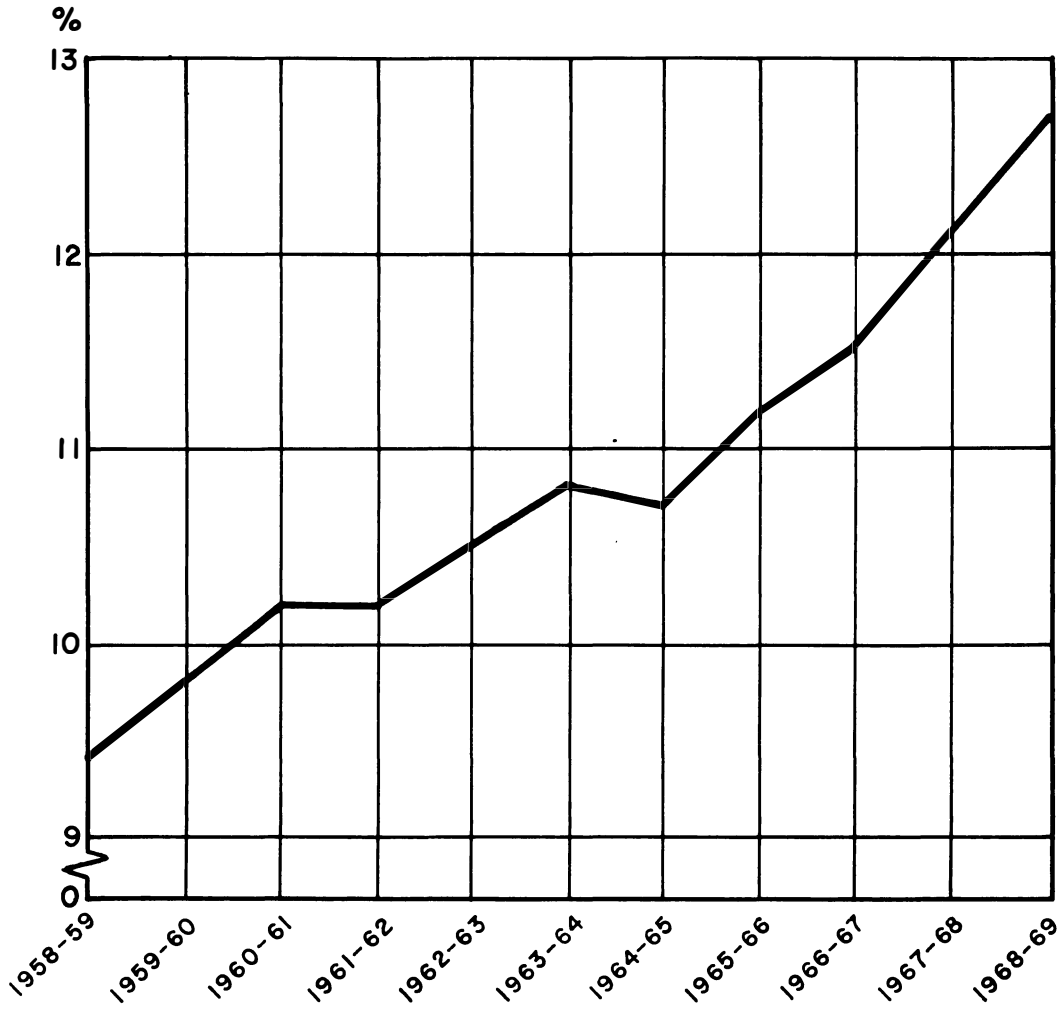
TABLE 2.7--VIRGINIA STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES AS A PERCENTAGE OF PERSONAL INCOME, FISCAL YEARS 1958-59 TO 1968-69<sup>a/</sup>

<u>Fiscal Year</u>	<u>General Revenue from Own Sources (\$Mil.)</u>	<u>Personal Income (\$Mil.)</u>	<u>General Revenue from Own Sources As a % of Personal Income</u>
1958-59	\$ 620.7	\$ 6,593	9.4
1959-60	685.7	6,994	9.8
1960-61	745.2	7,339	10.2
1961-62	792.3	7,776	10.2
1962-63	886.3	8,448	10.5
1963-64	968.4	8,984	10.8
1964-65	1,059.4	9,909	10.7
1965-66	1,203.7	10,725	11.2
1966-67	1,343.8	11,688	11.5
1967-68	1,536.8	12,740	12.1
1968-69	1,796.0	14,154	12.7

<sup>a/</sup> Personal income for the whole year which represents the first part of the fiscal year, e.g., personal income for calendar year 1968 is compared with general revenue for fiscal year 1968-69.

Sources: U.S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office) and Census of Governments: 1962 Historical Statistics on Governmental Finances and Employment, Vol. VI, No. 4 (Washington: Government Printing Office, 1964); Survey of Current Business, Vol. 50, No. 8 (August, 1970), p. 34.

CHART 2.2  
VIRGINIA STATE AND LOCAL GENERAL REVENUE  
FROM OWN SOURCES AS A PERCENTAGE OF PERSONAL INCOME  
FISCAL YEARS 1958-59 TO 1968-69



Source: Table 2.7.

TABLE 2.8--PER CAPITA AMOUNTS OF STATE AND LOCAL GENERAL REVENUES  
FROM OWN SOURCES, FISCAL YEAR 1968-69

Rank	State	Amount	Percent of U. S. Average
1	New York	\$680.75	144.1
2	California	659.46	139.6
3	Alaska	648.01	137.1
4	Nevada	624.43	132.2
5	Wyoming	611.50	129.4
6	Hawaii	587.45	124.3
7	Washington	542.18	114.7
8	Michigan	535.47	113.3
9	Wisconsin	534.40	113.1
10	Minnesota	528.06	111.8
11	North Dakota	523.04	110.7
12	Delaware	519.73	110.0
13	Massachusetts	519.72	110.0
14	Oregon	504.35	106.7
15	Colorado	500.94	106.0
16	Maryland	498.92	105.6
17	Arizona	488.03	103.3
18	Iowa	486.05	102.9
19	District of Columbia	484.49	102.5
20	Nebraska	478.47	101.3
21	New Jersey	476.43	100.8
22	New Mexico	475.57	100.7
23	Connecticut	464.81	98.4
24	South Dakota	457.99	96.9
25	Vermont	451.98	95.7
26	Montana	449.39	95.1
27	Kansas	445.34	94.3
28	Illinois	443.34	93.8
29	Rhode Island	442.01	93.5
30	Florida	431.15	91.2
31	Indiana	425.73	90.1
32	Utah	423.45	89.6
33	Idaho	416.44	88.1
34	Louisiana	413.12	87.4
35	Pennsylvania	401.47	85.0
36	Oklahoma	398.14	84.3
37	Ohio	390.66	82.7
38	VIRGINIA	384.65	81.4
39	Missouri	377.98	80.0
40	Maine	367.44	77.8
41	New Hampshire	366.25	77.5
42	Texas	365.20	77.3
43	Georgia	363.01	76.8
44	Kentucky	362.24	76.7
45	West Virginia	331.00	70.1
46	North Carolina	330.71	70.0
47	Mississippi	323.47	68.5
48	Tennessee	322.12	68.2
49	Alabama	317.71	67.2
50	Arkansas	292.72	62.0
51	South Carolina	291.84	61.8
Exhibit:			
	United States Average	472.49	100.0
	Median State	449.39	...

Source: U.S. Bureau of the Census, Governmental Finances in 1968-1969, Series GF 69, No. 5 (Washington: Government Printing Office, 1970), p. 45.

TABLE 2.9--PER CAPITA AMOUNTS OF STATE AND LOCAL TAXES, FISCAL YEAR 1968-69

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Percent of U. S. Average</u>
1	New York	\$575.51	151.5
2	California	539.99	142.1
3	Hawaii	480.33	126.4
4	Nevada	466.39	122.8
5	Massachusetts	452.59	119.1
6	Wisconsin	439.04	115.6
7	Michigan	428.26	112.7
8	District of Columbia	427.67	112.6
9	Wyoming	413.73	108.9
10	Maryland	410.58	108.1
11	Washington	410.12	107.9
12	Minnesota	406.15	107.0
13	New Jersey	406.06	106.9
14	Connecticut	392.15	103.2
15	Alaska	390.49	102.8
16	Iowa	388.60	102.3
17	Oregon	387.00	101.9
18	Arizona	386.57	101.7
19	Colorado	385.80	101.5
20	Vermont	384.17	101.1
21	Rhode Island	378.66	99.7
22	Illinois	372.80	98.1
23	Delaware	372.17	98.0
24	Nebraska	362.13	95.3
25	South Dakota	352.80	92.9
26	Montana	351.33	92.5
27	Kansas	346.40	91.2
28	Pennsylvania	339.52	89.4
29	North Dakota	338.06	89.0
30	Indiana	334.19	88.0
31	Florida	329.86	86.8
32	Idaho	327.96	86.3
33	Utah	327.21	86.1
34	New Mexico	323.55	85.2
35	VIRGINIA	313.70	82.6
36	Maine	308.11	81.1
37	Ohio	305.77	80.5
38	Missouri	301.02	79.2
39	New Hampshire	299.37	78.8
40	Louisiana	297.87	78.4
41	Oklahoma	287.04	75.5
42	Kentucky	277.52	73.0
43	Texas	275.66	72.6
44	Georgia	269.66	71.0
45	West Virginia	262.82	69.2
46	North Carolina	258.81	68.1
47	Tennessee	252.31	66.4
48	Mississippi	241.95	63.7
49	South Carolina	224.84	59.2
50	Alabama	224.47	59.1
51	Arkansas	220.82	58.1
Exhibit:			
	United States Average	379.94	100.0
	Median State	351.33	...

Source: U.S. Bureau of the Census, Governmental Finances in 1968-1969, Series GF 69, No. 5 (Washington: Government Printing Office, 1970), p. 45.



The foregoing remarks about the state's relative position are for the most part unchanged. The state's figure was 82.6 percent of the national average, and it ranked thirty-fifth. Compared with neighboring states, Virginia's per capita taxes were higher than in Kentucky, West Virginia, and Tennessee.

#### Revenue Per \$1,000 of Personal Income

The above comparisons have used per capita amounts and do not take into account economic ability to pay. A popular device for relating revenues to ability is to compute revenues per \$1,000 of personal income. Such a measure adjusts for the fact that Virginia's per capita income is about 10 percent below the national average.

Revenues from its own sources were 91.3 percent of the national average in 1968-69, and the state ranked thirty-sixth (see Table 2.10). Among neighboring states, Virginia made a greater effort than North Carolina, Tennessee, and the District of Columbia.

A similar measure using taxes rather than all revenues shows a slightly different picture. As shown in Table 2.11, Virginia's tax load of \$103.87 per \$1,000 of personal income was 92.6 percent of the national average and placed it thirty-second in rank. Among neighboring states, Virginia made a greater effort than North Carolina, Tennessee, and the District of Columbia.

In a rather widely publicized work for the Southern Regional Education Board, Kenneth E. Quindry has used taxes per \$1,000 of personal income as a basis for developing estimates of state and local net unutilized revenue potential. This figure is derived by multiplying the "average rate" per \$1,000 of personal income for each of fourteen tax sources by the state's personal income. The actual collections are subtracted from the hypothetical yields for each tax to give collections above or below average for each source. These

TABLE 2.10--STATE AND LOCAL GENERAL REVENUES FROM OWN SOURCES PER \$1,000 OF  
PERSONAL INCOME, FISCAL YEAR 1968-69

Rank	State	Amount	Percent of U. S. Average
1	Wyoming	\$194.70	139.5
2	North Dakota	187.89	134.7
3	New Mexico	177.25	127.0
4	Hawaii	172.43	123.6
5	California	167.43	120.0
6	New York	166.18	119.1
7	Arizona	164.13	117.6
8	Alaska	160.86	115.3
9	Nevada	160.58	115.1
10	Minnesota	160.34	114.9
11	South Dakota	159.94	114.6
12	Idaho	159.38	114.2
13	Wisconsin	159.34	114.2
14	Louisiana	157.64	113.0
15	Mississippi	156.49	112.2
16	Colorado	154.15	110.5
17	Oregon	153.88	110.3
18	Utah	153.38	109.9
19	Montana	152.95	109.6
20	Washington	152.67	109.4
21	Vermont	151.93	108.9
22	Iowa	149.24	107.0
23	Nebraska	148.74	106.6
24	Michigan	146.14	104.7
25	Oklahoma	140.85	100.9
26	Florida	139.58	100.0
27	Delaware	138.52	99.3
28	Kentucky	137.47	98.5
29	Kansas	136.47	97.8
30	Massachusetts	135.47	97.1
31	West Virginia	135.27	96.9
32	Alabama	134.90	96.7
33	Maryland	133.71	95.8
34	Georgia	132.60	95.0
35	Maine	130.34	93.4
36	VIRGINIA	127.37	91.3
37	Arkansas	126.64	90.8
38	North Carolina	126.18	90.4
39	Indiana	126.16	90.4
40	Tennessee	125.21	89.7
41	Rhode Island	124.12	89.0
42	South Carolina	123.89	88.8
43	Texas	122.85	88.0
44	New Jersey	121.42	87.0
45	Pennsylvania	118.16	84.7
46	Missouri	116.69	83.6
47	New Hampshire	114.77	82.3
48	Ohio	112.93	80.9
49	Illinois	111.92	80.2
50	Connecticut	110.57	79.2
51	District of Columbia	107.99	77.4
Exhibit:			
	United States Average	139.53	100.0
	Median State	139.58	.....

TABLE 2.11--STATE AND LOCAL TAXES PER \$1,000 OF PERSONAL INCOME, FISCAL YEAR 1968-69

Rank	State	Amount	Percent of U. S. Average
1	Hawaii	\$140.96	125.6
2	New York	140.49	125.2
3	California	137.90	122.9
4	Wyoming	131.73	117.4
5	Wisconsin	130.90	116.7
6	Arizona	130.01	115.9
7	Vermont	129.13	115.1
8	Idaho	125.52	111.9
9	Minnesota	123.33	109.9
10	South Dakota	123.31	109.9
11	North Dakota	121.44	108.2
12	New Mexico	120.58	107.5
13	Nevada	119.94	106.9
14	Montana	119.58	106.6
15	Iowa	119.32	106.3
16	Colorado	118.72	105.8
17	Utah	118.52	105.6
18	Oregon	118.07	105.2
19	Massachusetts	117.97	105.1
20	Mississippi	117.05	104.3
21	Michigan	116.88	104.2
22	Washington	115.49	102.9
23	Louisiana	113.67	101.3
24	Nebraska	112.57	100.3
25	Maryland	110.04	98.1
26	Maine	109.29	97.4
27	West Virginia	107.40	95.7
28	Florida	106.79	95.2
29	Rhode Island	106.33	94.8
30	Kansas	106.15	94.6
31	Kentucky	105.32	93.9
32	VIRGINIA	103.87	92.6
33	New Jersey	103.49	92.2
34	Oklahoma	101.54	90.5
35	Pennsylvania	99.92	89.1
36	Delaware	99.19	88.4
37	Indiana	99.03	88.3
38	North Carolina	98.75	88.0
39	Georgia	98.50	87.9
40	Tennessee	98.07	87.4
41	Alaska	96.93	86.4
42	Arkansas	95.54	85.2
43	South Carolina	95.45	85.1
44	District of Columbia	95.33	85.0
45	Alabama	95.31	84.9
46	Illinois	94.11	83.9
47	New Hampshire	93.81	83.6
48	Connecticut	93.28	83.1
49	Missouri	92.93	82.8
50	Texas	92.73	82.6
51	Ohio	88.39	78.8
Exhibit:			
	United States Average	112.20	100.0
	Median State	109.29	...

Source: U. S. Bureau of the Census, Governmental Finances in 1968-1969, Series GF69, No. 5 (Washington: Government Printing Office, 1970), p. 51.

amounts are then summed to show the net unutilized potential, a figure estimated by Quindry to be \$206,478,000 in 1968-69 for Virginia.<sup>1/</sup>

Another way to derive an overall estimate of revenue potential is to take the difference between Virginia and national averages for all taxes per dollar of personal income and then to multiply this figure by Virginia personal income.<sup>2/</sup>

$$(\$ .11220 - \$ .10387) (\$14,100,000,000) = \$117,453,000$$

This figure is \$89 million lower than Quindry's. Most of the difference is attributable to his concept of the "average rate" for each tax source, which is defined as average collections per \$1,000 of personal income for all states using the tax source. Several sources such as the real property tax are used in all states so that a weighted national average for states using the tax is the same as a 50-state weighted average. But for other sources, such as the individual income tax which was used in only 40 states in 1968-69, the weighted average for states with the tax is much higher than a 50-state weighted average. For example, using Quindry's data, the 40-state weighted average for states with the individual income tax was \$14.903 per \$1,000 of personal income, but based on 50 states, the average was \$11.992.<sup>3/</sup> By using the 40-state average Quindry shows that Virginia collected \$43,313,000 above the yield collectible at the "average rate."<sup>4/</sup> Substitution of the 50-state average raises the comparable figure to \$88,262,000.

<sup>1/</sup> Kenneth E. Quindry, State and Local Revenue Potential 1969, SREB Research Monograph Number 16 (Atlanta: Southern Regional Education Board, 1970), p. 85.

<sup>2/</sup> The figure used for personal income differs slightly from that shown in Table 2.4. The above figure was used by the Bureau of the Census in calculating revenue burdens and has since been revised to the figure shown in Table 2.4.

<sup>3/</sup> Ibid., pp. 41 and 51. The 50-state average was computed from data in the report.

<sup>4/</sup> Ibid., p. 85.

The Advisory Commission on Intergovernmental Relations (ACIR) has also developed data showing additional revenue Virginia might raise if it exerted an "average effort." For each major tax source ACIR calculated the state's tax base and then multiplied the base by the weighted national average ratio of tax receipts to tax base. The products were then summed and the total converted to a per capita basis. Using 1968-69 data, ACIR estimated Virginia's per capita tax capacity to be \$337 and its tax revenue to be \$323.<sup>1/</sup> Multiplying actual tax receipts by the relative difference between tax capacity and tax revenue provides a rough idea of the additional amount Virginia might have raised taxes in 1968-69 by imposing "average tax rates."

$$\frac{\$337-\$323}{\$323} \times \$1,464.7 \text{ mil.} = \$63 \text{ mil.}$$

This figure is considerably lower than Quindry's \$206 million, and also lower than the \$117 million estimated above. These differences underline the observation that any method used to estimate overall tax effort and to calculate unused tax potential is most useful as a guide to further inquiry rather than as a definitive blueprint for policy. Measurements based solely on personal income or population fail to take account of income distribution; composition of personal income (e.g., much of military personal income is not taxable in Virginia); differences in industrial composition, value of property, and natural resources; and trade-offs between tax and nontax sources of revenue (e.g., alcoholic beverages can be taxed and/or provide nontax revenues from state controlled monopolies). Measurements which rely on estimates of tax bases are preferable to simplistic methods but are very sensitive to the manner in which estimates are constructed.

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<sup>1/</sup> Advisory Commission on Intergovernmental Relations, Measuring the Fiscal Capacity and Effort of State and Local Areas, M-58 (Washington: Government Printing Office, 1971), p. 209. The figure for per capita tax revenue differs from that shown in Table 2.9 because ACIR includes A.B.C. profits and certain other revenues as equivalent to taxes.

Although the Quindry and ACIR estimates of unutilized potential differ, an interesting conclusion of both studies is that the major unutilized tax sources in Virginia are the real property tax and the general sales tax.<sup>1/</sup>

### Intergovernmental Relationships

State and local government finances cannot be analyzed in a vacuum. In our nation, we have three broad levels of government--federal, state, and local--and what happens on one level is bound to have an impact on the others.

Chart 2.3 shows the sources of general revenue for the state government and for all local governments in fiscal year 1968-69. First, consider the state government. More than three-fourths of its revenue is raised from its own sources--state imposed taxes, institutional charges, and miscellaneous fees and receipts. Nearly all of the remaining funds come from the federal government.

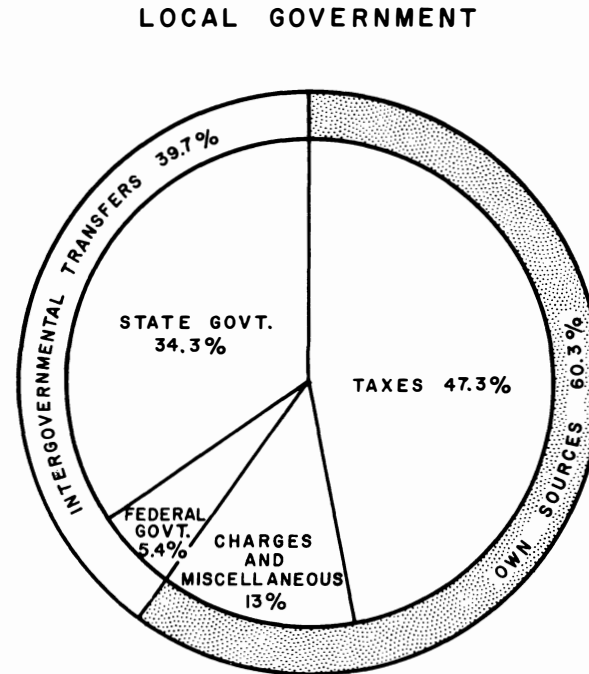
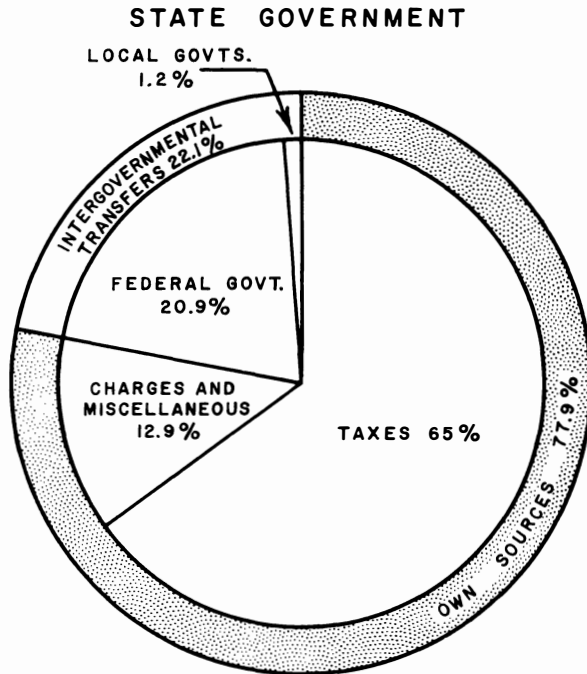
The local governments present a different picture. Their own sources provide 60.3 percent of general revenue, which is lower than the case for the state government. The federal government is a relatively small source of direct aid, accounting for only 5.4 percent of total revenue. The outstanding characteristic of local finances is their heavy dependence on state government transfers, either in the form of shared revenues or cash transfers. In 1968-69, 34.3 percent of local government general revenue came from the state government.

Most of the state aid--slightly over three-fourths in fiscal year 1968-69--is spent for one function, education. The remainder is primarily

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<sup>1/</sup> Quindry, State Local Revenue Potential, 1969, p. 85 ; ACIR, Measuring the Fiscal Capacity and Effort, p. 79.

CHART 2.3--MAJOR SOURCES OF REVENUE OF THE STATE AND LOCAL GOVERNMENTS IN VIRGINIA, 1968-69



State Govt.  
\$ mil.

1,420.6  
1,106.9  
924.2  
182.7  
313.7  
296.8  
16.9

Total general revenue  
Own sources  
Taxes  
Charges and miscellaneous  
Intergovernmental transfers  
Federal Government  
State Government  
Local Governments

Local Govt.  
\$ mil.

1,143.3  
689.1  
540.4  
148.6  
454.3  
62.1  
392.2

Note: Details may not add to totals due to rounding.

Source: U.S. Bureau of the Census, Governmental Finances in 1968-69, GF 69, No. 5 (Washington: Government Printing Office, 1970), p. 33.

devoted to public welfare, highways, and general local government support.

The above analysis is limited to cash flows; it does not cover performance of services which can relieve a level of government from financial burdens it would otherwise bear. For example, the State Department of Health now provides local health services to many localities which formerly paid for such services out of their own sources.

To provide some perspective on the scope of state government assistance to localities, we can focus on three major governmental functions--education, highways, and welfare--which represent two-thirds of all state and local government direct general expenditures (see Table 2.12).

Education, the largest single category of state-local expenditures, is composed of amounts spent for higher education and for elementary and secondary education. Higher education is primarily a state government function and absorbs the bulk of state direct outlays<sup>1/</sup> for education. Elementary and secondary education is a combined function of local governments and the state. In 1968-69, transfers from the state provided 49.8 percent of the funding of local public schools.

Highways are primarily a state function. Of total direct expenditure in 1968-69, 85 percent was borne by the state government.<sup>1/</sup> In addition, the state transferred funds to localities which perform their own construction and maintenance. Municipalities of 3,500 or more population receive annual payments of \$10,000 per mile for maintenance of urban extensions of primary routes. For streets not a part of the primary system but meeting certain engineering standards, they receive \$1,100 per mile. The state also pays 85 percent of the municipalities' new construction costs. Of the total amount

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<sup>1/</sup> The terms "direct outlays" and "direct expenditures" refer to all payments other than intergovernmental payments.



TABLE 2.12.--CASH TRANSFERS TO LOCAL GOVERNMENTS IN VIRGINIA, FISCAL YEAR 1968-69

(Millions of Dollars)

	<u>Total Local Government Direct General Expenditure</u>	<u>State Cash Transfers<sup>a/</sup></u>		<u>Federal Cash Transfers</u>	
		<u>Amount</u>	<u>% of Local Expenditure for Function</u>	<u>Amount</u>	<u>% of Local Expenditure for Function</u>
All Functions	\$1,247.0	\$450.6 <sup>b/</sup>	36.1	\$62.1	4.7
Education	681.3	339.5	49.8	n.a.	n.a.
Highways	54.4	18.5	34.0	n.a.	n.a.
Welfare	86.3	49.9	57.8	n.a.	n.a.

n.a. - not available

<sup>a/</sup> Includes federal funds transferred to the state government and then transferred to local governments.

<sup>b/</sup> Differs from \$392.2 million shown in Chart 2.3 due to differences in the end month of fiscal years of local governments, sampling problems, and accounting differences. Source: letter dated October 7, 1969 from Sherman Landau, Acting Chief, Governments Division, Bureau of the Census.

Sources: U. S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970), p. 38; U. S. Bureau of the Census, State Government Finances in 1969, GF69, No. 3 (Washington: Government Printing Office, 1970), p. 38.

spent by localities on streets and highways in 1968-69, state aid covered 34 percent of the cost.

Most direct expenditures for welfare are made by local governments, but the majority of the funding of local outlays is from the state government. In 1968-69, almost three-fifths of local expenditures were financed directly by the state government or in its capacity as an agent for federal funds.

The trend of Virginia's intergovernmental fiscal relationships from 1958-59 to 1968-69 is shown in Table 2.13 which breaks down the sources of revenue by the originating level of government before cash transfers among governments and then shows the level of government which is the final recipient after intergovernmental transfers. Financing of welfare payments provides an example of how the table is organized. Certain amounts used for welfare payments are originally collected by the federal government, transferred to the state government, and then transferred once again by the state government to local governments. In this case, the originating level of government is the federal government, while the final recipient level is the local government.

What has happened over the last decade is clear. The federal government has become a more important source of revenue for the state and local governments. In 1958-59, it provided 13.5 percent of the state and local government revenues in Virginia. In 1968-69, it provided 16.6 percent. Most of the money received from the federal government goes to the state government. In 1968-69, the state's share amounted to 83 percent.<sup>2/</sup> A portion of the federal funds received at the state level is later transferred to local governments. Because the money is pooled with funds from state sources, there is some difficulty in estimating the exact percentage of federal funds transferred by

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<sup>1/</sup> U. S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970), p. 38.

<sup>2/</sup> Derived from Chart 2.3, p. 53.

TABLE 2.13.--ORIGIN AND ALLOCATION BY LEVEL OF GOVERNMENT  
OF GENERAL REVENUE OF STATE AND LOCAL GOVERNMENTS IN VIRGINIA,  
FISCAL YEARS 1958-59 TO 1968-69

<u>Fiscal Year</u>	<u>Percentage Distribution</u>							
	<u>By Originating Level of Govern- ment (prior to State-Local and Local-State Transfers</u>				<u>By Final Recipient Level of Government (After State-Local and Local- State Transfers</u>			
	<u>Total</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>	<u>Total</u>	<u>State</u>	<u>Local</u>	<u>Local</u>
1958-59	100.0	13.5	46.6	39.9	100.0	40.5	59.5	
1959-60	100.0	15.8	44.4	39.7	100.0	40.4	59.6	
1960-61	100.0	14.1	48.0	37.9	100.0	42.0	58.0	
1961-62	100.0	16.3	46.7	37.0	100.0	43.1	56.9	
1962-63	100.0	16.4	47.04	36.6	100.0	44.1	55.9	
1963-64	100.0	17.6	45.5	36.9	100.0	44.1	55.9	
1964-65	100.0	20.2	44.0	35.8	100.0	45.0	55.0	
1965-66	100.0	19.2	44.0	36.8	100.0	44.2	55.8	
1966-67	100.0	18.1	46.7	35.0	100.0	43.8	56.1	
1967-68	100.0	17.3	47.7	34.8	100.0	44.1	55.8	
1968-69	100.0	16.6	51.3	31.9	100.0	47.7	52.2	

Note: Details may not add to totals due to rounding.

Source: U. S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

the state government to the localities, but it is in the neighborhood of one-fourth. The state government's share of total revenues has risen, with a marked increase in 1968-69.<sup>1/</sup> On the other hand, the local share has dropped (from 39.9 percent in 1958-59 to 31.9 percent in 1968-69).

The breakdown by final recipient level shows that the local governments account for the majority of general revenues (52.2 percent in 1968-69), but their share is lower than what it was a decade ago--an indication that even though the state government is transferring large amounts to local governments, its own direct expenditures are growing faster.

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<sup>1/</sup> In 1968-69, the state sales and use tax was increased to 3 percent and the state government had windfalls of \$68.5 million.

## CHAPTER III

### STATE GENERAL FUND REVENUES

#### Introduction

This chapter provides projections of general fund revenues with historical background material. There is also a section that explores the cost of administering present taxes and a final section that develops alternative means of changing taxes to provide additional revenues.

#### Projections Under Existing Structure and Rates

The purpose of the projections is to give an indication of the amount of general fund revenue which will be available in the next three bienniums assuming no change in the present tax structures and rates. Combined with our expenditure projections in Chapter IV, the revenue data help to give answers to two basic questions:

1. Will there be any need to consider increasing present taxes or imposing new ones?
2. If the answer to the first question is affirmative, then how much additional revenue will be required?

Table 3.1 shows general fund and all other fund revenues for the 1960-62 through 1968-70 bienniums. Table 3.2 provides general fund projections to 1976-78, and Table 3.3 gives historical data for special revenues not included in the general fund.

The general fund currently represents less than half of total revenues; yet, because it is the focus of most of the legislative appropriation process, the general fund receives a large amount of attention. Moreover, much of the revenue outside of the general fund comes from the federal government or represents state taxes earmarked for highways.

TABLE 3.1--TOTAL STATE REVENUES, 1960-62 TO 1968-70  
(Millions of Dollars)

<u>Biennium</u>	<u>General Fund<sup>a/</sup></u>	<u>Special Funds<sup>b/</sup></u>	<u>Other Funds<sup>c/</sup></u>	<u>Total</u>
1960-62	\$ 505.2	\$ 671.9	\$19.0	\$1,196.1
1962-64	616.9	825.9	22.6	1,465.4
1964-66	724.4	1,059.3	28.0	1,811.7
1966-68	1,021.4	1,234.4	32.9	2,288.7
1968-70	1,489.6	1,496.1	39.1	3,024.9

Note: Details may not add to totals due to rounding.

a/ Includes A.B.C. profits, local and state shares.

b/ Excludes sales of alcohol by A.B.C. stores and amounts received by state retirement funds.

c/ Includes reserves for specified purposes and amounts held in suspense and not allocated to funds.

Source: Report of Comptroller Fiscal Year Ended June 30, 19--, Exhibit B, Statement Nos. 3 and 4 (Richmond: Department of Accounts).

During the 1960's, general fund revenue growth received several "shots in the arm" from one-time events such as the adoption of individual income tax withholding, the new sales and use tax, and changes in administrative procedures resulting in an acceleration of collections. Furthermore, the 1960's were a time of economic prosperity with only a minor recession in 1960-61 and the

TABLE 3.2.--GENERAL FUND REVENUES,  
ACTUAL 1960-62 TO 1968-70 AND PROJECTED 1970-72 TO 1976-78

Revenue Source	Actual					Official	Projections		
	1960-62	1962-64	1964-66	1966-68	1968-70	Estimate 1970-72	1972-74	1974-76	1976-78
<b>FROM TAXATION</b>									
<b>TAXES</b>									
Public Service Corporations	\$ 43,947,450	\$ 48,848,650	\$ 52,520,529 <sup>cd</sup>	\$ 59,076,713	\$ 81,404,221 <sup>a</sup>	\$ 72,300,000	\$ 83,200,000	\$ 93,500,000	\$ 104,400,000
Capital Not Otherwise Taxed	27,878,681 <sup>b</sup>	18,326,988 <sup>c</sup>	16,004,448 <sup>cd</sup>	8,634,789 <sup>e</sup>	9,046,459	9,000,000	10,000,000	10,800,000	11,600,000
Individuals and Fiduciaries - Income	172,291,758	256,117,611 <sup>e</sup>	306,577,074	415,019,382 <sup>f</sup>	556,198,913 <sup>g</sup>	687,000,000	907,400,000	1,206,200,000	1,574,100,000
Corporations - Income	59,023,451	66,142,525	87,658,331	98,176,680	134,851,250 <sup>h</sup>	120,900,000	117,500,000	130,400,000	144,700,000
Insurance Companies - Premiums	25,742,017	30,224,926	35,691,281	41,601,156	62,682,164 <sup>i</sup>	57,400,000	69,200,000	81,800,000	96,400,000
Bank Stock	2,575,565	3,025,403	3,424,220	3,843,952	4,382,694	4,700,000	5,300,000	5,700,000	6,100,000
Inheritance	9,159,622	12,325,461	15,610,898	17,812,633	23,066,882	27,800,000	37,000,000	46,700,000	58,700,000
Gift	705,231	847,071	931,192	989,719	1,143,052	1,500,000	1,400,000	1,600,000	1,700,000
Wills, Suits, Deeds, Contracts	8,211,365	10,605,015 <sup>k</sup>	13,172,768	13,299,969	16,968,748 <sup>l</sup>	19,500,000	20,600,000	22,400,000	24,300,000
Beer and Beverage Excise	20,790,158 <sup>m</sup>	22,391,415 <sup>n</sup>	26,875,576 <sup>k</sup>	24,407,505 <sup>o</sup>	29,034,826	29,800,000	36,600,000	41,800,000	47,400,000
Alcoholic Beverages State Tax	19,366,011 <sup>p</sup>	23,198,507	25,537,990	31,611,262 <sup>q</sup>	32,067,885	50,399,885	54,400,000	59,500,000	64,700,000
Tobacco Products Tax	28,899,547 <sup>r</sup>	30,216,553	31,732,865	26,429,238 <sup>s</sup>	27,246,657	28,400,000	28,600,000	29,400,000	30,100,000
State Sales and Use Tax <sup>p</sup>	...	...	...	189,999,992 <sup>a</sup>	395,308,346	495,000,000	547,600,000	644,900,000	751,000,000
Miscellaneous Taxes and Penalties <sup>r</sup>	3,297,715	3,484,186 <sup>s</sup>	3,164,655 <sup>t</sup>	3,475,634	4,102,515	4,332,920	4,900,000	5,300,000	5,800,000
Sub-Total	\$421,888,571	\$525,754,311	\$618,901,827	\$934,378,624	\$1,377,504,412	\$1,608,032,805	\$1,923,700,000	\$2,380,000,000	\$2,921,000,000
<b>RIGHTS AND PRIVILEGES</b>									
Licenses and Permits	27,562,072	30,293,916	33,913,738	9,407,447 <sup>u</sup>	6,657,215	7,100,000	7,700,000	8,000,000	8,300,000
Corporate Franchise and Charters	2,740,942	2,960,037	3,294,855	3,796,107	4,366,901	4,800,000	5,400,000	6,200,000	7,000,000
Total from Taxation	\$452,191,585	\$559,008,264	\$656,110,420	\$947,582,178	\$1,388,528,528	\$1,619,932,805	\$1,936,800,000	\$2,394,200,000	\$2,936,300,000
<b>OTHER THAN TAXATION</b>									
Institutional Revenues	7,683,830	9,365,314	10,713,447	12,459,668 <sup>v</sup>	20,197,374 <sup>v</sup>	38,802,000	46,900,000	55,000,000	64,600,000
Interest, Dividends, Rents	5,299,167	6,841,032	10,720,188	12,519,810	25,863,844 <sup>w</sup>	13,480,000	12,200,000	13,800,000	15,700,000
Excess and Other Fees from Officers <sup>x</sup>	2,380,425	2,551,844	3,550,768	3,540,601	3,582,644	4,000,000	4,700,000	5,300,000	5,800,000
Other Miscellaneous Revenues <sup>y</sup>	6,762,993	7,907,709	8,760,468	10,087,504	11,803,306	15,139,030	15,300,000	17,400,000	19,900,000
Total Other Than Taxation	\$ 22,126,415	\$ 26,665,899	\$ 33,744,871	\$ 38,607,583	\$ 61,447,168	\$ 71,421,030	\$ 79,100,000	\$ 91,500,000	\$ 106,000,000
Total Revenue	\$474,318,000	\$585,674,163	\$689,855,291	\$986,189,761	\$1,449,975,696	\$1,691,353,835	\$2,015,900,000	\$2,485,700,000	\$3,042,300,000
A.B.C. Profits <sup>z</sup>	30,887,460 <sup>aa/bb</sup>	31,270,697 <sup>bb</sup>	34,585,879 <sup>bb</sup>	35,189,593 <sup>cc/dd</sup>	39,634,624 <sup>ee</sup>	40,705,115	46,200,000	48,600,000	51,200,000
Total	\$505,205,460	\$616,944,860	\$724,441,170	\$1,021,379,354	\$1,489,610,320	\$1,732,058,950	\$2,062,100,000	\$2,534,300,000	\$3,093,500,000
<b>EXHIBIT</b>									
<b>Earmarked Revenues:</b>									
Local Share of Wine and Spirits Tax <sup>ff</sup>	\$ 1,174,567	\$ 1,335,982	\$ 1,512,115	\$ 1,686,845	\$ 1,939,742	\$ 2,100,000	\$ 2,400,000	\$ 2,600,000	\$ 2,800,000
Local Share of Sales and Use Tax <sup>gg</sup>	...	...	...	94,999,996	131,769,449	165,000,000	182,500,000	215,000,000	250,400,000
Local Share of A.B.C. Profits <sup>hh</sup>	23,211,290	23,211,290	23,211,290	23,585,861	27,442,328	29,611,354	30,005,677	31,600,000	33,200,000
Total Earmarked Revenues	\$ 24,385,857	\$ 24,547,272	\$ 24,723,405	\$ 120,272,702	\$ 161,151,519	\$ 196,711,354	\$ 214,905,677	\$ 249,200,000	\$ 286,400,000
Total general fund revenues minus earmarked revenues	\$480,819,603	\$592,397,588	\$699,717,765	\$ 901,106,652	\$1,328,458,801	\$1,535,347,596	\$1,847,194,323	\$2,285,100,000	\$2,807,100,000

(See footnotes on following page)

TABLE 3.2.--GENERAL FUND REVENUES,  
ACTUAL 1960-62 TO 1968-70 AND PROJECTED 1970-72 TO 1976-78 (Continued)

- a/ Includes \$13,412,305 windfall in fiscal year 1968-69 due to public service corporations filing declarations of estimated tax and paying the estimated tax in installments.
- b/ Includes \$8,816,000 in accelerated payment of capital tax in fiscal year 1960-61.
- c/ Tax rates reduced from 75¢ per \$100 of assessed value to 65¢ in fiscal year 1963-64, and 30¢ in fiscal year 1966-67. Effective tax year 1965, money and tangible personal property of certain business excluded from definition of capital.
- d/ Effective tax year 1966 (fiscal year 1965-66), tobacco inventories can only be taxed once. The loss in revenue for tax year 1966 was \$1,045 thousand.
- e/ Includes \$31,081,135 windfall due to the withholding of taxes for taxable year 1963, the collections of estimated taxes, and early payments.
- f/ Includes \$11.5 million in revenue due to holding open books for collections from localities. Revenues were lower by \$1.1 million due to an increase in the dependent exemption of \$100.
- g/ Includes \$29,709,290 windfall due to monthly collections of withheld income taxes in fiscal year 1968-69.
- h/ Includes \$13,015,047 windfall in fiscal year 1968-69 and \$11,670,490 windfall in fiscal year 1969-70 due to corporations having income over \$100,000 declaring and paying the estimated tax in installments.
- i/ Includes \$12,344,693 windfall in fiscal year 1968-69 due to insurance companies filing declarations of estimated tax and paying the estimate in installments.
- j/ Includes \$885,932 windfall in fiscal year 1968-69 due to a new tax on deeds of conveyances.
- k/ Rate increased July 1, 1960, from 2¢ per 16 oz. container to 2½¢ per 16 oz. container and decreased back to 2¢ as of September 1, 1966.
- l/ Tax came into effect second quarter of fiscal year 1960-61.
- m/ Includes \$3,388,000 windfall in fiscal year 1967-68 resulting from last quarter of the fiscal year being transferred to the general fund in June, 1968, instead of later.
- n/ Tax became effective beginning fiscal year 1960-61.
- o/ Tax was decreased from 3¢ to 2½¢ per package, September 1, 1966. The 3¢ rate applied to one-fourth of fiscal year 1966-67.
- p/ Total State Sales and Use Tax including local share but excluding local option.
- q/ The State Sales and Use Tax became effective September 1, 1966. The rate was raised from 2 percent to 3 percent on July 1, 1968.
- r/ Composed of Oyster Inspection Tax, Motor Vehicle Fuel Tax, Wine and Spirits Tax, Forest Products Tax, Penalties for Failure to Pay and Miscellaneous Penalties. Total Wine Tax collections include local share.
- s/ Public Rock Oyster Tax no longer applicable to the General Fund effective fiscal year 1962-63.
- t/ Decline in revenue in fiscal year 1964-65 due to declines in penalties for non-payment of taxes by due date because of implementation of withholding.
- u/ Tax on wholesale and retail establishments repealed January 1, 1967 (fiscal year 1966-67).
- v/ Currently, about 85 percent of the revenues are represented by those from mental hospitals. In fiscal years 1967-68 and 1968-69, there was a sharp increase in mental hospital revenues due to Medicare.
- w/ Sharp increase in collections due in part to investment of proceeds from \$81.0 million general obligation bond issue which was sold May, 1969.
- x/ Composed of Excess Fees Paid into State Treasury; Fees and Allowances of Sheriffs, Sergeants, and their Deputies; Fees collected in County Courts; and Fees Collected in Regional, Juvenile and Domestic Relations Courts.
- y/ Composed of Fees for Practice of Professions, Fees for Miscellaneous Privileges, Fees for Miscellaneous Services, Sales of Property and Commodities, Auditing Local Accounts and Examination Assessments, Fines and Forfeitures, Court Cost Recoveries and Printing of Supreme Court Records, Local Portion of Judges and Salaries, Miscellaneous Revenue, and Grants and Donations.
- z/ Total A.B.C. profits including local share.
- aa/ In fiscal year 1960-61 there was a sudden drop in profits as a result of the implementation of the 10 percent A.B.C. State Tax.
- bb/ Excludes \$500 thousand which went to a reserve fund for a central warehouse in each of the fiscal years 1961-62, 1962-63, 1963-64, and 1964-65.
- cc/ In fiscal year 1966-67, \$1 million was taken out of A.B.C. profits for a center for research on alcoholism.
- dd/ On June 28, 1968, an additional tax on alcoholic beverages bought for resale by the drink became effective.
- ee/ Excludes \$750 thousand which went to a reserve fund for a central warehouse in fiscal year 1968-69.
- ff/ Two-thirds of the Wine and Spirits Tax is distributed to localities on the basis of population for general purposes. This tax is a component of Miscellaneous Taxes and Penalties.
- gg/ Prior to fiscal year 1968-69, one-half of the state's 2 percent Sales and Use Tax was distributed to localities on the basis of school age population for the expressed purpose of education. Beginning fiscal year 1968-69, one-third of the state's three percent Sales and Use Tax is distributed to localities on the basis of school age population for the purpose of education.
- hh/ Prior to fiscal year 1970-71, two-thirds but never less than \$11,605,645 in A.B.C. profits was distributed to localities on the basis of population for general purposes each fiscal year. Beginning fiscal year 1970-71, two-thirds but never less than \$14,805,677 of A.B.C. profits is distributed to localities on the basis of population for general purposes. This figure represents the accrued distribution rather than specific appropriations of A.B.C. profits to localities for the fiscal year.

Sources: 1960-62 Biennium data to 1968-70 Biennium data: Report of the Comptroller, Fiscal Year Ended June 30, 1970, Schedule B-1 and Statements 3 and 4, (Richmond: Department of Accounts, 1970); Official estimates: Department of Accounts; Projections by staff.



TABLE 3.3--TOTAL REVENUES FROM SPECIAL FUNDS AND OTHER FUNDS NOT APPLICABLE TO THE GENERAL FUND, 1960-62 TO 1968-70

Revenue Source	1960-62 Biennium	1962-64 Biennium	1964-66 Biennium	1966-68 Biennium	1968-70 Biennium
FROM TAXATION					
TAXES					
Public Service Corporations	\$ 1,632,980	\$ 1,615,063	\$ 2,386,158	\$ 2,538,670	\$ 2,706,609
Capitation	3,407,334	3,663,786	3,555,468	2,474,158	1,618,068
Motor Vehicle Fuel Tax <sup>a/</sup>	184,083,808	200,679,847	227,616,161	253,915,591	288,013,205
Payroll Tax for Unemployment Compensation	43,253,986	52,753,048	40,321,541	33,944,233	28,366,474
Motor Vehicle Sales and Use Tax	.. .	.. .	.. .	34,116,517	53,132,767
All Other Taxes	880,003	1,067,004	1,275,382	1,076,543	1,687,874
Sub-Total, Taxes	\$233,258,111	\$259,778,748	\$ 275,154,710	\$ 328,065,712	\$ 375,524,997
RIGHTS AND PRIVILEGES					
Hunting and Angling Licenses	\$ 4,343,341	\$ 4,565,180	\$ 5,026,741	\$ 5,823,227	\$ 6,585,252
Motor Vehicle Licenses	46,222,912	62,682,358	81,897,255	88,346,130	98,933,981
Registration of Title of Motor Vehicles	1,581,565	3,073,190	9,349,859	9,088,536	9,880,979
Chauffeurs' and Motor Vehicle Operators' Permits	1,552,870	3,424,019	8,713,692	9,242,553	12,875,512
All Other Licenses and Permits	2,761,536	3,030,369	3,764,064	4,306,822	5,480,327
Fees for Examination to Practice Professions	23,984	27,472	62,902	65,545	68,531
Fees for Miscellaneous Privileges and Services	17,270,855	19,723,950	22,111,312	25,521,196	32,670,652
Sub-Total, Rights and Privileges	\$ 73,757,063	\$ 96,526,538	\$ 130,925,825	\$ 142,394,009	\$ 166,495,234
Total from Taxation	\$307,015,174	\$356,305,286	\$ 406,080,535	\$ 470,459,721	\$ 542,020,231
OTHER THAN TAXATION					
SALES OF PROPERTY AND COMMODITIES <sup>b/</sup>					
ASSESSMENT FOR SUPPORT OF SPECIAL SERVICES	\$ 6,129,572	\$ 6,810,212	\$ 7,947,751	\$ 7,831,659	\$ 8,987,604
INSTITUTIONAL REVENUES	91,753,913	106,968,317	133,825,738	174,339,361	233,016,540
INTEREST, DIVIDENDS, AND RENTS	22,960,455	27,853,270	38,871,279	51,510,805	73,230,661
GRANTS AND DONATIONS					
Grants from the Federal Government	237,050,441	320,662,334	460,213,767	502,174,770	603,615,008
Donations from Cities and Counties	3,647,285	4,447,065	5,751,798	14,552,423	19,030,056
Donations from Individuals and Others	1,310,376	1,861,847	2,494,013	4,716,755	4,547,476 <sup>d/</sup>
Sub-Total, Grants and Donations	242,008,102	326,971,246	468,459,578	521,443,948	627,192,540
FINES AND FORFEITURES, COSTS, PENALTIES AND ESCHEATS	8,479,954	9,454,829	10,619,233	12,566,280	14,396,829
MISCELLANEOUS					
Receipts from Cities, Counties and Towns For Street and Road Work	3,693,954	4,736,735	6,141,035	7,381,081	12,728,382
Receipts from Cities and Counties for Medical Care and Services Premiums for Old Age Assistance Programs	.. .	.. .	.. .	2,275,699	1,225,800
Receipts from Reportable Violations--DMV	.. .	.. .	2,597,951	3,465,783	3,721,281
Proceeds from Sale of Surplus Property	1,313,883	1,404,084	1,964,913	2,242,615	2,245,509
Other	3,653,831	2,633,519	4,528,378	4,792,912	4,850,035 <sup>d/</sup>
Sub-Total, Miscellaneous	8,661,668	8,774,338	15,232,277	20,158,090	24,771,007
Total Other than Taxation	\$383,871,286	\$492,139,589	\$ 681,194,682	\$ 796,858,386	\$ 993,255,504
Total <sup>c/</sup>	\$690,886,460	\$848,444,875	\$1,087,275,217	\$1,267,318,107	\$1,535,275,735
EXHIBIT					
Special Revenue Funds	\$671,901,488	\$825,860,669	\$1,059,283,510	\$1,234,440,091	\$1,496,149,811
Reserves for Specified Purposes	18,976,325	22,576,401	27,982,576	32,870,560	39,116,214
In Suspende--Not Allocated	8,647	7,805	9,131	7,456	9,710

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a/ Excludes amount transferred to General Fund for appropriations for analyzing gasoline, diesel fuel and motor oils.  
b/ Excludes alcoholic beverages.  
c/ Excludes contributions for retirement.  
d/ In fiscal year 1969-70, \$95 of Donations from Individuals and Others was transferred to the General Fund under the category of Miscellaneous-Other; therefore, this transfer is reflected in the category Miscellaneous-Other rather than Grants and Donations from Individuals and Others in this table.

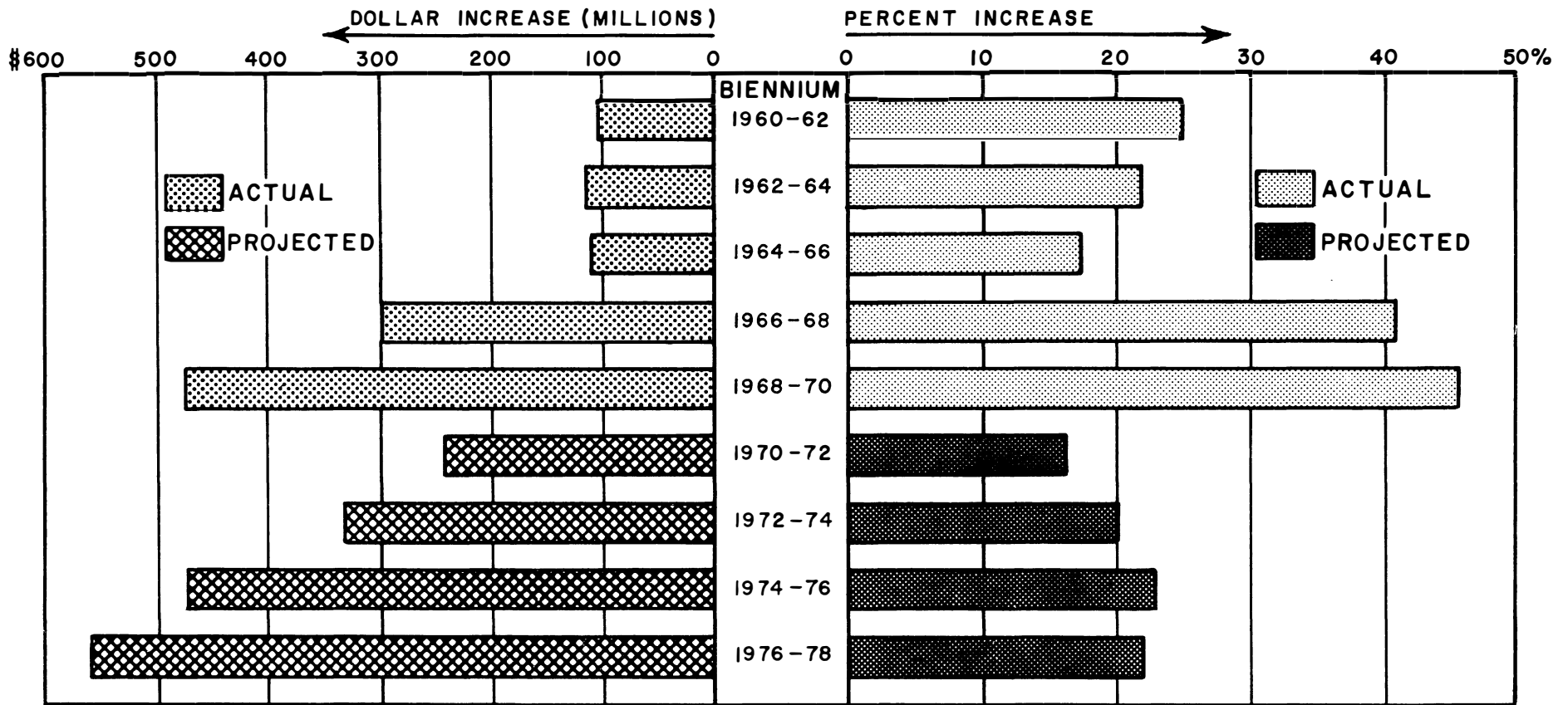
beginning of another in the last few months of the decade. Price inflation, which usually stimulates revenues, was quite moderate in the first half of the decade, but accelerated toward the end. The combined effect of these factors was a sharp jump in general fund revenues, particularly in the most recent bienniums. Instead of "normal" growth of about 20 to 22 percent per biennium, revenues rose by 41 percent in 1966-68 and by 46 percent in 1968-70.

The official estimate for 1970-72 shows a gain of only 16 percent, reflecting the impact of the current recession, an expected slowdown in the rate of inflation, and the fact that the base for calculating the relative change was swollen by one-time windfalls in the 1968-70 biennium.

Our projections for the next three bienniums show relative gains of 19 percent in 1972-74, 23 percent in 1974-76, and 22 percent in 1976-78 (see Chart 3.1 and Table 3.4). Thus, unless new or increased taxes are enacted, general fund revenues will not show percentage gains in the 1970's as high as those experienced in some bienniums of the previous decade.

The percentage distribution of major sources of revenue is shown in Table 3.5. The great importance of the income tax on individuals and fiduciaries is obvious. In the 1968-70 biennium, it accounted for 37 percent of revenues and by 1976-78, the projections show it representing one-half. The other major disclosure is the importance of the sales and use tax which was adopted in the 1966-68 biennium. When first introduced, the tax was 2 percent, and it did not become effective until several months after the beginning of the biennium. Because of the lower rate and the delay in introduction, revenues from the tax in the 1966-68 biennium represented a lower share of total revenues than projected in the future. For the current biennium, the sales and use tax provided 29 percent of total revenues, and in 1976-78 we expect it to provide about 24 percent.

CHART 3.1--GROWTH OF GENERAL FUND REVENUES, ACTUAL AND PROJECTED, 1960-62 TO 1976-78



Source: Table 3.4.

TABLE 3.4--SUMMARY OF GENERAL FUND REVENUES,  
ACTUAL 1958-60 TO 1968-70 AND PROJECTED 1970-72 TO 1976-78

<u>Biennium</u>	<u>Amount</u> <u>(\$Mil.)</u>	<u>Change from</u> <u>Preceding Biennium</u>	
		<u>Amount</u> <u>(\$Mil.)</u>	<u>Percent</u>
Actual			
1958-60	\$ 404.2	...	...
1960-62	505.2	101.0	25.0
1962-64	616.9	111.7	22.1
1964-66	724.4	107.5	17.4
1966-68	1,021.4	296.9	41.0
1968-70	1,489.6	468.2	45.8
Projected			
1970-72	1,732.1 <sup>a/</sup>	242.4	16.3
1972-74	2,062.1	330.0	19.0
1974-76	2,534.3	472.2	22.9
1976-78	3,093.5	559.2	22.1

Note: Details may not add to totals due to rounding.

<sup>a/</sup> Official estimated adopted when appropriations were enacted April, 1970.

Source: Table 3.2, p.61.

#### Methodology

The projections were based on the assumption that the nation would not become involved in a major armed conflict and that current efforts to end the Southeast Asia conflict would be successful. No major economic downturns were assumed other than the current recession. Assumptions about the future growth of gross national product, the indicator used to project Virginia personal income, are those already mentioned in Chapter 2 (see pages 36-40). Population is forecast to grow by 1.5 percent annually. For the current biennium (1970-72), the general fund projections are based on the official estimates made at the time of budget adoption in April, 1970.

TABLE 3.5.--PERCENTAGE DISTRIBUTION OF GENERAL FUND REVENUE SOURCES,  
ACTUAL 1960-62 TO 1968-70 AND PROJECTED 1970-72 TO 1976-78

Revenue Source	Actual					Projected			
	1960-62	1962-64	1964-66	1966-68	1968-70	1970-72	1972-74	1974-76	1976-78
FROM TAXATION									
TAXES									
Public Service Corporations	8.7	7.9	7.2	5.8	5.5	4.2	3.7	3.7	3.4
Capital Not Otherwise Taxed	5.5	3.0	2.2	0.8	0.6	0.5	0.4	0.4	0.4
Individuals and Fiduciaries - Income	34.1	41.5	42.3	40.6	37.3	39.7	47.6	47.6	50.9
Corporations - Income	11.7	10.7	12.1	9.6	9.0	7.0	5.1	5.1	4.7
Insurance Companies - Premiums	5.1	4.9	4.9	4.1	4.2	3.3	3.2	3.2	3.1
Bank Stock	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Inheritance	1.8	2.0	2.2	1.7	1.5	1.6	1.8	1.8	1.9
Gift	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Wills, Suits, Deeds, Contracts	1.6	1.7	1.8	1.3	1.1	1.1	0.9	0.9	0.8
Beer and Beverage State Tax	4.1	3.6	3.7	2.4	1.9	1.7	1.6	1.6	1.5
Alcoholic Beverage State Tax	3.8	3.8	3.5	3.1	2.2	2.9	2.3	2.3	2.1
Tobacco Products Tax	5.7	4.8	4.4	2.6	1.8	1.6	1.2	1.2	1.0
State Sales and Use Tax	...	...	...	18.6	26.5	28.6	25.4	25.4	24.3
Miscellaneous Taxes and Penalties	0.7	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2
RIGHTS AND PRIVILEGES									
Licenses and Permits	5.5	4.9	4.6	0.9	0.4	0.4	0.3	0.3	0.3
Corporate Franchise and Charters	0.5	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2
OTHER THAN TAXATION									
Institutional Revenues	1.5	1.5	1.5	1.2	1.4	2.2	2.2	2.2	2.1
Interest, Dividends, Rents	1.0	1.1	1.5	1.2	1.7	0.8	0.5	0.5	0.5
Excess and Other Fees from Officers	0.5	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.2
Other Miscellaneous Revenues	1.3	1.3	1.2	1.0	0.8	0.9	0.7	0.7	0.6
A.B.C. Profits	6.1	5.1	4.8	3.4	2.7	2.4	1.9	1.9	1.6
Total General Fund Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Details may not add to totals due to rounding.

Source: Table 3.2.

The projections from 1972-74 to 1976-78 were made by the staff. In the process of making the projections, the state's fiscal agencies--the Department of Accounts, the Department of Taxation, and the Division of the Budget--were all consulted, and they were particularly helpful in interpreting historical data. However, the fiscal agencies were not responsible for the projections which were solely the work of the staff; and, therefore, no official endorsement on their part should be implied.

In making the projections, we assumed no changes in rates or tax structure unless the change was already provided for by law. This was an important assumption because, as previously noted, in the past significant amounts of new revenue were secured through rate increases, acceleration of due dates, and new taxes.

Any projection must rely on historical data to provide a basis for looking forward, and the choice of a relevant historical period is a crucial decision. This report relies mainly on the ten-year period from 1960-61 to 1969-70.

The projection of general fund revenues was accomplished by making separate projections for each of twenty-one different major sources of revenue. The projections were made by using several techniques, and then the technique which appeared to be most accurate for each source was selected. Table 3.6 summarizes the technique selected for each of the major sources.

#### Error Range

The projections in this report are only as good as the assumptions used to make them. If, for example, personal income grows much slower (or faster) than assumed, then actual revenues will differ significantly from those forecast. In making these projections, we attempted to be neither overly pessimistic nor overly optimistic, but it should be recognized that the

TABLE 3.6.--METHODOLOGY FOR GENERAL FUND REVENUE PROJECTIONS

<u>Dependent Variable</u>	<u>Equation</u>	<u>X</u>	<u>Coefficient of Correlation (r)</u>	<u>Standard Error of Estimate (Syx)</u>	<u>t value</u>
<b>Revenue Sources</b>					
Public Service Corporations	Log Y = 4.515 + 0.718 Log X	Virginia personal income (f.y.)	0.99200	0.01086	22.228
Capital Not Otherwise Taxed	Log Y = 6.492 + 0.015 X	Time; 1960-61 = 1	0.81834	0.03475	4.027
Individual and Fiduciaries - Income <sup>a/</sup>	Log Y = 1.112 + 1.747 Log X	Virginia personal income (f.y.)	0.99664	0.01707	34.420
Corporations - Income	Y = 4,054,373 + 649,747 X	National corporate profits before taxes or IVA (April-March year)	0.99297	1,295,690.8	23.721
Insurance Companies - Premiums	Log Y = 7.053 + 0.036 X	Time; 1960-61 = 1	0.99860	0.00613	53.362
Bank Stock	Y = 1,111,910 + 111,504 X	Time; 1960-61 = 1	0.99223	44,912.9	22.550
Inheritance	Log Y = 6.592 + 0.050 X	Time; 1960-61 = 1	0.95828	0.04782	9.483
Gift	Log Y = 5.518 + 0.024 X	Time; 1960-61 = 1	0.70926	0.07819	2.846
Wills, Suits, Deeds, Contracts	Y = 4,172,099 + 455,117 X	Time; 1960-61 = 1	0.93431	557,593.7	7.414
Beer and Beverage Excise	Log Y = 3.704 + 0.823 Log X	Virginia personal income (f.y.)	0.97773	0.02101	13.176
Alcoholic Beverages State Tax	Log Y = 5.039 + 0.554 Log X	Virginia personal income (f.y.)	0.99674	0.00533	34.924
Tobacco Products Tax	Y = 11,902,410 + 179,920 X	Time; 1960-61 = 1	0.90791	266,751.5	6.126
State Sales and Use Tax	Y = 0.013 X	Virginia personal income (f.y.)			
Miscellaneous Taxes and Penalties	Y = 1.04 X	Miscellaneous Taxes and Penalties, previous fiscal year			
Licenses and Permits	Log Y = 6.454 + 0.010 X	Time; 1960-61 = 1	0.74697	0.02755	3.178
Corporate Franchise and Charters	Log Y = 6.086 + 0.026 X	Time; 1960-61 = 1	0.99025	0.01163	20.106
Institutional Revenues	Y = 1.084 X	Institutional Revenues, previous fiscal year			
Interest, Dividends, Rents	Y = 1.065 X	Interest, Dividends, Rents; previous fiscal year			
Excess and Other Fees from Officers	Log Y = 6.052 + 0.024 X	Time; 1960-61 = 1	0.88785	0.03969	5.458
Other Miscellaneous Revenues	Log Y = 6.490 + 0.029 X	Time; 1960-61 = 1	0.96567	0.02482	10.514
A.B.C. Profits	Y = 14,965,343 + 605,839 X	Time; 1960-61 = 1	0.93413	743,374.2	7.402
<b>Other Variables Projected</b>					
GNP <sup>b/</sup>	Fiscal Year 1972-73, Y = 1.074 X Fiscal Year 1973-74, Y = 1.073 X Fiscal Year 1974-75, Y = 1.073 X Fiscal Year 1975-76, Y = 1.070 X Fiscal Year 1976-77, Y = 1.066 X Fiscal Year 1977-78, Y = 1.066 X	GNP, previous fiscal year			
Virginia Personal Income <sup>c/</sup>	Log Y = 0.680 + 1.182 Log X	GNP in current dollars (f.y.)	0.99936	0.00424	79.238
National Corporate Profits Before Taxes or IVA (April-March Year)	Y = 1.05 X	National corporate profits before taxes or IVA (April-March Year), previous year			

<sup>a/</sup> After use of the equation, the result was adjusted downward to allow for the loss in revenue from adopting tax conformity legislation.

<sup>b/</sup> Factors for projecting GNP were derived from projected changes in the implicit price deflator and real growth.

<sup>c/</sup> Personal income was projected by multiplying projected relative changes in GNP by 1.182 (the regression coefficient) and applying that factor to personal income for the previous fiscal year.

projections are subject to considerable error, particularly those that cover the distant future. For this reason, the 1972-74 projection is likely to be closer to the mark than the 1976-78 projection.

A  $\pm 4$  percent difference between projected revenues and the actual outcome is a very real possibility. In the past, biennium budget projections have often exceeded this range of error. Table 3.7 shows how such differences would affect projected revenues. The absolute amounts are large, but such magnitudes are to be expected when dealing with a budget counted in billions of dollars.

TABLE 3.7--POSSIBLE ERROR RANGE OF GENERAL FUND REVENUE PROJECTIONS, 1972-74 TO 1976-78

<u>Biennium</u>	<u>(\$Millions)</u>	
	<u>Projected Revenue</u>	<u><math>\pm 4\%</math> Error</u>
1972-74	\$2,062.1	$\pm$ \$ 82.5
1974-76	2,534.3	$\pm$ 101.4
1976-78	3,093.5	$\pm$ 123.7

Source: Table 3.2.

#### Definitions

The Report of Comptroller was the basic source for all historical information; however, certain adjustments were made in total figures. The reason for these adjustments was to eliminate bookkeeping entries which tend to overstate financial activity and to insure comparability with the manner of presentation in the budget.



Statement No. 4 in the Report of Comptroller showing all revenues includes contributions for retirement purposes and sales of alcoholic liquors and excludes total A.B.C. profits. The retirement system contributions (\$79.3 million in fiscal year 1969-70) constitute special revenues outside of the appropriation process. Sales of liquor (\$156.7 million in fiscal year 1969-70) represent a business operation of the state and are not a true source of net revenue until allowance is made for the cost of goods sold and cost of operation. A.B.C. profits (\$21.0 million in fiscal year 1969-70) provide a better measure of net revenues. Therefore, total revenues as shown in Table 3.1 of this report are equal to total revenues shown in Statement No. 4 minus contribution for retirement purposes, minus sales of alcoholic liquors, and plus total A.B.C. profits (including the local share). This definition of total revenues is fairly comparable to the concept of "general revenue" used by the Governments Division of the Bureau of the Census in its publication titled State Government Finances.

Cost of Administration of State Taxes

## Introduction

This section provides estimates of the cost of administration and collection of state general fund taxes. Since some taxes are tied to broader economic bases than others, they, by their nature, produce more revenue per dollar of cost. Moreover, the taxes yielding less revenue may be tied to a system of regulation and inspection, or may reflect an attempt to provide equitable taxation for different types of taxpayers, as well as to provide a source of revenue to the state.

Because cost alone does not indicate efficiency, these estimates are not intended to be measures of efficiency of tax administration. It is possible, for instance, that more dollars spent on administration could result in less evasion and better compliance, so that a tax would be less costly per dollar of revenue produced.

We, and the taxing agencies who assisted us, encountered several problems in preparing these estimates. First, some taxes are administered by more than one unit of government. The tax on income of individuals and fiduciaries, for example, is handled by local Commissioners of the Revenue, by local Treasurers, and by the State Department of Taxation. It was therefore necessary to estimate the amount spent throughout the state on the local level to administer this tax and add it to the expenses of the Department of Taxation to arrive at a complete estimate. Another problem was that of allocating costs among several taxes which are all administered by the same staff. Five different taxes, for instance, are administered by the Forest Products

Division of the Department of Taxation. A related issue was that of allocating costs to the administration of taxes when a department has other duties besides taxation. Along with the administration of nine taxes, the Public Utilities Taxation Division of the State Corporation Commission is also responsible for the assessment of real and personal property of public service corporations for certification to the localities.

In our discussion of the costs of levying these taxes, we have included only the collection costs or costs to the state government. No effort has been made to estimate the compliance costs to the taxpayer of assembling the necessary data, computing the tax, and filing the return, but they nevertheless exist and can result in large, even though uncomputed, costs to society. These costs include not only the observable costs to businesses of hiring additional clerks and accountants for tax purposes, but also the opportunity costs to individuals of giving up their leisure time to labor over tax returns.

#### Discussion of Taxes Covered

The analysis is confined to taxes which flow directly into the general fund or which involve substantial transfers to that fund from special funds. A listing of these taxes and the agencies which administer them is found in Table 3.8. A detailed discussion follows which includes the estimated cost of administration of each tax, the dollar cost per \$100 of net revenue (total revenue less refunds), and the cost per tax-paying unit. In addition, any problems confronted in making the cost estimates are mentioned. Net revenue figures for taxes for fiscal year 1969-70 were obtained from the Report of the Comptroller, Fiscal Year Ended June 30, 1970. By taxpaying unit, we mean the number of individuals

TABLE 3.8.--STATE GENERAL FUND TAXES AND THE AGENCIES WHICH ADMINISTER THEM

Revenue Classification Code Reference	<u>General Fund Taxes</u>	<u>Administering Agencies</u>
1018	Income of corporations	Department of Taxation - Corporation Tax Division
1021	Estate	Department of Taxation - Inheritance and Gift Tax Division
1023	Gift	Department of Taxation - Inheritance and Gift Tax Division
1050	Beverage excise tax	Department of Taxation - Beer and Tobacco Tax Division
1055	Beer excise tax	Department of Taxation - Beer and Tobacco Tax Division
1058	Tobacco products tax	Department of Taxation - Beer and Tobacco Tax Division
1061	Forest products tax	Department of Taxation - Forest Products Tax Section
1083	State sales and use tax	Department of Taxation - Sales and Use Tax Division
1020	Shares of stock of banks, trust, and security companies	Department of Taxation - Administrative Division Local Treasurers and Commissioners of the Revenue
1014	Capital not otherwise taxed	Department of Taxation - Individual, Corporation, and Partnership Tax Divisions Local Treasurers and Commissioners of the Revenue
1026	Income of individuals and fiduciaries	Department of Taxation - Individual Tax Division, Income Tax Withholding Division, and Individual Estimated Income Tax Division Local Treasurers and Commissioners of the Revenue
1037	Wills and administrations	Local Clerks of the Court
1038	Suits	Local Clerks of the Court
1039	Deeds and contracts admitted to record	Local Clerks of the Court
1049	Deeds of conveyance	Local Clerks of the Court

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(Table continued on next page.)

TABLE 3.8.--STATE GENERAL FUND TAXES AND THE AGENCIES WHICH ADMINISTER THEM (Cont.)

Revenue Classification Code Reference	General Fund Taxes	Administering Agencies
1001	Railroad companies	State Corporation Commission - Public Utilities Taxation Division
1003	Carline companies	State Corporation Commission - Public Utilities Taxation Division
1004	Express companies	State Corporation Commission - Public Utilities Taxation Division
1006	Light, heat, power, and water companies	State Corporation Commission - Public Utilities Taxation Division
1007	Telephone and telegraph companies	State Corporation Commission - Public Utilities Taxation Division
1010	Valuation taxes on certain public service corporations	State Corporation Commission - Public Utilities Taxation Division
1019	Gross premiums of insurance companies	State Corporation Commission - Bureau of Insurance
1012	Motor vehicle carriers - gross earnings	State Corporation Commission - Division of Motor Carrier Taxation
1040	Oyster inspection tax	Marine Resources Commission
1056	Wines and spirits sales tax	Alcoholic Beverage Control Board
1057	Alcoholic beverages state tax	Alcoholic Beverage Control Board
1077	Alcoholic beverages bought for resale by the drink	Alcoholic Beverage Control Board

or businesses which file returns for each tax rather than the number of returns or pieces of paper handled. The monthly or quarterly returns, required by some taxes, naturally increase the processing costs of the administering agency, but may also increase revenue.

#### Taxes Administered by the Department of Taxation

The estimates of cost of administration of those taxes levied by the State Department of Taxation include the expenses of the division or section directly administering the tax, an allocation of the expenses of the Administrative Division, and an allocation of the expenses of the Data Processing Division. Distributions of Administrative Division expenses were made arbitrarily on the basis of the percentage of total non-Administrative Division expenses made up by the expenses of each division. Data Processing expenses were assigned on the basis of the amount of time spent by that division on each tax that it handled--the corporation income tax, the state sales and use tax, and the tax on incomes of individuals and fiduciaries.

#### Income of Corporations

The Corporation Tax Division administers this tax as well as a tax on capital not otherwise taxed and a business license tax on corporations. An estimated 98 percent of the division's time is spent in connection with the income tax. Therefore, of the division's total expenditures (\$107,193) in fiscal year 1969-70, approximately 98 percent (\$105,050) can be allocated to the corporation income tax. In addition, 4.1 percent of Administrative Division expenses (\$7,830) and 10 percent of total expenses assigned to Data Processing (\$52,354) were allocated

to this tax for a total cost of \$165,234. Since the net revenue of the tax was \$67,368,809 in fiscal year 1969-70, the corporation income tax cost \$0.24 per \$100 of net revenue produced. In fiscal year 1969-70, 21,108 corporations paid this tax, making the cost per taxpaying unit \$7.83.

#### Estate

The estate tax (actually an inheritance tax) is handled by the Inheritance and Gift Tax Division and occupies an estimated 90 percent of its time. Of the total direct expenses of the division, \$132,372 in fiscal year 1969-70, approximately \$119,140 was spent on the administration of this tax. In addition, \$4,794 of Administrative Division expenses may be allocated to it for a total of \$123,929. Total net revenue collected in fiscal year 1969-70 was \$11,714,120 plus \$101,262 in additional probate and/or administration taxes that were reported collected by the various clerks of the court as a result of the audit of state inheritance tax returns by this division. Therefore it cost approximately \$1.05 per each \$100 of revenue produced to administer this tax. Since the total number of inheritance tax paying units filing returns was 15,330, the cost per unit was approximately \$8.08.

#### Gift

The gift tax is administered by the Inheritance and Gift Tax Division and occupies approximately 10 percent of its time. Of the total direct expenses of the division, \$132,372 in fiscal year 1969-70, approximately \$13,240 was spent on the administration of this tax. In addition, approximately \$530 of Administrative Division expenses may

be allocated to it for a total cost of \$13,770. Total net revenue collected in fiscal year 1969-70 was \$530,706. Therefore, cost per \$100 of revenue produced was approximately \$2.59. The total number of gift tax units handled was 1,358, so that the cost per unit was approximately \$10.14.

#### Beer and Beverage Excise Taxes

The beer and beverage excise taxes are levied by the Beer and Tobacco Tax Division, which spends approximately 50 percent of its time on their administration. The division treats these taxes as essentially one malt beverage excise tax which covers beers of different alcoholic content. Total direct expenditures were approximately \$100,270, plus an allocation of \$4,000 of Administrative Division expenses for a total of \$104,270. Net revenue produced in fiscal year 1969-70 was \$15,847,225, making the cost per \$100 of net revenue approximately \$0.66. No estimate has been made of the number of returns handled since the tax is levied through the issuance of crowns, lids, and stamps which are sold to malt beverage wholesalers in varying amounts and at varying intervals throughout the year.

#### Tobacco Products Tax

The Beer and Tobacco Tax Division spends approximately 50 percent of its time on the administration of the tobacco products tax. Therefore, \$100,270 of direct expenses of the division plus an additional \$4,000 of Administrative Division expenses for a total of \$104,270 can be assigned to this tax for fiscal year 1969-70. Net revenue produced in that period was \$13,751,245. The cost per \$100 of revenue was, therefore,



approximately \$0.76. No estimate has been made of the number of returns handled since this tax is levied through the sale of stamps to tobacco wholesalers in varying amounts throughout the year.

#### Forest Products Tax

The Forest Products Tax Section administers the forest products general fund tax as well as the peanut excise, the slaughter hog and feeder pig, the egg promotion, and the soybean special fund taxes. It is estimated that 85 percent of its time is spent on the administration of the forest products tax. Therefore \$23,850 of the direct expenses of the division and \$970 of the expenses of the Administrative Division can be allocated to this tax for fiscal year 1969-70 for a total of \$24,820. During the same period, net revenue produced equaled \$199,274. Cost per \$100 of revenue was \$12.46. The division processed the annual and quarterly returns of about 500 sawmill operators, making the cost per taxpaying unit approximately \$48.56.

#### State Sales and Use Tax

This tax is administered by the Sales and Use Tax Division. Allocated to it in fiscal year 1969-70 were \$2,139,420 in direct expenses of the division, \$85,800 of Administrative Division expenses, and \$183,240 or 35 percent of Data Processing Division expenses. In addition, the state allows dealers a 3 percent deduction in the amount of tax due to compensate for accounting for and remitting the tax. Including this 3 percent deduction (estimated to be \$6,496,000), total cost of administration was \$8,904,460. Total net revenue (also including the estimated \$6,496,000) was \$216,540,989, making the cost per \$100 of

net revenue \$4.11. The division handled the monthly sales tax returns and and the consumer use tax returns of about 48,140 units in fiscal year 1969-70. The cost per unit was therefore \$105.83.

Taxes Administered Both Locally and by the Department of Taxation

Since some state taxes are administered on the local level by the Commissioners of the Revenue and Treasurers, the state pays one-half of the salaries and approved expenses of these constitutional officers. On this basis, we have made the arbitrary assumption that, on average, one-half of the time of these officers is spent on the administration of state taxes. To allot the expenses paid by the state to the different taxes, \$3,318,800 to Treasurers and \$3,240,312 to Commissioners of the Revenue in fiscal year 1969-70, we asked the Commissioners and Treasurers of several localities (Hanover County, Hopewell, Newport News, and Norfolk) for their estimates of time spent on each tax and tried to form a general consensus. These figures are included in the discussion below.

Shares of Stock of Banks, Trusts, and Security Companies

The local Commissioners of the Revenue collect the reports of this tax and send them, along with certification of the value of the banks' properties, to the Administrative Division of the Department of Taxation. The division estimates that \$1,250 to \$1,500 of its fiscal year 1969-70 expenses can be allocated to this tax. In addition, less than 1 percent of the time spent on state taxes by the Commissioners of the Revenue are allocated to it for a cost of about \$32,000. Total costs, therefore, were approximately \$33,400. From the Report of the Department of Taxation, Fiscal Year Ended June 30, 1970, we find that \$5,287,275 of revenue was

collected, of which \$2,325,159 was paid into the state treasury and \$2,962,116 was paid into the treasuries of counties, cities and towns. The cost per \$100 of net revenue collected was \$0.63. Approximately 235 returns were handled, making the cost per taxpaying unit \$142.13.

#### Capital Not Otherwise Taxed

Within the Department of Taxation, the Corporation Tax Division allocated approximately 1 percent (\$1,114) of its expenses, the Individual Tax Division allocated 2 percent (\$13,041) of its expenses, and the Partnership Tax Division allocated between 10 and 40 percent (\$2,279 to \$9,118) of its expenses to this tax. The above figures include allocated Administrative Division expenses. In addition, the tax occupies approximately 5 percent of the time spent on state taxes by the offices of the Treasurers and Commissioners of the Revenue, for a cost of about \$328,000. Total expenses, therefore, were between \$344,000 and \$351,000. Net revenue collected was \$4,864,639, so that the cost per \$100 of net revenue was between \$7.07 and \$7.22. Since this tax is handled by so many units of government with no one central clearinghouse, there were no figures available on the number of returns handled.

#### Income of Individuals and Fiduciaries

Three divisions of the Department of Taxation -- the Income Tax Withholding Division, the Individual Tax Division, and the Individual Estimated Income Tax Division -- as well as the local Treasurers and Commissioners of the Revenue administer this tax. Total expenses assigned to the three divisions were \$1,356,837, including \$1,052,379 in direct expenses of the divisions, \$42,688 in allocated Administrative Division expenses, and \$261,770 of Data Processing Division costs. An estimated 90 percent

of the time spent on state taxes by the Treasurers and Commissioners is devoted to the individual income tax, so that \$5,903,200 of their expenses may be allocated to this tax. Total costs of administration on the state and local levels totalled \$7,260,037. Net revenue collected in fiscal year 1969-70 was \$282,768,933, making the cost per \$100 of net revenue \$2.57. The number of final returns received in 1970 (tax returns from taxable year 1969) was 1,745,151, making the cost per unit \$4.16.

Wills and Administrations; Suits; Deeds and Contracts Admitted to Record;  
and Deeds of Conveyance

These taxes are levied by the local clerks of the court on a fee basis. Thus, there is no collection cost to the state government for these taxes.

#### Taxes Administered by the State Corporation Commission

##### Public Utilities Taxes

The Public Utilities Taxation Division administers the taxes on railroad companies; car line companies; express companies; light, heat, power, and water companies; telephone and telegraph companies; motor vehicle carriers (rolling stock); and valuation taxes on certain public service corporations. The division estimates that 15 percent (\$19,648) of its total direct costs (\$130,984) is related to the administration of these taxes, and that 85 percent (\$111,337) is related to the assessment of real and personal property of public service corporations for certification to localities. The distribution of the 15 percent was accomplished by taking the amount of revenue of each tax and finding its percentage of the total revenue of all eight taxes, and then applying the percentage to the total administrative cost. The net revenue, direct cost, and cost per

\$100 of revenue are listed below for each general fund tax.

	<u>Direct Costs</u>	<u>Net Revenue</u>	<u>Cost \$100 of Net Revenue</u>
Railroad companies	\$4,915	\$ 9,040,611	\$0.05
Car line companies	65	117,973	0.06
Express companies	87	156,471	0.06
Light, heat, power, and water companies	9,691	18,409,752	0.05
Telephone and telegraph companies	4,285	8,133,882	0.05
Valuation taxes on certain public service corporations	433	783,139	0.06

Listed below are the total number of taxpaying units filing reports and estimated returns in fiscal year 1969-70 and the cost per unit for each tax.

	<u>Number of Reporting Units</u>	<u>Cost per Unit</u>
Railroad companies	23	\$213.70
Car line companies	115	0.56
Express companies	2	43.50
Light, heat, power, and water companies	164	59.09
Telephone and telegraph companies	34	126.03
Valuation taxes	241	1.80

### Gross Premiums of Insurance Companies

The tax on gross premiums of insurance companies is administered by the Bureau of Insurance. The direct cost of collecting this tax was estimated to be \$10,492. Net revenue collected was \$26,684,999. Thus, the cost per \$100 of net revenue was \$0.04. In fiscal year 1969-70, approximately 950 companies filed quarterly and final returns, making the cost per taxpaying unit \$11.04.

### Motor Vehicle Carriers (Gross Earnings)

The Division of Motor Carrier Taxation administered this tax at an estimated cost of \$5,100 in fiscal year 1969-70. Since the net revenue was \$592,067, cost per \$100 of revenue received was \$0.86. The cost per unit of handling the reports of 840 companies was \$6.07.

### Tax Administered by the Marine Resources Commission

#### Oyster Inspection Tax

The Marine Resources Commission estimates that \$3,947 was spent for the administration of the Oyster Inspection Tax in fiscal year 1969-70. The Commission observed that this is a rough estimate since the men who collect this tax have other collection and inspection duties as well. In addition, the administration of this tax allows the Commission to collect statistics on the production of oysters. Net revenue collected in fiscal year 1969-70 was \$37,955, making the cost per \$100 of net revenue collected \$10.40. Approximately 137 businesses paid this tax once a month for eight months. The cost per unit was, therefore, \$28.81.

Taxes Administered by the Alcoholic Beverage Control Board

The Alcoholic Beverage Control Board (A.B.C. Board) operates the state's monopoly liquor business. From this activity the state receives two types of revenue--taxes and A.B.C. profits. The taxes--the wines and spirits sales tax, the alcoholic beverages state tax, and the tax on alcoholic beverages bought for resale by the drink--are levied on store sales, wholesale orders, special orders, mixed beverage sales, and on wholesale distributors of liquor. Since the largest portion of the taxes are levied at the time of sale, any separation of the costs of running the business from the costs of levying the taxes would be very arbitrary. A more appropriate measure than the cost of administration of the taxes might be an estimate of net revenue to the state per dollar of net sales. The revenue from A.B.C. Board sales in fiscal year 1969-70 was \$40,763,983, \$475,568 from the wines and spirits sales tax, \$15,656,452 from the alcoholic beverages state tax<sup>1/</sup>, \$325,357 from the tax on alcoholic beverages bought for resale by the drink, and \$24,306,606 from A.B.C. profits before any distribution. Net sales (total sales less refunds) were \$156,095,672, making the net revenue per \$100 of net sales \$26.11.

Summary

A summary of the cost per \$100 of revenue and the cost per taxpaying unit for each tax discussed is contained in Table 3.9. It is worth noting

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<sup>1/</sup> Since the sales of wholesale distributors in Virginia are not included in the net sales of the A.B.C. Board, the figures for the wines and spiritssales tax and the alcoholic beverages state tax exclude \$2,296,896 in revenue collected from these businesses, so that the revenue per net sales figure would not be overstated.

TABLE 3.9--SUMMARY OF COST OF ADMINISTRATION OF STATE TAXES,  
FISCAL YEAR 1969-70

Revenue Source	Cost Per \$100 of Net Revenue	Cost Per Taxpaying Unit
Income of corporations	\$ 0.24	\$ 7.83
Estate	1.05	8.08
Gift	2.59	10.14
Beer and beverage excise	0.66	... <sup>a/</sup>
Tobacco products tax	0.76	... <sup>a/</sup>
Forest products tax	12.46	48.56
State sales and use tax	4.11	105.83
Shares of stock of banks, trust, and security companies	0.63	142.13
Capital not otherwise taxed	7.07-7.22	... <sup>a/</sup>
Income of individuals and fiduciaries	2.57	4.16
Wills and administrations, suits, deeds and contracts admitted to record, deeds of conveyance	... <sup>b/</sup>	... <sup>b/</sup>
Railroad companies	0.05	213.70
Car line companies	0.06	0.56
Express companies	0.06	43.50
Light, heat, power and water companies	0.05	59.09
Telephone and telegraph companies	0.05	126.03
Valuation taxes on certain public service corporations	0.06	1.80
Gross premiums of insurance companies	0.04	11.04
Motor vehicle carriers (gross earnings)	0.86	6.07
Oyster inspection tax	10.40	28.81
Exhibit:		
A.B.C. taxes and profits per \$100 of net sales		\$26.11

<sup>a/</sup> No estimate made.

<sup>b/</sup> No cost to state government.



again that a comparison of these cost figures does not necessarily indicate relative efficiency of administration since the taxes are of varied types and are levied for different reasons. Further lines of inquiry which were beyond the scope of this report might be comparisons of the costs of administration of Virginia taxes with similar taxes in other states, and estimates of costs to the Department of Taxation of taking over some of the duties of the local Commissioners of the Revenue and Treasurers.

Revenue Alternatives

## Public Service Corporation Taxes

The subject of public service taxation is large and complex, and is beyond the scope of this inquiry except for a few general comments. There are many issues deserving study such as differences in taxation of intra-state and interstate firms, differences in taxation of different forms of transportation, and differences in the taxation of public service and other types of corporations. In regard to the last point, public service corporations do not pay the state corporate income tax or taxes on capital but, instead, are required to pay various taxes based on gross receipts and assorted measures of property (e.g. miles of telephone line). The rates and provisions vary depending on the type of corporation.

There is strong evidence that the present tax provisions yield a higher revenue than if the public service corporations were to pay the 5 percent income tax applicable to other types of corporations. As shown in Table 3.10, actual tax assessments were over \$36 million in 1970--an amount about four times larger than what would have been collected from an income tax. The exact magnitude of the difference cannot be ascertained since no figures are available on the net income of the Virginia portion of business of public service corporations. However, the rough estimating procedure shows clearly that the revenue yield of an income tax would be lower. Thus, if consideration were given to raising the corporate income tax by 20 percent to a 6 percent rate (a possibility discussed in a later section), it would not be necessary to also raise public service corporation taxes in order to make them comparable. On the other hand, if the goal were to maintain the existing relative difference, then it would be necessary to raise effective taxes on public service corporations by 20 percent.

TABLE 3.10.--PUBLIC SERVICE CORPORATION TAXES, ACTUAL, AND HYPOTHETICAL UNDER A 5 PERCENT INCOME TAX, 1970

Type of Public Service Corporation	Gross Receipts <sup>a/</sup>	Estimated Taxable Income <sup>b/</sup>	Tax, 1970			Hypothetical Corporate Income Tax Collections
			On Gross Receipts	Other	Total	
Railroad companies	\$ 305,138,312	\$ 14,647,000	\$ 4,577,075 <sup>c/</sup>	\$4,349,895 <sup>d/</sup>	\$ 8,926,970	\$ 732,000
Express companies	7,335,861	352,000	157,721 <sup>e/</sup>	...	157,721	18,000
Car line companies	n.a.	...	...	118,210 <sup>f/</sup>	118,210	...
Electric light and power corporations	427,187,253	97,399,000	15,325,841 <sup>g/</sup>	...	15,325,841	4,870,000
Telephone and telegraph companies	254,495,255 <sup>h/</sup>	52,426,000	7,870,764 <sup>i/</sup>	166,347 <sup>j/</sup>	8,037,111	2,621,000
Gas and pipe line transmission corporations	74,658,581	7,018,000	2,650,832 <sup>g/</sup>	...	2,650,832	351,000
Water corporations	4,677,701	505,000	131,509 <sup>g/</sup>	...	131,509	25,000
Motor vehicle carriers	29,576,800 <sup>k/</sup>	1,183,000	616,020 <sup>k/</sup>	309,599 <sup>l/</sup>	925,619	59,000
Total, excluding car line companies	\$1,103,069,763	\$173,530,000	\$31,329,762	\$4,825,841	\$36,155,603	\$8,676,000

Note: Most public service corporation tax revenues are applicable in their entirety to the general fund. The chief exception is motor vehicle carriers.

n.a. - Not available.

a/ Gross receipts are for the year ending December 31, 1969.

b/ Estimated by using the ratio "income subject to tax/total receipts" for all public service corporations in 1966. Where possible, separate ratios were calculated for each type of public service corporation.

c/ Railroads pay an annual state franchise tax of 1½ percent based on their gross transportation receipts.

d/ Railroads pay a state tax of \$2.50 per \$100 of the assessed value of their rolling stock.

e/ Express companies pay a state franchise tax of 2<sup>3</sup>/<sub>20</sub> percent based on their gross receipts.

f/ Car line companies pay a state tax of 2½ percent per \$100 of the total value of their cars.

g/ Electric light and power corporations, gas and pipe line transmission corporations, and water corporations pay a state franchise tax of 1-1/8 percent based on gross receipts, a state franchise tax of 3½ percent based on gross receipts, and a special state tax of 0.1 percent based on gross receipts.

h/ Gross receipts figure includes gross earnings.

i/ Telephone companies pay a state license tax of 1-9/16 percent based on gross earnings and receipts, a license tax of 3 percent based on gross earnings and receipts, and a special state tax of .1 percent based on gross earnings and receipts. Telegraph companies pay a state license tax of 3-5/8 percent based on gross earnings and receipts and a special state tax of .1 percent based on gross earnings and receipts.

j/ Both telephone and telegraph companies pay a state tax of \$2.25 per mile of line of poles or conduits owned or operated by the company, firm, or person or association.

k/ Motor vehicle carriers pay a state tax of 2 percent on gross receipts from interurban business of bus companies, principally Trailways and Grayhound. In 1969-70, \$591,536 was collected in taxes from gross receipts of \$29,576,800. Carriers are also subject to a special state tax of 0.1 percent on gross receipts. In 1970, \$24,485 was collected from gross receipts of \$24,484,512.

l/ Motor vehicle carriers pay a state tax of \$2.50 per \$100 of the assessed value of their rolling stock.

Sources: U. S. Department of the Treasury, Internal Revenue Service, Corporation Income Tax Returns--Statistics of Income, 1966, Publication 16(4-70), (Washington: Government Printing Office, 1970), p. 10; Statements prepared by the State Corporation Commission for railroad and express companies; car line companies; electric light and power corporations; gas and pipeline transmission corporations; water corporations; telephone and telegraph companies; and motor vehicle carriers.

## Individual and Fiduciaries Income Tax

Introduction

The 1971 special session of the General Assembly adopted an individual income tax structure that conforms in large part with the new federal income tax structure. (The new federal provisions were adopted in 1969 and are being implemented over a four-year period.) The emphasis is therefore placed on alternative rate schedules. In the first section, the conformity structure is reviewed. A comparison with other states is made in the second section and the proposed rate schedules and their revenue impact are then analyzed. Finally, an income tax credit on food for home consumption is discussed. There is no consideration of specific items excluded from adjusted gross income (AGI) or of procedural provisions of the law that could affect tax liability. Several of them are important and could be topics of a special task force or included in a later study. Among them are (1) removal of the exemption of dividends from corporations earning over 50 percent of their income in Virginia; (2) a limit on the amount of exemptions for social security benefits and state and local retirement benefits; (3) the removal of the exemption on the first \$2,000 of retirement income from the federal civil and military service; and (4) the adoption of a "split income" option on joint returns.<sup>1/</sup>

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<sup>1/</sup> These issues and several others are discussed in part in a prior report, Income Tax Conformity Statute Study Commission, Implementation of a Simplified Tax System for Virginia Taxpayers (Richmond: Department of Purchases and Supply, 1971).

### The Conformity Structure

The conformity structure will become effective January 1, 1972. Its basic elements are:

1. \$600 exemption for all classes--personal, dependent, age, blindness, and single head of household. <sup>1/</sup>
2. The federal maximum standard deduction of 15 percent up to \$2,000 effective 1973. (In 1972 it will be 14 percent up to \$2,000 but all analysis is based on the 15 percent maximum.)
3. The federal minimum standard deduction of \$1,000 effective 1972.
4. Existing treatment of joint returns.
5. Existing rate schedule (see Table 3.13).

Under the preconformity structure, exemptions were \$1,000 for a personal exemption, \$300 for a dependent exemption, \$600 for age or blindness, and \$700 for single head of household; the maximum standard deduction was 5 percent up to \$500.

The total amount of exemptions, deductions, and income subject to tax for the two structures are compared for tax year 1968 (see appendix Table A.2). In the lower AGI brackets (\$0 - \$5,999), the conformity structure would have substantially decreased the income subject to tax, primarily because of the impact of the \$1,000 minimum standard deduction. The conformity structure would have caused taxable income in the middle AGI brackets to decline slightly, the main reason being the 15 percent up to \$2,000 maximum standard deduction. However, in the upper AGI brackets the income subject to tax under conformity would have risen a bit, for taxpayers would have continued to itemize deductions while their exemptions dropped. When the present rate schedule was applied to both structures, total tax receipts in 1968 declined from \$212.6

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<sup>1/</sup> Federal exemptions for all classes will be \$700 in 1972 and \$750 effective 1973.

million<sup>1/</sup> to an estimated \$208.1 million. Chart 3.2 shows the distribution of tax receipts by AGI class under the preconformity structure for tax year 1968. The distribution for the conformed structure, given in appendix Table A.3, would have been quite similar. Chart 3.3 shows 1968 returns distributed by AGI class.

### Comparisons with Other States

As of December 31, 1970, thirty-eight states plus the District of Columbia imposed an income tax on individuals.<sup>2/</sup> Twenty-five states conformed their tax to some degree to the federal provisions.<sup>3/</sup> Table 3.11 compares the exemptions granted by the states and the District of Columbia and Table 3.12 shows their standard deductions. For Virginia, the preconformity exemptions and standard deduction are listed.

The rate schedule in Virginia is compared to those in the other states in appendix Table A.6. The majority of the states have rate schedules with more than two brackets below \$5,000 and/or with several brackets above \$5,000. Their marginal rates typically rise from 1 or 2 percent on the first \$1,000 or \$2,000 of net taxable income through four or five brackets to 7 or 8 percent

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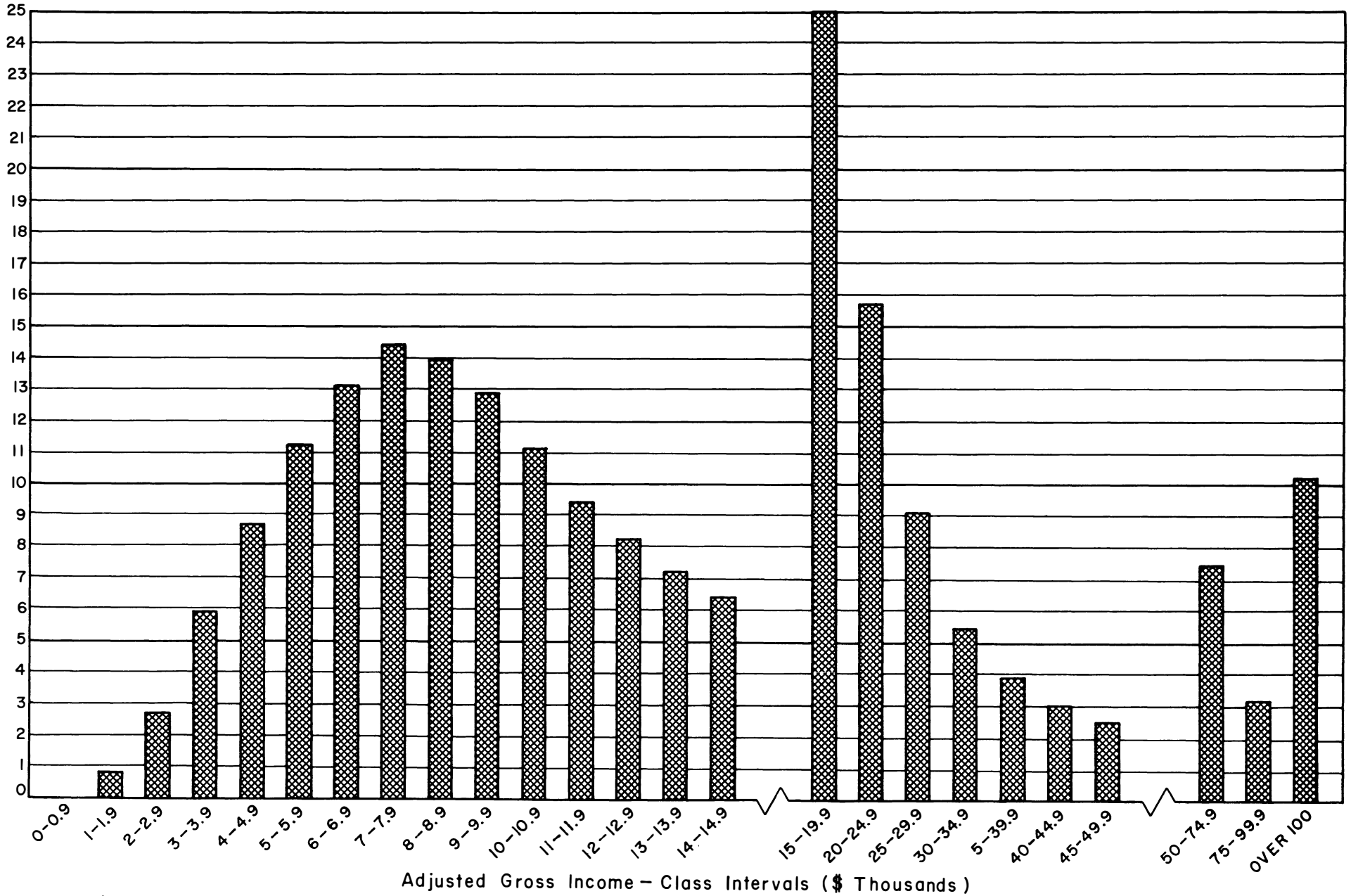
<sup>1/</sup> Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1968," Special Computer Printout (Richmond: September, 1970).

<sup>2/</sup> Two additional states, Tennessee and New Hampshire, limit the tax to interest and dividends. Pennsylvania imposed a broad-based individual income tax as of March, 1971; the rate is 3.5 percent on taxable income, which is essentially computed according to federal law.

<sup>3/</sup> Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, December, 1970), pp. 86-87.

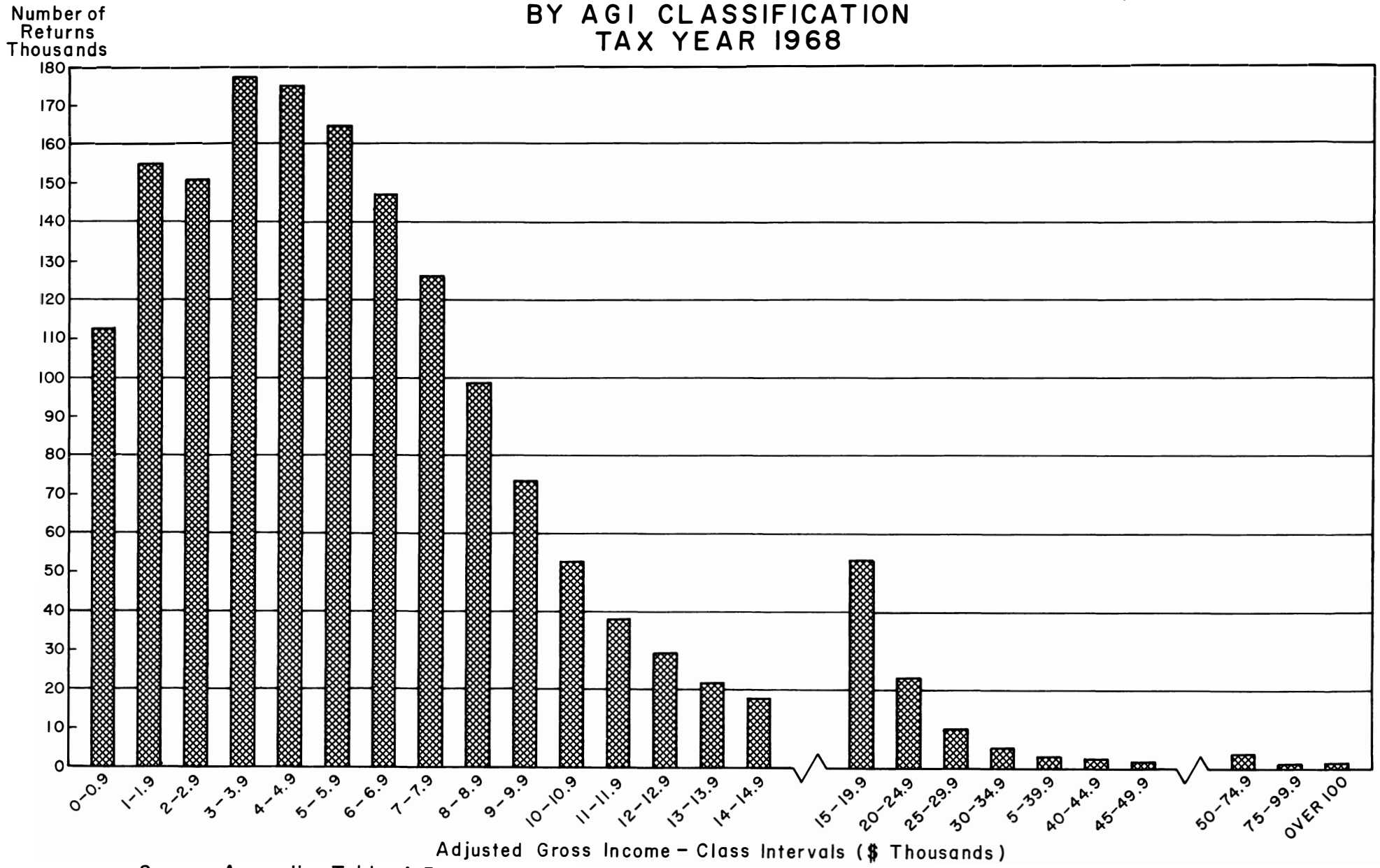
**CHART 3.2**  
**TOTAL INDIVIDUAL INCOME TAX RECEIPTS BY AGI CLASSIFICATION**  
**TAX YEAR 1968**

Total Tax Receipts  
 \$ Millions



Note: Structure and rates used were those applicable to tax year 1968 returns.  
 Source: Department of Taxation, Special Computer Printout, September 1970.

**CHART 3.3**  
**TOTAL NUMBER OF INDIVIDUAL INCOME TAX RETURNS,**  
**BY AGI CLASSIFICATION**  
**TAX YEAR 1968**



Source: Appendix, Table A.5.



TABLE 3.11.--STATE INDIVIDUAL INCOME TAXES:  
PERSONAL EXEMPTIONS, DECEMBER 31, 1970

State	Personal exemption		Additional exemption on account of --		
	Single	Married (joint return)	Dependents	Age <sup>1</sup>	Blindness <sup>1</sup>
Alabama . . . . .	\$1,500	\$3,000	\$300	....	....
Alaska . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Arizona . . . . .	1,000	2,000	600	\$1,000	\$500
Arkansas <sup>3</sup> . . . . .	17.50(1,750)	35(3,250)	6(333)	....	17.50 <sup>4</sup>
California <sup>3</sup> . . . . .	25(2,250)	50(4,500)	8(400)	....	8(400)
Colorado <sup>5</sup> . . . . .	750	1,500	750	750	750
Delaware . . . . .	600 <sup>6</sup>	1,200	600	600	600
Georgia . . . . .	1,500	3,000	600 <sup>7</sup>	600	600
Hawaii <sup>5</sup> . . . . .	625	1,250	625	625 <sup>8</sup>	5,000
Idaho <sup>5, 9</sup> . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Illinois . . . . .	1,000	2,000	1,000	1,000	1,000
Indiana <sup>5</sup> . . . . .	1,000	2,000 <sup>10</sup>	500	500	500
Iowa <sup>3</sup> . . . . .	15(1,500)	30(2,333)	10(467)	15 <sup>11</sup>	15 <sup>11</sup>
Kansas <sup>5</sup> . . . . .	600	1,200	600	600	600
Kentucky <sup>3</sup> . . . . .	20(1,000)	40(2,000)	20(1,111)	20(1,000)	20(1,000)
Louisiana <sup>12</sup> . . . . .	2,500(50)	5,000(100)	400(8)	....	1,000(20)
Maine . . . . .	1,000	2,000	1,000	1,000	1,000
Maryland . . . . .	800	1,600	800 <sup>13</sup>	800 <sup>13</sup>	800
Massachusetts <sup>5, 14</sup> . . . . .	2,000	2,600-4,000	600	600	2,000
Michigan . . . . .	1,200	2,400	1,200	1,200	1,200
Minnesota <sup>3, 5</sup> . . . . .	19(1,050)	38(1,683)	19(541)	15	15
Mississippi . . . . .	4,000	6,000	....	....	....
Missouri . . . . .	1,200	2,400	400	....	....
Montana . . . . .	600	1,200	600	600	600
Nebraska <sup>5</sup> . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
New Hampshire <sup>16</sup> . . . . .	600	600 <sup>17</sup>	....	....	....
New Jersey <sup>18</sup> . . . . .	600	1,200	600	600	600
New Mexico . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
New York <sup>19</sup> . . . . .	625	1,250	625	625	625
North Carolina . . . . .	1,000	2,000 <sup>20</sup>	600 <sup>21</sup>	1,000	1,000
North Dakota . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Oklahoma . . . . .	1,000	2,000	500	....	.... <sup>2</sup>
Oregon . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Rhode Island <sup>22</sup> . . . . .	2,000	2,000	....	2,000	2,000
South Carolina . . . . .	800	1,600	800 <sup>23</sup>	800	800
Tennessee <sup>16</sup> . . . . .	....	....	....	....	....
Utah . . . . .	600	1,200	600	600	600
Vermont <sup>5</sup> . . . . .	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>	<sup>2</sup>
Virginia . . . . .	1,000	2,000	300 <sup>24</sup>	600	600
West Virginia . . . . .	600	1,200	600	600	600
Wisconsin <sup>3, 5</sup> . . . . .	10(370)	20(740)	10(361)	5 <sup>25</sup>	....
Dist. of Columbia . . . . .	1,000	2,000	500	500	500

See footnotes at the end of table.

TABLE 3.11.--STATE INDIVIDUAL INCOME TAXES:  
PERSONAL EXEMPTIONS, DECEMBER 31, 1970 (Continued)

- <sup>1</sup>In most States an identical exemption is allowed for a spouse if she meets the age and blindness condition. In Massachusetts the deduction for blindness is allowed against business income only. In Hawaii the \$5,000 blindness deduction is allowed in lieu of the personal exemption.
- <sup>2</sup>Since the State tax is based on either federal taxable income or federal tax liability, in effect, federal personal exemptions are adopted.
- <sup>3</sup>Personal exemptions and credits for dependents are allowed in the form of tax credits which are deductible from an amount of tax. With respect to personal exemptions, the sum in parentheses is the exemption equivalent of the tax credit assuming that the exemption is deducted from the lowest brackets. With respect to the dependency exemptions; the sum in parentheses is the amount by which the first dependent raises the level at which a married person or head of family becomes taxable.
- <sup>4</sup>Single persons \$1,000; married couple, \$1,125.
- <sup>5</sup>In addition to the personal exemption deductions, a sales tax credit or cash rebate (in the case of Kansas, Minnesota and Wisconsin a property tax credit or cash rebate) is provided. See table 3.16.
- <sup>6</sup>An additional \$300 exemption is allowed if the taxpayer is the head of a household.
- <sup>7</sup>The exemption is allowed for students regardless of age or income. For students beyond the high school level, \$1,200 per dependent and \$600 if the taxpayer is a student. A taxpayer who has used a student dependent to qualify as the head of a household is allowed only a \$600 (formerly \$1,200) exemption for that student dependent.
- <sup>8</sup>Individuals establishing residence in Hawaii after the age of 65 are subject to tax on income from Hawaii sources only (the tax is imposed on the entire taxable income of resident individuals, estates, and trusts).
- <sup>9</sup>In addition to the personal exemption deductions, a \$10 tax credit is allowed for each personal exemption.
- <sup>10</sup>Each spouse is entitled to the lesser of \$1,000 or adjusted gross income (minimum of \$500 each).
- <sup>11</sup>Single person, \$833; married couple, \$1,167.
- <sup>12</sup>The exemptions and credits for dependents are deductible from the lowest income bracket and equivalent to the tax credits shown in parentheses.
- <sup>13</sup>An additional exemption of \$800 is allowed for each dependent 65 years of age or over.
- <sup>14</sup>The exemptions shown are those allowed against business income, including salaries and wages: a specific exemption of \$2,000 for each taxpayer. In addition, a dependency exemption of \$600 is allowed for a dependent spouse who has income from all sources of less than \$2,000. In the case of a joint return, the exemption is the smaller of (1) \$4,000 or (2) \$2,000, plus the income of the spouse having the smaller income. For annuity income the exemption is the unused portion of the exemption applicable to business income. Married persons must file a joint return in order to obtain any nonbusiness income exemption. Any excess of the exemption against annuity income may be claimed against income from intangibles.
- <sup>15</sup>An additional tax credit of \$20 is allowed for each taxpayer or spouse who has reached the age of 65. Additional tax credits for the blind: unmarried, \$20; married, \$25 for each spouse.
- <sup>16</sup>The tax applies only to interest and dividends. New Hampshire also imposes a 4% commuter's income tax.
- <sup>17</sup>An additional exemption of \$600 is allowed a married woman with separate income; joint returns are not permitted.
- <sup>18</sup>In addition to the personal exemptions, the following tax credits are granted: Single persons, \$10; married taxpayers and heads of households, \$25.
- <sup>19</sup>In addition to the personal exemptions, the following tax credits are granted: Single persons, \$12.50; married taxpayers and heads of households, \$25.
- <sup>20</sup>An additional exemption of \$1,000 is allowed a married woman with separate income; joint returns are not permitted.
- <sup>21</sup>Plus an additional \$600 for each dependent who is a full-time student at an accredited university or college.
- <sup>22</sup>Personal exemptions are computed on a family basis, the basic exemption is \$2,000 (married persons filing separately \$1,000). Double exemptions are allowed for persons 65 years of age or older, widows, and blind persons. However, only one double exemption may be taken per family.
- <sup>23</sup>The exemption is extended to dependents over the age of 21 if they are students in an accredited school or college.
- <sup>24</sup>Exemption for one dependent of unmarried person is \$1,000, if dependent is father, mother, son, daughter, sister or brother.
- <sup>25</sup>Single person, \$185; married couple \$361.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, 1970), pp. 83-84.

TABLE 3.12.--STATE INDIVIDUAL INCOME TAXES: USE OF STANDARD DEDUCTION AND OPTIONAL TAX TABLE, DECEMBER 31, 1970

State	Size of standard deduction				Optional tax table
	Percent <sup>1</sup>	Maximum			
		Single	Married		
			Separate return	Joint return	
Alabama	*10	\$1,000	\$1,000	\$1,000	x
Alaska <sup>2</sup>	10	1,000	500	1,000	x
Arizona	*10	500	500	1,000	x
Arkansas	10	1,000	500	1,000	....
California	....	1,000	1,000	2,000	x
Colorado <sup>2</sup>	*10	1,000	500	1,000	x
Delaware <sup>3</sup>	*10	500	500	1,000	....
Georgia	10	1,000	500	1,000	....
Hawaii	10	1,000	500	1,000	x
Idaho <sup>2</sup>	*10	1,000	500	1,000	x
Illinois	....	....	....	....	....
Indiana	....	....	....	....	....
Iowa	*5	250	250	250	x
Kansas <sup>2</sup>	*10	1,000	500	1,000	x
Kentucky <sup>4</sup>	*	500	500	500	x
Louisiana	10	1,000	500	1,000	....
Maine	10	1,000	500	1,000	....
Maryland	10	500	500	1,000	x
Massachusetts	....	....	....	....	x
Michigan	....	....	....	....	....
Minnesota	*10	1,000	1,000	1,000	x
Mississippi	10	500	500	1,000	....
Missouri	*5	500	500	500	x
Montana	*10	500	500	1,000	....
Nebraska <sup>2</sup>	10	1,000	500	1,000	x
New Jersey	10	1,000	1,000	1,000	....
New Mexico <sup>2</sup>	10	1,000	500	1,000	....
New York	10	1,000	500 <sup>5</sup>	1,000	x
North Carolina	10	500	500	1,000 <sup>6</sup>	....
North Dakota <sup>2</sup>	*10	1,000	500	1,000	....
Oklahoma	*10	1,000	500	1,000	x
Oregon <sup>2</sup>	*5	250	250	500	x
South Carolina	*10	500	500	1,000	x
Utah	*10	1,000	500	1,000	....
Vermont <sup>2</sup>	10	1,000	500	1,000	x
Virginia	5	500	250	500	....
West Virginia	10	1,000	500 <sup>5</sup>	1,000	x
Wisconsin <sup>2</sup>	10	1,000	500	1,000	x
Dist. of Columbia	10	1,000	500	1,000	x

Note: Excludes New Hampshire and Tennessee where the tax applies to interest and dividends only, and Rhode Island where tax applies to investment income only.

\* The standard deduction is allowed in addition to deduction of Federal income taxes.

<sup>1</sup> Amount of standard deduction is generally based on gross income after business expenses. The detailed provisions vary.

<sup>2</sup> Standard minimum deduction of \$300.

<sup>3</sup> In lieu of all other deductions except Federal income taxes up to \$300 for individuals and \$600 for married couples filing joint return.

<sup>4</sup> In lieu of other deductions except Federal income taxes, a standard deduction of \$500 may be taken if adjusted gross income is at least \$8,000. If adjusted gross income is less than \$8,000, taxpayers may use optional tax table.

<sup>5</sup> The \$1,000 standard deduction allowed a married couple may be taken by either or divided between them in such proportion as they may elect.

<sup>6</sup> An additional \$500 is allowed a married woman with separate income; joint returns are not permitted.

Source: Commerce Clearing House, State Tax Reporter as shown in Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, 1970), p. 85.

on net taxable income between \$10,000 and \$15,000. These schedules therefore have more progression than the one in Virginia. Among contiguous states, Maryland has three \$1,000 brackets to \$3,000 and a 5 percent rate on net taxable income over \$3,000; however, Kentucky, North Carolina, West Virginia, and the District of Columbia have more progressive rate schedules than does Virginia. Tennessee taxes only interest and dividends as explained in an earlier footnote.

The burden of Virginia's income tax can be compared to the burden in other states on a national and regional basis. In 1968 and 1969 the burden of our state income tax was greater than the national average burden of state and local income taxes according to three overall measures:

<u>Area</u>	<u>State and Local Individual Income Tax Receipts in Fiscal Year 1968-69</u>		
	<u>Per Capita in 1969</u>	<u>Per \$1,000 of Personal Income in 1969</u>	<u>Per \$1,000 of Federal AGI in 1968</u>
VIRGINIA	\$58.56	\$17.71	\$23.80
50-State Average	44.16	11.99	16.13
Average of States which Impose an Individual Income Tax	54.56	14.90	20.09

Sources: Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1971 Edition, (Washington: Government Printing Office, 1971), pp. 91 and 92; Kenneth E. Quindry, State and Local Revenue Potential, 1969, SREB Research Monograph No. 16, (Atlanta, Georgia: Southern Regional Education Board, 1970), pp. 50 and 51; U.S. Department of Commerce, Bureau of the Census, State Government Finances in 1969, GF69, No. 3, (Washington: Government Printing Office, June, 1970), p. 50.

The conformity structure would cause a slight (about 2 percent) decline in Virginia's overall burden; however, if other states already conforming were to keep up with the new federal provisions, our relative position would probably remain the same. At the regional level, effective tax rates of state

income taxes for selected taxpayers at different levels of adjusted gross income for Virginia and contiguous states would best illustrate the comparative burden. If the comparison were made for 1970, it would show that in general the Virginia income tax with the preconformity structure placed a relatively lighter burden on individual taxpayers while rates on families were fairly comparable. The only exception would be West Virginia, where effective rates were lower than in Virginia for both individuals and families. Applying the conformity structure in Virginia would bring the effective rates for these typical taxpayers closer to those in West Virginia. However, West Virginia, along with Kentucky and Maryland, conformed to some degree in 1970. If they decided to update their laws to conform with the new federal provisions, the findings based on the 1970 comparison would probably still hold. In short, the conformity structure would have little or no effect on the relative burden of Virginia's individual income tax.<sup>1/</sup>

#### Proposed Rate Schedules

Revenue from the conformed income tax could be increased by changing the present rate schedule. In Table 3.13 nine proposed rate schedules along with the present one are given. The effect that the rate schedules have on the tax liability of eight typical taxpayers at six selected levels of AGI is shown in Table 3.14. The amount of revenue that each would have produced in tax year 1968 is presented in Table 3.15.

Schedules 1 and 2 maintain the present brackets but raise the rates. In Schedule 1 the additional 1 percent on taxable income of \$5,001 and over would have increased revenue by \$21.4 million or 10.3 percent. Raising the

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<sup>1/</sup> Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, December, 1970), Tables 36, 37, 38.

TABLE 3.13.--THE PRESENT RATE SCHEDULE AND ALTERNATIVE RATE SCHEDULES  
FOR THE TAX ON INDIVIDUALS AND FIDUCIARIES

<u>PRESENT SCHEDULE</u>			
<u>Taxable Income</u>		<u>Rate</u>	
First \$3,000		2%	
\$3,001-\$5,000		3%	
\$5,001 and over		5%	

<u>PROPOSED RATE SCHEDULES</u>			
<u>Maintain Present Brackets But Change Rates</u>			
<u>Schedule 1</u>		<u>Schedule 2</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	3%
\$3,001-\$5,000	3%	\$3,001-\$5,000	4%
\$5,001 and over	6%	\$5,001 and over	6%

<u>Maintain Lower Brackets But Extend Brackets</u>			
<u>Schedule 3</u>		<u>Schedule 4</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	2%
\$3,001-\$5,000	3%	\$3,001-\$5,000	3%
\$5,001-\$10,000	5%	\$5,001-\$10,000	6%
\$10,001-\$20,000	7%	\$10,001 and over	7%
\$20,001 and over	8%		

<u>Change Brackets, 2% for Lowest Bracket</u>			
<u>Schedule 5</u>		<u>Schedule 6</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$5,000	2%
\$2,001-\$5,000	3%	\$5,001-\$8,000	3%
\$5,001-\$10,000	5%	\$8,001-\$12,000	5%
\$10,001 and over	7%	\$12,001 and over	7%

<u>Change Brackets with Initial Rate Below 2%</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$1,500	1%
\$1,501-\$3,000	2%
\$3,001-\$5,000	4%
\$5,001-\$8,000	5%
\$8,001-\$12,000	6%
\$12,001 and over	7%

<u>Change Brackets with Lowest Rate 3%</u>			
<u>Schedule 8</u>		<u>Schedule 9</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$5,000	3%	First \$5,000	3%
\$3,001-\$10,000	5%	\$5,001-\$8,000	5%
\$10,001 and over	7%	\$8,001-\$12,000	6%
		\$12,001 and over	7%

TABLE 3.14--TYPICAL TAXPAYERS, TAX LIABILITY UNDER CONFORMITY STRUCTURE<sup>a/</sup> WITH PRESENT AND PROPOSED RATE SCHEDULES

Adjusted Gross Income <sup>b/</sup>	Tax Liability									
	Present Rate Schedule	Alternative Rate Schedules								
		1	2	3	4	5	6	7	8	9
<b>Individual Under 65</b>										
\$ 3,000	\$ 28.00	\$ 28.00	\$ 42.00	\$ 28.00	\$ 28.00	\$ 28.00	\$ 28.00	\$ 14.00	\$ 42.00	\$ 42.00
5,000	72.00	72.00	106.00	72.00	72.00	82.00	68.00	61.00	102.00	102.00
7,500	158.75	166.50	216.50	158.75	166.50	168.75	123.25	163.75	188.75	188.75
10,000	294.00	294.00	344.00	265.00	294.00	275.00	187.00	270.00	295.00	295.00
15,000	490.00	564.00	614.00	538.00	588.00	548.00	418.00	543.00	568.00	568.00
20,000	705.00	822.00	872.00	839.00	889.00	849.00	719.00	844.00	869.00	869.00
<b>Couple Under 65<sup>c/</sup></b>										
\$ 3,000	\$ 16.00	\$ 16.00	\$ 24.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 8.00	\$ 24.00	\$ 24.00
5,000	56.00	56.00	84.00	56.00	56.00	64.00	56.00	41.00	84.00	84.00
7,500	128.75	130.50	180.50	128.75	130.50	138.75	105.25	133.75	158.75	158.75
10,000	235.00	258.00	308.00	235.00	258.00	245.00	169.00	240.00	265.00	265.00
15,000	460.00	528.00	578.00	496.00	546.00	506.00	380.00	503.00	526.00	528.00
20,000	675.00	786.00	836.00	797.00	847.00	807.00	677.00	802.00	827.00	827.00
<b>Family of Three<sup>c/</sup></b>										
\$ 3,000	\$ 4.00	\$ 4.00	\$ 6.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 2.00	\$ 6.00	\$ 6.00
5,000	44.00	44.00	66.00	44.00	44.00	46.00	44.00	29.00	66.00	66.00
7,500	107.25	107.25	153.00	107.25	107.25	117.25	91.50	108.00	137.25	137.25
10,000	205.00	222.00	272.00	205.00	222.00	215.00	151.00	210.00	235.00	235.00
15,000	430.00	492.00	542.00	454.00	504.00	464.00	350.00	467.00	484.00	467.00
20,000	645.00	750.00	800.00	755.00	805.00	765.00	635.00	760.00	785.00	785.00
<b>Family of Four<sup>c/</sup></b>										
\$ 3,000	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
5,000	32.00	32.00	48.00	32.00	32.00	32.00	32.00	17.00	48.00	48.00
7,500	89.25	89.25	129.00	89.25	89.25	99.25	79.50	84.00	119.25	119.25
10,000	175.00	186.00	236.00	175.00	186.00	185.00	133.00	180.00	205.00	205.00
15,000	400.00	456.00	506.00	412.00	462.00	422.00	320.00	431.00	442.00	456.00
20,000	615.00	714.00	764.00	713.00	763.00	723.00	593.00	718.00	743.00	743.00
<b>Family of Five<sup>c/</sup></b>										
\$ 3,000	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
5,000	20.00	20.00	30.00	20.00	20.00	20.00	20.00	10.00	30.00	30.00
7,500	71.25	71.25	105.00	71.25	71.25	81.25	67.50	60.00	101.25	101.25
10,000	145.00	150.00	200.00	145.00	150.00	155.00	115.00	150.00	175.00	175.00
15,000	370.00	420.00	470.00	370.00	420.00	380.00	290.00	395.00	400.00	420.00
20,000	585.00	678.00	728.00	671.00	721.00	681.00	551.00	676.00	701.00	701.00
<b>Family of Six<sup>c/</sup></b>										
\$ 3,000	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
5,000	8.00	8.00	12.00	8.00	8.00	8.00	8.00	4.00	12.00	12.00
7,500	55.50	55.50	83.25	55.50	55.50	63.25	55.50	40.50	83.25	83.25
10,000	117.00	117.00	166.00	117.00	117.00	127.00	98.00	121.00	147.00	147.00
15,000	340.00	384.00	434.00	340.00	384.00	350.00	260.00	359.00	370.00	384.00
20,000	555.00	642.00	692.00	629.00	679.00	639.00	509.00	634.00	659.00	659.00
<b>Individual Over 65</b>										
\$ 3,000	\$ 16.00	\$ 16.00	\$ 24.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 16.00	\$ 8.00	\$ 24.00	\$ 24.00
5,000	56.00	56.00	84.00	56.00	56.00	64.00	56.00	41.00	84.00	84.00
7,500	128.75	130.50	180.50	128.75	130.50	138.75	105.25	133.75	158.75	158.75
10,000	235.00	258.00	308.00	235.00	258.00	245.00	169.00	240.00	265.00	265.00
15,000	460.00	528.00	578.00	496.00	546.00	506.00	380.00	503.00	526.00	528.00
20,000	675.00	786.00	836.00	797.00	847.00	807.00	677.00	802.00	827.00	827.00
<b>Couple Over 65<sup>c/</sup></b>										
\$ 3,000	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...
5,000	32.00	32.00	48.00	32.00	32.00	32.00	32.00	17.00	48.00	48.00
7,500	89.25	89.25	129.00	89.25	89.25	99.25	79.50	84.00	119.25	119.25
10,000	175.00	186.00	236.00	175.00	186.00	185.00	133.00	180.00	205.00	205.00
15,000	400.00	456.00	506.00	412.00	462.00	422.00	320.00	431.00	442.00	456.00
20,000	615.00	714.00	764.00	713.00	763.00	723.00	593.00	718.00	743.00	743.00

a/ Based on conformity in 1973 when federal maximum standard deduction will be 15 percent up to \$2,000. For tax year 1972 the difference will be small (14 percent up to \$2,000).

b/ All income is assumed to be in the form of salaries and wages. Figures assume taxpayers making \$15,000 take the standard deduction (federal minimum standard deduction effective 1972 and federal maximum standard deduction effective (1973), and those making \$20,000 itemize deductions in the amount of \$2,700.

c/ It is assumed joint returns are filed.

rate 1 percent in each bracket in Schedule 2 imposes an extra burden on all taxpayers and would have meant \$66.2 million or 31.8 percent more in revenue. The typical taxpayer table illustrates the additional burden that Schedule 2 places on all taxpayers. Schedules 3 and 4 maintain the two lowest brackets and rates but add brackets over \$5,001. Schedule 3 adds three brackets and would have increased revenues by \$25 million or 12 percent. Schedule 4 imposes an extra 1 percent between \$5,001 and \$10,000 and an extra 2 percent over \$10,000; it would have produced \$31.6 million or 15.2 percent more in revenue.

Schedules 5 through 9 change both brackets and rates. The present brackets established in 1948, have lost much of their relevance due to inflation. After being inflated by the consumer price index, \$0-\$3,000 and \$3,001-\$5,000 are in 1970 dollars roughly equivalent to \$0-\$5,000 and \$5,001-\$8,000. If the present rates were maintained for the raised and widened brackets, all taxpayers would benefit from a reduced burden. As a result, revenue from the proposed brackets would be lower than from the present ones. To offset the expected loss, one or more brackets below \$5,000 with a 1 or 2 percent rate would have to be introduced, rates for the two new brackets would have to be raised, and/or the rate(s) above \$8,000 would have to be greater than 5 percent.

Schedule 5 employs a \$0-\$2,000 bracket with a 2 percent rate and raises the rate to 3 percent on the next \$3,000, to 5 percent on the next \$5,000 (in effect, maintaining the present rate), and to 7 percent over \$10,000; the schedule would have increased revenue by \$29.2 million or 14 percent. Schedule 6 only adds a 7 percent rate over \$12,000 to the revised brackets, and the result would have been a \$12.4 million or 6 percent loss in revenue. Schedule 7, which has three brackets below \$5,000 and increases the rates on each bracket over \$3,000, would have raised revenue by \$14.9 million or 7.2 percent. Schedule 8 is Schedule 5 without the 0-\$2,000 bracket and would have pushed up



revenue by \$52.0 million or 25.4 percent, and Schedule 9, which is Schedule 6 with the rate on the first \$5,000 raised to 3 percent, would have expanded revenue by \$53.9 million or 25.9 percent. These last two impose an extra burden on all taxpayers in a manner similar to Schedule 2.

TABLE 3.15--REVENUES FROM PRESENT RATE SCHEDULE AND PROPOSED RATE SCHEDULES 1-9 FOR THE CONFORMED TAX STRUCTURE, TAX YEAR 1968

<u>Rate Schedule</u>	<u>Revenues</u> (Millions)	<u>Change from Present</u> <u>Rate Schedule</u>	
		<u>Amount</u> (Millions)	<u>Percent</u>
Present	\$208.1	\$ ...	...
1	229.5	+21.4	+10.3
2	274.3	+66.2	+31.8
3	233.1	+25.0	+12.0
4	239.7	+31.6	+15.2
5	237.3	+29.2	+14.0
6	195.7	-12.4	- 6.0
7	223.0	+14.9	+ 7.2
8	261.0	+52.9	+25.4
9	262.0	+53.9	+25.9

Source: Appendix Table A.3.

In summary (see Table 3.15), a rate schedule with revised and widened brackets and the present rates would provide relief for all taxpayers but would cost the state millions of dollars in revenue each year. On the other hand, a schedule with the present or proposed brackets and higher rates for each of them would add to the burden of all taxpayers but would generate an additional 25-30 percent in revenue per year. Between these two extremes are several alternatives that would primarily increase the burden of people in the middle and upper

income levels and would produce another 10-15 percent a year in revenue.<sup>1/</sup> Of course, the nine alternative schedules presented here represent only a fraction of the number that could have been discussed. For any others that are proposed, a quantitative basis for their analysis is provided in appendix Table A.5, which gives the distribution of net taxable income by \$1,000 income brackets under the conformity structure for tax year 1968.

#### Personal Income Tax Credit on Food for Home Consumption

If some allowance is to be made for the sales tax paid on food for home consumption, an alternative to exemption is an income tax credit.

As of the close of 1970, 10 states and the District of Columbia used some form of the tax credit device. Of these, Colorado, Indiana, Nebraska, and the District of Columbia grant a personal income tax credit to compensate for a sales tax on food. The credit is granted on all resident income tax returns; in addition, refunds are made to those without a tax liability. The credit, as these areas use it, is calculated by the number of exemptions per tax return times the credit. Nebraska and Colorado have a \$7 credit, Indiana has an \$8 credit, and the District of Columbia allows low income taxpayers a credit ranging from \$2 to \$6 per personal exemption, depending on the taxpayer's income bracket. Two states--Hawaii and Massachusetts--grant credits for consumer type taxes. The tax credit mechanism is used in Kansas, Minnesota, Vermont, and Wisconsin for senior citizen homestead relief. In addition, Idaho grants a \$10 tax credit against sales taxes paid for all exemptions including old age, but

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<sup>1/</sup> One alternative that would provide a uniform burden would be a structure with no exemptions or deductions. The tax base would then be AGI, to which a flat rate would be applied. In tax year 1968 a 2 percent rate would have produced the same revenue as the conformity structure with the present rate schedule. Each 1 percent rise in the rate would have generated about another \$100 million in revenue.

allows no refund if the credit exceeds tax liability. For those over 65, a refund is provided if the credit exceeds the tax liability. Vermont also allows a credit for sales taxes paid, based on income and number of personal exemptions. For summary information on the tax credit plans used by eleven of the states, see Table 3.16.

A tax credit has the advantage of eliminating the administrative costs and difficulties of exempting food for home consumption from the sales tax and of excluding nonresidents from exemption. However, we estimate that the number of income tax returns filed in Virginia would increase by 200,000 to 300,000, since any resident citizen would qualify for the tax credit regardless of his income.<sup>1/</sup> Administrative procedures would have to be adopted in order to avoid abuse of the credit. Another drawback of a credit is that increases in the cost of living are not accounted for unless the law is periodically amended to raise the amount of the credit.

The following analysis gives an estimate of the impact of an income tax credit for Virginia. If the credit is to compensate in full for consumer purchases of food for home use, then an estimate of the amount of this consumption is required. In tax year 1968, an estimated \$45.8 million in sales tax receipts would have been collected from purchases of food for home consumption taxed at the state rate of 3 percent. The civilian resident population of the state in 1968 was estimated to be 4,498,000.<sup>2/</sup> If we divide the sales tax receipts for food for home consumption by the civilian resident population, the tax credit per person would be \$10.18, or a rounded

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<sup>1/</sup> The tax credit would be computed against state income tax liability. Those residents qualifying for relief whose tax liability is less than the credit or who do not have to pay any tax would receive actual payment from the state.

<sup>2/</sup> Derived by interpolating the 1960-70 population growth as shown by the census.

TABLE 3.16.--STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES<sup>1</sup>

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Colorado	For sales tax paid on food	1965	\$7 per personal exemption (exclusive of age and blindness)	Chap. 138, Art. 1, (secs. 138-1-18 & 138-1-19 added by H.B. 1119, laws 1965, effective 6/1/65)	Credit to be claimed on income tax returns. For resident individuals without taxable income a refund will be granted on such forms or returns for refund as prescribed by the Director of Revenue.
Hawaii	For consumer-type taxes	1965	Varies based on income <sup>2</sup>	Chap. 121 (Secs. 121-12-1 & 121-12-2 added by Act 155 laws 1965)	The Director of Taxation shall prepare and prescribe the appropriate form or forms to be used by taxpayers in filing claims for tax credits. The form shall be made an integral part of the individual net income tax return. In the event the tax credits exceed the amount of the the income tax payments due, the excess of credits over payments due shall be refunded to the taxpayer.
	For drug or medical expenses	1970	do	Act 180, Laws 1970; sec. 235-56	
	For household rent	1970	do	Act 180, Laws 1970	
Idaho	For sales taxes paid	1965 and 1969	\$10 credit per personal exemption (rebate applicable to taxpayers 65 and over only)	Chap. 195, laws 1965. Chap. 456, laws 1969; Sec. 63-3024 (d)	Credit (or rebate if credit exceeds tax liability) to be claimed on income tax returns. For resident individuals (65 and over) without taxable income a refund will be granted on such forms or returns for refund as prescribed by the State Tax Commission.
Indiana	For sales tax paid on food	1963	\$8 per personal exemption (exclusive of age and blindness)	Chap. 50 (Chap. 30, Sec. 6d added by H.B. 1226, laws 1963, 1st sp. sess., effective 4/20/63)	Credit to be claimed on income tax returns. If an individual is not otherwise required to file a return, he may obtain a refund by filing a return, completing such return insofar as may be applicable, and claiming such refund.
Kansas	For senior citizen homestead relief	1970	Varies, based on income and amount of property tax	Chap. 403 (H. B. 1253, Laws 1970)	Tax credit (or rebate if credit exceeds tax liability). The department of revenue shall make available suitable forms with instructions for claimants, including a form which may be included with or a part of the individual income tax blank.
Massachusetts	For consumer-type taxes	1966	\$4 for taxpayer, \$4 for spouse, if any, and \$8 for each qualified dependent <sup>4</sup>	Chap. 62 (Sec. 6b added by ch. 14, Acts 1966)	Same as Indiana.

See footnotes at the end of table.

TABLE 3.16. --STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES<sup>1</sup> (Continued)

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Minnesota . . . . .	For senior citizen homestead relief <sup>5</sup>	1967	Varies with income from 75% to 10% of net property tax or equivalent rent not to exceed \$600 (Max. credit \$450)	Chap. 32 (H.B. 27) Article VI	Tax credit or refund to be claimed on income tax return. Department of Taxation shall make available a separate schedule for information necessary to administration of of this section and the schedule shall be attached and filed with the income tax return. Cash refund granted if property tax credit exceeds State personal income tax liability.
	Tax relief for renters.	1967	3.75% of the total amount paid by claimant as rent, not to exceed \$45 <sup>6</sup>	Chap. 32 (H.B. 27) Article XVII	Same as above.
Nebraska . . . . .	For sales tax paid on food	1967	\$7 per personal exemption (exclusive of age and blindness)	H.B. 377, laws 1967	Credit to be claimed on income tax returns. Refund will be allowed to the extent that credit exceeds income tax payable but no refund will be made for less than \$2.
Vermont . . . . .	For sales tax paid	1969	Varies, based on income and number of personal exemptions (other than age and blindness) <sup>7</sup>	H.B. 125, laws 1969; Chap. 152, Sec. 5829	Credit to be claimed on income tax returns. Credits properly claimed by resident individuals who have no income or no income subject to Vermont tax will be allowed the full amount of the credit as a refund.
	For senior citizen property tax relief	1969	Equal to the amount by which property taxes or rent constituting property taxes on their households exceeds 7% of the individuals total household income multiplied by the local rate factor <sup>8</sup>	H.B. 222, laws 1969; Chap. 139, Sec. 5901	The credit may not exceed the property tax, but if income tax liability is less than the credit the difference between the liability and the credit will be refunded.

See footnotes at the end of table.

TABLE 3.16.--STATE USE OF PERSONAL INCOME TAX CREDITS AND CASH REBATES TO MINIMIZE OR OFFSET THE REGRESSIVITY OF SALES AND PROPERTY TAXES<sup>1</sup> (Continued)

State	Type of credit	Year adopted	Amount of credit	Law	Administrative Procedure
Wisconsin . . . . .	For senior citizen homestead tax relief	1963	Varies, based on income and amount of property tax or rental payment	Chap. 71 (Sec. 7109 (7) added by ch. 566 (A.B. 301) eff. 6/10/64. Ch. 580 (A.B. 907) repealed & recreated Sec. 71.09(7) effective Dec. 19, 1964.	Tax credit or refunded to be claimed on income tax return. The Department of Taxation shall make available a separate schedule which shall call for the information necessary to administering this section and such schedule shall be attached to and filed with the Wisconsin income tax form. Cash refund granted if property tax credit exceeds State personal income tax due.
Washington, D.C. . . . .	For sales tax paid on food	1969	Varies, based on income <sup>9</sup> (credit applicable to low income taxpayers only)	P.L. 91-106 (H.R. 12982)	Tax credit or refund to be claimed on income tax return.

Note: See table 31 for exemption of food and medicine in State general sales taxes. See table 36 for the Michigan property tax credit (no cash rebate).

<sup>1</sup> If a taxpayer has no State personal income tax liability or a tax liability insufficient to absorb the entire credit (a negative tax credit situation) he is entitled to the appropriate cash refund. If the taxpayer's State personal liability is equal to or greater than the tax credit, his personal income tax liability is reduced by the amount of the credit (a positive tax credit situation).

<sup>2</sup> The credits for consumer-type taxes are based on "modified adjusted gross income" (regular taxable income plus exempt income such as social security benefits, life insurance proceeds, etc.) and range from \$21 per qualified exemption for taxpayers having a modified adjusted gross income of less than \$1,000 to \$1 per exemption where such income is between \$8,000 and \$9,999.

<sup>3</sup> Ranges from \$12 per qualified exemption for taxpayers having taxable income under \$1,000 to \$0 where such income is over \$7,000.

<sup>4</sup> Credits are only allowed if total taxable income of taxpayer and spouse, if any, does not exceed \$5,000 for the taxable year.

<sup>5</sup> All homeowners residing in their own homes are allowed a direct reduction of their property taxes due by means of the Homestead Property Tax Credit. This credit amounts to 35 percent of the tax levy, excluding the amount levied for bonded indebtedness, to a maximum credit of \$250. Senior citizen homeowners also receive this credit. Local governments are reimbursed for their tax loss from the state property tax relief fund.

<sup>6</sup> Elderly may choose this relief or senior citizen relief but not both.

<sup>7</sup> Ranges from \$12 to \$81 for taxpayers having less than \$1,000 total household income to \$0 to \$36 for those having between \$6,000 and \$6,999 income, based on number of personal exemptions.

<sup>8</sup> The commissioner shall annually prepare and make available the local rate factors by arraying all municipalities according to their effective tax rate and dividing the population of the State into quintiles from such array with those having the lowest effective tax rates being in the first quintile. The local rate factors shall be as follows: first quintile, 0.6; second quintile, 0.8; third quintile, 1.0; fourth quintile, 1.2; fifth quintile, 1.4. The amount of property taxes or rent constituting property taxes used in computing the credit are limited to \$300 per taxable year.

<sup>9</sup> Low income taxpayers (AGI not over \$6,000) are allowed a credit ranging from \$2 to \$6 per personal exemption, depending upon the taxpayer's income bracket.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, 1970), pp. 86-90.

figure of \$10. An estimated 4,361,000 people<sup>1/</sup> would have applied for this credit, costing the state \$43.6 million in revenue. If, on the other hand, we were to grant a \$9 credit, the cost to the state would have dropped to \$39.2 million.<sup>2/</sup>

An income tax credit for the sales tax on food would cost slightly less revenue than direct exemption of the sales tax on food. Nonresidents would not qualify for the credit and not all residents would apply. In addition, if the credit were below the exact resident per capita food consumption amount-- at \$9 for example--not all food consumption would be exempt. Thus, people consuming luxury foods would only have a portion of their food budget excluded from the tax.

Another possible option is to base the credit on income level.<sup>3/</sup> For example, the \$10 credit might be restricted to returns with less than \$5,000 of adjusted gross income. In 1968 we estimate that this would have cost

<sup>1/</sup> The 4,361,000 was derived by increasing the 1,648,697 returns in 1968 by 15 percent to 1,896,002 and multiplying by an average 2.3 personal and dependent exemptions per return. The 15 percent estimate is obtained as a high estimate of increased returns incurred by Colorado, Nebraska, and Indiana when they implemented the tax credit. See John F. Due, "The New State Sales Taxes, 1961-68," National Tax Journal, Vol. XXI, No. 3 (September, 1968), p. 270.

<sup>2/</sup> If the credit were to compensate for food and nonprescription drugs, it would be \$11 per person based on 1968 tax receipts.

$$\frac{(\$45.8 \text{ million (food)} + \$3 \text{ million (nonprescription drugs)})}{4,396,502} = \$11$$

The revenue loss would have been \$48 million.

<sup>3/</sup> The credit is tied to income in Hawaii, Kansas, Minnesota, Vermont, and Wisconsin, and Washington, D. C.

\$14.5 million<sup>1/</sup> --about one-third of the cost for a credit not restricted by income. An argument against such a procedure is that limiting the credit to specific income levels arbitrarily chooses who shall and who shall not receive sales tax relief. Under the above proposal, a family or person with an adjusted gross income of \$1 more than \$5,000 would not receive a credit.

#### Summary

Through either an income tax credit or exemption from the sales tax for food for home consumption, the state would lose substantial revenue.<sup>2/</sup> The income tax credit could be designed to provide a lower loss of revenue and would apply only to residents. A credit geared below a certain level of income would be less costly than a general credit but would give tax relief only to low income residents. In order to keep up with the cost of living the tax credit would have to be reviewed regularly. In Table 3.40, which presents the projected impact of alternative changes in the revenue structure for the 1972-74 biennium, the credit is raised to \$12 to account for the expected increase in the cost of food.

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1/ Based on the following estimates of number of exemptions:

<u>Adjusted Gross Income</u>	<u>Number of Exemptions<sup>a/</sup></u>
None	568,801
\$0 - \$999	108,345
\$1,000 - \$1,999	156,131
\$2,000 - \$2,999	169,109
\$3,000 - \$3,999	211,519
\$4,000 - \$4,999	238,844
	<u>1,452,749</u>

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a/ Excludes exemptions reported on separate returns since it was assumed the combined AGI of both husband and wife would exceed \$5,000.

2/ If the state also provided relief for the 1 percent local option sales tax, the revenue loss would increase by one-third.



## Corporate Income Tax

Structure of the Corporate Income Tax

The Virginia corporate income tax covers all domestic and foreign corporations doing business in the state with the exception of public service corporations, insurance companies, interinsurance exchanges, state and national banks, banking associations, any company which does business on a mutual basis, credit unions, and religious, educational, benevolent, and other corporations not organized or conducted for pecuniary profit.

The tax rate on domestic corporations is 5 percent of net income.

Foreign corporations are taxed by a three-factor formula which consists of:

- (1). A property factor: ratio of the average real and tangible personal property value of the firm in Virginia to the firm's total average real and tangible personal property value.
- (2). A payroll factor: ratio of the total payroll in Virginia to the firm's total payroll.
- (3). A sales factor: ratio of total sales in Virginia to the firm's total sales.

These ratios are added together and divided by three to provide an average ratio. The average ratio is applied to total net income of the corporation to determine the portion taxable by Virginia at 5 percent.

The federal corporate income tax is not deductible in computing taxable income in Virginia. Under the conformity legislation passed by the 1971 session of the General Assembly, treatment of deductions, depreciation, and depletion allowances is substantially the same as for the federal corporate income tax.

Interstate Comparison of Corporate Income Taxes

This section compares the 43 states and the District of Columbia which impose a tax on corporate profits. However, it should be emphasized that corporations either operating in or contemplating location in a state will view their overall tax burden rather than the corporate income tax alone.

The most important taxes on corporations other than the corporate income tax are the real property tax and all other types of property taxes.

Table 3.17 shows the corporate income tax rates for all states having a corporate tax in early 1971. It also shows each state allowing the federal corporate income tax to be deducted from the tax base and provides effective tax rates. Effective tax rates standardize the actual rates to take account of the deductibility of the federal tax in 11 states.<sup>1/</sup>

Virginia's effective rate is 5 percent. This compares with other states as follows:

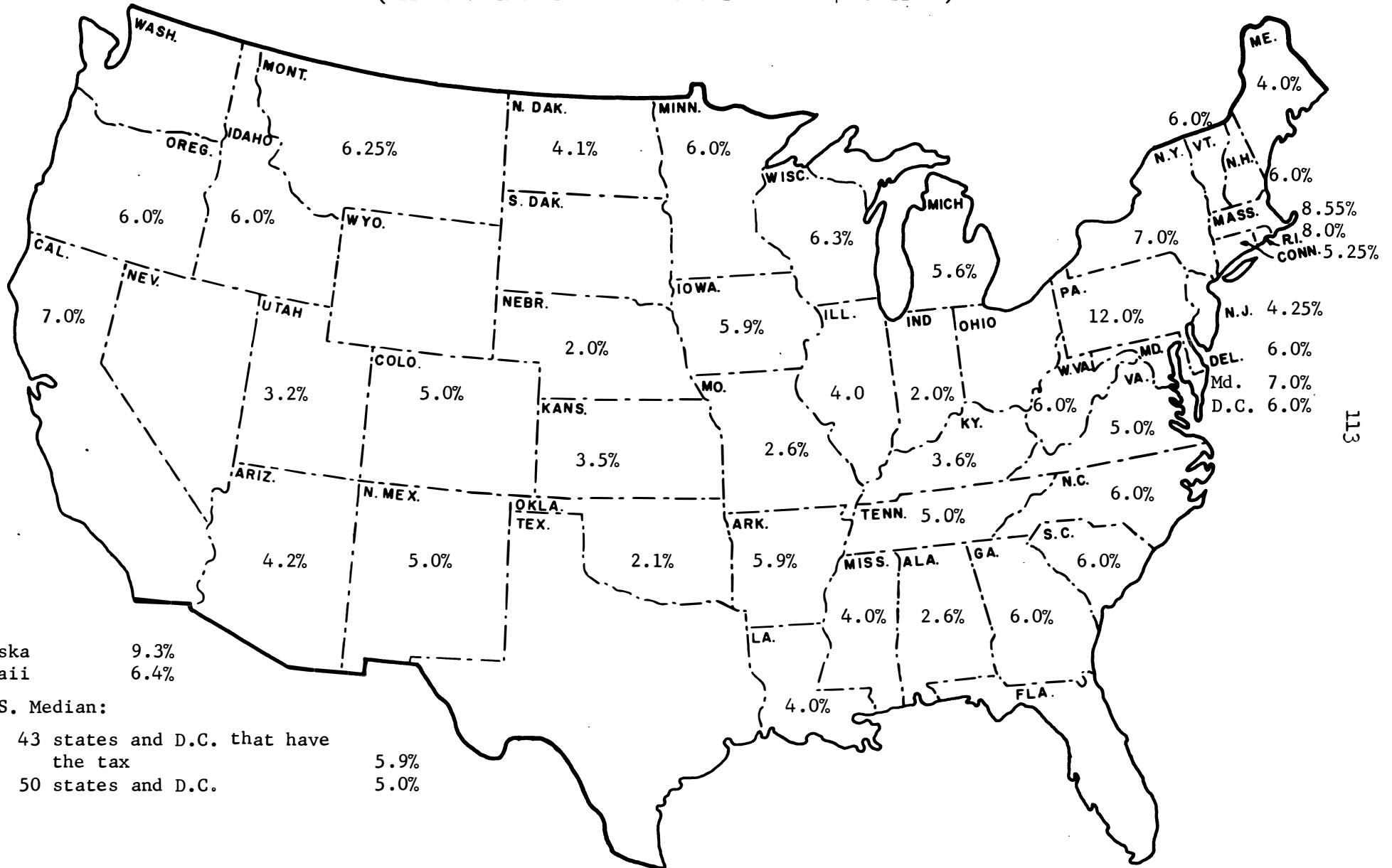
<u>Effective Rate</u> <u>Compared with Virginia</u>	<u>Number of States</u>
No tax	7
Lower rate	15
Same rate (incl. Virginia)	4
Higher rate	25

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<sup>1/</sup> Those states with exempt federal tax payments require payment on a much smaller tax base. The effective tax rates for these states are therefore lower than the actual rates. Rates were standardized by the following method: We assumed a net corporate income of \$1 million subject to federal income taxes of \$473,500 (22 percent of the first \$25,000 and 48 percent on the excess). This gave an effective federal rate of 47.35 percent which was subtracted from 100 to leave 52.65 percent of net income to be taxed by states allowing full deductibility of federal income taxes. State rates were then applied to the portion of the \$1 million taxable. The resulting tax liability was taken as a percentage of the \$1 million to find the effective rate. Further adjustments were made for states permitting only partial deduction of federal taxes. For those states not allowing the federal tax deduction, the actual and effective rates were the same.

CHART 3.4

STATE CORPORATE INCOME TAX RATES, 1971  
 (Effective Rate Based on a Net Income of \$1 Million)



113

Alaska 9.3%  
 Hawaii 6.4%

U. S. Median:

43 states and D.C. that have the tax 5.9%  
 50 states and D.C. 5.0%

Note: Adjustments have been made for those states allowing deduction of the federal income tax.

Computed by the Division of Industrial Development.

TABLE 3.17.--STATE CORPORATE INCOME TAX RATES, 1971

State	Tax Rate	Allow Deduction For Federal Income Taxes	Effective Rate <sup>1/</sup>	State	Tax Rate	Allow Deduction For Federal Income Taxes	Effective Rate <sup>1/</sup>
Alabama	5%	Yes	2.6%	Massachusetts	8.55%	No	8.55%
Alaska	18% of Federal tax <sup>2/</sup>	No	9.3%	Michigan	5.6%	No	6.0%
Arizona	2% on first \$1,000 3% on second \$1,000 4% on third \$1,000 5% on fourth \$1,000 6% on fifth \$1,000 7% on sixth \$1,000 8% on balance	Yes <sup>3/</sup>	4.2%	Minnesota	11.33%	Yes <sup>3/</sup>	6.0%
Arkansas	1% on first \$3,000 2% on second \$3,000 3% on next \$5,000 5% on next \$14,000 6% on balance	No	5.9%	Mississippi	3% on first \$5,000 4% on balance	No	4.0%
California	7%	No	7.0%	Missouri	5%	Yes <sup>3/</sup>	2.6%
Colorado	5%	No	5.0%	Montana	6.25%	No	6.25%
Connecticut	5.25% <sup>4/</sup>	No	5.25%	Nebraska	2%	No	2.0%
Delaware	6%	No	6.0%	New Hampshire	6%	No	6.0%
District of Columbia	6%	No	6.0%	New Jersey	4.25%	No	4.25%
Georgia	6%	No	6.0%	New Mexico	5%	No	5.0%
Hawaii	5.85% on first \$25,000 6.43% on balance	No	6.4%	New York	7% <sup>6/</sup>	No	7.0%
Idaho	6% plus \$10 excise tax	No	6.0%	North Carolina	6%	No	6.0%
Illinois	4%	No	4.0%	North Dakota <sup>7/</sup>	3% on first \$3,000 4% on next \$5,000 5% on next \$7,000 6% on balance	Yes <sup>3/</sup>	4.1%
Indiana	2%	No	2.0%	Oklahoma	4%	Yes <sup>3/</sup>	2.1%
Iowa	4% on first \$25,000 6% on next \$75,000 8% on balance	Yes <sup>5/</sup>	5.9%	Oregon	6%	No	6.0%
Kansas	4.5% on first \$25,000 6.75% on balance	Yes <sup>3/</sup>	3.5%	Pennsylvania	12%	No	12.0%
Kentucky	5% on first \$25,000 7% on balance	Yes	3.6%	Rhode Island	8% <sup>8/</sup>	No	8.0%
Louisiana	4%	No	4.0%	South Carolina	6%	No	6.0%
Maine	4%	No	4.0%	Tennessee	5%	No	5.0%
Maryland	7%	No	7.0%	Utah	6%	Yes	3.2%
				Vermont	6%	No	6.0%
				VIRGINIA	5%	No	5.0%
				West Virginia	6%	No	6.0%
				Wisconsin	2% on first \$1,000 2.5% on second \$1,000 3% on third \$1,000 4% on fourth \$1,000 5% on fifth \$1,000 6% on sixth \$1,000 7% on balance	Yes <sup>9/</sup>	6.3%

<sup>1/</sup> Effective rate based on a net income of \$1 million and allowance for deduction of federal income taxes where applicable.

<sup>2/</sup> Based on federal rates as of December 31, 1963, which were 30 percent on the first \$25,000 and 52 percent on all over \$25,000.

<sup>3/</sup> Limited to federal tax on income taxed by the state.

<sup>4/</sup> Alternate tax of 26.25¢ per \$100 of corporate excess, whichever is larger.

<sup>5/</sup> Deductible up to 50 percent.

<sup>6/</sup> Or 1 1/4 mills on value of business and investment capital allocable to New York.

<sup>7/</sup> Plus an additional tax of 1 percent of net income for privilege of doing business in North Dakota; federal income tax not deductible. Credit for new industry: 1 percent on in-state salaries and wages paid, 1/2 percent for fourth and fifth years.

<sup>8/</sup> Alternate tax of 40¢ per \$100 of corporate excess, whichever is larger.

<sup>9/</sup> Only federal income tax paid on income taxable in Wisconsin; limited to 10 percent of net income before deductions for contributions and federal taxes.

Source: Prentice-Hall, Inc., State and Local Taxes: All States Tax Guide, 1971; Division of Industrial Development.

The median effective rate for all states with a corporate income tax is 5.9 percent. When the all-state measure is expanded to include states without a tax, the median become 5 percent. Compared with nearby states, Virginia's rate is higher than Kentucky's but lower than the effective rates in the District of Columbia, Georgia, Maryland, North Carolina, South Carolina, Tennessee, and West Virginia.

#### Consideration of an Increase in the Virginia Tax

In 1969-70, the yield of the 5 percent tax was \$55.7 million after adjustment to exclude a special windfall.<sup>1/</sup> If the rate had been 6 percent, everything else being held constant, tax receipts would have been one-fifth higher or \$66.8 million. But, this calculation assumes that higher taxes would not have affected location decisions of companies planning to settle in Virginia and of companies already here who were considering expansion. We are saying, in effect, that total corporate profits before taxes would have been the same under either a 5 or 6 percent tax rates, and this may be a debatable assumption.

#### Other Taxes on Businesses

The corporate income tax is the most visible and well-known tax paid by the typical concern and, in Virginia, it constitutes the largest single tax that a corporation pays. Nevertheless, there are many other state and local taxes which add to a corporation's total tax liability. To provide some perspective on the total bill we have drawn on information provided by the Division of Industrial Development. Table 3.18 shows the estimated

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<sup>1/</sup> There was a \$11.7 million windfall resulting from a change in law that required corporations for taxable years beginning after December 31, 1968, to file an estimated income tax return and to pay the estimate in installments if their tax liability for the taxable year were expected to exceed \$5,000.

TABLE 3.18.--ESTIMATED STATE AND LOCAL TAXES ON A HYPOTHETICAL MANUFACTURER

<u>Item</u>	<u>Assumed Values for Taxable Items</u>	<u>Type of Tax</u>	<u>Tax Rate</u>	<u>Assessment Ratio</u>	<u>Annual Tax</u>	<u>Percent of Total Bill</u>
Real estate	\$ 1,267,053	Real property (L)	\$3.13 per \$100 <sup>a/</sup>	35.1 of fair market value <sup>a/</sup>	\$13,920	15.8
Machinery and tools: original cost	3,561,179	Personal property (L)	\$4.00 per \$100 <sup>b/</sup>	10% of original cost <sup>b/</sup>	14,245	16.2
Office furniture and fixtures	50,000	Business capital (S)	30¢ per \$100	100% of book value	150	0.2
Trucks and company cars	50,000	Business capital (S)	30¢ per \$100	100% of book value	150	0.2
Inventory	1,881,484	Business capital (S)	30¢ per \$100	100% of book value	5,644	6.4
Receivables less payables	891,026	Business capital (S)	30¢ per \$100	100% of book value	2,673	3.0
Cash	507,038	None	No tax		...	...
Net income before federal income tax	1,000,000	Corporate income (S)	5%		50,000	56.9
Net worth	5,869,075	None	No tax		...	...
Total sales (gross receipts)	12,403,729	None	No tax		...	...
Capital stock	1,547,328	Annual registration (S)	Ranges from \$5 for stock of \$15,000 or less to \$25 for stock in excess of \$300,000.		25	0.0
Annual purchases subject to sales tax:						
Machinery and equipment	343,758	None	No tax <sup>c/</sup>		...	...
Electricity:						
Plant	73,530	None	No tax		...	...
Office	24,510	None	No tax		...	...
Fuels:						
Plant	84,476	None	No tax <sup>c/</sup>		...	...
Office	28,159	Sales and use (L),(S)	4%		<u>1,126</u>	<u>1.3</u>
TOTAL					\$87,933	100.0

Note: (L) local tax; (S) state tax; figures are for a foreign corporation.

a/ Weighted average for 1970 for all counties and cities in Virginia as compiled in a study by the Virginia Department of Taxation.

b/ Average for 1970-71 tax year for all counties and cities in Virginia as estimated by Fred C. Forberg, Director of Real Estate Appraisal and Mapping, Virginia Department of Taxation.

c/ No tax if used directly in manufacturing tangible personal property for sale.

Source: Division of Industrial Development.

state and local taxes on a hypothetical manufacturer with net income of \$1 million before federal income tax payments. The corporate income tax accounts for 57 percent of the estimated total state and local tax bill paid by the "typical" manufacturer in Virginia, while business capital taxes represent 10 percent. Taxes levied at the local level, principally property taxes on real estate and machinery and tools, account for most of the remaining 33 percent. These data show that property taxes are the primary tax on corporations other than the income tax.

Interstate comparisons of property taxes involve formidable measurement problems beyond the scope of this study.<sup>1/</sup> Therefore, only a crude analysis of relative property tax burdens is possible. Table 3.19 shows per capita state and local property taxes for Virginia, neighboring states, and all-state averages. Virginia is higher than all neighboring states except Maryland, but it is well below national averages.

TABLE 3.19.--PER CAPITA STATE AND LOCAL PROPERTY TAX REVENUES, VIRGINIA, NEIGHBORING STATES, AND THE UNITED STATES, FISCAL YEAR 1968-69

<u>State</u>	<u>Per Capita Revenues</u>	<u>Relative to Virginia (Virginia = 100)</u>
Georgia	81.85	99
Kentucky	64.23	78
Maryland	145.47	176
North Carolina	67.66	82
South Carolina	49.32	60
Tennessee	68.38	83
VIRGINIA	82.53	100
West Virginia	63.59	77
All States		
Mean	151.92	184
Median	149.05	181

Source: U. S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970), p. 45.

<sup>1/</sup> A few of the problems are: (1) the multiplicity of local taxing jurisdictions; (2) the tendency to assess property at less than full value so that effective tax rates are different from published rates; and (3) the frequency of special exemptions such as 5 or 10 year tax forgiveness to new plants and nontaxation of plants financed by revenue funds.

Summary

Virginia's effective corporate tax rate is not high compared to neighboring states, but it is equal to or below the United States median, depending on which median is chosen for comparison. Virginia's per capita property taxes are relatively high compared with its neighbors, but below the national average. As far as industrial location is concerned, Virginia's tax position with regard to its neighboring states is more important than its national standing. Therefore, even granting the crudeness of the tax measures used, an increase in Virginia's corporate tax could adversely affect Virginia's competitive tax position and deter its industrial development. Furthermore, the corporate tax has the disadvantage of being a highly visible tax. Unlike other business taxes which often are complex and vary by locality, the corporate tax rate is easily understood and widely known. Thus, it may be a considerable advantage in industrial development to have a corporate rate which is somewhat lower than in states which are strong competitors.

An argument in favor of raising the tax is that taxation is only one of the variables affecting industrial location and that in many cases the cost and availability of transport, labor, and power are likely to be overriding. Moreover, a 1 percentage point increase in the tax rate would involve an effective increase of about one-half that amount since state income taxes are a deductible item in computing federal corporate income tax liability.



## Inheritance Tax

Present Structure and Receipts of the Virginia Inheritance Tax

The Virginia inheritance tax applies to the beneficiary shares of estates of residents and of nonresidents who come under its coverage. Estates consist of real and personal property. The tax levied depends on the share of the net estate (gross estate minus deductions) received by the beneficiary and on the class of beneficiary. There are three classes of beneficiaries.

Class A consists of the wife, husband, parents, grandparents, children, and all other lineally related persons. The first \$5,000 of the inheritance is exempt from taxation and all above that is taxable as follows:

Over \$5,000 to \$50,000.....	1 percent
Over \$50,000 to \$100,000.....	2 percent
Over \$100,000 to \$500,000.....	3 percent
Over \$500,000 to \$1,000,000.....	4 percent
Over \$1,000,000.....	5 percent

In class B are the brothers, sisters, nephews, and nieces. The first \$2,000 of the inheritance is exempt and the amount above that is taxed in the following way:

Over \$2,000 to \$25,000.....	2 percent
Over \$25,000 to \$50,000.....	4 percent
Over \$50,000 to \$100,000.....	6 percent
Over \$100,000 to \$500,000.....	8 percent
Over \$500,000.....	10 percent

Class C is made up of grandnephews and grandnieces, those not in classes A or B, and firms, associations, corporations, and other organizations. The first \$1,000 of the inheritance is exempt. Above that amount the size classes are the same as for class B. The rates, however, are 5, 7, 9, 12, and 15 percent.

Qualifying all of these rates is the state law (Section 58-162) that no tax assessment may be less than the maximum federal credit for state death

taxes (the "pick-up" statute). In other words, the "pick-up" imposes a floor on the tax paid.

In fiscal year 1969-70, inheritance tax receipts were \$11.7 million, which represented 1.5 percent of total general fund revenues. Receipts from the tax are subject to continual annual fluctuation because of dependence on large inheritances for much of the revenue.

### A Comparison of Death Taxes in Virginia and Other States

#### Structures

To gain some understanding of how the Virginia inheritance tax compares with death taxes in other states, Tables 3.20 through 3.22 are provided. They show in a concise manner the types of state death taxes and the rates and exemptions in effect as of January 1, 1971. As may be observed, Virginia is among the large majority of states that have an inheritance tax and a "pick-up" statute. Further observation (Table 3.22) reveals that the exemptions in Virginia for widow, minor child, and adult child are relatively low. However, for brother or sister or non-relatives they tend to be more consistent with those of other states. As for the rates, there are a number of states that appear to have more progressive rate structures and higher rates.

To place the Virginia inheritance tax in better perspective, we shall compare it with the North Carolina tax for a class A spouse. The North Carolina inheritance tax is chosen because it has a highly progressive rate structure over a large number of size classes. This allows any differences with Virginia to be sharply defined. Table 3.23 shows the comparison. Thirteen hypothetical sizes of inheritances are used. For Virginia, the exemption and rates are given above (see page 119). For North Carolina the exemption is

TABLE 3.20.--TYPES OF STATE DEATH TAXES, JANUARY 1, 1971

Type of tax	State
"Pickup" tax only . . . . . (5)	Alabama, Alaska, Arkansas, Florida, Georgia.
Estate tax only . . . . . (3)	Mississippi, North Dakota, Utah.
Estate tax and "pickup" tax . . . . . (6)	Arizona, New York, Ohio, Oklahoma, <sup>1</sup> S. Carolina, <sup>1</sup> Vermont <sup>1</sup> .
Inheritance tax only . . . . . (2)	South Dakota, West Virginia.
Inheritance tax and "pickup" tax . . . . . (32)	California, <sup>1</sup> Colorado, <sup>1</sup> Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, <sup>1</sup> Maine, Maryland, Massachusetts, Michigan, Minnesota, <sup>1</sup> Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, <sup>1</sup> Pennsylvania, Tennessee, <sup>1</sup> Texas, Virginia, <sup>1</sup> Washington, <sup>1</sup> Wisconsin, <sup>1</sup> Wyoming.
Estate tax and inheritance tax . . . . . (1)	Oregon. <sup>1</sup>
Inheritance, estate and "pickup" taxes . . . . . (1)	Rhode Island. <sup>1</sup>
No tax . . . . . (1)	Nevada.

<sup>1</sup>Also has gift tax (14 States).

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State and Local Finances and Suggested Legislation, (Washington: Government Printing Office, 1970), p. 123.

TABLE 3.21.--STATE ESTATE TAX RATES AND EXEMPTIONS, JANUARY 1, 1971<sup>1/</sup>

State	Rates	Maximum rate applies above	Exemption
Alabama . . . . .	80 percent of 1926 Federal rates	\$10,000,000	\$100,000
Alaska . . . . .	80 percent of 1926 Federal rates	10,000,000	100,000
Arizona <sup>2</sup> . . . . .	4/5 of 1-16 percent . . . . .	10,000,000	100,000
Arkansas . . . . .	80 percent of 1926 Federal rates	10,000,000	100,000
Florida . . . . .	80 percent of 1926 Federal rates	10,000,000	100,000
Georgia . . . . .	80 percent of 1926 Federal rates	10,000,000	100,000
Mississippi . . . . .	80 percent of 1926 Federal rates	10,000,000	60,000
New York <sup>2</sup> . . . . .	2-21 percent . . . . .	10,100,000	<sup>3</sup>
North Dakota . . . . .	2-23 percent . . . . .	1,500,000	<sup>4</sup>
Ohio <sup>5</sup> . . . . .	2-7 percent . . . . .	500,000	5,000 <sup>6</sup>
Oklahoma <sup>2</sup> . . . . .	1-10 percent . . . . .	10,000,000	15,000
Oregon . . . . .	1-10 percent . . . . .	500,000	15,000
Rhode Island <sup>2</sup> . . . . .	1 percent . . . . .	<sup>7</sup>	10,000
South Carolina . . . . .	4-6 percent . . . . .	100,000	60,000
Utah . . . . .	3-10 percent . . . . .	125,000	10,000 <sup>8</sup>
Vermont <sup>2</sup> . . . . .	The tax rate is 30% of the federal estate tax liability due to Vermont gross estate.		

<sup>1</sup>Excludes States shown in table 3.20 which, in addition to their inheritance taxes levy an estate tax to assure full absorption of the 80-percent Federal credit.

<sup>2</sup>An additional estate tax is imposed to assure full absorption of the 80-percent Federal credit.

<sup>3</sup>\$20,000 of transfers to spouse and \$5,000 to each lineal ascendant and descendant and to other specified relatives are exempt and deductible from first bracket.

<sup>4</sup>Exemption for spouse is \$20,000 or 50 percent of adjusted gross estate, for minor child, \$5,000, for lineal ancestor or descendants, \$2,000.

<sup>5</sup>Replaced inheritance tax, effective July 1, 1968.

<sup>6</sup>An additional \$20,000 for spouse, \$7,000 for minor child, and \$3,000 for adult child.

<sup>7</sup>Entire estate above exemption.

<sup>8</sup>Transfers, not to exceed \$40,000, if made to the husband, wife and/or children of the decedent are exempt from tax.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State and Local Finances and Suggested Legislation, (Washington: Government Printing Office, 1970), p. 123.

TABLE 3.22.--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1971

State <sup>1</sup>	Exemptions					Rates (percent)				In case of spouse	
	Widow	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
Alabama <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Alaska <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Arizona <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Arkansas <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
California <sup>3,4</sup>	\$ 5,000	\$12,000	\$ 5,000	\$ 2,000	\$ 300	3-14	3-14	6-20	10-24	\$ 25,000	\$ 400,000
Colorado	35,000	15,000	10,000	2,000	500 <sup>5</sup>	2-8	2-8	3-10	10-19	50,000	500,000
Connecticut <sup>3,6,7</sup>	50,000	10,000 <sup>8</sup>	10,000 <sup>8</sup>	3,000	500	3-8 <sup>9</sup>	2-8	4-10	8-14	150,000	1,000,000
Delaware <sup>3</sup>	20,000	3,000	3,000	1,000	None	1-4	1-4	2-5	5-8	30,000	200,000
District of Col. <sup>3</sup>	5,000	5,000	5,000	2,000	1,000	1-5	1-5	3-10	5-15	50,000	1,000,000
Florida <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Georgia <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Hawaii	20,000	5,000	5,000	500	500	2-6 <sup>9</sup>	1.5-7.5	3.5-9	3.5-9	15,000	250,000
Idaho <sup>4</sup>	10,000	10,000	4,000	1,000	None	2-15	2-15	4-20	8-30	25,000	500,000
Illinois	20,000	20,000	20,000	10,000	100	2-14 <sup>10</sup>	2-14	2-14	10-30	20,000	500,000
Indiana <sup>3</sup>	15,000	5,000	2,000	500	100	1-10	1-10	5-15	7-20	25,000	1,500,000
Iowa	40,000	15,000	15,000	None <sup>11</sup>	None <sup>11</sup>	1-8	1-8	5-10	10-15	5,000	150,000
Kansas	75,000	15,000	15,000	5,000	200 <sup>5</sup>	0.5-2.5 <sup>9</sup>	1-5	3-12.5	10-15	25,000	500,000
Kentucky	10,000	10,000	5,000	1,000	500	2-10	2-10	4-16	6-16	20,000	500,000
Louisiana <sup>3,4</sup>	5,000	5,000	5,000	1,000	500	2-3	2-3	5-7	5-10	25,000	25,000
Maine	15,000	10,000	10,000	500	500	2-6	2-6	8-12	12-18	50,000	250,000
Maryland <sup>5</sup>	150	150	150	150	150	1	1	7½	7½	<sup>12</sup>	<sup>12</sup>
Massachusetts <sup>5,13</sup>	30,000 <sup>14</sup>	15,000	15,000	5,000	5,000	1.8-11.8	1.8-11.8	5.5-19.3	8-19.3	10,000	1,000,000
Michigan <sup>3,15</sup>	30,000 <sup>16</sup>	5,000	5,000	5,000	None	2-8	2-8	2-8	10-15	50,000	750,000
Minnesota <sup>3,17</sup>	30,000	15,000	6,000	1,500	500	1.5-10	2-10	6-25	8-30	25,000	1,000,000
Mississippi <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Missouri	20,000 <sup>18</sup>	5,000 <sup>19</sup>	5,000 <sup>19</sup>	500	100 <sup>5</sup>	1-6	1-6	3-18	5-30	20,000	400,000
Montana <sup>3</sup>	20,000	5,000	2,000	500	None	2-8	2-8	4-16	8-32	25,000	100,000
Nebraska <sup>3</sup>	10,000	10,000	10,000	10,000	500	1	1	1	6-18	<sup>12</sup>	<sup>12</sup>
Nevada	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>
New Hampshire	<sup>20</sup>	<sup>20</sup>	<sup>20</sup>	None	None	<sup>20</sup>	<sup>20</sup>	15	15	<sup>20</sup>	<sup>20</sup>
New Jersey	5,000	5,000	5,000	500 <sup>5</sup>	500 <sup>5</sup>	1-16	1-16	11-16	15-16	10,000	3,200,000
New Mexico <sup>4</sup>	10,000 <sup>21</sup>	10,000 <sup>21</sup>	10,000 <sup>21</sup>	10,000 <sup>21</sup>	500 <sup>6</sup>	1	1	5	5	<sup>12</sup>	<sup>12</sup>
New York <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
North Carolina <sup>2,2</sup>	10,000	5,000	2,000	None	None	1-12	1-12	4-16	8-17	10,000	3,000,000
North Dakota <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Ohio <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....
Oklahoma <sup>2</sup>	....	....	....	....	....	....	....	....	....	....	....

See footnotes at the end of table.

TABLE 3.22 --- STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1971 (Cont'd)

State <sup>1</sup>	Exemptions					Rates (percent)				In case of spouse	
	Widow	Minor child	Adult child	Brother or sister	Other than relative	Spouse or minor child	Adult child	Brother or sister	Other than relative	Size of first bracket	Level at which top rate applies
Oregon <sup>2,3,24*</sup>	None	None	None	\$1,000	\$ 500	1 - 10	1 - 10	1 - 15	1 - 20	\$10,000 <sup>1,2</sup>	\$ 500,000 <sup>1,2</sup>
Pennsylvania	\$ 1,000	None <sup>2,5</sup>	None <sup>2,5</sup>	None	None	6	6	15	15	25,000	1,000,000
Rhode Island <sup>3,23</sup>	10,000	\$10,000	\$10,000	5,000	1,000	2 - 9	2 - 9	3 - 10	8 - 15	25,000	1,000,000
South Carolina <sup>2</sup>	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
South Dakota <sup>3*</sup>	15,000	10,000	10,000	500	100	1½ - 4	1½ - 4	4 - 12	6 - 20	15,000	100,000
Tennessee <sup>3</sup>	10,000 <sup>2,6</sup>	10,000 <sup>2,6</sup>	10,000 <sup>2,6</sup>	1,000 <sup>2,6</sup>	1,000 <sup>2,6</sup>	1.4 - 9.5	1.4 - 9.5	6.5 - 20	6.5 - 20	25,000	500,000
Texas <sup>3,4</sup>	25,000	25,000	25,000	10,000	500	1 - 6	1 - 6	3 - 10	5 - 20	50,000	1,000,000
Utah <sup>2</sup>	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Virginia <sup>3</sup>	5,000	5,000	5,000	2,000	1,000	1 - 5	1 - 5	2 - 10	5 - 15	50,000	1,000,000
Washington <sup>3,4</sup>	5,000 <sup>2,7</sup>	5,000 <sup>2,7</sup>	5,000 <sup>2,7</sup>	1,000 <sup>6</sup>	None	1 - 10	1 - 10	3 - 20	10 - 25	25,000	500,000
West Virginia <sup>3*</sup>	15,000	5,000	5,000	None	None	3 - 13	3 - 13	4 - 18	10 - 30	50,000	1,000,000
Wisconsin <sup>3,28</sup>	15,000	2,000	2,000	500	100	2 - 10	2 - 10	2 - 10	8 - 40	25,000	500,000
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6	25,000 <sup>1,2</sup>	500,000 <sup>1,2</sup>

<sup>1</sup> All States, except those designated by asterisk (\*), impose also an estate tax to assure full absorption of the 80 percent Federal credit.

<sup>2</sup> Imposes only estate tax. See table 3.20.

<sup>3</sup> Exemptions are deductible from the first bracket.

<sup>4</sup> Community property passing to the surviving spouse is exempt, or only one-half is taxable.

<sup>5</sup> No exemption is allowed if beneficiary's share exceeds the amount shown in the exemption column, but no tax shall reduce the value of the amounts shown in the exemption column. In Maryland, it is the practice to allow a family allowance of \$450 to a widow if there are infant children, and \$225 if there are no infant children, although there is no provision for such deductions in the statute.

<sup>6</sup> The exemption shown is the total exemption for all beneficiaries falling into the particular class and is shared by them proportionately.

<sup>7</sup> An additional 30 percent surtax is imposed.

<sup>8</sup> Only one \$10,000 exemption is allowed for beneficiaries in Class A, which includes minor and adult children.

<sup>9</sup> Rate shown is for spouse only. A minor child is taxed at the rates applying to an adult child.

<sup>10</sup> With respect to taxable transfers passing to a husband or wife of a decedent dying on or after July 5, 1969, if taxable transfer exceeds \$5,000,000, the tax on the excess thereof is computed at 6%. Tax rates on the taxable amount up to and including \$5,000,000 are the same rates as provided for in excess of the exemption.

<sup>11</sup> Estates of less than \$1,000 after deduction of debts are not taxable.

<sup>12</sup> Entire share (in excess of allowable exemption).

<sup>13</sup> Applicable to property or interests passing or accruing upon the death of persons who die on or after July 18, 1969, a 14% surtax is imposed in addition to the inheritance tax.

<sup>14</sup> In addition, an exemption to the extent of the value of single family residential property and to the extent of \$25,000 of the value, in the case of multiple family residential property, used by a husband and wife as a domicile, is allowed where the property was held by them as joint tenants or tenants by the entirety.

<sup>15</sup> Transfers of real property to Class I beneficiaries (all but non-relatives) are taxed at 3/4 of the indicated tax rates. There is no tax on the share of any beneficiary if the value of the share is less than \$100.

<sup>16</sup> Plus an additional \$5,000 for every minor child to whom no property is transferred.

<sup>17</sup> For a widow, an additional exemption is allowed equal to the difference between the maximum deduction for family maintenance (\$5,000) and the amount of family maintenance actually allowed by the Probate Court. The total possible exemption therefore would be \$35,000. If there is no surviving widow entitled to the exemption, the aggregate exemption is allowable to the children.

<sup>18</sup> In addition, an exemption is allowed for the clear market value of one-half of the decedent's estate, or one-third if decedent is survived by lineal descendants.

<sup>19</sup> Or the value of the homestead allowance, whichever is greater.

<sup>20</sup> No tax imposed.

<sup>21</sup> The beneficiaries in Class I (spouse, parents, lineal descendants, and adopted children) are allowed one \$10,000 exemption for the entire class.

<sup>22</sup> A widow with a child or children under 21 and receiving all or substantially all of her husband's property, shall be allowed, at her option, an additional exemption of \$5,000 for each such child. The children shall not be allowed the regular \$5,000 exemption provided for such children.

<sup>23</sup> Imposes also an estate tax. See table 3.20.

<sup>24</sup> Oregon imposes a basic tax, measured by the entire estate in excess of a single exemption (\$15,000 prorated among all beneficiaries and deductible from the first bracket), and an additional tax, measured by the size of an individual's share for which each beneficiary has a specific exemption. All members of Class I (spouse, children, parents, grandparents, stepchildren or lineal descendants) are exempt from the additional tax.

<sup>25</sup> In the absence of a spouse, the children may claim the \$1,000 exemption.

<sup>26</sup> Widows and children are included in Class A, with one \$10,000 exemption for the entire class. Beneficiaries not in Class A are allowed one \$1,000 exemption for the entire class.

<sup>27</sup> An additional \$5,000 exemption is allowed to the class as a whole.

<sup>28</sup> These rates are subject to the limitation that the total tax may not exceed 15 percent of the beneficiary's share. An additional tax equal to 30 percent of the inheritance tax is also imposed.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State and Local Finances and Suggested Legislation, (Washington, Government Printing Office, 1970), pp. 124-25.

\$10,000 and the rate structure is as follows:

First \$10,000 above exemption.....	1 percent
Over \$10,000 and to \$25,000.....	2 percent
Over \$25,000 and to \$50,000.....	3 percent
Over \$50,000 and to \$100,000.....	4 percent
Over \$100,000 and to \$200,000.....	5 percent
Over \$200,000 and to \$500,000.....	6 percent
Over \$500,000 and to \$1,000,000.....	7 percent
Over \$1,000,000 and to \$1,500,000.....	8 percent
Over \$1,500,000 and to \$2,000,000.....	9 percent
Over \$2,000,000 and to \$2,500,000.....	10 percent
Over \$2,500,000 and to \$3,000,000.....	11 percent
Over \$3,000,000.....	12 percent

Several differences between the two states are obvious. First, in Virginia a tax is imposed on inheritances that North Carolina exempts from taxation. Second, the tax rates are more progressive over a larger number of size classes in North Carolina than in Virginia. Hence, the actual tax and the effective rate are higher in North Carolina than in Virginia for all but the two smallest taxable inheritances.<sup>1/</sup> This is true even though the "pick-up" statute comes into use in Virginia for the \$995,000 taxable inheritance. In effect, this negates the effectiveness of the 5 percent rate and, to some extent, the 4 percent rate.<sup>2/</sup>

#### Receipts

The Bureau of the Census has compiled data on death and gift taxes of state governments.<sup>3/</sup> Since death taxes account for the majority of such

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<sup>1/</sup> The greater progressiveness is also present in the rate structure for the North Carolina equivalent of Virginia classes B and C. However, there are no exemptions in these classes.

<sup>2/</sup> This is not to say that this phenomenon is always observable from actual returns. Large inheritances may also be in classes B or C, especially the latter, and in these the inheritance tax rates generally override the federal credit. Nevertheless, for purposes of a simple comparison, the choice of class A makes little difference with respect to this problem.

<sup>3/</sup> U.S. Bureau of the Census, State Government Finances in 1969, GF 69, No. 3 (Washington: Government Printing Office, 1970), pp. 11, 21, and 50. Personal income data for 1968 have since been revised.

TABLE 3.23.--A COMPARISON OF THE INHERITANCE TAX IN VIRGINIA AND NORTH CAROLINA  
USING CLASS A, SPOUSE, FOR THE PURPOSE OF ANALYSIS

Inheritance Before Exemption (1)	Virginia			North Carolina		
	Inheritance (2)	Tax (3)	Effective Rate (%) (4)	Taxable Inheritance (5)	Tax (6)	Effective Rate (%) (7)
\$ 10,000	\$ 5,000	\$ 50	0.50	\$ 0	\$ 0	0
20,000	15,000	150	0.75	10,000	100	0.50
25,000	20,000	200	0.80	15,000	200	0.80
50,000	45,000	450	0.90	40,000	850	1.70
100,000	95,000	1,450	1.45	90,000	2,750	2.75
200,000	195,000	4,450	2.22	190,000	7,650	3.82
500,000	495,000	13,450	2.69	490,000	25,550	5.11
1,000,000	995,000	35,720 <sup>a/</sup>	3.57	990,000	60,450	6.04
1,500,000	1,495,000	67,920	4.52	1,490,000	100,350	6.69
2,000,000	1,995,000	113,560	5.67	1,990,000	145,250	7.26
2,500,000	2,495,000	143,200	5.72	2,490,000	195,150	7.80
3,000,000	2,995,000	186,040	6.20	2,999,000	250,050	8.33
4,000,000	3,995,000	286,120	7.15	3,990,000	370,950	9.27

<sup>a/</sup> The "pick-up tax" becomes effective at this level. Tax is based on the federal schedule for credit for state death taxes.

Source: Tax Codes for the states of Virginia and North Carolina.

collections, the data give a quick idea of the relative burden of death taxes. The 1969 per capita and per \$1,000 of personal income receipts from these taxes are shown below for Virginia and neighboring states.

<u>State</u>	<u>Death and Gift Tax Receipts in Fiscal Year 1968-69</u>	
	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
50-State Average	\$4.95	\$1.46
Kentucky	3.01	1.14
Maryland	2.27	0.61
North Carolina	4.65	1.78
Tennessee	4.91	1.91
VIRGINIA	2.56	0.85
West Virginia	3.31	1.35

These data indicate that Virginia's inheritance tax is low, whether compared with the 50-state average or with those of neighboring states.

In addition, the Advisory Commission on Intergovernmental Relations has provided measures of relative state-local tax effort by type of tax for fiscal year 1966-67. Virginia's death and gift tax revenue was 70 percent of its tax capacity estimated at national average rates.<sup>1/</sup> From these measures, it seems that Virginia is not realizing its full potential from the inheritance tax and could increase its effort in this area if necessary.

#### The Burden of the Inheritance Tax

To see who bears the burden of the inheritance tax in Virginia, Tables 3.24, 3.25, and 3.26 have been prepared from 1968-69 data supplied by the Department of Taxation.

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<sup>1/</sup> Advisory Commission on Intergovernmental Relations, Measuring the Fiscal Capacity and Effort of State and Local Areas, M-58 (Washington, Government Printing Office, 1971), p. 129.



Table 3.24 shows the number of returns, the total net taxable estate after exemptions, and the total tax collections for ten size classes of net taxable estate. The table includes the returns that fall under the inheritance tax rates (Table 3.25) and those that fall under the "pick-up" (Table 3.26). As shown by Table 3.24, the distribution of the number of returns is skewed toward the lowest size classes with 27.8 percent of the returns in the lowest size class, 44.5 percent in the two lowest size classes, and 81.4 percent in the four lowest size classes. On the other hand, the returns in the lower size classes produce little revenue. The returns in the lowest size class account for only 0.9 percent of the total tax collections, those in the two lowest size classes produce 2.6 percent, and those in the first four size classes produce 13.9 percent. These data confirm the hypothesis that many of the returns are in the lowest size classes, especially the 0-\$5,000 class and, in turn, produce little revenue.

TABLE 3.24.--INHERITANCE TAXES DISTRIBUTED BY  
NET TAXABLE ESTATE SIZE CLASS, FOR FISCAL YEAR 1968-69

Net Taxable Estate Size Classes		Returns		Total Net Taxable Estate		Total Tax Collections	
Equal to or More Than	Less Than	Number	Total	Amount (000)	Total	Amount (000)	% of Total
\$ 0	\$ 5,000	2,716	27.8	\$ 6,363.6	1.6	\$ 103.7	0.9
5,000	10,000	1,631	16.7	11,902.5	2.9	186.9	1.7
10,000	25,000	2,174	22.2	35,317.7	8.6	525.1	4.7
25,000	50,000	1,438	14.7	50,772.1	12.4	735.5	6.6
50,000	100,000	1,003	10.3	70,995.6	17.3	1,232.7	11.0
100,000	200,000	513	5.2	69,916.7	17.0	1,490.1	13.3
200,000	500,000	234	2.4	69,081.4	16.8	1,858.2	16.6
500,000	1,000,000	46	0.5	31,016.4	7.6	930.3	8.3
1,000,000	2,000,000	20	0.2	27,482.7	6.7	1,186.6	10.6
2,000,000	...	9	0.1	37,253.1	9.1	2,944.8	26.3
		9,784	100.0	\$410,101.8	100.0	\$11,193.9	100.0

Note: Details may not add to totals due to rounding.

Source: Special tabulation by the Department of Taxation.

One factor that must be kept in mind in looking at Table 3.24 is that the distribution is by net taxable estate which has all exemptions taken out. It is the smallest of the three alternative estates--gross, net, and net taxable. The primary implication of using net taxable estate is that the data tend to fall in size classes that are lower than if gross or net estate were used. Thus, many of the returns that would fall in a \$10,000-\$25,000 gross estate class or a \$5,000-\$10,000 net estate class appear in the 0-\$5,000 net taxable estate class. There is no way to determine exactly what the deductions are or in which estate classes the exemptions given in Table 3.25 fall. One hint on exemptions is that 10,388 of the total of 18,562 beneficiaries are in the first bracket for class A beneficiaries. Thus, the use of net taxable estate forces one to look at smaller size classes to see where the majority of the returns are. Yet, it still leads to the same conclusions as the use of gross or net estate classifications.

Table 3.25 shows for those inheritances that fall under the inheritance tax rates the number of beneficiaries taxable at the highest rate shown, the amount taxable at each rate, and the tax at each rate for each beneficiary class. Since the table is largely self-explanatory, only a few comments will be made. First, the number of beneficiaries, the amount taxable, and the tax are by far the greatest in the first bracket in all three beneficiary classes. This is especially true for the class A beneficiaries. Second, the class A grouping contains by and large the greatest number of beneficiaries and amount taxable over the several rates as compared to the other two classes. However, the tax in class A tends to fall off comparatively in the higher brackets, and this reflects the relatively low rates in this class. Both of these findings may be expected, but they do point up two things. One is that the majority of inheritances are small, and many are taxable only because of the small exemptions.

TABLE 3.25.--INHERITANCE TAXES EXCLUSIVE OF THE  
"PICK-UP" FOR FISCAL YEAR 1968-69

<u>Class A Beneficiaries</u>			
<u>Number of Beneficiaries Taxable at Highest Rate Shown</u>		<u>Amount Taxable</u>	<u>Total Tax Collections</u>
1%	10,388	\$172,372,033	\$1,723,720
2%	867	42,586,370	851,727
3%	500	45,664,174	1,369,925
4%	16	4,180,812	167,232
5%	4	682,588	34,129
	<u>11,775</u>	<u>\$265,485,977</u>	<u>\$4,146,733</u>
<u>Class B Beneficiaries</u>			
<u>Number of Beneficiaries Taxable at Highest Rate Shown</u>		<u>Amount Taxable</u>	<u>Total Tax Collections</u>
2%	3,655	\$ 30,508,512	\$ 610,170
4%	303	7,949,773	317,991
6%	115	5,640,927	338,456
8%	73	5,662,204	452,976
10%	3	401,762	40,176
	<u>4,149</u>	<u>\$ 50,163,178</u>	<u>\$1,759,769</u>
<u>Class C Beneficiaries</u>			
<u>Number of Beneficiaries Taxable at Highest Rate Shown</u>		<u>Amount Taxable</u>	<u>Total Tax Collections</u>
5%	2,460	\$ 16,127,680	\$ 806,384
7%	112	2,683,338	187,834
9%	49	1,556,450	140,080
12%	17	1,001,108	120,133
15%	0	0	0
	<u>2,638</u>	<u>\$ 21,368,576</u>	<u>\$1,254,431</u>
Total, all classes	<u>18,562</u>	<u>\$337,017,731</u>	<u>\$7,160,933</u>

Source: Special tabulation by the Department of Taxation.

The other is that some of the larger inheritances, which are the greatest revenue producers, come under the "pick-up" rather than the inheritance tax because of the low inheritance tax rates, especially in class A.<sup>1/</sup>

The last point is brought out clearly in Table 3.26. It shows that only 87 returns, accounting for \$73.1 million in net taxable estate, produced about \$4 million in revenue. In percentage terms, 0.9 percent of the returns accounted for 17.8 percent of the total net taxable estates and produced 36 percent of total revenue. What is even more interesting is that 3 returns of \$3 million or more brought in 20 percent of the total revenue. One factor that must be remembered in examining this table is that the revenue figure shows the total amount of tax generated by the "pick-up", not the increment added by the "pick-up" to what the inheritance tax itself produces. A special tabulation not shown in the tables provided the information that in fiscal year 1968-69 the "pick-up" accounted for \$1.6 million.

#### Possible Changes in the Inheritance Tax

A doubling of exemptions would serve to remove the tax liability of many small estates which contribute little to total revenues. However, such a step would not make a material change in administrative costs because any gross estate of more than \$1,000 would still have to file a return<sup>2/</sup>, and it would be necessary to file and process many nontaxable returns in order to clear estates.

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<sup>1/</sup> Table 3.23 illustrates the fact that for large inheritances, the "pick-up" becomes effective.

<sup>2/</sup> It is possible that administrative changes could be made so that small estates would only have to file if they had a tax liability.

TABLE 3.26--INHERITANCE TAXES ASSESSED UNDER THE  
"PICK-UP" FOR FISCAL YEAR 1968-69

Net Taxable Estate (After Exemptions)		Number	Amount of Net Taxable Estates	Amount of Tax
Equal to or More Than	Less Than			
\$ 60,000	- \$ 70,000	2	\$ 111,761	\$ 254
70,000	- 80,000	-	...	...
80,000	- 90,000	1	85,174	361
90,000	- 100,000	1	90,913	415
100,000	- 125,000	1	119,097	866
125,000	- 150,000	2	274,295	2,382
150,000	- 175,000	6	956,851	10,004
175,000	- 200,000	4	754,939	8,645
200,000	- 250,000	4	893,979	12,854
250,000	- 300,000	10	2,806,651	44,926
300,000	- 350,000	9	2,966,619	57,142
350,000	- 400,000	4	1,499,376	28,564
400,000	- 500,000	7	3,291,729	78,804
500,000	- 600,000	7	3,771,329	97,323
600,000	- 700,000	4	2,591,725	59,096
700,000	- 800,000	3	2,241,061	69,411
800,000	- 900,000	1	877,725	29,713
900,000	- 1,000,000	3	2,860,701	101,747
1,000,000	- 1,500,000	8	9,167,991	364,035
1,500,000	- 2,000,000	3	5,495,098	275,414
2,000,000	- 2,500,000	2	4,268,557	228,707
2,500,000	- 3,000,000	2	5,479,777	328,780
3,000,000	- ...	3	22,472,726	2,233,697
Totals		87	\$73,078,074	\$4,033,140

Source: Special tabulation by the Department of Taxation.

If maintaining or increasing the current revenue raising ability of the tax were desired along with exemption increases, changes in the tax rates and/or brackets would be required. For example, if all exemptions had been doubled for fiscal year 1968-69, the amount taxable would have decreased by \$69.8 million, and the tax collections would have declined by \$900 thousand.<sup>1/</sup> To offset this, an increase in the rates within the present brackets would have been the simplest change. To increase the current revenue raising ability of the tax, the rates and/or brackets could be modified. Increasing the rates would require only a change in each rate by 1 or 2 percentage points with the present brackets. Changing both rates and brackets would involve a schedule like the one shown in Table 3.27.

Such a schedule would increase the progressiveness of the tax over a larger number of size classes. In this schedule, for class A, the nominal rates are greater for all sizes of inheritances, especially the larger ones. For classes B and C, the nominal rates remain the same to \$100,000, except for the higher exemptions, and then become greater.

A special sample of fiscal year 1968-69 returns was taken in order to obtain an estimate of the revenue yield of such changes.<sup>2/</sup> The sample indicated that the provisions in Table 3.27 would result in a \$1.2 million or

<sup>1/</sup> These computations are based solely on Table 3.25.

<sup>2/</sup> A 100 percent sample was taken of all returns subject to the "pick-up" and of all other returns with estates of \$500,000 or more. The sizes of samples for other estate size classes were based on the formula  $1.96 \frac{\sigma}{\sqrt{n}} = E$  where E is the quantity the permissible error will not exceed 95 percent of the time,  $\sigma$  is the standard deviation of the observations in the given size class, and n is the number of observations in the size class. E was calculated for each sample by making it equal to a given percentage of the actual mean for the size class. The percentage used was 10 percent for the \$0-4,999 class and 5 percent for all other classes. See John E. Freund and Frank J. Williams, Modern Business Statistics (Englewood Cliffs: Prentice Hall, 1958), pp. 193-94.

TABLE 3.27--PROPOSED CHANGES IN THE INHERITANCE TAX

Class A	Rate (%)	Class B	Rate (%)
First \$10,000	Exempt	First \$4,000	Exempt
Over \$10,000 and to \$25,000	1	Over \$4,000 and to \$25,000	2
Over \$25,000 and to \$50,000	2	Over \$25,000 and to \$50,000	4
Over \$50,000 and to \$100,000	3	Over \$50,000 and to \$100,000	6
Over \$100,000 and to \$200,000	4	Over \$100,000 and to \$200,000	8
Over \$200,000 and to \$500,000	5	Over \$200,000 and to \$500,000	10
Over \$500,000 and to \$1,000,000	6	Over \$500,000 and to \$1,000,000	12
Over \$1,000,000 and to \$2,000,000	7	Over \$1,000,000 and to \$2,000,000	14
Over \$2,000,000	8	Over \$2,000,000	16
		Class C	Rate (%)
		First \$2,000	Exempt
		Over \$2,000 and to \$25,000	5
		Over \$25,000 and to \$50,000	7
		Over \$50,000 and to \$100,000	9
		Over \$100,000 and to \$200,000	11
		Over \$200,000 and to \$500,000	13
		Over \$500,000 and to \$1,000,000	15
		Over \$1,000,000 and to \$2,000,000	17
		Over \$2,000,000	19

10.4 percent increase over collections under the existing law. Revenue from the federal "pick-up" would have dropped to \$0.8 million compared to the present \$1.6 million. Several of the proposed rates never became effective in the sample. For example, although the highest proposed rate for class B is 16 percent, the highest actual rate in the sample was 10 percent. For class C the highest proposed rate is 19 percent, but the highest actual rate in the sample was 11 percent. The proposed increases in exemptions would have removed all tax liability of about 3,000 returns.

#### Other Considerations

At the same time that any rate and/or bracket changes are made in the inheritance tax, concomitant changes would have to be made in the gift tax. These would be necessary to maintain the existing uniformity of the gift tax vis-à-vis the inheritance tax.

The final problem to be discussed concerns the inclusion of life insurance in the inheritance tax base. At present, by administrative ruling, the proceeds from life insurance are taxable only if they go to the estate. If they go directly to a designated beneficiary, they are exempt. Yet the basis of inheritance taxation is that property that succeeds from the decedent to a designated beneficiary is subject to tax. To exclude from taxation all life insurance proceeds just because they go directly to the beneficiary and not through the estate to the beneficiary may be arbitrary. Other death taxes do not have this exclusion, and the base of the federal estate tax includes the proceeds from all life insurance. To give an example of how three neighboring states with similar but higher inheritance taxes treat it, Kentucky



has the same provisions as Virginia; Tennessee exempts the first \$40,000 that goes to the estate or directly to the equivalent of our class A beneficiaries; and North Carolina exempts a certain amount of the proceeds that go directly to beneficiaries (\$20,000 to class A and \$2,000 to class B or C). It seems logical for an estate tax or an inheritance tax to include life insurance in the base. In fact, two neighboring states do include it. Perhaps some modification of the ruling concerning life insurance proceeds should be considered.

If life insurance had been included in the tax base for fiscal year 1968-69, the base would have increased by \$19.2 million.<sup>1/</sup> Given the assumption that it would have fallen under the inheritance tax rates and the fact that the overall effective rate for the inheritance tax was 2.1 percent, the additional revenue would have been \$403,200.

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<sup>1/</sup> This estimate is based on federal estate tax returns filed during 1966. Since the value of life insurance in the tax base tends to grow at a small rate, it is not considered necessary to increase the estimate by any growth factor. Thus, the estimate may be low but not excessively so.

## Taxes on Alcoholic Beverages and on Soft Drinks

Alcoholic Beverages

Liquor sold in A.B.C. stores is subject to a 14 percent markup and a subsequent 14 percent alcoholic beverages state tax. Both of these rates were raised from 10 percent effective January 1, 1970 and July 1, 1970 respectively. Additional taxes are levied on bottle sales for resale by the drink.<sup>1/</sup> Wine sales are subject to a tax of 35 cents per gallon on unfortified wine and 70 cents per gallon fortified wine (raised from 35 cents per gallon effective July 1, 1970). In addition, there is a beer and beverage excise tax of 2 cents per 12-ounce bottle and \$6 per 31-gallon barrel.<sup>2/</sup>

Net profits from liquor sales and alcoholic beverage taxes all go to the general fund; however, two-thirds of the wine and spirits sales tax and two-thirds, but never less than \$14,805,677 of A.B.C. profits are distributed to localities on the basis of population for general purposes. In fiscal year 1969-70, revenues from the alcoholic beverages state tax were \$16,490,448. Those from the wines and spirits sales tax were \$1,550,798 and from the beer and beverage excise tax were \$15,847,225. The tax on alcoholic beverages bought for resale by the drink brought in \$138,503, and A.B.C. profits were \$21,023,856. Together, these made up 7.2 percent of total general fund revenues for that year. By the 1976-78 biennium they are expected to supply 6.0 percent of total general fund revenues.<sup>3/</sup>

When measuring Virginia's effort with respect to alcoholic beverage taxation, A.B.C. profits should be included in total revenue since it may be assumed that the net profits of a public monopoly are in lieu of higher taxes.

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<sup>1/</sup> See the Code of Virginia, Section 4-15.3.

<sup>2/</sup> Ibid., Section 4-40.

<sup>3/</sup> Table 3.2, p. 61.

Kenneth E. Quindry has estimated alcoholic beverage revenues including net profits of state-owned liquor stores for fiscal year 1968-69,<sup>1/</sup> and shown below for Virginia and neighboring states are per capita receipts and receipts per \$1,000 of personal income based on his estimates. Virginia's true relative position may be higher than is shown here, since 1968-69 collections do not reflect the fact that the rates of three of the main sources (the alcoholic beverages state tax, the markup on A.B.C. store sales, and the wine and spirits sales tax) were raised since that time.

<u>State</u>	<u>Receipts in Fiscal Year 1968-69</u>	
	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
50-State Average	\$ 8.38	\$2.48
Kentucky	4.88	1.85
Maryland	4.88	1.31
North Carolina	12.00	4.58
Tennessee	8.48	3.30
VIRGINIA	10.77	3.57
West Virginia	16.87	6.90

Both measures show that Virginia's alcoholic beverage revenues are fairly high whether compared with the 50-state average or with those of neighboring states.

Data for the District of Columbia are not included above, but conditions there are an important consideration when discussing further increases in Virginia alcoholic beverages taxes. This is due to the fact that Virginia is already in a poor competitive position vis-à-vis the District, and the more the price difference is widened the more people would travel to Washington to buy liquor.

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<sup>1/</sup> Kenneth E. Quindry, State and Local Revenue Potential in 1969, SREB Research Monograph Number 16 (Atlanta: Southern Regional Education Board, 1970), pp. 17-19; Personal income data: U.S. Bureau of the Census, State Government Finances in 1969, GF69, No. 3 (Washington: Government Printing Office, 1970), p. 50.

Crown Tax on Soft Drinks

There are seven states with special taxes on soft drinks--Arkansas, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, and West Virginia. Using West Virginia's tax as a model,<sup>1/</sup> we estimate that if the state imposed such a tax, the amount raised would have been about \$13 million in fiscal year 1969-70.

If the intent of the tax were to discourage the creation of litter, there are strong reasons to believe that it would have little impact. On the other hand, if the intent of the tax were to raise funds to be earmarked as aid to localities for litter collection and disposal, the tax would help toward that goal. However, since litter is composed of many products in addition to soft drink bottles (e.g., other bottles, metal cans, paper products, and plastics), it may be unfair to charge soft drink consumers with the entire cost of collection.

If the intent of the tax is primarily to raise general revenue, then it is subject to the criticism that it imposes an extra tax on a particular type of food product which is already subject to the general sales tax.

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<sup>1/</sup> The rates are as follows: \$0.01 on each 16 fluid ounce bottle or fraction thereof; \$0.80 on each gallon of syrup or in like proportion on a fraction thereof; and a rate levied on dry mixtures dependent on the amount of liquid the mixture will produce. Source: Commerce Clearing House, Inc., State Tax Guide, Second Edition - All States: "Licenses and Miscellaneous," paragraphs 30-000 to 30-936, pp. 3001-3046.

## Tobacco Products Tax

Virginia has a state cigarette tax of 2.5 cents per pack. Prior to September 1, 1966, the tax was 3 cents, and cigars were also taxed. Except for North Carolina, which has a 2 cent tax, Virginia has the lowest state tax in the nation (see Table 3.28). To the north, the District of Columbia has a low tax (4 cents), but elsewhere the rates are significantly higher.

Virginia is among ten states where localities impose additional cigarette taxes.<sup>1/</sup> In fiscal year 1969-70 twelve cities, half of which were in the Hampton Roads area, imposed rates ranging from 2 to 7 cents and their total tax collections were \$5.4 million.<sup>2/</sup> Since that time rates have been increased in several of the twelve cities and additional localities are now imposing such taxes.

In fiscal year 1969-70, the state tobacco products tax produced \$13.7 million. Due to the slow growth of tobacco consumption, revenues from the 2.5 cent tax are not expected to rise at a fast pace in future years. For the 1972-74 biennium the tax will probably earn about \$14.3 million per year.

A higher tax than 2.5 cents could increase revenues substantially, provided a significant portion of sales were not lost to North Carolina or the District of Columbia. It is quite likely that if the present tax were doubled to 5 cents per pack, the number of packs sold would decrease so that total revenues would not double also. The following figures show the amount by which annual revenues

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<sup>1/</sup> Tobacco Tax Council, Inc., The Tax Burden on Tobacco, Vol. 5, (Richmond, 1970), p. 68.

<sup>2/</sup> Information in a memo by the Tobacco Tax Council, Inc. to Virginia Municipal Tax and Finance Officers in Places Imposing Local Cigarette Taxes, March, 1971.

would increase with a 5 cent tax under various assumptions about changes in sales:

	Projected Revenue ( <u>\$Mil.</u> )	Change from Present Tax	
		Amount ( <u>\$Mil.</u> )	Percent
Present 2½ cent tax	\$14.3	\$ ....	....
5 cent tax with:			
no change in sales	28.6	+14.3	+100
5 percent drop in sales	27.2	+12.9	+ 90
10 percent drop in sales	25.7	+11.4	+ 80
20 percent drop in sales	22.9	+ 8.6	+ 60

TABLE 3.28.--STATE CIGARETTE TAX RATES AS OF APRIL 1, 1971

<u>State</u>	<u>Cents</u>	<u>State</u>	<u>Cents</u>
Alabama	12	Missouri	9
Alaska	8	Montana	12
Arizona	10	Nebraska	8
Arkansas	17.75	Nevada	10
California	10	New Hampshire	8.5
Colorado	5	New Jersey	14
Connecticut	16	New Mexico	12
Delaware	11	New York	12
Dist. of Col.	4	North Carolina	2
Florida	15	North Dakota	11
Georgia	12	Ohio	10
Hawaii	9	Oklahoma	13
Idaho	7	Oregon	4
Illinois	12	Pennsylvania	18
Indiana	6	Rhode Island	13
Iowa	13	South Carolina	6
Kansas	11	South Dakota	12
Kentucky	3	Tennessee	13
Louisiana	11	Texas	15.5
Maine	12	Utah	8
Maryland	6	Vermont	12
Massachusetts	12	VIRGINIA	2.5
Michigan	11	Washington	11
Minnesota	13	West Virginia	12
Mississippi	9	Wisconsin	14
		Wyoming	8

Source: Tobacco Tax Council, Inc., "Monthly state Cigarette Tax Report", Report for February, 1971 (April 8, 1971) and additional information provided by the Council.

## The Sales and Use Tax

Introduction

The state sales and use tax, which became effective September 1, 1966, covers the sale, rental, lease, and storage for either use or consumption of tangible personal property at the level of final consumption. Exempted from the base are public utility, professional, and nonprofessional services, as well as sales of automobiles, gasoline, liquor, prescription medicine, and real property. Restaurant meals and transient lodgings, two categories frequently considered to be services, are taxed.<sup>1/</sup> The present tax rate for the state is 3 percent (raised from 2 percent on July 1, 1968). Moreover, there is a 1 percent local option tax that all localities have adopted.

In fiscal year 1969-70, the first year that the rate was 3 percent for the entire period,<sup>2/</sup> revenue from the sales and use tax, exclusive of local option, equaled \$210,044,989 or 27.5 percent of total general fund revenue. From the revenue projections made earlier in this chapter (see Table 3.5), this tax is expected to continue supplying approximately one-fourth of total general fund revenue through the 1976-78 biennium. Thus, the sales and use tax may be considered a very important producer of revenue.

Two major issues concerning the sales and use tax will be discussed:

(1) modification of the present base and (2) a change in the tax rate.

Possible modifications of the base are the exemption of food and/or nonprescription drugs which will lower revenue, and the extension of coverage to

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<sup>1/</sup> Restaurant meals are not classified as a service in national income accounting. Because of the nature of the purchase, some other publications on sales and use taxes do classify them as a service.

<sup>2/</sup> Since there is a one-month lag between time of collection of the tax by the dealer and time of receipt of the tax by the state, only 11 months of fiscal year 1968-69 receipts reflected the 3 percent rate.

services which will increase revenue. The change in the rate may be either an increase in the state rate or an increase in the permitted local option rate. Both theoretical and empirical evidence will be presented.

The first section will compare the Virginia tax to those in other states. Next modifications of the base will be considered. In the third section, revenue estimates including both base and rate changes will be discussed.

### Comparison With Other States

Table 3.29 presents a concise summary of sales taxes levied throughout the United States. Forty-five states and the District of Columbia presently levy a general sales tax, and twenty-three of these also allow some type of local sales tax. In addition, Alaska and Oregon, which lack a statewide tax, do permit localities to adopt one. As seen in this table, the state tax rates range from 2 percent to 6 percent, while permitted local rates are between 0.5 and 5 percent. Table 3.30 contains a frequency distribution of combined state and local tax rates as of January 1, 1971. Virginia falls in the most common 4 percent class, which also includes Maryland, North Carolina, and the District of Columbia. Two other bordering states, Tennessee and Kentucky, levy rates of 4.5 and 5 percent respectively, leaving only West Virginia of our bordering states with a lower sales tax rate of 3 percent.

When considering combined state and local sales tax rates, an important variable is the uniformity of the local tax. At one extreme is Virginia, with a uniform rate, coverage identical to the state levy, and liability determination by the location of the vendor. At the other extreme is New York with rates and coverage that differ and liability that depends on the destination



TABLE 3.29--STATE AND LOCAL SALES TAXES, JANUARY 1, 1971 - SUMMARY TABLE  
(Percentage Rate)

State	State Rate	Local Rate (Max.)	Food Exempt	Income Tax Credit	State	State Rate	Local Rate (Max.)	Food Exempt	Income Tax Credit
Alabama.....	4	2a			Nebraska.....	2½	½		X
Alaska.....		5bc			Nevada.....	2	1½*f		
Arizona.....	3	1c			New Jersey.....	5		X	
Arkansas.....	3	1			New Mexico.....	4	½*		
California.....	4	1*d	X		New York.....	3	3*	X	
Colorado.....	3	2a		X	North Carolina.....	3	1*g		
Connecticut.....	5		X		North Dakota.....	4		Xj	
Florida.....	4		X		Ohio.....	4	0.5h	X	
Georgia.....	3				Oklahoma.....	2	1*		
Hawaii.....	4			X	Oregon.....		e		
Idaho.....	3				Pennsylvania.....	6	0.6	X	
Illinois.....	4	1			Rhode Island.....	5		X	
Indiana.....	2			X	South Carolina.....	4			
Iowa.....	3				South Dakota.....	4	0.5		
Kansas.....	3				Tennessee.....	3	1.5*		
Kentucky.....	5				Texas.....	3½	1*	X	
Louisiana.....	3	2c			Utah.....	4	0.5*		
Maine.....	5		X		Vermont.....	3		X	X
Maryland.....	4		X		Virginia.....	3	1*		
Massachusetts.....	3		X	X	Washington.....	4.5			
Michigan.....	4				West Virginia.....	3			
Minnesota.....	3	1	X		Wisconsin.....	4	0.5e	X	
Mississippi.....	5				Wyoming.....	3			
Missouri.....	3	1e			District of Columbia...	4		Xi	X

- \* - Uniform state-collection of local sales taxes.
- a - Locally-collected in some jurisdictions, state-collected in others
- b - In Fairbanks, the combined city-borough rate is 5 percent.
- c - All local taxes self-administered.
- d - Local governments impose state-collected 1 percent taxes.
- e - Local tax authorized, but none presently imposed.
- f - A 1 percent county tax is mandatory.
- g - Imposed in Mecklenburg County only.
- h - State-collected county sales taxes authorized in 1967; none imposed yet.
- i - Food is taxed at 2 percent.
- j - Limited.

Source: Federation of Tax Administrators, Tax Administrators News, Vol. 32, No. 10 (updated), as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation (Washington: Government Printing Office, 1970), p. 50.

TABLE 3.30.--FREQUENCY DISTRIBUTION OF COMBINED STATE AND LOCAL  
GENERAL SALES TAX RATES, JANUARY 1, 1971

2	3	3.5	4	4.25	4.5	5	6	6.6
Indiana	Georgia Idaho Iowa Kansas Massachusetts Nebraska Oklahoma Vermont West Virginia Wyoming	Nevada	Arizona Arkansas Florida Hawaii Maryland Michigan Minnesota Missouri North Carolina South Carolina Virginia District of Columbia	Texas	New Mexico Ohio South Dakota Tennessee Utah Washington Wisconsin	Alaska California Colorado Connecticut Illinois Kentucky Louisiana Maine Mississippi New Jersey Rhode Island	Alabama New York	Pennsylvania

Note: Combined state and local rates reflect the maximum rate used by any locality in the state. All localities may not impose taxes and should they do so, their rates may be lower than the maximum.

Source: Table 3.29.

of the goods because of local use taxes on in-state sales.<sup>1/</sup> The method used in Virginia appears to be simpler and more efficient, at least for administrative purposes.

Also shown in Table 3.29, are the states which exempt food from the tax base or which allow an income tax credit for sales taxes paid, presumably in an effort to lessen the regressiveness of the tax. Presently, 16 states and the District of Columbia exempt food and 7 states allow the tax credit. Of these, Massachusetts, Vermont, and the District of Columbia provide both. The theoretical and empirical aspects of food and drug exemptions will be discussed in later sections. The tax credit was discussed in the section on the individual income tax.

In a discussion of any state tax, it is often of interest to know how the taxing effort of one state compares with those of other states. Two measures generally used are per capita tax receipts and tax receipts per \$1,000 of personal income. Estimates of the state and local sales tax efforts of Virginia and neighboring states in fiscal year 1968-69 are shown below:<sup>2/</sup>

<u>State</u>	<u>Receipts in Fiscal Year 1968-69</u>	
	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
50-State Average	\$ 69.54	\$ 18.88
Kentucky	76.65	\$ 29.09
Maryland	43.14	10.58
North Carolina	47.20	16.34
Tennessee	74.39	26.49
VIRGINIA	52.55	15.89
West Virginia	86.38	33.18

These data indicate that Virginia's sales tax effort is low whether compared with the 50-state average or with figures for neighboring states. The

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<sup>1/</sup> John F. Due, "The New State Sales Taxes 1961-68," National Tax Journal, Vol. XXI, No. 3 (September 1968), p. 287.

<sup>2/</sup> Kenneth E. Quindry, State and Local Revenue Potential 1969 (Atlanta: Southern Regional Education Board, 1970), p. 16. The 50-state averages exclude the District of Columbia.

above measures, however, do not take account of income tax credits for sales taxes paid, which lessen the impact of the tax in some states. Although its sales tax effort may be relatively low, Virginia's effort with respect to other taxes provides a partial offset.<sup>1/</sup>

### Modification of the Base

#### Exemption of Food and Nonprescription Drugs

Many states exempt food from the sales tax base to reduce the so-called regressiveness of the tax. Exemption decreases the tax burden on lower income groups and the relatively heavy burden on large families. On the other hand, a food exemption would reduce both state and local option sales tax revenue by about 24 percent. Other problems relate to enforcement and administration. For instance, many stores selling food and taxable goods do not maintain correct records of the sale of exempt and taxable commodities. The result is usually loss of revenue since there is a tendency to overstate the exemption. The primary reasons for the overstatement are that time pressure at the counters is severe and that most stores use low-paid help and have a high rate of personnel turnover. To solve this problem some states have derived formulas on which to base the tax. Another problem concerns interpretation. Borderline cases raise problems when candy, soft drinks, and meals are taxable.

The exemption of medicine may be warranted in terms of social policy. However, to extend the exemption beyond prescriptions raises difficulties because of the lack of a clear-cut border between these items and related products such as dentifrices and cosmetics. Furthermore, many household remedies are handled not only by drugstores, but also by supermarkets, variety stores, and others, and as a consequence, control problems are increased tremendously. Thus,

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<sup>1/</sup> For overall measures of effort see Chapter II.

the objective of this exemption can be attained by and large with less difficulty if exemption is confined to prescriptions and a few major standard items, such as insulin.<sup>1/</sup>

Perhaps the most feasible method of solving the problems of food and even medicine exemptions is not to exempt them but rather to have a personal income tax credit as discussed in the preceding section on the individual income tax.

#### Extension of Coverage to Services

Theoretical Arguments.--There are several logical arguments for applying the sales tax to services. First, the underlying philosophy of a sales tax is that it should cover as broad a base of consumer expenditures as possible, with exemptions only when specifically justified. Hence the tax should apply to services as well as commodities, for both categories satisfy personal wants. There is no inherent feature of most services that precludes their inclusion.

Second, expenditures on services tend to rise as incomes rise. Taxation of services thus can make a sales tax less regressive.<sup>2/</sup>

Third, as total personal income rises, total expenditures on services appear to rise faster than expenditures on commodities. Consequently, the

<sup>1/</sup> John F. Due, State Sales Tax Administration, (Chicago: Public Administration Service, 1963), pp. 188-91.

<sup>2/</sup> The argument for regressiveness in a sales tax is based on the notion that the final burden of the tax in relation to income as a base is not proportional. Instead, the tax tends to be more onerous to lower-income than to higher-income families. This argument is derived from the acceptance of the view that sales taxes are finally paid by consumers rather than by factor owners. Whether this view on who finally pays a sales tax should be accepted is another matter. Many economists do accept it. Others, such as James Buchanan, do not. The other major problem with the argument is that, even when the tax is regressive with respect to income, there is no basis for the claim that such taxes are bad or undesirable, unless a specific value judgment is made to this effect. The reason is that any tax represents only half of a fiscal operation. Some fiscal authorities reject the idea of condemning a tax as regressive before investigating who receives the benefits when the tax money is spent. See James M. Buchanan, The Public Finances (Homewood: Richard D. Irwin, Inc., 1965), pp. 466-67.

yield of the tax adjusts more exactly in terms of rising levels of economic activity.

Finally, a number of services are rendered in conjunction with the sale of tangible personal property. Compliance and administration are much simpler in these cases, if the entire charge is taxable than if a separation between service and commodity is necessary. (This is especially true of repair services.)

When considering arguments against the extension of coverage to services, the most basic reason is simplicity. Unlike the taxation of tangible personal property, taxation of services requires detailed enumeration of specific categories and even items to be included. Even when enumerated, the categories may be difficult to interpret and cause many administrative problems. A potential gain in revenue, therefore, may be partially offset by increases in administrative costs.

A second reason for hesitancy in extending coverage to services is that such a practice may not relieve regressiveness in the tax as much as hoped. Many personal services such as haircuts, dry cleaning, and health services must be used by low and moderate income groups as well as by the wealthy. Restaurant meals and hotel accommodations are already taxed, and such luxury services as cruises are beyond our taxing jurisdiction. The distribution of the tax burden may, therefore, not be extensively changed.

A third problem is that extension of coverage to services tends to discriminate against the in-state service firms, especially those near the border, and against the nonvertically integrated firm. The discrimination against the in-state firm results from the fact that use taxes can very rarely be charged on out-of-state purchases of services. An exception would be rental of equipment from an out-of-state firm for use in the state.

Nonvertically integrated firms face discrimination since they often must purchase business services from other companies. For instance, a small company using a taxable telephone answering service may be at a competitive disadvantage to one which handles this service internally because employer-employee related services are not taxable.

Practices in Other States.--In considering the taxing of services, it may be of value to review the sales taxes of other states. Appendix Table A.7 shows that there is some disparity among the states with respect to this subject. All of the 45 states and the District of Columbia with sales taxes make provision for taxing meals. Forty-one of the states, including Virginia, and the District of Columbia tax transient lodgings. As for public utility services, only 29 states tax telephone and telegraph services, 32 tax gas and electricity, and 18 tax water. Eight states tax intrastate transportation of persons and property.

Even more illustrative of the differences among the states are the listings in the final column of other services and businesses subject to tax. We see that laundry and dry cleaning, repair services, and the lease on rental of tangible personal property are the most commonly mentioned. Only South Dakota taxes professional services, and it exempts persons engaged in the healing arts or veterinarians.

In summary, the states are consistent in their coverage of retail sales of tangible personal property except for food and medicine. However, there does appear to be a lack of uniformity as far as selected services are concerned. More generally, the table sheds some light on the fact that it is majority practice to exclude many services from the tax base.

Review of Possible Taxable Services.--In an attempt to answer the question, "what services might Virginia tax?", we have constructed Table 3.31. In the first column are listed general categories of services with examples. The

Possible Taxable Service	Is the Service Subject to Other Gross Receipts Taxes?	Ease of Administration	Taxpayer Equity	Potential Net Revenue Impact
Amusements - movie theaters; performances; bowling, pool, skating, swimming, riding, and other recreation fees; Turkish baths; massage and reducing salons; health clubs; golf and country clubs; other recreation clubs; itinerant amusement shows.	License taxes are imposed by localities on admissions and on some of the others.	This would require collections from many new dealers, including one night performances and itinerant amusement shows. A question would arise about taxing amusements to raise money for charities, and "charitable" would have to be defined. Relating to clubs where fees are paid in the form of membership dues, it might logically follow that all dues to all clubs are taxable.	This category would have to include most types of amusements to avoid discrimination against the ones taxed.	Very good.
Business Services - advertising; promotion and direct mail; armored cars; janitorial services; mailing services; telephone answering services; testing laboratories; wrapping, packing, and packaging of merchandise; weighing; sign painting; equipment rental; collection agencies; bookkeeping services; secretarial services; employment agencies.	Merchants license taxes are imposed by many localities on all of these.	Most of these are fairly easy to define and would add new dealers to the tax rolls. However, advertising is difficult to define, there is a question about tax interstate commerce, and it would be costly to administer the tax on out-of-state advertisers.	Taxing these services would frequently discriminate against the small nonvertically integrated firm.	Good, (not including advertising.)
Construction Services - all construction services relating to buildings and structures erected for the improvement of realty; real estate construction contracts-primary; carpentry; masonry; plastering; painting, papering, and interior decorating; excavating and grading; pipe fitting and plumbing; house and building moving; well drilling.	Some localities impose license taxes on the fees received on gross amount of contract or order of contractors.	The point can be made that the purchase of real property, including structures, is a capital investment and not a consumer expenditure. Repairs and remodeling may be classified as repairs to tangible property and therefore are taxable. It would be difficult to differentiate between construction of structure and the addition or alteration of a few rooms. It would be difficult to enforce complete compliance among so many small concerns. Many new dealers would be added to the tax rolls.	Taxing construction could be a penalty to potential construction investors and might be detrimental to the construction market. Taxing only a primary contractor would discriminate against general contractors and would be easily avoidable. Taxing minor work done by carpenters, plasters, etc. would be equitable if all categories were included.	Very good.
Educational Services - private schools; dancing schools; music lessons; flying lessons; vocational schools; modeling schools; art schools.	Private schools are not usually subject to these taxes, but dancing schools and some others frequently are.	Careful definition would be necessary to encompass all types of educational services. Since many lessons are taught by private individuals, evasion would be easy.	This is a very questionable category since it taxes people for learning a vocation.	Good, (not including private schools.)
Financial Services - bank service charges; finance charges; all types of insurance premiums; investment counseling.	There is a state tax on the gross premiums of insurance companies.	The dealers in question would be easily locatable. Finance charges would have to be differentiated from interest. Finance charges apply to bank credit cards and retail store credit cards as well as to financial institutions. It would be necessary to define the types of insurance premiums taxed.	Taxing this category penalizes people with small accounts, people dealing with certain banks, credit users, and people dealing with investment counselors rather than bankers or stock brokers. Taxing insurance premiums imposes a tax on saving since the purchase of insurance is often a form of saving as well as a purchase of the service.	Good, (not including insurance premiums or finance charges.)
Personal Services - barbers and beauty salons; dry cleaning, pressing, dyeing and laundry; coin operated laundry and dry cleaning; shoe repair and shoe shine; alterations; sewing and stitching; fur storage, repair, dyers, and dressers.	These are subject to license taxes on gross receipts by localities.	Since most of these services are provided by retail stores which already collect the tax on some items, it would be fairly easy to extend coverage to these items. It might be beneficial to set some sort of lower limit to exempt shoe-shine boys and other extremely small operators.	Taxpayer equity seems satisfactory although most states do not tax these - perhaps because many are viewed as necessities.	Good.

(Table continued on next page.)



TABLE 3.31.--EXAMINATION OF POSSIBLE TAXABLE SERVICES AND RELATED ISSUES (Continued)

<u>Possible Taxable Service</u>	<u>Is the Service Subject to Other Gross Receipts Taxes?</u>	<u>Ease of Administration</u>	<u>Taxpayer Equity</u>	<u>Potential Net Revenue Impact</u>
Professional Services - accountants; architects; attorneys; artists; chemists; doctors; dentists; nurses; allied health personnel; veterinarians; engineers; geologists; surveyors; morticians; pharmacists, chiropractors; fortune tellers; pawn brokers; taxidermists; interior decorators.	Many professionals are subject to local license taxes on gross receipts.	This tax may be difficult to collect from so many independent practitioners.	There are questions about taxing health and legal services. Who pays the tax bill on court assigned legal services?	Very good.
Public Utilities - electric power; gas; water; telephone and telegraph.	Most localities levy some type of user or sales tax on public utilities. These may have a nominal tax rate of as high as 25% although upper limits often lessen the effective rate. Many state public service corporation taxes relate to gross receipts.	These services are simple to define and to collect from. A question would arise about the local taxes. If permitted to continue, taxes would be excessive. If disallowed, localities would lose revenue.	Taxing these may discriminate against the users of electricity or natural gas when the alternatives are fuel oil or bottled gas, which are subject only to the regular sales tax.	Very good if all present taxes are maintained.
Repair Services - automobile repair; battery, tire, and allied; oilers and lubricators; washing, waxing, and polishing; wrecker service; vulcanizing and retreading; boat repair; machine repair; motorcycle, scooter, and bicycle repair; motor repair; tin and sheet metal repair; roof, shingle, and glass repair; electrical repair; household appliance, television and radio repair; jewelry and watch repair; furniture, rug, upholstery repair and cleaning; office and business machine repair; swimming pool cleaning; wood preparation; welding; finishers; polishers; exterminators.	Frequently subject to local license taxes.	Repair services are fairly easy to define. Many retail dealers offer repair services so that extending coverage to these would not be extremely difficult. It might lower the compliance costs to the dealer.	Satisfactory.	Very good.
Intrastate Transportation Services - buses; taxis; trucks; trains; airplanes.	Many are taxed by the state on gross receipts.	Intrastate transportation is difficult to define and difficult for both the Department of Taxation and dealer to collect taxes on since it requires the separation of intrastate from interstate transportation.	Penalizes nonvertically integrated firms and individuals not using private transportation. Discourages public transportation which many areas have found desirable enough to subsidize.	Very good.
Miscellaneous - boarding of animals; grooming of animals; stud fees; engraving, photography, and retouching; printing and binding; refuse services; parking lots, storage warehouses and lockers.	These may be subject to license taxes in many localities.	Most of these are fairly easy to define and to administer.	Satisfactory.	Low for any one of these categories.

second column states whether or not the service category is subject to other sales or gross receipts taxes in Virginia. In the third column, possible tax administration problems are mentioned. In the fourth column, any questions about possible taxpayer inequities are raised, and the fifth column provides rough estimates of the potential annual revenue from each category. These estimates range from low (less than \$200,000) to good (\$200,000 to \$3 million) to very good (\$3 million+).<sup>1/</sup> The revenue estimates reflect net increases. We have tried to deduct from the estimates taxes now paid by services on goods used in production (e.g., plastic bags for dry cleaning) since they would no longer be defined as the final level of production. For service establishments, such as auto repair shops, which already collect the sales tax on parts, we have counted only the additional revenue from taxing services.

From the table, it is apparent that most services are subject to some kind of local gross receipts tax. If the sales tax is extended in addition to these taxes, the tax rate may be excessively high. On the other hand, if the localities are not permitted to continue levying their taxes on these items, most would experience a considerable decrease in revenue.

Looking at all types of services, the type most suitable for inclusion within the tax base is that rendered by business establishments rather than by professional men or other individuals. If the tax is limited to businesses, general administration will be simplified. If it is extended to personal services rendered by individuals and professional men, several new problems with administration are created. Moreover, significant objections that relate to social policy arise over the taxing of medical, dental, hospital and related services, legal services, and the like.

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<sup>1/</sup> Estimates based on per capita sales tax collections for fiscal year 1969-70 by Iowa for each category times the 1970 population of Virginia. Sources: Iowa Department of Revenue, Retail Sales and Use Tax - Annual Report, Fiscal Year Ending June 30, 1970 (Des Moines: December, 1970); Iowa and Virginia 1970 populations: U. S. Department of Commerce, Bureau of the Census, 1970 Census of Population - Final Population Counts, PC(V1)-17 and PC(V1)-48 (Washington: December, 1970).

The listings of services under the broad categories in Table 3.31 are only intended to be illustrative and not exhaustive. A very detailed listing of all possible services should be made by the Department of Taxation with suggestions as to the most administratively feasible, before specific services are presented for inclusion in the tax base.

### Revenue Estimates

#### Change in Rate

The current sales and use tax structure provided a base of \$6,879 million in fiscal year 1969-70 (see Table 3.32). An increase in the tax rate of 1 percentage point would have raised revenues by about \$69 million. This could be either an increase in the state rate which would increase general fund revenues or an increase in the permitted local option rate which would benefit localities.

#### Change in Base

Exemption of food purchases from the tax base would have meant a reduction of \$1,642 million in the 1969-70 tax base or \$49.3 million in tax revenues at the present 3 percent rate. This estimate was derived from the Department of Taxation reports of quarterly sales by business classification. All sales of bakeries, confectioners, dairies, fruit and vegetable stands, and grocery stores were counted as food sales. This is an oversimplification since a portion of their sales represent nonfood items. On the other hand, a portion of the sales of drugstores, delicatessens, and other stores represent food sales that would be exempt.

Exempting both food and nonprescription drugs would have reduced the tax base by \$1,759 million or would have decreased state revenues by \$52.8 million.

TABLE 3.32--ESTIMATED TAX YIELDS FROM ALTERNATIVE  
CHANGES IN THE SALES AND USE TAX, FISCAL YEAR 1969-70

	Estimated Tax Base, 1969-70	Tax Receipts with 3% Rate		Tax Receipts with 4% Rate	
		Amount	Change from Present	Amount	Change from Present
Present sales and use tax <sup>a/</sup>	\$6,879,000,000	\$206,400,000	\$ ...	\$275,200,000	\$+68,800,000
Present base with food exemptions <sup>b/</sup>	5,237,000,000	157,100,000	-49,300,000	209,500,000	+ 3,100,000
Present base with food and nonprescription drug exemptions <sup>c/</sup>	5,120,000,000	153,600,000	-52,800,000	204,800,000	+ 1,600,000
Present base plus coverage of selected services <sup>d/</sup>	7,338,000,000	220,100,000	+13,700,000	293,500,000	+87,100,000

<sup>a/</sup> Based on actual taxable sales as reported by the Department of Taxation. Difference between computed tax receipts (in this table) and actual receipts reported by Comptroller (\$210 million for state tax) is mainly due to penalty and interest collections not reflected in taxable sales.

<sup>b/</sup> Based on actual taxable sales of bakeries, confectioners, dairies, fruit and vegetable stands, and grocery stores as reported by the Department of Taxation for fiscal year 1969-70.

<sup>c/</sup> Nonprescription drug sales based on actual taxable sales of drugstores selling a variety of merchandise in addition to prescription drugs. The figure was reduced by one-half to allow for the sales of nondrug items.

<sup>d/</sup> For services included see Table 3.33. This is a net figure; sales of service establishments which are already subject to the sales and use tax are not included.

Sources: Department of Taxation, Taxable Sales in Virginia Counties and Cities Based on Retail Sales Tax Revenues, Quarterly Report, issues for fiscal year 1969-70, Richmond; this study Table 3.33.

TABLE 3.33--ESTIMATED INCREASE IN SALES TAX BASE FROM  
TAXING SELECTED SERVICES, FISCAL YEAR 1969-70

	1967 Sales (Census)	1970 Sales <sup>a/</sup>	Amount Currently Nontaxable Which Would Become Taxable	
			Ratio to Total Sales <sup>b/</sup>	Amount, 1970
Beauty & Barber Shops SIC 723 & 724	\$ 65,015,000	\$ 86,340,000	.964	\$ 83,232,000
Auto Parking SIC 752	3,362,000	11,439,000	.914	10,455,000
Auto Services Except Repair (Mainly Auto Laundries) SIC 754	5,252,000			
Auto Repair Shops SIC 753	78,616,000	104,402,000	.610	63,685,000
Motion Pictures SIC 78	22,914,000	99,298,000	.878	87,184,000
Amusements, Recreation Services, Except Motion Pictures SIC 79	51,859,000			
Shoe Repair SIC 725	4,643,000	11,823,000	.813	9,612,000
Miscellaneous Personal Services SIC 729	4,260,000			
Laundry, Laundry Service, Cleaning, Dyeing Plants, Pressing, Alterations, Garment Repair, Fur Repair, Storage SIC 721 and 727	115,352,000	153,187,000	.961	147,213,000
Miscellaneous Repair Services (Elec. Repair Shops, Watch Repair, Reupholsterers, Lock- smiths, Lawnmower Repair, Etc.) SIC 76	60,395,000	80,204,000	.720	57,747,000
Total, Selected Services	\$411,668,000	\$546,693,000	...	\$459,128,000

<sup>a/</sup> Estimated by multiplying 1967 sales by 1.328, the ratio of fiscal year 1969-70 Virginia personal income to 1966-67 Virginia personal income.

<sup>b/</sup> Based on 1967 Internal Revenue Service national data for proprietorships and partnerships. Ratio derived by  $\frac{BR - MP}{BR}$ , where BR = business receipts and MP = merchandise purchased. In some cases IRS industry definitions differed slightly from standard industrial code (SIC) definitions. Industries were matched as follows:

SIC	IRS CODE	SIC	IRS CODE
723,724	62	725,729	63
752,754	68	721,727	61
753	67	76	69
78,79	70		

Sources: U. S. Bureau of the Census, Census of Business: 1967 Selected Services, Virginia, BC67-SA48 (Washington, D.C.: Government Printing Office, 1970), Table 1; U. S. Treasury Department, Internal Revenue Service, Statistics of Income: 1967 Business Income Tax Returns (Washington, D. C.: Government Printing Office, 1970), Tables 2.2 and 3.2; this study, Table 2.6.

Revenue estimates by broad category of services were provided in the section on extension of coverage to services. For the purposes of this section, we have chosen some of the most likely services and enumerated them in Table 3.33. Extending coverage to these services would have added \$459 million to the tax base or \$13.7 million in tax revenues with a 3 percent rate.

## Virginia Motor Vehicle Sales and Use Tax

Receipts from the titling tax, unlike most of the other sources of revenue considered in this report, do not go to the general fund. The proceeds of the tax are earmarked for the construction, reconstruction, and maintenance of highways, and the regulation of highway traffic. Nevertheless, the tax is considered here because of its close relationship to the sales and use tax.

The motor vehicle sales and use tax is levied at a 2 percent rate. It is a state tax, and cities, towns, and counties are prohibited from using it.<sup>1/</sup> If the taxation of automobile sales were made consistent with the sale of other items in retail trade (i.e., a 3 percent tax with a 1 percent local option), there would be a substantial addition to state and local revenues.

Forty-seven states and the District of Columbia currently impose taxes on the sale of automobiles (see Table 3.34). The rates range from 0.75 percent to 6 percent and are summarized below. The median rate is 3 percent.

<u>Rate</u>	<u>Number of States</u>
0.75	1
1.5	2
2	6
2.5	1
3	18
4	12
5	7
6	<u>1</u>
	48

Fourteen states with taxes on the sale of automobiles either permit or require local governments to impose additional taxes, and one state, Alaska,

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<sup>1/</sup> Code of Virginia, Section 58-685.25.

TABLE 3.34 --STATE TAXES ON AUTOMOBILE SALES AS OF APRIL, 1971

State	Type of Tax	Rate (Percent)	Collected by	Casual Sales Taxed	Trade-in Allowance
Alabama	sales/use	1.5 <sup>a/</sup>	dealer	no	yes
Alaska	none <sup>b/</sup>	...	...	...	...
Arizona	sales/use	3 <sup>c/</sup>	dealer	no	yes
Arkansas	sales/use	3 <sup>d/</sup>	dept. of revenue	yes	no
California	sales/use	4 <sup>e/</sup>	dealer	yes	no
Colorado	sales/use	3 <sup>f/</sup>	dealer	yes	special provisions
Connecticut	sales/use	5	dealer	yes	yes
Delaware	sales/use	0.75	dealer	yes	yes
District of Columbia	excise	4	treasurer	yes	no
Florida	sales/use	3	dealer	yes	yes
Georgia	sales/use	3	dealer	no	yes
Hawaii	excise	4	dealer	no	yes
Idaho	sales/use	3	dealer	yes	yes
Illinois	sales/use	4 <sup>g/</sup>	dealer	no	yes
Indiana	sales/use	2	dealer	yes	yes
Iowa	sales/use	3	dealer	no	no
Kansas	sales/use	3	dealer	yes	yes
Kentucky	sales/use	5	county clerk	yes	special provisions
Louisiana	sales/use	3 <sup>h/</sup>	div. of motor vehicles	yes	yes
Maine	sales/use	5	dealer	yes	yes
Maryland	excise/use	4	optional	yes	no
Massachusetts	sales/use	3	optional	yes	yes
Michigan	sales/use	4	secretary of state	yes	no
Minnesota	sales/use	3	dealer	no	yes
Mississippi	sales/use	5	dealer	no	special provisions
Missouri	sales/use	3	special provisions	yes	yes
Montana	sales/use	1.5	<sup>i/</sup>	no	no
Nebraska	sales/use	2.5	treasurer	yes	yes
Nevada	sales/use	2 <sup>j/</sup>	dealer	no	yes
New Hampshire	none	...	...	...	...
New Jersey	sales/use	5	dealer	yes	yes
New Mexico	excise	2	div. of motor vehicles	yes	yes
New York	sales/use	3 <sup>k/</sup>	dealer	yes	yes
North Carolina	sales/use	2 <sup>l/</sup>	dealer	special provisions	no
North Dakota	excise/use	4	div. of motor vehicles	yes	yes
Ohio	sales/use	4 <sup>m/</sup>	dealer	yes	no
Oklahoma	excise	2	tax commissioner	yes	no
Oregon	none	...	...	...	...
Pennsylvania	sales/use	6	dept. of revenue	yes	yes
Rhode Island	sales/use	5	div. of motor vehicles	yes	no
South Carolina	sales/use	4	dealer	no	yes
South Dakota	excise	3	special provisions	no	no
Tennessee	sales/use	3 <sup>n/</sup>	dealer	no	yes
Texas	sales/use	3	dealer	yes	yes
Utah	sales/use	4 <sup>o/</sup>	dealer	yes	yes
Virginia	sales/use	2	div. of motor vehicles	yes	no
Vermont	sales/use	4	div. of motor vehicles	yes	yes
Washington	excise	5	dealer	yes	no
West Virginia	sales/use	3	div. of motor vehicles	yes	yes
Wisconsin	sales/use	4	dealer	yes	yes
Wyoming	sales/use	3	county treasurer	yes	no

Note: This table was derived from a variety of sources issued on different dates. Thus, although the end product is fairly accurate, there may be particular items which have changed since the source date.

- a/ Additional local rates vary from 1/16 of 1% to 1%. The most frequent rates are 1/4 and 1/2 of 1%.  
b/ All taxes are levied at the local level and may range from 1 to 5 percent.  
c/ Additional local rates vary from 1/8 of 1% to 1%. The most frequent rate is 1%.  
d/ Localities may levy an additional tax not greater than 1%.  
e/ A 1% uniform city or county tax is also levied. The rate is 5 1/2% on sales to owners residing in Rapid Transit Districts including the following counties: San Francisco, Alameda, Contra Costa, and Los Angeles.  
f/ The most frequent rates levied locally are 1 and 2 percent.  
g/ Localities may levy a rate of 1%.  
h/ Cities and parishes may levy a sales and use tax not exceeding 3%.  
i/ Tax collected only on new vehicles at time of registration.  
j/ A compulsory county rate of 1% is also levied and an additional tax of 1/2 of 1% may be used.  
k/ Additional local rates vary from 1/2 of 1% to 3%.  
l/ Mecklenburg County levies an additional tax of 1%.  
m/ A local maximum tax of 1/2 of 1% may be levied.  
n/ Most localities levy an additional tax of 1%, and some cities levy a tax of 1 1/2%.  
o/ A 1/2 of 1% uniform city or county tax is also levied.

Sources: Mr. W. Lee Carter, Bureau of Vehicles, Division of Motor Vehicles; Division of Motor Vehicles questionnaires from a September 1, 1970 survey; All State Sales Tax Reporter, (New York: Commerce Clearing House); State Tax Reporter, (New York: Commerce Clearing House); Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition, (Washington: Government Printing Office, 1971), pp. 50, 137-39.



which does not have a state sales tax, permits localities to impose a sales tax. When local taxes are used, they are most frequently 1 percent, but the range of actual rates is quite broad.

In comparison with neighboring states, Virginia's present tax is lower than in every area except North Carolina where it is the same. The District of Columbia rate is 4 percent with no allowance for trade-ins. Maryland levies a 4 percent tax with a similar policy on trade-ins. North Carolina has a state tax of 2 percent with no allowance for trade-ins, and in addition, Mecklenburg County levies a 1 percent tax. Tennessee has a state tax of 3 percent and allows for trade-ins. Also, most Tennessee localities impose taxes ranging from 1 to 1.5 percent. West Virginia uses a 3 percent tax and allows for trade-ins. Kentucky imposes a tax of 5 percent and allows for trade-ins only on used vehicles previously registered in the state.

The present Virginia tax applies to ". . .the total price paid for a motor vehicle and all attachments thereon and accessories thereto, without any allowance or deduction for trade-ins or unpaid liens or encumbrances, but exclusive of any federal manufacturers excise tax." <sup>1/</sup> Of the 47 states and the District of Columbia with sales taxes on automobiles, 29 allow trade-ins to be deducted in computing the tax base; 16 do not; and 3 make it optional.

By not allowing for the value of trade-ins, the Virginia tax base can exceed consumers' actual cash outlays. Suppose a man buys a new car with a list price of \$3,600 exclusive of federal excise taxes. If the dealer gives him a cash discount of \$500 and an additional allowance of \$500 on his trade-in, the consumer's cash outlay exclusive of the federal excise tax is \$2,600 but his tax base is \$3,100.

If deduction of the value of trade-ins were allowed, then it would be wise to make some provision for a case where an owner sells a car privately

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<sup>1/</sup> Code of Virginia, Section 58-685.11.

and then purchases another car a short time later. Upon presentation of evidence of sale, he could be permitted a reduction in the taxable value of the car purchased equivalent to the sale price he received for his other car.

According to the estimating procedure used in Table 3.35 liberalization of the present law to allow the inclusion of trade-ins would reduce revenues by about 20 percent. In relation to tax collections in fiscal year 1969-70, this would mean that tax receipts would have been about \$22.5 million instead of the \$28.2 million actually collected. The reduction may not be this large because under the present law there is an incentive for tax avoidance. Such avoidance is possible if the buyer and seller agree to understate the true value of a trade-in and add the amount of the reduction to the cash discount.

If the liberalized treatment of trade-ins were combined with an increase of 1 percent in the state rate, then estimated tax collections in fiscal year 1969-70 would have been \$33.7 million, or \$5.5 million more than under the present system.

Additional revenue could be obtained by eliminating the exclusion of the federal manufacturers' excise tax from the tax base for new cars. Unlike the sales and use tax which includes federal excise taxes in the tax base, the automobile titling tax specifically excludes the federal 7 percent manufacturers' excise tax. Inclusion of the excise tax in the base would result in a larger tax revenue yield. In fiscal year 1969-70 this proposal combined with the liberalized treatment of trade-ins and a 3 percent state rate, would have provided \$35.3 million, or \$7.1 million more than under the present system.

TABLE 3.35 --ESTIMATED EFFECTS OF GIVING ALLOWANCE FOR AUTOMOBILE TRADE-INS, NOT EXEMPTING THE FEDERAL EXCISE TAX, AND RAISING THE RATE FOR THE MOTOR VEHICLE SALES AND USE TAX, FISCAL YEAR 1969-70

Item	Rate (%)	Item	Amount
A	2	Actual collections	\$ 28,184,660
B	...	Taxable value of cars subject to titling tax (item A ÷ .02)	1,409,233,000
C	...	Estimated value of new cars ( $.53^{\text{a/}}$ x item B)	746,893,000
D	...	Estimated value of used cars ( $.47^{\text{a/}}$ x item B)	662,340,000
E	...	Estimated value of trade-ins on new cars ( $.25^{\text{b/}}$ x item C)	186,723,000
F	...	Estimated value of trade-ins on used cars ( $.15^{\text{b/}}$ x item D)	99,351,000
G	...	Estimated taxable value of cars after allowance for trade-ins (item 2 less item E + item F)	1,123,159,000
H	2	Estimated collections <u>if allowance were made for trade-ins</u> (item G x .02)	22,463,000
I	2	Estimated collections <u>if allowance were made for trade-ins and if the federal excise tax were not exempt</u> (item H + item C x .07 x .02)	23,509,000
J	3	Estimated collections (item A x 1.5)	42,277,000
K	3	Estimated collections <u>if allowance were made for trade-ins</u> (item H x 1.5)	33,694,000
L	3	Estimated collections <u>if allowance were made for trade-ins and if the federal excise tax were not exempt</u> (item I x 1.5)	35,264,000

Note: These are crude estimates which for simplicity assume the tax applies exclusively to passenger cars, whereas it actually also includes trucks, trailers, and motorcycles.

a/ Based on estimates by the Automotive Trade Association of Virginia of the proportion of taxes collected on new and used vehicles in calendar year 1967.

b/ Based on the formula  $\frac{X-Y}{X}$  where X = average expenditure per car (\$3,510 new and \$1,000 used) and Y = net outlay per car (\$2,620 new and \$850 used). Data covered 1968 and were from the Automobile Manufacturers Association.

Sources: Automobile Manufacturers Association, 1970 Automobile Facts/Figures (Detroit: Automobile Manufacturers Association, n.d.), p. 48; Automotive Trade Association of Virginia, "Total Vehicles Titled and Tax Collected, January 1, 1967--December 31, 1967", Legislative Report #4 (Revised, n.d.); Report of the Comptroller Fiscal Year Ended June 30, 1970 (Richmond: Department of Accounts, 1970), p. 296.

## Gasoline Taxes

State Taxes

Gasoline taxes go to the highway fund rather than the general fund and are therefore not within the main scope of this study. Nevertheless, they are a major source of revenue, and it is of interest to see how the tax rate in Virginia compares with the rates in other states.

The current rate in Virginia is 7 cents which equals the national median and is a rate shared by twenty-eight other states and the District of Columbia (see Table 3.36). With the exception of North Carolina which has a 9-cent rate, Virginia's neighbors also impose a 7-cent rate.

Local Taxes

Localities are permitted to impose taxes in Alabama, Florida, Hawaii, Mississippi, Missouri, and Nevada, and such taxes are in effect in five of the six states. In Missouri, local gasoline taxes require two-thirds voter approval and as of January, 1971, no city had submitted a proposed tax for voter approval. Of the states with such taxes, their use is most widespread in Alabama and New Mexico. In 1964, the latest year for information on rates, local tax rates varied from 0.5 cents to 5 cents.<sup>1/</sup>

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<sup>1/</sup> Sources of information: Advisory Commission on Intergovernmental Relations, State and Local Finances, and Suggested Legislation, 1971 Edition, M-57 (Washington: Government Printing Office, 1970), pp. 137-39; Advisory Commission on Intergovernmental Relations, Tax Overlapping in the United States, 1964, Publication M-23 (Washington: Government Printing Office, 1964), pp. 172-73.

TABLE 3.36.--STATE GASOLINE TAX RATES, JANUARY 1, 1971<sup>1/</sup>

5¢	6¢	6½¢	7¢	7½¢	8¢ or more
Hawaii	Nevada	Georgia	Alabama	Arkansas <sup>1/</sup>	Alaska (8¢)
Missouri		Massachusetts	Arizona	Illinois	Connecticut (8¢)
Texas <sup>1/</sup>		Oklahoma <sup>1/</sup> (6.58¢)	California		Indiana (8¢)
			Colorado		Louisiana (8¢)
			Delaware		Maine (8¢)
			Florida		Mississippi (8¢) <sup>1/</sup>
			Idaho <sup>1/</sup>		Nebraska (8.5¢)
			Iowa <sup>1/</sup>		North Carolina (9¢)
			Kansas <sup>1/</sup>		Pennsylvania (8¢)
			Kentucky		Rhode Island (8¢)
			Maryland		Vermont (8¢)
			Michigan		Washington (9¢)
			Minnesota		West Virginia (8.5¢)
			Montana <sup>1/</sup>		
			N. Hampshire		
			N. Jersey		
			N. Mexico		
			N. York <sup>1/</sup>		
			N. Dakota		
			Ohio		
			Oregon		
			S. Carolina		
			S. Dakota <sup>1/</sup>		
			Tennessee <sup>1/</sup>		
			Utah		
			Virginia		
			Wisconsin		
			Wyoming		
			Dist. Of Col.		
Total...3	.....1	.....3	.....29	.....2	.....13

<sup>1/</sup> In most states diesel fuel is taxed at the same rate as gasoline. The States which tax diesel fuel at a different rate are: Arkansas, 8.5¢; Iowa, 8¢; Kansas, 8¢; Mississippi, 10¢; Montana, 9¢; New York, 9¢; Oklahoma, 6.5¢; Tennessee, 8¢; Texas, 6.5¢. In all but a few states liquified petroleum is taxed at the same rate as gasoline. Vermont does not tax diesel fuel or liquified petroleum.

Source: Commerce Clearing House, State Tax Reporter as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition, M-57 (Washington: Government Printing Office, 1970), p. 140.

## Pari-mutuel Betting and a State Lottery

### Introduction

Pari-mutuel betting on thoroughbred, standardbred (harness), and greyhound racing, and a lottery have been mentioned as potential state revenue sources. Adoption of legislation allowing any of them is now permitted by the Constitution. The 1971 special session of the General Assembly created a commission to "study and report upon [by December 1, 1971] the most practicable and feasible methods for the conduct of pari-mutuel betting on horse racing under a plan which will further the public interest and produce maximum revenues to the Commonwealth and its political subdivisions from the conduct of such activities".<sup>1/</sup> Pari-mutuel betting is discussed first.

### Pari-mutuel Betting

Revenue from pari-mutuel wagering is obtained in two principal ways from the track receipts (the "turnover" or "handle"):

1. The state (and the track) takes out a percentage of the handle before the pari-mutuel payoff is made. In effect the state levies a gross receipts tax.
2. "Breakage" is the odd cents of a payoff. If a state breaks at 10 cents and a payoff is \$2.89, the breakage is 9 cents; some states break at 5 cents. Breakage is usually split 50-50 between the track and the state. However, some states take all of the breakage and others allow the track to keep it.

Table 3.37 provides the state pari-mutuel tax rates as of September 1, 1970, for surrounding states, Delaware, and New Hampshire. The rates apply to thoroughbred racing but in most cases the rates on the other forms of

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<sup>1/</sup> House Joint Resolution No. 8.

TABLE 3.37 --STATE PARI-MUTUEL TAX RATES<sup>a/</sup>

State	Tax Rate <sup>b/</sup>		Breakage	
			Amount	Percent to State
Delaware	5.5%		\$.10	50
Kentucky	4% first \$18 million 6% over \$18 million	} annually	.10	...
Maryland	5%		.10	50
New Hampshire	7.5%		.10	50
West Virginia	5.75%		.10	...

a/ The data apply to thoroughbred racing but in most cases the tax rates on other forms of racing are similar.

b/ Percentage of daily handle unless otherwise indicated.

Sources: For these and other states see Facts and Figures on Government Finance (New York: Tax Foundation, Inc., 1971), p. 206. For more detailed information, see The American Racing Manual (Chicago: Triangle Publications, 1970), pp. 1115-17.

racing are similar. Virginia's potential in racing has been compared to that of Delaware, which has a 5.5 percent rate, and New Hampshire, which has a 7.5 percent rate. Other sources of revenue for Virginia would be admission taxes, and license taxes on tracks, jockeys, and trainers.

The three factors that affect the revenue potential of racing are: (1) location, (2) the quality of racing and racing facilities, and (3) competition from other sports. Tracks should be located near large metropolitan areas and be accessible by good transportation facilities. Strong competition from nearby tracks can diminish receipts. Thoroughbred racing offers an example. Liberty Bell Park in Philadelphia had its inaugural meet in 1969 and competed against Delaware Park, 30 miles from the city. Liberty Bell Park had anticipated an

average daily handle of \$1.1 million<sup>1/</sup> but achieved only \$631,932. Delaware Park had a \$790,141 average daily handle, 19.4 percent below the 1968 figure of \$979,807.<sup>2/</sup>

The quality of racing is determined by the purses offered and the availability of good horses. In thoroughbred racing the primary distinction is between "mile" (e.g., Delaware Park) and "half-mile" (e.g. Shenandoah Downs in West Virginia) tracks. No states own their tracks, but all tracks are state regulated; New York has a nonprofit association to operate its thoroughbred tracks. If Virginia opted for regulation only, capital investment would be no risk to the state.

Racing has not fared well in competition with other sports. Surveys on the choice of favorite sports made in the last half of the 1960's show the popularity of racing to be much lower than that of football, baseball, and basketball. Moreover, the number of people with an interest in racing appears in recent years to have remained nearly constant or possibly to have declined a bit. Statistics for thoroughbred racing illustrate the last point. For all tracks in the United States, Canada, and Mexico, racing days increased from 4,304 to 5,553 between 1960 and 1968, or 29 percent. For the same period total attendance rose from 37.6 million to 48.1 million, a 28 percent increase, and total handle grew from \$2.7 billion to \$3.8 billion, a 41 percent rise. As a result, average daily attendance decreased by 1 percent from 8,731 to 8,661,

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<sup>1/</sup> David Novick, "The Economics of the Thoroughbred Industry," The Blood-Horse, Vol. 95, No. 2 (New York: Thoroughbred Owners and Breeders Association, 1969), p. 2,264.

<sup>2/</sup> When Liberty Bell Park operated later in the year without this competition, its handle rose to about \$1 million per day. See The American Racing Manual (Chicago: Triangle Publications, 1970), pp. 314 and 317.



and the average daily handle rose from \$623,305 to \$692,702, or 11 percent. The data, after being standardized to an average daily basis, show that about the same number of people were willing to wager more money.<sup>1/</sup> What impact the trend in patronage will eventually have on the pari-mutuel handle and state revenues remains unanswered.

So far state revenues have not been hurt by the trend in patronage. Revenues from thoroughbred racing, the most popular of the three major types, rose from \$290.5 million in 1968 to \$309.2 million in 1969 and were divided among twenty-seven states. Total attendance was 41.5 million in 1968 and 42.9 million in 1969. Harness racing was second with \$131.8 million in 1968 and \$147.5 million in 1969 going to a total of fifteen states. Attendance was 22.9 million in 1968 and 24.5 million in 1969.<sup>2/</sup> The revenue from greyhound racing in 1968 was \$41.2 million with three states, Florida, Massachusetts, and Colorado, receiving about 91 percent of the total; attendance was 11.5 million.<sup>3/</sup>

Table 3.38 shows that in 1969 in surrounding states, Delaware, and New Hampshire, thoroughbred racing earned more revenue for the state than standardbred racing. In Delaware and New Hampshire standardbreds had more racing days than thoroughbreds; however, thoroughbred racing still earned more revenue. None of the five have greyhound racing.

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<sup>1/</sup> David Novick, "The Economics of the Thoroughbred Industry," The Blood-Horse, Vol. 95, No. 2 (New York: Thoroughbred Owners and Breeders Association, 1969), pp. 2266-2267.

<sup>2/</sup> The same states are represented in both years. See The American Racing Manual (Chicago: Triangle Publications, 1969), pp. 311-312 and The American Racing Manual (Chicago: Triangle Publications, 1970), pp. 319-320.

<sup>3/</sup> The Virginia Beach Department of City Planning, Pari-Mutuel Wagering and the Virginia Beach Economy, (1969). 1968 is the latest year for which data are available.

TABLE 3.38--REVENUE FROM HORSE RACING IN SURROUNDING STATES, DELAWARE, AND NEW HAMPSHIRE, 1969

<u>State</u>	Thoroughbred			Standardbred			Total		
	<u>Racing Days</u>	<u>Total Handle (Millions)</u>	<u>Revenue (Millions)</u>	<u>Racing Days</u>	<u>Total Handle (Millions)</u>	<u>Revenue (Millions)</u>	<u>Racing Days</u>	<u>Total Handle (Millions)</u>	<u>Revenue (Millions)</u>
Delaware	114	\$ 55.5	\$ 3.4	229	\$ 64.5	\$3.0	343	\$120.0	\$ 6.4
Kentucky	230	103.4	5.1	206	20.3	0.8	436	123.7	5.9
Maryland	221	214.1	12.3	125	29.7	1.9	346	243.8	14.2
New Hampshire	50	56.0	4.5	241	59.0	3.8	291	115.0	8.3
West Virginia	561	168.8	9.7	...	...	...	561	168.8	9.7

Source: The American Racing Manual (Chicago: Triangle Publications, 1970), pp. 319-20.

The three most likely sites for a track are Tidewater, Richmond, and Northern Virginia. Any track in Northern Virginia would face stiff competition from Maryland's thoroughbred tracks in the Washington-Baltimore area (Laurel, Pimlico, Bowie, Marlboro, and Timonium) that operate from August to May. Maryland's harness tracks, which operate in the spring and summer, and West Virginia's thoroughbred tracks in Charles Town (Charles Town Race Course and Shenandoah Downs) that are about 60 miles from Northern Virginia, and race nearly year round, would also offer competition.

Table 3.39 develops annual revenue estimates for the three alternative types of racing under the following assumptions:

1. Each track would have 100 days of racing per year.
2. The tax rate is 7 percent on the daily handle. High and low estimates of the average daily and total handle are given.
3. Breakage is 10 cents, and half goes to the state. It is estimated at 1 percent of the total handle.
4. The tracks would be fully established. If pari-mutuel betting were approved in 1972, construction of the facilities would take a year or more. Once racing begins, several years would pass before the average daily handle reached our expectations.
5. Harness and greyhound racing would operate at night as in most other states. Night racing for thoroughbreds, now used in West Virginia, would be considered if it could increase the daily handle. Sunday racing, now allowed in Delaware, could also be considered.
6. Intrastate competition that would decrease revenue would not be allowed. Competition from tracks in other states would be minimized by not locating close to them or by operating when the primary competitors, the Maryland thoroughbred tracks, would be closed. These factors would probably limit at first the number of tracks to two.

For the first one, a mile thoroughbred track would probably be preferred. The second track could be any one of the other three shown below. Given our assumptions, estimated annual revenue from the mile thoroughbred track alone

TABLE 3.39--REVENUE ESTIMATES FOR PARI-MUTUEL BETTING

<u>Type of Racing</u>	<u>Average Daily Handle</u>	<u>Total Handle</u>	<u>Revenue from the Tax on Total Handle and the Breakage</u>
Thoroughbred			
Mile			
High estimate	\$950,000	\$95,000,000	\$7,100,000
Low estimate	700,000	70,000,000	5,200,000
Half-mile			
High estimate	450,000	45,000,000	3,400,000
Low estimate	250,000	25,000,000	1,900,000
Standardbred			
High estimate	400,000	40,000,000	3,000,000
Low estimate	200,000	20,000,000	1,500,000
Greyhound			
High estimate	350,000	35,000,000	2,600,000
Low estimate	150,000	15,000,000	1,100,000

Note: These estimates assume well-established tracks in full operation. Detailed assumptions underlying these estimates are shown on p.169.

and from the mile thoroughbred track combined with each of the others would be:

<u>Type of Racing</u>	<u>Total Annual Revenue (Millions)</u>	
	<u>Low</u>	<u>High</u>
Mile thoroughbred	\$5.2	\$ 7.1
Mile thoroughbred and one of the following:		
Half-mile thoroughbred	7.1	10.5
Standardbred	6.7	10.1
Greyhound	6.3	9.7

Note: See Table 3.39 for individual track estimates.

If these estimates are compared to total revenue from racing in 1969 in Delaware and New Hampshire, Virginia's potential in racing appears to be roughly similar to theirs.<sup>1/</sup>

Another point to be considered is that pari-mutuel betting on thoroughbreds (and standardbreds) will have a beneficial impact on the Virginia horse industry by having exclusive races for home bred horses and by providing breeder awards to home state horse breeders. The percentage of foals from Virginia and its percentage of stakes winners have been declining. Virginia has declined from 5.8 percent of all registered foals in 1957, to 4.8 percent in 1965. Comparably, the percentage of stakes winners in Virginia declined from 3.7 percent in the nation in 1957 to 2.1 percent in 1964.<sup>2/</sup> If one of the aims of pari-mutuel betting is to benefit the Virginia horse industry, this could be accomplished by promoting home bred horses and giving breeder awards on Virginia tracks.

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<sup>1/</sup> New York City recently introduced off-track betting as a means of raising revenue. At present the city's Off-Track Betting Corporation accepts wagers on standardbred racing (Roosevelt Raceway) in New York state and special races (e.g., the Kentucky Derby) outside the state. The corporation expects to soon start taking bets on thoroughbred racing (Aqueduct and Belmont) in the state. None of our revenue estimates for racing in Virginia assume off-track betting, but the idea could be studied.

<sup>2/</sup> The Commission of the Industry of Agriculture, The Horse Industry Task Force Study, Opportunities for Virginia Agriculture (Richmond: The Commission of the Industry of Agriculture, January, 1968), Preliminary Report, p. 14.

### A State Lottery

The final alternative is a lottery. The three states with a lottery have tied the net receipts to use in education. In two states the results have fallen short of expectations. The New Hampshire lottery has netted an average of \$1.5 million per year (about \$2.00 per capita) for education in seven years. Its \$900,000 net (about \$1.25 per capita) in 1970 was about 8 percent of the state share of school costs. In New York the lottery has earned an average of \$30.2 million per year (about \$2.00 per capita) for schools since its inception in mid-1967. However, receipts jumped sharply in 1970, when the state introduced \$1 million prizes and experimented with 50-cent tickets. In New Jersey, results have been better than predicted. A lottery began in January of this year, and original estimates were that it would raise \$7.5 million (about \$1.00 per capita)<sup>1/</sup> for education. Estimates have now been more than doubled. A 25-cent ticket with wide availability has probably been the reason for the success of the lottery.<sup>2/</sup>

Three ingredients necessary for a successful lottery appear to be low-priced tickets, their wide availability, and large prizes. The prizes should not be distributed so unevenly that only a few large ones are available. In addition, the share of total revenue set aside for prizes should be about one-half, and the number of prizes should be about one-fifth of the number of tickets sold to guarantee a fairly high probability of winning.<sup>3/</sup> We estimate that in Virginia a lottery with these elements would net \$2 million

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<sup>1/</sup> 1970 Census of Population total population figures are used for all per capita figures.

<sup>2/</sup> The Wall Street Journal, March 3, 1971, p. 1.

<sup>3/</sup> For more on the subject, see R. Clay Sprowls, "On the Terms of the New York State Lottery," National Tax Journal, Vol. 23, No. 1 (Lancaster: March, 1970), pp. 74-82.

with poor response, \$4.5 million with average response, and \$9 million with extremely good acceptance. A lottery would involve the risk of state funds for underwriting promotion, collection, and prize costs; the regulation of racing would not involve such a risk.

#### Summary of Major Sources

In Table 3.40 we show the effects of alternative changes in the state's revenue structure. For example, the individual income tax, which is the most important source of revenue, is forecast to produce \$421.8 million in 1972-73 under the new conformity structure with its present rates. If it were changed to incorporate alternative rate schedule 1, it would produce \$465.2 million or \$43.4 million more.

The table can be used to put together any revenue package desired. As a hypothetical example, assume \$65 million is needed in 1972-73. One way to raise the revenue would be to adopt alternative rate schedule 3 for the individual income tax (+\$50.6 million) and to add selected services now excluded to the sales and use tax base (+\$15.7 million). If this package were unacceptable, then the table suggests other alternatives.

Most of the sources in the table apply to the general fund. An exception is the motor vehicles sales and use tax whose proceeds are earmarked for highways. We have assumed that new revenues from a crown tax, a lottery, or racing would be applied to the general fund.

TABLE 3.40.--PROJECTED REVENUES FROM ALTERNATIVE  
CHANGES IN REVENUE STRUCTURE AND/OR RATES,  
1972-74 BIENNIIUM  
(Millions of Dollars)

Revenue Source	1972-73		1973-74	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
<b>PUBLIC SERVICE CORPORATION TAXES</b>				
Present structure; present rates	\$ 40.4	\$ ...	\$ 42.8	\$ ...
20% increase in effective rates	48.5	+8.1	51.4	+8.6
Taxed as regular corporations; 5% rate	9.7	-30.7	10.3	-32.5
<b>INDIVIDUALS AND FIDUCIARIES--</b>				
<b>INCOME TAX</b>				
Conformity structure; present rates	421.8	...	485.6	...
Conformity structure; rate schedule 1	465.2	+43.4	535.6	+50.0
Conformity structure; rate schedule 2	555.9	+134.1	640.0	+154.4
Conformity structure; rate schedule 3	472.4	+50.6	543.9	+58.3
Conformity structure; rate schedule 4	485.9	+64.1	559.4	+73.8
Conformity structure; rate schedule 5	480.8	+59.0	553.6	+68.0
Conformity structure; rate schedule 6	396.5	-25.3	456.5	-29.1
Conformity structure; rate schedule 7	452.2	+30.4	520.6	+35.0
Conformity structure; rate schedule 8	528.9	+107.1	608.9	+123.3
Conformity structure; rate schedule 9	531.0	+109.2	611.4	+125.8
<b>TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION)</b>				
\$12 credit per exemption	-57.2	-57.2	-58.4	-58.4
\$12 credit per exemption but limited to AGI of \$5,000 or under	-19.0	-19.0	-19.4	-19.4
<b>CORPORATIONS--INCOME TAX</b>				
Present structure; present rates	57.2	...	60.3	...
Present structure; 6% rate	68.6	+11.4	72.4	+12.1
<b>INHERITANCE TAX</b>				
Present structure; present rates	17.4	...	19.6	...
Present structure with inclusion of insurance; present rates	18.1	+0.7	20.4	+0.8
Proposed structure; proposed rates	19.2	+1.8	21.6	+2.0
<b>CROWN TAX ON SOFT DRINKS</b>				
West Virginia structure and rates	16.0	+16.0	17.2	+17.2
<b>TOBACCO PRODUCTS TAX</b>				
Present structure; present rates	14.3	...	14.3	...
Present structure; 5 cent rate; no change in sales	28.6	+14.3	28.6	+14.3
Present structure; 5 cent rate; 5% drop in sales	27.2	+12.9	27.2	+12.9
Present structure; 5 cent rate; 10% drop in sales	25.7	+11.4	25.7	+11.4
Present structure; 5 cent rate; 20% drop in sales	22.9	+8.6	22.9	+8.6
<b>STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION)</b>				
Present structure; present rate	262.5	...	285.1	...
Present structure; 4% rate	349.1	+86.6	379.2	+94.1
Excluding food purchases; present rate	199.8	-62.7	217.0	-68.1
Excluding food purchases; 4% rate	267.8	+5.3	290.8	+5.7
Excluding food and nonprescription drugs; present rate	195.3	-67.2	212.1	-73.0
Excluding food and nonprescription drugs; 4% rate	260.4	-2.1	282.8	-2.3
Adding selected services; present rate	278.2	+15.7	302.2	+17.1
Adding selected services; 4% rate	372.8	+110.3	404.8	+119.7

(Table continued on next page.)



TABLE 3.40.--PROJECTED REVENUES FROM ALTERNATIVE  
CHANGES IN REVENUE STRUCTURE AND/OR RATES,  
1972-74 BIENNIUM (Cont.)  
(Millions of Dollars)

Revenue Source	1972-73		1973-74	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
<b>MOTOR VEHICLES SALES AND USE TAX (EXCLUDING LOCAL OPTION)</b>				
Present structure; present rate	40.7	...	46.0	...
Change in treatment of trade-ins; 2% rate	32.4	-8.3	36.7	-9.3
Change in treatment of trade-ins; inclusion of federal excise tax in tax base; 2% rate	33.9	-6.8	38.4	-7.6
Present structure; 3% rate	61.0	+20.3	69.0	+23.0
Change in treatment of trade-ins; 3% rate	48.6	+7.9	55.0	+9.0
Change in treatment of trade-ins; inclusion of federal excise tax in tax base; 3% rate	50.9	+10.2	57.5	+11.5
<b>LOTTERY AND PARI-MUTUEL BETTING</b>				
Lottery	Estimated receipts for a year range between \$2 million and \$9 million depending on the degree of acceptance by the public.			
Racing; mile thoroughbred track	Estimated receipts for a year's operation (100 days) on a fully established track range between \$5.2 million and \$7.1 million. It would not be possible in Virginia to have a track built and in full operation during the 1972-74 biennium.			
Racing; mile thoroughbred and one other type of track (half-mile thoroughbred, standardbred, or greyhound)	Estimated receipts for 100 days of racing on both tracks at full operation range between \$6.3 million and \$10.5 million. These conditions cannot be completely fulfilled by the 1972-74 biennium.			

Methodology for revenues due to changes: Public service corporation taxes--projections for 20 percent increase in effective rates based on increasing projected revenues from present structure and rates by 20 percent; for projections for treatment as regular corporations, the percentage relationship between actual 1970 collections and hypothetical collections under corporate income tax was applied to projected public service corporation tax revenues; individuals and fiduciaries, income tax--percentage relationships between 1968 conformity collection estimates and collection estimates for alternative rate schedules were applied to projected revenues under the conformity structure with present rates; tax credit to compensate for sales tax on food--estimated by assuming the number of exemptions to which the credit would apply was 4,361,000 in tax year 1968. This number was increased by 2 percent a year for 4½ and 5½ years, respectively, to allow for the fact that tax year 1968 contained one half each of fiscal years 1967-68 and 1968-69. The limited exemption was based on similar methodology except the initial number of exemptions was assumed to be 1,452,749; corporations, income tax--projected revenue from present structure and rates increased by 20 percent; inheritance tax--projections for revenues from including insurance are based on the percentage relationship of the estimate for fiscal year 1968-69 to actual collections in that year; projections for revenues from the proposed changes in structure and rates based on the 10.4 percent increase over the existing structure and rates indicated by the sample of 1968-69 returns; crown tax on soft drinks--estimated revenue for Virginia for fiscal year 1969-70 based on the West Virginia structure and rates were increased by 7.2 percent a year, the average annual rate of growth of the value of Virginia soft drink shipments between 1963 and 1967, from the 1963 and 1967 Census of Manufactures--Virginia; tobacco products tax--for no change in sales projected revenues from present structure and rates were multiplied by 2; for 5, 10, and 20 percent decreases in sales, the doubled revenues were decreased by 5, 10, and 20 percent respectively; state sales and use tax--percentage relationships between present structure and rate and alternatives shown in Table 3.32 for fiscal year 1969-70 were applied to projected revenues for present structure and rate for fiscal 1972-73 and 1973-74; motor vehicle sales and use tax--collections for fiscal year 1969-70 were increased by 13 percent a year (the percentage change between 1968-69 and 1969-70 actual collections) to project revenues for fiscal years 1972-73 and 1973-74 with present structure and rate; percentage relationships between actual collections and alternatives presented in the text were applied to these projections to obtain the projected revenues for the alternatives; lottery and pari-mutuel betting--estimates were made in text (pp. 171 and 173) for fully established lottery or racetracks. A lottery could be in full operation in Virginia by fiscal years 1972-73 and 1973-74 if approved, but racetracks could not until at least the next biennium.



## CHAPTER IV

## STATE EXPENDITURE PROJECTIONS

Introduction

The focus of this chapter is on future general fund expenditures. Past appropriations rather than expenditures are used for background, since the appropriation data are readily available in a form useful for analysis. Using appropriations rather than expenditures does not hamper the study since the concepts are similar.

Expenditures or appropriations are divided into the same two overall categories as revenues--the general fund and special funds. In the 1970-72 biennium, general fund appropriations represent slightly less than half of the total appropriations. However, outlays from the general fund are a sole or primary source of support for numerous state activities (e.g., education, public welfare, mental health, and public health). Moreover, as already explained, much of the revenue for special fund outlays comes from federal categorical grants-in-aid, the sale of services or commodities by the state, and state taxes earmarked for highways. Therefore, the emphasis of most of the legislative appropriations process is on general fund expenditures and revenues.

In the first section of this chapter, we analyze general fund expenditures for recurring operating expenses in a way comparable to the analysis of general fund revenues in Chapter III. Projections of general fund expenditures for each of the next three bienniums for programs whose scope and quality remain unchanged are made first. These are so-called baseline projections. In the second section, the total baseline projection of general fund expenditures is compared for each of the bienniums to the total estimate of general fund revenues that assumes no changes in the law. The comparison illustrates any future baseline surplus or deficit or "gap." Changes in specific programs that would increase scope and quality and recurring cost are analyzed in the third section. Even though the projections are only for general fund expenditures for recurring operating expenses, future increases in these operating expenses may require additional capital outlays. For example, if future enrollments at state-supported colleges and universities are higher, general fund outlays for operating expenses at these institutions will be expected to increase. At the same time, the additional students may require more capital outlay for classrooms. Projections of capital outlays are discussed in the fourth section. A final section covers the possible impact of federal general revenue sharing. It also includes some analysis of alternative forms of federal aid.

Before proceeding, we emphasize that all projections are estimates that are solely the work of the staff and are completely separate from the administrative budget. The cooperating state agencies are in no way responsible for the projections, and, therefore, no official endorsement on their part should be implied. The projections are at the level of the major functional categories or specific programs in a functional category listed in the 1970-72 budget.

The projections are only as good as the assumptions used to make them, and although all assumptions are considered reasonable, they will be subject to the actual play of events. The estimates are subject to error, say  $\pm 4$  percent between the projected and the actual outcomes, especially those projections for the distant future. The 1972-74 projections are likely to be closer to the mark than the 1976-78 projections; nevertheless, the long-term projections at least illustrate future trends in expenditures.

Baseline Projections of General  
Fund Expenditures for Recurring Operating Expenses

Methodology

The baseline methodology involves three factors. For a projection base, it utilizes the expenditures required to provide a given level of public services at one period in time. It then evaluates the effect that changes in population, and then prices have on the expenditures required to maintain over time the base period level of services. Projections of population change provide the basis for anticipating the change in expenditures required to maintain a constant level of public services per eligible recipient at constant prices. Projections of price changes, combined with the estimated change in population, provide an estimate of the change in expenditures required for a constant real level of public services per capita at current prices. In effect, provision of the base period level of public services is continued into the future with adjustments in the required expenditures only for population and price changes.<sup>1/</sup> As part of the method, no changes are

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<sup>1/</sup> For more on the technique, see Lawrence R. Regan and George P. Roniger, "The Outlook for State and Local Finances", Fiscal Issues in the Future of Federalism, CED Supplementary Paper No. 23 (New York: Committee for Economic Development, 1968), p. 236.

permitted in the scope and quality of services.

A simple example illustrates how the methodology works. Assume that in year 1 the expenditures required to maintain a desired level of public services are \$100 million, and that we want to know what the same level of services will cost in year 2. The population that benefits from the services is expected to increase by 2 percent from year 1 to year 2, and the price of the services is expected to increase by 5 percent from year 1 to year 2. We multiply the expenditures of year 1 by the population ratio ( $\frac{102}{100}$ ) and the price ratio ( $\frac{105}{100}$ ) to find the appropriations required to provide the base period level of services in year 2:

$$(\$100 \text{ million} \times 1.02 \times 1.05 = \$107.1 \text{ million})$$

Two assumptions are implicit in the methodology. One is that the continual provision of a constant level of real services at current prices satisfies "public needs". The other is that because the services in their existing form do satisfy to some degree the "public needs",<sup>1/</sup> they should continue to be financed out of public revenues.

#### Application of the Methodology

Programs with operating expenses financed out of the general fund for fiscal year 1971-72 provide the level of public services for the base year. The programs incorporate all past changes in scope and quality, and they are kept free of any such future changes unless already provided for by the law (in effect, a change in scope and quality made in the past). The programs,

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<sup>1/</sup> Many people use the word "needs." They usually refer to a set of alternatives but leave their meaning unclear. When we say that there is a "need" for something, we must ask, "...in order to achieve what, at what cost of other goods or 'needs,' and at whose cost?" See Armen A. Alchian and William R. Allen, Exchange and Production Theory in Use (Belmont: Wadsworth Publishing Company, Inc., 1969), pp. 75-76.

therefore, provide the base level of public services whose cost we want to estimate for each of the fiscal years in the next three bienniums. The actual projection base is the 1971-72 general fund appropriations for operating expenses, which are given by major functional category or specific program in a functional category and are adjusted for any changes presently planned for the future. All appropriations are taken from the Appropriations Act approved April 3, 1970, unless noted otherwise in Table 4.1.

For the population ratio, hereafter called the population-workload ratio, the functional categories are divided into two types. For those categories that consume a relatively large share of the general fund and/or provide services for a specific group, the population-workload projections for that group are used. These have been provided by the agencies that administer the programs. For example, the projected annual rates of change of average daily attendance from fiscal year 1971-72 to fiscal year 1977-78 are used for the population-workload ratio for the Basic School Aid Fund administered by the State Department of Education. For those categories with programs that consume a relatively small share of the general fund and/or are administrative in nature, we are less specific and assume that the programs benefit the entire state population. The projected average annual rate of increase from fiscal year 1971-72 to fiscal year 1977-78 for total population is therefore used for the population-workload ratio for such categories as resource and economic development and general administration.

For the price ratio, we use the projected annual rates of increase from fiscal year 1971-72 to fiscal year 1977-78 of the price index that relates most closely to the programs in the functional category. The price indexes are the

implicit price deflator for state and local government purchases of goods and services (state and local implicit price deflator), the consumer price index (CPI), and the medical services portion of the consumer price index. For example, the medical services portion of the consumer price index is used for the mental health, public health, and medicaid categories. These projected price indexes are based on the same assumed annual rates of increase in the implicit price deflator for gross national product that were used in making the revenue projections.

Table 4.1 summarizes the application of the methodology to the general fund. It shows for each functional category or specific program(s) the projection base, the population, and the price index used.

#### Projected General Fund Expenditures

Tables 4.3 to 4.19 show the projected general fund expenditures by major functional category. The projected expenditures are given on a biennial basis and are compared with the actual appropriations for the present biennium and the previous five. Appropriations are utilized for the historical comparison because the functional categorization was changed for the 1970-72 biennium, and expenditure data grouped in this fashion are not readily available. For all functional categories the change in the total amount from the preceding biennium is given in dollar and percentage terms. The actual appropriations from the 1960-62 to the 1970-72 biennium account for increases in population-workload, prices, and scope and quality, while the projected expenditures account only for the first two factors. Appropriations in the period beginning July 1,



TABLE 4.1--SUMMARY OF THE APPLICATION OF THE BASELINE METHODOLOGY TO GENERAL FUND EXPENDITURES

Category	Projection Base (1971-72 Appropriations)	Population Whose Projected Annual Rates of Increase Are the Basis for the Population-Workload Ratio	Price Index Whose Projected Annual Rates of Increase are the Basis for the Price Ratio
Elementary-secondary education			
Basic school aid fund	\$238,928,470	Average daily attendance	State and local implicit price deflator
Shared revenue (sales and use tax)	86,800,000	One-third of projected sales and use tax revenue	
Other	109,864,210	Enrollment	State and local implicit price deflator
Subtotal	\$435,592,680		
Higher education			
Four-year institutions	\$125,071,870	Head count enrollment	State and local implicit price deflator
Two-year branches	948,585	Head count enrollment	State and local implicit price deflator
Community colleges	22,006,775	Full-time equivalent enrollment	State and local implicit price deflator
Other	1,247,030	Constant percentage of the other 1971-72 appropriations	
Subtotal	\$149,274,260		
Other education and cultural	\$ 2,816,545	Total population	State and local implicit price deflator
Mental health	\$ 56,038,005	Program caseload	Medical services portion of the CPI
Public health	\$ 28,274,360	Total population <sup>a/</sup>	Medical services portion of the CPI
Medicaid <sup>b/</sup>	\$ 30,250,595	Program caseload	Medical services portion of the CPI
Public welfare			
Old age assistance	\$ 4,593,000 (\$ 8,907,695) <sup>c/</sup>	Program recipients	CPI and medical services portion of the CPI
Aid to families with dependent children	15,777,000 (\$29,924,270) <sup>c/</sup>	Program recipients	CPI
Aid to the permanent and totally disabled	2,714,000 (\$ 4,376,985) <sup>c/</sup>	Program recipients	CPI and medical services portion of the CPI
Aid to the blind	337,500 (\$ 540,000) <sup>c/</sup>	Program recipients	CPI
Three other major programs (General Relief, Foster Care for Children, and Hospitalization of the Indigent)	9,881,000 (\$11,363,521) <sup>c/</sup>	Program recipients	CPI and medical services portion of the CPI
Other (particularly administration)	8,635,635 (\$10,906,183) <sup>c/</sup>	Total population and relevant program recipients	State and local implicit price deflator, CPI, and medical services portion of CPI
Subtotal	\$ 41,938,135 (\$66,017,654) <sup>c/</sup>		
Vocational rehabilitation			
Administered by the Department of Vocational Rehabilitation	\$ 2,809,975	Total population <sup>d/</sup>	State and local implicit price deflator
Administered by the Commission for the Visually Handicapped	196,695	Program caseload	State and local implicit price deflator
Subtotal	\$ 3,006,670		
Administration of justice	\$ 60,914,925	Total population	State and local implicit price deflator
Resource and economic development	\$ 23,228,675	Total population	State and local implicit price deflator
General administration	\$ 25,059,115	Total population	State and local implicit price deflator
Legislative	\$ 3,134,825	Total population	State and local implicit price deflator
Transportation	\$ 3,475,200	Total population	State and local implicit price deflator
Unallocated by function			
Employee benefits	\$ 20,044,725	Total population	State and local implicit price deflator
State aid to localities - shared revenue	15,805,677	Projected in Chapter III	
Debt service	9,227,200	Projected by the Department of the Treasury	
Other	14,262,050	Total population	State and local implicit price deflator
Subtotal	\$ 59,339,652		
Total general fund operating expenses	\$922,343,642		

(Table continued on next page.)

TABLE 4.1--SUMMARY OF THE APPLICATION OF THE BASELINE METHODOLOGY TO GENERAL FUND EXPENDITURES (Continued)

a/ Even though some of the Health Department programs provide services to specific groups, the most reasonable basis for the population-workload ratio is the annual growth rate of total population.

b/ The projections account for the increases in the state share of medicaid costs that occur as state personal income rises. The federal government pays the difference.

c/ These alternative appropriations are the bases for the projections. They reflect three adjustments in the authorized or actual appropriations: (1) the Department of Welfare and Institutions has determined that for four of the programs that they administer, old age assistance, aid to families with dependent children, aid to the permanently and totally disabled, and general relief, a higher than anticipated number of recipients will raise the appropriations authorized for the programs and their administration. (2) The law requires that the state take over the local share of the program costs (13.11 percent of the total) of the four federally funded programs, old age assistance, aid to families with dependent children, aid to the permanently and totally disabled, and aid to the blind, beginning July 1, 1972. The appropriations, already adjusted for the higher than anticipated caseloads in three of the programs, are increased to account for the takeover. With the takeover, these four programs account for about two-thirds of public welfare outlays. (3) The state share of the administrative costs for the programs administered by the Department of Welfare and Institutions (those listed except aid to the blind) will rise beginning fiscal year 1971-72 from about 20.3 percent to 21.65 percent (with about 2.4 percent continuing to flow to the department). The appropriations are raised by applying the higher percentage to the total administrative costs, which are 24.9 percent of the program costs. For aid to the blind, the state share of the administrative costs of the program will also increase in fiscal year 1971-72. However, the present share is small (4 percent or \$7,275 in fiscal year 1971-72). Because the new share is undetermined at this time but will probably be no more than 10 percent or \$18,200, the present share is used in the projection base. With these three adjustments, public welfare becomes the third most expensive state function.

d/ Even though some programs of the Department of Vocational Rehabilitation provide services to a specific group, the most reasonable basis for the population-workload ratio is the annual growth rate of total population.

1966, grew rapidly in nearly all functional categories. The primary reason was significant changes in programs that expanded the scope and quality of the services provided by the state. The actual appropriations will therefore display a more rapid rate of growth than the projected expenditures.

The programs or agencies placed under each functional category are provided. For each of the six categories that had significant increases in scope and quality, the primary reason for the change is stated. Projections made for specific programs in three categories are shown. Six categories have population-workload ratios based on the projected annual rates of change of a specific group, and these rates are given. For the many categories with population-workload ratios based on the projected average annual rate of change of total population, Chapter II (see Table 2.1) provides the data. For the projected annual rates of change of the three price indexes that are the bases for the price ratios, Table 4.2 provides the data.

TABLE 4.2--PROJECTED ANNUAL RATE OF CHANGE FOR SELECTED PRICE INDEXES

Fiscal Year	Annual Rate of Change (Percent)			
	GNP Implicit Price Deflator	Implicit Price Deflator for State and Local Govt. Purchases of Goods and Services	Consumer Price Index	Medical Services Portion of the Consumer Price Index
1972-73	+3.0	+ 5.2	+2.5	+5.0
1973-74	+2.9	+ 5.0	+2.5	+4.9
1974-75	+2.9	+ 5.0	+2.4	+4.9
1975-76	+2.6	+ 4.4	+2.2	+4.3
1976-77	+2.2	+ 3.7	+1.8	+3.6
1977-78	+2.2	+ 3.8	+1.8	+3.6

Source: Appendix Table A.8.

Elementary-Secondary Education

TABLE 4.3--ELEMENTARY-SECONDARY EDUCATION, ACTUAL APPROPRIATIONS, 1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$230,366,618	\$ ...	...
1962-64	280,645,293	+50,278,675	+21.8
1964-66	327,200,480	+46,555,187	+16.6
1966-68	519,817,355	+192,616,875	+58.9
1968-70	686,913,870	+167,096,515	+32.1
1970-72	825,392,410	+138,478,540	+20.2
Projected expenditures			
1972-74	933,400,000	+108,007,590	+13.1
1974-76	1,033,600,000	+100,200,000	+10.7
1976-78	1,129,500,000	+95,900,000	+9.3

Programs or agencies in the functional category include the State Advisory Council on Educational T.V., the Virginia School for the Deaf and Department of Education, the Virginia Advisory Council on Educational T.V., the Virginia School for the Deaf and Blind, the Virginia School at Hampton, and

The primary reason for the large increase in outlays in the 1966-68 biennium was the introduction of the sales and use tax. The proceeds from 1 percentage point of the tax were earmarked for educational spending by localities.

The projected appropriations for the Basic School Aid Fund and the shared revenue of the sales and use tax are as follows:

1. Basic School Aid Fund<sup>a/</sup>

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$452,048,280	\$ ...	...
Projected expenditures			
1972-74	514,300,000	+62,251,720	+13.8
1974-76	560,800,000	+46,500,000	+9.0
1976-78	602,200,000	+41,400,000	+7.4

2. Shared Revenue (Sales and Use Tax)

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$165,000,000	\$ ...	...
Projected expenditures			
1972-74 <sup>b/</sup>	182,500,000	+17,500,000	+10.6
1974-76	215,000,000	+32,500,000	+17.8
1976-78	250,400,000	+35,400,000	+16.5

<sup>a/</sup> We have had to make several specific assumptions to project appropriations for the Basic School Aid Fund. They are as follows:

1. The average daily attendance will be 94 percent of enrollment (a calculation provided by the State Department of Education).
2. The student-teacher ratio will be 30:1 at the elementary level and 23:1 at the secondary level.
3. The distribution of teacher experience will remain the same (to allow use in the projections of the 1971-72 minimum salary scale, which depends on the number of years of teaching experience).
4. The total state share will remain the same (or the local effort and the local share will remain the same).

<sup>b/</sup> Shared revenues in the 1972-74 biennium display a relatively low rate of growth because the official estimate for the 1970-72 biennium is greater than the basis for the projected figure.

Enrollment and average daily attendance are expected to decrease slightly from their projected 1971-72 totals of 1.13 million and 1.06 million, respectively. The primary reason for the decline is the drop in the number of

births that occurred in the second half of the 1960's. The projected annual rates of change for enrollment and average daily attendance are negative, averaging about -0.3 percent.

### Higher Education

TABLE 4.4--HIGHER EDUCATION, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 56,871,554	\$ ...	...
1962-64	69,749,766	+12,878,212	+22.6
1964-66	80,395,135	+10,645,369	+15.3
1966-68	131,337,775	+50,942,640	+63.4
1968-70	202,894,180	+71,556,405	+54.5
1970-72	279,709,730	+76,815,550	+37.9
Projected expenditures			
1972-74	361,600,000	+81,890,270	+29.3
1974-76	438,500,000	+76,900,000	+21.3
1976-78	533,200,000	+94,700,000	+21.6

Programs or agencies in the functional category include Virginia's four-year colleges and universities (including branches and extensions), Virginia's community college system, the State Council of Higher Education for Virginia, the Executive Office (interstate compacts only), the State Board of Health, the State Education Assistance Authority, the State Department of Education, regional education and scholarships, the Eastern Virginia Medical School feasibility study, and supplementary aid for higher education.

The primary reason for the large increase in outlays in the 1966-68 biennium was the creation of the community college system. Expansion of the system and other institutions caused large increases in the following two bienniums.

The projected expenditures for four-year institutions and their

extensions, two-year branches, and community colleges are as follows:

### 1. Four-Year Institutions

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$236,471,800	\$ ...	...
Projected expenditures			
1972-74	293,400,000	+56,928,200	+24.1
1974-76	349,300,000	+55,900,000	+19.1
1976-78	418,800,000	+69,500,000	+16.6

### 2. Two-Year Branches

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$ 1,764,475	\$ ...	...
Projected expenditures			
1972-74	2,300,000	+535,525	+30.4
1974-76	2,700,000	+400,000	+17.4
1976-78	3,200,000	+500,000	+18.5

### 3. Community Colleges

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$ 38,928,910	\$ ...	...
Projected expenditures			
1972-74	62,900,000	+23,971,090	+61.6
1974-76	82,900,000	+20,000,000	+31.8
1976-78	106,800,000	+23,900,000	+28.8

The head-count enrollment expected in fiscal year 1971-72 for four-year institutions is 83,641 (plus extension enrollment) and for their two-year branches, 1,402. The full-time equivalent enrollment anticipated in that fiscal year in community colleges is 26,655. The projected annual rates of

increase of enrollment in four-year institutions and their extensions, two-year branches, and community colleges are as follows:

<u>Fiscal Year</u>	<u>Percent Change</u>		
	<u>Four-Year Institutions</u>	<u>Two-Year Branches</u>	<u>Community Colleges</u>
1972-73	+6.8	+6.8	+24.0
1973-74	+3.6	+3.6	+13.6
1974-75	+3.6	+3.6	+ 7.0
1975-76	+5.4	+5.4	+ 6.3
1976-77	+5.4	+5.4	+ 9.0
1977-78	+5.4	+5.4	+ 8.3

We have projected the annual growth in enrollment for four-year institutions, and it is expected to be lower than the 6.5 percent annual rate of the past few years. The college-age population (18-21), adjusted for net in-migration of population, military personnel, and net out-migration of students<sup>1/</sup>, is projected to decrease until fiscal year 1974-75, and then increase. Attendance rates are expected to increase but at a slower pace than in the past few years. However, our projected annual growth in enrollment may be too high for several reasons. The college-age population may be smaller than projected, the institutions may increase their enrollments more slowly than anticipated, and more persons than planned may choose to attend a community college. The projected growth will be too low if the converse of any of

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<sup>1/</sup> 13.1 percent of the net in-migration is assumed to be in the 18-21 age group. See U. S. Bureau of the Census, Census Population Reports, Series P-20, "Mobility of the Population of the United States: March 1968 to March 1969," (Washington: U. S. Government Printing Office, 1969), p. 10. The number of nonresident military personnel in Virginia in the 18-21 age group is assumed to be 37,000 in each year. Net out-migration of students is expected to be 14,000 per year.



the three factors occurs and if large numbers choose to attend public rather than private institutions. Extension enrollment is assumed to grow at the same rate as regular enrollment.

There are presently three two-year branches. The two branches of the University of Virginia, Patrick Henry College and Eastern Shore Branch College, will, upon approval by the Board of Visitors, become part of the community college system on July 1, 1971. Richard Bland College, the branch of the College of William and Mary, will become a four-year institution or part of the community college system. No rapid increases in enrollment for the three are anticipated.

Community college enrollment is projected to grow rapidly as the system continues its planned expansion in the first part of the decade. In later years the growth is expected to level off.

Other Education and Cultural

TABLE 4.5--OTHER EDUCATION AND CULTURAL, ACTUAL  
APPROPRIATIONS, 1960-62 TO 1970-72,  
AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 2,047,910	\$ ...	...
1962-64	2,240,020	+192,110	+9.4
1964-66	2,372,890	+132,870	+5.9
1966-68	3,333,370	+960,480	+40.5
1968-70	4,590,190	+1,256,820	+37.7
1970-72	5,586,090	+995,900	+21.7
Projected expenditures			
1972-74	6,200,000	+613,910	+11.0
1974-76	7,000,000	+800,000	+12.9
1976-78	7,800,000	+800,000	+11.4

Programs or agencies in the functional category include the Virginia State Library, the Virginia Museum of Fine Arts, and the Commission on Arts and Humanities.

Mental Health

TABLE 4.6--MENTAL HEALTH, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 41,223,950	\$ ...	...
1962-64	46,721,835	+5,497,885	+13.3
1964-66	50,674,850	+3,953,015	+ 8.5
1966-68	66,116,860	+15,442,010	+30.5
1968-70	84,729,935	+18,613,075	+28.1
1970-72	110,848,930	+26,118,995	+30.8
Projected expenditures			
1972-74	122,900,000	+12,051,070	+10.9
1974-76	134,900,000	+12,000,000	+ 9.8
1976-78	145,400,000	+10,500,000	+ 7.8

Programs or agencies in the functional category include the Department of Mental Hygiene and Hospitals, the State Hospital Board, the Virginia Treatment Center for Children, the Central State Hospital, the Petersburg Training School, the Eastern State Hospital, the Southwestern State Hospital, the Western State Hospital, the Northern Virginia Mental Health Institute, the Piedmont State Hospital, the DeJarnette Sanatorium, and the Lynchburg Training School and Hospital.

In fiscal year 1971-72 the anticipated number of patients is 16,495. The projected annual rates of increase of the caseload are less than 1 percent for each fiscal year except 1972-73 when it is 1.9 percent.

Public Health

TABLE 4.7--PUBLIC HEALTH, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 20,133,027	\$ ...	...
1962-64	21,860,105	+1,727,078	+8.6
1964-66	23,611,645	+1,751,540	+8.0
1966-68	32,132,590	+8,520,945	+36.1
1968-70	40,353,040	+8,220,450	+25.6
1970-72	55,203,330	+14,850,290	+36.8
Projected expenditures			
1972-74	62,200,000	+6,996,670	+12.7
1974-76	70,400,000	+8,200,000	+13.2
1976-78	78,000,000	+7,600,000	+10.8

Programs or agencies in the functional category include the Department of Health, the State Board of Health (except Medicaid), the Blue Ridge Sanatorium, and Catawba Sanatorium.

The large increase in the 1966-68 biennium was caused by the expansion of the local health services program.

Medicaid

TABLE 4.8--MEDICAID, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ ...	\$ ...	...
1962-64	...	...	...
1964-66	...	...	...
1966-68	...	...	...
1968-70	20,226,205	+20,226,205	...
1970-72	57,504,670	+37,278,465	+184.3
Projected expenditures			
1972-74	75,500,000	+17,995,330	+31.3
1974-76	91,300,000	+15,800,000	+20.9
1976-78	108,300,000	+17,000,000	+18.6

Medicaid, a significant new program funded by the state and federal governments, was first authorized by the 1968 General Assembly but did not become fully operational until January 1, 1970. The 1970-72 appropriations for the full two-year operation therefore show a disproportionate increase when compared to appropriations for the 1968-70 biennium.

The medicaid programs benefit public assistance recipients and certain medically needy persons. The over 65 caseload is expected to grow at an annual rate of 2.4 percent from the fiscal 1972-73 total of 78,000. The under 65 caseload, expected to be 239,000 in that same fiscal year, is projected to grow at an annual rate of 5 percent. Between fiscal years 1971-72 and 1972-73 the rates of growth of each group will be slightly higher. The average total cost per recipient in the over 65 group in fiscal year 1972-73 is anticipated to be \$570, and for the under 65 group, it is projected at \$204. The state share is expected to rise from 38.3 percent in fiscal year 1972-73 to 39.1 percent in the next two fiscal years, 40.1 percent in the following two, and 41 percent in fiscal year 1977-78.

Public Welfare

TABLE 4.9--PUBLIC WELFARE, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 19,380,015	\$ ...	...
1962-64	21,648,965	+2,268,950	+11.7
1964-66	27,400,060	+5,751,095	+26.6
1966-68	33,013,545	+5,613,485	+20.5
1968-70	48,364,760	+15,351,215	+46.5
1970-72	75,317,315 <sup>a/</sup>	+26,952,555	+55.7
Projected expenditures			
1972-74	169,400,000	+94,082,685	+124.9
1974-76	218,000,000	+48,600,000	+28.7
1976-78	246,600,000	+28,600,000	+13.1

<sup>a/</sup> These are the appropriations given in the Appropriations Act of April 3, 1970. They are not adjusted for any of the changes used in making the projections.

Programs or agencies in the functional category include the Department of Welfare and Institutions, the Virginia Commission for the Visually Handicapped, the Division of War Veterans Claims, the Virginia Commission for Children and Youth, Confederate pensions, the commodity distribution program under the Board of Agriculture and Commerce, and the Home for Needy Confederate Women.

Public welfare outlays have grown sharply in the last few years. New federal regulations lowering eligibility requirements and a change in attitudes of eligible persons toward the receipt of public assistance have been two primary reasons.

Projected program costs for the four federally funded public assistance programs, which will account for about two-thirds of public welfare outlays after the state assumes the local share in fiscal year 1972-73, are as follows:

<u>1. Old Age Assistance</u>			
<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$ 8,120,000	\$ ...	...
Projected expenditures			
1972-74	22,800,000	+14,680,000	+180.8
1974-76	29,900,000	+ 7,100,000	+31.1
1976-78	38,000,000	+ 8,100,000	+27.1
<u>2. Aid to Families with Dependent Children</u>			
<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$26,092,000	\$ ...	...
Projected expenditures			
1972-74	82,400,000	+56,308,000	+215.8
1974-76	110,000,000	+27,600,000	+33.5
1976-78	120,800,000	+10,800,000	+9.8

3. Aid to the Permanently and Totally Disabled

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$ 4,746,000	\$ ...	...
Projected expenditures			
1972-74	10,800,000	+6,054,000	+127.6
1974-76	13,500,000	+2,700,000	+ 25.0
1976-78	16,400,000	+2,900,000	+ 21.5

4. Aid to the Blind

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1970-72	\$ 590,700	\$ ...	...
Projected expenditures			
1972-74	1,300,000	+709,300	+120.1
1974-76	1,500,000	+200,000	+ 15.4
1976-78	1,900,000	+400,000	+ 26.7

The projected annual rates of increase of the number of recipients for the four federally funded programs are as follows:

<u>Fiscal Year</u>	<u>Percent Change</u>			
	<u>Old Age Assistance</u>	<u>Aid to Families With Dependent Children<sup>a/</sup></u>	<u>Aid to the Permanently and Totally Disabled</u>	<u>Aid to the Blind</u>
1972-73	+10.1	+21.4	+12.2	+8.3
1973-74	+ 7.0	+18.1	+ 6.8	+7.0
1974-75	+ 6.7	+15.8	+ 6.6	+7.0
1975-76	+ 6.4	+ 4.4	+ 6.3	+7.5
1976-77	+ 6.2	+ 1.7	+ 6.1	+7.5
1977-78	+ 6.0	+ 1.7	+ 5.9	+8.0

<sup>a/</sup> The rate of growth of program recipients declines sharply because the number of eligible persons in the general population is projected to peak at 5 percent in fiscal year 1975-76. In the next two fiscal years, the number of recipients grows at about the same rate as population.

In fiscal year 1971-72 the anticipated number of recipients (the first three based on the revised estimates of the Department of Welfare and Institutions) for the four programs are:

<u>Program</u>	<u>Recipients</u>
Old Age Assistance	17,940
Aid to Families with Dependent Children	148,394
Aid to the Permanently and Totally Disabled	10,168
Aid to the Blind	1,238

The number of recipients for each of the three state-local programs, general relief, foster care for children, and hospitalization of the indigent, will grow about 1.5 percent per year. General relief and foster care for children are each expected to have about 7,000 recipients in fiscal year 1971-72.

Among the other expenditures are those of the Commission for the Visually Handicapped (excluding the costs of aid to the blind and outlays for vocational rehabilitation). The annual rates of increase of the population-workload, 9,270 in fiscal year 1971-72, are as follows:

<u>Fiscal Year</u>	<u>Annual Rate (Percent)</u>
1972-73	+10.1
1973-74	+11.2
1974-75	+11.0
1975-76	+15.2
1976-77	+13.2
1977-78	+14.2

Vocational Rehabilitation

TABLE 4.10--VOCATIONAL REHABILITATION, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 to 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
<b>Actual appropriations</b>			
1960-62	\$ 118,665	\$ ...	...
1962-64	129,245	+10,580	+8.9
1964-66	207,405	+78,160	+60.5
1966-68	2,752,160	+2,544,755	+1,227.0
1968-70	4,097,525	+1,345,365	+48.9
1970-72	5,787,635	+1,690,110	+41.2
<b>Projected expenditures</b>			
1972-74	6,700,000	+912,365	+15.8
1974-76	7,700,000	+1,000,000	+14.9
1976-78	8,700,000	+1,000,000	+13.0

Programs or agencies in the functional category include the Department of Vocational Rehabilitation and the Virginia Commission for the Visually Handicapped. However, the Department of Vocational Rehabilitation was not established as a separate entity until the 1966-68 biennium. Most outlays that would have been made by the department prior to that biennium were made by the Department of Education and came under the elementary-secondary education category. Only small outlays made by the Commission for Visually Handicapped for vocational rehabilitation came under this category prior to the 1966-68 biennium. The cause for the large increase from the 1964-66 to the 1966-68 biennium was primarily a change in administration, not a change in scope and quality. The projected annual rates of increase of the caseload for the appropriations administered by the Commission for the Visually Handicapped are the same as for its appropriations under public welfare (excluding the program and administrative costs of aid to the blind).



Administration of Justice

TABLE 4.11--ADMINISTRATION OF JUSTICE, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 33,741,910	\$ ...	...
1962-64	36,545,785	+2,803,875	+8.3
1964-66	39,225,935	+2,680,150	+7.3
1966-68	67,879,485	+28,653,550	+73.0
1968-70	90,543,675	+22,664,190	+33.4
1970-72	118,906,730	+28,363,055	+31.3
Projected expenditures			
1972-74	134,300,000	+15,393,270	+12.9
1974-76	152,200,000	+17,900,000	+13.3
1976-78	169,200,000	+17,000,000	+11.2

Programs or agencies in the functional category include the Supreme Court of Appeals, the Trial Courts of Record, the Trial Courts not of record, the Juvenile and Domestic Relations Courts (city, county and regional), the retirement of justices and judges, the Judicial Council and judicial conferences, the Department of Law (for the Attorney General, law enforcement administration, state share of salaries and expenses of local commonwealth attorneys, and state share of salaries and expenses of local sheriffs and sergeants), the Law Enforcement Officers Training Standards Commission, the Department of State Police, the Central Criminal Records Exchange, the Virginia Probation and Parole Board, the Board of Welfare and Institutions (for correctional institutions and activities only).

Beginning in the 1966-68 biennium, the operating expenses of the Department of State Police were paid from the general fund rather than from special funds. This change represented an expansion of general fund activities.

Resource and Economic Development

TABLE 4.12--RESOURCE AND ECONOMIC DEVELOPMENT, ACTUAL APPROPRIATIONS, 1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$17,370,910	\$ ...	...
1962-64	19,716,720	+2,345,810	+13.5
1964-66	23,259,730	+3,543,010	+18.0
1966-68	31,479,679	+8,219,949	+35.3
1968-70	38,467,210	+6,987,531	+22.2
1970-72	45,883,605	+7,416,395	+19.3
Projected expenditures			
1972-74	51,200,000	+5,316,395	+11.6
1974-76	58,100,000	+6,900,000	+13.5
1976-78	64,500,000	+6,400,000	+11.0

Programs or agencies in the functional category include the Division of Industrial Development, the State Corporation Commission, the Department of Labor and Industry, the Department of Agriculture and Commerce, the Department of Conservation and Economic Development, the State Water Control Board, the State Air Pollution Control Board, the State Seed Potato Commission, the Commission of the Industry of Agriculture, Virginia Soil and Water Conservation Commission, the Virginia Historical Landmarks Commission, the Virginia Historical Society, other historical museums, other historical foundations and memorial commissions, the Commission of Outdoor Recreation, the Board of Regents of Gunston Hall, the Breaks Interstate Park Commission, other river and park commissions, the Marine Resources Commission, other fisheries commissions, the Virginia Institute of Marine Science, the Department of Community Colleges (special programs), specific examination and registration boards associated with the Department of Professional and Occupational Registration, and miscellaneous activities.

General Administration

TABLE 4.13--GENERAL ADMINISTRATION, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$16,274,350	\$ ...	...
1962-64	18,723,525	+2,449,175	+15.0
1964-66	20,702,400	+1,978,875	+10.6
1966-68	29,589,135	+8,886,735	+42.9
1968-70	38,859,365	+9,270,230	+31.3
1970-72	49,024,890	+10,165,615	+26.2
Projected expenditures			
1972-74	55,300,000	+6,275,110	+12.8
1974-76	62,600,000	+7,300,000	+13.2
1976-78	69,600,000	+7,000,000	+11.2

Programs or agencies in the functional category include the Executive Office, the Division of the Budget, the Division of Engineering and Buildings, the Division of Automated Data Processing, the Division of Personnel, the Division of State Planning and Community Affairs, the State Board of Elections, the Office of Civil Defense, the Department of the Treasury, the Department of Taxation, the Art Commission, the Treasury Board Administration (for recording financial transactions of the state, collecting old claims, paying premiums on bonds of county officers, and reissuing old warrants), the Compensation Board (for regulating compensation of fee and salaried officers, the state share of salaries and expenses of local commissioners of the revenue, and the state share of salaries and expenses of local treasurers), the Department of Purchases and Supply, and the Central Garage.

Legislative

TABLE 4.14--LEGISLATIVE, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$2,071,865	\$ ...	...
1962-64	2,365,180	+293,315	+14.2
1964-66	2,432,835	+67,665	+2.9
1966-68	2,984,955	+552,120	+22.7
1968-70	3,702,010	+717,055	+24.0
1970-72	5,348,850	+1,646,840	+44.5
Projected expenditures			
1972-74	6,900,000	+1,551,150	+29.0
1974-76	7,800,000	+900,000	+13.0
1976-78	8,700,000	+900,000	+11.5

Programs or agencies in the functional category include the General Assembly of Virginia, the Auditing Committee of the General Assembly, the Division of Statutory Research and Drafting, the Virginia Advisory Legislative Council, the Virginia Code Commission, the Virginia Commission on Interstate Cooperation, the Commission on Veterans' Affairs, the Commission for Economy in Governmental Expenditures, the Department of Law (for Commissioners for the Promotion of Uniformity of Legislation in the United States Only), and the Auditor of Public Accounts.

Transportation

TABLE 4.15--TRANSPORTATION, ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$2,741,000	\$ ...	...
1962-64	2,821,940	+80,940	+3.0
1964-66	2,863,510	+41,570	+1.5
1966-68	4,156,010	+1,292,500	+45.1
1968-70	4,244,620	+88,610	+2.1
1970-72	8,146,615	+3,901,995	+92.0
Projected expenditures			
1972-74	7,700,000	-446,615	-5.5
1974-76	8,700,000	+1,000,000	+13.0
1976-78	9,700,000	+1,000,000	+11.5

Programs or agencies in the functional category include the Washington Metropolitan Area Transit Commission, the Virginia Airports Authority, the Virginia State Ports Authority, and the Northern Virginia Transportation Commission.

Employee Benefits  
(Unallocated by Function)

TABLE 4.16--EMPLOYEE BENEFITS (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$10,485,395	\$ ...	...
1962-64	11,588,835	+1,103,440	+10.5
1964-66	12,701,385	+1,112,550	+9.6
1966-68	23,443,890	+10,742,505	+84.6
1968-70	28,002,255	+4,558,365	+19.4
1970-72	32,843,380	+4,841,125	+17.3
Projected expenditures			
1972-74	44,200,000	+11,356,620	+34.6
1974-76	50,100,000	+5,900,000	+13.3
1976-78	55,700,000	+5,600,000	+11.2

This category includes the state share of payments for supplemental retirement, social security, and group life insurance for state employees and local special employees.

State Aid to Localities - Shared  
Revenues (Unallocated by Function)

TABLE 4.17--STATE AID TO LOCALITIES - SHARED  
 REVENUES (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,  
 1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
<b>Actual appropriations</b>			
1960-62	\$ ...	\$ ...	...
1962-64	...	...	...
1964-66	...	...	...
1966-68	25,140,000	+25,140,000	...
1968-70	25,890,000	+750,000	+3.0
1970-72	31,711,354	+5,821,354	+22.5
<b>Projected expenditures</b>			
1972-74	32,405,677	+694,323	+2.2
1974-76	34,200,000	+1,794,323	+5.5
1976-78	36,000,000	+1,800,000	+5.3

State aid to localities in the form of shared revenues comes from A.B.C. profits and the wine and spirits tax. They are distributed to localities for general purposes on the basis of population. An accounting change placed these shared revenues in general fund outlays in the 1966-68 biennium. Beginning fiscal year 1970-71, two-thirds but never less than \$14,805,677 of A.B.C. profits are distributed. This figure represents the accrued distribution rather than the specific appropriations of A.B.C. profits to localities for each fiscal year. These shared revenues are listed under the Department of Accounts in the Appropriations Act.

The proceeds from 1 percentage point of the sales and use tax are also shared with the localities. Because these revenues are earmarked for education, they are listed under elementary-secondary education.

Debt Service  
(Unallocated by Function)

TABLE 4.18--DEBT SERVICE (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,  
 1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 1,732,000	\$ ...	...
1962-64	1,730,000	-2,000	-0.1
1964-66	225,000	-1,505,000	-87.0
1966-68	130,000	-95,000	-42.2
1968-70	5,000	-125,000	-96.1
1970-72	18,716,600	+18,711,600	+3,742.3
Projected expenditures			
1972-74	17,800,000	-916,600	-4.9
1974-76	16,700,000	-1,100,000	-6.2
1976-78	15,600,000	-1,100,000	-6.6

General obligation bonds in the amount of \$81,000,000 were issued during the 1968-70 biennium. As a result, debt service on general obligation bonds rose considerably. (Debt service meets the repayment requirements on the principal and the interest on the outstanding portion.)

Other (Unallocated  
by Function)

TABLE 4.19--OTHER (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,  
1960-62 TO 1970-72, AND PROJECTED EXPENDITURES, 1972-74 TO 1976-78

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1960-62	\$ 4,435,600	\$ ...	...
1962-64	2,439,395	-1,996,205	-45.0
1964-66	8,962,500	+6,523,105	+267.4
1966-68	4,544,885	-4,417,615	-49.3
1968-70	15,948,320	+11,403,435	+250.9
1970-72	25,508,170	+9,559,850	+60.0
Projected expenditures			
1972-74	31,400,000	+5,891,830	+23.1
1974-76	35,600,000	+4,200,000	+13.4
1976-78	39,600,000	+4,000,000	+11.2

The programs or agencies in the category include the Department of Military Affairs, the Civil Air Patrol, and central appropriations to the Governor (for physical plant operation and adjusting base rates of pay).

Summary

Table 4.20 summarizes the actual appropriations and the projected expenditures for general fund operating expenses. Through the next three bienniums elementary-secondary education, higher education, and public welfare combined with medicaid are expected to account for about 70 percent of the operating expenses.

For elementary-secondary education, enrollment is projected to decline slightly through fiscal year 1977-78. However, the annual rate of inflation will more than offset the enrollment decline and will cause outlays to rise. In other words, the number of students will decrease but the cost per student will increase. In higher education expenditures will increase as enrollment



TABLE 4.20.--GENERAL FUND OPERATING EXPENSES: ACTUAL APPROPRIATIONS AND PROJECTED EXPENDITURES, 1960-62 TO 1976-78

Operating Expenses	Actual Appropriations						Projected Expenditures		
	1960-62	1962-64	1964-66	1966-68	1968-70	1970-72	1972-74	1974-76	1976-78
EDUCATION									
Elementary-Secondary Education	\$230,366,618	\$280,645,293	\$327,200,480	\$519,817,355	\$686,913,870	\$825,392,410	\$933,400,000	\$1,033,600,000	\$1,129,500,000
Higher Education	56,871,554	69,749,766	80,395,135	131,337,775	202,894,180	279,709,730	361,600,000	438,500,000	533,200,000
Other Education and Cultural	2,047,910	2,240,020	2,372,890	3,333,370	4,590,190	5,586,090	6,200,000	7,000,000	7,800,000
HEALTH AND WELFARE									
Mental Health	41,223,950	46,721,835	50,674,850	66,116,860	84,729,935	110,848,930	122,900,000	134,900,000	145,400,000
Public Health	20,113,027	21,860,105	23,611,645	32,132,590	40,353,040	55,203,330	62,200,000	70,400,000	78,000,000
Medicaid	...	...	...	...	20,226,205	57,504,670	75,500,000	91,300,000	108,300,000
Public Welfare	19,380,015	21,648,965	27,400,060	33,013,545	48,364,760	75,317,315	169,400,000	218,000,000	246,600,000
Vocational Rehabilitation	118,665	129,245	207,405	2,752,160	4,097,525	5,787,635	6,700,000	7,700,000	8,700,000
ADMINISTRATION OF JUSTICE	33,741,910	36,545,785	39,225,935	67,879,485	90,543,675	118,906,730	134,300,000	152,200,000	169,200,000
RESOURCE AND ECONOMIC DEVELOPMENT	17,370,910	19,716,720	23,259,730	31,479,679	38,467,210	45,883,605	51,200,000	58,100,000	64,500,000
GENERAL ADMINISTRATION AND LEGISLATIVE									
General Administration	16,274,350	18,723,525	20,702,400	29,589,135	38,859,365	49,024,890	55,300,000	62,600,000	69,600,000
Legislative	2,071,865	2,365,180	2,432,835	2,984,955	3,702,010	5,348,850	6,900,000	7,800,000	8,700,000
TRANSPORTATION	2,741,000	2,821,940	2,863,510	4,156,010	4,244,620	8,146,615	7,700,000	8,700,000	9,700,000
UNALLOCATED BY FUNCTION									
Employee Benefits	10,485,395	11,588,835	12,701,385	23,443,890	28,002,255	32,843,380	44,200,000	50,100,000	55,700,000
State Aid to Localities--Shared									
Revenues	...	...	...	25,140,000	25,890,000	31,711,354	32,405,677	34,200,000	36,000,000
Debt Service	1,732,000	1,730,000	225,000	130,000	5,000	18,716,600	17,800,000	16,700,000	15,600,000
Other	4,435,600	2,439,395	8,962,500	4,544,885	15,948,320	25,508,170	31,400,000	35,600,000	39,600,000
TOTAL OPERATING EXPENSES	\$458,974,769	\$538,926,609	\$622,235,760	\$977,851,694	\$1,337,832,160	\$1,751,440,304	\$2,119,105,677	\$2,427,400,000	\$2,726,100,000

grows in all types of institutions. The rate of growth of enrollment is, however, projected to be lower than in recent years. Public welfare outlays will more than double in the 1972-74 biennium as the state assumes the local share of the program costs of the four federally funded programs and as the number of recipients rises sharply. In the following two bienniums, the rate of growth of program recipients and expenditures is projected to decline. Medicaid outlays will grow at a fairly constant rate as the two caseloads increase at average annual rates of 2.4 and 5 percent. In the other functional categories, the population served is projected to remain nearly constant (mental health) or to increase in proportion to general population growth (e.g., public health, vocational rehabilitation, and resource and economic development).

#### The Baseline Gap

Using projected revenues in Chapter III and baseline operating expenditures in this chapter, a comparison can be made of the two sides of the fiscal ledger. The difference between revenues and expenditures, henceforth called the gap, is shown in Table 4.21.

The principal reason for the negative gap in the 1972-74 biennium is the expected large increase in public welfare outlays. In the following two bienniums, revenues rise faster than expenditures so that positive gaps are forecast.

TABLE 4.21--PROJECTIONS OF GENERAL FUND GAP, 1972-74 TO 1976-78  
(Millions of Dollars)

<u>Biennium</u>	<u>Revenues</u>	<u>Operating Expenditures</u>	<u>Gap (Revenues Minus Expenditures)</u>
1972-74	\$2,062.7	\$2,119.1	\$ -56.4
1974-76	2,534.2	2,427.4	+106.8
1976-78	3,094.3	2,726.1	+368.2

Sources: Tables 3.4 and 4.20.

The gap projections are subject to several qualifications:

1. A gap is a residual figure and therefore subject to considerable error, since small adjustments in revenue or expenditure projections have a magnified impact. For example, a 1 percent increase in projected 1972-74 revenues and a 1 percent reduction in expenditures would change the gap forecast to \$-14.6 million-- a 74 percent reduction.
2. As a general rule, short-run forecasts are more accurate than long-term forecasts. For this reason, the results for 1972-74 are probably closer to the mark than those for 1976-78.
3. The above gaps refer to baseline expenditure projections. They make no allowance for increases in scope or quality. Nor do they make any allowance for capital outlays.
4. No allowance is made for major changes in federal funding, such as a takeover of public welfare or revenue sharing.

Changes in Scope and Quality

Improvements in the scope and quality of programs during the 1960's were mentioned in the discussion on baseline projections. In this section we develop estimates of their magnitude and then consider possible future changes.

Changes in Scope and Quality During the 1960's

Table 4.22 presents quantitative estimates of changes in scope and quality for the period 1960-61 to 1969-70. The formula used to make the estimates is:

$$\frac{1969-70 \text{ Appropriations}}{1960-61 \text{ Appropriations}} \times \frac{\text{Population-Workload Ratio}}{\text{Price Ratio}} = \text{Scope and Quality Ratio}^{1/}$$

Because annual outlays by functional category are not presently available, the 1960-61 and 1969-70 outlays for each category are estimated by splitting the biennial appropriations in half. The only exception is public welfare outlays for fiscal year 1969-70; for this activity figures were taken from the Appropriations Act approved April 5, 1968, and from data provided by the Department of Welfare and Institutions. The population-workload and price ratios are then calculated; their product is the baseline growth factor. The bases for these ratios are found in Table 4.1. Between fiscal years 1960-61 and 1969-70, total population grew by an estimated 15.4 percent (or 1.6 percent per year). Specific enrollments or caseloads are again derived from information provided by the relevant state agency. The historical price indexes, given in appendix Table A.9 are adjusted to a fiscal year basis. By dividing the 1969-70 appropriations by the 1960-61 appropriations times the baseline growth factor, a

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<sup>1/</sup> Lawrence R. Kegan and George P. Roniger, "The Outlook for State and Local Finances," in Fiscal Issues in the Future of Federalism, CED Supplementary Paper, No. 23 (New York: Committee for Economic Development, 1968), p. 256.

residual ratio, which is the estimated change in scope and quality, is found. This technique makes the scope and quality ratio multiplicative. The estimate of scope and quality for all categories is calculated by weighting the individual estimates with the ratio of the combined appropriations in the category to total appropriations. For the table, all ratio changes are converted to percentage changes.

TABLE 4.22--ESTIMATED INCREASE IN SCOPE AND QUALITY,  
FISCAL YEARS 1960-61 TO 1969-70<sup>a/</sup>

<u>Functional Category</u>	<u>Percentage Increase in Scope and Quality</u>	
	<u>Total</u>	<u>Average Annual Rate</u>
Elementary-Secondary Education	59.6	5.3
Elementary-Secondary Education (Excluding Sales & Use Tax Proceeds)	29.4	2.9
Higher Education	12.3	1.3
Other Education and Cultural	32.3	3.1
Mental Health	29.8	2.9
Public Health	19.5	2.0
Public Welfare	19.2	2.0
Administration of Justice	58.2	5.2
Resource and Economic Development	30.7	3.0
General Administration	40.9	3.8
Legislative	5.4	0.6
Transportation	<u>b/</u>	<u>b/</u>
Employee Benefits	57.6	5.2
Other	112.2	8.7
Total	45.8	4.3
Total (Excluding Sales and Use Tax Proceeds)	25.0	2.5

<sup>a/</sup> Four functional categories are excluded: (1) Medicaid did not begin until the 1968-70 biennium; (2) vocational rehabilitation included only outlays made by the Commission for the Visually Handicapped until the 1966-68 biennium, when the Department of Vocational Rehabilitation was formed; (3) state aid to localities through shared revenues from A.B.C. profits and the wine and spirits tax did not become a general fund expenditure until the 1966-68 biennium; and (4) debt service does not fit into this conceptual framework.

<sup>b/</sup> Our methodology does not result in any increase in scope and quality for transportation.

Our methodology understates the scope and quality estimates for two reasons:

1. For most functional categories outlays in the first year of a biennium are slightly lower than in the second year. Dividing the biennial appropriations in half biases the base year figure upward and the end year figure downward.
2. The residual accounts for all change not due to population-workload and price growth. Any upward biases in the population-workload or price data would push the residual down. The population served increased substantially in three categories--elementary-secondary education (27 percent), higher education (117 percent), and public welfare (92 percent). Part of the increase in each category was no doubt due to the improved scope and quality of programs. New fields of study at colleges and universities and lowered eligibility requirements for welfare payments meant more enrollment and more cases. The same problem may exist in the other categories, especially mental health. However, data limitations preclude estimation of the impact that these improvements have on the population-workload factors. Also, the price indexes may have overstated the increases in prices. For example, the state and local implicit price deflator is biased upward, for it does not account for growth in the productivity of state employees. Again, though, the impact of such factors cannot be quantified.

Even though the estimates are conservative, they do show that in all but one minor category the scope and quality of programs did increase in the 1960's. Many of the changes occurred in the last four years of the decade, and, as a result, the estimates tend to spread over a nine-year period improvements that actually occurred in the space of a few years. A striking example of this phenomenon is elementary-secondary education. When proceeds from the sales and use tax are included, the estimated rate of improvement for elementary-secondary education nearly doubles.

#### Future Expansion of Scope and Quality

There is little doubt that in the next three bienniums demands for expanding the scope and quality of programs will continue. There is an observable

tendency for individuals to demand more and better public services as their standard of living rises. The business community, too, tends to demand better trained labor as the economy grows. In addition, the current emphasis on government spending as a remedy for most social and economic problems is not likely to moderate. Finally, the increased organization and militancy of public employees will put greater pressure on government wage costs.

A convenient assumption is that future changes in scope and quality will be fairly consistent with changes in the recent past. An annual rate of improvement applicable to all categories can, therefore, be chosen from our historical estimates. However, the introduction of the sales and use tax, a change not likely to be repeated in the future, raised the elementary-secondary education and the overall estimates significantly. On the other hand, our methodology lowers all of them. Because these two factors appear about equal in importance, we assume that a 3.5 to 4.5 percent annual rate of expansion in any category will satisfy future demands for changes in scope and quality. There may be, of course, specific alternatives involving different rates of improvement.

The impact of expanding scope and quality on the projected baseline gaps is shown by:

1. Applying the median annual rate of improvement, 4 percent, to programs in the three major categories and several of the other categories;
2. Discussing specific means of increasing the scope and quality in the three major categories and two others.

#### Elementary-Secondary Education

Alternative ways of financing elementary-secondary education are discussed in Chapter VI, which covers state aid to localities. If the scope and quality of all programs (excluding the proceeds from the sales and use tax) were

increased at a 4 percent annual rate beginning fiscal year 1972-73, the additional cost would be:

<u>Biennium</u>	<u>Additional Outlays</u> (Millions)
1972-74	\$ +46.0
1974-76	+121.0
1976-78	+212.2

#### Higher Education

A 4 percent annual rate of expansion for higher education could mean admitting more students and/or upgrading existing programs. For the four-year institutions (including extensions) and the community colleges, the extra outlays would be:

<u>Biennium</u>	<u>Four-Year</u> <u>Institutions</u> (Millions)	<u>Community</u> <u>Colleges</u> (Millions)	<u>Total</u> (Millions)
1972-74	\$ +18.0	\$ +3.9	\$ +21.9
1974-76	+51.7	+12.4	+64.1
1976-78	+101.3	+25.7	+127.0

If higher education were subjected to a cost-benefit analysis (or what is commonly called a planning, programming, budgeting, and systems analysis), some combination of alternatives might be preferred to the present system. Among them could be increased government loans to students, student tuition grants not tied to specific institutions, year-around operation, and aid to students attending out-of-state or private institutions.<sup>1/</sup>

#### Public Welfare and Medicaid

Applying the 4 percent ratio to public welfare and medicaid would raise outlays by:

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<sup>1/</sup> For an interesting discussion of these and other ideas see Edmund K. Faltermayer, "Let's Break the Go-to-College Lockstep," Fortune, (November, 1970), pp. 98-103, 144, and Alan M. Cartter, "The Economics of Higher Education," in Contemporary Economic Issues, Niel W. Chamberlain, editor. (Homewood, Illinois: Richard D. Irwin, Inc., 1969), pp. 145-184.



<u>Biennium</u>	<u>Public Welfare</u> (Millions)	<u>Medicaid</u> (Millions)	<u>Total</u> (Millions)
1972-74	\$ +10.5	\$ +4.5	\$ +15.0
1974-76	+32.2	+13.5	+45.7
1976-78	+59.5	+26.1	+85.6

Within the present public welfare system two specific ways for the state to expand outlays while relieving local burdens are: (1) a takeover of the remaining local share of program costs for general relief, foster care, hospitalization of the indigent, day care services and the work incentive program and (2) assumption of the local share of the cost of administration, which is 18.15 percent of the total. The combined cost of these changes would be:

<u>Biennium</u>	<u>Programs</u> (Millions)	<u>Administration</u> (Millions)	<u>Total</u> (Millions)
1972-74	\$ +21.7	\$ +15.6	\$ +37.3
1974-76	+23.9	+20.3	+44.2
1976-78	+25.9	+22.9	+48.8

Medicaid could be improved by providing dental services to the baseline population and to the categorically needy (welfare recipients) and by adding persons under 21 who live in families with incomes at or below the required levels and supplying them with regular and dental services. The additional expenditures required would be:

<u>Biennium</u>	<u>Dental Services<sup>a/</sup></u>		<u>Under 21<sup>a/</sup></u>		<u>Total</u>
	<u>Baseline</u>	<u>Categorically</u>	<u>Regular</u>	<u>Dental</u>	
	<u>Population</u>	<u>Needy</u>	<u>Services</u>	<u>Services</u>	
	(Millions)	(Millions)	(Millions)	(Millions)	(Millions)
1972-74	\$ +7.6	\$ +5.1	\$ +29.2	\$ +11.0	\$ +52.9
1974-76	+9.3	+6.2	+33.5	+12.5	+61.5
1976-78	+11.1	+7.4	+37.6	+14.1	+70.2

a/ The projected caseloads are as follows:

<u>Fiscal</u>	<u>Baseline</u>	<u>Categorically</u>	
<u>Year</u>	<u>Population</u>	<u>Needy</u>	<u>Under 21</u>
1972-73	317,000	211,000	467,000
1973-74	331,000	221,000	471,500
1974-75	345,000	230,000	477,000
1975-76	361,000	241,000	482,300
1976-77	376,000	251,000	486,100
1977-78	393,000	262,000	490,600

The projected average cost per recipient in fiscal year 1972-73, is \$29 for dental services and \$78 for regular services to those under 21. The state share is the same as for the baseline projections.

#### Other Categories

The scope and quality of programs in any of the other categories could be expanded. Table 4.23 shows the impact of applying the 4 percent rate to the five largest ones.

TABLE 4.23--ADDITIONAL OUTLAYS DUE TO THE EXPANSION OF SCOPE AND QUALITY  
(Millions of Dollars)

<u>Biennium</u>	<u>Mental</u>	<u>Public</u>	<u>Administration</u>	<u>Resource and</u>	<u>General</u>
	<u>Health</u>	<u>Health</u>	<u>of Justice</u>	<u>Economic Development</u>	<u>Administration</u>
1972-74	\$+ 7.5	\$+ 3.8	\$+ 8.3	\$+ 3.2	\$+ 3.3
1974-76	+20.0	+10.3	+22.5	+ 8.5	+ 9.3
1976-78	+35.1	+18.9	+40.8	+15.6	+16.8

Examples of the form that the expansion could take come from mental health and resource and economic development. For mental health, an estimated two-thirds of the patients in state hospitals do not have to be there but have no place else to go. These people fall into three categories: (1) those who do not require hospitalization at the time of admission but are committed anyway; (2) those who require hospitalization at the time of admission but remain after receiving maximum benefit from treatment; and (3) those who require hospital care but not for mental problems. Treatment programs for the mentally ill would be improved if these people could be removed from the mental hospitals and placed in an alternate facility providing to each group the kind of care required. Examples of such facilities for the first two categories are nursing homes, intermediate care facilities, and homes with minimum supervision to see that the patients take care of themselves. The most feasible way to make these changes would be to reorganize existing state hospitals. They would be equipped and staffed to provide the amount and kind of treatment required by the above mentioned categories of patients. Also, the state could place some patients in comparable private facilities and make direct payments for their care. At the same time, the state could provide additional diagnostic and treatment facilities at the community level that would reduce unnecessary admissions.

Under resource and economic development is the State Water Control Board. The board estimates that localities must spend about \$310 million to clean up their water pollution by upgrading or building sewage treatment facilities. The federal government will pay 55 percent of the cost for local treatment plant construction if the state pays 25 percent. The locality must therefore pay only 20 percent. Because of this formula the 1970 General Assembly appropriated \$7.8 million in state grants for fiscal year 1970-71. At the 1971 extra session, an additional \$17.3 million was appropriated for grants--\$3.5

million for this fiscal year and \$13.8 for fiscal year 1971-72. During this biennium, the \$25.3 million will allow the State Water Control Board to make 80 percent grants for projects costing a total of \$101.2 million. To allow the board to make 80 percent grants for the remaining \$208.8 million in projects, the state would have to appropriate an additional \$52.2 million. The board hopes to have all projects completed by 1976; to achieve this deadline, the rate of expansion would have to be greater than 4 percent a year.

### Summary

The categories discussed above account for about 85 percent of general fund outlays. If all of them were expanded at an annual rate of 4 percent, the resulting additional outlays would change the projected baseline gaps to:

<u>Biennium</u>	<u>Baseline Gap</u>	-	<u>Additional Outlays for Scope and Quality</u>	=	<u>Scope and Quality Gap</u>
	(Millions)		(Millions)		(Millions)
1972-74	\$- 56.4		\$+109.0		\$-165.4
1974-76	+106.8		+301.4		-194.6
1976-78	+368.2		+552.0		-183.8

We recognize that the scope and quality of all these programs might not be expanded at the same time. For example, improvements might be restricted to elementary education, and their cost would change the baseline gaps to:

<u>Biennium</u>	<u>Baseline Gap</u>	-	<u>Additional Outlays for Scope and Quality in Elementary-Secondary Education</u>	=	<u>Elementary-Secondary Education Scope and Quality Gap</u>
	(Millions)		(Millions)		(Millions)
1972-74	\$- 56.4		\$+ 46.0		\$-102.4
1974-76	+106.8		+121.0		- 14.2
1976-78	+368.2		+212.2		+156.0

## Capital Outlays

### Introduction

For the next three bienniums we show requests for capital outlays from the general fund, and we project amounts actually funded. Then, there is a discussion of the potential for funding these capital outlays through general obligation borrowing. We do not project capital outlays funded from revenue bonds<sup>1/</sup>, which are primarily for the construction of self-supporting facilities at colleges and universities, or from special funds, which are in part federal outlays.

### Requests for Capital Outlays from General Fund Revenues

Table 4.24 presents the projected capital outlay requests from the general fund for the next three bienniums. In each biennium the requests from colleges and universities are expected to be about 70 percent of the total. Requests to improve mental and public health facilities are anticipated to be the next single largest category. Most of the remaining requests are projected to come from administration of justice and resource and economic development.

The requests in the 1974-76 and 1976-78 bienniums assume that the requests in the preceding biennium will be completely funded or that the requests not funded will be dropped, but neither result will occur in all likelihood. During the 1960's about 45 percent of requests were funded; in the 1970-72 biennium the ratio dropped to 13.7 percent (\$43.2 million of \$314 million). Moreover, only a small percentage of those requests not funded in the 1960's were dropped; in other words, agencies maintained the same

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<sup>1/</sup> Article X, Section 9(c) of the Constitution permits the state to secure revenue bonds with its full faith and credit subject to certain limitations.

TABLE 4.24--PROJECTED CAPITAL OUTLAY REQUESTS FROM THE GENERAL FUND,  
1972-74 TO 1976-78 BIENNIUMS  
(Millions of Dollars)

<u>Biennium</u>	<u>Higher Education</u>	<u>Mental Health and Public Health</u>	<u>Administration of Justice</u>	<u>Resource &amp; Economic Development and Other Categories<sup>a/</sup></u>	<u>Total</u>
1972-74	\$214.4	\$40.2	\$22.6	\$48.6	\$325.8
1974-76	185.0	29.2	17.0	48.5	279.7
1976-78	198.6	22.4	15.9	44.6	281.5

<sup>a/</sup> About 70 percent of the requests are for resource and economic development.

Note: Original projections were provided by the Division of Engineering and Buildings. They were then adjusted for inflation by using the implicit price deflator for government buildings, excluding the military (see appendix Table A.8 ).

set of priorities until they were satisfied. We therefore assume that the \$270.8 million left over from this biennium is included in the \$325.8 million requested for the 1972-74 biennium. Also included are new agency requests and an allowance for inflation. If 40 percent of the 1972-74 requests were funded, appropriations for the remaining \$195.5 million would be requested in the following biennium (after the requests are adjusted for inflation). This would cause deferral of many, if not all, of the 1974-76 requests to the 1976-78 biennium. Thus, the funding of only a portion of each biennium's capital outlay requests would rule out the sum total of requests (\$887 million) shown in Table 4.24.

#### Projected Capital Outlays from General Fund Revenues

Because requests for capital outlays appear to be a poor basis for projecting actual expenditures, we have used a different method. As a basis for projecting capital outlays from general fund revenues, we utilize historical ratios of general fund appropriations for capital projects to general fund appropriations for recurring programs. In recent bienniums, the ratio has remained fairly constant. Only in this biennium does the ratio differ significantly from the historical average of 7 percent:

<u>Biennium</u>	<u>Ratio (Percent)</u>	<u>Appropriations for Capital Projects (Millions)</u>
1958-60	8.1	\$ 30.1
1960-62	8.3	38.1
1962-64	5.9	31.7
1964-66	5.8	35.8
1966-68	10.7	104.7
1968-70	8.3	111.1 <sup>a/</sup>
1970-72	2.5	43.2
Simple Average	7.0	\$ 56.3

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<sup>a/</sup> This figure includes \$81 million in general obligation bonds which funded requests made to the general fund.

If we assume that the 7 percent ratio of capital to recurring outlays were to hold for the next three bienniums, the capital outlays required for baseline growth would be:

<u>Biennium</u>	<u>Baseline Capital Outlays (Millions)</u>
1972-74	\$148.3
1974-76	169.9
1976-78	190.8

Most of the capital outlay requests are expected to be for five of the eight categories discussed in the scope and quality section. Applying the 7 percent ratio to the additional recurring outlays of the eight categories based on a 4 percent annual rate of expansion of scope and quality would give capital outlays of:

<u>Biennium</u>	<u>Scope and Quality Capital Outlays (Millions)</u>
1972-74	\$ 7.6
1974-76	21.1
1976-78	38.6

These projected capital outlays would change the baseline and scope and quality gaps to:

<u>Biennium</u>	<u>Baseline Gap (Millions)</u>	<u>Scope and Quality Gap (Millions)</u>	<u>Baseline Gap with Capital Outlays (Millions)</u>	<u>Scope and Quality Gap with Capital Outlays (Millions)</u>
1972-74	\$ -56.4	\$-165.4	\$-204.7	\$-321.3
1974-76	+106.8	-194.6	-63.1	-385.6
1976-68	+368.2	-183.8	+177.4	-413.2

In summary, baseline growth and the expansion of scope and quality would require large capital outlays from the general fund. Meeting the baseline capital requirements and improving the scope and quality of most programs would, however, cause projected revenues from present sources to fall short of projected outlays in the next three bienniums.



### Capital Outlays from General Obligation Borrowing

It is not necessary to finance all capital outlays from general fund revenues; general obligation borrowing could be another source. In this section we provide estimates of the maximum amount that could be borrowed in each biennium.

Under the amendment to the constitution, general obligation debt for capital projects is permitted, provided it is approved by a majority of the General Assembly and by a majority of the voters in a referendum. Furthermore,

...No such debt shall be authorized by the General Assembly if the amount thereof when added to amounts approved by the people, or authorized by the General Assembly and not yet submitted to the people for approval, under this subsection during the three fiscal years immediately preceding the authorization by the General Assembly of such debt and the fiscal year in which such debt is authorized shall exceed twenty-five per centum of an amount equal to 1.15 times the average annual tax revenues of the Commonwealth derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three fiscal years immediately preceding the authorization of such debt by the General Assembly.

No debt shall be incurred under this subsection if the amount thereof when added to the aggregate amount of all outstanding debt to which the full faith and credit of the Commonwealth is pledged other than that excluded from this limitation by the provision of this articles authorizing the contracting of debts to redeem a previous debt obligation of the Commonwealth and for certain revenue-producing capital projects, less any amounts set aside in sinking funds for the repayment of such outstanding debt, shall exceed an amount equal to 1.15 times the average annual tax revenues of the Commonwealth derived from taxes on income and retail sales, as certified by the Auditor of Public Accounts, for the three fiscal years immediately preceding the incurring of such debt.<sup>1/</sup>

Table 4.24 applies the above provisions to projected revenues from income taxes on individuals and corporations and from the sales and use tax. The table shows that the new debt provisions will permit large new

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<sup>1/</sup> Constitution of Virginia, Article X, Section 9 (b).

TABLE 4.25.--PROJECTED MAXIMUM GENERAL OBLIGATION BORROWING PERMISSIBLE  
 UNDER THE CONSTITUTION, FISCAL YEARS 1971-72 TO 1975-76  
 (Millions of Dollars)

Year General Assembly Meets <sup>a/</sup>	Projected Average Annual Sales and Income Taxes, Previous 3 Years	Calculation Base <sup>b/</sup>	Maximum Debt Which Could be Authorized For the Biennium <sup>c/d/</sup>	Outstanding at End of Fiscal Year			Overall Debt <sup>f/</sup> Limit <sup>f/</sup>
				Gross Debt	Sinking Fund <sup>e/</sup>	Net Debt	
1971-72	\$567.3 <sup>g/</sup>	\$163.1	\$ 82.1	\$163.1	\$ 11.4	\$151.7	\$652.4
1973-74	684.1	196.7	114.6	277.7	27.1	250.6	786.7
1975-76	845.8	243.2	46.5	324.2	52.6	271.6	972.7

a/ Assumes the bonds are approved in a referendum the fiscal year following authorization by the General Assembly. Thus, borrowing authorized by the 1972 General Assembly and approved in fiscal year 1972-73 would be available for spending in the 1972-74 biennium.

b/ Twenty-five percent of 1.15 times the average annual tax revenues from the Individual and Fiduciary Income Tax, the Corporate Income Tax, and State Sales and Use Tax for the three years immediately preceding the authorization.

c/ This figure is equal to the calculation base less debt approved in the three preceding fiscal years. \$81 million in general obligation bonds were approved in fiscal year 1968-69.

d/ There is some controversy as to how to interpret the new language in the constitution. Questions concern (1) assuming a bond issue has been authorized and approved, should calculations be determined by date of authorization or by date of approval (we used date of approval); (2) does the phrase "under this subsection..." mean that the calculation of general obligation borrowing permissible in 1972 would not be affected by the \$81 million issue authorized and approved under the previous provisions of the constitution (we assumed the \$81 million should be included); (3) when the constitution refers to sales taxes is this limited to the sales and use tax or does it include other sales taxes such as those on automobiles, liquor, and cigarettes? Also is the use tax portion of the sales and use tax included? (We used the sales and use tax but excluded other sales taxes). Our calculations would differ if we were to use other assumptions. For example, if the \$81 million should not be considered (and our other assumptions are not changed), then the maximum debt that could be authorized would be \$163.1 million (1972); \$33.6 million (1974); and \$46.5 million (1976). If this were the case, debt service estimates would be revised.

e/ Assumes a 5 percent annual amortization rate. Retirement payments made on the \$81 million issue of May, 1969 are included. For simplicity, we assumed debt repayment would be made to a sinking fund. Actually they may go directly for retirement. Either way, the effect on net debt is the same.

f/ 1.15 times the average annual tax revenues from the Individual and Fiduciary Income Tax, the Corporate Income Tax, and State Sales and Use Tax for the three years immediately preceding the incurring of such debt.

g/ Includes actual figures for fiscal years 1968-69 and 1969-70.

borrowings in the next three bienniums if the General Assembly and the voters wish to use the maximum authority. The maximum debt that could be authorized in any of the three could not, however, completely substitute for general fund revenues as a means of financing the projected capital outlays. For example, in the 1972-74 biennium, the new debt that could be authorized is \$82.1 million which could finance only about one-half of the \$155.9 million in projected capital outlays (\$148.3 million in baseline capital outlays and \$7.6 million in scope and quality capital outlays). Moreover, any new authorized debt would have to be serviced out of general fund revenues. Table 4.26 shows the additional debt service required in the next three bienniums if the maximum amount of general obligation borrowing were authorized.

TABLE 4.26--DEBT SERVICE ON PERMISSIBLE GENERAL OBLIGATION BORROWING,  
1972-74 TO 1976-78 BIENNIUMS <sup>a/</sup>  
(Millions of Dollars)

<u>Biennium</u>	<u>Interest</u> <sup>b/</sup> <u>Payments</u>	Payments To <u>Sinking Fund</u> <sup>c/</sup>	<u>Total</u>
1972-74	\$ 5.8	\$ 6.2	\$12.0
1974-76	15.0	16.8	31.8
1976-78	19.2	23.1	42.3

<sup>a/</sup> This table does not include debt service on the already outstanding \$81.0 million issue of May, 1969.

<sup>b/</sup> A 5 percent annual rate is assumed. Interest is calculated on the net debt as investment of sinking fund payments is assumed to partially offset interest expense.

<sup>c/</sup> A 5 percent annual rate is assumed with payments made every six months.

The Impact of Federal General Revenue Sharing and Several Alternatives

Introduction

So far, this chapter has not discussed the special funds which are composed primarily of federal aid. We have assumed that present forms of federal aid will continue in about the same proportion as presently. However, a new type of federal aid--revenue sharing--has been in the limelight, and we shall now provide some information on the concept and its possible magnitude.

General Revenue Sharing

Table 4.27 summarizes the major features of the federal general revenue sharing proposals made by the Nixon administration, the Advisory Commission on Intergovernmental Relations, and the Douglas Commission. The last two are the most frequently mentioned alternatives to the Nixon administration proposal.

The Nixon administration proposal for an appropriation based on 1.3 percent of taxable personal income would mean \$3.75 billion for general revenue sharing for fiscal year 1971-72 (on the assumption that it would start October 1, 1971).<sup>1/</sup> Virginia would receive 2.09 percent of the \$3.75 billion, or \$78.4 million, with about 38 percent of its share, or roughly \$30 million, passing through to the localities. (Norfolk, for example, would receive \$2.8 million.)<sup>2/</sup> Except for certain civil rights guarantees, the state and the localities would be free to spend the money on a no-strings basis. By fiscal year 1977-78, the amount appropriated on a twelve-month basis would be about \$8.4 billion. Table 4.28 provides estimates of the federal appropriation and the share distributed to Virginia and its localities for fiscal year 1972-73 to fiscal year 1977-78.

<sup>1/</sup> The \$3.75 billion is based on a first year rate of funding of \$5 billion. This rate, not the authorized outlay, has received most of the publicity.

<sup>2/</sup> The state and local shares are based on information provided by the Assistant Secretary for Economic Policy of the U. S. Department of the Treasury.

TABLE 4.27--MAJOR FEATURES OF THREE REVENUE SHARING PROPOSALS

<u>Proposal</u>	<u>Basis for Revenue Sharing (permanent full-year effect)</u>	<u>Basis for State-by-State Distribution</u>	<u>Local Government Sharing</u>			<u>Program or Project Restrictions</u>
			<u>Payment Mechanism</u>	<u>Local Units Participating</u>	<u>Basis for Local Distribution</u>	
Nixon Administration	1.3 percent of Federal personal income tax base	Population modified by revenue effort	Pass through from state government based on share of general revenues raised	All cities, counties, and townships	Share of total state and local general revenues	None
Advisory Commission on Intergovernmental Relations	One-half of one percent of federal personal income tax base plus 12 1/2 percent of state personal income tax collections	Population modified by tax effort and change in tax effort	Pass through from state government based on share of total taxes collected	Cities and counties of over 50,000 population, and independent school districts	Share of total state and local taxes, and population of city or county	None
Douglas Commission	A legally authorized percentage of federal personal income tax base	Population modified by tax effort and income tax effort	Direct from federal government	Cities and urban counties over 50,000 population	Share of total state and local taxes, and population of city or county	None

Sources: Murray L. Weidenbaum and Robert L. Joss, "Alternative Approaches to Revenue Sharing: A Description and Framework for Evaluation," National Tax Journal, vol. 23, No. 1 (Lancaster: National Tax Association, 1970), p. 3.

TABLE 4.28--ESTIMATED VIRGINIA REVENUES FROM  
FEDERAL GENERAL REVENUE SHARING, FISCAL YEARS 1972-73 TO 1977-78

<u>Fiscal Year</u>	<u>Federal Appropriations (Millions)</u>	<u>Distributed to Virginia (millions)</u>		
		<u>Total</u>	<u>State Share</u>	<u>Local Share</u>
1972-73	\$ 5,450	\$113.9	\$70.6	\$43.3
1973-74	5,940	124.1	76.9	47.2
1974-75	6,475	135.3	83.9	51.4
1975-76	7,058	147.5	91.5	56.0
1976-77	7,693	160.8	99.7	61.1
1977-78	8,386	175.3	108.7	66.6

Note: The following assumptions are made: (1) the federal appropriation will rise at an average annual rate of 9 percent; (2) the total state share will remain at 2.09 percent; (3) the local share will remain at 38 percent.

If general revenue sharing were financed by increased federal taxes, Virginia would be among the states that would gain. In a recent period, state residents paid 1.99 percent of the federal individual income tax,<sup>1/</sup> but Virginia would receive 2.09 percent of the revenue sharing appropriation.

If the same appropriations were made under the two alternative revenue sharing proposals, Virginia would receive slightly more than 2.09 percent (about 2.29 percent). However, the pass-through to localities would be on a different basis under either proposal than under the Nixon administration proposal.

Alternatives to general revenue sharing have also received attention. Each could give state and local governments more money to spend.

<sup>1/</sup> As estimated by the Legislative Reference Service of the Library of Congress for the fiscal years 1965-67.

## Tax Credit

One alternative is the provision of a tax credit on the federal personal income tax liability. The credit for state taxes paid could have the effect of allowing states to levy new taxes that would impose no additional burden on taxpayers.

At present state taxes are deductible for those who itemize in computing their federal income tax. In effect, this reduces the burden on the state taxpayer. For example a taxpayer earning \$100 of additional income and paying a 5 percent marginal rate to the state and a 20 percent marginal rate to the federal government would owe:

$$\begin{array}{r} \text{state tax: } \$100 \times .05 \qquad \qquad = \$ 5 \\ \text{federal tax: } (\$100 - \$5) \times .20 = \$19 \\ \hline \text{combined state-federal tax} \qquad = \$24 \end{array}$$

Without the deduction, the taxpayer's federal tax would be \$20 and the combined state-federal tax would be \$25. In other words, the deduction has the effect of lowering the taxpayer's combined state-federal tax by \$1 and is equivalent to a 20 percent reduction in his state tax.

If the same taxpayer were allowed on his federal return to take a credit against federal tax liability for 40 percent of state taxes paid rather than to deduct his state tax from income, he would pay:

$$\begin{array}{r} \text{state tax: } \$100 \times .05 \qquad \qquad \qquad = \$ 5 \\ \text{federal tax: } (\$100 \times .20) - (\$5 \times .40) = \$18 \\ \hline \text{combined state-federal tax} \qquad \qquad \qquad = \$23 \end{array}$$

Without the 40 percent credit, his federal tax would be \$19 and the combined state-federal tax would be \$24. In brief, the credit would lower the taxpayer's state-federal tax liability by \$1 and would be equivalent to another 20 percent reduction in his state tax. The credit decreasing the total tax to \$23 could induce the state, if it wanted additional revenue, to impose a higher marginal rate. The state would realize that the taxpayer could pay additional

state tax without having his pre-credit state-federal tax of \$24 rise. If the state raised its marginal rate to 6.5 percent, the taxpayer would owe:

$$\begin{array}{r} \text{state tax: } \$100 \times .065 \\ \text{federal tax: } (\$100 \times .20) - (\$6.50 \times .40) \\ \text{combined state-federal tax} \end{array} \begin{array}{r} = \$ 6.50 \\ = \$17.40 \\ = \$23.90 \end{array}$$

The state tax would now increase by \$1.50 and the federal tax would be reduced by 40 percent of \$1.50. However, the taxpayer would have about the same combined state-federal liability as before the credit.

In reality, the deductibility of state income taxes for those who itemize on the federal return provides the equivalent of an average 25-28 percent reduction in state taxes. If all taxpayers were permitted to take a 40 percent credit for state taxes, nearly all of them would initially lower their combined state-federal tax (as the federal tax declines). Those taking the standard deduction would only have to compute the credit against their federal tax liability. Those deducting state taxes would substitute the credit if it lowered their federal tax. The states could then increase their taxes with the knowledge that the combined state-federal burden for most taxpayers would not have to rise above the pre-credit level.

#### Federal Grants-In-Aid and Special Revenue Sharing

A second alternative to general revenue sharing would be to expand the present system of federal categorical grants-in-aid to states and localities. Table 4.29 provides historical data on total U.S. payments since fiscal year 1959-60 and on the amount received by Virginia.<sup>1/</sup>

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<sup>1/</sup> These figures, from the U. S. Treasury, differ from those mentioned in Chapter 2, p.53 which were collected by the Bureau of the Census in Governmental Finances. This may be due to the fact that the Treasury uses "checks issued" figures reported by the different agencies, while the Census uses "actual" expenditure data from the Budget of the United States Government of two years following the year in question (e.g., "actual" expenditure data for fiscal 1964-65 are found in the fiscal 1966-67 Budget).



TABLE 4.29.--FEDERAL GRANTS-IN-AID TO STATES AND LOCALITIES,  
FISCAL YEARS 1959-60 TO 1969-70

<u>Fiscal Year</u>	<u>Total U. S. Payments</u>	<u>Amount Received by Virginia</u>	<u>Percent of Total U.S. Payments Received by Virginia</u>
1959-60	\$ 7,011,194,894	\$125,710,205	1.79
1960-61	7,101,863,200	132,409,691	1.86
1961-62	7,895,006,993	159,018,444	2.01
1962-63	8,596,681,878	181,381,577	2.11
1963-64	10,060,808,180	210,599,763	2.09
1964-65	10,903,910,946	270,205,388	2.48
1965-66	12,833,379,734	279,578,603	2.18
1966-67	15,193,145,683	299,605,493	1.97
1967-68	18,601,221,720	337,101,086	1.81
1968-69	20,287,399,318	370,223,461	1.82
1969-70	24,194,090,576	465,682,360	1.92

Sources: Secretary of the Treasury, Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1960, p. 658; 1961, p. 692; 1962, p. 810; 1963, p. 678; 1964, p. 640; 1965, p. 739; 1966, p. 834; 1967, p. 711, (Washington, D. C.: U. S. Government Printing Office); Secretary of the Treasury, Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1968, Statistical Appendix, (Washington, D. C.: U. S. Government Printing Office), p. 279; Division of Government Financial Operations, Fiscal Service - Bureau of Accounts, The Department of the Treasury, Federal Aid to States, Fiscal Year 1969, (Washington, D. C.: U. S. Government Printing Office), p. 21; Division of Government Financial Operations, Fiscal Service - Bureau of Accounts, The Department of the Treasury, Federal Aid to States: Federal Payments to State and Local Governments - "Grants in Aid" Programs, Fiscal Year 1970, Preliminary Report, (Washington, D. C.: U. S. Government Printing Office), p. 20.

Since all states are vying to receive larger and larger portions of federal grants, it is convenient to have some crude, general measures of whether or not Virginia receives its "fair share." Two possible measures are Virginia's percentage of total U.S. population and Virginia's percentage of total U.S. personal income. These percentages give some perspective with which to view Virginia's receipts as a percentage of U.S. payments. For instance, in fiscal year 1959-60 Virginia received 1.79 percent of total U.S. payments. At that time Virginia's population was 2.21 percent of the nation's total, and its personal income was 1.84 percent of U.S. total personal income. In fiscal year 1969-70, Virginia received 1.92 percent of federal grants but its population was 2.27 percent of the nation's, and its personal income was 2.08 percent of the U.S. total.<sup>1/</sup>

Thus, even though Virginia's share has grown in the past 10 years, it is still less than our crude measures of a "fair share." Measures based only on population or on personal income are crude because they fail to take account of the different bases for allocating federal grants. For example, Virginia would not be expected to receive a portion of the shared revenues from grazing receipts, since its public lands are not used for that purpose.

Table 4.30 provides information by category of grants for federal grant-in-aid payments in fiscal year 1969-70. Column one shows the total U.S. payments for each grant. The second column provides the amount received by Virginia, and the third column shows the percent this was of total U.S. payments. In the fourth and fifth columns are estimates of what Virginia's

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<sup>1/</sup> Population data: U.S. Department of Commerce, Bureau of the Census, 1970 Census of Population, United States Final Population Counts, PC(V1)-1; Personal income data: U.S. Department of Commerce, Survey of Current Business, Vol. 50, No. 8 (August, 1970), p. 34.

TABLE 4.30--VIRGINIA'S PORTION OF 98 FEDERAL GRANT-IN-AID PROGRAMS,  
FISCAL YEAR 1969-70

Item No.	Agency and Program	U.S. Total Payments	Actual Amount Received by Virginia	% of U.S. Payments	Estimated Virginia Receipts Based on % of Population <sup>a/</sup>	Estimated Virginia Receipts Based on % of Personal Income <sup>b/</sup>	General Basis for Allocation of Grant <sup>c/</sup>
DEPARTMENT OF AGRICULTURE							
1	Child nutrition programs	\$480,908,009	\$ 15,021,713	3.1	\$ 10,917,000	\$ 10,003,000	Schools in economically disadvantaged areas
2	CCC - Price support donations	223,256,641	4,556,252	2.0	5,068,000	4,644,000	Based on number of farmers producing these crops
3	Consumer and marketing service--meat and poultry inspection	18,603,352	446,339	2.4	422,000	387,000	Based on number of meat and poultry processing plants
4	Cooperative agricultural extension work	104,965,010	3,248,315	3.1	2,383,000	2,183,000	Formula grants--number of land grant colleges, population
5	Cooperative projects in marketing	3,002,428	98,864	3.3	68,000	62,000	Project grants--for agricultural marketing
6	Cooperative state research service	1,350,067	20,000	1.5	31,000	28,000	Formula--based on rural population
7	Cropland adjustment program (Greenspan)	61,380	...	...	1,000	1,000	Project--for localities taking over farms and using them for open space land
8	Food stamp program	558,703,475	8,433,976	1.5	12,682,000	11,621,000	Project--for low income families
9	Forest protection, utilization and restoration	20,737,869	734,970	3.5	471,000	431,000	Project--to maintain and improve forest lands
10	National forest and school funds--shared revenues	78,166,077	72,856	0.1	1,774,000	1,626,000	Shares revenues earned in that area
11	National grasslands--shared revenues	505,888	36	... <sup>d/</sup>	11,000	10,000	Shares revenues earned in that area
12	Removal of surplus agriculture commodities--value of commodities distributed	291,611,752	6,335,742	2.2	6,620,000	6,066,000	Project--surplus food distributed in low income areas
13	Rural water and waste disposal grants	25,439,498	336,710	1.3	577,000	529,000	Project--for rural communities otherwise unable to provide these services
14	Watershed protection, flood prevention, and resource conservation and development	77,168,433	3,905,374	5.1	1,752,000	1,605,000	Project--for watershed works and improvements
DEPARTMENT OF COMMERCE							
Economic Development Administration							
15	Development facilities grants	135,929,892	1,911,000	1.4	3,086,000	2,827,000	Project--for low income areas where public work facilities are badly needed
16	Economic development center and technical community assistance	3,085,276	...	...	70,000	64,000	Project--for economically depressed areas
17	Planning and research	21,035,366	133,111	0.6	478,000	438,000	Project--must be substantial need for planning
18	State Technical Service	4,189,872	100,937	2.4	95,000	87,000	Available upon request
DEPARTMENT OF DEFENSE							
Army							
19	Civil Defense	30,688,265	593,370	1.9	697,000	638,000	Project--for civil defense purposes
20	National Guard centers construction	10,064,175	348,729	3.5	228,000	209,000	Formula for armories; project for nonarmories
21	Flood control lands--shared revenues	2,821,085	13,314	0.5	64,000	59,000	Shares revenues earned in that area
FEDERAL POWER COMMISSION							
22	Payments to states under FPA--shared revenues	79,704	16	... <sup>d/</sup>	2,000	2,000	Shares revenues earned in that area
FUNDS APPROPRIATED TO THE PRESIDENT							
23	Accelerated public works program	431,624	...	...	10,000	9,000	Grants to localities in specific areas
24	Appalachian regional development programs	180,550,924	9,412,591	5.2	4,098,000	3,755,000	Grants to Appalachian areas only
25	Disaster relief and state and local preparedness	143,314,025	1,379,465	1.0	3,253,000	2,981,000	Project--alleviating hardships from major disasters
Office of Economic Opportunity							
26	Adult work training and development	196,972,948	4,482,922	2.3	4,471,000	4,097,000	Project--for economically depressed areas
27	Community action programs	767,670,889	10,282,801	1.3	17,426,000	15,968,000	Project--applications from CAP agencies in low income areas
28	Neighborhood youth corps	274,312,025	6,658,079	2.4	6,227,000	5,706,000	Project--for economically depressed areas
29	Work experience and training	320,418,909	3,871,889	1.2	7,274,000	6,665,000	Project--for economically depressed areas

(Table continued on next page.)

TABLE 4.30.--VIRGINIA'S PORTION OF 98 FEDERAL GRANT-IN-AID PROGRAMS,  
FISCAL YEAR 1969-70 (Continued)

Item No.	Agency and Program	U.S. Total Payments	Actual Amount Received by Virginia	% of U.S. Payments	Estimated Virginia Receipts Based on % of Population <sup>a/</sup>	Estimated Virginia Receipts Based on % of Personal Income <sup>b/</sup>	General Basis for Allocation of Grant <sup>c/</sup>
DEPARTMENT OF HEALTH, EDUCATION AND WELFARE							
30	American Printing House for the Blind Office of Education	\$ 1,339,000	\$ 33,945	2.5	\$ 30,000	\$ 28,000	Formula-basic grant plus population formula
31	Colleges of agricultural and mechanical arts	2,600,000	50,000	1.9	59,000	54,000	Same amount to each state
32	Construction-assistance to public schools	31,072,303	2,131,115	6.8	705,000	646,000	School assistance to federally affected areas
33	Cooperative vocational education	298,737,717	9,622,983	3.2	6,781,000	6,214,000	Formula--based on population by age group and and per capita income
34	Defense educational activities	1,640,293	...	...	37,000	34,000	Project--for civil defense educational activities
35	Educational improvement for the handicapped	31,072,629	921,747	3.0	705,000	646,000	Formula--based on population aged 3 to 21
36	Elementary and secondary educational activities	1,469,531,904	34,467,844	2.3	33,358,000	30,566,000	Formula--based on number of children in economically depressed areas
37	Equal education opportunities program	3,099,324	346,402	11.2	70,000	64,000	Project--for children in economically depressed areas
38	Higher education activities	142,146,669	1,473,128	1.0	3,227,000	2,957,000	Project--for higher education
39	Libraries and community services	100,769,361	2,150,816	2.1	2,287,000	2,096,000	Formula--basic grant plus population formula
40	School assistance in federally affected areas	620,243,099	43,272,163	7.0	14,080,000	12,901,000	Formula--for schools with a large percentage of children of federal employees
41	Teacher corps	85,892,487	525,637	0.6	1,950,000	1,786,000	Project--for colleges to restructure their education programs
42	Construction-higher educational facilities	49,569,391	2,353,497	4.7	1,125,000	1,031,000	Formula--for colleges urgently needing to expand services
Public Health Service							
43	Air pollution control	6,900,022	...	...	157,000	144,000	Project--for air pollution control projects
44	Environmental control	1,475,179	49,767	3.4	33,000	31,000	Project--for environmental planning
45	Chronic disease	3,747,543	16,063	0.4	85,000	78,000	Project--for research about chronic diseases
46	Communicable disease activities	1,872,366	32,570	1.7	42,000	39,000	Project--for planning and research on communicable diseases
47	Community health service	9,239,181	125,504	1.4	210,000	192,000	Formula--based on population and financial need
48	Comprehensive health planning services	121,553,775	2,529,292	2.1	2,759,000	2,528,000	Project and formula--based on population and per capita income of the state
49	Construction-hospital, health, education, and health research facilities	405,792,234	10,170,318	2.5	9,211,000	8,440,000	Formula--based on eligible construction costs
50	Dental and nursing resources and services	847,398	...	...	19,000	18,000	Project--for medical services
51	Health manpower education and utilization	52,714,292	352,116	0.7	1,197,000	1,096,000	Formula--based on enrollment
52	Mental health research and services	186,636,582	1,241,887	0.7	4,237,000	3,882,000	Project--for mental health research and manpower training
53	Regional medical programs	70,596,321	224,101	0.3	1,602,000	1,468,000	Project--for work on specified diseases
54	Dental health activities	3,413,808	35,076	1.0	77,000	71,000	Formula--based on enrollment
Social and Rehabilitation Services							
55	Administration on the aging	23,282,720	403,352	1.7	528,000	484,000	Formula--basic grant plus population over 65
56	Juvenile delinquency prevention and control	3,621,834	49,992	1.4	82,000	75,000	Project--for aiding juvenile delinquents
57	Maternal and child health and welfare	223,504,648	6,134,273	2.7	5,074,000	4,649,000	Mainly project--for low income mothers and children
58	Mental retardation	12,451,737	167,035	1.3	283,000	259,000	Project--for improved mental health services
59	Public assistance grants	7,444,850,673	71,382,798	1.0	168,998,000	154,853,000	Formula--based on low income population, handicapped, aged, etc.
60	Rehabilitation services and facilities grants	428,336,807	13,296,005	3.1	9,723,000	8,909,000	Project--to improve state vocational rehabilitation facilities
61	Work incentive activities	82,430,380	1,396,880	1.7	1,871,000	1,714,000	Project--for AFDC recipients
62	Miscellaneous	23,300,055	...	...	529,000	485,000	Provision of certain health facilities and services

(Table continued on next page.)

TABLE 4.30.--VIRGINIA'S PORTION OF 98 FEDERAL GRANT-IN-AID PROGRAMS,  
FISCAL YEAR 1969-70 (Continued)

Item No.	Agency and Program	U.S. Total Payments	Actual Amount Received by Virginia	% of U.S. Payments	Estimated Virginia Receipts Based on % of Population <sup>a/</sup>	Estimated Virginia Receipts Based on % of Personal Income <sup>b/</sup>	General Basis for Allocation of Grant <sup>c/</sup>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT							
63	Low income housing demonstration	\$ 1,274,600	\$ ...	...	\$ 29,000	\$ 26,000	Project--for research and planning
64	Low-rent public housing	434,454,250	6,056,389	1.4	9,862,000	9,037,000	Formula--economically depressed areas
65	Community development training	3,352,550	180,476	5.4	76,000	70,000	Project--for training state and local employees
66	Model cities program	78,642,218	1,598,800	2.0	1,785,000	1,636,000	Project--for improvement of slum areas
67	Neighborhood facilities	23,407,546	408,741	1.7	531,000	487,000	Project--for construction of neighborhood community centers
68	Open space land grants	43,413,717	2,009,898	4.6	985,000	903,000	Project--for permanent open space land
69	Urban planning assistance	41,223,514	202,348	0.5	936,000	857,000	Project--for comprehensive planning projects
70	Urban renewal	1,053,351,305	36,412,873	3.4	23,911,000	21,910,000	Project--to clear blight in marketable areas
71	Urban transportation	2,207,330	...	...	50,000	46,000	Project--for research and improvement of urban mass transportation
72	Water and sewer facilities	109,011,304	1,206,377	1.1	2,474,000	2,267,000	Project--to finance necessary water and sewer projects
DEPARTMENT OF INTERIOR							
73	Bureau of Indian Affairs	18,421,255	...	...	418,000	383,000	Formula and project--based on needs of resident Indians
74	Certain special funds-shared revenues	34,675,835	...	...	787,000	721,000	Payments to states from grazing receipts, etc.
75	Commercial fisheries research and development	6,372,301	312,727	4.9	145,000	132,000	Formula--based on value of raw fish landed and manufactured products
Federal Water Pollution Control Administration							
76	Waste treatment works construction	176,180,262	4,179,544	2.4	3,999,000	3,664,000	Project--for eligible waste treatment works construction
77	Water supply and pollution control	33,789,824	849,409	2.5	767,000	703,000	Project and formula--based on population, financial need, and pollution problem
78	Fish and wildlife restoration and management	39,185,887	590,352	1.5	890,000	815,000	Formula--based on land area and number of fishing and hunting license holders
79	Land and water conservation fund	45,577,120	441,844	1.0	1,035,000	948,000	Formula--basic grant, population, need
80	Mineral leasing act payments-shared revenues	52,549,528	...	...	1,193,000	1,093,000	Shares revenues from leasing mineral rights
81	National wildlife refuge fund	2,169,641	17,796	0.8	49,000	45,000	To maintain national wildlife refuges
82	Water resources research	8,100,000	166,287	2.0	184,000	168,000	Formula and project--to study water problems not considered by existing programs
DEPARTMENT OF JUSTICE							
83	Law enforcement assistance	40,356,406	468,000	1.2	916,000	839,000	Project--for comprehensive law enforcement programs
DEPARTMENT OF LABOR							
84	Manpower development training allowance	299,001,268	4,248,003	1.4	6,787,000	6,219,000	Grants to serve disadvantaged young men and women while training for jobs
85	Manpower administration--classroom instruction	121,050,095	3,555,399	2.9	2,748,000	2,518,000	Formula--based on number of unemployed
86	Unemployment compensation and employment service administration	624,629,401	7,881,543	1.3	14,179,000	12,992,000	Formula--based on number of unemployed
87	NATIONAL FOUNDATION ON THE ARTS AND HUMANITIES	1,972,352	36,363	1.8	45,000	41,000	Same amount to each state
TENNESSEE VALLEY AUTHORITY							
88	Shared revenues	16,098,464	51,486	0.3	365,000	335,000	Shares revenues earned in that area

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(Table continued on next page.)

TABLE 4.30.--VIRGINIA'S PORTION OF 98 FEDERAL GRANT-IN-AID PROGRAMS,  
FISCAL YEAR 1969-70 (Continued)

Item No.	Agency and Program	U.S. Total Payments	Actual Amount Received by Virginia	% of U.S. Payments	Estimated Virginia Receipts Based on <sup>a/</sup> % of Population	Estimated Virginia Receipts Based on <sup>b/</sup> % of Personal Income	General Basis for Allocation of Grant <sup>c/</sup>
DEPARTMENT OF TRANSPORTATION							
89	Federal Aviation Administration Federal airport program	\$ 83,154,753	\$ 1,437,319	1.7	\$ 1,888,000	\$ 1,730,000	Project--for public airports
90	Federal Highway Administration Beautification	8,383,295	60,148	0.7	190,000	174,000	Formula--based on portion received by state of all federal highway funds
91	Forest and public land highways	32,776,710	272,484	0.8	744,000	682,000	Project and formula--for states with large areas of public lands or national forests
92	Highway safety	48,418,698	1,161,337	2.4	1,099,000	1,007,000	Project--for safety related activities
93	Highway trust fund	4,299,531,064	104,415,215	2.4	97,599,000	89,430,000	Formula--based on population, area, post road mileage
94	Landscaping and scenic enhancement	2,653,697	- 10,294 <sup>e/</sup>	...	60,000	55,000	Formula--based on portion received by state of all federal highway funds
95	Urban Mass Transportation Administration	104,339,530	65,319	... <sup>d/</sup>	2,368,000	2,170,000	Project--for research and improvement of urban transportation
96	VETERANS ADMINISTRATION	17,870,260	...	...	406,000	372,000	Formula--for state soldiers' homes and hospitals
97	WATER RESOURCES COUNCIL	2,367,803	50,500	2.1	54,000	49,000	Formula--based on population, land area, need, and per capita income
98	MISCELLANEOUS	<u>363,800,197</u>	<u>...</u>	...	<u>8,258,000</u>	<u>7,567,000</u>	Miscellaneous special grants
99	GRAND TOTAL	\$24,194,090,576	\$465,682,360	1.9	\$549,206,000	\$503,237,000	

<sup>a/</sup> Virginia total population, as of the 1970 Census, equals 2.27 percent of U.S. total population.

<sup>b/</sup> Virginia personal income equals 2.08 percent of U.S. personal income, in fiscal year 1969-70.

<sup>c/</sup> For exact basis of allocation to the states of a specific federal grant, see Office of Economic Opportunity, Catalog of Federal Domestic Assistance, (Washington: April, 1970).

<sup>d/</sup> Less than one-tenth of one percent.

<sup>e/</sup> Credit amounts (-) are refunds of advances from prior years.

Sources: The Department of the Treasury, Federal Aid to States, Fiscal Year 1970, (Washington: mimeographed sheets, February, 1970); Office of Economic Opportunity, Catalog of Federal Domestic Assistance, (Washington: April, 1970); Population data: Department of Commerce, Bureau of the Census, 1970 Census of Population, United States Final Count, PC(VI)-1; Personal income data: Survey of Current Business, (October, 1970), p. 13.

receipts would have been if the basis for allocation of the grant had been percent of total population or percent of total personal income. Finally, the sixth column provides a short description of the basis for allocation of each grant category. These are very general descriptions which reflect the specifications of the largest portion of grants in each category. Besides having very specific requirements, the grants also frequently require matching funds from both state and local governments. When faced with more pressing demands for funds, the state or locality may not always be able to take advantage of all available grant programs. In any event, there are a large number of complex variables to be considered when working with the present federal categorical grant program.

Because of the complex nature of these grants and because of the restrictions they place on state and local fiscal planning, the Nixon administration has proposed, in addition to general revenue sharing, a special revenue sharing program which would convert about 130 present categorical aid programs into six broad block grants to state and local governments in the areas of education, law enforcement, manpower training, rural community development, urban community development, and transportation. This type of program could also be expanded as an alternative to general revenue sharing. Under the present Nixon plan, other categorical aid programs mentioned in the budget but not included in the special revenue sharing plan would remain in effect. The special block grants would contain no requirements for matching funds and would be distributed on the basis of different criteria for each program area. All states would be assured of receiving no less absolute amount under special revenue sharing than they did under the included categorical grants in previous years. (The policy decision has not yet been made as to whether this means the amount received in the preceding year or the average amount received over the

last four years.) Funds for the program would come from the conversion of the 130 narrower categorical grants and from the federal personal income tax. In the second half of fiscal year 1971-72, outlays for the narrower grants are estimated at \$4.8 billion; \$250 million would be added for a total of \$5.05 billion in outlays.<sup>1/</sup>

#### Federalization of Welfare

A third alternative is the federalization of all welfare costs along with reform of the welfare system. Federalizing welfare is predicated on an assumption of national, rather than local, responsibility for the plight of the poor and the near-poor. This population has been highly mobile between the states, and its poverty may in large part be due to economic, racial, and other pressures not entirely attributable to the communities in which they live.

In fiscal year 1968-69, the federal government would have spent an additional \$5.4 billion to take over all state and local expenditures for existing welfare programs. For Virginia, federalization of these costs in fiscal 1968-69 would have saved the state \$26.4 million and the localities \$36.5 million, or \$62.9 million (which was 1.2 percent of the national total).<sup>2/</sup> In fiscal year 1972-73 federalization of all existing programs would save about \$130.6 million, \$112.0 million for the state and \$18.6 million for the localities.<sup>3/</sup>

<sup>1/</sup> These figures are one-half of the twelve-month figures. All data were provided by the Office of Management and Budget.

<sup>2/</sup> U. S. Bureau of the Census, State Government Finances in 1969, GF69, No. 3 (Washington: Government Printing Office, 1969); U. S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970).

<sup>3/</sup> The figures include medicaid outlays.



The federal government would probably not pick up the cost of a system that many at the federal level consider inadequate. A complete reform of the welfare system would change medicaid and the four federally funded programs-- aid to families with dependent children (AFDC), old age assistance, aid to the permanently and totally disabled, and aid to the blind. Any fundamental reform would also affect programs now financed entirely from state and local funds.

Changes in the four federally funded programs are central to any reform of the system and are in a plan tentatively approved by the House Ways and Means Committee. The principal concept behind the plan is that federal benefits in all four categories should be uniform throughout the country and should be administered federally.

AFDC is the largest of the four programs. For an AFDC family of four, the federal government would pay \$2,400 beginning in fiscal year 1971-72. Food stamps, which are completely funded by the federal government, would be eliminated, and states would not be required to supply matching funds as in the present system. In Virginia an AFDC family of four can expect to receive from the present system about \$2,300 plus several hundred dollars in food stamps in fiscal year 1972-73. If the state decided not to make any payments for AFDC beyond the new plan's \$2,400, program recipients would receive fewer benefits. However, the state, which will begin paying the entire nonfederal share (34.96 percent) for AFDC in fiscal year 1972-73 under the present system, would save about \$36.3 million. In fiscal year 1974-75, the new plan's \$2,400 would compare to about \$2,450 plus food stamps from the present system; the state would save approximately \$51.1 million.

Under the committee's tentatively approved plan, the federal government would completely take over payments for the other categories in fiscal year

1974-75. A couple would receive \$2,400 and an individual would get \$1,800 per year. From the present system a typical couple would receive about \$2,000 and a typical individual would get about \$1,500; both would also be eligible for food stamps worth several hundred dollars. Therefore, the new plan would not increase their benefits unless the state supplemented the payments. If the state did not, its savings on the three other programs in fiscal year 1974-75 would be nearly \$11 million.<sup>1/</sup>

With federal administration of the four program, the state would also be relieved of this burden. The proposed plan would pay benefits for the first time to the working poor. In brief, the overall plan could provide substantial savings for the state; however, welfare recipients would not receive increased benefits.<sup>2/</sup>

#### Summary

The aid offered by general revenue sharing or its alternatives would probably be welcome. However, in terms of the size of state and local government budgets, none of the proposals would constitute a huge increase in revenue or relief. For example, in the 1972-74 biennium the state share from general revenue sharing would be about \$147.5 million, which is roughly 7 percent of the projected baseline outlays.

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<sup>1/</sup> If the state did supplement the payments for these other categories, the federal government would pay part of the cost.

<sup>2/</sup> Information on this tentative plan was gathered from the Washington Post.

## CHAPTER V

### LOCAL GOVERNMENT FINANCES

#### Introduction

The purpose of this chapter is to outline the financial position of local governments in Virginia and to provide an indication of their future course. The reason for doing so is quite simple. No analysis of government can be done in a vacuum. What happens at one level of government may have lasting effects on another level. This is especially true of state and local fiscal aspects, since the financial situation of a state may be affected by the financial position of its local governments and vice versa.

Organization of the chapter is divided into two parts. The first section deals with revenue and expenditure projections through fiscal year 1977-78. The second presents an analysis of local government tax structure with primary emphasis being placed on property taxes. A word of caution, however, is given at the outset. Projections in this chapter are for all local governments in Virginia. To a certain extent, therefore, they show only the average trend which may or may not be true for any specific locality. More will be said about this later in relation to central cities. At present, it is worth noting that central cities, urban counties, and rural communities can all have different fiscal outlooks.

#### Revenue and Expenditure Projections

##### Historical Data

Table 5.1 shows a percentage breakdown of total local government revenue



in Virginia by source for fiscal years 1964-65 to 1968-69. As illustrated here, local taxation, the bulk of which is property taxes, represents the greatest source of revenue. On the other hand, it is clear that federal and state cash transfers are becoming increasingly important. In terms of total revenue, they have risen relative to any other item over the last five years.

TABLE 5.1--PERCENTAGE DISTRIBUTION OF LOCAL GOVERNMENT REVENUES IN VIRGINIA, FISCAL YEARS 1964-65 TO 1968-69<sup>a/</sup>

<u>Revenue Source</u>	<u>Percent of Total</u>				
	<u>1964-65</u>	<u>1965-66</u>	<u>1966-67</u>	<u>1967-68</u>	<u>1968-69</u>
Taxation	48.8	50.5	46.9	46.0	44.5
Charges & miscellaneous revenue	15.5	14.8	12.9	13.0	12.2
Intergovernmental transfers	35.7	34.7	40.2	41.0	43.3
Total revenue	100.0	100.0	100.0	100.0	100.0

<sup>a/</sup> See footnote a , Table 5.5 .

Source: Table 5.5.

Table 5.2 presents a breakdown of total local government expenditures in Virginia by functions for fiscal years 1964-65 to 1968-69. As shown here, education currently ranks as the largest single expenditure category. Its importance relative to other functions has been increasing over the last five years, rising from 48.7 percent of total expenditures in 1964-65 to 52.0 percent in 1968-69. Other major categories according to rank include debt service,<sup>1/</sup> public welfare, and highways. Together these four functions accounted for 71.8 percent of total outlays in 1968-69.

<sup>1/</sup> The term "debt service" refers to interest on general debt and redemption of long-term general debt.

TABLE 5.2--PERCENTAGE DISTRIBUTION OF LOCAL GOVERNMENT EXPENDITURES  
IN VIRGINIA, FISCAL YEARS 1964-65 TO 1968-69<sup>a/</sup>

<u>Function</u>	Percent of Total				
	<u>1964-65</u>	<u>1965-66</u>	<u>1966-67</u>	<u>1967-68</u>	<u>1968-69</u>
Education	48.7	50.0	52.7	51.1	52.0
Highways	5.2	4.6	5.8	4.1	4.1
Public welfare	6.0	6.0	5.8	5.8	6.3
Health and hospital	1.5	1.5	1.6	2.1	2.0
Interest on general debt	5.0	4.7	4.4	4.7	4.0
All other general expenditures	26.3	24.9	23.4	26.1	26.2
Redemption of long-term general debt	7.3	8.3	6.3	6.1	5.4
Total outlays	100.0	100.0	100.0	100.0	100.0

<sup>a/</sup> See footnote a , Table 5.8.

Source: Table 5.8.

#### Projection Methodology

The projections of local government revenues and expenditures in this chapter are based on the following procedures: first, assumptions about future prices and population are the same as those made in Chapters II and IV; second, the time period for analysis of historical data was limited to the 1960's. Any further assumptions in the projections are specific, pertaining only to the revenue or expenditure item in question. These are dealt with below.

#### Revenue Projections

The revenue projections for local governments in Virginia were made by using a variety of techniques. Because of the diversity, the projection methodology will be explained separately in relation to each item.

#### Real Estate Taxes

Changes in the amount of real estate taxes collected by local governments can result from three different variables--changes in the market value of real

estate; changes in the assessment ratio of real estate; and changes in the tax rate on the assessed value of real estate. Under the baseline projection methodology used throughout this report, only the first variable is considered. The tax rate used in these projections is held constant at \$1.10 per \$100 valuation (the 1970 weighted average of true real estate tax rates for counties and cities in Virginia<sup>1/</sup>).

With the tax rate and assessment ratio taken as given, the key projection factor for real estate tax collections becomes the market value of land. This is projected by applying an 8 percent annual rate of growth to the 1970 estimated true value of real estate. The 8 percent rate represents a slightly lower growth than the 8.6 percent annual increase in the true value of real estate over the past eight years. It was chosen to reflect the projected slowdown of inflation.

Once the future market values are obtained, tax collections are projected by multiplying the projected values by the weighted average true tax rate. The products are then adjusted to fiscal year collections by taking 48 percent of the total collections forecast in the two tax years contained within the fiscal year. This adjustment is consistent with the relationship that existed between property tax collections in fiscal year 1968-69 and the total of property tax collections for calendar years 1968 and 1969. Results of the method are shown in appendix Table A.10.

#### Public Service Corporation Levies

Property taxes on public service corporations are projected so as to be consistent with the so-called "Bemiss Act."<sup>2/</sup> This law, passed in 1966,

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<sup>1/</sup> Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities," April 1, 1971.

<sup>2/</sup> Code of Virginia, Section 58-512.1.

provides for eventual assessment of public service property at the same true rate as other types of property in the locality instead of the 40 percent assessment ratio which was previously used. The mechanism for achieving this goal is spread over a twenty year period. It allows for 1/20 of the January 1, 1966 full value of this property to be assessed at the local ratio in calendar year 1967 and in each subsequent year for an additional 1/20 of this base to be added. Thus, by December, 1971, 5/20 of the 1966 base value, \$2.6 billion, will be assessed at the same true local ratio as other types of property. During the adjustment period, any net additions to public service property above the 1966 base are to be assessed at the true local ratio.

The method used to coordinate projections with this act establishes the assessed value of public service property through fiscal year 1977-78. This is done by first apportioning the amount of the 1966 base that will be assessed at the local ratio (the weighted average of true local ratios in 1970 was 35.1 percent) and the amount that will be assessed at 40 percent. After this is done, net additions to public service property are projected. These projections are made by blowing up the 1970 full value of this property, \$3.8 billion, by 10 percent annually, the average annual growth rate in the full value of public service corporation property over the last four years. The difference between projected future values and the 1966 base represents the projected net additions assessed at 35.1 percent.<sup>1/</sup> Once all three components of future assessed values are obtained, they are added to produce a total valuation of public service property (Table 5.3). Assessed values are then multiplied by a nominal tax rate of \$3.27 per \$100 valuation to get projected

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<sup>1/</sup> No change in the 1970 true assessment ratio is made in future periods.



TABLE 5.3--PROJECTED ASSESSED VALUE OF PUBLIC SERVICE CORPORATIONS,  
FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

Fiscal Year	1966 True Value of Public Service Corporation Property				Projected Net Additions to 1966 Base to be Assessed at Same Local Ratio as Other Types of Property <sup>a/</sup>	Projected Assessed Value <sup>b/</sup>	
	Amount	Value to be Assessed at Same Local Ratio As Other Types of Property Proportion	Amount	Value to be Assessed at 40% Proportion			
1969-70	\$2,584.9	4/20	\$ 517.0	16/20	\$2,067.9	\$1,166.8	\$1,418.2
1970-71	2,584.9	5/20	646.2	15/20	1,938.7	1,542.0	1,543.5
1971-72	2,584.9	6/20	775.5	14/20	1,809.4	1,954.7	1,682.1
1972-73	2,584.9	7/20	904.7	13/20	1,680.2	2,408.6	1,835.1
1973-74	2,584.9	8/20	1,034.0	12/20	1,550.9	2,908.0	2,004.0
1974-75	2,584.9	9/20	1,163.2	11/20	1,421.7	3,457.3	2,190.5
1975-76	2,584.9	10/20	1,292.5	10/20	1,292.5	4,061.5	2,396.2
1976-77	2,584.9	11/20	1,421.7	9/20	1,163.2	4,726.1	2,623.2
1977-78	2,584.9	12/20	1,551.0	8/20	1,033.9	5,457.3	2,873.5

a/ Projected net additions were derived by applying a 10 percent annual rate of growth to 1970 full market value of public service corporation property.

b/ Projected assessed values represent the total of the three individual components when assessed by the appropriate ratio. The local ratio used in this calculation was 35.1 percent (the weighted average assessment ratio on real estate for Virginia cities and counties in 1970).

Sources: Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities", April 1, 1970; "Full Value of Public Service Corporations in 1966 and 1968," special tabulation by the State Corporation Commission; "Fiscal Assistance for Local Governments," a paper presented to the Revenue Resources and Economic Study Commission by Dr. Thomas C. Atkeson and Dr. John L. Knapp, November 24, 1970.

property tax collections.<sup>1/</sup> These revenues are adjusted to fiscal year collections by the same method used for real estate property taxes. For detailed projections, see appendix Table A.11.

#### Tangible Personal Property Taxes

The method used to project tangible personal property tax revenues is quite similar to the baseline technique used to project expenditures. By analyzing historical data, we found that changes in tangible personal property tax collection could be approximated by ratios based on changes in personal income and population. Thus, 1969 was set up as the base year and a baseline approach was used. The mechanics of this approach are as follows:

$$\frac{\text{Tangible Personal Property Tax Revenues in Year 2}}{\text{Tangible Personal Property Tax Revenues in Year 1}} = k \left[ \frac{\text{Personal Income in Year 2}}{\text{Personal Income in Year 1}} \times \frac{\text{Population in Year 2}}{\text{Population in Year 1}} \right]$$

In this equation, k is constant equal to .945. The personal income projections used in the calculations are shown in Chapter II. For detailed projections, see appendix Table A.12.

#### Property Taxes on Machinery and Tools

Property tax collections on machinery and tools are projected to grow by 7.9 percent annually. This figure represents the average annual change in these revenues over the last three fiscal years. Only the recent past was chosen for analysis because we felt that any trend in these revenues could best be judged from figures taken after the 1967 revisions in local tax structures. For detailed projections, see appendix Table A.13.

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<sup>1/</sup> The nominal rate of \$3.27 per \$100 valuation was derived by adjusting the 1969 average tax rate on public service corporations to reflect provisions in the law (Code of Virginia, Section 58-514.2) for local taxes on the real estate and tangible personal property of these companies to be taxed at the same rate by 1986.

### Merchants' Capital Levies

When rounded to millions of dollars, hardly any change has occurred in property tax collections on merchants' capital over the last five years. As a result, only a slight increase in this revenue is projected. This is done on the basis of an historical trend. For detailed projections, see appendix Table A.14.

### Local Capitation Taxes

Since 1960, there has been a steady decline in the amount of local capitation revenues. These are expected to reach a level of less than \$0.1 million by fiscal year 1971-72. For detailed projections, see Appendix Table A.15.

### Local Sales Tax

As of May 1, 1969, every county and city in Virginia had imposed a 1 percent "add-on" sales and use tax. For future periods, revenues from this source are projected by taking one-third of the state's 3 percent sales and use tax projected in Chapter III. For detailed projections, see appendix Table A.16.

### Other Taxes

In the past, annual changes in other taxes, mostly business license taxes, have kept pace with changes in personal income. Therefore, future projections are based on percentage changes in personal income projected in Chapter II. For detailed projections, see appendix Table A.17.

### Charges and Miscellaneous Revenue

Because detailed data on charges and miscellaneous revenue were not available, this source of revenue is projected to grow by its average annual percentage change over the decade of the 1960's. The figure representing this amount is 7.1 percent. For detailed projections, see appendix Table A.18.

Intergovernmental Transfers

No overall method was used to project cash transfers to local governments because it was felt that more accuracy could be obtained if transfers were broken down by the functions to which they were applied. The amounts listed as state cash transfers include any federal funds channeled through the state. Those referred to as federal cash transfers represent only direct payments from the federal government to localities.

## State Cash Transfers for Education

The state transfers cash to localities to help pay the costs of various educational expenditures. The largest portion of these receipts are transferred from the Basic State School Aid Fund. Payments from this source accounted for \$208.8 million (56.7 percent of total state cash transfers for education) in fiscal year 1969-70.<sup>1/</sup> Other major categorical programs receiving state funds are vocational education, pupil transportation, special education, guidance counselors, and driver education. Also included in state cash transfers is one-third of the state's sales and use tax distributed to localities on the basis of school-aged population. In fiscal year 1969-70, this payment amounted to \$68.2 million.<sup>2/</sup> Not included in this category, however, is that part of state aid for education spent directly at the state level. Such is the case with state outlays for teacher salary fringe benefits. Since this type of aid does not pass through local accounts, it is not entered in the totals presented in this section.

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<sup>1/</sup> Annual Report of the Superintendent of Public Instruction 1969-70, Table 40, (Richmond: State Board of Education, December, 1969).

<sup>2/</sup> Report of Comptroller Fiscal Year Ended June 30, 1970, Appendix V, (Richmond: Department of Accounts, November, 1970).

Projections of state cash transfers for education are based on the assumption that the state will participate in the expenses of local schools at approximately the same proportion it does now. Over the last three years, this proportion has averaged 49 percent. Thus, future state cash transfers for education are forecast at 49 percent of projected local government expenditures for education. No allowance is made for increased state aid. For detailed projections, see appendix Table A.19.

#### State Cash Transfers for Highways

State cash transfers for highways include funds sent to municipalities with 3,500 or more population for maintenance of urban extensions of primary routes and other streets meeting certain engineering standards plus funds distributed to two counties Arlington and Henrico--which perform their own construction and maintenance. They do not include the present 85 percent state share of new construction costs because these funds are not spent directly at the local level. Future projections of highway transfers were supplied by the Virginia Department of Highways. For detailed projections, see appendix Table A.20.

#### State Cash Transfers for Public Welfare

Since most public welfare programs in Virginia are carried out at the local level, large outlays show up as local government direct expenditures for public welfare. Yet, the majority of funding for these programs comes from the state and/or the federal government. In 1968-69, nearly three-quarters of local direct expenditures for this purpose were financed by funds received from the state.<sup>1/</sup>

Future projections of state cash transfers for public welfare were

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<sup>1/</sup> Derived from Table 5.5 and Table 5.8. Includes any amount originating with the federal government but channeled through the state (see footnote a in both tables).

projected by calculating the local share of state-supported programs. These were adjusted in future years to take into account the effects of increased federal reimbursement and state takeover of the local share of aid to the blind, aid to the permanently and totally disabled, aid to families with dependent children, and old age assistance. Once the adjusted total local shares were computed, the amounts were subtracted from the totals of local government direct expenditures for public welfare. The difference so obtained represents that proportion of total expenditures financed by the state or by federal funds distributed through the state. For detailed projections, see appendix Table A.21.

#### State Cash Transfers for General Support of Local Governments

State aid to localities for general support comes from five major sources-- A.B.C. profits; the state wine and spirits tax; state capitation taxes;<sup>1/</sup> excess fees paid to the state by certain county and city officials; and the motor vehicle carrier rolling stock property tax. Of the five, A.B.C. profits and the wine tax are the most significant. In fiscal year 1968-69, these two sources alone accounted for more than 92 percent of total state cash transfers for general local government support.

TABLE 5.4--PERCENTAGE OF STATE CASH TRANSFERS FOR GENERAL SUPPORT SUPPLIED BY A.B.C. PROFITS AND WINES AND SPIRITS TAX, FISCAL YEARS 1964-65 TO 1968-69 (Thousands of Dollars)

<u>Fiscal Year</u>	<u>Total State Cash Transfers for General Support</u>	<u>A.B.C. Profits and Wine and Spirits Tax Distributed To Localities</u>	<u>% of Total State Cash Transfers for General Support</u>
1964-65	\$13,666	\$12,303	90.0
1965-66	14,040	12,342	87.8
1966-67	13,811	13,390	89.7
1967-68	13,942	12,425	89.1
1968-69	13,927	12,885	92.5

Sources: U. S. Bureau of the Census, State Government Finances in 196-, selected editions (Washington: Government Printing Office); Report of the Comptroller, selected editions (Richmond: Department of Accounts).

<sup>1/</sup> Repealed as of fiscal year 1970-71.

Projections of general support aid are based on the assumption that future distributions of A.B.C. profits and wine and spirits tax collections will make up the major portion of total transfers as they did in the past. These two items, in turn, are projected on the basis of state revenue projections made in Chapter III. In applying the distribution formulas to state totals, it is recognized that the state collects these revenues during the fiscal year but distributes them to localities after the close of the fiscal year. Thus, a time lag of one year is accounted for in these projections. For detailed projections, see appendix Table A.22.

#### State Cash Transfers for All Other Functions

State cash transfers for all other functions were projected by assuming a constant relationship between transfers for the first four functions (education, highways, public welfare and general support) and total state cash transfers. This was done on the basis of historical data. Next, projected cash transfers for the first four functions were adjusted to take out increased state aid resulting from state takeover of the local share of certain welfare programs and the initiation of medicaid, day care services, and the work-incentive program. The adjusted transfers were then blown up by the assumed relationship to project a hypothetical total for future state transfers. The difference between this hypothetical total and the adjusted transfers for the first four functions was projected to be the amount of state cash transfers for all other functions. For detailed projections, see appendix Table A.23.

#### Federal Government Cash Transfers

Since a large proportion of federal aid to local governments in Virginia is accounted for in the separate divisions of state cash transfers, only a

total figure is presented for federal transfers paid directly to the localities. The method of projecting this amount is similar to that discussed under "State Cash Transfers for All Other Functions" on the preceding page. A relationship, based on historical data, was assumed to exist between total state cash transfers and federal cash transfers. This relationship was then applied to the hypothetical total of future state cash transfers (also discussed in the above subsection), and projections were made accordingly. For detailed projections, see appendix Table A.24.

#### Summary of Revenue Projections

From fiscal years 1968-69 to 1977-78, total local government revenue is projected to grow by 115.4 percent to a level of \$2.6 billion. During this time, intergovernmental transfers are expected to become the most important source of revenue, growing at a faster rate relative to any other source through fiscal year 1974-75. Thus, the trend that characterized the last half of the 1960's is projected to continue in the first half of the 1970's. In more distant years, however, projections show this movement to be reversed. From fiscal year 1975-76 to fiscal year 1977-78 local sources begin to make up a continuously larger proportion of the revenue total. Most of this latter change is due to increased collections from taxation.



TABLE 5.5--TOTAL LOCAL GOVERNMENT GENERAL REVENUES IN VIRGINIA,  
ACTUAL 1964-65 TO 1968-69, ESTIMATED 1969-70, AND PROJECTED 1970-71 TO 1977-78<sup>a/</sup>  
(Millions of Dollars)

Revenue Source	Actual					Estimated	Projections							
	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70 <sup>b/</sup>	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
<b>LOCAL SOURCES</b>														
<b>TAXES:</b>														
Property <sup>c/</sup>														
Real Estate	\$ 196.9	\$ 229.2	\$ 235.1	\$ 258.2	\$ 273.5	\$ 312.3	\$ 343.3	\$ 370.8	\$ 400.4	\$ 432.3	\$ 467.0	\$ 504.4	\$ 544.8	\$ 588.3
Public service corps.	34.1	38.1	37.0	39.3	39.9	43.3	46.5	50.6	55.2	60.2	65.8	72.0	78.8	86.3
Tangible personal property	46.8	49.1	44.1	47.3	49.4	51.7	52.9	54.6	56.8	59.1	61.5	63.8	66.0	68.2
Machinery and tools	6.4	7.8	7.9	8.7	9.2	9.9	10.7	11.5	12.4	13.4	14.4	15.5	16.7	18.0
Merchants capital	1.7	1.6	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.7	1.7	1.8	1.9	1.9
Local capitation taxes	.4	.4	.3	.3	.2	.1	.1	d/	d/	d/	d/	d/	d/	d/
Total property taxes	286.3	326.2	325.8	355.2	373.7	418.8	455.0	489.1	526.4	566.7	610.4	657.5	708.2	762.7
Sales tax			35.6	55.9	65.0	72.0	74.7	80.5	87.5	95.0	103.2	111.8	120.5	129.9
Other taxes	74.7	96.9	88.0	93.7	102.0	111.2	119.0	128.5	140.1	152.7	166.4	179.7	194.1	207.7
Total taxes	361.0	423.1	449.4	504.8	540.7	602.0	648.7	698.1	754.0	814.4	880.0	949.0	1,022.8	1,100.3
CHARGES AND MISCELLANEOUS REVENUE	114.3	124.6	123.6	143.1	148.6	159.2	170.5	182.6	195.6	209.5	224.4	240.3	257.4	275.6
Total local sources	475.3	547.7	573.0	647.9	689.3	761.2	819.2	880.7	949.6	1,023.9	1,104.4	1,189.3	1,280.2	1,375.9
<b>OTHER SOURCES</b>														
<b>STATE CASH TRANSFERS:<sup>e/</sup></b>														
Education	146.9	165.0	251.1	296.9	339.5	368.3	402.9	430.3	452.5	473.8	495.2	514.7	532.3	552.3
Highways	21.2	15.6	16.7	17.6	18.5	19.0	20.1	20.4	21.0	21.8	22.5	23.1	23.9	24.7
Public welfare	37.3	41.1	45.6	52.5	62.5	134.0	190.3	235.2	295.4	339.4	386.5	419.7	444.9	473.4
General support	13.7	14.1	13.8	13.9	13.9	14.5	17.2	17.2	17.3	17.4	17.8	18.3	18.8	19.2
All other functions	9.5	11.4	13.4	15.2	28.9	30.6	33.7	35.8	38.8	42.0	45.2	47.7	49.6	51.8
Total state transfers	228.6	247.2	340.6	396.1	463.3	566.4	664.2	738.9	825.0	894.4	967.2	1,023.5	1,069.5	1,121.4
FEDERAL CASH TRANSFERS	35.5	43.5	43.9	53.4	62.1	64.7	74.5	83.0	90.2	97.4	105.0	110.7	115.2	120.2
Total other sources	264.1	290.7	384.5	449.5	525.4	631.1	738.7	821.9	915.2	991.8	1,072.2	1,134.2	1,184.7	1,241.6
<b>TOTAL REVENUE</b>	<b>\$ 739.4</b>	<b>\$ 838.4</b>	<b>\$ 957.5</b>	<b>\$1,097.4</b>	<b>\$1,214.7</b>	<b>\$1,392.3</b>	<b>\$1,557.9</b>	<b>\$1,702.6</b>	<b>\$1,864.8</b>	<b>\$2,015.7</b>	<b>\$2,176.6</b>	<b>\$2,323.5</b>	<b>\$2,464.9</b>	<b>\$2,617.5</b>

a/ The proportion of revenues provided by each source may deviate somewhat from the information presented in Chapter II, because the method of accounting for state cash transfers for public welfare is different than that used by the Census. In this table, all funds passing through the state to localities for public welfare are treated as state cash transfers whether the state actually contributes to these flows or not. While apparently, in data from the Census, only those federal funds related to state-supported programs are included as state cash transfers. The result of these two approaches is that both exaggerate state aid for public welfare, but the Census approach provides a smaller figure than the approach used here. Therefore, the other percentages that might be derived from this table will differ.

b/ Projections for 1969-70 contain a mixture of actual data and projections (see separate tables in Appendix).

c/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies, and local capitation taxes is estimated on the basis of data reported by the U. S. Department of Commerce, Bureau of the Census.

d/ Less than \$100,000.

e/ Includes any amount originating with the federal government but channeled through the state for distribution to local governments.

Sources: U. S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction, 1969-1970, Table 40 (Richmond: State Board of Education, December, 1970); Annual Report of Department of Welfare and Institutions, selected editions (Richmond: Virginia Department of Welfare and Institutions); Report of the Department of Taxation, Fiscal Year Ending June 30, 19--, selected editions (Richmond: Department of Taxation); Report of Comptroller, Fiscal Year Ended June 30, 19--, selected editions (Richmond: Department of Accounts); "Statement to Show Estimated Payments to Counties Not in the Primary System and Estimated City Street Payments", letter from T. B. Omohundro, Jr., Virginia Department of Highways, March 16, 1971; Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities", April 1, 1971.

TABLE 5.6--PERCENTAGE DISTRIBUTION OF PROJECTED LOCAL GOVERNMENT REVENUES IN VIRGINIA,  
FISCAL YEARS 1969-70 TO 1977-78

Revenue Source	Percent of Total								
	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Taxation	43.2	41.6	41.6	40.4	40.4	40.4	40.9	41.4	42.1
Charges & Miscellaneous revenue	11.5	11.0	10.7	10.5	10.4	10.3	10.3	10.5	10.5
Intergovernmental transfers	45.3	47.4	48.2	49.1	49.2	49.3	48.8	48.1	47.4
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table 5.5.

## Expenditure Projections

The technique used to project local government expenditures generally follows the baseline approach developed for the state expenditure projections in Chapter IV. Essentially, this method predicts the change in an expenditure item on the basis of changes in the population-workload ratio and the price ratio which in turn are derived from select populations and price indexes that correlate closely with the item. When the technique is used, no account is taken of scope and quality changes, and no allowance is made for the effects of increased borrowing on debt service costs. An adjustment for these factors will be made separately. Where it is felt that more accurate projections can be obtained, deviations from the baseline approach do occur. Because of this, the actual method used to project any one expenditure item is set forth in a complete subsection dealing with that item.

### Education

The projections for local government expenditures on elementary and secondary education follow the general baseline methodology. Population-workload is estimated from the changes in future school enrollment projected by the State Department of Education. Price ratio factors are derived from annual projected changes in the implicit price deflator for state and local government purchases of goods and services shown in appendix Table A.8. These factors are applied to 1970 base year expenditures. Projections are summarized in appendix Table A.25.

### Highways

The technique of projecting local government expenditures for highways deviates somewhat from the general baseline method. This resulted because the use of population and price ratios did not produce reliable figures.

One explanation for the above finding is that a large proportion of highway expenditures is made up of capital outlays which are more erratic than recurring expenses. A more fundamental reason, however, is that highway expenditures may be more responsive to other variables such as the mileage of roads to be maintained or the density of traffic.

The alternative method, which was chosen to forecast highway expenditures, makes note of the fact that over the last few years cash transfers to localities for these purposes have approximated 34 percent of the total level of direct highway expenditures during the fiscal year. Therefore, this relationship was assumed to hold true, and future highway expenditures were based on projected cash transfers supplied by the Virginia Department of Highways. For detailed projections, see appendix Table A.26.

#### Public Welfare

Public welfare is by far the most difficult category to project for local governments. While the population-workload and price factor technique can be used, no overall ratio can be applied because of the diversity of programs and program recipients. Thus, the projection base must be broken down to individual programs. These are then added to obtain total welfare cost.

The actual method used to project local welfare expenditures is consistent with that used to project outlays for the state. Subsequently, the population factors and price indexes used for each program are the same as those listed in Table 4.1. The only difference in the two sets of projections is the dollar amount of the program costs and the scope of welfare activities at the two levels of government. Concerning this latter point, two programs are accounted for in local expenditures which are not included in state outlays. One of these is aid to Cuban refugees financed entirely by the federal government. The other is nonmatched assistance paid by the localities.

In making the public welfare projections for local governments, a disproportionate increase occurs between past and future expenditures. This advance

is caused by medicaid, day care services, and the work-incentive program. These did not become fully operational until the early 1970's. For detailed projections, see appendix Table A.27.

#### Health and Hospitals

Projections for local government expenditures on health and hospitals are derived from the application of the baseline projection methodology. Population-workload is obtained from estimated changes in the total population of the state. This is assumed to grow by 1.5 percent annually through the decade of the 1970's. Price ratio factors are calculated from the annual projected changes in the medical service portion of the consumer price index. These are shown in appendix Table A.8. Base year expenditures are those of 1968-69. For detailed health and hospital expenditure projections, see appendix Table A.28.

#### Interest on General Debt

As mentioned earlier, the baseline projection approach for expenditures does not account for future increases in debt. One reason for this is that a change in the amount of outstanding debt partially reflects a need for funds which in turn is influenced by the size of a deficit or surplus. Thus, if one were to make an assumption about the future course of borrowings, he would also indirectly indicate a future trend in revenues and expenditures gaps. Consequently, to avoid the implication of such an assumption, no change in debt is projected. Rather, interest costs on general debt are carried at their current rate on existing debt stocks. In future periods, this amount is adjusted to include the effects of redemption payments.

#### All Other General Expenditures

The projections for local government direct expenditures on all other functions are derived by applying population workloads, based on estimated changes in total population, and price factors, calculated from projected

changes in the implicit price deflator for state and local government purchases of goods and services, to 1968-69 base year expenditures. This projection follows the baseline methodology. For detailed projections, see appendix Table A.29.

#### Redemption of Long Term General Debt

For lack of other information, the redemption period for long-term general debt is assumed to be 20 years. This means that 5 percent of 1968-69 long-term general debt outstanding will be redeemed annually over the projection period. An equivalent rate of debt redemption existed for counties and cities in Virginia during 1966-67 as shown below.

TABLE 5.7--RESERVATION FOR REDEMPTION OF DEBT  
BY CITIES AND COUNTIES IN VIRGINIA, FISCAL YEAR 1966-67  
(Thousands of Dollars)

	<u>Gross Debt Outstanding at End of Fiscal Year</u>	<u>Reservation for Redemption of Debt</u>	<u>% of Gross Debt Outstanding</u>
Cities	\$348,580	\$18,989	5.4
Counties	522,707	24,900	4.7
Total	\$871,287	\$43,798	5.0

Source: Report of Auditor of Public Accounts on Comparative Cost of City Government, Year Ended June 30, 1967 (Richmond: Auditor of Public Accounts, 1969), pp. 24-25; Report of Auditor of Public Accounts on Comparative Cost of County Government, Year Ended June 30, 1968 (Richmond: Auditor of Public Accounts, 1970), pp. 5-8.

#### Summary of Expenditure Projections

During fiscal years 1968-69 to 1977-78, total local government outlays are projected to grow by 86 percent to a level of \$2.5 billion. While education, public welfare, highways, and debt service will remain the major

expenditure items, accounting for 73.2 percent of total expenditure in fiscal year 1977-78, there will be shifts in their ranking. Due to the large projected increase in public welfare outlays, it is expected to become the second largest category of expenditure next to education. Debt service will then rank third and highways fourth at 4.2 and 2.9 percent of total local government expenditures respectively. These projections are shown in Tables 5.8 and 5.9.

#### Summary of Baseline Projections

Table 5.10 presents the net result of baseline projections for local government revenues and expenditures through fiscal year 1977-78. Although the projections show large deficits in the very near future, the overall outlook contains an optimistic note since the trend shows deficits to be continually declining after fiscal year 1969-70 until finally, a surplus is obtained in 1974-75. In analyzing this financial pattern, three factors, listed below, are seen as major contributors to the adjustment. While the first two of these are calculations inherent in the baseline projection technique, the last is a methodological consideration taken up in the next section.

Factors contributing to the trend in baseline projections are:

1. The decline in the rate of growth of expenditure items caused in part by the projected slowdown in inflation and population change. This allows for a slower adjusting revenue base to catch up with outlays in the latter years.
2. The substantial increase in intergovernmental transfers resulting from the state's takeover of the local share of the four welfare programs mentioned previously, and from the higher minimum amount of A.B.C. profits transferred to localities under the new distribution formula for sharing these revenues.
3. The absence of changes in scope and quality within the expenditure categories and/or of increases in debt.

TABLE 5.8.--BASELINE PROJECTIONS OF TOTAL LOCAL GOVERNMENT DIRECT EXPENDITURES INCLUDING CAPITAL OUTLAY IN VIRGINIA;  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, ESTIMATED, 1969-70, AND PROJECTED, 1970-71 TO 1977-78<sup>a/</sup>  
(Millions of Dollars)

Function <sup>e/</sup>	Actual					Estimated	Projections							
	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70 <sup>a/</sup>	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Education	\$ 392.8	\$ 450.6	\$ 534.8	\$ 600.1	\$ 687.8	\$ 765.8	\$ 822.3	\$ 878.2	\$ 923.1	\$ 967.0	\$1,010.7	\$1,050.4	\$1,086.4	\$1,127.1
Highways	41.6	41.7	59.6	48.6	54.4	55.9	59.1	59.9	61.8	64.0	66.1	68.0	70.3	72.6
Public welfare <sup>d/</sup>	48.4	53.8	58.4	68.3	83.5	159.4	222.6	267.7	313.2	359.0	408.0	442.6	468.8	498.5
Health & hospitals	12.2	13.6	16.2	24.5	26.7	28.9	31.2	33.5	35.7	38.0	40.4	42.8	45.0	47.3
Interest on general debt	40.6	41.9	44.3	55.0	52.5	49.4	46.8	44.2	41.6	39.0	36.4	33.8	31.2	28.6
All other general expenditures	<u>211.6</u>	<u>224.6</u>	<u>237.5</u>	<u>306.1</u>	<u>345.7</u>	<u>371.2</u>	<u>400.1</u>	<u>430.1</u>	<u>459.3</u>	<u>489.5</u>	<u>521.7</u>	<u>552.8</u>	<u>581.9</u>	<u>613.1</u>
Total direct expenditures	\$ 747.2	\$ 826.2	\$ 950.8	\$1,102.6	\$1,250.6	\$1,430.6	\$1,582.1	\$1,713.6	\$1,834.7	\$1,956.5	\$2,083.3	\$2,190.4	\$2,283.6	\$2,387.2
Redemption for long-term general debt <sup>e/</sup>	<u>\$ 59.0</u>	<u>\$ 75.0</u>	<u>\$ 64.0</u>	<u>\$ 70.9</u>	<u>\$ 71.4</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>	<u>\$ 74.3</u>
Total outlays	\$ 806.2	\$ 901.2	\$1,014.8	\$1,173.5	\$1,322.0	\$1,504.9	\$1,656.4	\$1,787.9	\$1,909.0	\$2,030.8	\$2,157.6	\$2,264.7	\$2,357.9	\$2,461.5

a/ The proportion of total expenditure made up by any one category may differ from information presented in Chapter II because this table includes an allowance for redemption of long-term general debt while census data does not.

b/ Projections for 1969-70 contain a mixture of actual data and projections. Figures for education and public welfare represent actual expenditures as reported by the appropriate source. Figures for all other functions are derived by using the projection techniques.

c/ The sources for historical expenditures are listed in the separate tables covering each individual function.

d/ Includes Day Care Services, Work Incentive Program for Aid to Dependent Children Families, and Medicaid. These programs began in the late 1960's but will not become fully operational until the early 1970's. This accounts for the disproportionate increase between past and future expenditures.

e/ Historical figures represent "long-term debt retired" as reported by the U. S. Department of Commerce, Bureau of the Census, in Governmental Finances in 196- (selected editions).

Sources: U. S., Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction, selected editions (Richmond: State Board of Education); Annual Report of Department of Welfare and Institutions, selected editions (Richmond: Virginia Department of Welfare and Institutions).



TABLE 5.9--PERCENTAGE DISTRIBUTION OF PROJECTED LOCAL GOVERNMENT EXPENDITURES  
IN VIRGINIA, FISCAL YEARS 1969-70 TO 1977-78

Function	Percent of Total								
	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Education	50.9	49.6	49.1	48.4	47.6	46.8	46.4	46.1	45.8
Highways	3.7	3.6	3.3	3.2	3.1	3.1	3.0	3.0	2.9
Public welfare	10.6	13.4	15.0	15.4	17.7	19.0	19.5	19.9	20.3
Health and hospitals	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Interest on general debt	3.3	2.8	2.5	2.2	1.9	1.6	1.5	1.3	1.2
All other general expenditures	24.7	24.2	24.0	24.0	24.1	24.2	24.4	24.7	24.9
Redemption of long-term general debt	4.9	4.5	4.2	3.9	3.7	3.4	3.3	3.1	3.0
Total outlays	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table 5.8.

TABLE 5.10--BASELINE PROJECTIONS OF LOCAL GOVERNMENT FINANCES IN VIRGINIA,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, ESTIMATED 1969-70, AND PROJECTED, FISCAL YEARS 1970-71 TO 1977-78<sup>a/</sup>  
(Millions of Dollars)

	Actual					Estimated	Projected							
	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
<b>Revenues</b>														
Tax revenue	\$361.0	\$423.1	\$ 449.4	\$ 504.8	\$ 540.7	\$ 602.0	\$ 648.7	\$ 698.1	\$ 754.0	\$ 814.4	\$ 880.0	\$ 949.0	\$1,022.8	\$1,100.3
Charges and miscellaneous revenue	114.3	124.6	123.6	143.1	148.6	159.2	170.5	182.6	195.6	209.5	224.4	240.3	257.4	275.6
Intergovernmental transfers	<u>264.1</u>	<u>290.7</u>	<u>384.5</u>	<u>449.5</u>	<u>525.4</u>	<u>631.1</u>	<u>738.7</u>	<u>821.9</u>	<u>915.2</u>	<u>991.8</u>	<u>1,072.2</u>	<u>1,134.2</u>	<u>1,184.7</u>	<u>1,241.6</u>
Total revenue	\$739.4	\$838.4	\$ 957.5	\$1,097.4	\$1,214.7	\$1,392.3	\$1,557.9	\$1,702.6	\$1,864.8	\$2,015.7	\$2,176.6	\$2,323.5	\$2,464.9	\$2,617.5
<b>Expenditures</b>														
Total direct expenditures	\$747.2	\$826.2	\$ 950.8	\$1,102.6	\$1,250.6	\$1,430.6	\$1,582.1	\$1,713.6	\$1,834.7	\$1,956.5	\$2,083.3	\$2,190.4	\$2,283.6	\$2,387.2
Redemption of long-term general debt	<u>59.0</u>	<u>75.0</u>	<u>64.0</u>	<u>70.9</u>	<u>71.4</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>	<u>74.3</u>
Total outlays	\$806.2	\$901.2	\$1,014.8	\$1,173.5	\$1,322.0	\$1,504.9	\$1,656.4	\$1,787.9	\$1,909.0	\$2,030.8	\$2,157.6	\$2,264.7	\$2,357.9	\$2,461.5
Surplus or deficit before borrowing <sup>a/</sup>	\$-66.8	\$-62.8	\$ -56.3	\$ -76.1	\$ -107.3	\$ -112.6	\$ -98.5	\$ -85.3	\$ -44.2	\$ -15.1	\$ +19.0	\$ +58.8	\$ +107.0	\$ +156.0

<sup>a/</sup> These projections do not account for any increase in borrowing or its effects on debt service costs.

Sources: Table 5.5 and Table 5.9.

## Scope and Quality Considerations

### Estimates of Scope and Quality

Quantitative estimates of changes in scope and quality are made for each category of expenditure by the same method as used in the state expenditure projections discussed in Chapter IV. The only alteration occurs in the case of highway expenditures. Since this category is projected from future state cash transfers, the method for establishing scope and quality factors had to be changed. The alternative approach achieves comparative results by compounding 1960-61 state cash transfers for highways by 3.2 percent a year (the average rate of growth in projected transfers) until 1968-69. The amount accumulated at that time is then used to project a hypothetical total for 1968-69 highway expenditures based on the initial assumption that state cash transfers would approximate 34 percent of total outlays. The proportion of actual highway expenditures in 1968-69 not accounted for by this method is then assumed to be the amount of expenditures caused by changes in scope and quality. This is stated as a percent of total expenditures and adjusted to an annual rate.

Table 5.11 shows a summary of the percentage changes in scope and quality for each functional category. The overall figure for total expenditures was obtained by adding the individual factors weighted by the percentage of the combined total of 1960-61 and most recent period expenditures contained in each function.<sup>1/</sup>

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<sup>1/</sup> The scope and quality estimates are based on an analysis of total local government expenditures in the past. This methodology may be correct when intergovernmental flows are known and are accounted for on both the revenue and expenditure side. However, in applying these estimates to future projections, only those expenditures which are financed by local sources may be used as a base for projecting scope and quality change. The reason for this is explained in the next section.

TABLE 5.11--ESTIMATED INCREASE IN SCOPE AND QUALITY  
OF EXPENDITURE PROGRAMS DURING THE 1960'S

<u>Function</u> <sup>a/</sup>	<u>Average Annual Percentage Increase in Scope and Quality</u> <sup>b/</sup>
Education	5.6
Highways	7.1
Public welfare <sup>c/</sup>	1.5
Health and hospitals	6.7
All other general expenditures	2.1
Total	4.4

a/ Debt service costs do not fit into the conceptual framework of this model.

b/ Average annual increase in scope and quality for education and welfare if based on a period covering fiscal years 1960-61 to 1969-70. For other functions, the analysis is based on a period covering fiscal years 1960-61 to 1968-69.

c/ Expenditures used in this calculation exclude medicaid.

#### Adjustments in the Projections for Scope and Quality

The scope and quality estimates just derived are assumed to be indicative of future improvements in the expenditure categories. In adding these estimates to baseline expenditure projections, only that proportion of total expenditures representing outlays to be financed from local sources is adjusted for such improvements. This means that in calculating the expenditure base for scope and quality increases, intergovernmental transfers are subtracted from total expenditures. This adjustment is required because any allowance for scope and quality based on total expenditures would raise the projected amount spent for certain programs originally financed by intergovernmental transfers, while no account is made for such an increase in the revenue projections. Thus, the net effect would be to overstate projected expenditures.

With the scope and quality estimates included, two things happen to local government projections as is shown in Table 5.12. First, the surpluses that were previously projected for fiscal years 1974-75 to 1977-78 are wiped out by higher expenditures. Second, and more important, the deficits no longer peak during the period as they did in the former analysis, but rather, continue to get larger through 1977-78. Both of these results demonstrate the compounding effect characteristic of changes in scope and quality in this projection methodology. When a program is improved, not only do more people begin to receive its benefits, but also, present recipients receive greater benefits than they had been getting in the past. This twofold expansion causes expenditures to mount very rapidly given continual change in program content.

TABLE 5.12--BASELINE PROJECTIONS OF LOCAL GOVERNMENT FINANCES IN VIRGINIA, ADJUSTED FOR CHANGES IN SCOPE AND QUALITY, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures Including Scope and Quality Change</u>	<u>Surplus or Deficit</u>
Estimated 1969-70	\$1,392.3	\$1,537.2 <sup>a/</sup>	\$-144.9
Projections			
1970-71	1,557.9	1,727.5	-169.6
1971-72	1,702.6	1,894.9	-192.3
1972-73	1,864.8	2,068.1	-203.3
1973-74	2,015.7	2,241.8	-226.1
1974-75	2,176.6	2,432.1	-255.5
1975-76	2,323.5	2,610.2	-286.7
1976-77	2,464.9	2,779.8	-314.9
1977-78	2,617.5	2,972.6	-355.1

<sup>a/</sup> No adjustment is made for scope and quality changes in education and public welfare expenditures in fiscal year 1969-70, because they represent actual figures as reported by the appropriate agency.

## Adjustments in the Projections for Borrowing

So far, no mention has been made of borrowing. It should be remembered, however, that debt financing for capital outlays is an integral part of most local governments' operations and that some allowance for its effect ought to be made. To do this, Table 5.13 is constructed to show what would happen with an 8.5 percent annual increase in long-term general debt outstanding. This figure represents the average annual growth in long-term debt for Virginia local governments since the 1950's, so it should provide a reasonable growth rate for analysis.<sup>1/</sup> In the table, the increase in this debt from one fiscal year to another is treated as an inflow of funds from borrowing. Redemption payments are computed by taking 5 percent of the increase in debt beginning one year after that amount is incurred. Interest costs are calculated on the amount of net long-term general debt outstanding (long-term general debt minus the amount redeemed during the year). Both elements of the additional debt service costs are then subtracted from the inflow of funds to derive the net inflow of funds which would be available to finance capital outlays.<sup>2/</sup> Over the entire period, this adjustment would provide an additional \$996.5 million in funds for local governments.

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<sup>1/</sup> The methodology assumes that projected capital outlays will be large enough to warrant an 8.5 percent rate of borrowing. Certainly, this is the case at present.

<sup>2/</sup> The increases in debt service costs are subtracted from borrowings to simplify the analysis and to provide the net effect on projected deficits. It is realized that borrowings must be used exclusively for capital outlays while interest expense and redemption costs are paid from general funds.

TABLE 5.13--EFFECTS OF AN 8.5 PERCENT ANNUAL INCREASE IN DEBT  
ON FINANCING PROJECTED DEFICITS, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Inflow of Funds from Borrowing<sup>a/</sup></u>	<u>Additional Redemption Cost Associated With Borrowing</u>	<u>Additional Interest Costs Because of Borrowing</u>	<u>Net Inflow of Funds Available to Finance Capital Outlays<sup>b/</sup></u>
1969-70	\$+126.2	\$ ... <sup>c/</sup>	\$ +4.4	\$+121.8
1970-71	+137.0	+6.3	+11.6	+119.1
1971-72	+148.6	+13.1	+19.1	+116.4
1972-73	+161.3	+20.5	+27.1	+113.7
1973-74	+175.0	+28.6	+35.6	+110.8
1974-75	+189.8	+37.4	+44.5	+107.9
1975-76	+206.0	+46.9	+54.0	+105.1
1976-77	+223.5	+57.2	+64.0	+102.3
1977-78	+242.5	+68.4	+74.7	+99.4
Total	+1,609.9	+278.4	+335.0	+996.5

<sup>a/</sup> The inflow of funds from borrowing represents the change in long-term general debt outstanding when an 8.5 percent annual growth is applied to the 1968-69 amount outstanding, \$1,485.4 million.

<sup>b/</sup> Projected deficits would be reduced by the amounts listed here.

<sup>c/</sup> Under the assumptions, no additional redemption cost will be incurred on the 1969-70 increase in debt. Redemption payments for this amount will begin in 1970-71.

### Comparison of Revenues and Expenditures

Although the overall view of projected local government finances shows expenditures exceeding revenues well into the 1970's, the fiscal outlook for the projection period might be described with mixed conclusions. Certainly for the near future, fiscal years 1970-71 to 1972-73, the financial picture looks rather bleak. Rapidly expanding expenditures during these years will, most assuredly, hit local governments hard. Thus, pressure will mount for them to raise taxes, to find other sources of aid (particularly from other levels of government) and to rely heavily on borrowing. A short-run balancing of revenues and expenditures could result from any one or combination of these factors. Over the longer run, however, the financial situation will depend greatly on the rate of expansion in programs which the local governments administer and the expected rise in tax rates not considered in these projections. If changes in scope and quality keep pace with those of the recent past, the financial picture may continue to result in deficits through 1977-78. On the other hand, if program improvements are restrained in the face of deficits, some relief may begin to appear in the latter years especially in light of expected tax rate increases. Factors that also contribute to this more favorable trend are the projected growth of intergovernmental transfers; the increase in other state aid such as the state's takeover of the local share of the federally funded welfare programs; the projected slowdown in the rate of inflation and its effects on public service costs; the projected slowing of population growth; and the decline in other population variables such as local school enrollment.



### Measurements of Central City Finances

The previous analysis has applied to all local governments, and trends for the entire group may not be applicable to each government. To underline this fact, we develop in this section some data for the eight central cities (Alexandria, Hampton, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, and Lynchburg).

Table 5.14 shows data for fiscal year 1968-69, the latest year available. Central city per capita revenues from own sources were 38 percent higher than the state average for all local governments, and total revenues were 23 percent higher. Total direct expenditures were 32 percent higher than the state average. In fact, the central cities spent more per capita in all functional areas except education--a difference largely accounted for by lower educational capital outlays in the slow-growing central cities.

Table 5.15 provides some data for analysis of revenue and expenditure trends. From fiscal years 1960-61 to 1968-69, central city per capita revenues from own sources rose 82 percent compared with a statewide average of 79 percent. Overall, including intergovernmental revenue, central city per capita revenues increased by 96 percent versus 104 percent for the comparable statewide measure. Analysis of the data shows that central cities did not share proportionate gains in aid from the federal government. In contrast, per capita revenue from the state government increased at a faster pace in the central cities.

In regard to per capita general direct expenditures, the total increased by 107 percent in the central cities compared to 84 percent for all local governments. The three major expenditure items of education, highways, and

public welfare all grew faster in the central cities.

As already noted, per capita revenues from own sources grew faster in the central cities than statewide. A related question is what happened to local tax bases during the 1960's. To answer this, we analyzed two major components of local tax bases--retail sales (adjusted to make them conform as much as possible with taxable sales under the sales and use tax) and the true value of taxable real estate. From 1958 to 1967, adjusted per capita retail sales increased by 32 percent in the central cities compared to 40 percent for all local governments. And from 1962 to 1969, per capita property values rose 34 percent in central cities versus 49 percent statewide.

In summary, during the previous decade, central cities fared rather poorly. Their per capita revenues grew slower than for all local governments, while expenditures grew faster. And to compound the problem, per capita values for two principal elements in local tax bases--retail sales and the value of real estate--grew slower in central cities than elsewhere.

TABLE 5.14.--COMPARISON OF FINANCES FOR ALL LOCAL GOVERNMENTS AND CENTRAL CITIES IN VIRGINIA, FISCAL YEAR 1968-69<sup>a/</sup>

	Total Amounts (Millions of Dollars)		Central City Amounts as Percent of Amounts of All Local Governments	Per Capita Amounts <sup>b/</sup>		Central City Per Capita Amounts as Percent of Per Capita Amounts of All Local Governments
	All Local Governments	Central Cities		All Local Governments	Central Cities	
<u>General Revenue</u>						
General revenue from own sources						
Taxes:						
Property	\$ 373.7	\$107.2	28.7	\$ 80.39	\$ 94.25	117.2
Sales and gross receipts	65.0	49.6	76.3	13.98	43.61	311.9
Other	102.0	22.7	22.2	21.94	19.96	91.0
Charges and miscellaneous revenue	148.6	53.1	35.7	31.97	46.69	146.0
Total general revenue from own sources	689.3	232.6	33.7	148.28	204.51	137.9
Intergovernmental revenue						
From state and local governments	463.3 <sup>c/</sup>	115.8	25.0	99.67	101.81	102.1
From federal government	62.1	16.8	27.0	13.36	14.77	110.6
Total intergovernmental revenue	525.4	132.6	25.2	113.03	116.59	103.1
Total revenue	1,214.7	365.2	30.1	261.31	321.09	122.9
<u>General Direct Expenditures</u>						
Education	\$ 687.8	\$157.0	22.8	\$147.96	\$138.04	93.3
Highways	54.4	19.0	34.9	11.70	16.70	142.7
Public welfare	83.5	43.0	51.5	17.96	37.81	210.5
Health and hospitals	26.7	7.6	28.5	5.74	6.68	116.4
Police protection	49.0	22.3	45.5	10.54	19.61	186.0
Interest on general debt	52.5	14.0	26.7	11.29	12.31	109.0
All other general expenditures	296.7	139.9	47.2	63.83	123.00	192.7
Total direct expenditures	\$1,250.6	\$402.8	32.2	\$269.03	\$354.15	131.6
Exhibit: 1970 population						
All local governments	4,648,494					
Central cities	1,137,365					

Note: Details may not add to totals due to rounding.

<sup>a/</sup> Most recent figures for Portsmouth and Roanoke are for fiscal year 1967-68.

<sup>b/</sup> Based on 1970 population counts. Richmond City population figures were adjusted to take out 47,450 Chesterfield County residents annexed January 1, 1970.

<sup>c/</sup> Intergovernmental transfers from local governments are netted out.

Sources: U.S. Bureau of the Census, City Government Finances in 1968-69, GF69, No. 4, (Washington: Government Printing Office, 1970), pp. 46-47; U.S. Bureau of the Census, Governmental Finances in 1968-69, GF69, No. 5 (Washington: Government Printing Office, 1970), pp. 33-36; Annual Report of the Superintendent of Public Instruction, 1968-69, Table 42 and 44, (Richmond: State Board of Education, November, 1969).

TABLE 5.15.--TRENDS IN FINANCES OF ALL LOCAL GOVERNMENTS AND CENTRAL CITIES IN VIRGINIA, FISCAL YEARS 1960-61 TO 1968-69

	Total Amounts (Millions of Dollars)		Percentage Change 1960-61 to 1968-69	Per Capita Amounts <sup>a/</sup>		Percentage Change 1960-61 to 1968-69
	1960-61	1968-69		1960-61	1968-69	
<b>All Local Governments</b>						
<b>Revenue</b>						
General revenue from own sources	\$329.1	\$ 689.3	+109.4	\$ 82.96	\$148.28	+78.7
Intergovernmental revenue						
From state government	157.8	463.3	+193.6	39.78	99.67	+150.6
From federal government	20.3	62.1	+205.9	5.12	13.36	+160.9
Total intergovernmental revenue	<u>\$178.1</u>	<u>\$ 525.4</u>	+195.0	<u>\$ 44.90</u>	<u>\$113.03</u>	+151.7
Total revenue	<u>\$507.2</u>	<u>\$1,214.7</u>	+139.5	<u>\$127.86</u>	<u>\$261.31</u>	+104.4
<b>General Direct Expenditures</b>						
Education	\$272.1	\$ 687.8	+152.8	\$ 68.59	\$147.96	+115.7
Highways	88.6	54.4	-38.6	22.33	11.70	-47.6
Public welfare	41.1	83.5	+103.2	10.36	17.96	+73.4
Health and hospitals	11.4	26.7	+134.2	2.87	5.74	+100.0
Police protection	22.5	49.0	+117.8	5.67	10.54	+85.9
Interest on general debt	19.7	52.5	+166.5	4.97	11.29	+127.2
All other functions	124.3	296.7	+138.7	31.33	63.83	+103.7
Total direct expenditures	<u>\$579.7</u>	<u>\$1,250.6</u>	+115.7	<u>\$146.13</u>	<u>\$269.03</u>	+84.1
<b>Central Cities<sup>b/</sup></b>						
<b>Revenue</b>						
General revenue from own sources	\$122.0	\$ 232.6	+90.6	\$112.40	\$204.51	+81.9
Intergovernmental revenue						
From state government	41.0	114.6	+179.5	37.77	100.76	+166.8
From federal government <sup>c/</sup> and other localities	14.8	18.0	+21.6	13.63	15.83	+16.1
Total intergovernmental revenue	<u>\$ 55.8</u>	<u>\$ 132.6</u>	+137.6	<u>\$ 51.40</u>	<u>\$116.59</u>	+126.8
Total revenue	<u>\$ 177.8</u>	<u>\$ 365.2</u>	+105.4	<u>\$163.80</u>	<u>\$321.10</u>	+96.0
<b>General Direct Expenditures</b>						
Education	\$ 68.4	\$ 157.0	+129.5	\$ 63.02	\$138.04	+119.0
Highways	12.4	19.0	+53.2	11.42	16.70	+46.2
Public welfare	18.1	43.0	+137.6	16.68	37.81	+126.7
Health and hospitals	3.9	7.6	+94.9	3.59	6.68	+86.1
Police Protection	11.4	22.3	+95.6	10.50	19.61	+86.8
Interest on general debt	8.3	14.0	+68.7	7.65	12.31	+60.9
All other functions	63.1	139.9	+121.7	58.13	123.00	+111.6
Total direct expenditures	<u>\$ 185.6</u>	<u>\$ 402.8</u>	+117.0	<u>\$170.99</u>	<u>\$354.15</u>	+107.1
<b>Exhibit:</b>						
<b>1960 population</b>						
All local governments	3,966,949					
Central cities	1,085,443					
<b>1970 population</b>						
All local governments	4,648,494					
Central cities	1,137,365					

Note: Details may not add to totals due to rounding.

<sup>a/</sup> Based on 1960 and 1970 population counts. Richmond City population figures were adjusted to take out 47,450 Chesterfield County residents annexed January 1, 1970.

<sup>b/</sup> Most recent figures for Portsmouth and Roanoke are for fiscal year 1967-68.

<sup>c/</sup> Breakdown of transfers from federal government and from other localities was not available for fiscal year 1960-61. In fiscal year 1969-70 this total includes \$16.8 million from the federal government and \$1.2 million from other localities.

Sources: U. S. Bureau of the Census, City Government Finances in 196-, selected editions (Washington: Government Printing Office); U. S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction, selected editions (Richmond: State Board of Education).

TABLE 5.16.--COMPARISON OF SELECTED REVENUE BASES  
FOR CENTRAL CITIES AND ALL LOCAL GOVERNMENTS

	<u>Adjusted Retail Sales<sup>a/</sup></u>					
	<u>Total</u>			<u>Per Capita<sup>b/</sup></u>		
	<u>1958</u>	<u>1967</u>	<u>Percent Change</u>	<u>1958</u>	<u>1967</u>	<u>Percent Change</u>
Central Cities	\$1,117,968,000	\$1,611,597,000	44.2	\$1,030	\$1,360	32.0
(State) Total	\$2,741,640,000	\$4,489,035,000	63.7	\$ 691	\$ 966	39.8

	<u>True Property Tax Base</u>					
	<u>Total</u>			<u>Per Capita<sup>b/</sup></u>		
	<u>1962<sup>c/</sup></u>	<u>1969<sup>d/</sup></u>	<u>Percent Change</u>	<u>1962</u>	<u>1969</u>	<u>Percent Change</u>
Central Cities	\$ 4,632,237,000	\$6,765,724,000	46.0	\$4,267	\$5,711	33.8
(State) Total	\$18,117,483,000	\$31,705,098,000	74.9	\$4,567	\$6,820	49.3

a/ Retail sales were adjusted by subtracting the sales of various transactions not taxed and by adding payments for motel and hotel services. This approximates the actual sales and use tax base for which data was not available.

b/ Per capita figures are based on 1960 and 1970 population counts.

c/ State real estate values for 1962 were supplied by the Department of Taxation. For central cities, full values were derived by dividing 1962 assessed values by the true assessment ratio.

d/ Real estate values for 1969 were obtained by averaging the 1968 and 1970 true assessment ratio on real estate and dividing the average into 1969 assessed values. Public service values were obtained by averaging the 1968 and 1970 true values for this property.

Sources: Report of Department of Taxation, Fiscal Years Ending June 30, 1963 and 1970 (Richmond: Department of Taxation); Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities," May 15, 1965 and April 1, 1971; "1968 and 1970 Full Values of Public Service Corporations by Cities and Counties", special tabulation by the State Corporation Commission; "1962 Full Value of Real Estate" special tabulation by the Department of Taxation; U. S. Bureau of the Census, 1958 and 1967 Census of Business: Selected Services, Virginia and Retail Trade, Virginia.

### Local Revenue Issues

This part of the chapter provides a concise analysis of local revenue issues with primary emphasis on the real property tax, the single most important source of local revenue for Virginia's counties and cities. Statewide, it accounts for about 45 percent of locally raised revenues, and in some counties, it provides 70 to 80 percent of the total.<sup>1/</sup> Following the discussion of the real property tax, there is a brief section on some other local revenue issues.

#### The Real Property Tax

##### Terminology

To assist in a study of the property tax, it may be helpful to review terminology. Property is first appraised to determine its true market value. Then, it is the custom in Virginia and elsewhere to assess the appraised value at some percentage less than 100 percent. The local property tax is then levied on the assessed value. For example, assume a house has a market value of \$20,000. A local assessor might appraise it at this value<sup>2/</sup> and then assess the property at 50 percent of appraised value. If the local tax rate were \$2.50 per \$100 of assessed value, the tax rate per \$100 of true value would be \$1.25.

##### Rates

The only meaningful way to compare tax rates is to compare them based on true values of property. The Department of Taxation conducts biennial surveys which provide this information. For 1970, the survey indicated that

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<sup>1/</sup> The statewide figure was derived from Table 5.5. Information on counties came from U. S. Bureau of the Census, 1967 Census of Governments: Virginia, Volume 7, No. 46 (Washington: Government Printing Office, 1970), Table 32.

<sup>2/</sup> The appraisal is not always 100 percent of market value. Some allowance may be for costs involved in selling property.

true tax rates varied from \$0.29 per \$100 of true value in Prince Edward County to \$1.77 in Richmond City. The weighted average rate of \$1.10 was strongly affected by the heavily populated urban areas of the state. As shown in Chart 5.1, the majority of the localities had rates lower than the weighted average. Reflecting this, the median rate was \$0.71. By national standards, this was a low rate. According to the 1967 Census of Governments, the median tax rate for 122 large cities was \$1.85 per \$100 of true value.<sup>1/</sup> Furthermore, a U. S. Department of Agriculture study of farm real estate taxation showed that in 1969, Virginia's average tax per \$100 of full value was \$0.68 compared with a weighted national average of \$1.12.<sup>2/</sup>

A comparison of 1962 and 1970 survey data shows what happened during the 1960's (see appendix Table A.30). The state weighted average rose \$0.18 from \$0.92 to \$1.10.

For the 128 localities for which comparative data exist, 84 increased their tax rates (54 of them by \$0.10 or more), 38 dropped them (17 by \$0.10 or more), and 6 left them unchanged.

#### Assessment Procedures

Although the property tax is the workhorse of local government, in many localities it is not being used to its full potential. Only 14 cities and 6 counties employ full-time assessors.<sup>3/</sup> Many localities assess only as required by law--every four years for cities and every six years for counties. Often, this is too infrequent for an age marked by population change, new land use patterns, and inflation.

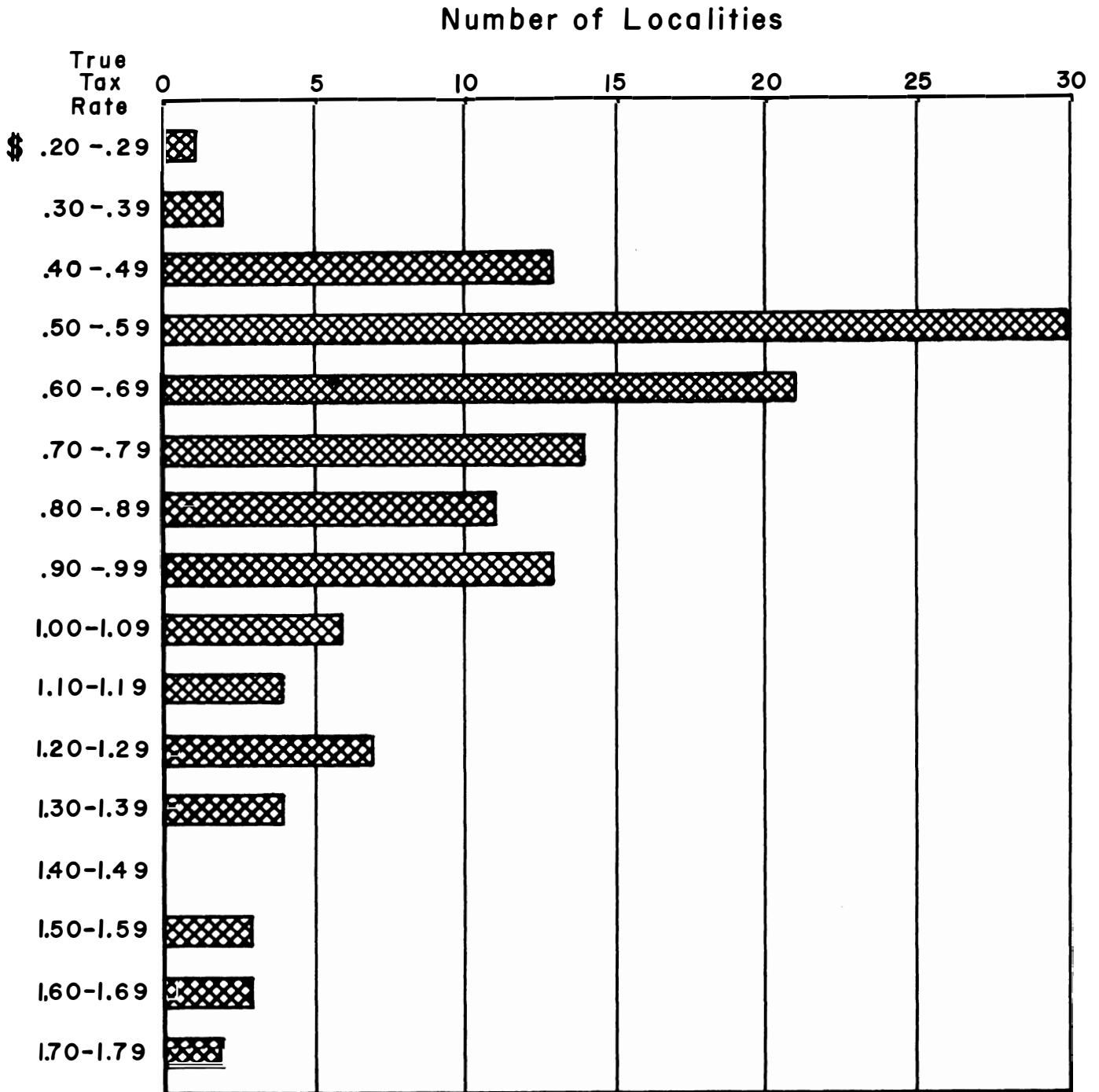
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<sup>1/</sup> U.S. Bureau of the Census, 1967 Census of Governments: Taxable Property Values, Vol. 2 (Washington: Government Printing Office, 1968), p. 15.

<sup>2/</sup> U.S. Department of Agriculture, Economic Research Service, "Farm Real Estate Taxes" RET-10 (February, 1971), pp. 16-17.

<sup>3/</sup> The cities are Alexandria, Charlottesville, Chesapeake, Danville, Hampton, Lynchburg, Norfolk, Petersburg, Portsmouth, Richmond, Roanoke, Staunton, Virginia Beach, and Waynesboro. The counties are Albemarle, Arlington, Chesterfield, Fairfax, Henrico, and Prince George.

**CHART 5.1**  
**FREQUENCY DISTRIBUTION OF COUNTY AND CITY**  
**REAL PROPERTY TAX RATES PER \$100 OF TRUE VALUE**  
**TAX YEAR 1970**



Source: Appendix Table A.30.



Assessment ratios vary from 8 percent of market value to 88 percent. The statewide weighted average is 35 percent. The practice of not assessing at full fair market value is nearly universal in the United States, and Virginia's assessment ratio is close to the national average.<sup>1/</sup> Nevertheless, there are strong arguments against such a procedure--it reduces taxpayer understanding of the property tax and makes appeal difficult.

Another problem with underassessment is that it may artificially restrict borrowing when borrowing is limited to a certain percentage of assessed property values in the area. In Virginia, with a few exceptions, no city or town may issue general obligation bonds to an amount which exceeds 18 percent of the assessed valuation of the real estate subject to taxation.

A characteristic of property assessment in Virginia (and in other states as well) is that assessment ratios within a community may vary widely. There are usually two reasons for this--first, different classes of property such as nonfarm residential property and agricultural land are intentionally assessed at different ratios, and second, property within the same class is assessed at different ratios either intentionally on a value basis or unintentionally as a result of poor assessment practices.

Whatever the reason for differing assessment ratios, the end result is a windfall for the property owner benefiting from an assessment ratio below the average for his area and an extra burden on the property owner who receives an above average assessment.

Unfortunately, there are no studies of county and city ratio variation by class of property. Statewide data from the 1967 Census of Governments

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<sup>1/</sup> In 1966, the national weighted average assessment ratio was 32.8 percent compared to 29.9 percent (as measured by the census) for Virginia.

Source: U.S. Bureau of the Census, "Trends in Assessed Valuations and Sales Ratios, 1956-1966," State and Local Special Studies, No. 54 (March, 1970), p. 20.

showed that the percentage ratio of assessed value to sales price of sold properties was 33.7 percent for residential property, 26.6 percent for commercial and industrial property, 25.1 percent for vacant lots, and 14.1 percent for acreage and farm properties.<sup>1/</sup> These figures are distorted to some degree by the fact that agricultural areas use low assessment ratios for all types of property and urban areas assess all types at a fairly high ratio.

Data from the census for a particular type of property in 16 metropolitan areas--nonfarm residential housing--show that there was a certain amount of variation (see Table 5.16). A reasonable standard would be a coefficient of dispersion less than 10 percent. Yet, only one-fourth of the 16 localities met this test, and they were probably "the cream of the crop" since only Prince William lacks a full-time assessor.

The Department of Taxation has computed a measure of assessment variation for all cities and counties (see Tables 5.17, 5.18). Since the data are not segregated by type of property they reflect ratio variation among types as well as within types. This is probably the reason for the extremely high dispersion for some counties. Notwithstanding this factor, the degree of variation for some localities is very high and indicative of the need to make a thorough examination of local assessment practices.<sup>2/</sup>

The property tax could be made a more equitable and efficient<sup>3/</sup> tax

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<sup>1/</sup> U. S. Bureau of the Census, 1967 Census of Governments: Taxable Property Values, Vol. 2 (Washington: Government Printing Office, 1968), p. 47.

<sup>2/</sup> The problem has existed for a long time. Writing in 1939, John H. Russell, former Director of Research of the Department of Taxation, said, "The most essential quality of good real estate assessment is uniformity. Want of this quality in the assessments within its political subdivision is perhaps the greatest and certainly the oldest important unsolved tax problem of this commonwealth." Source: John H. Russell, "Inequality of Real Estate Assessments Within Political Subdivisions," The Commonwealth (December, 1939), p. 16.

<sup>3/</sup> Equity is defined here as the like treatment of different pieces of property. Efficient refers to the amount of revenue raised.

TABLE 5.17--1966 ASSESSMENT MEASURES FOR NONFARM SINGLE FAMILY HOUSES  
IN 16 VIRGINIA LOCALITIES HAVING A 1960 POPULATION OF 50,000 OR MORE

<u>Counties</u>	<u>Median Assessment Ratio</u>	<u>Coefficient of Dispersion from Median Ratio<sup>a/</sup></u>
Arlington	32.1	10.2
Chesterfield	31.0	9.7
Fairfax	31.7	7.0
Henrico	33.7	11.7
Prince William	20.9	11.9
Roanoke	35.9	11.5
 <u>Cities</u>		
Alexandria	39.2	11.6
Chesapeake	31.3	10.4
Hampton	34.9	9.8
Lynchburg	45.9	15.8
Newport News	34.2	10.2
Norfolk	39.2	16.1
Portsmouth	62.7	3.8
Richmond	82.4	13.6
Roanoke	37.3	14.6
Virginia Beach	31.2	11.8

$\frac{a}{M} \cdot 100$  where D = average deviation from the median assessment ratio and M = median assessment ratio. The result is the percentage by which the various individual sales items differ, on the average, from the median assessment ratio.

Source: U. S. Bureau of the Census, Census of Governments, 1967, Vol. 2; Taxable Property Values (Washington, D. C.: U. S. Government Printing Office, 1968), pp. 13, 143, 144.

TABLE 5.18.-- REAL ESTATE ASSESSMENT RATIOS AND COEFFICIENTS OF DISPERSION, 1970

Locality	Assessment Ratio	Coefficient of Dispersion <sup>a/</sup> (Percent)	Locality	Assessment Ratio	Coefficient of Dispersion <sup>a/</sup> (Percent)	Locality	Assessment Ratio	Coefficient of Dispersion <sup>a/</sup> (Percent)	Locality	Assessment Ratio	Coefficient of Dispersion <sup>a/</sup> (Percent)
<b>Counties</b>											
Accomack	.196	22.2	Gloucester	.257	32.2	Powhatan	.242	17.0	Colonial Heights	.892	8.4
Albemarle	.132	24.3	Goochland	.194	24.8	Prince Edward	.144	35.0	Covington	.259	22.5
Alleghany	.189	24.8	Grayson	.171	42.7	Prince George	.264	16.7	Danville	.630	15.8
Amelia	.152	26.9	Greene	.154	26.0	Prince William	.181	16.4	Emporia	.199	19.0
Amherst	.141	36.5	Greensville	.262	25.2	Pulaski	.152	23.9	Fairfax	.415	7.7
Appomattox	.176	34.6	Halifax	.169	31.0	Rappahannock	.104	32.5	Falls Church	.370	10.8
Arlington	.447	9.3	Hanover	.227	19.7	Richmond	.257	28.0	Franklin	.473	12.8
Augusta	.215	22.9	Henrico	.336	9.8	Roanoke	.347	13.3	Fredericksburg	.341	13.8
Bath	.242	26.5	Henry	.155	19.1	Rockbridge	.180	30.5	Galax	.145	20.4
Bedford	.144	29.3	Highland	.272	38.5	Rockingham	.188	28.7	Hampton	.438	7.9
Bland	.085	43.4	Isle of Wight	.193	24.1	Russell	.170	23.0	Harrisonburg	.375	12.9
Botetourt	.153	22.9	James City	.236	19.7	Scott	.072	36.7	Hopewell	.371	10.7
Brunswick	.217	28.6	King George	.267	18.6	Shenandoah	.189	18.9	Lexington	.862	14.6
Buchanan	.101	18.5	King and Queen	.178	42.0	Smyth	.098	20.8	Lynchburg	.445	13.1
Buckingham	.129	42.9	King William	.185	40.9	Southampton	.130	25.1	Martinsville	.429	12.7
Campbell	.196	19.7	Lancaster	.290	31.1	Spotsylvania	.259	34.3	Newport News	.402	7.4
Caroline	.174	21.6	Lee	.080	30.3	Stafford	.352	15.9	Norfolk	.551	12.6
Carroll	.096	13.2	Loudoun	.338	19.4	Surry	.132	45.2	Norton	.204	23.3
Charles City	.148	76.6	Louisa	.112	53.8	Sussex	.148	50.4	Petersburg	.692	10.1
Charlotte	.128	25.7	Lunenburg	.161	27.0	Tazewell	.184	19.1	Portsmouth	.688	13.8
Chesterfield	.293	10.5	Madison	.127	46.1	Warren	.139	27.7	Radford	.310	17.8
Clarke	.228	22.8	Mathews	.265	29.8	Washington	.084	36.2	Richmond	.879	8.8
Craig	.165	36.3	Mecklenburg	.182	20.0	Westmoreland	.255	22.7	Roanoke	.400	7.9
Culpeper	.195	22.2	Middlesex	.267	37.2	Wise	.181	45.2	Salem	.293	13.7
Cumberland	.128	47.3	Montgomery	.154	24.4	Wythe	.139	21.1	South Boston	.252	20.6
Dickenson	.107	62.9	Nansemond	.123	22.7	York	.203	17.5	Staunton	.303	10.9
Dinwiddie	.201	27.0	Nelson	.094	36.6	<b>Cities</b>					
Essex	.278	29.4	New Kent	.139	36.7	Alexandria	.432	10.7	Suffolk	.485	18.8
Fairfax	.356	7.7	Northampton	.151	37.9	Bedford	.486	17.3	Virginia Beach	.392	11.9
Fauquier	.130	29.3	Northumberland	.281	30.8	Bristol	.317	15.6	Waynesboro	.222	17.6
Floyd	.185	34.2	Nottoway	.214	34.0	Buena Vista	.326	19.3	Williamsburg	.360	19.7
Fluvanna	.163	30.2	Orange	.156	24.4	Charlottesville	.251	12.4	Winchester	.418	15.2
Franklin	.108	19.4	Page	.104	46.6	Chesapeake	.405	11.1			
Frederick	.163	23.4	Patrick	.154	30.0	Clifton Forge	.371	23.3			
Giles	.131	32.3	Pittsylvania	.198	23.4						

$$\frac{a/}{\text{Coefficient of dispersion}} = \frac{0.5 (3\text{rd quartile} - 1\text{st quartile})}{\text{median}} \times 100$$

Sources: Coefficients of Dispersion: Memo dated April 20, 1971 from W. Blair Harvie, Director, Research Division, State Department of Taxation. Assessment ratios: Table A.30

TABLE 5.19--FREQUENCY DISTRIBUTION FOR 1970 COEFFICIENT  
OF DISPERSION OF ASSESSMENT RATIOS FOR THE VIRGINIA  
REAL PROPERTY TAX

Coefficient of Dispersion (Percent)	Number		Total
	Counties	Cities	
5 to 9.9	3	6	9
10 to 14.9	3	17	20
15 to 19.9	15	10	25
20 to 24.9	21	5	26
25 to 29.9	16	...	16
30 to 34.9	14	...	14
35 to 39.9	10	...	10
40 to 44.9	5	...	5
45 to 49.9	5	...	5
50 to 54.9	2	...	2
55 to 59.9	...	...	...
60 to 64.9	1	...	1
65 to 69.9	...	...	...
70 to 74.9	...	...	...
75 to 79.9	<u>1</u>	<u>...</u>	<u>1</u>
Total	96	38	134

Source: Table 5.17.

if several changes were made in its administration. Areas too small to justify hiring full-time assessors could be required to purchase services from the Department of Taxation's Division of Real Estate Appraisal and Mapping or contract with a state-approved professional service. The Department of Taxation could be required to certify the professional qualifications of all local assessors. Many now attend annual three-day training sessions jointly sponsored by the Virginia Association of Assessing Officers and by the Institute of Government of the University of Virginia. The classes, which have been approved by the International Association of Assessment Officers, consist of eight basic courses--two elementary and six advanced. Successful completion of tests is required before certificates are awarded for the elementary courses; no tests are given in conjunction with the advanced courses. Completion of the annual courses is not a state imposed prerequisite for employment as a local assessor.

In the recent national Roundtable Conference on Assessments great emphasis was placed on improved taxpayer knowledge of assessment procedures-- "Assessments should be made self-policing by making them easy for taxpayers to cross-check."<sup>1/</sup> To further this goal, the state could require that property tax bills show not only the fractional assessment, but the full appraisal on which the fractional assessment is based. Other steps would be publication in newspapers of assessments to facilitate taxpayer comparisons, publication of assessment reductions negotiated out of court, and improved assessment appeal procedures. This state could require that assessment worksheets be open to public inspection and that the locality give clear notification as to the relationships between market, appraised, and assessed values. To facilitate comparisons between sale prices and assessed values, clerks of court could be required to show the amount of the state recordation

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<sup>1/</sup> "Better Assessments for Better Cities," Nation's Cities (May, 1970), p. 32.

tax on the deed. Some of these policies presume a sophistication in record keeping that does not exist in many Virginia localities. Thus, their implementation would require the simultaneous development of card indexes and land maps.

#### Other Issues

Other issues in local tax administration are property tax exemptions, local methods of valuing machinery and tools, the tangible personal property tax, the tax status of mobile homes, and local license fees. We will provide brief mention for each of these issues.

At present, the following types of property are exempt from local property taxation in Virginia: state-owned property; property owned by religious organizations that is used exclusively for religious worship or for the residences of their ministers; nonprofit private and public cemeteries; the property of public libraries and nonprofit educational institutions; and other property designated by the General Assembly because it is used for religious, charitable, patriotic, historical, benevolent, cultural, or public park and playground purposes. A locality with a heavy incidence of tax exempt property may face serious revenue loss.<sup>1/</sup> A form of relief to these localities which is used in Wisconsin and which is permitted under the new constitution is to allow service charges in lieu of taxes for government services provided.

Assessment practices for valuing machinery and tools vary all over the state, and in many cases, the methods are imprecise and inequitable. Local

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<sup>1/</sup> It is not possible to provide an estimate of the value of tax exempt property in Virginia, since many localities do not appraise property they will not collect taxes on. However, as an example, the City of Richmond, which has major state installations, large churches, and a number of historical and educational institutions, estimated that about 26 percent of its real property was exempt from taxation in 1968.

assessors may lack professional skills required to value industrial property and are likely to be overly cautious in valuing assets of large firms that are principal employers.

The methods of assessing tangible personal property and the items included differ greatly within the state. Local governments may elect the option to exclude household personal property, but many include it. Motor vehicles probably account for the bulk of the revenue from this source since they are difficult to hide and easy to assess. Except for motor vehicles, audit investigation is most unlikely, so the tax is widely evaded. In 1969, the assessed value per capita of tangible personal property for all counties and cities was only \$323<sup>1/</sup>--an indication of widespread exclusion and evasion.

Mobile homes are taxed as personal property rather than real property. Because of differences in assessment practices and/or rates, the true tax rate on mobile homes may be different from that on permanent structures.

Local license provisions are presently an unstructured hodgepodge resulting from an accumulation of individual decisions. Charges vary for different types and sizes of business, often with discriminatory results. These practices, the inclusion of obsolete trades and businesses such as livery stables, and the charging of professionals on the basis of number of years of practice rather than ability to pay lead to the conclusion that licensing systems in the state should be updated and made more uniform. One way to do this would be for the state to establish a uniform license schedule applicable to the state and all localities.

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<sup>1/</sup> Derived from Report of the Department of Taxation, Fiscal Year Ending June 30, 1970 (Richmond, 1970), p. 38, and the 1970 population according to the Census of Population.



## CHAPTER VI

## STATE AID TO LOCALITIES

Introduction

This chapter explores major ways of providing fiscal relief to local governments. There are two major policy approaches--either provide additional state aid or permit new local taxes. Both approaches draw from the same tax base--the tax resources in the state. Additional state aid means that these resources flow through the state government. On the other hand, allowance of new local taxes means that the resource flow is at the local level of government.

Additional State Aid

Aid could take the form of revenue sharing or participation in local expenditure burdens. Another approach worthy of investigation but not explored further in this study is state assistance for local borrowing of the type now being pursued in Vermont and New York. The newly established Vermont Municipal Bond Bank ". . . assembles a group of local bond issues, then sells an issue of its own equal to the total amount of the local issues, plus a sum for the reserve fund. With the proceeds of its bonds, the bank buys the local bonds. As towns pay them off from tax revenues, the

bank retires its bond. The state bank bonds are not the obligations of Vermont, but the legislature is empowered, though not required, to make up any deficiency in the debt service fund."<sup>1/</sup> The purpose of the bank, which recently sold a \$46 million issue, is to reduce interest costs for local governments.

The New York State Urban Development Corporation (UDC), which was created in 1968, is different from the Vermont undertaking, since UDC is an agency with direct powers for financing and developing office buildings, industrial parks, and housing. Until recently, UDC was financed by general appropriations, but in January it sold a \$250 million bond issue backed with a reserve fund and a legislative "makeup" provision."<sup>2/</sup>

#### Revenue Sharing

##### Tax on Incomes of Individuals and Fiduciaries

Consideration might be given to a rate increase in the state income tax with part or all of the increased revenue shared with local governments. Such a step could be very similar to a local income tax if the basis for distribution were the residence of the taxpayer, the principal difference being that the tax would be universal rather than optional. If the shared revenues were distributed on the basis of population, employment, incidence of poverty, tax effort, or some other basis, then there would be an element of geographic redistribution, with the extent determined by the allocator

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<sup>1/</sup> "New Ways to Sell Municipal Bonds," Business Week (January 16, 1971), p. 32.

<sup>2/</sup> For more on UDC, see Neil Lawer, "New York State Urban Development Corporation: An Innovation," Public Administration Review, (November/December, 1970), pp. 636-38.

used. There are presently several states that share income tax revenues.

In Wisconsin, approximately 26 percent of net individual income tax revenue is shared with local governments on the basis of the total income tax liability reported by residents in each locality relative to the total reported state income tax liability. About 46 percent of Wisconsin's corporate income tax revenue is also shared. The method of allocation is similar to that of the individual income tax but is by place of business.

In Illinois, one-twelfth of net state individual income tax receipts is shared with localities on the basis of population. New York also has a revenue sharing plan; 21 percent of individual income tax collections are distributed to localities on the basis of population with double weighting for cities.

#### The Sales and Use Tax

Presently, all cities and counties impose a 1 percent local sales and use tax in addition to the 3 percent state levy. One-third of the state tax is distributed to localities on the basis of their proportion of the state's school-age population. The local option portion of the tax is collected by the state and returned to the locality that was the place of sale.

Prior to and after its adoption, the distribution of the state sales and use tax has been a regular source of debate, since there has been no agreement as to what constitutes an "equitable" distribution. Possible meanings of equity in regard to the distribution of the sales tax are:

- (1) Revenues should be distributed to the localities where the taxpayers reside. This requires determination of taxpayer residence. Even if a very simple assumption is used, such as that final incidence of the tax falls upon ultimate purchasers, this approach still raises real measurement problems in determining what proportion of taxable sales were made to residents of each jurisdiction.

- (2) Revenues should be distributed to the locality which is the place of sale. This approach either assumes that the incidence of the tax is on the retailer or that a locality has a right to a tax collected within its boundaries.
- (3) Revenues should be distributed to the locality where there is a need for funds. This approach is hampered by the lack of a universal definition of need.

The above definitions of equity are irreconcilable. There is no universal guide to say which is correct, for all contain certain value judgments, and, to some extent, they represent an attempt to measure the unmeasurable. The present system uses criterion number 2 for the local option and number 3 for the local share of the state tax by assuming that the proportion of school-age population is an indicator of need.

There are a number of ways in which the sales tax could be changed. If the present tax base and rates were left alone, then the changes would involve the total proportion going to localities and/or the distribution among the localities. Thus, the present distribution could be changed to one based on place of sale or on a new index of need.

A new approach to state aid for education, as mentioned previously, would eliminate the separate forms of aid and consolidate them into a single program. This would end the need for a sales tax distribution based on proportion of school-age population and open the way for a new concept. In this case, the state would probably use the former local share of the sales tax to help finance the new education program.

A proposal by Delegate McNamara would combine elements of criteria 2 and 3. It is well-known that distribution by place of sale helps localities that have high per capita taxable sales either because of high per capita income, a large amount of regional business, or a combination of the two. Consequently, localities with high per capita sales do not fare as well

with a distribution on the basis of school-age population versus a distribution based on place of sale. The reverse is true for localities with low per capita sales. To assist localities that would gain from a distribution by place of sale, Delegate McNamara has proposed that each locality be guaranteed an amount equal to 1 percent of its taxable sales. Should the existing formula provide a locality with more than 1 percent of its taxable sales it would continue to receive the larger amount. The end result of this formula is that the total amount distributed to localities would be larger. In fiscal year 1969-70, the local share of state sales tax revenues would have been \$85 million compared with \$68 million under the existing plan. The \$17 million difference would have been financed from the state's general fund.

If the state sales and use tax were increased from 3 percent to 4 percent, the new revenues could be used for revenue sharing with the increase distributed on the same basis as the present local share of the state tax (school-age population) or on some new basis such as place of sale. Distribution by place of sale would be very advantageous for most central cities. If Alexandria, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, and Roanoke had received their 1969-70 local share of the state tax on the basis of place of sale rather than school age population, they would have received an additional \$8 million. Another 1 percentage point addition to the sales tax shared by place of sale would have provided them with an additional \$22 million. Most smaller cities and suburban counties with well developed shopping centers would also have gained. Offsetting these gains would have been lower amounts for the remaining areas unless a "guarantee" of the McNamara type were implemented.

The preceding remarks have applied to the existing tax base for the sales and use tax. Expansion of the base to include selected services such as barber shops, car washes, dry cleaners, and repair shops would increase the yield by roughly 6 percent. Conversely, exemption of food products now taxed would reduce the yield from the present base by about one-fourth.

### Participation in Local Expenditure Burdens

#### State Aid for Education

##### Introduction

Basic questions in regard to state aid for public school education are do we wish to raise the level of state expenditures and do we wish to change the distribution of the existing level?

In Virginia the state pays about 45 percent of the cost of public education. This is a higher percentage than most states in the nation (the national average is 41 percent) but lower than for many of our southeastern neighbors (the southeast average is 56 percent with North Carolina the highest at 71 percent).<sup>1/</sup> An increase in the state's share would raise the level of expenditure for the state, and at the 1970 level of funding, each 1 percentage point increase in the state's share would amount to about \$8 million. This figure assumes no increase in total expenditures on education (federal, state, and local), merely a change in shares. If total spending were increased, then the additional amount required from the state would depend on the amount of the increase and the proportion assumed by the state. For

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<sup>1/</sup> These percentages were taken from 1969-70 estimates compiled by the National Education Association. Since the Association classifies the local share of the state sales and use tax as a local source, we adjusted their data to treat it as a state source in order to be consistent with state budget treatment and concepts used in this report. Source: Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition, M-57 (Washington: Government Printing Office, 1970), pp. 186-87.

example, if total spending were increased by \$100 per pupil in average daily attendance and the full amount were borne by the state, the state cost would be about \$100 million.

Another policy option would be to hold constant the state's level of funding but change the manner of distribution among school districts. For example, the three major forms of state aid--the basic school aid fund, the local portion of the state sales and use tax, and state-paid teacher benefits--might be merged into one fund and distributed according to a new formula.

The most likely policy change would incorporate modifications in the level of state aid and the method of distributing that aid. The desire of policymakers would probably be to increase the total amount spent on education, raise the state's share, and change existing methods of distributing the state's share to localities.

Before discussing specific policy options the state might adopt, we shall analyze the existing system of state aid, provide information on federal funding, and show current levels of local effort.

#### The Existing System of State Aid

The major elements of the present system are the basic school aid formula, the local share of the state sales and use tax, and state aid for teacher salary fringe benefits. Together, these elements account for nearly 90 percent of state aid. The remainder of the aid is for transportation of pupils, vocational education, special education, guidance counselors, summer schools, and other categorical programs.

<u>Program</u>	<u>1970-72 Biennium</u>	
	<u>Amount</u>	<u>% of Total</u>
Basic school aid fund	\$452,048,280	55.7
State sales and use tax -- shared revenue	165,000,000	20.3
Retirement, social security, and life insurance	108,886,115	13.4
Transportation of pupils	20,872,480	2.6
Vocational education	18,482,870	2.3
Special education	15,844,300	2.0
Guidance counselors	6,258,000	0.8
Summer schools	2,812,500	0.3
Other	<u>21,700,855</u>	<u>2.7</u>
Total from general fund	\$811,905,400	100.0

Note: Details may not add to totals due to rounding.

Source: Division of the Budget, Analysis of Appropriations and Revenues, 1970-72 Biennium (Richmond: Commonwealth of Virginia, 1970), p. 13.

Basic School Aid Fund.--This fund is distributed on the basis of a formula which is intended to provide foundation support for all localities and to give extra assistance to areas determined to have a low ability to pay. In brief, the formula for 1970-71 involves the following steps to arrive at a locality's share.

- A. Compute the TOTAL COST OF SALARIES based on the state minimum salary scale for state-aid teaching positions. Such positions are defined as one position for each 30 pupils in average daily attendance (A.D.A.) in elementary grades (kindergarten through 7), and one position for each 23 in A.D.A. in high school grades (8 through 12).
- B. Compute OTHER OPERATING COSTS by multiplying A.D.A. by \$120.<sup>1/</sup>
- C. Add TOTAL COST OF SALARIES AND OTHER OPERATING COSTS (A + B) to get TOTAL COST OF MINIMUM PROGRAM.
- D. Compute LOCAL SHARE by multiplying the true value of locally taxable real estate by \$0.60.

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<sup>1/</sup> In fiscal year 1971-72, the amount will be raised to \$130.



- E. Compute BASIC STATE SHARE by taking 60 percent of the TOTAL COST OF SALARIES ( $0.60 \times A$ ).
- F. Compute the SUPPLEMENTARY STATE SHARE by subtracting the sum of the LOCAL SHARE and the BASIC STATE SHARE from the TOTAL COST OF THE MINIMUM PROGRAM  $C - (D + E)$ .
- G. The total aid to any locality is the sum of the BASIC STATE SHARE and the SUPPLEMENTARY STATE SHARE ( $E + F$ ). There is also a "guaranteed loss" provision that no locality will get less than under the formula for the previous year.

All localities receive the basic state share, but some do not qualify for the supplementary state share. According to preliminary estimates, in 1970-71, sixteen counties, two towns, and seven cities will not receive a supplement.

The present formula, which is similar to those used in many other states, has several characteristics worth noting:

1. The total cost of salaries derived by the formula does not refer to salaries actually paid by localities. In 1969-70, localities spent \$455 million on instructional salaries compared with \$231 million computed under the formula.<sup>1/</sup> All localities pay teachers starting salaries higher than prescribed by the state minimum salary scale, and many localities provide more teaching positions per pupil than assigned by the formula. Other operating costs calculated under the formula are not the same as actual costs incurred. In 1969-70, actual other operating costs were \$191 million compared to \$115 million as shown by the formula.<sup>1/</sup> Moreover, the formula makes no allowance for capital outlay costs.
2. The local share is based on a 60 cent per \$100 effective true tax rate, a very low figure compared to the actual statewide weighted average of \$1.10 which existed in 1970.
3. The property tax base is used as the sole measure of ability to pay. No allowance is made for noneducational burdens. No provision is made for variations in costs due to differences in wage and other costs. And no allowance is made for differences in the cost of educating children from various backgrounds.

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<sup>1/</sup> Sources: Annual Report of the Superintendent of Public Instruction, School Year 1969-70, (Richmond: State Board of Education, 1970), p. 214; unpublished computer print-out entitled "Basic State School Aid Fund-- Estimates for 1969-70" obtained from J. G. Blount, Jr., Assistant Superintendent for Administration and Finance, Department of Education.

State Sales and Use Tax.--Localities receive one-third of the state's 3 percent sales and use tax for use in financing local school systems. Since the funds are distributed on the basis of each locality's proportion of the state's school-aged population, there is no direct tie between funds received and public school attendance. However, the two are closely correlated unless a locality has an unusually high percentage of students attending private schools or a large percentage of drop-outs.

State Payments for Teachers' Fringe Benefits.--The state pays the employers' portion of retirement costs for full-time professional and clerical employees of local school boards. This assistance applies to all full-time instructional personnel and is not limited to state-aid teaching positions. Furthermore, the aid applies to total salaries paid from state and local funds and is not limited to that portion of a salary attributable to the state minimum salary scale.

#### Federal Aid

In school session 1969-70, Virginia local schools received \$91 million in federal assistance. The major programs were:

	<u>Amount</u> (\$ millions)	<u>% of</u> <u>Total</u>
Impact aid		
Operation	\$39.0	42.8
Construction	2.1	2.3
Elementary and Secondary Education		
Act (aid for disadvantaged)	30.8	33.8
School food programs	11.7	12.8
Manpower training program	1.1	1.3
Adult basic education	1.1	1.2
Other	<u>5.3</u>	<u>5.8</u>
Total	<u>\$91.2<sup>a/</sup></u>	<u>100.0</u>

Note: Details may not add to totals due to rounding.

<sup>a/</sup> This total is based on Table 40 in the Annual Report of the Superintendent of Public Instruction, School Year 1969-70. In Table 42 which shows expenditures, local governments are shown to have spent \$97.8 million in federal funds. The difference is primarily due to federal vocational education funds which are co-mingled with state funds. In Table 40, the Department of Education treats all vocational education funds received as receipts from the state. Source: Annual Report of the Superintendent of Public Instruction, School Year 1969-1970 (Richmond: State Board of Education, 1970), pp. 204-05.

## Summary

Table 6.1 provides a summary of state and federal aid to our 17 sample areas in fiscal year 1968-69, the latest year for which there was a complete record. The data are converted to aid per student in A.D.A. in Table 6.2, and in Table 6.3, the aid per student in A.D.A. is shown relative to state-wide averages. From the data we can see the following:

- Column 1.--The Basic School Aid Fund gives the most aid to rural areas with low property values. Central cities fare rather poorly.

- Column 2.--State financed fringe benefits are low in areas that pay low teacher salaries. Central cities and suburban counties with high salaries receive relatively large amounts.

- Column 3.--Sales tax aid per child in A.D.A. does not vary as much as other types of assistance. Localities receiving the most aid have large percentages of school-age population.

- Column 4.--All forms of state aid are shown. In general, the most aid goes to rural localities, and central cities frequently receive less than the state average.

- Column 5.--Federal aid other than impact funds per pupil in A.D.A. varies widely. In the sample, there is a 1:10 range. Rural areas and central cities with large proportions of disadvantaged children received the most aid.

- Column 6.--State and federal aid (excluding impact funds) work to provide the most aid to rural areas. Central cities generally receive amounts close to the state average, and suburban areas receive below average amounts.

- Column 7.--Federal impact funds, which are provided to localities with large proportions of federal employees, provide a significant amount of aid to qualifying localities.

Table 6.4 shows the sources of support for operating expenses in fiscal year 1968-69. Statewide, localities bore 37 percent of the cost, the state 52 percent, and the federal government 12 percent, but there was considerable variation within our sample.<sup>1/</sup> The local share ranged from 9 percent to 56 percent, the state share from 32 percent to 73 percent, and the federal share from 2 percent to 23 percent.

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<sup>1/</sup> The relative distribution differs from that mentioned on page which included capital outlay and was based on estimates by the National Education Association.

TABLE 6.1.-- STATE AND FEDERAL AID TO SELECTED LOCALITIES FOR SUPPORT OF PUBLIC SCHOOLS, FISCAL YEAR 1968-69

Locality	Basic School Aid Fund (1)	Fringe Benefits <sup>a/</sup> (2)	Sales Tax <sup>b/</sup> (3)	Total State Aid <sup>d/</sup> (4)	Federal Aid Excluding Impact Funds (Oper. Only) <sup>d/</sup> (5)	Total State and Federal Aid Excluding Impact Funds (Oper. Only) (6)	Total State and Federal Aid Including Impact Funds (Oper. Only) (7)
Alexandria City	\$2,185,374	\$ 949,000	\$ 1,185,084	\$ 4,695,432	\$ 452,205	\$ 5,147,637	\$ 6,355,297
Augusta County	1,843,076	345,000	634,042	3,266,532	340,431	3,606,963	3,606,963
Buckingham County	508,934	87,000	180,287	923,923	285,677	1,209,600	1,209,600
Chesapeake City	4,670,646	843,000	1,455,936	7,869,087	1,182,342	9,051,429	10,057,765
Chesterfield County	4,824,916	865,000	1,689,198	8,220,580	465,399	8,685,979	8,920,130
Fairfax County	19,124,265	4,823,000	6,242,454	33,278,310	2,426,196	35,704,506	45,663,655
Floyd County	448,032	72,000	140,774	752,884	153,876	906,760	945,519
Lunenburg County	603,174	102,000	191,403	1,036,907	203,808	1,240,715	1,240,715
Nansemond County	2,044,044	258,000	547,894	3,101,864	605,938	3,707,802	3,930,642
Norfolk City	9,644,936	2,251,000	3,747,526	17,031,151	3,765,525	20,796,676	24,769,271
Northumberland County	323,827	80,000	143,427	635,082	26,158	661,240	661,240
Norton City	293,990	42,000	72,484	437,444	145,556	583,000	583,000
Rappahannock County	136,080	34,000	80,509	286,536	68,487	355,023	355,023
Richmond City	5,942,816	2,046,000	2,520,091	11,982,617	3,209,355	15,191,972	15,645,159
Roanoke City	3,133,874	839,000	1,148,844	5,801,352	1,117,163	6,918,515	7,223,321
Waynesboro City	607,182	175,000	241,108	1,144,966	89,302	1,234,268	1,234,268
Wise County	2,339,778	326,000	729,642	3,751,020	899,439	4,650,459	4,650,459
Total State	\$185,870,448	\$37,962,000	\$64,677,309	\$321,665,130	\$44,514,951	\$366,180,081	\$397,248,402

a/ Estimated payments by state into the Virginia Supplemental Retirement System for fringe benefits (employer's share of retirement, social security, and group life insurance), on behalf of county and city school teachers.

b/ Distribution of state sales and use tax to counties and cities on the basis of school-age population.

c/ Total state aid equals column 1 + column 2 + column 3 + miscellaneous.

d/ The figures for state share are overstated and the figures for federal share are understated by approximately \$5.2 million for the total state due to the comingling of federal vocational education funds with state funds.

Sources: Annual Report of the Superintendent of Public Instruction of the Commonwealth of Virginia, 1968-69, pp. 199, 212, and 232-243; Division of the Budget, "State Payment to or in Behalf of Individual Counties, Cities, and Other Units of Local Government for the Fiscal Year Ended June 30, 1969" (Richmond: June 30, 1970); Report of the Comptroller to the Governor of Virginia, Fiscal Year Ended June 30, 1969, pp. 320-321; State Department of Education, Facing Up, No. 4 (Richmond: January, 1970), pp. 51-55; State Department of Education, "Federal Funds Received by Counties, Town School Districts and Cities Under Public Law 874 During Fiscal Year 1968-69".

TABLE 6.2 .--STATE AND FEDERAL AID TO SELECTED LOCALITIES  
FOR SUPPORT OF PUBLIC SCHOOLS PER STUDENT IN AVERAGE DAILY ATTENDANCE, FISCAL YEAR 1968-69

Locality	Total Per Student in ADA						Total State and	Total State and
	ADA (1)	Basic School Aid Fund (2)	Fringe Benefits (3)	Sales Tax (4)	Total State Aid (5)	Federal Aid Excluding Impact Funds (Oper. Only) (6)	Federal Aid Excluding Impact Funds (Oper. Only) (7)	Federal Aid Including Impact Funds (Oper. Only) (8)
Alexandria City	16,047	\$136.18	\$59.14	\$73.85	\$292.60	\$28.18	\$320.78	\$396.04
Augusta County	9,468	194.66	36.44	66.97	345.01	35.96	380.96	380.96
Buckingham County	2,489	204.47	34.95	72.43	371.20	114.78	485.98	485.98
Chesapeake City	22,306	209.39	37.79	65.27	352.78	53.00	405.78	450.90
Chesterfield County	27,765	173.78	31.15	60.84	296.08	16.76	312.84	321.27
Fairfax County	115,228	165.97	41.86	54.17	288.80	21.06	309.86	396.29
Floyd County	2,049	218.66	35.14	68.70	367.44	75.10	442.54	461.45
Lunenburg County	2,660	226.76	38.34	71.96	389.81	76.62	466.43	466.43
Nansemond County	8,875	230.31	29.07	61.73	349.50	68.27	417.78	442.89
Norfolk City	50,882	189.55	44.24	73.65	334.72	74.00	408.72	486.80
Northumberland County	2,143	151.11	37.33	66.93	296.35	12.21	308.56	308.56
Norton City	1,181	248.93	35.56	61.38	370.40	123.25	493.65	493.65
Rappahannock County	1,082	125.77	31.42	74.41	264.82	63.30	328.12	328.12
Richmond City	39,129	151.88	52.29	64.40	306.23	82.02	388.25	399.84
Roanoke City	18,288	171.36	45.88	62.82	317.22	61.09	378.31	394.98
Waynesboro City	3,719	163.26	47.06	64.83	307.87	24.01	331.88	331.88
Wise County	9,069	258.00	35.95	80.45	413.61	99.18	512.79	512.79
Total state	986,152	\$188.48	\$38.50	\$65.58	\$326.18	\$45.14	\$371.32	\$402.83

Sources: Facing Up, No. 4 (Richmond: State Department of Education, January, 1970), pp. 46-50; Table 6.1 .

TABLE 6.3.--STATE AND FEDERAL AID TO SELECTED LOCALITIES FOR SUPPORT OF PUBLIC SCHOOLS PER STUDENT  
IN AVERAGE DAILY ATTENDANCE RELATIVE TO STATEWIDE AVERAGES, FISCAL YEAR 1968-69

Locality	Relative (State Average = 100)						
	Basic School Aid Fund (1)	Fringe Benefits (2)	Sales Tax (3)	Total State Aid (4)	Federal Aid Excluding Impact Funds (Oper. Only) (5)	Total State and Federal Aid Excluding Impact Funds (Oper. Only) (6)	Total State and Federal Aid Including Impact Funds (Oper. Only) (7)
Alexandria City	72.2	153.6	112.6	89.7	62.4	86.4	98.3
Augusta County	103.3	94.6	102.1	105.8	79.7	102.6	94.6
Buckingham County	108.5	90.8	110.4	113.8	254.3	130.9	120.6
Chesapeake City	111.1	98.2	99.5	108.2	117.4	109.3	111.9
Chesterfield County	92.2	80.9	92.8	90.8	37.1	84.2	79.8
Fairfax County	88.0	108.7	82.6	88.5	46.6	83.4	98.4
Floyd County	116.0	91.3	104.8	112.6	166.4	119.2	114.6
Lunenburg County	120.3	99.6	109.7	119.5	169.7	125.6	115.8
Nansemond County	122.2	75.5	94.1	107.1	151.2	112.5	109.9
Norfolk City	100.6	114.9	112.3	102.6	163.9	110.1	120.8
Northumberland County	80.2	97.0	102.0	90.8	27.0	83.1	76.6
Norton City	132.1	92.4	93.6	113.6	273.0	132.9	122.5
Rappahannock County	66.7	81.6	113.5	81.2	140.2	88.4	81.4
Richmond City	80.6	135.8	98.2	93.9	181.7	104.6	99.2
Roanoke City	90.9	119.2	95.8	97.2	135.3	101.9	98.0
Waynesboro City	86.6	122.2	98.9	94.4	53.2	89.4	82.4
Wise County	136.9	93.4	122.7	126.8	219.7	138.1	127.3
Total State	100.0	100.0	100.9	100.0	100.0	100.0	100.0
Range for sample	(66.7-136.9)	(75.5-153.6)	(82.6-122.7)	(81.2-126.8)	(27.0-273.0)	(83.1-138.1)	(76.6-127.3)

Source: Table 6.2.

TABLE 6.4--SOURCES OF SUPPORT OF PUBLIC SCHOOLS IN SELECTED LOCALITIES, FISCAL YEAR 1968-69

Locality	Total Amount from Each Source <sup>a/</sup>				Per Student in ADA				Percent of All Sources <sup>e/</sup>			
	Local <sup>b/</sup> (1)	State <sup>c/</sup> (2)	Federal <sup>d/</sup> (3)	All Sources (4)	Local (5)	State (6)	Federal (7)	All Sources (8)	Local (9)	State (10)	Federal (11)	All Sources (12)
Alexandria City	\$ 8,079,381	\$ 4,695,432	\$ 1,659,865	\$ 14,434,678	\$503.48	\$292.60	\$103.44	\$899.52	56.0	32.5	11.5	100.0
Augusta County	1,609,937	3,266,532	340,431	5,216,900	170.04	345.01	35.96	551.00	30.9	62.6	6.5	100.0
Buckingham County	313,885	923,923	285,677	1,523,485	126.11	371.20	114.78	612.09	20.6	60.6	18.8	100.0
Chesapeake City	3,382,846	7,869,087	2,188,678	13,440,611	151.66	352.78	98.12	602.56	25.2	58.5	16.3	100.0
Chesterfield County	6,817,245	8,220,580	699,550	15,737,375	245.53	296.08	25.20	566.81	43.3	52.2	4.4	100.0
Fairfax County	40,682,740	33,278,310	12,385,345	86,346,395	353.06	288.80	107.48	749.35	47.1	38.5	14.3	100.0
Floyd County	227,114	752,884	192,635	1,172,633	110.84	367.44	94.01	572.30	19.4	64.2	16.4	100.0
Lunenburg County	310,774	1,036,907	203,808	1,551,489	116.83	389.81	76.62	583.27	20.0	66.8	13.1	100.0
Nansemond County	882,720	3,101,864	828,778	4,813,362	99.46	349.50	93.38	542.35	18.3	64.4	17.2	100.0
Norfolk City	9,432,345	17,031,151	7,738,120	34,201,616	185.38	334.72	152.08	672.18	27.6	49.8	22.6	100.0
Northumberland County	411,211	635,082	26,158	1,072,451	191.88	296.35	12.21	500.44	38.3	59.2	2.4	100.0
Norton City	125,140	437,444	145,556	708,140	105.96	370.40	123.25	599.61	17.7	61.8	20.6	100.0
Rappahannock County	224,170	286,536	68,487	579,193	207.18	264.82	63.30	535.30	38.7	49.5	11.8	100.0
Richmond City	15,317,928	11,982,617	3,662,542	30,963,087	391.47	306.23	93.60	791.31	49.5	38.7	11.8	100.0
Roanoke City	5,569,561	5,801,352	1,421,969	12,792,882	304.55	317.22	77.75	699.52	43.5	45.3	11.1	100.0
Waynesboro City	1,257,062	1,144,966	89,302	2,491,330	338.01	307.87	24.01	669.89	50.4	46.0	3.6	100.0
Wise County	474,316	3,751,020	899,439	5,124,775	52.30	413.61	99.18	565.09	9.2	73.2	17.6	100.0
Total State	\$227,007,988	\$321,665,130	\$75,583,272	\$624,256,390	\$230.20	\$326.18	\$ 76.64	\$627.95	36.6	51.9	12.2	100.0

Note: Details may not add to totals due to rounding.

a/ Operations only. Does not include funds for capital outlay or debt service.

b/ Excludes distribution of 1/3 of state sales and use tax to localities for purpose of education, in fiscal year 1968-69.

c/ Includes fringe benefits and sales tax distribution.

d/ Includes federal impact funds.

e/ Per student in ADA.

Sources: Tables 6.1, 6.2, and 6.3; State Department of Education, Facing Up, No. 4 (Richmond: January, 1970), pp. 51-55; Report of the Comptroller, Fiscal Year Ended June 30, 1969, (Richmond: January, 1970).

## Proposals for Change

There are many ways in which present forms of state aid could be modified. Such proposals would run the gamut from increasing amounts under present formulas to creating a completely new system that would scrap the existing setup.

Increase Amounts Under Present Formulas.--Proposals working within the existing setup would involve the least amount of additional administrative effort and would have the advantage of familiarity. Although they would perpetuate many of the problems already mentioned, they would give some degree of fiscal relief to all localities. The following proposals for changes in the basic school and fund are intended to be suggestive rather than exhaustive. All would maintain the existing way of computing the supplementary state share and would move under the constraint that no locality would receive less than under the existing formula.

1. Raise the state minimum salary scale to a level closer to actual salaries for most Virginia teachers. In 1970-71, the cost to the state of raising the scale by 30 percent would be \$5.6 million.
2. Raise the basic state share of the total cost of salaries (as computed under the state minimum salary scale) from the present 60 percent to 100 percent. Using the present state minimum salary scale, this would cost the state an additional \$35.4 million in 1970-71.
3. Provide for state takeover of the total cost of the minimum program as presently computed (total cost of salaries under the state minimum salary scale plus A.D.A. multiplied by \$120). In 1970-71, the additional cost of this plan would be \$155.4 million.

Change the Basic School Aid Formula.--This approach would keep the existing system of separate forms of state aid such as the basic school aid fund, the local share of the state sales and use tax, state payment of teachers retirement, etc., but it would modify the basis for distributing the basic school aid fund. The cost to the state would depend on the formula--it could be designed to require the same amount as the existing formula, or it could contain features that would require much larger state outlays.



The most recent suggestion for reform of the basic school aid formula was made by the Commission Created to Study the Formula for State Aid to Public Schools (often called the McMath Commission after its chairman, Delegate George N. McMath). The proposed formula would have been in lieu of the present basic school aid fund, and state aid for guidance counselors, local supervision, special education, and twelve-month principals. The formula would have computed local ability to pay on the basis of relative measures of the true value of local real property and the local option sales tax, but with a limit that the state's share would fall within a range of \$133 to \$267 per child in average daily membership (ADM). In addition, there was a state allowance for capital outlay computed by multiplying ADM by \$10. According to the commission, the proposal would have required an additional \$35.9 million of state aid in fiscal year 1970-71. All localities would have received additional funds, but the percentage increases would have varied considerably. In general, the localities receiving the most assistance would have been the counties. The following percentages show the impact on our seventeen area sample:

	<u>% increase</u>		<u>% increase</u>
Alexandria City	7.2	Norfolk City	14.8
Augusta County	11.8	Northumberland County	49.0
Buckingham County	16.9	Norton City	4.5
Chesapeake City	23.8	Rappahannock County	9.2
Chesterfield County	32.3	Richmond City	5.8
Fairfax County	18.2	Roanoke City	5.4
Floyd County	20.5	Waynesboro City	5.1
Lunenburg County	16.8	Wise County	4.1
Nansemond County	20.7		
		Statewide total	16.6

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Source: Commission Created to Study the Formula for State Aid to Public Schools, A New Plan, House Document No. 20 (Richmond: Commonwealth of Virginia, 1970), pp. 26-33.

New Systems.--More fundamental changes would involve changing the whole pattern of present state assistance for education. Existing aid could be consolidated into a block grant, measures of ability to pay revised, and performance factors introduced.

The present system makes no allowance for heavy costs imposed on localities with large proportions of "disadvantaged" children. By disadvantaged, we mean children from families whose economic status conforms to the current federal definition of poverty (about \$3,950 for a four-person nonfarm household). Under Title I of the Elementary and Secondary Education Act of 1965, the federal government is providing assistance for disadvantaged children, and in 1970-71, expenditures are expected to be \$31.5 million.<sup>1/</sup> The state could undertake a matching program which would complement the federal aid on a one-to-one basis. Distribution of the aid would follow the federal criteria. Thus, a city's or county's authorization would be determined by multiplying the per pupil expenditure factor<sup>2/</sup> by the sum of the locality's low-income children, AFDC<sup>3/</sup> children, children in foster homes, and children in nonpublic institutions for the neglected or delinquent. Such aid would be available for pre-school education in addition to regular school.

The idea of state supplementary aid for Title I programs is not new. The McMath Commission stated, "The number or percentage of educationally

<sup>1/</sup> State Board of Education, "Elementary and Secondary Education Act, P. L. 89-10, Title I, Maximum Basic Authorization, 1970-1971," (mimeograph sheets, no date) and an estimate of actual expenditures by J. G. Blount, Jr., Assistant Superintendent for Administration and Finance, Department of Education.

<sup>2/</sup> The per pupil expenditure factor is defined as one-half the national average per pupil expenditure for education.

<sup>3/</sup> AFDC is the abbreviation for recipients of welfare under aid to families with dependent children under Title IV of the Social Security Act.

disadvantaged children in a school system must be taken into full consideration either in the basic school formula or by appropriation of supplemental funds for public education to be distributed by the State to the localities based upon these considerations."<sup>1/</sup> Moreover, other states are already providing supplementary aid for the disadvantaged. According to the National Advisory Council on the Education of Disadvantaged Children, "Sixteen States appropriated special funds for the disadvantaged in 1968-69, ranging from \$52,000,000 in New York to \$80,000 in Utah. Four additional States had basic foundation programs with special features which took account of educationally disadvantaged children."<sup>2/</sup>

State Aid for Welfare<sup>3/</sup>

Provided that funds are available, as of January 1, 1972, the state will take over the local share of welfare assistance costs for old age assistance, aid to the permanently and totally disabled, aid to families with dependent children, and aid to the blind.<sup>4/</sup> This will leave local governments with continued responsibility for their share of all administration costs and

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<sup>1/</sup> Commission Created to Study the Formula for State Aid to Public Schools, A New Plan, House Document No. 20 (Richmond: Commonwealth of Virginia, 1970), p. 37.

<sup>2/</sup> The 1971 Annual Report to the President and the Congress, Title I, E.S.E.A. (Washington: National Advisory Council on the Education of Disadvantaged Children, 1971), p. 12.

<sup>3/</sup> For more information on this subject see Chapter IV, pp. 213-15.

<sup>4/</sup> See Code of Virginia, Section 63.1-92. Although the law makes state support beginning January 1, 1972 contingent on the availability of funds, the law requires state support beginning July 1, 1972. The extra session of the General Assembly further provided that funds appropriated for water quality control facilities and not required for that purpose could be transferred by the Governor to effect assumption of the above-mentioned welfare costs retroactive to a date not sooner than July 1, 1971.

assistance costs for the three state-local programs--general relief, foster care, and hospitalization of the indigent. In addition, localities will continue to be responsible for part of the costs of the federally-sponsored day care services and work incentive programs.

One alternative would be for the state to take over the local assistance costs for the three state-local programs. Had it done so in fiscal year 1969-70, the cost would have been \$7.6 million with a large proportion of the assistance provided to central cities with high welfare loads. This alternative would continue to leave localities responsible for their share of all administration costs. In fiscal year 1969-70 their share would have been \$3.3 million if based on the 18.15 percent of administrative costs that they would have to pay beginning in final year 1971-72 (and not the 39.2 percent actually paid. Take-over of the local share of day care services and work incentive programs would have cost an additional \$217,000 in fiscal year 1969-70.

A more far-reaching proposal would be a complete state take-over of local welfare costs. This could be accomplished with a continuation of the existing local administrative structure, a move toward regionalization, or full absorption of administration by the state government. Such an approach would have cost the state about \$11.1 million in fiscal year 1969-70, assuming that the state were already funding the local share of welfare assistance costs for old age assistance, and to the permanently and totally disabled, aid to families with dependent children, and aid to the blind and that the local share of administrative costs were 18.15 percent.<sup>1/</sup> The \$11.1 million figure is probably a low estimate, since if the state were to take over full costs,

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<sup>1/</sup> In making this estimate we assumed that medical assistance to the aged would not be a local responsibility since it has been absorbed by the federal-state medicaid program. The basic source of data was a preprint of a table which will appear in the Department of Welfare and Institutions annual report.

there would be a rise in benefit levels as all communities were brought up to state standards.

Uncertainty about the future role of the federal government is a factor that cannot be ignored. A fundamental change in the welfare system could eliminate local, and possibly state, burdens for this large and fast growing sector.

#### State Aid for Health

The State Department of Health now operates all but one local health department with the state bearing the major share of their costs (the state share varies from 55 percent to 82 percent of the costs depending upon local ability to pay as measured by the true value of real property). Generally, the central cities pay larger percentages of cost than rural areas. A new method of deriving local shares could be developed which would pay the same share for all localities. The logic for this proposal would be that the present formula is a poor measure of ability to pay if one considers the differential incidence of public health loads and differing expenditure burdens of various localities. Moreover, expenditures on health provide benefits beyond local boundaries so there is an argument for greater state participation. Ninety percent funding by the state in 1969-70 would have required an additional \$5.8 million.<sup>1/</sup>

#### State Aid for Highways

Highways are primarily a state function in Virginia, yet certain types of local governments--municipalities of 3,500 or more, and Arlington and Henrico counties--make large outlays financed from their own resources. In 1968-69 these local governments spent \$66 million but received aid of \$19

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<sup>1/</sup> Expenditure data for fiscal year 1969-70 was supplied by Mr. A. E. Price, Fiscal Director of the Department of Health.

million.<sup>1/</sup> Thus, for localities operating their own systems, roughly two out of every three dollars of expenditures for highways came from local sources. In contrast, many counties have virtually no highway costs because the state provides for all maintenance and construction.

Additional aid to local governments that maintain their own highway systems would be a significant form of aid because highway expenditures are one of their more important costs of government. The present payments of \$10,000 per mile for urban extensions of primary routes and \$1,100 for certain other streets could be increased and given a closer relationship to actual costs of maintenance, depending on usage, number of lanes, terrain, weather conditions, etc. Furthermore, state aid could be provided for traffic police, and the state's share of new construction costs could be increased from the present 85 percent.

A more far-reaching proposal would be to merge the highway fund into a transportation fund and make funds available for helping localities with the cost of subsidizing other forms of transportation such as bus and rapid transit systems.

The cost of expanded state participation would depend on the program selected, but to give some order of magnitude, a switch from the present 1 to 2 state-local ratio of financing to a 2 to 1 ratio would have cost the state about \$19 million in fiscal year 1969-70.<sup>2/</sup> This amount would have been

<sup>1/</sup> See Table 6.5. The data were taken from a survey conducted by the Institute of Government at the University of Virginia. Although the survey uses prescribed procedures of the United States Bureau of Public Roads, it relies heavily upon the accuracy of local reporting. Localities in Virginia do not use a standardized accounting framework so there are differences in how costs are charged. For example, one locality might charge to "utility expense" street work associated with installation of utilities; another locality might charge this to "road construction expense".

<sup>2/</sup> Derived by matching the amounts actually spent for the Municipality Street Fund (\$15,230,000) and the payments to Arlington and Henrico (\$3,814,000). Source: Financial Supplement to the 63rd Annual Report, Virginia Highway Commission, July 1, 1969-June 30, 1970 (Richmond: Virginia Highway Commission, 1970), Tables B and C.

TABLE 6.5 --HIGHWAY FINANCES OF VIRGINIA LOCALITIES, FISCAL YEAR 1968-69

Item	Localities Operating Their Own Systems				Total	% State Supported Counties	Total, All Localities
	Municipalities		50,000 & Over	Arlington and Henrico Counties			
	Under 5,000	5,000 to 49,999					
<b>Receipts:</b>							
Total receipts from local sources <sup>a/</sup>	\$2,281,800	\$ 9,211,939	\$35,227,780	\$ 8,386,598	\$43,614,378	\$6,111,993	\$49,726,371
Total receipts from state government	<u>1,205,268</u>	<u>4,591,953</u>	<u>14,985,412</u>	<u>3,772,222</u>	<u>18,757,634</u>	<u>172,251</u>	<u>18,929,885</u>
Total	\$3,487,068	\$13,803,892	\$50,213,192	\$12,158,820	\$62,372,012	\$6,284,244	\$68,656,256
<b>Disbursements:</b>							
Total direct highway disbursements for capital outlay	\$ 597,435	\$ 3,255,674	\$ 9,645,277	\$ 4,161,383	\$13,806,660	\$ 164,555	\$13,971,215
Total direct highway disbursements for maintenance	1,606,342	4,997,266	17,204,339	2,043,929	19,248,268	681,850	19,930,118
Interest on debt <sup>b/</sup>	1,330	285,228	1,947,728	1,366,063	3,313,791	...	3,313,791
Other <sup>c/</sup>	<u>982,864</u>	<u>3,276,978</u>	<u>16,315,057</u>	<u>3,628,695</u>	<u>17,943,752</u>	<u>2,949,567</u>	<u>20,893,319</u>
Total direct highway disbursements <sup>b/</sup>	\$3,187,971	\$11,815,146	\$43,112,401	\$11,200,070	\$54,312,471	\$3,795,972	\$58,108,443
Intergovernmental transfers <sup>d/</sup>	306,972	2,103,957	5,332,185	...	5,332,185	...	5,332,185
Debt redemption	<u>6,425</u>	<u>590,924</u>	<u>4,923,519</u>	<u>958,750</u>	<u>5,882,269</u>	...	<u>5,882,269</u>
Total disbursements	\$3,501,368	\$14,510,027	\$53,368,105	\$12,158,820	\$65,526,925	\$3,795,972	\$69,322,897

a/ Includes net receipts from parking facilities and indirect street functions (street cleaning, street lighting, sidewalks, and storm sewer and drainage facilities).

b/ The original report did not classify interest on debt as a direct highway disbursement.

c/ The \$20,893,319 total for all localities was composed of estimated costs for undistributed highway equipment (\$113,725), general administration and engineering (\$3,362,623), highway and traffic police (\$17,041,363), and other (\$375,608).

d/ Composed mainly of the localities' share of state road construction expenditures.

Source: Institute of Government, University of Virginia, "Cost of Financing Virginia Municipal Highways, Fiscal Year Ended June 30, 1969," (Charlottesville: University of Virginia, 1971).

released for additional road spending or for other uses by localities.

### New Local Tax Powers

Aid to localities could take the form of new tax powers they do not have at present.

#### Sales and Use Tax Local Option<sup>1/</sup>

All localities impose a 1 percent local option sales tax which is collected by the state and returned to localities on the basis of place of sale. As an alternative to the present system, the limit on the local rate could be raised to 2 percent. Assuming all localities exercised the new option, the revenue impact would be virtually the same as an additional 1 percent state levy distributed on the basis of place of sale.<sup>2/</sup>

#### Local Income Tax

An income tax is a major source of revenue not available to local governments in Virginia. Section 58-80 of the Code of Virginia prohibits local governments from imposing any tax or levy upon incomes. Several states do allow local income taxes and there is a well-developed literature on the subject. In this section we shall provide background on its present usage, major issues connected with the tax, and some estimates of the yield.

#### Present Usage<sup>3/</sup>

Local income taxes are imposed in more than 3,500 local jurisdictions with the majority concentrated in Ohio (267 local jurisdictions) and Pennsylvania

<sup>1/</sup> For more on the tax see pp. 141-56.

<sup>2/</sup> One minor difference would be that the state tax receipts are reduced by a 3 percent allowance to dealers for collection expenses. The local option tax collected by the state is not similarly reduced. However, another consideration is that there is a strong possibility that federal courts will rule that a locality cannot impose a use tax. Thus, the local option would not apply to use sales.

<sup>3/</sup> Data in this section came from two Advisory Commission on Intergovernmental Relations studies--The Commuter and the Municipal Income Tax, M-51 (April, 1970) and State and Local Finances and Suggested Legislation, 1971 Edition, M-57 (December, 1970).



(3,191). Ohio does not have a state individual income tax, and Pennsylvania only recently adopted one. Eight other states have local income taxes in addition to state income taxes. With the exception of Bernalillo County, New Mexico, the states that have local income taxes are located in the eastern half of the nation.

A large number of the jurisdictions imposing the tax are school districts and other relatively small units. A recent survey indicated that 3,476 of the taxing jurisdictions had less than 50,000 population, but there were 49 cities with populations greater than 50,000 that had such taxes, including New York, Philadelphia, Detroit, Baltimore, Cleveland, Pittsburgh, and St. Louis.

Local income taxes have a short history since the first was adopted by Philadelphia in 1939. The next major locality to impose one was Toledo in 1946. Dates of adoption for other large cities are show in Table 6.6.

There are many forms of local income taxes, and the legal nomenclature used to identify them varies. In this discussion we are including "wage taxes", "payroll taxes", "earnings taxes", and "occupational license taxes" when used as some form of income tax.

### Major Issues

The features of existing local income taxes vary tremendously, so there is no accepted prototype to serve as a basis for analysis. The approach used here will be to identify six major issues that encompass the major policy decisions related to such a tax. The first five issues concern the taxation of individuals, and the sixth concerns taxation of corporations. Selected data relating to these issues are shown in Tables 6.7 and 6.8.

1. Definition of Taxable Income.--Most local income taxes restrict the tax to so-called "earned income" (salaries and wages), but a minority include other forms of income such as interest, dividends, rent, and capital gains.

TABLE 6.6.--CHRONOLOGICAL LISTING OF CITY INCOME TAX ADOPTIONS  
(Cities with 50,000 or more inhabitants in 1960)

Year	City	Rate 12/31/69 (percent)
1939	Philadelphia, Pennsylvania	3.0
1946	Toledo, Ohio	1.5
1947	Columbus, Ohio	1.0
1948	Altoona, Pennsylvania	1.0
	Erie, Pennsylvania	1.0
	Johnstown, Pennsylvania	1.0
	Louisville, Kentucky	1.25
	Scranton, Pennsylvania	1.0
	Springfield, Ohio	1.0
	St. Louis, Missouri	1.0
	Youngstown, Ohio	1.5
1949	Dayton, Ohio	1.0
1952	Lexington, Kentucky	1.5
	Warren, Ohio	1.0
1954	Canton, Ohio	1.4
	Cincinnati, Ohio	1.0
	Pittsburgh, Pennsylvania	1.0
1956	Covington, Kentucky	2.0
	Gadsden, Alabama	2.0
1957	Bethlehem, Pennsylvania	1.0
1958	Allentown, Pennsylvania	1.0
1959	Lima, Ohio	1.0
	Lancaster, Pennsylvania	0.5
1960	Hamilton, Ohio	1.0
1962	Akron, Ohio	1.0
	Detroit, Michigan	2.0
1964	Kansas City, Missouri	0.5
	Penn Hill Township, Pennsylvania	1.0
1965	Flint, Michigan	1.0
	Saginaw, Michigan	1.0
	York, Pennsylvania	1.0
1966	Baltimore, Maryland	50% of State tax
	Chester, Pennsylvania	1.0
	Harrisburg, Pennsylvania	1.0
	New York City, New York	0.4-2.0
	Wilkes-Barre, Pennsylvania	0.5
1967	Cleveland, Ohio	1.0
	Cleveland Heights, Ohio	1.0
	Euclid, Ohio	1.0
	Grand Rapids, Michigan	1.0
	Parma, Ohio	1.0
1968	Abington Township, Pennsylvania	1.0
	Kettering, Ohio	1.0
	Lakewood, Ohio	1.0
	Lansing, Michigan	1.0
	Lorain, Ohio	1.0
	Pontiac, Michigan	1.0
1969	Reading, Pennsylvania	1.0
	Wilmington, Delaware	0.25 or 0.50

Source: Advisory Commission on Intergovernmental Relations, The Commuter and the Municipal Income Tax, M-51 (Washington: Government Printing Office, 1970), p. 4.

TABLE 6.7--LOCAL INCOME TAX BASES, 1967

City	Non-resident rate relative to resident rate	Business taxed <sup>a</sup>		Resident income base includes --				Reciprocal city tax credit allowed	Personal exemptions allowed	Personal deductions allowed	Tax withheld on wages and salaries
		Incorporated	Unincorporated	Wages, salaries, similar income only	Income earned out of jurisdiction	Capital gains	Dividends				
New York, N. Y. . . . .	(b)	Yes	Yes	No	Yes	Yes	Yes	No	\$500 ea. (b)	Yes	Yes
Philadelphia, Pa. . . . .	Same	No	Yes	Yes	Yes	No	No	No	No	No	Yes
Detroit, Mich. . . . .	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	\$500 ea.	No	Yes
Baltimore, Md. . . . .	Zero	Yes	Yes	No	Yes	Yes	Yes	No	\$300 ea.	Yes	Yes
Cleveland, Ohio . . . . .	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes
St. Louis, Mo. . . . .	Same	Yes	Yes	Yes	Yes	No	No(c)	No	No	No	Yes
Cincinnati, Ohio . . . . .	Same	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Pittsburgh, Pa. . . . .	Same	Yes	Yes	No	No	No	No	Yes	No	No	Yes
Kansas City, Mo. . . . .	Same	Yes	Yes	Yes	Yes	No	No(c)	Yes	No	No	Yes
Columbus, Ohio . . . . .	Same	Yes	Yes	No	Yes	No	No	Yes	No	No	Yes
Louisville, Ky. . . . .	Same	Yes	Yes	Yes	No	No(c)	No	No	No	No	Yes
Toledo, Ohio . . . . .	Same	Yes	Yes	No	Yes	No	No	Yes	No	No	Yes
Akron, Ohio . . . . .	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Dayton, Ohio . . . . .	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Flint, Mich. . . . .	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	\$600 ea.	No	Yes
Youngstown, Ohio . . . . .	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Erie, Pa. . . . .	Same	No	Yes	No	Yes	No	No	Yes	No	No	Yes
Canton, Ohio . . . . .	Same	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Scranton, Pa. . . . .	Same	No	Yes	Yes	Yes	No	No	No	No	No	Yes
Allentown, Pa. . . . .	Same	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes
Grand Rapids, Mich. . . . .	Half	Yes	Yes	No	Yes	Yes	Yes	Yes	\$500 ea.	No	Yes

a. Charitable, religious, educational, and other nonprofit organizations exempt in most cases. Tax generally confined to income stemming from activities in city.

b. Non-residents taxed on an entirely different basis from residents. The rate is markedly lower. Instead of deductions, an exclusion related to income level is allowed. The exclusion of \$3,000 on income up to \$10,000 drops to \$2,000 for income over \$10,000, to \$1,000 for \$20,000-\$30,000 income, to none for income over \$30,000.

c. Except where derived in connection with the conduct of a business

Source: Tax Foundation, Inc., City Income Taxes, Research Publication No. 12 (New Series) as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition, M-57 (Washington: Government Printing Office, 1970), p. 103.

TABLE 6.8 --LOCAL INCOME TAXES, RATES AND COLLECTIONS  
(Dollar amounts in thousands)

State and local government	Rate December 31, 1970 (percent)	Municipal tax collections, 1968-69 (Cities with over 50,000 population in 1960)		
		Total tax collections	Income tax collections	
			Amount	As a percent of total collections
Alabama:				
Gadsden .....	2.0	\$4,614	\$2,677	58.0
Delaware:				
Wilmington .....	¼ of 1% or 1% <sup>1</sup>	13,064	1,058	8.1
Kentucky:				
Ashland .....	1.0	XXX	XXX	XXX
Benton .....	0.5	XXX	XXX	XXX
Berea .....	1.5	XXX	XXX	XXX
Bowling Green .....	1.0	XXX	XXX	XXX
Catlettsburg .....	1.0	XXX	XXX	XXX
Covington .....	2.0	3,590	1,616	45.0
Cynthiana .....	1.5	XXX	XXX	XXX
Danville .....	1.0	XXX	XXX	XXX
Dawson Springs .....	1.0	XXX	XXX	XXX
Flemingsburg .....	0.5	XXX	XXX	XXX
Frankfort .....	1.0	XXX	XXX	XXX
Fulton .....	1.0	XXX	XXX	XXX
Glasgow .....	1.0	XXX	XXX	XXX
Hopkinsville .....	1.0	XXX	XXX	XXX
Leitchfield .....	1.0	XXX	XXX	XXX
Lexington .....	1.5	9,431	5,037	53.4
Louisville .....	1.25	32,024	17,353	53.2
Jefferson County <sup>2</sup> .....	1.75	XXX	XXX	XXX
Ludlow .....	1.0	XXX	XXX	XXX
Marshall County .....	0.5	XXX	XXX	XXX
Mayfield .....	0.67	XXX	XXX	XXX
Maysville .....	1.5	XXX	XXX	XXX
Middlesboro .....	1.0	XXX	XXX	XXX
Newport .....	2.0	XXX	XXX	XXX
Owensboro .....	1.0	XXX	XXX	XXX
Paducah .....	1.25	XXX	XXX	XXX
Pikeville .....	1.0	XXX	XXX	XXX
Princeton .....	1.0	XXX	XXX	XXX
Richmond .....	1.0	XXX	XXX	XXX
Maryland:	% of State tax			
Baltimore City .....	50%	186,346	26,300	14.1
1 County .....	20%	XXX	XXX	XXX
1 County .....	30%	XXX	XXX	XXX
2 Counties .....	35%	XXX	XXX	XXX
19 Counties .....	50%	XXX	XXX	XXX
Michigan:				
Battle Creek .....	4	XXX	XXX	XXX
Big Rapids .....	4	XXX	XXX	XXX
Detroit .....	4,5	202,306	78,729	38.9
Flint .....	4	17,955	9,132	50.8
Grand Rapids .....	4	14,939	6,401	41.8
Hamtramck .....	4	XXX	XXX	XXX

See footnotes at the end of the table.

TABLE 6.8 --LOCAL INCOME TAXES, RATES AND COLLECTIONS (Continued)  
(Dollar amounts in thousands)

State and local government	Rate December 31, 1970 (percent)	Municipal tax collections, 1968-69 (Cities with over 50,000 population in 1950)		
		Total tax collections	Income tax collections	
			Amount	As a percent of total collections
Highland Park .....	4	XXX	XXX	XXX
Jackson .....	4	2,858	XXX <sup>3</sup>	XXX <sup>3</sup>
Lansing .....	4	10,123	4,197	41.5
Lapeer .....	4	XXX	XXX	XXX
Pontiac .....	4	7,150	2,826	39.5
Port Huron .....	4	XXX	XXX	XXX
Saginaw .....	4	7,120	3,691	51.8
Missouri:				
Kansas City .....	0.5	50,373	12,469	24.8
St. Louis .....	1.0	98,605	35,728	36.2
New York:				
New York City .....	0.4-2.0 <sup>6</sup>	2,861,063	495,766	17.3
Ohio:				
Cities 50,000 population and over --				
Akron .....	1.3 (1.4 eff. 1/1/71)	22,958	12,095	52.7
Canton .....	1.5	6,944	4,459	75.0
Cincinnati .....	1.7	49,654	21,192	42.7
Cleveland .....	1.0	80,749	21,637	26.8
Cleveland Heights .....	1.0	3,901	662	17.0
Columbus .....	1.5	27,317	20,014	73.3
Dayton .....	1.0	26,007	15,073	58.0
Euclid .....	1.0	6,425	2,052	31.9
Hamilton .....	1.0	3,434	2,140	62.3
Kettering .....	1.0	3,300	1,182	35.8
Lakewood .....	1.0	3,358	89	2.7
Lima .....	1.0	2,635	1,886	71.6
Lorain .....	1.0	3,497	950	27.2
Parma .....	1.0	4,208	778	18.5
Springfield .....	1.5	4,101	2,987	72.8
Toledo .....	1.5	26,404	19,923	75.5
Warren .....	1.0	3,300	2,382	72.2
Youngstown .....	1.5	12,175	7,236	59.4
269 cities and villages (with less than 50,000 popula- tion)	0.25 - 1.7	XXX	XXX	XXX
Pennsylvania: <sup>7</sup>				
Cities, 50,000 population and over --				
Abington Township .....	1.0 <sup>8</sup>	2,611	XXX <sup>3</sup>	XXX <sup>3</sup>
Allentown .....	1.0 <sup>8</sup>	6,820	1,588	23.3
Altoona .....	1.0 <sup>9</sup>	2,783	573	20.6
Bethlehem .....	1.0 <sup>8</sup>	4,683	1,109	23.7
Chester .....	1.0 <sup>10</sup>	3,706	1,822	49.2
Erie .....	1.0 <sup>8</sup>	8,458	1,582	18.7
Harrisburg .....	1.0 <sup>8</sup>	4,680	912	19.5
Johnstown .....	1.0 <sup>9</sup>	2,259	417	18.5
Lancaster .....	0.5 <sup>11</sup>	2,436	655	26.9
Penn Hills Township .....	1.0 <sup>9</sup>	2,180	836	38.3
Philadelphia .....	3.0 <sup>12</sup>	287,491	141,303	49.2
Pittsburgh .....	1.0 <sup>8</sup>	58,695	11,958	20.4
Reading .....	1.0 <sup>10</sup>	4,784	XXX <sup>3</sup>	XXX <sup>3</sup>
Scranton .....	1.0 <sup>8,13</sup>	5,898	1,643	27.9
Wilkes Barre .....	0.5 <sup>8</sup>	3,015	589	19.5
York .....	1.0 <sup>8</sup>	2,634	411	15.6
Approx. 3,300 other local jurisdictions (including over 1,000 school districts)	0.20 - 1.0	XXX	XXX	XXX

See footnotes at the end of the table.

TABLE 6.8.--LOCAL INCOME TAXES, RATES AND COLLECTIONS (Continued)  
(Dollar amounts in thousands)

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Note: Excludes Washington, D.C. which has a graduated net income tax that is more closely akin to a State tax than to the municipal income taxes (see table 36. Also excludes the Denver Employee Occupational Privilege Tax of \$2 per employee per month, which applies only to employees earning at least \$250 per month; the San Francisco 1% payroll expense tax (eff. 10/1/70); and the 1/2 of 1% quarterly payroll tax on employers imposed in the Tri-county Metropolitan Transit District (encompassing all of Washington, Clackamas and Multnomah counties, Oregon).

"XXX" Signifies a county, or a city under 50,000 population.

- <sup>1</sup> If total annual wages or net profits are \$4,000 or less there is no tax liability. On income between \$4,000.01 and \$6,000.00 the rate is 1/4 of 1%; on income of \$6,000.01 or more 1%. The tax rates apply to total income not merely to the proportion of income falling within a given bracket. In this sense the tax is not a typical graduated levy.
  - <sup>2</sup> A taxpayer subject to the 1.25 percent tax imposed by the City of Louisville may credit this tax against the 1.75 percent levied by Jefferson County.
  - <sup>3</sup> Tax went into effect after reporting period.
  - <sup>4</sup> Under the Michigan "Uniform City Income Tax Act," the prescribed rates are 1.0 percent for residents and 0.5 percent for nonresidents. A resident is allowed credit for taxes paid to another city as a nonresident.
  - <sup>5</sup> The rate for residents in Detroit was increased from 1 percent to 2 percent effective October 1, 1968.
  - <sup>6</sup> New York City residents' rate ranges from 0.4 percent on taxable income of less than \$1,000 to 2.0 percent on taxable income in excess of \$30,000. An earnings tax of 0.25 percent of wages or 3/8 of 1 percent on net earnings from self-employment, not to exceed that which would be due if taxpayer were a resident, is levied against nonresidents.
  - <sup>7</sup> Except for Philadelphia, Pittsburgh, and Scranton, the total rate payable by any taxpayer is limited to 1 percent. For coterminous jurisdictions, such as borough and borough school district, the maximum is usually divided equally between the jurisdictions unless otherwise agreed. However, school districts may tax only residents. Thus, if a borough and a coterminous school district each have a stated rate of 1 percent, the total effective rate for residents is 1 percent (1/2 of 1 percent each to the borough and school district) and the tax on nonresidents is 1 percent, the stated rate imposed by the borough.
  - <sup>8</sup> The school district rate is the same as the municipal rate.
  - <sup>9</sup> The school district rate is 0.5 percent.
  - <sup>10</sup> There is no school district income tax.
  - <sup>11</sup> The school district rate is 1.0 percent.
  - <sup>12</sup> The Philadelphia school district imposes a 2% tax on investment income.
  - <sup>13</sup> Combined city and school district rate may not exceed 2.0 percent.
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Source: Commerce Clearing House, State Tax Reporter, and U. S. Bureau of the Census, Governments Division, as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition, M-57 (Washington: Government Printing Office, 1970), pp. 100-102.

The omission of these other forms of income is usually based on economies of administration, i.e., taxes on wages and salaries are fairly easy to obtain from employer withholding whereas other forms of tax liability that are self-assessed are widely evaded. The cost of deterring potential evaders may be much larger than the revenue gained. These remarks do not apply when a local income tax is "piggybacked" on a state tax. Then the tax can apply to all types of income, and enforcement can be left to the state tax authorities.

2. Deductions and Exemptions.--Most localities do not allow deductions or exemptions since they would result in a loss in revenue and would add to administrative costs. The latter observation does not apply to the "piggyback" form of the tax since it incorporates the deduction-exemption structure used in the state tax.

3. Rates.--Rates are usually low (0.5 percent to 2 percent), since in the majority of cases the tax is in addition to a state levy, and there are no deductions or exemptions.

Many localities use a single rate for all levels of income, but some employ progressive rates either directly by a special rate structure or indirectly by the use of the "piggyback" on a state income tax which already incorporates progression.

Localities taxing commuters sometimes use a different rate structure for them. Under the Michigan "Uniform City Income Tax Act", the prescribed rates are 1.0 percent for residents and 0.5 percent for nonresidents. The New York City tax on commuters is entirely different from that for residents, with the commuters' rate much lower.

4. Taxation of Nonresidents.--This is the largest single issue in the local income tax.<sup>1/</sup> Generally, the tax is applicable to wages and salaries

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<sup>1/</sup> The discussion here is very brief. For some interesting simulations and further analysis see G. Ross Stephens, "The Suburban Impact of Earnings Tax Policies", National Tax Journal, Vol. XXII, No. 3 (September, 1969), p. 328.

earned in the taxing jurisdiction by residents and nonresidents. Residents must also include wages and salaries earned outside the taxing jurisdiction.

Taxpayers who live in one jurisdiction and work in another face the possibility of a local tax liability in both jurisdictions. Some localities allow this situation to occur, while others use various tax credit devices. No credit is allowed in New York, St. Louis, Kansas City, and several Ohio cities, thus giving priority to the place of employment. In other cases the city of residence is allowed to tax all earned income except that which is taxed at the place of employment. Thus, when computing his resident local income tax, the commuter gets a credit for taxes paid to the jurisdiction of his employer. This method is used by communities whose residents work in Philadelphia, and by Michigan cities. In Michigan, as previously noted, the nonresident rate is one-half the resident rate. The liability to the jurisdiction of employment is credited against resident tax liability. In effect, this splits on a 50-50 basis the commuter's tax payment between the jurisdiction of residence and jurisdiction of employment

Another alternative allows the jurisdiction of employment to tax the nonresident to the extent that he is not taxed by his resident jurisdiction. This procedure is used in the Cleveland area:

The city of Cleveland grants a credit to non-residents who live in Cuyahoga or an adjoining county in the amount of 25 percent of the Cleveland tax or 25 percent of the other city's tax, whichever is less. This credit to non-residents is given only where the other city grants a similar credit to Cleveland residents. Cleveland residents, who are subject to the tax in the city where they are employed, may claim a 75 percent credit against the Cleveland tax if the city of employment grants a similar credit to its residents who are subject to the Cleveland tax. Under this system, the place of employment taxes 75 percent of the earnings while the place of residence taxes 25 percent, thus avoiding double taxation.<sup>1/</sup>

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<sup>1/</sup> Joe G. Davis and Arthur J. Ransom, III, "An Evaluation of Municipal Income Taxation," Vanderbilt Law Review, Vol. 22 (November, 1969), P. 1324.



Although tax credits may avoid double taxation, they can impose a large administrative burden:

One of the greatest drawbacks to any system of tax credits is the increased administrative burden, requiring a more complicated tax form and often necessitating refunds. Employers have increased difficulty in large, fragmented, urban areas because they must determine the credits applicable to each employee.<sup>1/</sup>

Another alternative is to tax only resident incomes. This is the practice in Maryland where the local "piggyback" tax is returned to the taxpayer's resident jurisdiction. Of course, this means that the local tax no longer has any commuter tax features.

In the case of Virginia, an additional factor to consider would be the effect of a local income tax on tax policies in the District of Columbia. Presently, the District practices reciprocity with Virginia, i.e., Virginia residents working within the District are not subject to the District of Columbia income tax since the state of Virginia does not tax District residents working in Virginia. If Northern Virginia localities were to impose local income taxes on workers living in the District, then this would be an encouragement for the District to stop practicing reciprocity. There is already an incentive for the District to follow such a practice, since there is a net in-flow of commuters to the District from Virginia and Maryland. In its current budget request to Congress, the District has proposed elimination of reciprocity, and President Nixon has included revenues from such a change in his list of items to finance the District's budget. Nevertheless, the Administration's policy on this matter, and the chances for Congressional approval are quite uncertain at this time.<sup>2/</sup> Without District reciprocity

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<sup>1/</sup> Ibid., p. 1323.

<sup>2/</sup> Washington Post (April 20, 1971), pp. C-1, C-4.

and with a local income tax applicable to nonresident workers and residents, a Virginia resident working in the District would pay income taxes to the District, to the state of Virginia, and to his Virginia city or county of residence. To reduce his burden, a credit for the District taxes could be allowed against state individual income tax liability, but this would be a costly option for the state to allow.

5. Administration.--The tax is generally administered by the taxing locality. However, in some instances a central collection agency for several local governments has been formed. This is the procedure used in various Pennsylvania jurisdictions and in the Cleveland, Ohio area.<sup>1/</sup> In Maryland, the "piggyback" tax is administered by the state government, and in Michigan the state is allowed to collect and administer city income taxes and remit the proceeds less 2 percent for administration costs.<sup>2/</sup>

6. Taxation of Corporate Income.--The great majority of localities tax corporate income; exceptions are localities in Pennsylvania, a few cities in Kentucky, and Cincinnati.

The major problem in taxing business firms (unincorporated, as well as incorporated) is to determine what proportion of net profits is derived within the taxing jurisdiction. The popular method is to use a three-factor formula that arrives at an allocator based on a simple average of the following three ratios: (1) sales or gross receipts within the taxing jurisdiction relative to total sales; (2) property within the taxing jurisdiction relative to total property of the corporation; and (3) total wages and salaries paid within the taxing jurisdiction relative to total wages and salaries paid.

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<sup>1/</sup> Ibid., pp. 1372-73.

<sup>2/</sup> Ibid., p. 1316.

In most localities all firms conducting any activity within the taxing jurisdiction have a tax liability. But, in practice, there is widespread evasion according to a House Special Subcommittee on State Taxation of Interstate Commerce:

Most corporations do not file income tax returns with any local jurisdictions. Among those which file, most file in only one jurisdiction, with widespread filing extremely rare. The experience of the companies studied suggests that for almost all but the largest corporations, local income tax filing is limited to the location of a place of business. Filing by a small corporation in any other locality is very unusual.<sup>1/</sup>

### Yield

Revenue yields from the imposition of local income taxes would depend on how the foregoing major issues were resolved. In any case, the tax would probably be a large source of revenue. From an administrative standpoint, the easiest way to impose a local tax would be to make it ride "piggyback" on the existing state tax on incomes of individuals and fiduciaries. The tax could be a surtax on the state tax or could take the form of progressive rates for different brackets of taxable income.

Neither form would be in any sense a commuter tax since revenue would be returned to the taxpayer's resident community. Both forms would be progressive taxes. The surtax would tie into the progression already existing under the state's provisions for deductions, exemptions, and rates, and the local rate structure would use the state's method of determining taxable income and then superimpose a rate schedule applying to certain income tax brackets. To insure simplicity and to avoid eroding the state's revenues, the local tax would probably not be made deductible on state income tax returns. However, it would be deductible on the federal return.

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<sup>1/</sup> Ibid., p. 1330.

If a local tax took one of these forms and had an effective rate equivalent to a 20 percent surtax on the state tax on individuals and fiduciaries, it would have raised about \$56 million in fiscal year 1969-70--assuming it were mandatory and applied to all cities and counties.

#### Local Option Motor Fuel Tax

A local option motor fuels tax, such as 1 cent per gallon, would be a new departure for Virginia, since like most other states, motor fuel taxes are reserved for the state government and earmarked for highway spending. However, as mentioned in Chapter III, such taxes are now used in five states. A local tax could be used as a source of general revenue or be earmarked for transportation or highway purposes. The yield of a given tax to a particular locality would depend on the area's volume of service station business adjusted for the tax policies in surrounding Virginia localities, and, where close to state boundaries, tax levels of neighboring states. As of January 1, 1971, a 7 cent per gallon rate applied in Virginia and all of its neighbors except North Carolina (9 cents).

#### Local Option Motor Vehicle Sales and Use Tax<sup>1/</sup>

The Motor Vehicle Sales and Use Tax is presently reserved as a state tax localities are prohibited from using it.<sup>2/</sup> If the taxation of automobile sales were made consistent with the sale of many other items in retail trade (i.e., a 3 percent state tax with a 1 percent local option), there would be a substantial increase in revenues for the state and a new source for localities.

Assuming that all localities exercised a 1 percent option, that the tax would not be a significant deterrent to sales, and that the base were the same

<sup>1/</sup> For more information see Chapter III, pp. 157-61.

<sup>2/</sup> See Code of Virginia, Section 58-685.25.

as now, the tax would have provided \$14.1 million for local governments in fiscal year 1969-70.<sup>1/</sup>

#### Local Option Crown Tax

The possibility of a state crown tax was discussed in Chapter III. An alternative would be to make such a tax a local option in lieu of a state-wide levy. Table 6.9 shows estimated 1969-70 collections for our 17 area sample, assuming the tax were identical to the one used by the state of West Virginia and that all localities exercised the option.

TABLE 6.9 -- ESTIMATED REVENUE FROM A LOCAL OPTION CROWN TAX, FISCAL YEAR 1969-70<sup>a/</sup>

<u>Locality</u>	<u>Estimated Revenue</u>
Alexandria	\$ 418,000
Augusta	64,000
Buckingham	13,000
Chesapeake	188,000
Chesterfield <sup>b/</sup>	270,000
Fairfax County	1,322,000
Floyd	11,000
Lunenburg	17,000
Nansemond	53,000
Norfolk	930,000
Northumberland	13,000
Norton	14,000
Rappahannock	4,000
Richmond <sup>b/</sup>	835,000
Roanoke	376,000
Waynesboro	73,000
Wise	110,000
State	13,260,000

<sup>a/</sup> Revenue estimated on the basis of a tax like the one used in West Virginia. Per capita tax collections in West Virginia were blown-up by Virginia population to get a statewide total for Virginia. This figure was allocated to localities on the basis of taxable food sales in fiscal year 1969-70.

<sup>b/</sup> Pre-annexation boundaries

<sup>1/</sup> Calculated by dividing actual state receipts in fiscal year 1969-70 by one-half.

### Rolling Stock Tax

At present, the State Corporation Commission assesses the rolling stock of common carriers operating throughout the state at 40 percent and levies a tax of \$2.50 per \$100 on this assessed value. This tax revenue is then distributed on a mileage pro-rata basis to the localities through which the vehicles operate. Total tax receipts for calendar year 1970 amounted to roughly \$311,000.

A suggested change from the present system would be for the State Corporation Commission to determine and certify to localities the full value of rolling stock where it is based.<sup>1/</sup> Local tax rates would then apply. Compared to the present system, such a change would eliminate this revenue source for most rural localities but would more than double the rolling stock tax revenues for most urban areas.

### Public Utility Assessments

The so-called "Bemiss Act,"<sup>2/</sup> passed in 1966 provides for eventual assessment of public service property at the same true ratio as other types of property in the locality, but the equalization process is being spread over a twenty-year period. Acceleration of this adjustment process would bring additional revenues to local governments that have assessment ratios exceeding 40 percent. Based on 1970 data, 95 counties and 19 cities assessed under 40 percent. For these areas, the adjustment brings about a revenue loss. For Arlington and the 19 cities that assessed at above 40 percent, acceleration would increase revenues. Among those gaining would be such large central cities as Alexandria, Danville, Hampton, Lynchburg, Norfolk, Petersburg, Portsmouth, and Richmond.

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<sup>1/</sup> The term base means the place where the rolling stock is most frequently dispatched, garaged, serviced, maintained, operated, or otherwise controlled.

<sup>2/</sup> Code of Virginia, Section 58-512.1

Byproducts of the acceleration would be (1) the stimulation of many localities to use higher assessment ratios with resulting improved tax administration and larger borrowing limits; and (2) the elimination of concern about proposed federal legislation, such as U. S. Senate Bill 2289 introduced in the last session of Congress which provided that regardless of state law, a federal court may enjoin assessment of common or contract carrier property if it is assessed at a ratio higher than any other property within the jurisdiction. If passed, the federal law would have taken effect in three years, thereby killing the Bemiss Act.

In addition to the equalization of assessment ratios provided for in the "Bemiss Act", Section 58-514.2 of the Code of Virginia provides for the equalization of tax rates applied to public service corporation property by localities having different tax rates on real and tangible personal property. Except for automobiles and trucks, which will continue to be taxed at personal property rates, all public service corporation property within each locality will be taxed at the end of a 20-year adjustment period at the same rate applicable to other real estate in the respective localities. As of the close of calendar year 1971, 5/20 of this adjustment process will be complete. Acceleration by a factor of five as was shown for assessment ratio equalization would result in full equalization by the close of calendar year 1974.





APPENDIX TABLES



TABLE A.1--CLASSIFICATION OF CITIES AND COUNTIES

## URBAN AREAS

Central Cities--Alexandria, Hampton, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, and Roanoke.

Established Suburban Areas--the counties of Amherst, Arlington, Campbell, Chesterfield, Dinwiddie, Fairfax, Hanover, Henrico, Loudoun, Prince George, Prince William, Roanoke, and York, and the cities of Chesapeake, Fairfax, Falls Church, Salem, Colonial Heights, Hopewell, Petersburg, and Virginia Beach.

Developing Suburban Areas--the counties of Bedford, Botetourt, Charles City, Goochland, James City, Nansemond, New Kent, and Powhatan, and the cities of Bedford, Suffolk, and Williamsburg.

Small Urban Areas--the counties of Albemarle, Alleghany, Augusta, Carroll, Culpeper, Frederick, Grayson, Greensville, Halifax, Henry, Montgomery, Pittsylvania, Pulaski, Rockbridge, Rockingham, Smyth, Southampton, Spotsylvania, Stafford, Tazewell, Warren, Washington, Wise, and Wythe, and the cities of Bristol, Buena Vista, Charlottesville, Clifton Forge, Covington, Danville, Emporia, Franklin, Fredericksburg, Galax, Harrisonburg, Lexington, Martinsville, Norton, Radford, South Boston, Staunton, Waynesboro, and Winchester.

## RURAL AREAS

The counties of Accomack, Amelia, Appomattox, Bath, Bland, Brunswick, Buchanan, Buckingham, Caroline, Charlotte, Clarke, Craig, Cumberland, Dickenson, Essex, Fauquier, Floyd, Fluvanna, Franklin, Giles, Gloucester, Greene, Highland, Isle of Wight, King and Queen, King George, King William, Lancaster, Lee, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Nelson, Northampton, Northumberland, Nottoway, Orange, Page, Patrick, Prince Edward, Rappahannock, Richmond, Russell, Scott, Shenandoah, Surry, Sussex, and Westmoreland.

TABLE A.2.--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX RETURNS FOR TAX YEAR 1968,  
PRECONFORMITY AND CONFORMITY STRUCTURES

Adjusted Gross Income	Preconformity Structure				Conformity Structure			
	Gross Income	Exemptions	Deductions	Income Subject to Tax	Gross Income	Exemptions	Deductions	Income Subject to Tax
First \$999	\$ 57,398,745	\$139,482,797	\$ 9,955,024	\$ ...	\$ 57,398,745	\$ 92,742,639	\$ 93,117,534	\$ 1,264,779
\$1,000-1,999	230,053,590	211,650,231	20,031,057	39,996,068	230,053,590	149,091,443	134,432,072	22,402,850
2,000-2,999	372,272,730	218,529,010	35,069,392	135,247,682	372,272,730	162,918,414	128,460,030	111,037,979
3,000-3,999	611,763,570	263,000,648	56,113,504	298,667,931	611,763,570	204,240,886	150,671,493	271,207,496
4,000-4,999	772,476,366	275,193,152	74,443,572	425,279,441	772,476,366	223,378,330	155,157,721	400,515,124
5,000-5,999	884,512,629	273,369,295	92,281,130	519,951,688	884,512,629	230,624,289	155,666,444	500,809,214
6,000-6,999	929,240,301	254,386,653	104,114,163	571,353,561	929,240,301	220,549,773	151,408,512	558,280,016
7,000-7,999	923,759,449	229,671,317	113,972,419	580,508,496	923,759,449	203,115,136	150,671,178	570,444,490
8,000-8,999	812,726,367	187,924,376	105,965,091	519,066,267	812,726,367	168,452,467	133,716,108	510,789,314
9,000-9,999	677,793,314	144,882,392	91,280,717	441,938,451	677,793,314	130,957,207	111,999,263	435,130,087
10,000-10,999	535,994,081	106,605,747	72,390,884	357,110,265	535,994,081	96,772,272	88,043,578	351,279,277
11,000-11,999	421,978,340	78,193,431	57,089,610	286,853,235	421,978,340	71,337,107	69,165,979	281,615,322
12,000-12,999	345,134,981	59,634,189	46,299,261	239,281,909	345,134,981	54,655,043	56,003,671	234,545,229
13,000-13,999	287,700,516	46,484,698	38,744,839	202,556,096	287,700,516	42,796,251	46,435,063	198,548,019
14,000-14,999	247,626,087	37,863,548	32,946,449	176,889,708	247,626,087	34,954,867	38,551,233	174,187,086
15,000-19,999	866,678,073	114,693,597	113,434,627	638,858,719	866,678,073	106,516,489	126,357,410	634,095,104
20,000-24,999	485,923,192	50,251,535	61,113,405	374,787,322	485,923,192	46,476,103	64,848,379	374,821,813
25,000-29,999	264,830,431	22,465,997	31,600,241	210,788,774	264,830,431	20,655,961	33,013,245	211,182,275
30,000-34,999	152,626,129	10,930,090	17,571,867	124,201,575	152,626,129	10,065,874	18,162,149	124,472,336
35,000-39,999	103,829,765	6,392,692	11,933,134	85,609,304	103,829,765	5,935,155	12,225,714	85,771,663
40,000-44,999	79,752,992	4,369,658	9,048,139	66,408,980	79,752,992	4,082,586	9,221,744	66,522,347
45,000-49,999	64,807,014	3,191,556	7,060,011	54,604,696	64,807,014	3,019,972	7,178,814	54,654,978
50,000-74,999	187,499,762	7,239,056	20,144,147	160,157,398	187,499,762	6,860,969	20,345,249	160,332,183
75,000-99,999	78,915,482	2,019,959	8,714,688	68,279,529	78,915,482	1,883,997	8,759,819	68,368,960
100,000 and over	241,077,444	2,025,171	27,883,046	211,253,828	241,077,444	1,785,799	27,911,932	211,462,515
Total for all classes	\$10,636,371,350	\$2,750,450,795	\$1,259,200,417	\$6,789,650,923	\$10,636,371,350	\$2,293,869,029	\$1,991,524,334	\$6,613,740,456

Note: Based on conformity in 1973 when federal maximum standard deduction will be 15 percent up to \$2,000. For tax year 1972, the difference will be small (14 percent up to \$2,000).

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1968", Special Computer Printout, (Richmond: April 1971). For a discussion of the methodology used in the computer program, see Barry E. Lipman and Gail V. Tatum, "Report on Revenue Estimates to the Income Tax Conformity Study Commission," a staff paper prepared in the Office of Research and Information, Division of State Planning and Community Affairs (September 24, 1970).

TABLE A.3.--ESTIMATED INCOME TAX RECEIPTS UNDER CONFORMITY STRUCTURE WITH SELECTED RATE SCHEDULES, TAX YEAR 1968

Adjusted Gross Income	Present Rate Schedule	Proposed Rate Schedules								
		1	2	3	4	5	6	7	8	9
First \$999	\$ 25,296	\$ 25,296	\$ 37,944	\$ 25,296	\$ 25,296	\$ 25,296	\$ 25,296	\$ 12,649	\$ 37,944	\$ 37,944
\$1,000-1,999	447,877	447,877	671,904	447,877	447,877	447,877	447,877	223,870	671,904	671,904
2,000-2,999	2,220,083	2,220,083	3,330,461	2,220,083	2,220,083	2,230,820	2,220,083	1,182,539	3,330,461	3,330,461
3,000-3,999	5,434,205	5,434,205	8,146,272	5,434,205	5,434,205	5,705,689	5,423,006	3,417,087	8,135,074	8,135,074
4,000-4,999	8,229,150	8,229,150	12,234,281	8,229,150	8,229,150	9,080,101	8,009,009	6,137,023	12,014,145	12,014,145
5,000-5,999	10,854,922	10,859,455	15,862,992	10,854,922	10,859,455	12,003,706	10,018,411	9,351,769	15,031,007	15,031,007
6,000-6,999	12,891,756	12,991,395	18,474,536	12,891,756	12,991,395	14,120,916	11,262,252	12,176,545	16,944,575	16,944,575
7,000-7,999	14,221,001	14,596,809	19,925,424	14,221,001	14,596,809	15,379,198	11,780,734	14,036,176	17,860,870	17,860,870
8,000-8,999	13,708,200	14,346,903	18,816,073	13,708,200	14,346,903	14,647,672	10,852,210	13,820,612	16,597,544	16,598,093
9,000-9,999	12,593,281	13,454,202	16,944,555	12,593,281	13,454,202	13,308,030	9,589,363	12,819,041	14,771,839	14,786,528
10,000-10,999	10,870,399	11,824,226	14,383,184	10,870,813	11,824,434	11,388,137	8,095,506	11,129,538	12,440,503	12,500,832
11,000-11,999	9,219,825	10,175,009	12,035,972	9,230,752	10,180,472	9,604,806	6,851,782	9,508,298	10,365,538	10,488,656
12,000-12,999	8,044,839	8,980,546	10,390,273	8,090,980	9,003,616	8,373,931	6,053,710	8,381,961	8,948,132	9,118,016
13,000-13,999	7,071,995	7,964,482	9,057,471	7,183,229	8,020,099	7,402,444	5,456,170	7,466,253	7,846,995	8,034,743
14,000-14,999	6,409,004	7,270,081	8,150,865	6,624,525	7,377,842	6,801,070	5,094,393	6,864,412	7,158,446	7,319,939
15,000-19,999	24,875,323	28,603,466	31,216,183	27,440,892	29,886,291	27,963,579	21,906,591	27,874,135	29,020,579	29,214,529
20,000-24,999	15,753,976	18,363,560	19,502,166	18,791,993	19,873,123	19,000,649	16,141,067	18,889,061	19,460,171	19,469,579
25,000-29,999	9,213,591	10,817,625	11,325,409	11,629,091	11,926,680	11,533,157	10,246,802	11,482,764	11,737,854	11,740,831
30,000-34,999	5,557,240	6,553,381	6,801,945	7,358,644	7,307,660	7,115,459	6,486,575	7,090,246	7,215,826	7,217,008
35,000-39,999	3,884,409	4,596,098	4,742,125	5,317,862	5,165,655	5,052,697	4,682,863	5,037,518	5,111,733	5,112,141
40,000-44,999	3,055,857	3,622,199	3,721,080	4,278,260	4,092,329	4,015,898	3,765,255	4,005,497	4,055,927	4,056,170
45,000-49,999	2,532,434	3,006,922	3,078,983	3,608,713	3,411,239	3,355,459	3,172,858	3,347,904	3,384,647	3,384,876
50,000-74,999	7,511,111	8,946,537	9,114,385	11,012,992	10,219,416	10,090,316	9,666,973	10,072,509	10,158,455	10,158,992
75,000-99,999	3,226,220	3,859,034	3,909,903	4,882,684	4,442,914	4,404,129	4,276,678	4,398,481	4,424,922	4,425,069
100,000 and over	10,268,282	12,325,664	12,382,832	16,175,420	14,329,334	14,286,853	14,146,750	14,280,138	14,310,621	14,310,901
Total for all classes	\$208,120,276	\$229,514,205	\$274,257,218	\$233,122,621	\$239,666,479	\$237,337,889	\$195,672,214	\$223,006,026	\$261,035,712	\$261,962,883

Note: Based on conformity in 1973 when federal maximum standard deduction will be 15 percent up to \$2,000. For tax year 1972, the difference will be small (14 percent up to \$2,000).

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1968", Special Computer Printout, (Richmond: October 1970 and April 1971).

TABLE A.4 --- DISTRIBUTION OF NET TAXABLE INCOME BY \$1,000 INCOME BRACKETS UNDER CONFORMITY STRUCTURE, TAX YEAR 1968

Adjusted Gross Income	NET TAXABLE INCOME													Total <sup>a/</sup>	
	\$0-1,000	\$1,001-2,000	\$2,001-3,000	\$3,001-4,000	\$4,001-5,000	\$5,001-6,000	\$6,001-7,000	\$7,001-8,000	\$8,001-9,000	\$9,001-10,000	\$10,001-11,000	\$11,001-12,000	\$12,001 and over		
First \$999	\$ 1,264,779	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ ...	\$ 1,264,779
\$1,000-1,999	21,360,182	1,042,667	...	...	...	...	...	...	...	...	...	...	...	...	22,402,849
2,000-2,999	87,151,580	22,812,686	1,073,712	...	...	...	...	...	...	...	...	...	...	...	111,037,978
3,000-3,999	144,767,553	98,171,406	27,148,669	1,119,866	...	...	...	...	...	...	...	...	...	...	271,207,944
4,000-4,999	160,017,047	133,388,292	85,095,691	21,306,238	707,855	...	...	...	...	...	...	...	...	...	400,515,123
5,000-5,999	158,363,792	144,367,246	114,879,018	67,471,535	15,274,292	453,327	...	...	...	...	...	...	...	...	500,809,210
6,000-6,999	144,381,032	137,984,932	122,916,726	92,801,523	50,231,402	9,717,466	246,932	...	...	...	...	...	...	...	558,280,013
7,000-7,999	125,527,375	122,639,948	115,820,251	99,631,723	69,243,391	32,350,966	5,106,990	123,843	...	...	...	...	...	...	570,444,487
8,000-8,999	98,151,074	96,836,179	93,947,889	87,146,964	70,835,330	43,678,639	17,683,044	2,455,287	54,904	...	...	...	...	...	510,789,310
9,000-9,999	73,545,813	72,835,044	71,476,626	68,798,407	62,380,114	47,687,914	27,102,451	9,834,735	1,434,356	34,622	...	...	...	...	435,130,082
10,000-10,999	52,847,090	52,389,505	51,732,377	50,618,089	48,308,763	42,531,986	30,560,017	16,216,912	5,231,461	822,358	20,715	...	...	...	351,279,273
11,000-11,999	38,205,563	37,867,664	37,405,537	36,784,183	35,833,565	33,807,238	28,898,187	19,408,858	9,741,543	3,116,631	534,790	11,557	...	...	281,615,316
12,000-12,999	28,825,369	28,594,719	28,296,422	27,905,602	27,350,667	26,517,279	24,837,324	20,625,847	13,087,067	6,197,841	1,930,384	365,886	10,817	...	234,545,224
13,000-13,999	22,318,226	22,136,920	21,921,501	21,627,959	21,294,363	20,849,884	20,153,945	18,591,413	14,975,422	9,116,620	4,063,537	1,253,520	244,701	...	198,548,011
14,000-14,999	17,937,570	17,800,073	17,655,151	17,462,047	17,223,936	16,913,501	16,572,191	15,983,566	14,525,313	11,337,590	6,753,600	2,959,923	1,062,618	...	174,187,079
15,000-19,999	53,052,766	52,647,285	52,269,325	51,892,112	51,410,638	50,833,390	50,159,526	49,341,395	48,217,537	45,988,382	41,309,240	33,501,752	53,471,751	...	634,095,099
20,000-24,999	23,065,562	22,886,622	22,757,406	22,638,055	22,513,014	22,365,646	22,204,109	22,022,437	21,818,349	21,594,240	21,363,698	21,108,010	108,484,658	...	374,821,806
25,000-29,999	10,270,195	10,199,492	10,146,076	10,105,225	10,057,461	10,010,718	9,953,323	9,912,801	9,843,534	9,777,889	9,700,674	9,623,121	91,581,758	...	211,182,267
30,000-34,999	5,035,233	5,001,487	4,967,980	4,938,156	4,913,532	4,887,933	4,863,819	4,834,738	4,813,208	4,788,344	4,758,533	4,724,862	65,944,505	...	124,472,330
35,000-39,999	2,966,452	2,937,226	2,917,433	2,897,395	2,884,203	2,870,524	2,852,523	2,842,998	2,828,845	2,818,341	2,809,309	2,797,124	51,349,284	...	85,771,657
40,000-44,999	2,008,641	1,994,211	1,978,211	1,960,630	1,946,373	1,939,806	1,929,937	1,922,619	1,916,506	1,912,426	1,904,734	1,899,846	43,208,401	...	66,522,341
45,000-49,999	1,467,648	1,451,188	1,439,178	1,429,794	1,418,248	1,412,173	1,407,423	1,403,085	1,399,489	1,395,037	1,389,552	1,382,128	37,660,029	...	54,654,972
50,000-74,999	3,428,778	3,385,121	3,349,415	3,321,249	3,300,218	3,277,833	3,264,905	3,251,646	3,239,881	3,225,166	3,211,811	3,199,575	120,876,579	...	160,332,177
75,000-99,999	1,049,982	1,029,249	1,015,570	1,000,094	991,991	989,351	985,149	978,283	974,068	967,211	963,978	962,529	56,461,498	...	68,368,953
100,000-and over	1,213,379	1,163,444	1,130,564	1,112,605	1,096,797	1,084,354	1,080,638	1,077,934	1,072,599	1,063,150	1,056,672	1,051,075	198,259,297	...	211,462,508
Total	\$1,278,222,681	\$1,091,562,606	\$891,340,728	\$693,969,451	\$519,216,153	\$374,179,928	\$269,862,433	\$200,828,397	\$155,174,082	\$124,155,848	\$101,771,227	\$84,840,908	\$828,615,896	\$6,613,740,338	

Note: Based on conformity in 1973 when federal maximum standard deduction will be 15 percent up to \$2,000. For tax year 1972, the difference will be small (14 percent up to \$2,000).

a/ Total net taxable income will not equal income subject to tax as shown in Table A.2 due to rounding.

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns," Special Computer Printout (Richmond: April, 1971).

TABLE A.5 ---NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1968

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS AGE AND/OR				NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS						
		\$1000	BLINDNESS	\$300	\$700	TOTAL	1	2	3	4	5	6/OVER
<b>\$0 - 999</b>												
INDIVIDUAL RETURNS	68,654	68,654	4,283	1,866	909	75,712	67,397	244	686	210	82	35
JOINT RETURNS	13,910	27,819	7,176	10,026		45,021	1	9,170	2,002	1,308	791	638
SEPARATE RETURNS	31,164	31,164	1,300	2,082		34,546	30,009	630	284	141	61	39
TOTAL	113,728	127,637	12,759	13,974	909	155,279	97,407	10,044	2,972	1,659	934	712
<b>\$1,000 - 1,999</b>												
INDIVIDUAL RETURNS	77,850	77,850	10,823	8,460	4,788	101,921	71,947	695	3,734	1,030	296	148
JOINT RETURNS	26,880	53,758	16,049	16,113		85,920	2	18,909	3,829	2,033	1,072	1,035
SEPARATE RETURNS	50,308	50,308	3,295	9,155		62,758	44,952	3,069	1,342	584	238	123
TOTAL	155,038	181,916	30,167	33,728	4,788	250,599	16,901	22,673	8,905	3,647	1,606	1,306
<b>\$2,000 - 2,999</b>												
INDIVIDUAL RETURNS	56,032	56,032	6,762	13,864	7,615	84,273	47,328	623	4,940	2,063	744	334
JOINT RETURNS	33,540	67,079	14,012	32,274		113,365	1	18,260	6,852	3,994	2,184	2,249
SEPARATE RETURNS	61,431	61,431	2,100	14,085		77,616	53,357	4,532	2,030	907	387	218
TOTAL	151,003	184,542	22,874	60,223	7,615	275,254	684	23,415	13,822	6,964	3,315	2,801
<b>\$3,000 - 3,999</b>												
INDIVIDUAL RETURNS	51,074	51,074	4,398	17,162	9,165	81,799	40,887	588	5,615	2,342	1,020	622
JOINT RETURNS	43,735	87,467	10,832	56,216		154,515	2	19,348	9,584	6,441	3,847	4,513
SEPARATE RETURNS	82,723	82,723	1,498	25,126		109,347	68,125	8,334	3,680	1,520	691	373
TOTAL	177,532	221,264	16,728	98,504	9,165	345,661	9,014	28,270	18,879	10,303	5,558	5,508
<b>\$4,000 - 4,999</b>												
INDIVIDUAL RETURNS	40,683	40,683	2,897	14,397	7,995	65,972	31,937	446	5,028	1,988	766	518
JOINT RETURNS	52,702	105,401	8,348	79,093		192,842	2	19,741	11,912	8,878	5,472	6,697
SEPARATE RETURNS	82,061	82,061	1,324	36,664		120,049	60,821	11,903	5,544	2,301	950	542
TOTAL	175,446	228,145	12,569	130,154	7,995	378,863	92,760	32,090	22,484	13,167	7,188	7,757
<b>\$5,000 - 5,999</b>												
INDIVIDUAL RETURNS	33,744	33,744	2,064	11,669	6,558	54,035	26,554	379	4,202	1,585	644	380
JOINT RETURNS	58,208	116,413	6,234	95,549		218,196		12,368	13,856	11,361	6,821	7,802
SEPARATE RETURNS	73,030	73,030	1,172	46,167		120,369	47,806	12,889	7,103	3,070	1,356	806
TOTAL	164,982	223,187	9,470	153,385	6,558	392,600	74,360	31,636	25,161	16,016	8,821	8,988
<b>\$6,000 - 6,999</b>												
INDIVIDUAL RETURNS	26,073	26,073	1,631	9,048	5,122	41,874	20,492	283	3,270	1,236	500	292
JOINT RETURNS	58,025	116,048	5,057	100,773		221,872		15,940	13,880	12,786	7,458	7,961
SEPARATE RETURNS	62,836	62,836	982	48,918		112,736	36,436	13,013	7,762	3,427	1,353	845
TOTAL	146,934	204,957	7,670	158,739	5,122	376,482	56,928	29,236	24,912	17,449	9,311	9,098
<b>\$7,000 - 7,999</b>												
INDIVIDUAL RETURNS	18,935	18,935	1,283	6,982	4,082	31,282	14,532	187	2,653	990	369	204
JOINT RETURNS	56,125	112,369	3,888	99,602		215,859	1	14,116	13,448	13,513	7,660	7,447
SEPARATE RETURNS	51,466	51,466	818	46,962		99,246	26,403	11,941	7,664	3,322	1,380	756
TOTAL	126,526	182,770	5,989	153,546	4,082	346,387	40,936	26,244	23,765	17,825	9,409	8,407
<b>\$8,000 - 8,999</b>												
INDIVIDUAL RETURNS	12,739	12,739	942	4,605	2,766	21,052	9,763	122	1,854	646	230	124
JOINT RETURNS	50,150	100,300	2,976	90,831		194,107		11,416	11,763	13,135	7,408	6,428
SEPARATE RETURNS	35,728	35,728	592	36,470		72,790	16,693	2,470	6,196	2,717	1,112	540
TOTAL	98,617	148,767	4,510	131,906	2,766	287,949	26,456	20,008	19,813	16,498	8,750	7,092

TABLE A.5.--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1968 (Cont.)

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS					NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS					
		\$1000	AGE AND/OR BLINDNESS	\$300	\$700	TOTAL	1	2	3	4	5	6/OVER
<b>\$9,000 - 9,999</b>												
INDIVIDUAL RETURNS	8,687	8,687	733	3,014	1,792	14,226	6,771	58	1,214	400	150	94
JOINT RETURNS	40,758	81,514	2,118	75,253		158,885		8,737	9,059	11,330	6,493	5,139
SEPARATE RETURNS	24,401	24,401	484	26,712		51,597	10,820	5,703	4,500	2,138	815	425
TOTAL	73,846	114,602	3,335	104,979	1,792	224,708	17,591	14,498	14,773	13,868	7,458	5,658
<b>\$10,000 - 10,999</b>												
INDIVIDUAL RETURNS	5,923	5,923	558	2,012	1,232	9,725	4,612	45	823	295	96	52
JOINT RETURNS	31,353	62,704	1,641	58,953		123,298		6,518	6,712	8,820	5,226	4,077
SEPARATE RETURNS	15,767	15,767	353	17,482		33,602	6,905	3,581	3,086	1,390	579	226
TOTAL	53,043	84,394	2,552	78,447	1,232	166,625	11,517	10,144	10,621	10,505	5,901	4,355
<b>\$11,000 - 11,999</b>												
INDIVIDUAL RETURNS	3,941	3,941	419	1,373	820	6,553	3,065	33	547	175	79	42
JOINT RETURNS	23,687	47,374	1,357	45,128		93,859		4,837	4,862	6,652	4,232	3,104
SEPARATE RETURNS	10,742	10,742	289	12,285		23,316	4,637	2,409	2,105	975	428	188
TOTAL	38,370	62,057	2,065	58,786	820	123,728	7,702	7,279	7,514	7,802	4,739	3,334
<b>\$12,000 - 12,999</b>												
INDIVIDUAL RETURNS	2,937	2,937	322	1,021	616	4,896	2,284	19	408	140	58	28
JOINT RETURNS	18,346	36,692	1,028	35,774		73,494		3,561	3,729	5,182	3,401	2,473
SEPARATE RETURNS	7,662	7,662	249	8,855		16,766	3,349	1,624	1,453	793	324	119
TOTAL	28,945	47,291	1,599	45,650	616	95,156	5,633	5,204	5,590	6,115	3,783	2,620
<b>\$13,000 - 13,999</b>												
INDIVIDUAL RETURNS	2,209	2,209	303	763	438	3,713	1,740	16	271	116	43	23
JOINT RETURNS	14,490	28,980	758	28,629		58,367		2,750	2,808	4,240	2,644	2,048
SEPARATE RETURNS	5,723	5,723	213	6,916		12,852	2,377	1,223	1,168	611	242	102
TOTAL	22,422	36,912	1,274	36,308	438	74,932	4,117	3,989	4,247	4,967	2,929	2,173
<b>\$14,000 - 14,999</b>												
INDIVIDUAL RETURNS	1,685	1,685	233	653	379	2,950	1,286	13	239	90	31	26
JOINT RETURNS	12,011	24,022	654	24,065		48,741		2,247	2,255	3,477	2,265	1,767
SEPARATE RETURNS	4,322	4,322	191	5,155		9,668	1,842	917	846	441	198	78
TOTAL	18,018	30,029	1,078	29,873	379	61,359	3,128	3,177	3,340	4,008	2,494	1,871
<b>\$15,000 - 19,999</b>												
INDIVIDUAL RETURNS	4,083	4,083	724	1,618	939	7,364	3,101	22	568	245	92	55
JOINT RETURNS	37,142	74,284	2,388	75,304		151,976		7,183	6,768	10,279	7,200	5,712
SEPARATE RETURNS	12,111	12,111	670	15,087		27,868	5,027	2,456	2,461	1,340	578	249
TOTAL	53,336	90,478	3,782	92,009	939	187,208	8,128	9,661	9,797	11,864	7,870	6,016
<b>\$20,000 - 24,999</b>												
INDIVIDUAL RETURNS	1,586	1,586	433	693	368	3,080	1,189	19	209	89	52	28
JOINT RETURNS	16,521	33,042	1,243	32,896		67,181		3,495	3,051	4,297	3,106	2,572
SEPARATE RETURNS	5,084	5,084	396	6,234		11,714	2,138	1,044	1,008	564	227	103
TOTAL	23,191	39,712	2,072	39,823	368	81,975	3,327	4,558	4,268	4,950	3,385	2,703
<b>\$25,000 - 29,999</b>												
INDIVIDUAL RETURNS	729	729	249	310	157	1,445	556	8	92	37	23	13
JOINT RETURNS	7,436	14,872	732	14,311		29,915		1,727	1,357	1,884	1,363	1,105
SEPARATE RETURNS	2,169	2,169	244	2,717		5,130	922	419	416	257	108	47
TOTAL	10,334	17,770	1,225	17,338	157	36,490	1,478	2,154	1,865	2,178	1,494	1,165



TABLE A.5 .--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1968 (Cont.)

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS				NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS						
		\$1000	AGE AND/OR BLINDNESS	\$300	\$700	TOTAL	1	2	3	4	5	6/OVER
<b>\$30,000 - 34,999</b>												
INDIVIDUAL RETURNS	376	376	135	165	82	758	287	4	45	21	11	8
JOINT RETURNS	3,567	7,134	462	6,887		14,483		862	625	880	634	566
SEPARATE RETURNS	1,117	1,117	176	1,367		2,660	525	185	189	121	63	34
TOTAL	5,060	8,627	773	8,419	82	17,901	812	1,051	859	1,022	708	608
<b>\$35,000 - 39,999</b>												
INDIVIDUAL RETURNS	238	238	100	92	46	476	190		27	8	9	4
JOINT RETURNS	2,027	4,054	272	4,058		8,384		478	320	492	396	341
SEPARATE RETURNS	726	726	108	897		1,731	338	118	122	86	44	18
TOTAL	2,991	5,018	480	5,047	46	10,591	528	596	469	586	449	363
<b>\$40,000 - 44,999</b>												
INDIVIDUAL RETURNS	153	153	62	52	26	293	125	2	16	3	4	3
JOINT RETURNS	1,361	2,722	236	2,755		5,713		342	200	310	259	250
SEPARATE RETURNS	514	514	93	654		1,261	244	77	91	50	35	17
TOTAL	2,028	3,389	391	3,461	26	7,267	369	421	307	363	298	270
<b>\$45,000 - 49,999</b>												
INDIVIDUAL RETURNS	117	117	49	29	16	211	100	1	8	4	4	
JOINT RETURNS	1,004	2,008	136	2,183		4,327		203	152	247	208	194
SEPARATE RETURNS	363	363	55	463		881	171	56	57	40	26	13
TOTAL	1,484	2,488	240	2,675	16	5,419	271	260	217	291	238	207
<b>\$50,000 - 74,999</b>												
INDIVIDUAL RETURNS	294	294	133	81	47	555	241	4	30	12	7	
JOINT RETURNS	2,193	4,386	320	4,707		9,413		510	317	475	439	452
SEPARATE RETURNS	976	976	166	1,328		2,470	441	143	168	117	65	42
TOTAL	3,463	5,656	619	6,116	47	12,438	682	657	515	604	511	494
<b>\$75,000 - 99,999</b>												
INDIVIDUAL RETURNS	106	106	59	24	16	205	88		14	4		
JOINT RETURNS	599	1,198	93	1,193		2,484		167	95	111	117	109
SEPARATE RETURNS	361	361	68	460		829	175	57	57	33	21	18
TOTAL	1,066	1,665	220	1,677	16	3,578	263	224	166	148	138	127
<b>\$100,000 - OVER</b>												
INDIVIDUAL RETURNS	133	133	60	28	19	240	113	1	12	6	1	
JOINT RETURNS	607	1,214	177	1,063		2,454		209	95	110	105	88
SEPARATE RETURNS	494	494	138	411		1,043	317	58	49	41	17	12
TOTAL	1,234	1,841	375	1,502	19	3,737	430	268	156	157	123	100
<b>TOTAL FOR ALL CLASSES</b>												
INDIVIDUAL RETURNS	418,991	418,981	39,655	99,981	55,993	614,610	56,585	3,812	36,505	13,735	5,311	3,033
JOINT RETURNS	606,437	1,212,854	88,197	993,636		2,294,677	9	89,094	29,531	32,235	80,801	74,767
SEPARATE RETURNS	623,279	623,279	16,974	372,652		1,012,905	24,830	94,851	59,381	26,986	11,298	5,933
TOTAL	1,648,697	2,255,114	144,816	1,466,269	55,993	3,922,192	781,424	287,757	225,417	172,956	97,410	83,733

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1968", Special Computer Printout, (Richmond: April, 1971).

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Alabama	First \$1,000	1.5	x	
	\$1,001-\$3,000	3		
	\$3,001-\$5,000	4.5		
	Over \$5,000	5		
Alaska	16 percent of the total Federal income tax that would be payable for the same taxable year at the Federal tax rates in effect on December 31, 1963.			
Arizona <sup>1, 2</sup>	First \$1,000	2	x	
	\$1,001-\$2,000	3		
	\$2,001-\$3,000	4		
	\$3,001-\$4,000	5		
	\$4,001-\$5,000	6		
	\$5,001-\$6,000	7		
	Over \$6,000	8		
Arkansas	First \$3,000	1		
	\$3,001-\$6,000	2		
	\$6,001-\$11,000	3		
	\$11,001-\$25,000	4		
	Over \$25,000	5		
California <sup>1</sup>	First \$2,000	1		The following rates apply to heads of households: First \$3,000 . . . . . 1% \$3,001-\$4,500 . . . . . 2 \$4,501-\$6,000 . . . . . 3 \$6,001-\$7,500 . . . . . 4 \$7,501-\$9,000 . . . . . 5 \$9,001-\$10,500 . . . . . 6 \$10,501-\$12,000 . . . . . 7 \$12,001-\$13,500 . . . . . 8 \$13,501-\$15,000 . . . . . 9 Over \$15,000 . . . . . 10
	\$2,001-\$3,500	2		
	\$3,501-\$5,000	3		
	\$5,001-\$6,500	4		
	\$6,501-\$8,000	5		
	\$8,001-\$9,500	6		
	\$9,501-\$11,000	7		
	\$11,001-\$12,500	8		
	\$12,501-\$14,000	9		
	Over \$14,000	10		
Colorado	First \$1,000	3	x	Surtax on income from intangibles in excess of \$5,000, 2 percent. Taxpayers are allowed a credit equal to 1/2 of 1 percent of net taxable income on the first \$9,000 of taxable income. <sup>3</sup> A \$7 tax credit is allowed each taxpayer and each dependent for sales tax paid on food. If there is no income tax liability the taxpayer can apply for a refund. See table 40.
	\$1,001-\$2,000	3.5		
	\$2,001-\$3,000	4		
	\$3,001-\$4,000	4.5		
	\$4,001-\$5,000	5		
	\$5,001-\$6,000	5.5		
	\$6,001-\$7,000	6		
	\$7,001-\$8,000	6.5		
	\$8,001-\$9,000	7		
	\$9,001-\$10,000	7.5		
Over \$10,000	8			
Delaware	First \$1,000	1.5	x <sup>4</sup>	
	\$1,001-\$2,000	2		
	\$2,001-\$3,000	3		
	\$3,001-\$4,000	4		
	\$4,001-\$5,000	5		
	\$5,001-\$6,000	6		
	\$6,001-\$8,000	7		
	\$8,001-\$30,000	8		

See footnotes at the end of table.

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Delaware (cont'd) . . . . .	\$30,000-\$50,000 . . . . .	9		
	\$50,001-\$100,000 . . . . .	10		
	Over \$100,000 . . . . .	11		
Georgia . . . . .	First \$1,000 . . . . .	1	....	.....
	\$1,001-\$3,000 . . . . .	2		
	\$3,001-\$5,000 . . . . .	3		
	\$5,001-\$7,000 . . . . .	4		
	\$7,001-\$10,000 . . . . .	5		
	Over \$10,000 . . . . .	6		
Hawaii <sup>2</sup> . . . . .	First \$500 . . . . .	2.25	....	Alternative tax on capital gains: Deduct 50 percent of capital gains and pay an additional 4 percent on such gains. The income classes reported are for individuals. For joint returns the rates shown apply to income classes twice as large. Special tax rates are provided for heads of households ranging from 2.25% on taxable income not over \$500 to 11% on taxable income in excess of \$60,000. A sales tax credit based on modified adjusted gross income brackets is provided, ranging from \$1 to \$21 per qualified exemption. Taxpayers are also provided credits for students attending institutions of higher learning (\$5 to \$50) and dependent children attending school in grades kindergarten to twelve (\$2 to \$20). The amount of credit is based on size of A.G.I. If a taxpayer's credits exceed his tax, a refund will be made. See table 40.
	\$501-\$1,000 . . . . .	3.25		
	\$1,001-\$1,500 . . . . .	4.50		
	\$1,501-\$2,000 . . . . .	5.00		
	\$2,001-\$3,000 . . . . .	6.50		
	\$3,001-\$5,000 . . . . .	7.50		
	\$5,001-\$10,000 . . . . .	8.50		
	\$10,001-\$14,000 . . . . .	9.50		
	\$14,001-\$20,000 . . . . .	10.00		
	\$20,001-\$30,000 . . . . .	10.50		
Over \$30,000 . . . . .	11.00			
Idaho <sup>1</sup> . . . . .	First \$1,000 . . . . .	2.5	x	For a surviving spouse and a head of a household the rates shown apply to income classes twice as large. A \$10 filing fee is imposed on each return. A \$10 tax credit is allowed for each personal exemption for sales tax paid. For taxpayers 65 or over, a refund will be made if credits exceed tax. See table 40.
	\$1,001-\$2,000 . . . . .	5.0		
	\$2,001-\$3,000 . . . . .	6.0		
	\$3,001-\$4,000 . . . . .	7.0		
	\$4,001-\$5,000 . . . . .	8.0		
Over \$5,000 . . . . .	9.0			
Illinois . . . . .	Total net income . . . . .	2.5	....	.....
Indiana . . . . .	Adjusted gross income . . . . .	2	....	A \$8 tax credit is allowed each taxpayer and each dependent for sales tax paid on food. If there is no income tax liability, the taxpayer can apply for a refund. See table 40.
Iowa . . . . .	First \$1,000 . . . . .	0.75	x	Residents or nonresidents with net income of \$3,000 or less are nontaxable. If payment of the tax reduces net income to less than \$3,000 the tax is reduced to that amount that would result in allowing the taxpayer to retain a net income of \$3,000.
	\$1,001-\$2,000 . . . . .	1.5		
	\$2,001-\$3,000 . . . . .	2.25		
	\$3,001-\$4,000 . . . . .	3		
	\$4,001-\$7,000 . . . . .	3.75		
	\$7,001-\$9,000 . . . . .	4.5		
Over \$9,000 . . . . .	5.25			

See footnotes at the end of table.

TABLE A.6 .--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Kansas	First \$2,000	2	x	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large. A credit for property taxes is allowed for senior citizen homestead relief. Cash refunds granted if tax credit exceeds income tax due. See Table 40.
	\$2,001-\$3,000	3.5		
	\$3,001-\$5,000	4		
	\$5,001-\$7,000	5		
	Over \$7,000	6.5		
Kentucky	First \$3,000	2	x <sup>5</sup>	.....
	\$3,001-\$4,000	3		
	\$4,001-\$5,000	4		
	\$5,001-\$8,000	5		
	Over \$8,000	6		
Louisiana <sup>1</sup>	First \$10,000	2	.....	.....
	\$10,000-\$50,000	4		
	Over \$50,000	6		
Maine	First \$2,000	1	.....	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to income classes twice as large.
	\$2,001-\$5,000	2		
	\$5,001-\$10,000	3		
	\$10,001-\$25,000	4		
	\$25,001-\$50,000	5		
	Over \$50,000	6		
Maryland	First \$1,000	2	.....	A credit is allowed for State personal property taxes payable.
	\$1,001-\$2,000	3		
	\$2,001-\$3,000	4		
	Over \$3,000	5		
Massachusetts <sup>2</sup>	Earned income and business income	4	.....	A consumer tax credit is allowed of \$4 each for the taxpayer and his spouse and \$8 for each qualified dependent. If there is no income tax liability the taxpayer can apply for a refund. See table 40.
	Interest and dividends, capital gains on intangibles	8		
	Annuities	2		
Michigan	All taxable income	2.6	.....	The following credits are allowed (not to exceed the taxpayer's State income tax liability):
			City income tax	Credit*
			Not over \$100	20% of city tax
			\$101-\$150	\$20 + 15% of excess over \$100
			\$151-\$200	\$27.50 + 10% of excess over \$150
			Over \$200	\$32.50 + 5% of excess over \$200
				Maximum credit \$10,000
			Property tax	Credit*
			Not over \$100	20% of property tax
			\$101-\$150	\$20 + 10% of excess over \$100
			\$151-\$10,000	\$25 + 5% of excess over \$150
			Over \$10,000	4% of property tax
				A lessee of a homestead is allowed a similar credit. In such a case 17% of the gross rent paid by the lessee is deemed to be property tax.
				*Credit for c.y. 1970 and any f.y. ending after May 31, 1970, and before June 30, 1971, is 12% of the taxes paid, but not more than \$15.

See footnotes at the end of table.

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Minnesota	First \$500	1.5	x	A credit for property taxes is allowed for senior citizen homestead relief and for renters. Cash refund granted if tax credit exceeds income tax due. See table 40.
	\$501-\$1,000	2.0		
	\$1,001-\$2,000	3.0		
	\$2,001-\$3,000	5.0		
	\$3,001-\$4,000	6.0		
	\$4,001-\$5,000	7.0		
	\$5,001-\$7,000	8.0		
	\$7,001-\$9,000	9.0		
	\$9,001-\$12,500	10.0		
	\$12,501-\$20,000	11.0		
Over \$20,000	12.0			
Mississippi	First \$5,000	3	....	.....
	Over \$5,000	4		
Missouri	First \$1,000	1	x	The rates apply to total income, not merely to the proportion of income falling within a given bracket, but as a result of the following tax credits, the schedule in effect is a bracket rate schedule: \$1,001-\$2,000 . . . . \$ 5 \$2,001-\$3,000 . . . . \$ 15 \$3,001-\$5,000 . . . . \$ 30 \$5,001-\$7,000 . . . . \$ 55 \$7,001-\$9,000 . . . . \$ 90 Over \$9,000 . . . . . \$135
	\$1,001-\$2,000	1.5		
	\$2,001-\$3,000	2		
	\$3,001-\$5,000	2.5		
	\$5,001-\$7,000	3		
	\$7,001-\$9,000	3.5		
Over \$9,000	4			
Montana	First \$1,000	2	x	After computing the tax liability pursuant to these rates, there shall be added as a surcharge, 10% of the tax liability. The minimum tax is \$1 on all individuals having taxable income.
	\$1,001-\$2,000	3		
	\$2,001-\$4,000	4		
	\$4,001-\$6,000	5		
	\$6,001-\$8,000	6		
	\$8,001-\$10,000	7		
	\$10,001-\$14,000	8		
	\$14,001-\$20,000	9		
	\$20,001-\$35,000	10		
Over \$35,000	11			
Nebraska <sup>2</sup>	The tax is imposed on the taxpayer's Federal income tax liability before credits, with limited adjustments. The rate is set as a flat percentage by the State Board of Equalization and Assessment on or before November 15 annually for the taxable year beginning during the subsequent calendar year. The rate for 1970 was 13%. (1971-10%)			A \$7 tax credit is allowed each taxpayer and each dependent for sales tax paid on food. If there is no income tax liability the taxpayer can apply for a refund. See table 40.
New Hampshire	Interest and dividends (excluding interest on savings deposits)	4.25	....	.....
	Commuter's income tax	4		
New Jersey	First \$1,000	2	....	Tax applies to commuters only, New Jersey-New York area.
	\$1,001-\$3,000	3		
	\$3,001-\$5,000	4		
	\$5,001-\$7,000	5		
	\$7,001-\$9,000	6		

See footnotes at the end of table.

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
New Jersey (cont'd)	\$9,001-\$11,000 . . . . .	7		
	\$11,001-\$13,000 . . . . .	8		
	\$13,001-\$15,000 . . . . .	9		
	\$15,001-\$17,000 . . . . .	10		
	\$17,001-\$19,000 . . . . .	11		
	\$19,001-\$21,000 . . . . .	12		
	\$21,001-\$23,000 . . . . .	13		
	Over \$23,000 . . . . .	14		
New Mexico <sup>1 2</sup> . . . . .	First \$500 . . . . .	1	....	The income classes reported are for single individuals and married individuals filing separate returns. For heads of households and married individuals filing joint returns the rates shown apply to income classes twice as large.
	\$501-\$1,000 . . . . .	1.5		
	\$1,001-\$1,500 . . . . .	1.5		
	\$1,501-\$2,000 . . . . .	2.0		
	\$2,001-\$3,000 . . . . .	2.5		
	\$3,001-\$4,000 . . . . .	3.0		
	\$4,001-\$5,000 . . . . .	3.5		
	\$5,001-\$6,000 . . . . .	4.0		
	\$6,001-\$7,000 . . . . .	4.5		
	\$7,001-\$8,000 . . . . .	5.0		
	\$8,001-\$10,000 . . . . .	6.0		
	\$10,001-\$12,000 . . . . .	7.0		
	\$12,001-\$20,000 . . . . .	7.5		
\$20,001-\$50,000 . . . . .	8.0			
\$50,001-\$100,000 . . . . .	8.5			
	Over \$100,000 . . . . .	9		
New York . . . . .	First \$1,000 . . . . .	2	....	No tax is due from individuals with a N.Y. A.G.I. of less than \$2,000 who are not married, not the head of a household nor a surviving spouse. Capital gains treatment is similar to that provided under Federal law. Income from unincorporated business is taxed at 5½ percent. The following credit is allowed:  If tax is— credit is— \$100 or less . . . full amount of tax. \$100-\$200 . . . difference between \$200 and amount of tax. \$200 or more no credit.  In addition to the personal income tax, a 3% tax is imposed on the N.Y. minimum taxable income of individuals, estates, or trusts.
	\$1,000-\$3,000 . . . . .	3		
	\$3,001-\$5,000 . . . . .	4		
	\$5,001-\$7,000 . . . . .	5		
	\$7,001-\$9,000 . . . . .	6		
	\$9,001-\$11,000 . . . . .	7		
	\$11,001-\$13,000 . . . . .	8		
	\$13,001-\$15,000 . . . . .	9		
	\$15,001-\$17,000 . . . . .	10		
	\$17,001-\$19,000 . . . . .	11		
	\$19,001-\$21,000 . . . . .	12		
	\$21,001-\$23,000 . . . . .	13		
		Over \$23,000 . . . . .	14	
North Carolina . . . . .	First \$2,000 . . . . .	3	....	. . . . .
	\$2,001-\$4,000 . . . . .	4		
	\$4,001-\$6,000 . . . . .	5		
	\$6,001-\$10,000 . . . . .	6		
	Over \$10,000 . . . . .	7		
North Dakota . . . . .	First \$3,000 . . . . .	1	x	An additional 1% tax is imposed on net incomes derived from a business, trade, or profession, other than as an employee.
	\$3,001-\$4,000 . . . . .	2		
	\$4,001-\$5,000 . . . . .	3		
	\$5,001-\$6,000 . . . . .	5		
	\$6,001-\$8,000 . . . . .	7.5		
	\$8,001-\$15,000 . . . . .	10		
	Over \$15,000 . . . . .	11		
Oklahoma <sup>2</sup> . . . . .	First \$1,500 . . . . .	1	x	The income classes reported are for individuals and heads of households. For joint returns the rates shown apply to
	\$1,501-\$3,000 . . . . .	2		
	\$3,001-\$4,500 . . . . .	3		

See footnotes at the end of table.

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Oklahoma <sup>2</sup> (cont'd)	\$4,501-\$6,000 . . . . .	4		income classes twice as large.
	\$6,001-\$7,500 . . . . .	5		
	Over \$7,500 . . . . .	6		
Oregon . . . . .	First \$500 . . . . .	4	x <sup>6</sup>	The income classes reported are for individuals. For joint returns and heads of households the rates shown apply to income classes twice as large. A credit is provided in an amount and equal to 25 percent of the Federal retirement income tax credit to the extent that such credit is based on Oregon taxable income.
	\$501-\$1,000 . . . . .	5		
	\$1,001-\$2,000 . . . . .	6		
	\$2,001-\$3,000 . . . . .	7		
	\$3,001-\$4,000 . . . . .	8		
	Over \$5,000 . . . . .	10		
Rhode Island . . . . .	Investment income (Dividends, Interest, and net gains from the sale or exchange of stocks, bonds, real estate and other capital assets . . . . .	10		
South Carolina . . . . .	First \$2,000 . . . . .	2	x <sup>7</sup>	The tax does not apply to persons aged 65 or older who, during the taxable year, receive gross income from all sources of not more than \$2,800 if there are no dependents, or \$4,000 if there is a dependent spouse or other dependent.
	\$2,001-\$4,000 . . . . .	3		
	\$4,001-\$6,000 . . . . .	4		
	\$6,001-\$8,000 . . . . .	5		
	Over \$10,000 . . . . .	7		
Tennessee . . . . .	Interest and dividends . . . . .	6		Dividends from corporations having at least 75 percent of their property subject to the Tennessee ad valorem tax are taxed at 4 percent.
Utah . . . . .	First \$1,000 . . . . .	2	x	
	\$1,001-\$2,000 . . . . .	3		
	\$2,001-\$3,000 . . . . .	4		
	\$3,001-\$4,000 . . . . .	5		
	Over \$5,000 . . . . .	6.5		
Vermont <sup>2</sup> . . . . .	The tax is imposed at a rate of 25% of the Federal income tax liability of the taxpayer for the taxable year (after the allowance of retirement income credit, investment credit, foreign tax credit and tax-free covenant bonds credit, but before the allowance of any other credit against that liability or the addition of any surtax upon that liability granted or imposed under Federal law), reduced by a percentage equal to the percentage of the taxpayer's adjusted gross income for the taxable year which is not Vermont income. For taxable years beginning after December 31, 1968 a 15% surcharge is imposed. <sup>8</sup>			If a taxpayer's liability exceeds, by any amount, what that liability would have been had it been determined in accordance with the Federal Internal Revenue Code in effect on January 1, 1967, instead of the federal statute in effect for the year for which the return is filed a credit is allowed equal to 106% of the amount of the excess, applicable to the taxpayer's tax liability for the succeeding year. Resident taxpayers who are full-time students for at least five months in the year are allowed a \$10 credit. Effective June 1, 1969 a sales tax credit based on modified adjusted gross income brackets and number of exemptions is provided, ranging from \$0 to \$81. If a taxpayer's credits exceed his tax, a re-

See footnotes at the end of table.

TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Vermont <sup>2</sup> (cont'd)				fund will be made. See table 40. Effective January 1, 1970 individuals 65 or older are provided a credit for property taxes or rent constituting property taxes. If income tax liability is less than the credit the difference between the liability and the credit will be refunded. See table 40.
Virginia	First \$3,000	2	....	.....
	\$3,001-\$5,000	3		
	Over \$5,000	5		
West Virginia	First \$2,000	1.65	....	The income classes reported are for individuals and heads of households. For taxable years beginning on or after January 1, 1971, rates for such taxpayers range from 2.1% on taxable income not over \$2,000 to 9.6% on all income in excess of \$200,000. For joint returns the rates shown apply to income classes twice as large.
	\$2,001-\$4,000	1.8		
	\$4,001-\$6,000	2.2		
	\$6,001-\$8,000	2.5		
	\$8,001-\$10,000	2.8		
	\$10,001-\$12,000	3.2		
	\$12,001-\$14,000	3.6		
	\$14,001-\$16,000	3.9		
	\$16,001-\$18,000	4.1		
	\$18,001-\$20,000	4.3		
	\$20,001-\$22,000	4.7		
	\$22,001-\$26,000	4.8		
	\$26,001-\$32,000	5.1		
	\$32,001-\$38,000	5.4		
	\$38,001-\$44,000	5.6		
	\$44,001-\$50,000	5.9		
	\$50,001-\$60,000	6.2		
	\$60,001-\$70,000	6.5		
	\$70,001-\$80,000	6.7		
	\$80,001-\$90,000	6.9		
	\$90,001-\$100,000	7.2		
	\$100,001-\$150,000	7.3		
	\$150,001-\$200,000	7.4		
	Over \$200,000	7.6		
Wisconsin <sup>2</sup>	First \$1,000	2.7	....	A property tax credit is allowed for senior citizen homestead relief. Cash refund granted if property tax credit exceeds income tax due. See table 40.
	\$1,001-\$2,000	2.95		
	\$2,001-\$3,000	3.2		
	\$3,001-\$4,000	4.2		
	\$4,001-\$5,000	4.7		
	\$5,001-\$6,000	5.2		
	\$6,001-\$7,000	5.7		
	\$7,001-\$8,000	6.7		
	\$8,001-\$9,000	7.2		
	\$9,001-\$10,000	7.7		
	\$10,001-\$11,000	8.2		
	\$11,001-\$12,000	8.7		
	\$12,001-\$13,000	9.2		
	\$13,001-\$14,000	9.7		
	Over \$14,000	10.0		
Washington, D.C.	First \$1,000	2	....	Income from unincorporated business is taxed at 6 percent, minimum tax, \$25.
	\$1,001-\$2,000	3		

See footnotes at the end of table.



TABLE A.6.--STATE INDIVIDUAL INCOME TAXES:  
RATES, DECEMBER 31, 1970 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Washington, D.C. (cont'd)	\$2,001-\$3,000 . . . . .	4		A tax credit is provided for low income taxpayers (AGI not over \$6,000) for increased sales tax on food (\$2 to \$6 credit per exemption). A refund is allowed if the credit exceeds tax liability. See table 40.
	\$3,001-\$5,000 . . . . .	5		
	\$5,001-\$8,000 . . . . .	6		
	\$8,001-\$12,000 . . . . .	7		
	\$12,001-\$17,000 . . . . .	8		
	\$17,001-\$25,000 . . . . .	9		
	Over \$25,000 . . . . .	10		

<sup>1</sup>Community property State in which, in general, 1/2 the community income is taxable to each spouse.

<sup>2</sup>Allows deduction of State individual income tax itself in computing State tax liability.

<sup>3</sup>Effective for taxable years beginning on or after July 1, 1969, taxpayers whose only activities in the State consist of making sales, who do not own or rent real estate in the State and whose annual gross sales in or into Colorado amount to not more than \$100,000, may elect to pay a tax of 1/2 of 1% of annual gross receipts derived from sales in or into Colorado in lieu of paying an income tax.

<sup>4</sup>Limited to \$300 for single persons and \$600 for married persons filing joint returns.

<sup>5</sup>Limited to the lesser of (a) the Federal income tax actually paid or accrued for the taxable year, or (b) the Federal tax that would result from applying the Federal rates in effect on December 31, 1967 to Federal taxable income for the taxable year.

<sup>6</sup>Any Federal tax paid due to an increase in rates effective after November 1, 1967, will not be deductible for Oregon personal income tax purposes. The limitation is effective for tax years beginning on and after 1/1/68, and ending not later than 11/30/70.

<sup>7</sup>Limited to \$500 per taxpayer.

<sup>8</sup>The tax liability for any taxable year shall not in any case equal an amount such that the combined Vermont and Federal income tax liability of the taxpayer for the taxable year, less the Federal income tax liability (without consideration of the deduction for Vermont income taxes paid or accrued) exceeds 4 1/2 percent of the total income of the taxpayer for that taxable year. The surtax is scheduled to terminate the first day of January of the calendar year following the fiscal year in which the remaining balance of the fiscal 1969 deficit is retired.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1971 Edition (Washington: Government Printing Office, 1970), pp. 75-82.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Alabama . . . . .	Retail sales	4 <sup>2</sup>	4	4	4	3	3	3	....	Agricultural machinery and equipment, and mining and manufacturing machinery, 1½%; gross receipts of amusement operators, 4%.
Arizona . . . . .	do	3	3	3	3	3	3	3	3 <sup>4</sup>	Lease or rental of real and tangible personal property, advertising, printing, publishing, contracting, storage, and amusement operators, 3%; extracting and processing minerals, 2%; timbering, 1½%; meat-packing and wholesale sales of feed to poultrymen and stockmen, 3/8%.
Arkansas . . . . .	do	3	3	3	3	3	3	3	....	Printing, photography, and receipts from coin-operated devices, 3%.
California . . . . .	do	4	....	4	....	....	....	....	....	Renting, leasing, producing, fabrication, processing, printing or imprinting of tangible personal property, 4%.
Colorado . . . . .	do	3	....	3	3	3	3	....	....	Selling, leasing or delivering in Colorado of tangible personal property by a retail sale for use, storage, distribution or consumption within the State, 3%.
Connecticut <sup>5</sup> . . . . .	do	5	....	5 <sup>6</sup>	5	....	....	....	....	Storing for use or consumption of any article or item of tangible personal property, 5%.
Florida . . . . .	do	4 <sup>2</sup>	4	4	4	4	4 <sup>7</sup>	....	....	Fishing, hunting, camping, swimming and diving equipment, 5% of wholesale price or

See footnotes at the end of table.

TABLE A.7 .--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Florida (cont'd)										cost. Rental, storage or furnishing of taxable things or services, altering, remodeling or repairing tangible personal property, lease or rental of commercial offices or buildings, the rental of privately owned parking and docking facilities, and rental income of amusement machines, 4%; specified industrial machinery, ships and equipment designed for use exclusively by commercial fisheries, 3%.
Georgia .....	Retail sales	3	3	3	3	3	3	....	3 <sup>4</sup>	Lease or rental of tangible personal property, and charges on amusements and amusement devices, 3%.
Hawaii .....	Multiple stage sales	4	4	4	4	....	....	....	....	Manufacturers, producers, wholesalers, and selected service businesses, 1/2%; sugar processors and pineapple canners, 1/2%; insurance solicitors, 2%; contractors, sales representatives, professions, radio broadcasting stations, service businesses and other businesses (not otherwise specified), including amusement business, 4%.
Idaho .....	Retail sales	3	3	3	3	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, and gross receipts of amusement operators, 3%. (5% of the gross receipts from sales of tickets to closed circuit telecasts of boxing, sparring and wrestling matches).

See footnotes at the end of table.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Illinois .....	Retail Sales	4	....	4	....	....	....	....	....	Property sold in connection with a sale of service, 4%; remodeling, repairing and reconditioning of tangible personal property, 4%. Hotel operators are subject to a hotel occupancy tax of 5% of 95% of the gross receipts from the rental of rooms to transients.
Indiana .....	do	2	....	2	2	2 <sup>7</sup>	2 <sup>7</sup>	2 <sup>7</sup>	....	Lease or rental of tangible personal property, 2%.
Iowa .....	do	3	3	3	3	3	3	3	....	Laundry, drycleaning, automobile and cold storage, printing, repair service to tangible personal property, and gross receipts derived from operation of amusement devices and commercial amusement enterprises, 3%.
Kansas .....	do	3	3	3	3	3	3 <sup>7</sup>	3 <sup>7</sup>	....	Drycleaning, pressing, dyeing and laundry service; washing and waxing vehicles; sales to contractors, subcontractors or repairmen of materials and supplies for use in building, improving, altering or repairing property for others; service or maintenance agreements; gross receipts from the operation of any coin-operated device; and lease or rental of tangible personal property, 3%.
Kentucky .....	do	5	5 <sup>8</sup>	5	5	5	5	5	....	Storage, use or other consumption of tangible personal property, sewer services, photography and photo finishing, 5%.
Louisiana .....	do	3	3	3	3	....	....	....	....	Laundry, drycleaning, automobile and cold storage, printing, repairing, renting, or leasing of tangible personal property, 3%.

See footnotes at the end of table.

TABLE A.7. --STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Maine .....	do	5	....	5	5	5	5	5	....	Renting, storing, fabricating or printing of tangible personal property, 5%.
Maryland .....	Retail Sales	4 <sup>2</sup>	....	4 <sup>6</sup>	4	....	4 <sup>7</sup>	....	....	Lease or rental of tangible personal property, production, fabrication, or printing on special order, 4%; farm equipment, manufacturing machinery and equipment, 2%; watercraft, 3%.
Massachusetts .....	do	3	....	6	....	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 3%. Transient lodging is subject to a 5.7% (5% plus 14% surtax) room occupancy excise tax.
Michigan .....	do	4	....	4	4	4	4	....	....	Sales of property to persons engaged in constructing, altering, repairing or improving realty for others; and lease or rental of tangible personal property, 4%.
Minnesota .....	do	3	3	3	3	3	3	3	....	Renting, leasing, processing, producing, fabricating or printing tangible personal property, 3%.
Mississippi <sup>9</sup> .....	Multiple stage sales	5 <sup>2</sup>	....	5	5	5	5 <sup>7</sup>	5	5 <sup>4</sup>	Wholesaling, 1/8% (with following exceptions: sales of meat for human consumption, 1/4%; alcoholic beverages, motor fuel, soft drinks and syrups, 5%); extracting or mining of minerals, 5%; specified miscellaneous businesses (including bowling alleys, pool parlors, laundry and dry cleaning, photo finishing, storage, certain repair services), 5%, except cotton ginning, 15 ¢ per bale; sales of railroad track material (to a railroad whose rates are fixed) 3%; contracting (contracts exceeding \$10,000), 2 1/4%; farm tractors,

See footnotes at the end of table.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Mississippi <sup>9</sup> (cont'd) . . . . .										1%; electric power associations; renting or leasing manufacturing or processing machinery, and sales of manufacturing machinery and manufacturing machine parts over \$500, 1%.
Missouri . . . . .	Retail sales	3	3	3	3	3	3 <sup>7</sup>	3	3 <sup>4</sup>	Trailer camp rentals, and lease or rental of tangible personal property, 3%.
Nebraska . . . . .	do	2½	2½	2½	2½	2½	2½	2½	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 2½%.
Nevada . . . . .	do	3	....	3	....	....	....	....	....	Renting, leasing, producing, fabricating, processing, and printing, or imprinting of tangible personal property, 3%.
New Jersey . . . . .	do	5	5 <sup>10</sup>	5	5	....	....	....	....	Advertising, renting, leasing, producing, fabricating, processing, printing, or imprinting, and installation or maintenance of tangible personal property, 5%.
New Mexico . . . . .	do	4 <sup>2</sup>	4	4	4	4	4	4	4	Leasing or storing tangible personal property, and sales of services, 4%. Sales of farm implements, 2%.
New York . . . . .	do	3	3 <sup>10</sup>	3 <sup>6</sup>	3	3	3	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 3%.

See footnotes at the end of table.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
North Carolina . . . . .	Retail Sales	3 <sup>2</sup>	....	3	3	....	....	....	....	Leasing or renting of tangible personal property, laundry and drycleaning, 3%; airplanes, boats, railway locomotives and cars, 2% (with a maximum tax of \$120 per item); sales of horses or mules, sales of fuel to farmers, manufacturing industries and plants other than for residential heating purposes, and to commercial laundries or to pressing and drycleaning establishments, sales of machinery to farmers, manufacturing industries, laundry and drycleaning establishments, and other selected items, 1% (maximum tax is \$80 per article for several items).
North Dakota . . . . .	do	4 <sup>2</sup>	4	4	4	4	4	4	....	Leasing, renting, fabricating, and storing of tangible personal property, proceeds from coin-operated amusement or entertainment machinery, and the severance of sand or gravel from the soil, 4%.
Ohio . . . . .	do	4	....	4	4	....	....	....	....	Printing, processing, and reproducing, 4%.
Oklahoma . . . . .	do	2 <sup>2</sup>	2	2	2	2	2	....	2 <sup>4</sup>	Advertising (limited), gross proceeds from amusement devices, printing, automobile storage, 2%.
Pennsylvania . . . . .	do	6	....	6	6	6	6	....	....	Repairing, altering, cleaning and lease or rental of tangible personal property, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 6%.

See footnotes at the end of table.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Rhode Island . . . . .	Retail sales	5	....	5	5	5	5	5	....	Renting, leasing, producing, fabricating, processing, and printing or imprinting of tangible personal property, 5%.
South Carolina . . . . .	do	4	....	4	4	4	4 <sup>7</sup>	....	....	Renting or leasing of tangible personal property, and laundry and drycleaning, 4%.
South Dakota . . . . .	do	4 <sup>2</sup>	3	4	3	3	3	3	....	Farm machinery, and agricultural irrigation equipment sold by licensed retailers, 2%; contractors, gross receipts from engaging in the practice of any profession or business in which the service rendered is of a professional, technical, or scientific nature, but not including persons engaged in the healing arts or veterinarians, 4%. Gross receipts from amusement devices, 3%.
Tennessee . . . . .	do	3	....	3	3	3	3 <sup>7</sup>	3 <sup>7</sup>	....	Vending machine operators may pay a \$2 registration fee plus \$1 per machine, and 1½% of gross receipts from such machines in lieu of privilege and sales taxes, except that the tax on gross receipts from machines dispensing tobacco items is 2½%; parking lots and storage of motor vehicles, repair services, installation, lease or rental of tangible personal property, laundry and drycleaning, 3%; machinery for "new and expanded" industry, air & water pollution control equipment used in fabricating or producing tangible personal property, & farm machinery and equipment, 1%.

See footnotes at the end of table.



TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject to special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Texas . . . . .	Retail sales	3½ <sup>2</sup>	....	3%	....	....	3½ <sup>7</sup>	....	....	Producing, processing, and lease or rental of tangible personal property, 3½%.
Utah . . . . .	do	4	4	4	4	4	4	....	4 <sup>4</sup>	Laundry, and drycleaning, repairing, renovating, installing, fabricating, and lease or rental of tangible personal property, 4%.
Vermont . . . . .	do	3	3	11	11	....	3	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 3%.
Virginia . . . . .	do	3 <sup>2</sup>	....	3	3	....	....	....	....	Fabricating, storage, lease or rental of tangible personal property, 3%.
Washington . . . . .	do	4½	4½	4½	4½	....	....	....	....	Charges for certain specified services, 4½%; selected amusement and recreation activities, 4½% (unless subject to county or city admission taxes, in which case they remain taxable under the State and business and occupation tax, 1%).
West Virginia . . . . .	do	3 <sup>2</sup>	3	3	3	....	....	....	....	All services (including services rendered in amusement places), except public utilities and personal and professional services; and renting or leasing tangible personal property, 3%.
Wisconsin . . . . .	do	4	4 <sup>10</sup>	4	4	4	4 <sup>7</sup>	....	....	Laundry, drycleaning, photographic services, the repair, service, maintenance, lease or rental of all items of taxable tangible personal property, 4%.

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See footnotes on the following page.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

State	Type of tax <sup>1</sup>	Rate on tangible personal property at retail	Rates on selected services subject to tax							Rates on other services and businesses subject to tax (including retail sales subject special rates)
			Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Wyoming . . . . .	do	3	3	3	3	3	3 <sup>7</sup>	....	3	Laundry, drycleaning, producing, fabricating, repairing, altering, printing, lease or rental (with exceptions) of tangible personal property, plus numerous other service businesses, 3%.
District of Columbia . . . . .	do	4 <sup>2</sup>	4	5	5	4	4 <sup>7</sup>	4	....	Laundry, drycleaning and pressing services (except self-service coin operated services) and nonprescription medicines, 2%. Producing, fabricating, printing, lease or rental (with exceptions), and repair of tangible personal property, 4%.

<sup>1</sup> All but a few States levy sales taxes of the single-stage retail type. Hawaii and Mississippi levy multiple-stage sales taxes (although the Arizona and New Mexico taxes are applicable to some nonretail businesses, they are essentially retail sales taxes). Washington and West Virginia levy a gross receipts tax on all businesses, distinct from their sales taxes. Alaska also levies a gross receipts tax on businesses, and New Jersey levies a retail gross receipts tax plus an unincorporated business tax (which includes, unincorporated retail stores). The rates applicable to retailers (with exceptions) under these gross receipts taxes are as follows: Alaska ½% on gross receipts of \$20,000 - \$100,000, and ¼% on gross receipts in excess of \$100,000; New Jersey, retail gross receipts - 1/20 of 1% on gross receipts in excess of \$150,000, unincorporated business tax - ¼ of 1% if gross receipts exceed \$5,000; Washington, 44/100% and West Virginia, ½%.

<sup>2</sup> Motor vehicles are taxable at the general rates with certain exceptions. The following States apply different rates to motor vehicles under their general sales and use tax laws: Alabama, 1½%; Florida, 3%; Mississippi, 3%; and North Carolina, 2% (maximum \$120). The following exempt motor vehicles from their general sales and use taxes but impose special sales or gross receipts taxes on them under their motor vehicle tax laws: District of Columbia, 4% titling tax; Maryland, 4% titling tax; New Mexico, 2% excise tax; North Dakota, 4% excise tax; Oklahoma, 2% excise tax; South Dakota, 3% excise tax; Texas 3% sales and use tax; Virginia, 2% sales and use tax; and West Virginia, 3% titling tax. See also table 67 for sales tax treatment of motor vehicles.

<sup>3</sup> Gross sales or gross receipts taxable under separate "Utility Tax Act."

<sup>4</sup> Arizona and Mississippi also tax the transportation of oil and gas by pipeline. Georgia exempts transportation of property, and charges by municipalities, counties, and public transit authorities for transporting passengers upon their conveyances. Missouri, Oklahoma, and Utah do not tax transportation of property. Mississippi taxes bus and taxicab transportation at the rate of 2%. Oklahoma does not tax local transportation, school transportation, and fares of 15 cents or less. Utah does not tax street railway fares.

<sup>5</sup> Sales under 10¢ taxed at ½ the regular rate.

<sup>6</sup> Restaurant meals below a certain price are exempt: Connecticut, less than \$1; Maryland, \$1 or less; New York, less than \$1 (when alcoholic beverages are sold, meals are taxable regardless of price). The Massachusetts retail sales tax exempts restaurant meals, which (\$1 or more) are taxed at 5.7% (5% plus 14% surtax) under the meals excise tax.

TABLE A.7.--STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1971 (Cont'd)  
(Percent)

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- <sup>7</sup>Florida exempts fuels used by a public or private utility in the generation of electric power or energy for sale. Indiana exempts gas, electricity, and water used in manufacturing, mining, refining, oil or mineral extraction, and irrigation; also exempts sale of utility services to other utilities. Kansas exempts gas, electricity, and water used in farming, processing, manufacturing, mining, drilling, refining, irrigation, telephone and telegraph and other taxable services or for use in movement in interstate commerce by railroads or public utilities. Kentucky exempts energy or energy producing fuels used in manufacturing, processing, mining, or refining to the extent that costs exceed 3% of the cost of production. Maryland exempts sales of gas and electricity when made for purposes of resale or use in manufacturing, assembling, processing, refining, or the generation of electricity. Mississippi exempts wholesale sales of electricity between power companies and taxes industrial sales of gas and electricity at the rate of 1%. Missouri exempts electrical energy used in manufacturing, processing, etc., of a product, if the total cost of electrical energy used exceeds 10% of the total cost of production, excluding the cost of electrical energy so used. South Carolina's tax is not applicable to sales of gas used in manufacturing or in furnishing laundry service; also exempt are sales of electricity for use in manufacturing tangible personalty and electricity sold to radio and television stations used in producing programs. Tennessee taxes gas, electricity and water sold to or used by manufacturers at the rate of 1% (if used directly in the manufacturing process they are exempt). Texas exempts gas and electricity used in manufacturing, mining, or agriculture. Wisconsin's tax is not applicable to gas or to electricity for space heating charged at a specific rate. Wyoming exempts gas and electricity consumed in manufacturing, processing, and the transportation business. The District of Columbia exempts gas and electricity used in manufacturing, assembling, processing and refining.
- <sup>8</sup>The tax on sale of tickets to prize fights or wrestling matches on closed circuit television is 5% of the gross receipts. The 5% tax also applies to payments received from broadcasting companies for the right to televise or broadcast any match.
- <sup>9</sup>In Mississippi, effective August 1, 1968, the State sales tax on tangible personal property was increased from 3½% to 5%; however, authority for local sales tax was repealed.
- <sup>10</sup>In New Jersey, admissions to a place of amusement are taxable if the charge is in excess of 75 cents. New York taxes admissions when the charge is over 10 cents: exempt are participating sports (such as bowling and swimming), motion picture theatres, race tracks, boxing, wrestling, and live dramatic or musical performances. Sales of admissions to motion picture theatres costing 75 cents or less are exempt in Wisconsin.
- <sup>11</sup>Taxed at 5% under separate "Meals and Rooms Tax."

Source: Commerce Clearing House, State Tax Reporter as shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, (Washington: Government Printing Office, 1970), pp. 54-63.

TABLE A.8--PROJECTED PRICE INDEXES, FISCAL YEARS 1970-71 TO 1977-78

Fiscal Year	Implicit Price Deflator (1970-71=100)				Consumer Price Index	Medical Care Consumer Price Index
	Gross National Product	State and Local Govt. Purchases of Goods and Services	All Govt. Pur- chases of Bldgs. Excl. Military	All Govt. Pur- chases of High- ways and Streets		
1970-71	100.0	100.0	100.0	100.0	100.0	100.0
1971-72	103.4	105.9	105.1	102.7	102.8	105.7
1972-73	106.5	111.4	109.8	105.1	105.4	111.0
1973-74	109.6	117.0	114.6	107.5	108.0	116.4
1974-75	112.8	122.9	119.6	110.0	110.6	122.1
1975-76	115.7	128.3	124.2	112.2	113.0	127.3
1976-77	118.2	133.1	128.2	114.1	115.0	131.9
1977-78	120.8	138.2	132.4	116.1	117.1	136.7

Source: Barry E. Lipman, "Revised Price Indexes for State Government Purchases", a staff paper prepared in the Office of Research and Information, Division of State Planning and Community Affairs (December 17, 1970).

TABLE A.9.--SELECTED PRICE INDEXES, ACTUAL 1949 TO 1970

Year	Implicit Price Deflator (1958 = 100)					Consumer Price Index (1957-59=100)	Medical Care Consumer Price Index (1957-59=100)
	Gross National Product	State and Local Govt. Purchases of Goods and Services	All Govt. Purchases of Bldgs. Excl. Military	All Govt. Pur- chases of High- ways and Streets			
1949	79.1	68.9	74.2	84.6	83.0	72.0	
1950	80.2	70.8	75.3	77.9	83.8	73.4	
1951	85.6	76.9	81.6	95.7	90.5	76.9	
1952	87.5	80.6	85.1	98.4	92.5	81.1	
1953	88.3	82.8	86.7	94.7	93.2	83.9	
1954	89.6	85.3	86.3	89.5	93.6	86.6	
1955	90.9	87.5	88.6	86.7	93.3	88.6	
1956	94.0	92.7	93.7	98.1	94.7	91.8	
1957	97.5	97.3	98.4	102.6	98.0	95.5	
1958	100.0	100.0	100.0	100.0	100.7	100.1	
1959	101.6	102.6	102.9	96.0	101.5	104.4	
1960	103.3	105.9	105.0	93.6	103.1	108.1	
1961	104.6	109.4	107.4	94.6	104.2	111.3	
1962	105.8	113.2	109.5	98.0	105.4	114.2	
1963	107.2	116.3	113.2	100.6	106.7	117.0	
1964	108.8	119.5	116.9	101.4	108.1	119.4	
1965	110.9	123.5	120.5	105.3	109.9	122.3	
1966	113.9	129.4	127.0	112.9	113.1	127.7	
1967	117.6	137.1	133.3	116.1	116.3	136.7	
1968	122.3	144.7	140.8	122.6	121.2	145.0	
1969	128.1	153.7	151.8 <sup>b/</sup>	130.7 <sup>b/</sup>	127.7	155.0	
1970	134.9 <sup>a/</sup>	161.3 <sup>a/</sup>	n.a. <sup>b/</sup>	n.a. <sup>b/</sup>	135.0 <sup>a/</sup>	164.4 <sup>a/</sup>	

<sup>a/</sup> Preliminary figures.

<sup>b/</sup> Not available.

Sources: U. S. Department of Commerce, The National Income and Product Accounts of the United States, 1929-1965; Statistical Tables, A Supplement to the Survey of Current Business (Washington: Government Printing Office, August, 1966), pp. 158-59, 160-61, 164-65; Department of Commerce, Business Statistics, 1967: The Biennial Supplement to the Survey of Current Business (Washington: Government Printing Office, September, 1967) pp. 38, 40; Survey of Current Business, Vol. 48, No. 7 (July, 1968) pp. 49, 51- S-7, S-8; Survey of Current Business, Vol. 49, No. 7 (July, 1969) pp. 47, 49, S-7, S-8; Survey of Current Business, Vol. 50, No. 7 (July, 1970) pp. 47, 49, S-8; Survey of Current Business, Vol. 51, No. 1 (January, 1971) pp. 12, S-8.

TABLE A.10--LOCAL GOVERNMENT REVENUES FROM REAL ESTATE TAXES,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$196.9	\$ ...	...
1965-66	229.2	+32.3	+16.4
1966-67	235.1	+ 5.9	+ 2.6
1967-68	258.2	+23.1	+ 9.8
1968-69	273.5	+15.3	+ 5.9
Projected revenues			
1969-70	312.3	+38.8	+14.2
1970-71	343.3	+31.0	+ 9.9
1971-72	370.8	+27.5	+ 8.0
1972-73	400.4	+29.6	+ 8.0
1973-74	432.3	+31.9	+ 8.0
1974-75	467.0	+34.7	+ 8.0
1975-76	504.4	+37.4	+ 8.0
1976-77	544.8	+40.4	+ 8.0
1977-78	588.3	+43.5	+ 8.0

a/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

b/ The projection for fiscal year 1969-70 is based on the true tax rate for real estate in 1970 and, therefore, it accounts for a change in the tax rate from fiscal year 1968-69. This explains the larger increase in that year than projected for future years.

Sources: U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office); Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond: Department of Taxation).

TABLE A.11.--LOCAL GOVERNMENT REVENUES FROM PUBLIC SERVICE CORPORATION PROPERTY TAXES, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$34.1	\$ ...	...
1965-66	38.1	+4.0	+11.7
1966-67	37.0 <sup>b/</sup>	-0.9	- 2.4
1967-68	39.3	+2.3	+ 6.2
1968-69	39.9	+0.6	+ 1.5
Projected revenues			
1969-70	43.3	+3.4	+ 8.5
1970-71	46.5	+3.3	+ 7.6
1971-72	50.6	+4.1	+ 8.8
1972-73	55.2	+4.6	+ 9.1
1973-74	60.2	+5.0	+ 9.1
1974-75	65.8	+5.6	+ 9.3
1975-76	72.0	+6.2	+ 9.4
1976-77	78.8	+6.8	+ 9.4
1977-78	86.3	+7.5	+ 9.5

a/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

b/ The decline in these revenues for fiscal year 1966-67 may have resulted from errors caused by the distribution technique described in a/; from revisions in the local tax structure due to the enactment of the sales and use tax; and/or from sampling errors in census data.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond: Department of Taxation); Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities," April 1, 1971; U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.12--LOCAL GOVERNMENT REVENUES FROM TANGIBLE PERSONAL PROPERTY TAXES, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78 (Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$46.8	\$ ...	...
1965-66	49.1	+2.3	+ 4.9
1966-67	44.1 <sup>b/</sup>	-5.0	-10.1
1967-68	47.3	+3.2	+ 7.2
1968-69	49.4	+2.1	+ 4.4
Projected revenues			
1969-70	51.7	+2.3	+ 4.6
1970-71	52.9	+1.2	+ 2.3
1971-72	54.6	+1.7	+ 3.2
1972-73	56.8	+2.2	+ 4.0
1973-74	59.1	+2.3	+ 4.0
1974-75	61.5	+2.4	+ 4.1
1975-76	63.8	+2.3	+ 3.7
1976-77	66.0	+2.2	+ 3.4
1977-78	68.2	+2.2	+ 3.3

a/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

b/ The decline in these revenues for fiscal year 1966-67 may have resulted from errors caused by the distribution technique described in a/; from revisions in the local tax structure due to the enactment of the sales and use tax; and/or from sampling errors in census data.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond, Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).



TABLE A.13--LOCAL GOVERNMENT REVENUES FROM PROPERTY TAXES ON MACHINERY AND TOOLS, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$ 6.4	\$ ...	...
1965-66	7.8	+1.4	+21.9
1966-67	7.9	+0.1	+ 1.3
1967-68	8.7	+0.8	+10.1
1968-69	9.2	+0.5	+ 5.7
Projected revenues			
1969-70	9.9	+0.7	+ 7.9
1970-71	10.7	+0.8	+ 7.9
1971-72	11.5	+0.8	+ 7.9
1972-73	12.4	+0.9	+ 7.9
1973-74	13.4	+1.0	+ 7.9
1974-75	14.4	+1.0	+ 7.9
1975-76	15.5	+1.1	+ 7.9
1976-77	16.7	+1.2	+ 7.9
1977-78	18.0	+1.3	+ 7.9

a/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond: Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.14--LOCAL GOVERNMENT REVENUES FROM PROPERTY TAXES ON MERCHANTS' CAPITAL, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$1.7	\$ ...	...
1965-66	1.6	-0.1	- 5.9
1966-67	1.4	-0.2	-12.5
1967-68	1.4	...	...
1968-69	1.5	+0.1	+ 7.1
Projected revenues			
1969-70	1.5	...	...
1970-71	1.6	+0.1	+ 6.6
1971-72	1.6	...	...
1972-73	1.7	+0.1	+ 6.2
1973-74	1.7	...	...
1974-75	1.8	+0.1	+ 5.9
1975-76	1.8	...	...
1976-77	1.9	+0.1	+ 5.5
1977-78	1.9	...	...

<sup>a/</sup> The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond: Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.15--LOCAL GOVERNMENT REVENUES FROM CAPITATION TAXES,  
 ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
 PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
 (Millions of Dollars)

<u>Fiscal Years</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$0.4	\$ ...	...
1965-66	0.4	...	...
1966-67	0.3	-0.1	-25.0
1967-68	0.3	...	...
1968-69	0.2	-0.1	-33.3
Projected revenues			
1969-70	0.1	-0.1	-50.0
1970-71	0.1	...	...
1971-72	<u>b/</u>	...	...
1972-73	<u>b/</u>	...	...
1973-74	<u>b/</u>	...	...
1974-75	<u>b/</u>	...	...
1975-76	<u>b/</u>	...	...
1976-77	<u>b/</u>	...	...
1977-78	<u>b/</u>	...	...

a/ The distribution of total fiscal year property tax collections between real estate taxes, public service corporation levies, tangible personal property taxes, machinery and tool taxes, merchants' capital levies and local capitation taxes is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

b/ Less than \$0.1 million.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 196-, selected editions (Richmond: Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.16--LOCAL GOVERNMENT REVENUES FROM THE 1 PERCENT LOCAL RETAIL SALES AND USE TAX, ACTUAL, FISCAL YEARS 1964-65 TO 1969-70, AND PROJECTED, FISCAL YEARS 1970-71 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$ ...	\$ ...	...
1965-66	...	...	...
1966-67	35.6	...	...
1967-68	55.9	+20.3	+57.0
1968-69	65.0	+ 9.1	+16.3
1969-70	72.0	+ 7.0	+10.8
Projected revenues			
1970-71	74.7	+ 2.7	+ 3.8
1971-72	80.5	+ 5.8	+ 7.8
1972-73	87.5	+ 7.0	+ 8.7
1973-74	95.0	+ 7.5	+ 8.6
1974-75	103.2	+ 8.2	+ 8.6
1975-76	111.8	+ 8.6	+ 8.3
1976-77	120.5	+ 8.7	+ 7.8
1977-78	129.9	+ 9.4	+ 7.8

a/ The sales and use tax did not become effective until September 1, 1966.

Source: Report of Department of Taxation Fiscal Year Ending June 30, 196-, Table 16, selected editions (Richmond: Department of Taxation).

TABLE A.17 --LOCAL GOVERNMENT REVENUES FROM OTHER TAXES,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED,  
FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues <sup>a/</sup>			
1964-65	\$74.7	\$ ...	...
1965-66	96.9	+22.2	+29.7
1966-67	88.0	- 8.9	- 9.2
1967-68	93.7	+ 5.7	+ 6.5
1968-69	102.0	+ 8.3	+ 8.8
Projected revenues			
1969-70	111.2	+ 9.2	+ 9.0
1970-71	119.0	+ 7.8	+ 7.0
1971-72	128.5	+ 9.5	+ 8.0
1972-73	140.1	+11.6	+ 9.0
1973-74	152.7	+12.6	+ 9.0
1974-75	166.4	+13.7	+ 9.0
1975-76	179.7	+13.3	+ 8.0
1976-77	194.1	+14.4	+ 8.0
1977-78	207.7	+13.6	+ 7.0

<sup>a/</sup> Actual figures represent "other taxes" as reported by the U. S. Department of Commerce, Bureau of the Census, in Governmental Finances in 196-, selected editions, minus the sales and use tax collections.

Source: U. S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.18 --LOCAL GOVERNMENT REVENUES FROM CHARGES AND MISCELLANEOUS SOURCES, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78  
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual revenues			
1964-65	\$114.3	\$ ...	...
1965-66	124.6	+10.3	+ 9.0
1966-67	123.6	- 1.0	- 0.8
1967-68	143.1	+19.5	+13.4
1968-69	148.6	+ 5.5	+15.7
Projected revenues			
1969-70	159.2	+10.6	+ 7.1
1970-71	170.5	+11.3	+ 7.1
1971-72	182.6	+12.1	+ 7.1
1972-73	195.6	+13.0	+ 7.1
1973-74	209.5	+13.9	+ 7.1
1974-75	224.4	+14.9	+ 7.1
1975-76	240.3	+15.9	+ 7.1
1976-77	257.4	+17.1	+ 7.1
1977-78	275.6	+18.2	+ 7.1

Source: U. S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.19--STATE CASH TRANSFERS TO LOCAL GOVERNMENTS FOR EDUCATION,  
 ACTUAL, FISCAL YEARS 1964-65 TO 1969-70, AND  
 PROJECTED, FISCAL YEARS 1970-71 TO 1977-78

Fiscal Year	Amount <sup>a/</sup>	Change from Preceding Year	
		Amount	Percent
Actual transfers			
1964-65	\$146.8	\$ ...	...
1965-66	165.0	+18.2	+12.4
1966-67	251.1	+86.1	+52.2
1967-68	296.9	+45.8	+18.2
1968-69	339.5	+42.6	+14.3
1969-70	368.3	+28.8	+ 8.5
Projected transfers			
1970-71	402.9	+34.6	+ 9.4
1971-72	430.3	+27.4	+ 6.8
1972-73	452.5	+22.2	+ 5.2
1973-74	473.8	+21.3	+ 4.7
1974-75	495.2	+21.4	+ 4.5
1975-76	514.7	+19.5	+ 3.9
1976-77	532.3	+15.6	+ 3.0
1977-78	552.3	+20.0	+ 3.8

a/ Includes 1 percent of the 3 percent state sales and use tax distributed to localities on the basis of school-aged population. This is treated as local revenue in some sources.

Sources: U. S. Bureau of the Census, State Government Finances in 196-, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction 1969-70, Table 40, (Richmond: State Board of Education, December 1970); Report of Comptroller Fiscal Year Ended June 30, 1970, Appendix V, (Richmond: Department of Accounts, December, 1970).

TABLE A.20.--STATE CASH TRANSFERS TO LOCAL GOVERNMENTS FOR HIGHWAYS,  
ACTUAL, FISCAL YEARS 1964-65 TO 1969-70 AND  
PROJECTED, FISCAL YEARS 1970-71 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual transfers			
1964-65	\$21.2	\$ ...	...
1965-66	15.6	-5.6	-26.4
1966-67	16.7	+1.1	+ 7.0
1967-68	17.6	+0.9	+ 5.4
1968-69	18.5	+0.9	+ 5.1
1969-70	19.0	+0.5	+ 2.7
Projected transfers			
1970-71	20.1	+1.1	+ 5.8
1971-72	20.4	+0.3	+ 1.5
1972-73	21.0	+0.6	+ 2.9
1973-74	21.8	+0.8	+ 3.8
1974-75	22.5	+0.7	+ 3.2
1975-76	23.1	+0.6	+ 2.7
1976-77	23.9	+0.8	+ 3.5
1977-78	24.7	+0.8	+ 3.3

Source: U.S. Bureau of the Census, State Government Finances in 196-, selected editions (Washington: Government Printing Office); "Statement to Show Estimated Payments to the Counties Not in the Primary System and Estimated City Street Payments," letter from T. B. Omohundro, Jr., Virginia Department of Highways, March 16, 1971.



TABLE A.21.--STATE CASH TRANSFERS TO LOCAL GOVERNMENTS FOR PUBLIC WELFARE,  
ACTUAL, FISCAL YEARS 1964-65 TO 1969-70, AND  
PROJECTED, FISCAL YEARS 1970-71 To 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual transfers			
1964-65	\$ 37.3	\$ ...	...
1965-66	41.1	3.8	+10.2
1966-67	45.6	+ 4.5	+10.9
1967-68	52.5	+ 6.9	+15.1
1968-69	62.5	+10.0	+19.0
1969-70	134.0	+71.5	+114.4
Projected transfers			
1970-71	190.3	+56.3	+42.0
1971-72	235.2	+44.9	+23.6
1972-73	295.4	+60.2	+25.6
1973-74	339.4	+44.0	+14.9
1974-75	386.5	+47.1	+13.8
1975-76	419.7	+33.2	+ 8.6
1976-77	444.9	+25.2	+ 6.0
1977-78	473.4	+28.5	+ 6.4

Source: Annual Report of Department of Welfare and Institutions, selected editions (Richmond: Virginia Department of Welfare and Institutions).

TABLE A.22.--STATE CASH TRANSFERS TO LOCAL GOVERNMENTS FOR GENERAL SUPPORT,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
PROJECTED, FISCAL YEARS 1969-70 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual transfers			
1964-65	\$13.7	\$ ...	...
1965-66	14.1	+0.4	+2.9
1966-67	13.8	-0.3	-2.1
1967-68	13.9	+0.1	+0.7
1968-69	13.9	...	...
Projected transfers			
1969-70	14.5 <sup>a/</sup>	+0.6	+4.3
1970-71	17.2 <sup>b/</sup>	+2.7	+18.6
1971-72	17.2 <sup>b/</sup>	...	...
1972-73	17.3	+0.1	+0.1
1973-74	17.4	+0.1	+0.5
1974-75	17.8	+0.4	+2.3
1975-76	18.3	+0.5	+2.8
1976-77	18.8	+0.5	+2.7
1977-78	19.2	+0.4	+2.1

a/ Projected on basis of information contained in Report of Comptroller, Fiscal Year Ended June 30, 1970, (Richmond: Department of Accounts, December, 1970).

b/ The large increase in general support transfers for fiscal year 1970-71 and the negligible change in fiscal year 1971-72 are caused by the enactment of a new distribution formula for sharing A.B.C. profits.

Sources: U.S. Bureau of the Census, State Government Finances in 196- selected editions ( Washington: Government Printing Office); Report of Comptroller, Fiscal Year Ended June 196-, selected editions (Richmond: Department of Accounts).

TABLE A.23--STATE CASH TRANSFERS TO LOCAL GOVERNMENTS FOR ALL OTHER  
FUNCTIONS, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69,  
AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
<b>Actual transfers</b>			
1964-65	\$ 9.5	\$ ...	...
1965-66	11.4	+ 1.9	+20.0
1966-67	13.4	+ 2.0	+17.5
1967-68	15.2	+ 1.8	+13.4
1968-69	28.9	+13.7	+90.1
<b>Projected transfers</b>			
1969-70	30.6	+ 1.7	+ 5.9
1970-71	33.7	+ 3.1	+10.1
1971-72	35.8	+ 2.1	+ 6.2
1972-73	38.8	+ 3.0	+ 8.4
1973-74	42.0	+ 3.2	+ 8.2
1974-75	45.2	+ 3.2	+ 7.6
1975-76	47.7	+ 2.5	+ 5.5
1976-77	49.6	+ 1.9	+ 4.0
1977-78	51.8	+ 2.2	+ 4.4

Source: U. S. Bureau of the Census, State Government Finances in 196-,  
selected editions (Washington: Government Printing Office).

TABLE A.24.--FEDERAL CASH TRANSFERS TO LOCAL GOVERNMENTS IN VIRGINIA,  
 ACTUAL, FISCAL YEARS 1964-65 TO 1968-69,  
 AND PROJECTED, FISCAL YEARS 1969-70 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual transfers			
1964-65	\$ 35.5	\$ ...	...
1965-66	43.5	+8.0	+22.5
1966-67	43.9	+0.4	+ 0.9
1967-68	53.4	+9.5	+21.6
1968-69	62.1	+8.7	+16.3
Projected transfers			
1969-70	64.7	+2.6	+ 4.2
1970-71	74.5	+9.8	+15.1
1971-72	83.0	+8.5	+11.4
1972-73	90.2	+7.2	+ 8.7
1973-74	97.4	+7.2	+ 8.0
1974-75	105.0	+7.6	+ 7.8
1975-76	110.7	+5.7	+ 5.4
1976-77	115.2	+4.5	+ 4.1
1977-78	120.2	+5.0	+ 4.3

Source: U. S. Bureau of the Census, Governmental Finances in 196-,  
 selected editions (Washington: Government Printing Office).

TABLE A.25-LOCAL GOVERNMENT EXPENDITURES FOR EDUCATION  
 IN VIRGINIA, ACTUAL, FISCAL YEARS 1964-65 TO 1969-70,  
 AND PROJECTED, FISCAL YEARS 1970-71 TO 1977-78  
 (Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1964-65	\$ 392.8	\$ ...	...
1965-66	450.6	+57.8	+14.7
1966-67	534.8	+84.2	+18.6
1967-68	600.1	+65.3	+12.2
1968-69	687.8	+87.7	+14.6
1969-70	765.8	+78.0	+11.3
Projected Expenditures			
1970-71	822.3	+56.5	+7.4
1971-72	878.2	+55.9	+6.8
1972-73	923.1	+44.9	+5.1
1973-74	967.0	+43.9	+4.7
1974-75	1,010.7	+43.7	+4.5
1975-76	1,050.4	+39.7	+3.9
1976-77	1,086.4	+36.0	+3.4
1977-78	\$1,127.1	+40.7	+3.7

Source: Annual Report of the Superintendent of Public Instruction,  
 selected editions (Richmond: State Board of Education).

TABLE A.26--LOCAL GOVERNMENT EXPENDITURES FOR HIGHWAYS IN VIRGINIA,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
PROJECTED, FISCAL YEARS 1969-70 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual expenditures			
1964-65	\$41.6	\$ ...	...
1965-66	41.7	+ 0.1	+ 0.2
1966-67	59.6	+17.9	+42.9
1967-68	48.6	-11.0	-18.5
1968-69	54.4	+ 5.8	+11.9
Projected expenditures			
1969-70	55.9	+ 1.5	+ 2.8
1970-71	59.1	+ 3.2	+ 5.7
1971-72	59.9	+ 0.8	+ 1.4
1972-73	61.8	+ 1.9	+ 3.2
1973-74	64.0	+ 2.2	+ 3.6
1974-75	66.1	+ 2.1	+ 3.3
1975-76	68.0	+ 1.9	+ 2.9
1976-77	70.3	+ 2.3	+ 3.4
1977-78	72.6	+ 2.3	+ 3.3

Source: U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office); Virginia Department of Highways.

TABLE A.27--LOCAL GOVERNMENT EXPENDITURES FOR PUBLIC WELFARE IN VIRGINIA,  
ACTUAL, FISCAL YEARS 1964-65 TO 1969-70, AND  
PROJECTED, FISCAL YEARS 1970-71 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
<b>Actual expenditures</b>			
1964-65	\$48.4	\$ ...	...
1965-66	53.8	+ 5.4	+11.1
1966-67	58.4	+ 4.6	+ 8.6
1967-68	68.3	+ 9.9	+16.9
1968-69	83.5	+15.2	+22.2
1969-70	159.4	+75.9	+90.9
<b>Projected expenditures</b>			
1970-71	222.6	+63.2	+39.6
1971-72	267.7	+45.1	+20.2
1972-73	313.2	+45.5	+17.0
1973-74	359.0	+45.8	+14.6
1974-75	408.0	+49.0	+13.6
1975-76	442.6	+34.6	+ 8.5
1976-77	468.8	+26.2	+ 5.9
1977-78	498.5	+29.7	+ 6.3

Source: Annual Report of Department of Welfare and Institutions, selected editions (Richmond: Virginia Department of Welfare and Institutions).

TABLE A.28 --LOCAL GOVERNMENT EXPENDITURES FOR HEALTH AND HOSPITALS  
IN VIRGINIA, ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
PROJECTED, FISCAL YEARS 1969-70 to 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual expenditures			
1964-65	\$12.2	\$ ...	...
1965-66	13.6	+1.4	+11.4
1966-67	16.2	+2.6	+19.1
1967-68	24.5	+8.3	+51.2
1968-69	26.7	+2.2	+ 9.0
Projected expenditures			
1969-70	28.9	+2.2	+ 8.2
1970-71	31.2	+2.3	+ 8.0
1971-72	33.5	+2.3	+ 7.4
1972-73	35.7	+2.2	+ 6.6
1973-74	38.0	+2.3	+ 6.4
1974-75	40.4	+2.4	+ 6.3
1975-76	42.8	+2.4	+ 5.9
1976-77	45.0	+2.2	+ 5.1
1977-78	47.3	+2.3	+ 5.1

Source: U.S. Bureau of the Census, Governmental Finances in 196-,  
selected editions (Washington: Government Printing Office).



TABLE A.29-- LOCAL GOVERNMENT DIRECT EXPENDITURES FOR ALL OTHER FUNCTIONS,  
ACTUAL, FISCAL YEARS 1964-65 TO 1968-69, AND  
PROJECTED, FISCAL YEARS 1969-70 TO 1977-78

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual expenditures			
1964-65	\$211.6	\$ ...	...
1965-66	224.6	+13.0	+ 6.1
1966-67	237.5	+12.9	+ 5.7
1967-68	306.1	+68.6	+28.9
1968-69	345.7	+39.6	+12.9
Projected expenditures			
1969-70	371.2	+25.5	+ 7.4
1970-71	400.1	+28.9	+ 7.8
1971-72	430.1	+30.1	+ 7.5
1972-73	459.3	+29.2	+ 6.8
1973-74	489.5	+30.2	+ 6.6
1974-75	521.7	+32.2	+ 6.6
1975-76	552.8	+31.1	+ 6.0
1976-77	581.9	+29.1	+ 5.3
1977-78	613.1	+31.2	+ 5.4

Source: U.S. Bureau of the Census, Governmental Finances in 196-, selected editions (Washington: Government Printing Office).

TABLE A.30 --COMPARISON OF REAL ESTATE ASSESSMENT RATIOS AND EFFECTIVE TRUE TAX RATES IN VIRGINIA COUNTIES AND CITIES, TAX YEARS 1962 AND 1970

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1970	Absolute Change <sup>a/</sup>	1962	1970	Absolute Change <sup>a/</sup>
<b>Counties</b>						
Accomack	.174	.196	+.022	\$0.65	\$0.59	\$-0.06
Albemarle	.120	.132	+.012	.46	.78	+ .32
Alleghany	.213	.189	-.024	.77	.90	+ .13
Amelia	.239	.152	-.087	.72	.46	- .26
Amherst	.127	.141	+.014	.47	.45	- .02
Appomattox	.206	.176	-.030	.57	.53	- .04
Arlington	.318	.358	+.040	1.23	1.37	+ .14
Augusta	.251	.215	-.036	.73	.67	- .06
Bath	.329	.242	-.087	.90	.76	- .14
Bedford	.164	.144	-.020	.60	.55	- .05
Bland	.125	.085	-.040	.64	.47	- .17
Botetourt	.167	.153	-.014	.67	.67	...
Brunswick	.178	.217	+.039	.53	.65	+ .12
Buchanan	.098	.101	+.003	.39	.56	+ .17
Buckingham	.294	.129	-.165	.62	.32	- .30
Campbell	.215	.196	-.019	.65	.67	+ .02
Caroline	.179	.174	-.005	.54	.57	+ .03
Carroll	.092	.096	+.004	.43	.58	+ .15
Charles City	.203	.148	-.055	.76	.63	- .13
Charlotte	.132	.128	-.004	.46	.50	+ .04
Chesterfield	.313	.293	-.020	.81	.91	+ .10
Clarke	.143	.228	+.085	.38	.74	+ .36
Craig	.197	.165	-.032	.65	.62	- .03
Culpeper	.193	.195	+.002	.41	.57	+ .16
Cumberland	.188	.128	-.060	.68	.46	- .22
Dickenson	.099	.107	+.008	.69	.75	+ .06
Dinwiddie	.196	.201	+.005	.49	.60	+ .11
Essex	.357	.278	-.079	.66	.51	- .15
Fairfax	.338	.356	+.018	1.14	1.53	+ .39
Fauquier	.162	.130	-.032	.43	.47	+ .04
Floyd	.224	.185	-.039	.90	.74	- .16
Fluvanna	.215	.163	-.052	.43	.47	+ .04
Franklin	.140	.108	-.032	.67	.52	- .15
Frederick	.153	.163	+.010	.43	.49	+ .06
Giles	.134	.131	-.003	.47	.58	+ .11
Gloucester	.236	.257	+.021	.59	.57	- .02
Goochland	.223	.194	-.029	.56	.59	+ .03
Grayson	.077	.171	+.094	.46	.48	+ .02
Greene	.159	.154	-.005	.48	.69	+ .21
Greensville	.164	.262	+.098	.45	.52	+ .07

(Table continued on next page.)

TABLE A.30--COMPARISON OF REAL ESTATE ASSESSMENT RATIOS AND EFFECTIVE TRUE TAX RATES IN VIRGINIA COUNTIES AND CITIES, TAX YEARS 1962 AND 1970 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1970	Absolute Change <sup>a/</sup>	1962	1970	Absolute Change <sup>a/</sup>
Halifax	.207	.169	-.038	\$0.49	\$0.48	\$-0.01
Hanover	.201	.227	+.026	.62	.66	+ .04
Henrico	.367	.336	-.031	.87	1.00	+ .13
Henry	.138	.155	+.017	.48	.66	+ .18
Highland	.196	.272	+.076	.64	.68	+ .04
Isle of Wight	.202	.193	-.009	.64	.62	- .02
James City	.207	.236	+.029	.62	.99	+ .37
King George	.185	.267	+.082	.56	.89	+ .33
King and Queen	.319	.178	-.141	.75 <sup>b/</sup>	.53 <sup>b/</sup>	- .22
King William	.258	.185	-.073	.59 <sup>b/</sup>	.53 <sup>b/</sup>	- .06
Lancaster	.271	.290	+.019	.46	.52	+ .06
Lee	.090	.080	-.010	.82	.83	+ .01
Loudoun	.143	.338	+.195	.40	.73	+ .33
Louisa	.176	.112	-.064	.40	.40	...
Lunenburg	.143	.161	+.018	.41	.58	+ .17
Madison	.223	.127	-.096	.65	.50	- .15
Mathews	.207	.265	+.058	.48	.66	+ .18
Mecklenburg	.196	.182	-.014	.56	.54	- .02
Middlesex	.213	.267	+.054	.69	.60	- .09
Montgomery	.178	.154	-.024	.63	.73	+ .10
Nansemond	.156	.123	-.033	.49	.77	+ .28
Nelson	.168	.094	-.074	.52	.47	- .05
New Kent	.141	.139	-.002	.49	.56	+ .07
Northampton	.261	.151	-.110	.95 <sup>c/</sup>	.68 <sup>c/</sup>	- .27
Northumberland	.253	.281	+.028	.56	.62	+ .06
Nottoway	.240	.214	-.026	.79	.77	- .02
Orange	.173	.156	-.017	.52	.69	+ .17
Page	.135	.104	-.031	.68	.61	- .07
Patrick	.201	.154	-.047	.60	.54	- .06
Pittsylvania	.209	.198	-.011	.50	.54	+ .04
Powhatan	.209	.242	+.033	.52 <sup>d/</sup>	.86	+ .34
Prince Edward	.151	.144	-.007	.15 <sup>d/</sup>	.29	+ .14
Prince George	.255	.264	+.009	.69	.77	+ .08
Prince William	.151	.181	+.030	.69	1.28	+ .59
Pulaski	.158	.152	-.006	.68	.81	+ .13
Rappahannock	.114	.104	-.010	.40	.43	+ .03
Richmond	.275	.257	-.018	.61	.67	+ .06
Roanoke	.330	.347	+.017	.74	.85	+ .11
Rockbridge	.228	.180	-.048	.67 <sup>e/</sup>	.78	+ .11
Rockingham	.225	.188	-.037	.61	.51	- .10

(Table continued on next page.)

TABLE A.30-COMPARISON OF REAL ESTATE ASSESSMENT RATIOS AND EFFECTIVE TRUE TAX RATES IN VIRGINIA COUNTIES AND CITIES, TAX YEARS 1962 AND 1970 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1970	Absolute Change <sup>a/</sup>	1962	1970	Absolute Change <sup>a/</sup>
Russell	.165	.170	+ .005	\$0.39	\$0.63	\$+0.24
Scott	.099	.072	- .027	.80	.59	- .21
Shenandoah	.148	.189	+ .041	.38	.42	+ .04
Smyth	.086	.098	+ .012	.45	.59	+ .14
Southampton	.153	.130	- .023	.48	.56	+ .08
Spotsylvania	.330	.259	- .071	.76	.76	...
Stafford	.191	.352	+ .161	.46	1.06	+ .60
Surry	.191	.132	- .059	.44	.30	- .14
Sussex	.165	.148	- .017	.58	.59	+ .01
Tazewell	.143	.184	+ .041	.72	.87	+ .15
Warren	.164	.139	- .025	.45	.54	+ .09
Washington	.062	.084	+ .022	.58	.74	+ .16
Westmoreland	.300	.255	- .045	.87	.82	- .05
Wise	.165	.181	+ .016	.85	.77	- .08
Wythe	.152	.139	- .013	.68 <sup>f/</sup>	.63 <sup>f/</sup>	- .05
York	.202	.203	+ .001	.48 <sup>f/</sup>	.85 <sup>f/</sup>	+ .37
County weighted average	.237	.256	+ .019	\$0.77	\$0.97	\$+0.20
Cities						
Alexandria	.436	.432	- .004	\$1.37	\$1.62	\$+0.25
Bedford <sup>g/</sup>	n.a.	.486	n.a.	n.a.	.56	n.a.
Bristol	.361	.317	- .044	.87	1.27	+ .40
Buena Vista	.300	.326	+ .026	1.11	1.17	+ .06
Charlottesville	.274	.251	- .023	.96	1.20	+ .24
Chesapeake <sup>h/</sup>	n.a.	.405	n.a.	n.a.	1.21	n.a.
Clifton Forge	.339	.371	+ .032	1.10	1.21	+ .11
Colonial Heights	.846	.892	+ .046	1.02	1.16	+ .14
Covington	.303	.259	- .044	1.09	1.00	- .09
Danville	.613	.630	+ .017	.92	.95	+ .03
Emporia <sup>i/</sup>	n.a.	.199	n.a.	n.a.	.80	n.a.
Fairfax	.339	.415	+ .076	1.17	1.65	+ .48
Falls Church	.440	.370	- .070	1.43	1.27	- .16
Franklin	.168	.473	+ .305	.71	1.09	- .38
Fredericksburg	.426	.341	- .085	.85	1.02	+ .17
Galax	.116	.145	+ .029	.75	.94	+ .19
Hampton	.333	.438	+ .105	1.00	1.38	+ .38
Harrisonburg	.355	.375	+ .020	.94	.94	...
Hopewell	.400	.371	- .029	.98	1.19	+ .21
Lexington <sup>j/</sup>	n.a.	.862	n.a.	n.a.	1.03	n.a.

(Table continued on next page.)

TABLE A.30 --COMPARISON OF REAL ESTATE ASSESSMENT RATIOS AND EFFECTIVE TRUE TAX RATES IN VIRGINIA COUNTIES AND CITIES, TAX YEARS 1962 AND 1970 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1970	Absolute Change <sup>a/</sup>	1962	1970	Absolute Change <sup>a/</sup>
Lynchburg	.448	.445	-.003	\$1.28	\$1.34	+\$0.06
Martinsville	.448	.429	-.019	.83	.97	+ .14
Newport News	.321	.402	+.081	.96	1.39	+ .43
Norfolk	.430	.551	+.121	1.29	1.29	...
Norton	.188	.204	+.016	.85	.92	+ .07
Petersburg	.456	.692	+.236	1.35	1.66	+ .31
Portsmouth	.424	.688	+.264	1.06	1.55	+ .49
Radford	.322	.310	-.012	.87	.87	...
Richmond	.847	.879 <sup>m/</sup>	+.032	1.59	1.77 <sup>m/</sup>	+ .18
Roanoke	.346	.400	+.054	1.02	1.38	+ .36
Salem <sup>k/</sup>	n.a.	.293	n.a.	n.a.	.95	n.a.
South Boston	.256	.252	-.004	.83	.91	+ .08
Staunton	.340	.303	-.037	.95	.97	+ .02
Suffolk	.399	.485	+.086	1.06	1.50	+ .44
Virginia Beach <sup>l/</sup>	n.a.	.392	n.a.	n.a.	.82	n.a.
Waynesboro	.234	.222	-.012	.82	1.11	+ .29
Williamsburg	.378	.360	-.018	.95	.94	- .01
Winchester	.454	.418	-.036	.82	.92	+ .10
City weighted average	.471	.503	+.032	\$1.19	\$1.28	+\$0.09
State weighted average	.321	.346	+.025	\$0.92	\$1.09	+\$0.17

n.a. - not available

a/ 1970 figures minus 1962 figures.

b/ Applies only to real estate outside the town of West Point.

c/ Applies only to real estate outside the town of Cape Charles.

d/ Applies only to real estate outside the town of Farmville.

e/ Applies only to real estate outside the town of Lexington.

f/ Applies only to real estate outside the town of Poquoson.

g/ Became an independent city after 1962. Formerly part of Bedford County.

h/ Became an independent city after 1962. Formerly Norfolk County and city of South Norfolk.

i/ Became an independent city after 1962. Formerly part of Greensville County.

j/ Became an independent city after 1962. Formerly part of Rockbridge County.

k/ Became an independent city after 1962. Formerly part of Roanoke County.

l/ Became an independent city after 1962. Formerly part of Princess Anne County and old city of Virginia Beach.

m/ Applies only to real estate exclusive of annexed area.

Source: Virginia Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities", (1962 and 1964 issue: Richmond, May 15, 1965; 1968 and 1970 issue: Richmond, April 1, 1971).

