

REPORT
of
THE REVENUE RESOURCES AND ECONOMIC
STUDY COMMISSION
to
THE GOVERNOR
and
THE GENERAL ASSEMBLY OF VIRGINIA

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The Fiscal Setting

To give some idea of relative magnitudes and to provide more detailed support for certain broad statements, this report makes frequent reference to the staff report submitted in April, 1971 which was titled *Fiscal Prospects and Alternatives*. In the eight months since the release of the staff report, there have been some economic and institutional changes which would change the report to a limited degree. Nevertheless, the general content of the report is still current.

The staff used several different methods to develop estimates as to the balance between general fund revenues and expenditures in the 1972-74 biennium. No matter which method was used, they found that expenditures would exceed revenues. Thus, there would be a negative gap. The most probable gap figure among those developed was one showing a \$321 million deficit. This figure was developed on the basis of information available at the time the staff report was prepared, and it used historical trends, allowance for inflation, and growth in population and institutional loads. The figures in the staff report probably understate available revenues in the current and in the next biennium since economic growth is now expected to be greater than it was at the time the report was prepared. On the other hand, the report did not allow for a significant expansion in government services such as greater participation in public school funding as envisioned by the State Board of Education's proposals for promoting quality education. Therefore, on balance, we feel that the staff report's figures still give a good idea of the general magnitudes involved.

The staff report also covered local government finances and showed a \$205 million deficit for these governments in the next biennium. When broken down on the basis of urban, suburban, or rural, staff work indicated central cities face a more stringent outlook than other types of government. In brief, the staff report indicated that both levels of government, state and local, face difficult years ahead with perhaps the state government facing the largest problems. For local governments, certain types, such as central cities and rural areas with declining populations, are also in a difficult position.

The burden of state and local government has increased tremendously in Virginia. During the last decade, state and local general revenues from own sources as a percentage of personal income rose from 9.8 percent to 12.8 percent, nearly a one-third increase. During this time, the Virginia economy expanded greatly, so that our ability to sustain greater public expenditure increased. In 1960, Virginia's per capita income was \$1,841 or 83.1 percent of the U.S. average. By 1970, it had risen to \$3,607 or 92.0 percent of the U.S. average. Although the fiscal burden in Virginia has increased, still, on the basis of any measure of relative effort, we continue to be a low effort state. In terms of local and state general revenues from own sources per \$1,000 of personal income we rank 43rd from the state making the most effort. Our 12.8 percent average compares with the national average of 14.6 percent. On the basis of per capita amount of state and local general revenues from own sources we rank 39th from the top. Virginia's figure of \$427 compares with the national average of \$536. It seems obvious that there is additional tax capacity in the state. How much capacity is to a large extent an open-ended question because it depends upon how much effort the taxpayers of the Commonwealth wish to make for goods and services provided by the state and local government sector.

The staff report develops some broad measures of additional tax capacity that might have existed in fiscal year 1968-69. In that past fiscal year, the additional capacity ranged from \$63 to \$206 million.

A key finding was the heavy involvement of the state government in local finances. In 1969-70, the state government provided for 33 percent of local government revenue. Some of the state funds were, of course, federal aid directed through the state government. But, a large portion of the money was raised from Virginia taxpayers. In terms of cash transfers from the state, the state government paid on an average for 50 percent of local operating expenditures for education, 79 percent of local maintenance and operation expenditures for highways,¹ and 76 percent of local expenditures for welfare in fiscal year 1969-70. For education the transfers ranged from a high of 75 percent to a low of 22 percent; for localities maintaining their own highway system they varied from 100 percent to 36.2 percent¹; for welfare they ranged from 82 percent to 63 percent. These amounts will be even larger after taking into account the significant amount of aid for locally funded welfare programs which will take place in the next biennium. Beginning January 1, 1972, the state will fund the local portion of four federal welfare programs. This funding will take over about \$38 million worth of spending which would have otherwise been a local responsibility in the next biennium. In addition to cash transfers to local governments, the state government makes many expenditures which benefit local governments directly. Unlike many states where medicaid is a partial local responsibility, in Virginia the state requires no participation by local governments. Furthermore, the state does not impose any requirement on local governments for operation and maintenance of community colleges.

Conclusions and Recommendations

Introduction

The commission recognizes the major fiscal problems faced by the state and local governments in the next few years. There are several approaches to funding any fiscal gap that develops, among them greater efficiency and economy in government, a reappraisal of spending priorities, imposition of more service charges for those activities of government that lend themselves to this device, borrowing for capital outlay purposes, more federal aid including federal revenue sharing, more state aid for localities, and finally, increased taxes. These alternatives need not be considered separately. In fact, it is quite possible that a combination of them will be necessary.

In regard to borrowing for capital outlays, the new constitution permits general obligation borrowing provided that it is approved by a majority of the General Assembly and by a majority of the voters in a referendum. While the language in the constitution is somewhat open to interpretation, projections have shown that borrowing for the 1972-74 biennium could amount to between \$82.1 million and \$163.1 million. Any amount borrowed would have to be serviced from general fund revenues; for example, debt service on the \$82.1 million is forecast to be \$12 million in the next biennium (staff report, pp. 222-24).

With respect to the utilization of federal monies, the commission has concluded that most available funds are now being obtained. It does not recommend at this time that an office be maintained by the Commonwealth in the nation's capital to facilitate the receipt of grants.

¹ Data are for fiscal year 1968-69.

The commission was struck by the changing character of Virginia. In 1950 less than half of the population was classified as urban (47 percent). By 1970, 63 percent of the population was urban. With urbanization the problems of the public sector have multiplied. The congestion of people promotes traffic, crime, pollution, and many other problems. Furthermore, it brings to light many problems that perhaps existed when people lived in rural areas but which were not widely known. With urbanization, there is less opportunity for people to rely upon their own resources. A jobless man cannot return to farming, instead he often asks government to find him a job or provide him with unemployment compensation. With urbanization more and more people work for someone else than work for themselves. This means a sharp growth in payroll income. In fact, in 1950 wage and salary disbursements accounted for 69 percent of personal income earned in Virginia. By 1970, they were 74 percent. As more and more people turn to wage and salary income for their livelihood, it means that wealth is often measured by a man's ability to earn payroll income rather than by the property which he holds. Thus, there is a movement in taxation to concentrate on types of taxes related to income and consumption rather than those on property. Another change in our society has been the increased mobility of people. Many citizens of the Commonwealth now live in one jurisdiction, work in another, and shop in a third. This complicates the fiscal problems of local governments because frequently the people who consume many expensive services live in one jurisdiction, yet the taxable resources may be in another.

If the Governor and the General Assembly determine that significant gaps exist and that alternatives other than taxation will not raise the required revenues, then the commission recommends that consideration be given to raising major state taxes, providing additional state aid to local governments, augmenting local tax sources, and improving the local property tax. The commission also recommends further study of state-local fiscal problems.

These topics are discussed in five major sections. No priorities should be implied from the order of listing of the sections or of the topics within sections.

The biennial revenue figures from changes in certain taxes are based on two full fiscal years. Without further knowledge as to what date possible changes would be adopted, this seemed the best compromise. If a tax change were inaugurated on some other date than the beginning of the biennium, say January 1, 1973, then the change would affect biennial revenues for seventeen months (allowing for a collection lag of one month).

Major State Revenue Sources

Income Taxes

Individual and Fiduciaries Income Tax

The 1971 extra session of the General Assembly adopted an individual income tax structure that conforms in large part with the federal income tax structure and becomes effective January 1, 1972. The basic elements of the conformity structure are:

1. \$600 exemption for all classes—personal, dependent, age, blindness, and single head of household.
2. Federal maximum and minimum standard deductions.
(The proposals to accelerate to 1972 introduction of the

15 percent up to \$2,000 maximum standard deduction originally planned for 1973 and to increase the \$1,000 minimum standard deduction planned for 1972 to \$1,300 have been adopted at the federal level.)

3. Existing treatment of joint returns.

4. Existing rate schedule:

| | |
|------------------|----|
| First \$3,000 | 2% |
| \$3,001-\$5,000 | 3% |
| \$5,001 and over | 5% |

As of November, 1971, twenty-nine of the forty states plus the District of Columbia with an individual income tax conformed it to some degree with the federal provisions.¹ The burden of the tax is at present (and under conformity will probably be) a bit higher than the average burden for all states with an income tax; however, the disparity is small, particularly if it is recognized that the overall state and local tax burden in Virginia is quite moderate. (See the staff report, pp. 92-99).

Revenue from the conformed income tax could be increased by changing the existing rate schedule. The present brackets and rates have remained in effect since 1948, and over this twenty-three year period the brackets have lost much of their relevance due to inflation. In terms of current dollars, the original brackets are roughly equivalent to \$0 to \$5,000 and \$5,001 to \$8,000. If the present rates were maintained for the raised and widened brackets, all taxpayers would benefit from a reduced burden, but the result would be lower total revenues.

Even though there has been considerable inflation since 1948, real per capital income—dollar income deflated to allow for price increases—has increased by a 2.3 percent average annual rate. Therefore, upper income taxpayers have more real income and are able to withstand higher rates.

The commission considered several rate schedules, and among those presented, it has a preference for the one elaborated below. This rate schedule, compared with the present one, is a feasible way to accomplish the twin goals of recognizing the effect of inflation on the present brackets and tapping the higher real incomes earned by many middle and upper income taxpayers.

| <i>Present</i> | | <i>Proposed Rate Schedule</i> | |
|-----------------------|-------------|-------------------------------|-------------|
| <i>Taxable Income</i> | <i>Rate</i> | <i>Taxable Income</i> | <i>Rate</i> |
| First \$3,000 | 2% | First \$2,000 | 2% |
| \$3,001 to \$5,000 | 3% | \$2,001 to \$5,000 | 3% |
| \$5,001 and over | 5% | \$5,001 to \$10,000 | 5% |
| | | \$10,001 and over | 7% |

The rates would apply to taxable income, not total income. This is also true of the existing tax law, but the point should be emphasized. For example, a family of four would have to have an adjusted gross income (AGI) exceeding \$14,400 before it would have sufficient taxable income to be subject to a 7 percent rate.

The new rate schedule would reduce the span of the first bracket from \$3,000 to \$2,000 and increase the span of the second bracket from \$2,000 to \$3,000. The present 2 percent rate would apply in the revised first bracket, and the present 3 percent rate would apply in the revised

¹ Commerce Clearing House, Inc., *State Taxes: All States Tax Guide*, 1971.

second bracket. The 5 percent rate would be retained for all taxable income between \$5,000 and \$10,000, but a new 7 percent rate would be applicable to all taxable income in excess of \$10,000.

The schedule would have the following effects relative to the present one:

1. Maintain unchanged the tax liability of persons with a taxable income of less than \$2,000.
2. For those with taxable income between \$2,000 and \$3,000, place an additional 1 percent tax on the amount over \$2,000, or a maximum of \$10.
3. Have persons with taxable income between \$3,000 and \$10,000 pay the additional \$10.
4. Make those with a taxable income in excess of \$10,000 pay the extra \$10 plus an additional 2 percent tax on all that is over \$10,000.

While many low-income taxpayers, generally those with taxable incomes of less than \$3,000, would be subjected to the extra 1 percent up to \$10 tax, there are three factors that would lessen the impact of the change:

1. The schedule would maintain the 2 percent rate on the first \$2,000 of taxable income.
2. These taxpayers will have already been granted reductions in their state and federal income tax liabilities due to changes in the federal provisions. For example, at the state level a family of six with an AGI of \$5,000 will have its tax liability reduced from \$31 under the pre-conformity structure and the present rate schedule to \$2 under the conformity structure with the \$1,300 minimum standard deduction and the present rate schedule—a \$29 or 94 percent reduction. With the new rate schedule its liability would remain \$2.
3. Several types of income received by persons in the low income group are excluded from AGI and therefore are not taxable. Among them are social security benefits, unemployment compensation, and benefits under the Virginia Supplemental Retirement System (after cost recovery).

Middle income taxpayers, or those with a taxable income between \$3,000 and \$10,000, would pay an additional \$10. Because most upper income taxpayers itemize deductions on their federal returns, their additional state burden would be partially offset by a lower federal tax liability. The following table illustrates this point by giving the effective rate (after their federal deduction) of the 2 percent addition on taxable income over \$10,000:

*Net Effective Rates for Married Taxpayers Filing Joint Federal Returns
(1971 Rates)*

| <i>Taxable Income</i> | <i>Rate at Which the 2 Percent Added Tax is Deductible (Percent)</i> | <i>Effective Rate of the 2 Percent Addition (Percent)</i> |
|-----------------------|--|---|
| \$ 10,000 | 22 | 1.56 |
| 15,000 | 25 | 1.50 |
| 20,000 | 28 | 1.44 |
| 25,000 | 36 | 1.28 |
| 50,000 | 50 | 1.00 |
| 75,000 | 55 | .90 |
| 100,000 | 60 | .80 |
| 200,000 | 69 | .62 |
| 200,000 and over | 70 | .60 |

The overall impact of the new rate schedule would be to increase revenues by 14 percent. It would produce an additional \$127 million in the 1972-74 biennium, \$59 million in the first year and \$68 million in the second.¹ It should be noted that this projection assumes that there will be neither an income tax credit or rebate to compensate for the sales tax on food, which is discussed below under the sales and use tax, nor a "piggyback" income tax to benefit localities which is discussed later under local tax sources.

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.

Chart 1 shows the effective corporate income tax rates for all states having a corporate tax in 1971. These effective rates standardize the actual rates to take account of the deductibility of the federal tax in 11 states.²

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

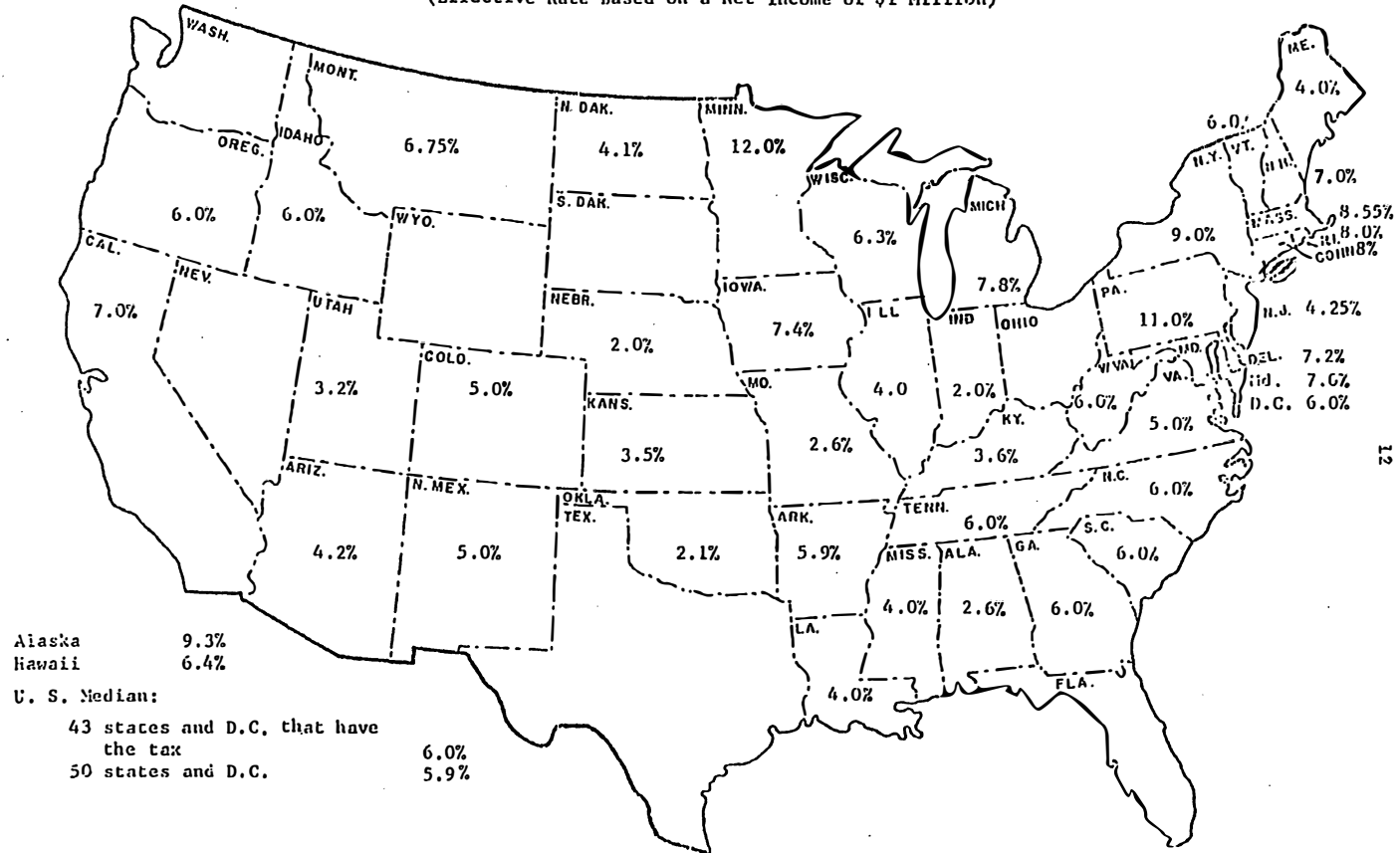
| <i>Effective Rate Compared with Virginia</i> | <i>Number of States</i> |
|--|-------------------------|
| No tax | 7 |
| Lower rate | 15 |
| Same rate (incl. Virginia) | 3 |
| Higher rate | 26 |

¹ These projections are based on conformity with the \$1,000 minimum standard deduction, not the proposed \$1,300 minimum standard deduction. They would have to be reduced slightly to account for the additional \$300.

² Those states which 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 1

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



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

Source: Originally computed by the Division of Industrial Development and updating from Prentice-Hall, Inc. State and Local Taxes: All States' Tax Guide, 1971; State Tax Review, selected editions, (Commerce Clearing House, Inc: 1971).

Revenue from the tax could be increased by raising the rate from 5 to 6 percent. This change would increase corporate tax revenues by 20 percent compared to a 14 percent rise in individual income tax receipts. Thus, corporations would be asked to pay an increment over one-third larger than what would be demanded from individuals. The most critical reason for not considering an even higher corporate rate is to minimize any adverse effect on Virginia's competitive tax position relative to its neighbors and in turn on the state's industrial development. It is recognized that other variables, such as property taxation and the cost and availability of transport, labor, and power, are important in the determination of industrial location. However, the corporate tax is a highly visible tax and usually constitutes a large share of the state and local tax bill of a corporation. It would be to Virginia's disadvantage to have an effective rate higher than most of its neighbors.

Part of the burden of the rate increase would be passed on to the federal government, for the additional tax paid to Virginia would be deductible in computing the net income subject to the 48 percent federal rate. Thus, for each extra dollar in revenue that Virginia would receive, the net cost to the corporation would be fifty-two cents. Moreover, the new, liberalized depreciation guidelines that the U. S. Department of the Treasury put into effect in June will provide some tax relief at the federal and state level. (Under corporate income tax conformity, the treatment of deductions, depreciation, and depletion allowances is substantially the same as for the federal tax.) With the approval of the investment tax credit, a corporation's federal tax liability will be reduced even further.

The overall effect of the rate increase would be to increase revenues by \$23.5 million in the next biennium, \$11.4 million in fiscal year 1972-73 and \$12.1 million in fiscal year 1973-74.

Elimination of the Exclusion of Dividends Paid by Virginia Corporations

Since the adoption of the state income tax on corporations, the dividends paid by such corporations have been deductible by the recipients on the grounds that if an income tax is paid at the corporate level, an income tax should not again be paid on the same income at the stockholder level.

The following types of corporations and associations are not subject to the state corporation income tax and the dividends paid by them are not deductible by the recipients:

- Public Service corporations;
- Insurance companies;
- Reciprocal or Inter-Insurance Exchanges; and,
- Credit Unions, State and Federal Savings and Loan Associations.

The following types of corporations are not subject to the state corporation income tax—but the dividends paid by them are fully deductible by the recipients:

- National banks wherever located; and
- State banks and trust companies located in Virginia.

Thus, for the most part, the problem is confined to dividends paid out of earnings and profits of corporations engaged in manufacturing, mining, merchandising, business service, and farming. For these corporations, if all of their business is carried on within the state and if all

of their income is assessable by Virginia, then all of their dividends are fully deductible by residents. On the other hand, if part of their business is carried on within the state and part outside the state, then only a part of their net income is being assessed by Virginia and only a part of their dividends are deductible by residents.

Concerning those corporations whose corporate net income is only partly assessable under the Virginia income tax law, because of income both in and out of state, one rule has been applied to the "pre-conformity" years (all taxable years beginning before January 1, 1972) and a different rule is to be applied to the "post conformity" years (all taxable years beginning on or after January 1, 1972). During the "pre-conformity" years, the rule provided that if only part of the income was assessable—that portion derived from business within the state—then only a corresponding part of the dividends would be deductible. For "post-conformity" years, the rule provides that if less than 50 percent of the corporation's net income is taxable by Virginia, then no portion of the dividends paid by the corporation to Virginia residents will be deductible. On the other hand, if 50 percent or more of the corporation's income is taxable by Virginia, then all of the dividends paid by it to Virginia residents will be deductible.

These rules may be illustrated by a few examples taken from the January 4, 1971, pamphlet prepared by the Department of Taxation for the guidance of all tax assessing officers. The data shown in the pamphlet are applicable to dividends received in 1970 and taxable in 1971, on returns filed for 1970.

| <i>Corporation</i> | <i>Percentage of Dividends</i> | |
|---|--------------------------------|-------------------|
| | <i>Taxable</i> | <i>Deductible</i> |
| D. D. Fitzgerald and Co., Inc. Richmond, Va. | | |
| Pre-conformity | 51 | 49 |
| Post-conformity | 100 | 0 |
| Danville Industries, Inc., Danville, Va. | | |
| Pre-conformity | 45 | 55 |
| Post-conformity | 0 | 100 |
| Giant Food Properties, Inc., Washington, D.C. | | |
| Pre-conformity | 61 | 39 |
| Post-conformity | 100 | 0 |
| Dan River Mills, Inc., Greenville, S.C. | | |
| Pre-conformity | 40 | 60 |
| Post-conformity | 0 | 100 |

Obviously, there will be an increase in the revenue as a result of increasing the portion of dividends made subject to taxation under the conformity rule for all corporations with 50 percent or more of their income being derived from out of state business. Similarly, there will be a decrease in revenue with respect to all corporations with less than 50 percent of their income from out of state business. At the present time, there are no data available from which an estimate may be derived as to the net effect of the post-conformity rule.

If all dividends were to be included in taxable income for corporations whose business was wholly within the state and for corporations whose business was partly in and out of state, there would be a simplification of the reporting process and a fairly substantial amount of added revenue.

Again, present data are not sufficient to permit precise estimates as to the amount of added revenue. However, some general notion as to the amount involved may be obtained by reference to the amount of divi-

dends reported by Virginia residents on the federal tax returns coupled with an assumption (wholly arbitrary) that one-fourth of such dividends were derived from Virginia corporations.

The total dividends reported by individual Virginia residents for the tax year 1968 on federal income tax returns aggregated \$298 million. After the \$100 exclusion permitted by federal law (out of respect for the double tax theory) the net dividends included in AGI aggregated \$276 million. This latter figure may reasonably be assumed to be in the neighborhood of \$300 million for the year 1972. Then, if it is assumed that one-fourth of the dividends reported by Virginia residents were attributable to Virginia corporations, there would be \$75 million in dividends that would be excluded from the present tax base. Under the present 5 percent individual income tax rate, this would be, if taxed, another \$3.7 million in revenue for the state in 1972. Under a possible 7 percent rate, the additional revenue for 1972 would be \$5.2 million.

The inclusion of all dividends for both in and out of state corporations would not only simplify the reporting process but also would permit complete conformity with federal reporting of dividends (with the exception of dividends from national and state banks and trust companies). To illustrate, federal provisions now require full reporting of dividends but allow a \$100 exclusion for the purposes of computing AGI. This is a partial recognition of the double tax theory, and is particularly effective in eliminating the dividend tax entirely for some 5 million taxpayers out of a total of 12 million reporting dividend income. It is also effective in reducing the dividend tax by excluding the first \$100 of dividends for all taxpayers receiving dividends totalling more than \$100.

If Virginia followed the same rule, the small investor would not be hurt and the large investor would still be entitled to some relief from the so-called double taxation. Moreover, it would tend to eliminate some of the inequities that are very likely to occur beginning in 1972 when the post-conformity rules become effective. For example, a \$1 shift in corporate income as between in and out of state can shift all the stockholders of that company from a non-taxable to a taxable status with respect to all their dividends from that particular company, and vice versa.

It should also be noted that the double taxation theory, which means that, if a tax is paid by a corporation on its earnings and profits, a tax should not again be paid by the stockholder when the profits are distributed to him in the form of dividends, has been subject to much controversy. In effect, this theory implies that if it were not for the tax at the corporate level, the stockholder would receive additional dividends equal to the amount of the tax paid in his behalf. If this implication were a fact, then it could be well argued that there is double taxation. It may be a fact in extremely rare cases, but as a general rule it would not be the case as this tax is viewed by most corporations as just another factor in the costs of production and if removed it could be spread in at least three ways—in part as additional dividends, in part in lowered prices, and in part to higher wages, or other costs. Thus, there is no general agreement as to who pays the tax, for the situation varies widely between corporations and within specific corporations may vary from year to year depending upon the economics of the situation at the time.

The federal government has a top corporation rate of 48 percent as compared with the Virginia rate of only 5 percent, yet there seems to be no great complaint about double taxation at the federal rate where such double taxation—if such exists—would be nine times as great as that at the Virginia level. Perhaps, the \$100 exclusion allowed at the federal

level has helped to mitigate this problem—and probably would do the same for Virginia.

Current Virginia law makes no distinction between individual and corporate dividend recipients so far as the taxability of dividends received is concerned. That is, if they are deductible in the hands of an individual, they are deductible—and to the same extent—in the hands of a corporate stockholder. For the reason that there is a possibility of considerable double taxation in the case of inter-corporate dividends if they are fully taxed to each corporation through which they pass, the federal law allows each corporate recipient to deduct 85 percent of such dividends. If the taxability of Virginia corporation dividends, as herein set forth as a possible additional revenue source, is adopted, the application of the federal-state conformity rules should allow Virginia corporations to deduct 85 percent of such dividends and thereby substantially mitigate the possibility of double taxation of dividends received by Virginia corporations. At the present 5 percent corporate tax rate, the net effective rate on such dividends would be only three-quarters of one percent, and with a possible 6 percent rate the net effective rate would be only nine-tenths of one percent.

The Sales and Use Tax

At present, forty-five states plus the District of Columbia levy a general sales tax.¹ Of these, twenty-five allow some type of local sales tax. In addition, Alaska and Oregon, which lack a statewide tax, do permit localities to adopt one.²

For Virginia, a sales and use tax became effective September 1, 1966. It is collected at the final level of consumption and covers the sale, rental, lease, or storage of personal property. The rate is 4 percent (3 percent for the state and 1 percent for the locality). This is the rate that is levied most frequently by other states and the one that is used by three neighboring governments—Maryland, North Carolina, and the District of Columbia.

There are three major issues with respect to the sales tax—inclusion of selected services in the sales tax base, exclusion of food and nonprescription drugs from the tax base, and an increase in the rate.

Inclusion of Selected Services in the Sales Tax Base

Exempted from the Virginia sales tax base are public utility services, professional services, nonprofessional services, and sales involving automobiles, gasoline, liquor, prescription medicine, and real property. Although this is the case, there are several logical arguments for applying the sales tax to services.³ 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.

¹ This does not include Montana which has passed a 2 percent sales tax that will become effective January 1, 1972, if approved by voters in November. See *State Tax Review*, June 29, 1971, Vol. 32, No. 26. (Commerce Clearing House, Inc., 1971).

² Prentice Hall, Inc., *Sales Taxes: All States' Tax Guide*, 1971.

³ Two items (restaurant meals and transient lodging) which are commonly referred to as services are already taxed.

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

Virginia has now had nearly 5 years of very satisfactory experience in the administration of its sales and use tax. It would therefore appear that this tax could be extended to certain clearly defined services without much difficulty. If selected services, such as the repair of motor vehicles, and all other tangible personal property, laundry and dry cleaning, barber shop and beauty parlor services, admissions to motion pictures, and the parking of motor vehicles, were included in the tax base (see the staff report, pp. 149-155), it is projected that the additional revenue for the state would be \$26 million in fiscal year 1972-73 and \$28.2 million in 1973-74, or \$54.2 million over the next biennium. For localities the change would produce \$8.7 million in fiscal year 1972-73 and \$9.4 million in fiscal year 1973-74 in extra revenue.¹

Exclusion of Food and Nonprescription Drugs from the Tax Base

The elimination of food and nonprescription drugs would benefit final consumers to the extent to which they bear the burden of the sales tax on these items (generally assumed to be 100 percent). Total exclusion, though, would benefit nonresidents as well as residents and high-income as well as low-income persons.

Complete exclusion would provide additional assistance to persons participating in the food stamp program. At present they must pay the sales tax on food just as other individuals do, but the food stamps can be used to cover the tax. If food were eliminated from the tax base, the participants could purchase more food with their stamps. In September, 1971, there were 150,000 persons or 42,000 households in 74 counties and cities participating in the program in Virginia. To receive the food stamps, monthly net income cannot exceed a specified amount (e.g., for a family of four, \$260 per month in 1971, which is expected to rise to over \$300 a month in 1972).

Providing relief through the exclusion of food and nonprescription drugs from the base would be costly to the state and the localities, for it would reduce revenues by about 25 percent, or \$140.2 million for the state and \$46.7 million for the localities in the 1972-74 biennium. Including selected services in the base would increase state revenues by \$54.2 million and local revenues by \$18.1 million in the next biennium and make the net loss of \$86 million for the state and \$28.6 million for local governments in the next biennium (see the staff report, pp. 146-147 and pp. 174-175).

An alternative form of relief, an individual income tax credit or rebate for state (and possibly local) sales tax paid, would avoid the administrative costs and difficulties that exemption would involve (e.g., should candy be considered a food). If the individual income tax credit or rebate were limited to persons in the low and middle income brackets, the revenue cost would be lower than the cost of total exclusion. If a \$9 or

¹ These projections reflect upward revisions in the original calculations made for the staff report.

\$12 credit or rebate were given to those with an AGI not exceeding \$5,000, revenues would decline by (see the staff report, pp. 104-110 and pp. 174-175) :

| <i>Credit or Rebate</i> | <i>Revenue Cost</i> | | |
|-------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| | <i>1972-73</i> <i>(Millions)</i> | <i>1973-74</i> <i>(Millions)</i> | <i>Biennium</i> <i>(Millions)</i> |
| \$ 9 | \$-14.3 | \$-14.6 | \$-28.9 |
| 12 | -19.0 | -19.4 | -38.4 |

Giving those same credits or rebates to persons with an AGI not over \$7,500 would cause revenues to fall by :

| <i>Credit or Rebate</i> | <i>Revenue Cost</i> | | |
|-------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| | <i>1972-73</i> <i>(Millions)</i> | <i>1973-74</i> <i>(Millions)</i> | <i>Biennium</i> <i>(Millions)</i> |
| \$ 9 | \$-20.5 | \$-20.9 | \$-41.4 |
| 12 | -27.3 | -27.8 | -55.1 |

Increase in the Rate

The tax rate could be increased to offset the revenue loss caused by the elimination of food and drugs from the base. To completely offset the loss, the state rate would have to be increased to 4 percent and the local option rate would have to rise to 1.33 percent.

If selected services were included and food and nonprescription drugs were excluded from the base, a 3.6 percent state rate and a 1.2 percent local rate would be required to compensate for the resulting decline in revenue.

State Aid to Local Governments

Introduction

Many local governments see the need for state assistance beyond the level presently provided (see the staff report pp. 52-58 and pp. 286-308). One way to give further relief would be to expand aid programs. The commission considered three major functional areas—public education, public welfare, and highways.

Public Education

The commission recommends that the formula for distribution of the basic school aid fund be adjusted so that the basic state share would be changed from 60 percent to 100 percent of the total cost of salaries computed under the state minimum salary scale for state-aid teaching positions. The change would be brought about over a four year period beginning with school year 1972-73. In each year the commission recommends that the state share be increased by 10 percentage points. Thus, in 1972-73 the state share would be 70 percent and in 1973-74 it would be 80 percent.

Based on school year 1971 data, the added cost in that year of using 70 percent rather than 60 percent would have been \$2.6 million, and the extra cost of 80 percent versus 60 percent would have been \$7.3 million. The additional cost of 90 percent versus 60 percent would have been \$18.4 million and of 100 percent versus 60 percent would have been \$35.4 million. These amounts understate the additional cost in the next biennium since they make no allowance for increased numbers of students or higher state minimum salary scales and allowances for operating costs.

Public Welfare

The commission took note of the already programmed increase in state aid for welfare which will result in a reduction in local burdens beginning in January, 1972 (staff report pp. 303-4). For the next biennium this step will relieve the localities of a \$38 million outlay. The commission also noted the study of state administration and full funding of public welfare which was ordered by the 1970 session of the General Assembly.¹ This study, which is the joint responsibility of the Department of Welfare and Institutions and the Commission for the Visually Handicapped, will be released in January, 1972. In view of these developments, the commission has no further recommendations.

Highways

The commission recommends further study on the topic of increasing the proportion of revenue to localities under the Urban Road Fund.

Local Tax Sources

Aid to local governments could take the form of new tax powers they do not have at present (see staff report, pp. 308-322). The commission gave serious consideration to two major changes—allowing local income taxes and a higher local option sales tax.

Local Option Income Tax

The commission studied the possibility of allowing localities to impose a local option tax on the tax base used for computation of the state tax on individuals and fiduciaries. Such a tax, which is often referred to as a "piggyback" income tax, would be collected by the state and distributed to the locality of filing.

The commission decided that a piggyback income tax should not be recommended but wishes to state the apparent advantages and disadvantages of such a measure.

Apparent advantages

1. Provides the opportunity for local governments to raise added revenue when in their judgment and area of responsibility such is deemed to be most needed. This can be done without imposing an added income tax burden in jurisdictions not badly in need of added revenue.
2. Makes it possible to have more flexibility as to rates, as one locality may require a rate of 25 percent, another 10 percent, and another none at all, whereas such distinctions as between localities would not be possible with a state imposed tax. Moreover, the rates could be more easily varied from year to year, as is now customary with respect to property taxes.
3. Simple and economical to administer if collected as a part of the state tax, and such portion is returned directly to the locality of filing, thus avoiding the need for any intervening complex distribution formulas.
4. Would tend to make governing bodies economical and efficient as the sole responsibility for imposing the tax rests squarely upon them.
5. Would tend to be more palatable to those taxed as every dollar

¹ *Code of Virginia*. Section 63.1-92 as amended.

of tax paid could be more visibly tied in with local needs than would be the case with a state imposed tax.

Apparent disadvantages

1. For all practical purposes it divests the state government of its ability to utilize the full potential of its chief revenue source either by way of raising revenue or as an economic instrument.
2. Shortchanges the state with respect to its borrowing powers since locally imposed taxes would not be counted in the state's borrowing base.
3. To the extent local circumstances and pressures prevent the enactment of the tax in some localities, a lack of uniformity will exist within the state in respect to its predominant tax base with possible adverse effects on the state's economy and image.
4. Some possible administrative drawbacks:
 - a. Unless all localities adopt the tax and at the same rate, a large employer, with employees living in several surrounding jurisdictions may find it difficult to apply a number of varying withholding rates; or, if he used one rate, many employees would be inconvenienced due to overwithholding or underwithholding.
 - b. If the federal government decides to utilize the tax credit device in lieu of the original revenue sharing plan, some complications may arise if the credits are made applicable to state taxes only.
 - c. A taxpayer moving from piggyback locality A to non-piggyback locality B between January 1 and May 1, following an entire year of residence in locality A, is required under present rules to file his return in locality B. Does he, or does he not, pay the piggyback tax; and, if so, which locality gets the money? Also, will fractional years of residence as between localities within the state cause any allocation problems?
5. If the state should decide that it is necessary to increase the take from the individual income tax by a certain percentage, such as 20 percent, it would probably not do it by a rough "across-the-board" increase, but would make some selective revisions in income and deductions definitions as well as in rate changes as between income brackets—all of which would be designed to add up to an overall 20 percent increase in taxes. If the piggyback approach were taken, and all localities imposed a 20 percent tax, it would be the equivalent of a rough "across-the-board" increase without any opportunity for making any of the needed refinements in the tax structure.
6. If the state were to adopt the piggyback approach for the localities, it is unlikely that it would, in addition, impose any substantial increase in its portion of the income tax. Without an increase in the state income tax, the state would not have the revenue to make any substantial additional grants to the localities by way of state aid. In other words, the state cannot pick up any substantial portion of teachers' salaries over and above that now being borne, and at the same time grant the right to use a piggyback tax. It is limited to doing one or the other, but probably not both.
7. The piggyback tax, being based on a percentage of the tax re-

ported on the returns for any given locality, is necessarily limited by the type of returns for that area. Thus, a low income area will produce a relatively small piggyback tax, while such an area may be precisely the area that needs the greatest amount of help. Another consideration is that areas such as central cities that have large expenditure burdens are not experiencing a high relative growth of income. Under a piggyback income tax much of the future growth in revenue would go to affluent suburbs.

Local Option Sales Tax

Cities and counties are presently permitted to impose a 1 percent sales tax and all exercise this option. The commission considered allowing localities to impose a 2 percent sales tax and the vote was divided. In lieu of making a decision for or against such a tax the commission wishes to list the apparent advantages and disadvantages of such a measure.

Apparent advantages

1. Provides the opportunity for local governments to raise added revenue when in their judgment and area of responsibility such is deemed to be most needed. This is accomplished without an added tax burden in jurisdictions not badly in need of added revenue.
2. Makes available an important new source of revenue to localities and would relieve pressure for increases in other local taxes and charges.
3. Additional administrative costs would be zero since the state already collects and distributes the 1 percent local option tax.
4. Would tend to make governing bodies economical and efficient as the sole responsibility for imposing the tax rests squarely upon them.
5. Would tend to be more palatable to those taxed as every dollar of tax paid could be more visibly tied in with local needs than would be the case with a state imposed tax.

Apparent disadvantages

1. Divests the state government of a future tax source if it is assumed that the combined state-local rate should not exceed 5 percent.
2. Short changes the state in respect to its borrowing power as such locally imposed taxes cannot be counted in the state's borrowing base.
3. To the extent local circumstances and pressures prevent the enactment of the tax in some localities, a lack of uniformity will exist within the state. If locality A imposes the tax, a business located there will be at a disadvantage relative to his competitors in adjoining locality B which does not impose the tax.
4. Localities without retail centers would benefit more from an additional 1 percent levy shared on the basis of school age population. Also, they would probably benefit more if the state tax were increased to 4 percent and the additional funds were used for state categorical aid.
5. The greatest relative growth in retail trade is occurring in sub-

urban areas with the result that they will be prime beneficiaries of a local option tax. On the other hand, fiscal burdens are concentrated in the slow-growing central cities.

Property Tax Reform

Property taxes in Virginia could be reformed to provide more equitable taxation for the owners of any one class of property, to provide more equitable taxation for the owners of different classes of property, and to make the property tax a more useful fiscal tool for local governments. Serious consideration could be given to the eight proposals for property tax reform adopted for the Governor's Committee on State-Local Cooperation at its meeting on August 27, 1971:

First, the Department of Taxation should have the power to set and enforce adequate criteria for the efficient appraisal of property. This would include the setting of qualifications for and the certifying of local assessors and appraisers; the power to prescribe and require the use of all forms deemed necessary for effective property tax administration; the power to require all localities to acquire and maintain property identification maps; the sponsoring of in-service, pre-entry, and intern training programs on the technical, legal, and administrative aspects of the assessment process; and the inspection of local procedures to ascertain that all laws are being carried out.

Second, the Department of Taxation should prepare an annual study of assessment ratios and average dispersion by class of property for the counties and cities in the state. If the ratios are found to vary significantly from the sales prices or if the average dispersion is too high, the Department of Taxation should call for and enforce equalization of values within the locality. This would enable the state to measure local taxing effort and to allocate state funds fairly when the processes require a knowledge of the value of local real property.

Third, the Board of Equalization should be made mandatory for every county and city in the state and should meet annually.

Fourth, counties and cities should have annual, continuing reassessments rather than the general reassessments permitted every four or six years. This would allow parcels in areas of rapidly changing values to be reappraised annually while parcels in areas of stable values are being reviewed annually and reappraised when necessary to keep assessments up to date.

Fifth, counties and cities should be allowed to form multi-locality assessment districts to enable them to perform their assessment duties more efficiently. This would permit certain areas to maintain more efficient offices and to use more sophisticated methods such as data processing, which may not be feasible for a single locality.

Sixth, the local assessing office should be made independent of the office of the county or city Commissioner of the Revenue, and the chief assessor should be appointed by the local governing body or by the chief executive officer if he has appointive power.

Seventh, the Department of Taxation should be assigned the duty of equalizing, at 100 percent of fair market value, the official assessment ratios of all the counties and cities in the state by January 1, 1974. This would require that all cities and counties meet the constitutional mandate.

Eighth, several topics related to property taxes, such as property ex-

empt from taxation and taxes on machinery and tools or personal property, should be studied further to bring about a more uniform system of taxation.

Consideration could also be given to two other proposals:

First, the process of equalizing the assessment of public service property to that of other types of property as provided by the Bemiss Act could be accelerated to bring about a full equalization beginning in calendar year 1974. This would provide additional revenues for many large central areas and would stimulate many other localities to use higher assessment ratios resulting in improved tax administration and larger borrowing limits.

Second, localities could be permitted to levy service charges in lieu of property taxes on more classes of tax exempt property. The new constitution requires authorization by the General Assembly of these charges. An existing law, passed by the 1971 extra session of the General Assembly permits service charges, but their scope is limited. The Commission on Equity and Real Estate Taxation, chaired by Senator William F. Parkerson, Jr., is currently studying this matter, and this commission is hopeful that effective legislation will be forthcoming.

Additional State Revenue Sources

Tobacco Products Tax

The commission recommends that the tobacco products tax be considered as an additional source of revenue. 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. To the north, the District of Columbia has a low tax (4 cents), but elsewhere the rates are significantly higher (see staff report, pp. 139-40). Virginia is among ten states where localities impose additional cigarette taxes. In fiscal year 1970-71, 15 cities, 2 counties and 4 towns, half of which were in the Hampton roads area, imposed rates ranging from 2 to 10 cents, and their total tax collections were \$11.3 million.

For the 1972-74 biennium, the tax will probably earn about \$14.3 million per year. A higher tax than 2.5 cents would 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 the total revenue would not double also. If we assume a 5 percent drop in sales, then an additional 2.5 cent tax would raise another \$12.9 million in each of the next two fiscal years (see staff report, pp. 139-140).

Alcoholic Beverages State Tax

The commission recommends that the alcoholic beverages state tax be considered as a possible source of additional revenue. Effective July 1, 1970, this tax was increased from 10 percent to 14 percent. Collections in fiscal year 1970-71, the first year for which the tax increase was in effect, were \$7.1 million or 43 percent greater than in the previous year. However, alcoholic beverages sales were only up a fraction of a percentage point. The effect of the tax increase on sales is difficult to analyze because the tax increase followed closely a 4 percent increase in the markup used by the Alcoholic Beverage Control Board.

If the tax on alcoholic beverages were increased from 14 percent to 15 percent, the additional revenue generated in the next biennium would total about \$3.9 million (for more on this source see the staff report, pp. 136-37). All of the revenue would go to the state government. Another way to increase revenues from the sale of alcohol would be to raise the markup used by the state liquor stores. Then the additional revenue would take the form of higher profits to be distributed on the basis of one-third for the state and two-thirds for local governments. The additional markup would also cause slightly larger alcoholic beverage tax collection since dollar sales would be higher (assuming the price increase was not so much as to cause a significant reduction in unit sales).

Taxation of Savings and Loan Associations

The commission recommends that savings and loan associations be taxed on their income in the same manner as other corporations. This could be done initially by creating a bad debt reserve which would be reduced on a graduated scale until ultimately all income is taxed. As these changes are made, the current license tax now assessed against the associations would be reduced. A bill drafted to accomplish these changes is presented in Appendix 2.

Crown Tax on Soft Drinks

Although the commission recognizes that seven states levy a special tax on soft drinks, it rejects the crown tax as a source of revenue for the state or for localities on the basis of either local option or having the revenue from a statewide tax allocated to local governments through some formula. Generally, the commission feels that the intent of this tax is often unclear and that it imposes an unfair charge on a particular type of food product which, in the case of Virginia, is already subject to the general sales and use tax.

Continuation of the Revenue Resources and Economic Study Commission and Items for Further Study

Continuation of the Commission

It is proposed that the Revenue Resources and Economic Study Commission, with the same membership insofar as practicable, be continued into the 1972-74 biennium by the next General Assembly for the purpose of keeping under continuing review the state revenue system with special emphasis on its updating and improvement.

Items for Further Study

The commission has of necessity limited its present study to the more important features of economic and tax policy. There are, however, numerous highly technical and administrative adjustments in the revenue system that, if made, would provide greater equity and more revenue.

Six areas in which intensive study would be worthwhile are:

1. The basis for special funds.
2. Making national banks and state banks and trust companies located in Virginia subject to the corporate income tax in lieu of the bank stock tax and eliminating the exclusion from individual income taxation of the dividends paid by them.

3. Changes in state inheritance and gift taxes.
4. Exclusions from the AGI used to determine individual income tax liability.
5. The basis for assessing the rolling stock of common carriers operating throughout the state.
6. Local taxes on public utility services.

For the last four, a discussion of the approach that a study might take is provided below.

Inheritance and Gift Taxes

For the state inheritance and gift taxes, three topics merit further study:

1. Exemptions—The exemptions for the various categories of heirs are generally well below those of most other states and appear to be out of line with the tremendous increase in the size of the inheritances to which they apply. (See the staff report, Table 3.22, pp. 122-123.)
2. Bracket and rate structure—For fiscal year 1969-70, total federal estate and gift taxes amounted to \$3,680 million. The states' total was \$996 million, or about 27 percent of the federal total. Virginia's collections as compared with the federal collections on Virginia estates and gifts was about 25 percent. For all neighboring states, the percentage was about 39 percent.¹ (For a more comprehensive and significant comparison of Virginia with a neighboring state, see the staff report, Table 3.23, p. 125, and for a discussion of this comparison, see the material beginning on page 120 of the staff report.) It therefore appears that in relation to surrounding states, Virginia could be deriving more revenue from its inheritance and gift taxes. Careful study could be given to a restructuring of both brackets and rates.
3. Omission of life insurance from the tax base—For the purposes of the federal estate tax, the proceeds of life insurance are included in the gross estate of the decedent (a) to the extent of the amount receivable by the executor as insurance under policies on the life of the decedent and (b) to the extent of the amount receivable by all other beneficiaries as insurance under policies on the life of the decedent with respect to which the decedent possessed at his death any of the incidents of ownership, which for all practical purposes includes substantially all life insurance. For the purposes of the Virginia inheritance tax, only (a) above is included in the tax base; (b) above has been excluded by an administrative ruling reflecting an interpretation of the General Assembly's intent. (For the method of treatment by other states, the revenue involved in this omission, and related discussion, see the staff report, pp. 134-135.)

¹ U. S. Department of the Treasury, *1970 Annual Report of the Commissioner of Internal Revenue* (Washington, D. C.: U. S. Government Printing Office, 1970); U. S. Bureau of the Census, *State Tax Collections in 1970* (Washington, D. C.: U. S. Government Printing Office, 1970).

Exclusions from the AGI Used to Determine Individual Income Tax Liability

Many people are inclined to think that the individual income tax should reflect some reasonable relation to "ability to pay" and that "ability to pay" is commonly understood to have some relation to a person's total dollar income less the costs directly attributable to the receipt of such income. However, the state's tax law seems to have drifted in another direction. For example, assume six single men, over age sixty each with a \$10,000 income, itemized deductions of \$2,000 and a personal exemption of \$600, but with their income from separate sources. Their tax would be as follows, based on the present rate schedule:

| <i>Total Dollar Income</i> | <i>With all Their Income From the Following</i> | <i>Their Virginia Income Tax Would Be</i> |
|--------------------------------|---|---|
| \$10,000 | Wages | \$240 |
| 10,000 | Industrial Pension Plan (after cost recovery) | 240 |
| 10,000 | Virginia Supplemental Retirement Plan (after cost re- covery) | None |
| 10,000 | U. S. Civil Service Retirement Plan (after cost recovery) | 140 |
| 10,000 | Military Retirement Plan | 140 |

For reasons of equity, there may well be a case for spreading the tax burden more evenly among Virginia's citizens. Thus, a careful study of the preferential treatment accorded certain types of income is in order.

In making such a study, it must be kept in mind that today more and more people are receiving more and more income in addition to that being accorded preferential treatment. In other words, more retired people today are finding ways to supplement their retirement income through part-time employment and investment opportunities. It is one thing to totally exempt all retirement payments under the Virginia Supplemental Retirement System in the case of a retiree whose income is limited to a \$5,000 pension from this source plus social security. It is quite another to totally exempt this pension when the retiree has \$20,000 or more in income from other sources.

The same can be said with respect to civil service and military retirement pay. There may be some excuse for allowing such retirees to exclude \$2,000 from a \$5,000 pension if that is all the income they have. But if they have substantial amounts from other sources, as so many do, all excuses seem to vanish, particularly when it is recognized that a retiree from a Virginia corporation whose sole income is a \$5,000 pension is not permitted to exclude anything after his cost has been recovered. Moreover, an active wage earner who has to depend entirely on his \$5,000 for a living is not permitted any such exclusion, and his expenses in connection with raising a family are likely to be much greater than those borne by most retirees.

The study could investigate at least three alternative ways of handling the preferential income exclusions:

1. Eliminate them entirely.
2. Permit the present exclusions reduced by the amount of social security benefits (which are themselves excluded).
3. Limit the present exclusions to the middle and lower income brackets, for example, \$10,000 or less in total in-

come. A notch provision would have to be utilized to ensure against a person with, say, \$10,001 in total income receiving no exclusions.

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.

One alternative that warrants further study would be for the State Corporation Commission to determine and certify to localities the full value of rolling stock where it is based.¹ 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.

Local Taxes on Public Utility Services

A number of local governments, especially cities, tax public utilities. In 1971, at least forty-two localities taxed them. The rates vary by locality but in several range up to 25 percent. Certain localities have fixed upper limits stated in dollar terms for the tax for commercial and residential consumers. These upper limits can make the effective rates lower than the nominal rate. The local taxes may discriminate against the users of electricity or natural gas when the alternatives for these users are fuel oil or bottled gas which are only subject to the regular sales tax.

A further study of these taxes could investigate the possibility of imposing a limit on them. Although imposing such a limit might be found desirable, it could be costly in foregone revenues to some localities.

Respectfully submitted,

¹ The term base means the place where the rolling stock is most frequently dispatched, garaged, serviced, maintained, operated, or otherwise controlled.

Appendix 1

Materials Relating to the Formation
Organization, and Work of the Commission

Senate Joint Resolution No. 17

Continuing the Revenue Resources and Economic Study Commission.

Agreed to by the Senate, February 26, 1970

Agreed to by the House of Delegates, March 14, 1970

Whereas, the Revenue Resources and Economic Study Commission created in 1968 by Senate Joint Resolution No. 15 has initiated a broad and comprehensive survey of the State's present revenue and tax structure but has been unable to complete its investigations because of the time necessarily devoted to the 1969 Special Session of the General Assembly by many of its members and inevitably lost to the Commission; and

Whereas, the 1969 Special Session had the further substantive impact on the Commission's work of proposing amendments to the Constitution affecting both the financing of capital outlay projects through the issuance of bonds and the present system of taxation; and

Whereas, in order to be able to evaluate fully the Commonwealth's revenue and tax structure with particular attention to the equities involved in the imposition of various taxes and their respective burdens on the taxpayer, it is necessary that the outcome of action by the next General Assembly and the people with respect to the proposed amendments be known and that the revenue and tax structure of the State achieve relative stability; and

Whereas, the coming biennium portends to be an appropriate time for the completion of the Commission's study and a period relatively free from major new tax and revenue programs; and

Whereas, the property tax greatly facilitates and is probably essential to autonomous local government; and, despite many improvements in the assessment function in recent years, many people believe the real property tax is not closely correlated with either ability to pay or benefits received from public services, and it often has a detrimental effect on land use; and there is need to adjust the overall tax structure of the State and local governments to provide more equitable taxation of real property in response to technological, economic, and social change; and the State's rapid population growth will create within, and for, the foreseeable future an expanding demand for minimum levels of public services, especially those generally provided by local governments; and the State's population is rapidly moving to metropolitan regions and the costs of many public services are affected by the population density, rising rapidly in highly urbanized areas as well as in sparsely settled rural areas; and the taxation of real property is the major source of tax revenues used by local governments to finance public services; now, therefore, be it

Resolved by the Senate, the House of Delegates concurring, That the Revenue Resources and Economic Study Commission be continued for the purposes of completing the work assigned to it by Senate Joint Resolution No. 15 of the 1968 Session of the General Assembly and of evaluating the Commonwealth's tax structure with particular emphasis on the equities of that structure as it affects the taxpayer.

Resolved further, That the Revenue Resources and Economic Study Commission study and include in its report the sources of revenue and

methods of finance of local governments, the problems facing cities and urban areas relative to finance, the proper division of sources of revenue between state and local governments and the proper division of responsibility for services including consideration of overlapping services.

The Commission is directed, as a part of its study, to investigate, consider and study the overall tax structure of the Commonwealth in relation to the magnitude and distribution of the wealth of its people and their need for public services, and to appraise the current status of the real property tax in State and local fiscal policy and land settlement policy. The Commission shall consider, study and report its recommendations on the ways and means best designed to adjust State and local taxation to facilitate a more adequate and equitable financing of local public services and to encourage and achieve desired land use goals. Changes in relevant State laws and in the operation of local governmental structures and services shall also be deemed pertinent to the Commission's study. The Commission may, also, review the programs of other states relevant to its inquiry.

The Commission shall consist of fifteen members of whom four shall be appointed by the President of the Senate, four shall be appointed by the Speaker of the House of Delegates, and seven shall be appointed by the Governor.

The members of the Commission shall receive no compensation for their services, but shall be paid their necessary expenses incurred in the performance of their duties. The Commission may employ such secretarial, technical, clerical, professional and other assistance as may be required.

The Commission may continue its work in advance of final action on the pending amendments to the Constitution, but in any event shall be reactivated as soon as final action on such amendments has been taken.

For the purpose of carrying out its study, the sum of fifteen thousand dollars is hereby appropriated from the contingent fund of the General Assembly.

All agencies of the State and the governing bodies of all political subdivisions of the State shall cooperate with and assist the Commission upon request.

The Commission shall conclude its study and make its report to the Governor and the General Assembly not later than September one, nineteen hundred seventy-one.

Partial Dissent by Sam T. Barfield

While I approved and signed the report of the Revenue Resources and Economic Study Commission, I wish to make the following comments:

From many conversations with local governing bodies and individuals I am convinced that the Legislature must seriously consider giving broader local option taxing powers to the localities. Each locality has its individual problems and tax potential. Each locality will be guided by its electorate in the application of these taxes. They are responsible, elected officials, capable of determining what the electorate will and will not accept. They would not need to be controlled by the Legislature in the performance of their duties.

I am more convinced than ever that there are millions of uncollected taxes available to all localities and to the State through an intelligent and equitable application of existing taxes with emphasis placed on enforcement and "follow-up." I would urge all governing bodies and assessing officers to carefully examine their methods of assessment and collection.

Partial Dissent by H. Dunlop Dawbarn

I am troubled by the trend we are seeking whereby the State has been taking over more and more the responsibility of the local governments, while the local governments seldom if ever cut back on taxes. This seems to me to be poor economics. I would like to see the localities, if their people so desire, to help themselves. A new tax base for the localities could be established by the enactment of legislation permitting a local option "piggy-back" income tax. I favor such a tax, and therefore, disagree with the statement by the majority of the Commission against it.

DISSENTING STATEMENT

Robert E. Gibson, Jr.

I am submitting the following statement which I desire to be published in the Report of the Commission. I commend the staff for its expert and diligent service to the Commission and I approve the Report of the Commission with certain exceptions:

Under Public Education, I do not favor a change in the formula for basic school aid that does not consider the taxable wealth and ability of a locality to educate its children. It appears that under the suggested proposal, the affluent and wealthy area become richer and the poor communities become poorer.

I would favor state education funds being distributed on the basis of enrollment rather than daily attendance and the reimbursement of local districts for all positions required by the State for accreditation.

The Commission is aware of the plight of the urban centers and the majority indicated that the legislature should not await a serious crisis before assisting in this problem. Therefore, I would recommend a program for payment in lieu of taxes to counties and cities for large governmental installations owned by the State and Federal government.

I would further support a program to broaden the sales tax base to include professional and non-professional services. This program would be a substantial benefit to the cities. I prefer this program rather than a piggy-back city income tax. I join those in support of the proposition that the State income taxes should be reserved for the State as its chief revenue source.

I recommend an increase in the state share of the costs of constitutional officers for the cities and counties and I believe there should be reimbursement for local police services rendered to the Commonwealth.

Finally, there must be a program of mandatory uniform assessments for localities as provided by the Constitution and State law. This aspect of local government in many localities has been political, non-conforming and inequitable. The tax-payer has little respect for government when he is subjected to a tax program that requires him to pay more than other properties similarly situated. If the assessments are uniform, there will be more local revenue and less requirement for state aid.

#

December-13, 1971

I must disagree with that section of the report having to do with increasing the basic State share of teachers' salaries from 60% to 100% over the next four years.

Under the formula, the only subdivisions gaining much would be the more affluent counties and cities. Those localities with low true value of real estate would probably gain nothing.

If we had, instead, recommended going from Average Daily Attendance (ADA) to Average Daily membership (ADM), a much larger amount of money would go to the localities and the relative effect on the more affluent areas would be the same. I would have preferred this approach.

W. L. Lemmon

MINORITY COMMENT OF WILEY F. MITCHELL, JR., VICE-
MAYOR OF THE CITY OF ALEXANDRIA, TO THE
REPORT OF THE REVENUE RESOURCES
AND ECONOMIC STUDY COMMISSION

Among other things, this Commission was charged by the General Assembly to "study and include in its report the sources of revenue and methods of finance of local governments, the problems facing cities and urban areas relative to finance, the proper division of sources of revenue between state and local governments and the proper division of responsibility for services including consideration of over-lapping services." In addition, the Commission was specifically directed to "consider, study, and report its recommendations on the ways and means best designed to adjust state and local taxation to facilitate a more adequate and equitable financing of local public services and to encourage and achieve desired land use goals."

In response to this legislative mandate, the Commission has done a commendable job in recognizing the acute need for the assumption by the state of an additional portion of the cost of public education, as its recommendation that the state assume 100% of the cost of funding the state minimum teachers' salary over a four year period will attest. The Commission's recommendations concerning real property tax reform are also commendable and are worthy of the most careful consideration.

I am personally disappointed, however, that the Commission failed to recommend any expansion in the revenue options currently available to local governments. If there was one thing which became crystal clear from the information developed by the Commission during more than 18 months of study, it was that both the revenue needs and revenue resources of Virginia's local governments vary widely from one part of the state to the other.⁽¹⁾ Some jurisdictions have very low effective real estate tax rates and obviously have the capacity to make a much more productive use of that tax. Effective real estate tax rates in other jurisdictions, particularly those located in highly populated urban areas, have already reached such high levels that any further substantial increases are likely to be counter-productive. Not surprisingly, the jurisdictions with the highest effective real estate tax rates are also generally the jurisdictions in which the cost of local government services is the highest.

Local option taxes seem to me to be uniquely suited to both the practical and the political ramifications of such a situation. If, for example, and as the silence of the Commission on the subject seems to suggest,

(1) Obvious imbalances in the distribution of state education funds among the various jurisdictions, based upon formulae which for the most part do not give proper consideration to the *actual cost* of public education, contribute substantially to the variation in local revenue needs. Another significant inequity is apparent from the difference between the level of state funding of streets and roads in urban counties as compared with the level of state funding in cities.

the state is unwilling to assume a portion of the 200 million dollar cost to local governments of constructing a rapid transit system for Northern Virginia, a local option gasoline tax would certainly be preferable to placing the entire burden on the real estate tax, already among the highest in the state. The local option "piggy-back" income tax and an increase in the local option sales tax may have some drawbacks, but at least such taxes give a locality which has exhausted its available sources of revenue some option, other than another increase in real estate taxes, to which it can turn.

Testimony before the Commission indicated rather conclusively that the cost of the services provided by local governments in urban areas has risen and is continuing to rise at a much more rapid rate than the revenues produced by tax sources currently available to such local governments. This problem appears to be caused primarily by the fact that the real estate tax, which is the leading source of revenue for most local governments, is not an economy based tax and, unlike income and sales taxes, its rate of growth in an inflationary economy does not normally keep pace with increases in the costs of the goods and services which local governments must buy. For example, testimony before the Commission indicated that the cost of local government in some areas of the state has been rising for several years at an annual rate of approximately 10%, while revenues produced by the real estate tax have been growing at an annual rate of about 5%. The result has been a significant revenue gap.

Faced with such a dilemma, local governments can: (1) cut services to meet revenue (2) increase local taxes, or (3) turn to the state and federal governments for assistance, either in the form of direct grants, partial assumption of responsibility, or additional taxing powers.

I think it is reasonable to conclude that *some* local governments in Virginia have exhausted, for all practical purposes, the sources of revenue currently available to them.*² Unfortunately, these are generally the jurisdictions with the most severe problems and any substantial reduction in services would only compound those problems. Unless the state is willing to assume a much larger share of the cost of financing local government in such jurisdictions, a failure to approve expansion of the sources of revenue available to local governments can only entail the most serious risks to their continued survival.

*²—Continued reliance on increases in the real estate tax to balance local budgets is likely to be particularly difficult in Northern Virginia, which must "compete" with suburban Maryland and the District of Columbia, both of which have local income taxes. In addition, the State of Maryland is bearing from state funds a substantial portion of the cost to local governments of the rapid transit system currently under construction in the Washington Metropolitan Area.

Commission Membership

In accordance with Senate Joint Resolution No. 17, the following individuals were appointed to the commission :

From the Senate :

| | |
|------------------------------------|-----------------|
| Senator Leroy S. Bendheim | Alexandria |
| Senator Adelard L. Brault | Fairfax |
| Senator Edward T. Caton, III | Virginia Beach |
| Senator J. Harry Michael, Jr. | Charlottesville |

From the House of Delegates :

| | |
|------------------------------------|-------------|
| Honorable Willis M. Anderson | Roanoke |
| Honorable Russell L. Davis | Rocky Mount |
| Honorable Robert E. Gibson | Chesapeake |
| Honorable Willard L. Lemmon | Marion |

By the Governor :

Mr. Sam T. Barfield, commissioner of the revenue, Norfolk
Senator H. Dunlop Dawbarn, member of the state Senate, Waynesboro
Mr. Edwin Hyde, chairman of the board of Miller and Rhoads, Richmond
Honorable George W. Jones, member of the House of Delegates, Chesterfield
Mr. John L. Keddy, retired, United States Government, Alexandria
Mr. Wiley F. Mitchell, Jr., vice-mayor, Alexandria
Mr. T. George Vaughan, Jr., president of Vaughan Furniture Company, Galax

The commission elected Senator Bendheim to serve as chairman and Mr. Anderson to serve as vice-chairman.

Subcommittee Assignments

In order to cover all the areas for study specified in the resolution creating the commission, the membership was divided into the three subcommittees shown below :

I. Expenditure Projections for State Government

Senator Michael—Chairman
Mr. Lemmon
Mr. Vaughan

II. Sources of State Revenue

Senator Brault—Chairman
Senator Caton
Senator Dawbarn
Mr. Gibson
Mr. Hyde

III. Local Government Finances

Mr. Barfield—Chairman
Mr. Davis
Mr. Jones
Mr. Keddy
Mr. Mitchell

Senator Bendheim and Mr. Anderson served as ex officio members of each subcommittee.

Staff and Staff Reports

Serving as consultants to the commission and the subcommittees were:

Dr. Thomas C. Atkeson, chancellor professor of taxation, College of William and Mary, Williamsburg;

Dr. Lorin A. Thompson, chancellor of George Mason College, Fairfax;

Dr. John L. Knapp, deputy director, Division of State Planning and Community Affairs, Richmond.

In addition, Mr. Richard D. Brown, Mr. Barry E. Lipman, and Mrs. Gail V. Tatum of the Office of Research and Information of the Division of State Planning and Community Affairs served as staff. Mr. G. William White of the Division of Statutory Research and Drafting served as staff attorney.

The staff prepared two reports for the commission. The first, presented on November 24, 1970, titled "Fiscal Assistance for Local Governments", dealt with various alternatives for providing financial relief to local governments. The second report, *Fiscal Prospects and Alternatives*, was presented in April, 1971. This is an in-depth study of both the state and local fiscal positions with projections of revenues, expenditures, and possible gaps through 1978.

Persons Testifying to the Commission at Public Hearings and Meetings

On June 22, 1971, the commission held a public hearing for the expressed purpose of obtaining information or comment on (a) which revenue source or sources should be utilized or adjusted to provide added revenue if it is found to be essential for the state's continued progress; (b) how the state could be most helpful financially to localities; and (c) what state or local services, if any, might be curtailed or eliminated to reduce costs. The following individuals presented testimony at that time:

Mr. Donald H. Rhodes, mayor of Virginia Beach

Mr. DuVal Radford, special counsel for the Virginia Railway Association

Mr. J. Lindsey Schwartzmann, Virginia manager of the Washington Gas Light Company

Mr. William J. Jonak, president of the Norfolk Board of Realtors

Dr. Charles F. Phillips, Jr., councilman and mayor-elect of Lexington

Mr. E. H. Williams, executive secretary of the Virginia Highway Users Association

Mr. Jack Brent, counsel for the Virginia Highway Users Association

Mr. Neville C. Johnson, president of the Richmond Board of Realtors

Mr. Sumpter Priddy, executive secretary of the Virginia Retail Merchants Association

Mr. E. Milton Farley, III, counsel for the Virginia Passenger Bus Association

Hon. George E. Allen, Jr., member of the House of Delegates

Mr. George R. Long, executive secretary of the Virginia Association of Counties

Hon. Byron F. Andrews, Jr., member of the House of Delegates and transportation specialist

Mr. Carrington Williams, attorney and former member of the House of Delegates

The following individuals made presentations or sent papers to the commission at various times throughout the year :

- Mr. J. W. Hornsby, Jr., mayor of Newport News
- Mr. E. A. Beck, county manager of Henrico County
- Mr. Edward G. Heatwole, director of finance of Henrico County
- Mr. Thomas J. Bliley, Jr., mayor of Richmond
- Mr. R. Braxton Hill, councilman of Norfolk
- Mr. Garland Harwood, counsel for the Virginia Savings and Loan League
- Mr. John H. Flintom, president of the Virginia Wholesalers and Distributors Association, Inc.
- Mr. Jack G. Bess, executive secretary of the Virginia Soft Drink Association, Inc.

Respectfully submitted,
LEROY S. BENDHEIM, *Chairman*
WILLIS M. ANDERSON, *Vice-Chairman*
SAM T. BARFIELD
ADELARD L. BRAULT
EDWARD T. CATON, III
H. DUNLOP DAWBARN
RUSSELL L. DAVIS
ROBERT E. GIBSON
EDWIN HYDE
GEORGE W. JONES
JOHN L. KEDDY
WILLARD L. LEMMON
J. HARRY MICHAEL, JR.
WILEY MITCHELL

Appendix 2

A Bill to Bring

Savings and Loan Associations Under the Corporate Income Tax

A BILL

To amend and reenact §§ 58-151.02, 58-151.03, 58-151.032, and 58-373, as severally amended, of the Code of Virginia, and to amend the Code of Virginia by adding a section numbered 58-151.032:1, the amended and new sections relating to definitions under the Virginia income tax; imposition of the tax; Virginia taxable income, savings and loan associations, so as to impose an income tax upon State and federal savings and loan associations.

Be it enacted by the General Assembly of Virginia :

1. That §§ 58-151.02, 58-151.03, 58-151.032 and 58-373, as severally amended, be amended and reenacted, and that the Code of Virginia be amended by adding a section numbered 58-151.032:1, as follows :

§ 58-151.02. **Definitions.**—For the purpose of this chapter and unless otherwise required by the context :

(a) “*Virginia taxable income*” shall mean Virginia taxable income as defined in §§ 58-151.013, 58-151.022, 58-151.024, or 58-151.032 or 58-151.032:1.

(b) “*Individual*” shall mean all natural persons whether married or unmarried and fiduciaries acting for natural persons, but not fiduciaries acting for trusts or estates.

(c) “*Trust*” or “*estate*” shall mean a trust or estate, or a fiduciary thereof, which is required to file a fiduciary income tax return under the laws of the United States.

(d) “*Corporation*” shall include associations, joint stock companies and insurance companies.

(e) (1) (i) “*Resident*” applies only to natural persons and includes, for the purpose of determining liability to the taxes imposed by this chapter upon the income of any taxable year every person domiciled in this State at any time during the taxable year and every other person who, for an aggregate of more than one hundred eighty-three days of the taxable year, maintained his place of abode within this State, whether domiciled in this State or not.

(ii) Any person, however, who, during the taxable year, becomes a resident of this State, whether domiciliary or actual, for purposes of income taxation, by moving to this State from without this State during such taxable year, shall be taxable as a resident for only that portion of the taxable year during which he was a resident of this State and his personal exemptions shall be reduced to an amount which bears the same ratio to the full exemptions as the number of days during which he was a resident of this State bears to three hundred sixty-five days. No person to whom the preceding sentence applies shall be entitled to any credit on his income tax payable to this State for any income tax paid to the state or other jurisdiction of his former domicile or actual residence for that part of the taxable year during which he was a domiciliary or actual resident of such other state or jurisdiction, notwithstanding the provisions of § 58-151.015.

(iii) Any person who, on or before the last day of the taxable year, changes his place of abode to a place without this State with the bona fide intention of continuing actually to abide permanently without this State shall be taxable as a resident for only that portion of the taxable year during which he was a resident of this State and his personal exemptions shall be reduced to an amount which bears the same ratio to the full exemptions as the number of days during which he was a resident of this State bears to three hundred sixty-five days. The fact that a person who has changed his place of abode, within six months from so doing abides again in this State, shall be prima facie evidence that he did not intend permanently to have his place of abode without this State.

(iv) Any person who is taxable as a resident of this State for only a portion of a taxable year because he moved to this State from without this State during the taxable year as set out in subparagraph (ii), or because he changed his place of abode during the taxable year to a place without this State as set out in subparagraph (iii), and who, as a nonresident of this State for any other part of the taxable year derived income from any property owned or from any business, trade, profession or occupation carried on in this State shall be taxable as a nonresident with respect to such income as provided in § 58-151.013 (f).

(2) "*Nonresident*" applies only to natural persons and shall mean any person not a resident.

(f) (1) "*Resident estate or trust*" shall mean:

(i) The estate of a decedent who at his death was domiciled in this State,

(ii) A trust created by will of a decedent who at his death was domiciled in this State,

(iii) A trust created by, or consisting of property of a person domiciled in this State, or

(iv) A trust or estate which is being administered in this State.

(2) "*Nonresident estate or trust*" shall mean an estate or trust which is not a resident estate or trust.

(g) "*Income and deductions from Virginia sources*" shall include:

(1) Items of income, gain, loss and deduction attributable to:

(i) The ownership of any interest in real or tangible personal property in this State; or

(ii) A business, trade, profession or occupation carried on in this State.

(2) Income from intangible personal property, including annuities, dividends, interest, royalties and gains from the disposition of intangible personal property to the extent that such income is from property employed by the taxpayer in a business, trade, profession, or occupation carried on in this State.

§ 58-151.03. Imposition of tax.—(a) *Individuals, estates and trusts.*—A tax determined in accordance with the rates set forth in § 58-151.011 is hereby annually imposed on the Virginia taxable income for each taxable year of every individual, estate and trust. Notwithstanding any other provision of this subsection, no tax is imposed, nor any return required to be filed by, any organization which by reason of its purposes or ac-

tivities is exempt from income tax under the laws of the United States (other than unrelated business income tax under such laws.)

(b) *Partners and partnerships.*—A partnership as such shall not be subject to tax under this chapter. Persons carrying on business as partners shall be liable for tax under this chapter only in their separate or individual capacities.

(c) *Corporations.*—A tax determined in accordance with the rate set forth in § 58-151.031 is hereby annually imposed on the Virginia taxable income for each taxable year of every corporation organized under the laws of this State and every foreign corporation having income from Virginia sources (except public service corporations which are subject to a State franchise tax or license tax upon gross receipts, insurance companies which pay a State license tax on gross premiums and reciprocal or interinsurance exchanges which pay a premium tax to the State as provided by law, and State and national banks, banking associations and trust companies, savings-and-loan-associations, credit unions organized and conducted as such under the laws of this State, or under the laws of the United States, electing small business corporations, and religious, educational, benevolent and other corporations not organized or conducted for pecuniary profit.)

§ 58-151.032. *Virginia taxable income.*—For purposes of this article, Virginia taxable income for a taxable year shall mean the federal taxable income for such year of a corporation *except a corporation subject to the provisions of § 58-151.032:1*, adjusted as follows:

(a) There shall be added to federal taxable income the amounts described in paragraph (b) of § 58-151.013.

(b) There shall be added to federal taxable income the amount of any income taxes imposed by this State or any other taxing jurisdiction, to the extent deducted in determining federal taxable income.

(c) There shall be subtracted from federal taxable income the amounts described in paragraphs (1), (2), (4) and (5) of subsection (c) of § 58-151.013, except that the modification specified in paragraph (4) thereof shall not be reduced by the dividend exclusion provided by the laws of the United States relating to federal income taxes, and the reduction specified in subparagraph (B) of said paragraph shall apply only to the extent that it exceeds the dividends received deduction.

(d) Dividends with respect to which a foreign tax credit is allowed under the laws of the United States relating to income taxes shall be included in Virginia taxable income only to the extent of the net amount thereof.

(e) Adjustments to federal taxable income shall be made to reflect the transitional modifications provided in § 58-151.0111.

§ 58-151.032:1—*For purposes of this article Virginia taxable income for a taxable year for a State or federal savings and loan association shall mean the federal taxable income for such year for such savings and loan association, adjusted as follows:*

(a) *There shall be added to federal taxable income the deduction for bad debts allowed in computing federal taxable income.*

(b) *There shall be added to federal taxable income as adjusted by subparagraph (a) of this section the amounts described in paragraph (b) of § 58-151.013.*

(c) *There shall be added to federal taxable income as adjusted by subparagraph (a) of this section the amount of any income tax imposed by this State or any other taxing jurisdiction, to the extent deducted in determining federal taxable income.*

(d) *There shall be subtracted from federal taxable income as adjusted, as described in paragraphs (1), (2), (4) and (5) of subsection (c) of § 58-151.013, except that the modification specified in paragraph (4) thereof shall not be reduced by the dividend exclusion provided by the laws of the United States relating to federal income taxes, and the reduction specified in subparagraph (b) of said paragraph shall apply only to the extent that it exceeds the dividends received deduction.*

(e) *Dividends with respect to which a foreign tax credit is allowed under the laws of the United States relating to income taxes shall be included in Virginia taxable income only to the extent of the net amount thereof.*

(f) *Adjustments to federal taxable income shall be made to reflect the transitional modifications provided in § 58-151.0111.*

(g) *The percentage used in determining the bad debt deduction for savings and loan associations in determining federal taxable income shall then be applied to federal taxable income as adjusted under the provisions of this section and subtracted therefrom.*

§ 58-373. Savings and loan associations.—No savings and loan associations shall, without a license, conduct any business in this State.

~~The license tax upon every stock savings and loan association for the privilege of doing business in this State shall be seventy five dollars, provided the capital of such association actually paid in on shares of stock is not over twenty five thousand dollars; if the capital paid in is over twenty five thousand dollars, an additional license tax of three dollars on each additional one thousand dollars of such capital, or fraction thereof, shall be paid.~~

Every mutual savings and loan association shall pay a license tax of fifty dollars.

~~Each association on the first day of January of each year, or within ten days thereafter, shall make a report in writing of its capital paid in under oath of its president or secretary to the commissioner of the revenue for the county or city in which its main office is situated.~~

No additional State tax shall be imposed on the capital of any association which has paid the license tax imposed herein.

county, city or town shall levy a greater license tax than that imposed herein for State purposes and such city or town license tax shall be levied only where the main office of such association is located.

2. This act shall apply to taxable income accruing to a savings and loan association on and after January one, nineteen hundred seventy-two.

Appendix 3

SENATE JOINT RESOLUTION NO. —

Continuing the Revenue Resources and Economic Study Commission; and to appropriate funds therefor.

Whereas, the Revenue Resources and Economic Study Commission, created by the nineteen hundred sixty-eight General Assembly by Senate Joint Resolution No. 15, and as continued in nineteen hundred seventy by Senate Joint Resolution No. 17, has initiated and partially completed a broad and comprehensive survey of the present revenue and tax structure of the Commonwealth, but has been unable to complete its work because of the time necessarily devoted to the nineteen hundred sixty-nine and nineteen hundred seventy-one Special Sessions of the General Assembly by many of its members and therefore lost to the Commission as a whole; and

Whereas, in order to effectuate the mission assigned to it, with particular attention to the equities involved in the imposition of various taxes and their respective burdens upon the taxpayer, it is necessary that the outcome of action by the next General Assembly and the people with respect to the proposed amendments be known and that the revenue and tax structure of the State achieve relative stability, particularly in view of the expenditure projections involved as evidenced by the recent budget requests of the several State agencies; now, therefore be it

Resolved by the Senate, the House of Delegates concurring, That the Revenue Resources and Economic Study Commission be continued for the purpose of completing the work assigned to it by Senate Joint Resolutions No. 15 and 17 of the nineteen hundred sixty-eight and nineteen hundred seventy Sessions of the General Assembly, respectively, and of evaluating the Commonwealth's tax structure with particular emphasis on the equities of that structure as it affects the taxpayer.

Resolved further, That the Revenue Resources and Economic Study Commission continue its study and report the sources of revenue of the local governments, the problems facing cities and urban areas relative to finance, the proper division of services of revenue between state and local governments and the proper division of responsibility of overlapping services.

The Commission is directed to continue, as a part of its study, to investigate, consider and study the overall tax structure of the Commonwealth in relation to the magnitude and distribution of the wealth of its people and their need for public services and to continue to appraise the current status of the real property tax in State and local policies, fiscal policy and land settlement policy. The Commission shall continue to consider, study and report on the ways and means best designed to adjust State and local taxation to facilitate a more adequate and equitable financing of local public services and to encourage and achieve desired land use goals. Changes in relevant State laws and in the operation of local governmental structures and services shall also be pertinent to the work of the Commission. The Commission may study such other matters as may be relevant to its study.

The Commission shall consist of fifteen members, of whom four shall be appointed by the Committee on Privileges and Elections of the Senate, four shall be appointed by the Speaker of the House of Delegates and seven shall be appointed by the Governor, provided that insofar as may be practicable, those members of the Commission who served thereon for the nineteen hundred seventy-seventy-two biennium shall be appointed.

Members of the Commission shall receive no compensation for their services, except the compensation for legislative members as provided in § 14.1-18 of the Code of Virginia, but shall be paid their necessary expenses incurred in the performance of their duties. The Commission may employ such secretarial, technical, clerical, professional and other assistance as may be required. All interested State agencies are directed to assist the Commission in its study.

For the purpose of carrying out its study, the sum of twenty-five thousand dollars is hereby appropriated from the contingent fund of the General Assembly.

The Commission shall complete its study and make its report to the Governor and General Assembly not later than November one, nineteen hundred seventy-two.

**A Staff Report to the Revenue Resources
and Economic Study Commission**

Fiscal Prospects and Alternatives

**By
John L. Knapp, Ph.D.**

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

**April/1971
Richmond, Virginia**

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

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PREFACE TO THE SECOND PRINTING

The first printing of the report was completed in April, 1971. For this second printing, time has not been available to undertake a complete revision of each chapter. However, several significant events that have occurred in the intervening months do affect the analyses in particular chapters and are therefore discussed below. Also, any known typographical errors have been corrected.

For state general fund revenues from present sources, the official estimate for this biennium and the projected total for the 1972-74 biennium are provided in Chapter III. It now appears that revenues for this and succeeding bienniums will be higher than projected in Chapter III. In Chapter III the official estimate was used for the current biennium. However, in the first fiscal year of this biennium actual revenues exceeded the official estimate by \$9.2 million, and it is quite likely that actual revenues will also be higher in 1971-72. For the next three bienniums the assumptions used for economic growth now appear to be on the low side so that general fund revenues will be larger than originally forecast. Taken alone, these observations would indicate an easier fiscal situation than conveyed in the first printing. However, when one takes account of possible higher levels of expenditure than originally forecast, the overall implications of the report do not show any significant change. The preliminary budget requests for 1972-74 presented to the Governor and his Budget Advisory Board in September, 1971, totalled nearly \$3.2 billion. This compares with the \$2.4 billion scope and quality plus capital outlay figure used in the report. Two of the largest requests were the nearly \$1.1 billion for elementary-secondary education to help meet the constitutional mandate for quality education and the \$416 million for capital outlays. Thus, the scope and quality plus capital outlay gap of \$-321.3 million that is forecast for the 1972-74 biennium in

Chapter IV might be conservative but still appears to be within reason.

Alternative sources of additional state revenue are presented in Chapter III.

The following modifications to the analyses for the income taxes, the sales and use tax, the motor vehicle sales and use tax, and the gasoline tax are worth noting:

1. Individual and Fiduciaries Income Tax - Beginning January 1, 1972, the state will partially conform to the federal income tax structure. This structure was changed since the first printing because of the adoption of the Internal Revenue Act of 1971. Features affecting Virginia tax collections are the introduction of the 15 percent up to \$2,000 maximum standard deduction originally planned for 1973 and the increase in the \$1,000 minimum standard deduction to \$1,300.

As of November, 1971, two more states had imposed an individual income tax and another four had conformed their tax to some degree with the federal provisions. Thus, a total of forty states plus the District of Columbia had an individual income tax, and twenty-nine conformed theirs in some manner to federal law. No neighboring governments had changed their structure or rates as of November.

2. Corporate Income Tax - Effective January 1, 1972, Virginia will substantially conform its treatment of deductions, depreciation, and depletion allowances to federal corporate income tax law. As a result, the state must follow the new, liberalized depreciation guidelines that the U.S. Department of the Treasury put into effect in June and that will probably cause corporate tax receipts to fall.

In November, 1971, there were still forty-three states plus the District of Columbia with a corporate income tax. Among neighboring states only Tennessee had modified its tax by raising the rate from 5 to 6 percent. Of the forty-three states plus the District, fifteen had a lower effective rate than Virginia's 5 percent, two had the same effective rate, and twenty-six had a higher effective rate. The median rate for the forty-four was 6 percent (see the discussion in the text, pp. 112-15).

3. Sales and Use Tax - If selected services were included in the tax base, the state would gain additional revenue. The original projections of this extra revenue for the next biennium have been found to be too low and have been increased to \$26 million in fiscal year 1972-73 and \$28.2 million in fiscal year 1973-74 or \$54.2 million for the biennium.

In November, 1971, forty-five states and the District of Columbia continued to levy a general sales tax. Of these, twenty-five,

two more than in January, 1971, allowed some type of local sales tax. Again, only Tennessee among bordering governments had as of November made a change, increasing its rate from 3 to 3.5 percent.

4. Motor Vehicle Sales and Use Tax - This tax specifically excludes the federal 7 percent manufacturers' excise tax from the tax base. The Internal Revenue Act of 1971 repeals the federal tax. This would preclude raising additional revenue by inclusion of the excise tax in the titling tax base.
5. Gasoline Tax - Through November, 1971, no neighboring states had increased their gasoline taxes. The 7-cent rate in Virginia continued to equal the national median.

All estimates of the additional revenue produced by the alternative sources are on a full calendar or fiscal year basis. However, a tax increase might not be instituted at the beginning of a fiscal year, and there would be lags in the actual collection of revenues. For example, on the basis of past experience, any changes in the individual income tax would become effective January 1, and there would be a thirty day lag in the collection of revenues. Thus, if the individual income tax were increased in the 1972-74 biennium, the effective date would be January 1, 1972, (retroactive) or January 1, 1973, and the state would receive added revenue for twenty-nine or seventeen months, depending upon which starting date were used.

In August, 1971, the Governor's Committee on State-Local Cooperation received a staff report on property tax reform. The committee modified and adopted the proposals. This material serves as an interesting supplement to the discussion of the local property tax on pp. 274-83 of Chapter V.

Chapter VI presents major ways of providing relief for local governments.

Three additions to the discussion must be made:

1. State Aid to Education - When the analysis of present state aid and proposals for change was written (see pp. 290-303), the California State Supreme Court had not handed down its Serrano decision. The court ruled that the California public school financing system, with its substantial dependence on local property taxes and resultant wide disparities in school revenue, violates the equal protection clause of the Fourteenth Amendment of the U.S. Constitution. As a result, California will have to develop a means of financing public education that is independent of the local property tax. If the decision is

upheld by the U.S. Supreme Court, its impact will be felt in all states. Moreover, there are lawsuits similar to the Serrano case pending in several other states (e.g., Minnesota).

2. The District of Columbia Reciprocal Income Tax Proposal - In the discussion of a local income tax, the reciprocal income tax proposal was mentioned (see pp. 317-318). If Congress were to allow the District to impose its individual income tax on nonresidents who work in the city, the revenue loss to Virginia would be substantial. In the first session of the ninety-second Congress, the proposal was defeated in the House District Committee and on the floor of the House of Representatives and therefore does not appear to be a threat at this time.
3. Public Utility Assessments - The so-called "Bemiss Act", passed in 1969, provides for eventual assessment of public service property at the same true ratio as other types of property in the locality with the equalization process spread over a twenty-year period (see pp. 325-326). If this adjustment process were accelerated, concern over proposed federal legislation, such as U.S. Senate Bill 2289, which would have killed the Bemiss Act, could be eliminated. In the second session of the ninety-first Congress, this bill was introduced and, if passed, would have taken effect in three years. It provided that, regardless of the 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. In the first session of the ninety-second Congress, this legislation was reintroduced in U.S. Senate Bill 2362 and U.S. House Bill 10146 and, if either bill were to pass, would pose the same threat to the Bemiss Act.

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Richmond
April, 1971

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.

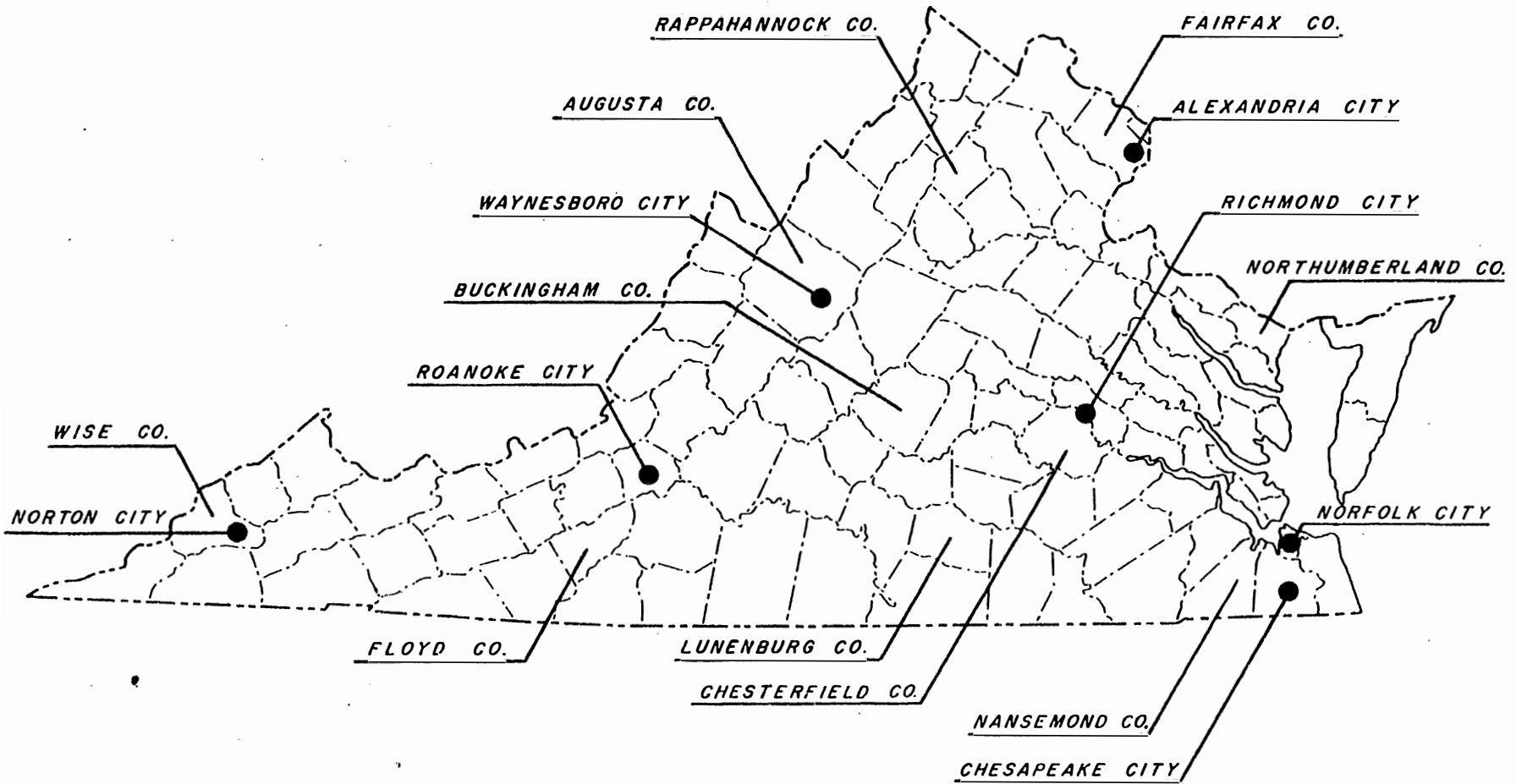
The projection period used in the study is to 1977-78, a seven-year period from the current fiscal year, or three bienniums ahead if measured from the present biennium. At various points in the study, data are presented for individual localities. Because of time and space limitations, we could not provide 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 1.1-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

| Function | Actual Appropriations 1970-72 | Projected Expenditures 1972-74 | Percent Change from Previous Biennium | Projected Expenditures 1974-76 | Percent Change from Previous Biennium | Projected Expenditures 1976-78 | Percent Change from Previous Biennium |
|---|-------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|---------------------------------------|
| EDUCATION | | | | | | | |
| 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 |
| HEALTH AND WELFARE | | | | | | | |
| 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 |
| GENERAL ADMINISTRATION AND LEGISLATIVE | | | | | | | |
| 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 |
| UNALLOCATED BY FUNCTION | | | | | | | |
| 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 |
| TOTAL OPERATING EXPENSES | \$1,751,440,304 | \$2,119,105,677 | +21.0 | \$2,427,400,000 | +14.5 | \$2,726,100,000 | +12.3 |

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)

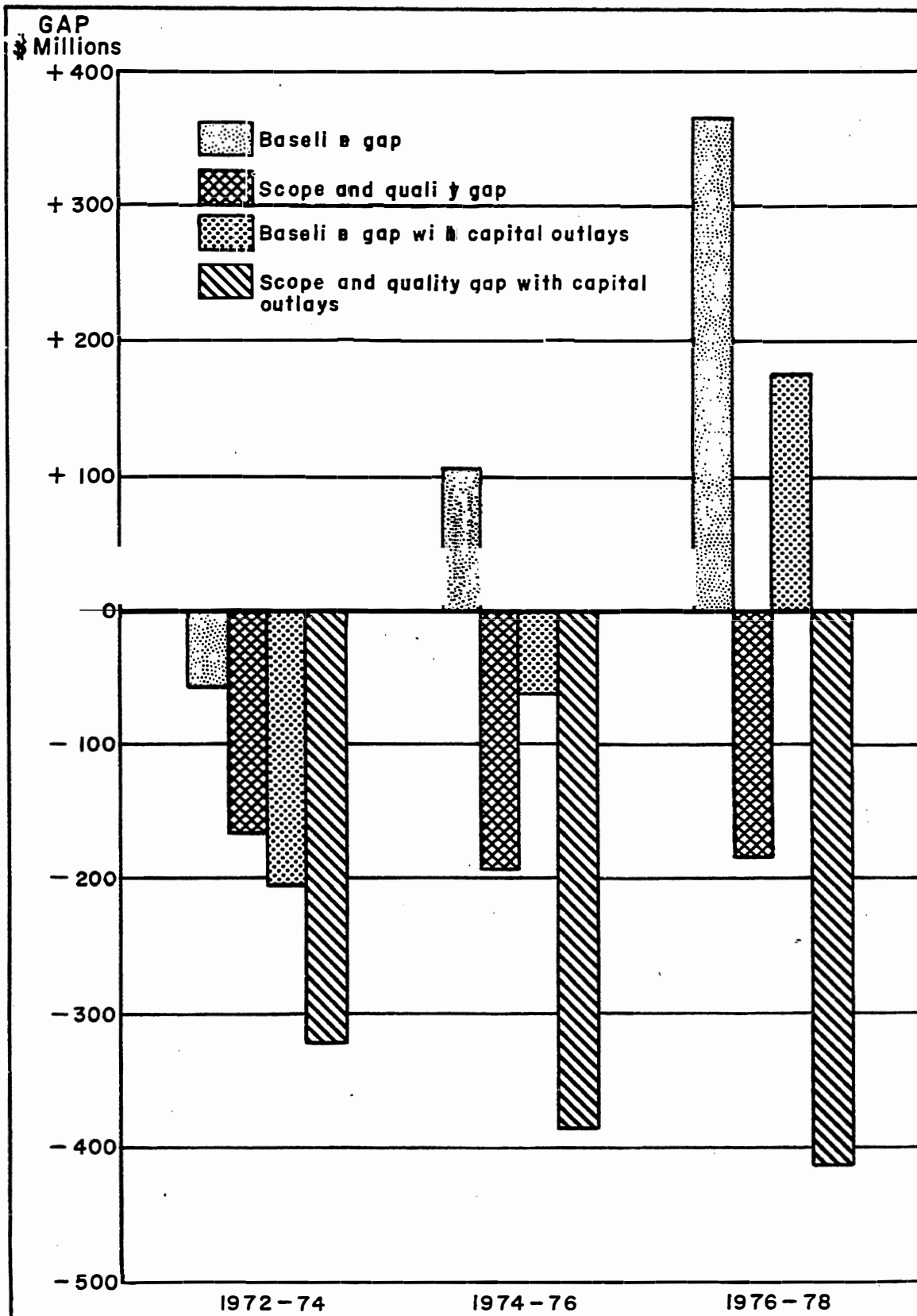
| | 1972-74 | 1974-76 | 1976-78 |
|---------------------------------------|-----------|-----------|-----------|
| Baseline revenues | \$2,062.7 | \$2,534.2 | \$3,094.3 |
| Expenditures | | | |
| Baseline | 2,119.1 | 2,427.4 | 2,726.1 |
| Scope and quality | 2,228.1 | 2,728.8 | 3,278.1 |
| Baseline plus 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 BIENNIUM
(Millions of Dollars)

| Revenue Source | 1972-73 | | 1973-74 | |
|---|----------------------|----------------------------|----------------------|----------------------------|
| | Projected Revenue | Change from Present Tax | Projected Revenue | Change from Present Tax |
| PUBLIC SERVICE CORPORATION TAXES | | | | |
| 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 |
| INDIVIDUALS AND FIDUCIARIES-- | | | | |
| INCOME TAX | | | | |
| 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 |
| TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION) | | | | |
| \$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 |
| CORPORATIONS--INCOME TAX | | | | |
| Present structure; present rates | 57.2 | | 60.3 | |
| Present structure; 6% rate | 68.6 | +11.4 | 72.4 | +12.1 |
| INHERITANCE TAX | | | | |
| 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 |
| CROWN TAX ON SOFT DRINKS | | | | |
| West Virginia structure and rates | 16.0 | +16.0 | 17.2 | +17.2 |
| TOBACCO PRODUCTS TAX | | | | |
| 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 |
| STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION) | | | | |
| 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 | 288.5 | +26.0 | 313.3 | +28.2 |
| Adding selected services; 4% rate | 384.7 | +122.2 | 417.7 | +132.6 |
| Adding selected services but excluding food and nonprescription drug purchases; present rate | 221.3 | -41.2 | 240.3 | -44.8 |
| Adding selected services but excluding food and nonprescription drug purchases; 4% rate | 295.1 | +32.6 | 320.4 | +35.3 |

(Table continued on next page.)

TABLE 1.3.--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 |
| MOTOR VEHICLES SALES AND USE TAX (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. |
| 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 |
| LOTTERY AND PARI-MUTUEL BETTING | | | | |
| 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

PRESENT SCHEDULE

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

PROPOSED RATE SCHEDULES

Maintain Present Brackets But Change Rates

| Schedule 1 | | Schedule 2 | |
|------------------|-------------|------------------|-------------|
| Taxable Income | <u>Rate</u> | Taxable Income | <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

| Schedule 3 | | Schedule 4 | |
|-------------------|-------------|-------------------|-------------|
| Taxable Income | <u>Rate</u> | Taxable Income | <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

| Schedule 5 | | Schedule 6 | |
|-------------------|-------------|-------------------|-------------|
| Taxable Income | <u>Rate</u> | Taxable Income | <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%

| Schedule 7 | |
|-------------------|-------------|
| Taxable Income | <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%

| Schedule 8 | | Schedule 9 | |
|-------------------|-------------|-------------------|-------------|
| Taxable Income | <u>Rate</u> | Taxable Income | <u>Rate</u> |
| First \$5,000 | 3% | First \$5,000 | 3% |
| \$5,001-\$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 10 percent increase, or roughly \$26 to \$28 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 46 percent, depending on whether or not selected services were also taxed. In dollar terms, the gains would range from \$87 to \$122 million in fiscal year 1972-73, and from \$94 to \$133 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.^{1/} 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.

^{1/} 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 strict interpretation of the constitutional formula, the following maximum amounts of borrowing could be authorized:

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

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

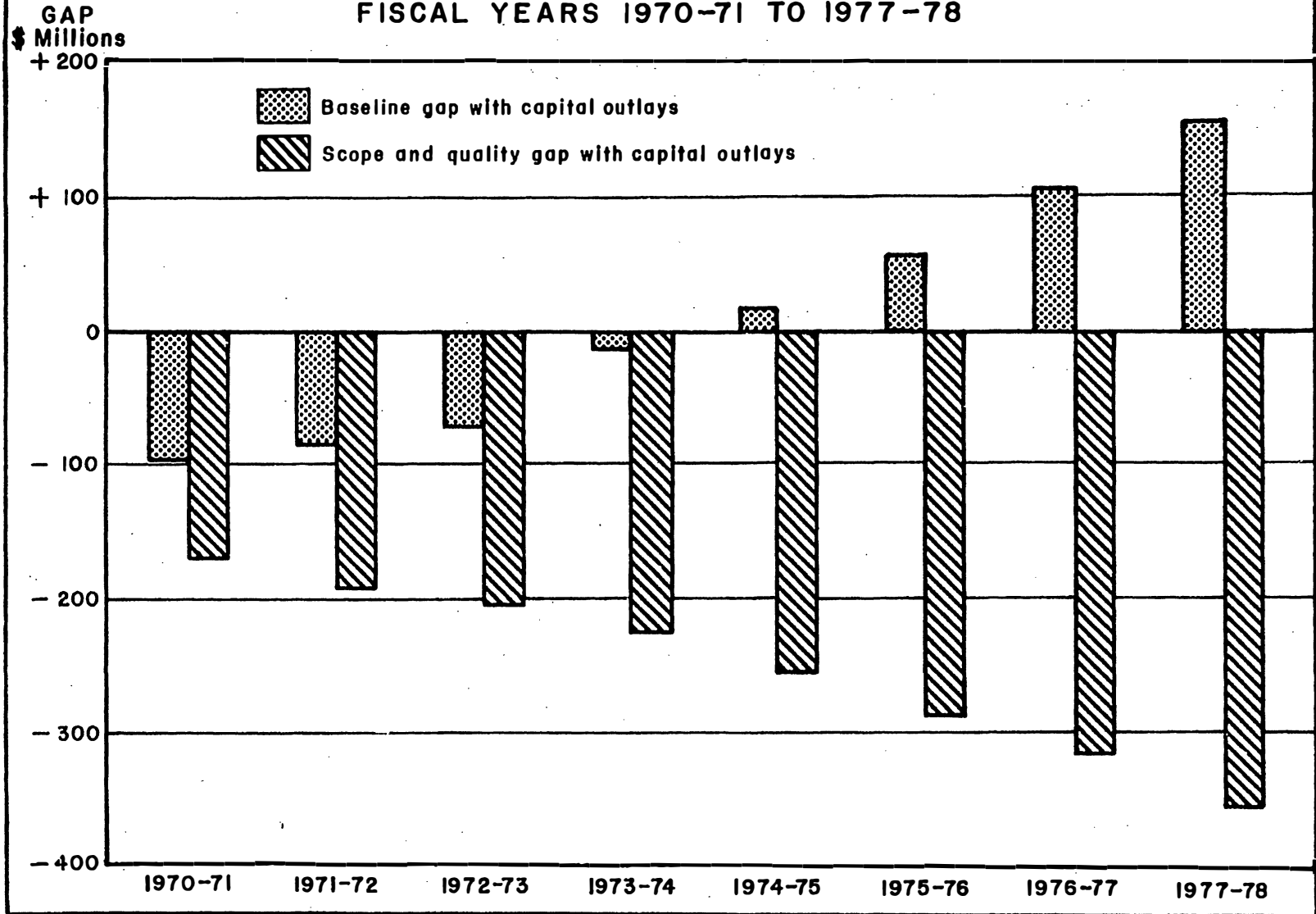
As shown in Table 1.6 , deficits are forecast using either the baseline or scope and quality concept in each fiscal year through 1973-74. Beyond that year, positive baseline gaps are forecast, but the scope and quality gaps remain negative. The gap estimates are subject to the same limitations as previously 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) | | | | | | |
|--|-----------------------|---------|---------|---------|---------|---------|---------|
| | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 |
| Borrowing | \$148.6 | \$161.3 | \$175.0 | \$189.8 | \$206.0 | \$223.5 | \$242.1 |
| Less allowance for debt service ^{a/} | 32.2 | 47.6 | 64.2 | 81.9 | 100.9 | 121.2 | 143.1 |
| Amount available ^{a/} | 116.4 | 113.7 | 110.8 | 107.9 | 105.1 | 102.3 | 99.0 |

^{a/} 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.^{1/} 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

^{1/} 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.^{1/}

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.

^{1/} 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 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.^{1/}

^{1/} 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:

| | <u>Total % Change</u> | 1960-70 <u>Average Annual Rate of Change</u> |
|----------------------------|---------------------------|---|
| State total | +17.6 | +1.6 |
| Urban areas | +21.8 | +2.0 |
| central cities | +6.7 | +0.6 |
| established suburban areas | +52.6 | +4.3 |
| developing suburban areas | +12.3 | +1.1 |
| small urban areas | +7.3 | +0.7 |
| Rural areas | -2.9 | -0.3 |

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

| <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 |

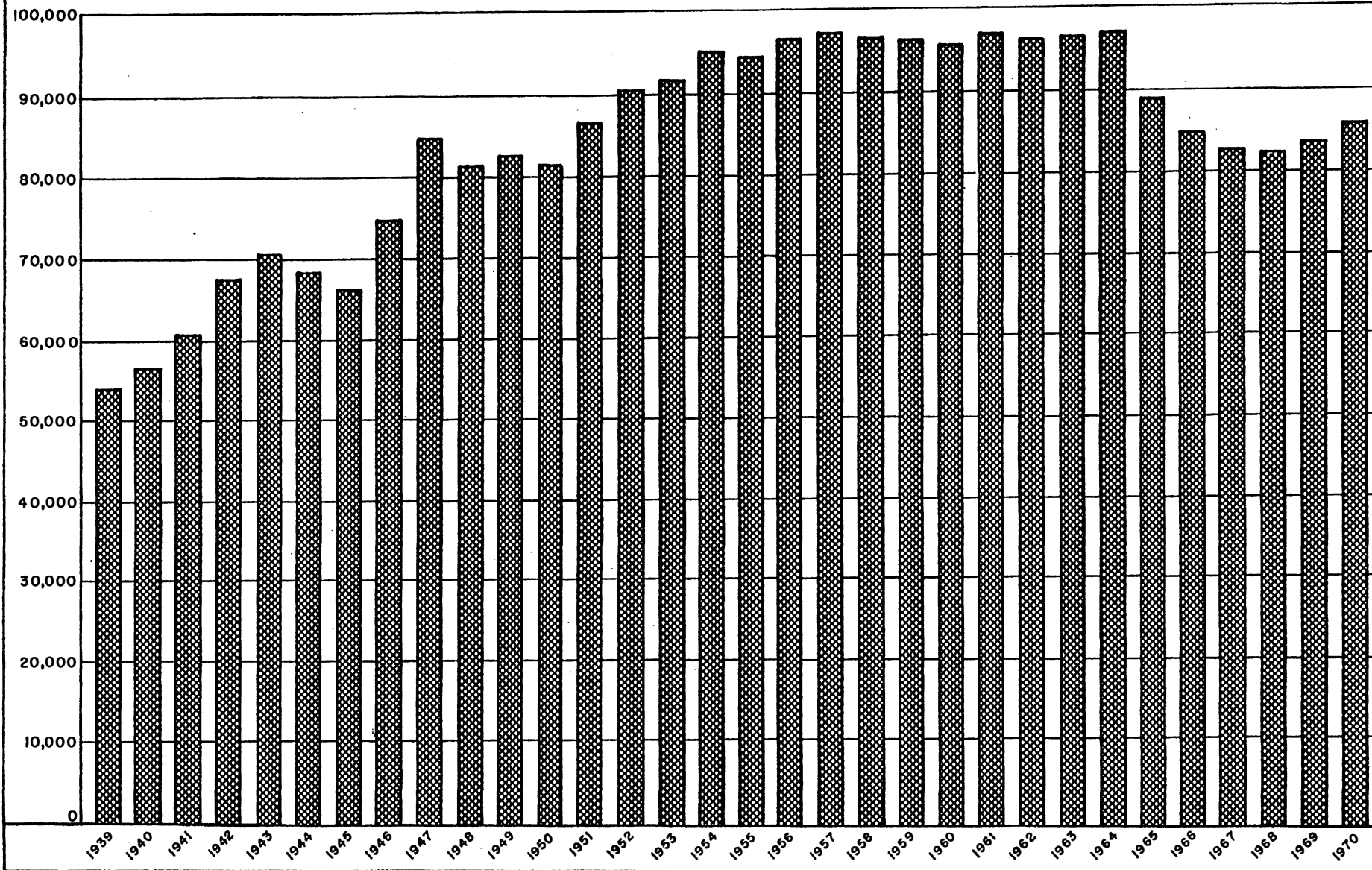
Source: Robert J. Griffis, "Virginia's Population", a staff paper prepared in the Office of Research and Information, Division of State Planning and Community Affairs (December 3, 1970).

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 Actual | 1970 Actual Number of Persons | 1980 Projected |
|-------------|------------------|-------------------------------------|-------------------|
| 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 |
| | Percent of Total | | |
| 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

| | 1960-70 (Actual) | | 1970-80 (Projected) | |
|-------------|------------------|-------|---------------------|-------|
| | Number | % | Number | % |
| 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

| | Total | | <u>Personal Income</u> | |
|------|------------------|------------|------------------------|------------|
| | <u>(\$ Mil.)</u> | % 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 |
|--|------------------|-------|-------|-------|-----------------------|
| | 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

| Fiscal Year | Gross National Product (Current Dollars) | | Virginia Personal Income (Current Dollars) | | Percent Change Virginia Income ÷ Percent Change GNP |
|--------------------|---|---------------------------------------|---|---------------------------------------|---|
| | Amount (Billions) | Percent Change from Preceding Year | Amount (Millions) | Percent Change from Preceding Year | |
| 1958-59 | \$ 469.2 | | \$ 6,794 | | 0.98 |
| 1959-60 | 495.6 | +5.6 | 7,166 | +5.5 | 2.50 |
| 1960-61 | 506.5 | +2.2 | 7,558 | +5.5 | 1.06 |
| 1961-62 | 541.7 | +6.9 | 8,112 | +7.3 | 1.21 |
| 1962-63 | 574.5 | +6.1 | 8,716 | +7.4 | 1.29 |
| 1963-64 | 611.6 | +6.5 | 9,446 | +8.4 | 1.28 |
| 1964-65 | 655.6 | +7.2 | 10,293 | +9.2 | 0.91 |
| 1965-66 | 718.5 | +9.4 | 11,228 | +8.6 | 1.24 |
| 1966-67 | 771.3 | +7.4 | 12,163 | +9.2 | 1.35 |
| 1967-68 | 827.5 | +7.3 | 13,425 | +9.9 | 1.15 |
| 1968-69 | 899.6 | +8.8 | 14,790 | +10.1 | 1.46 |
| 1969-70 | 956.2 | +6.3 | 16,159 | +9.2 | |
| Projections | | | | | |
| 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.^{1/}

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^{2/} 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.

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

^{2/} All revenue except utility revenue, liquor store revenue, insurance-trust revenue, and transfers from the federal government.

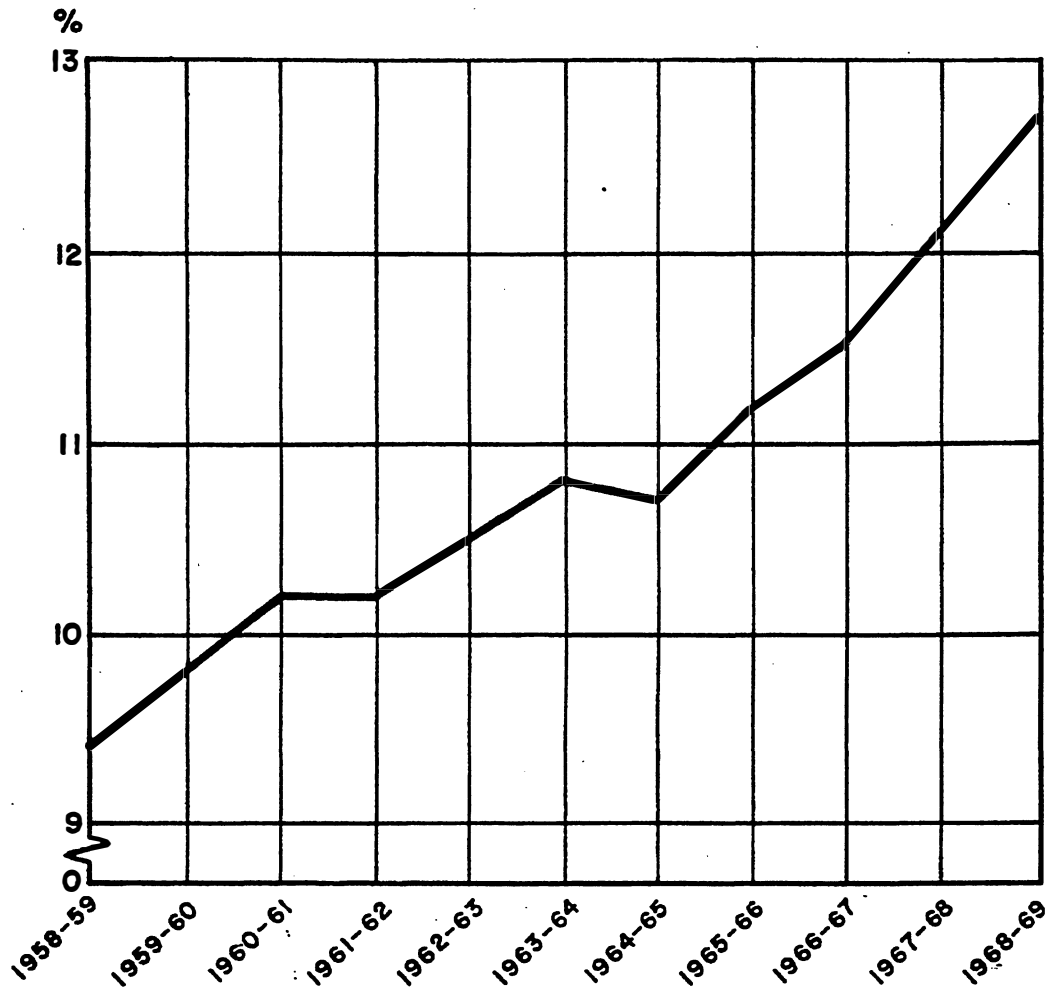
TABLE 2.7--VIRGINIA STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES AS A PERCENTAGE OF PERSONAL INCOME, FISCAL YEARS 1958-59 TO 1968-69^{a/}

| Fiscal Year | General Revenue from Own Sources (\$Mil.) | Personal Income (\$Mil.) | General Revenue from Own Source As a % of Personal Income |
|-------------|---|--------------------------------|--|
| 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 |

^{a/} 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

| <u>Rank</u> | <u>State</u> | <u>Amount</u> | <u>Percent of U. S. Average</u> |
|-------------|--|---------------|-------------------------------------|
| 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

| Rank | State | Amount | Percent of U. S. Average |
|----------|-----------------------|----------|-----------------------------|
| 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

| <u>Rank</u> | <u>State</u> | <u>Amount</u> | <u>Percent of U. S. Average</u> |
|-------------|-----------------------|---------------|-------------------------------------|
| 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 | ..... |

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

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

| <u>Rank</u> | <u>State</u> | <u>Amount</u> | <u>Percent of U. S. Average</u> |
|-------------|-----------------------|---------------|-------------------------------------|
| 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.^{1/}

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.^{2/}

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

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.^{3/} By using the 40-state average Quindry shows that Virginia collected \$43,313,000 above the yield collectible at the "average rate."^{4/} Substitution of the 50-state average raises the comparable figure to \$88,262,000.

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

^{2/} 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.

^{3/} Ibid., pp. 41 and 51. The 50-state average was computed from data in the report.

^{4/} 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.^{1/} 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.

^{1/} 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.^{1/}

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.

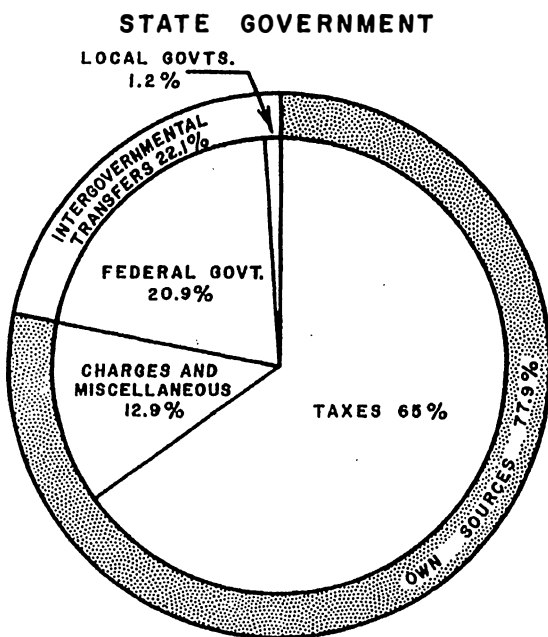
Chart 2.3 shows the sources of general revenue for the state government and for all local governments in fiscal year 1968-69. First, consider the state government. More than three-fourths of its revenue is raised from its own sources--state imposed taxes, institutional charges, and miscellaneous fees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

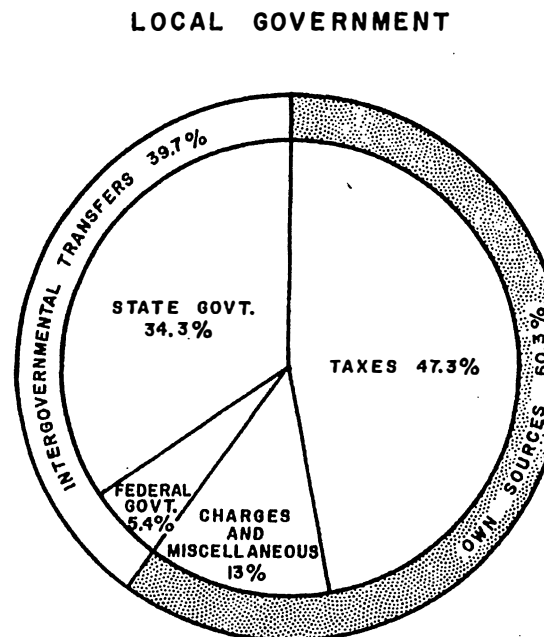
^{1/} Quindry, State Local Revenue Potential, 1969, p. 85 ; ACIR, Measuring the Fiscal Capacity and Effort, p. 79.

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



Local Govt.
\$ mil.

| | |
|-----------------------------|---------|
| Total general revenue | 1,143.3 |
| Own sources | 689.1 |
| Taxes | 540.4 |
| Charges and miscellaneous | 148.6 |
| Intergovernmental transfers | 454.3 |
| Federal Government | 62.1 |
| State Government | 392.2 |
| Local Governments | |

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^{1/} 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.^{1/} 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

^{1/} 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)

| | Total Local Government Direct General Expenditure | State Cash Transfers ^{a/} Amount | % of Local Expenditure for Function | Federal Cash Transfers Amount | % of Local Expenditure for Function |
|---------------|---|--|---|----------------------------------|---|
| All Functions | \$1,247.0 | \$450.6 ^{b/} | 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. |

55

n.a. - not available

^{a/} Includes federal funds transferred to the state government and then transferred to local governments.

^{b/} 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.^{2/} 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

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

^{2/} 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

| Fiscal Year | Percentage Distribution | | | | | | |
|-------------|---|---------|-------|-------|--|-------|-------|
| | By Originating Level of Government (prior to State-Local and Local-State Transfers) | | | | By Final Recipient Level of Government (After State-Local and Local- State Transfers) | | |
| | Total | Federal | State | Local | Total | State | Local |
| 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 | 47.0 | 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.^{1/} 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.

^{1/} 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)

| Biennium | General Fund ^{a/} | Special Funds ^{b/} | Other Funds ^{c/} | Total |
|----------|-------------------------------|--------------------------------|------------------------------|-----------|
| 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 | 1960-62 | 1962-64 | Actual 1964-66 | 1966-68 | 1968-70 | Official Estimate 1970-72 | 1972-74 | Projections 1974-76 | 1976-78 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|---------------------------------|-----------------|------------------------|-----------------|
| FROM TAXATION | | | | | | | | | |
| TAXES | | | | | | | | | |
| Public Service Corporations | \$ 43,947,450 | \$ 48,848,650 | \$ 52,520,529 | \$ 59,076,713 | \$ 81,404,221 ^{a/} | \$ 72,300,000 | \$ 83,200,000 | \$ 93,500,000 | \$ 104,400,000 |
| Capital Not Otherwise Taxed | 27,878,681 ^{b/} | 18,326,988 ^{c/} | 16,004,448 ^{d/} | 8,634,789 ^{e/} | 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 ^{f/} | 306,577,074 | 415,019,382 ^{g/} | 556,198,913 ^{h/} | 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 ^{i/} | 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 ^{j/} | 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 ^{k/} | 10,605,015 | 13,172,768 | 13,299,969 | 16,968,748 ^{l/} | 19,500,000 | 20,600,000 | 22,400,000 | 24,300,000 |
| Beer and Beverage Excise | 20,790,158 ^{m/} | 22,391,415 ^{k/} | 26,875,576 ^{k/} | 24,407,505 ^{k/} | 29,034,826 | 29,800,000 | 36,600,000 | 41,800,000 | 47,400,000 |
| Alcoholic Beverages State Tax | 19,366,011 ^{n/} | 23,198,507 | 25,537,990 | 31,611,262 ^{m/} | 32,067,685 | 50,399,885 | 54,400,000 | 59,500,000 | 64,700,000 |
| Tobacco Products Tax | 28,899,547 ^{n/} | 30,216,553 | 31,732,865 | 26,429,238 ^{o/} | 27,246,657 | 28,400,000 | 28,600,000 | 29,400,000 | 30,100,000 |
| State Sales and Use Tax ^{p/} | ... | ... | ... | 189,999,992 ^{q/} | 395,308,346 | 495,000,000 | 547,600,000 | 644,900,000 | 751,000,000 |
| Miscellaneous Taxes and Penalties ^{r/} | 3,297,715 | 3,484,186 ^{s/} | 3,164,655 ^{t/} | 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 |
| RIGHTS AND PRIVILEGES | | | | | | | | | |
| Licenses and Permits | 27,562,072 | 30,293,916 | 33,913,738 | 9,407,447 ^{u/} | 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 |
| OTHER THAN TAXATION | | | | | | | | | |
| Institutional Revenues | 7,683,830 | 9,365,314 | 10,713,447 | 12,459,668 ^{v/} | 20,197,374 ^{v/} | 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 ^{w/} | 13,480,000 | 12,200,000 | 13,800,000 | 15,700,000 |
| Excess and Other Fees from Officers ^{x/} | 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 ^{y/} | 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 ^{z/} | 30,887,460 ^{aa/} | 31,270,697 ^{bb/} | 34,585,879 ^{bb/} | 35,189,593 ^{cc/} | 39,634,624 ^{ee/} | 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 |
| EXHIBIT | | | | | | | | | |
| Earmarked Revenues: | | | | | | | | | |
| Local Share of Wine and Spirits Tax ^{ff/} | \$ 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 ^{gg/} | ... | ... | ... | 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 ^{hh/} | 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 ^{a/} | 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 ^{b/} | \$ 3,877,622 | \$ 5,307,377 | \$ 6,238,826 | \$ 9,008,243 | \$ 11,660,323 |
| 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 ^{d/} |
| 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 ^{d/} |
| 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 ^{c/} | \$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 Suspense--Not Allocated | 8,647 | 7,805 | 9,131 | 7,456 | 9,710 |

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.

Sources: Report of Comptroller, Fiscal Year Ended June 30, 1961 through Fiscal Year Ended June 30, 1969, Schedule B-1; Statement No. 1, (Richmond: Department of Accounts); Report of Comptroller, Fiscal Year Ended June 30, 1970, Schedule B-1, Statement Nos. 1, 3 and 4.

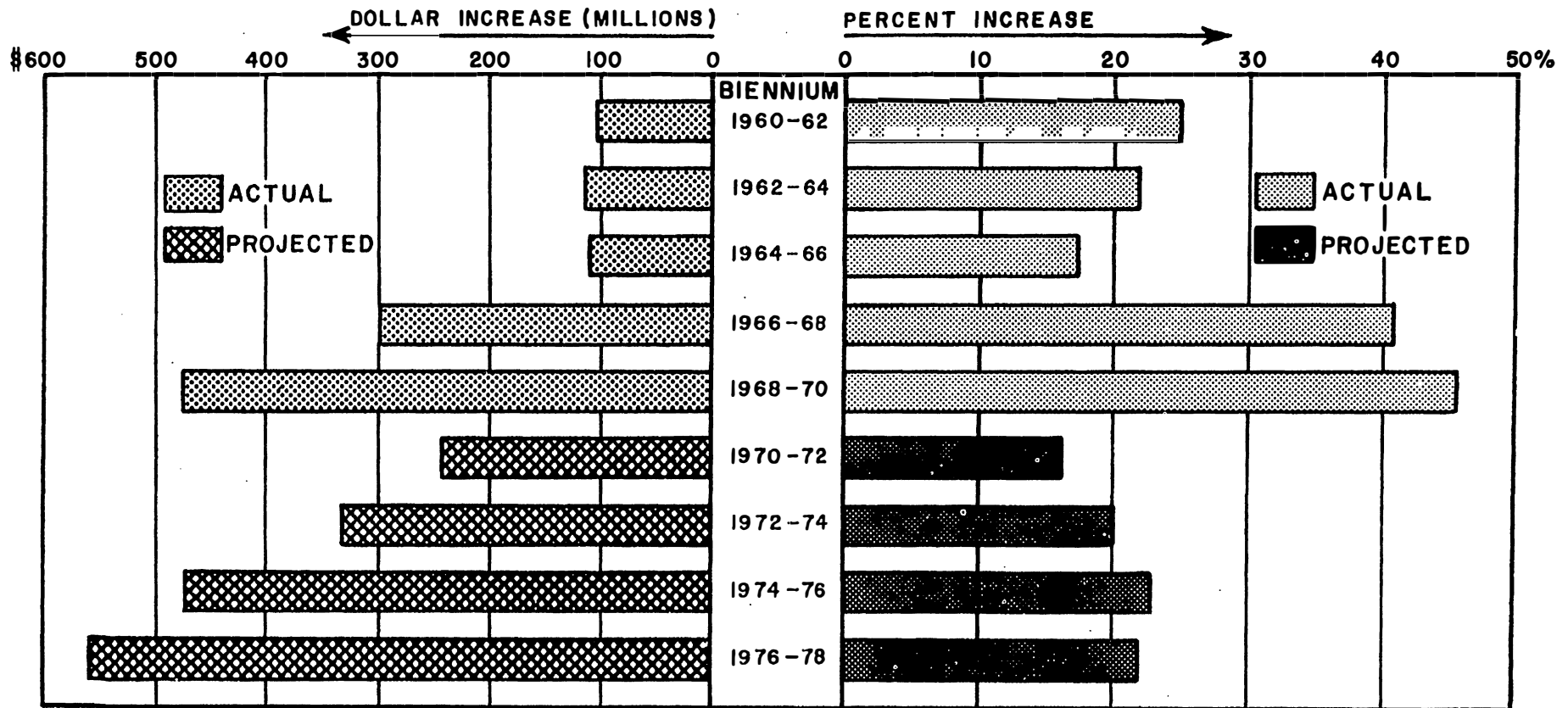
beginning of another in the last few months of the decade. Price inflation, which usually stimulates revenues, was quite moderate in the first half of the decade, but accelerated toward the end. The combined effect of these factors was a sharp jump in general fund revenues, particularly in the most recent 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

| Biennium | Amount (\$Mil.) | Change from Preceding Biennium | |
|------------------|-----------------------|-----------------------------------|---------|
| | | Amount (\$Mil.) | Percent |
| 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 ^{a/} | 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.

^{a/} 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 | <u>6.1</u> | <u>5.1</u> | <u>4.8</u> | <u>3.4</u> | <u>2.7</u> | <u>2.4</u> | <u>1.9</u> | <u>1.9</u> | <u>1.6</u> |
| Total General Fund Revenue | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

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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> |
|---|--|--|---------------------------------------|---|----------------|
| Revenue Sources | | | | | |
| 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 ^{a/} | 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 | 5.450 |
| 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 |
| Other Variables Projected | | | | | |
| GNP ^{b/} | 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 ^{c/} | 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 | | | |

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

^{b/} Factors for projecting GNP were derived from projected changes in the implicit price deflator and real growth.

^{c/} 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 ± 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> | Projected <u>Revenue</u> | <u>(\$Millions)</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 | General Fund Taxes | <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 |

(Table continued on next page.)

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

| <u>Revenue Classification Code Reference</u> | <u>General Fund Taxes</u> | <u>Administering Agencies</u> |
|--|---|--|
| 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.

| | Direct Costs | Net Revenue | <u>\$100</u> Cost of Net Revenue |
|---|-----------------|----------------|-------------------------------------|
| 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^{1/}, \$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

^{1/} 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 spirits sales 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 | ... ^{a/} |
| Tobacco products tax | 0.76 | ... ^{a/} |
| 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 | ... ^{a/} |
| Income of individuals and fiduciaries | 2.57 | 4.16 |
| Wills and administrations, suits, deeds and contracts admitted to record, deeds of conveyance | ... ^{b/} | ... ^{b/} |
| 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 |

^{a/} No estimate made.

^{b/} 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 intrastate 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 ^{a/} | Estimated Taxable Income ^{b/} | On Gross Receipts | Tax 1970 | | Hypothetical Corporate Income Tax Collections |
|---|------------------------------|--|----------------------------|---------------------------|--------------|---|
| | | | | Other | Total | |
| Railroad companies | \$ 305,138,312 | \$ 14,647,000 | \$ 4,577,075 ^{c/} | \$4,349,895 ^{d/} | \$ 8,926,970 | \$ 732,000 |
| Express companies | 7,335,861 | 352,000 | 157,721 ^{e/} | ... | 157,721 | 18,000 |
| Car line companies | n.a. | | ... | 118,210 ^{f/} | 118,210 | |
| Electric light and power corporations | 427,187,253 | 97,399,000 | 15,325,841 ^{g/} | ... | 15,325,841 | 4,870,000 |
| Telephone and telegraph companies | 254,495,255 ^{h/} | 52,426,000 | 7,870,764 ^{i/} | 166,347 ^{j/} | 8,037,111 | 2,621,000 |
| Gas and pipe line transmission corporations | 74,658,581 | 7,018,000 | 2,650,832 ^{g/} | ... | 2,650,832 | 351,000 |
| Water corporations | 4,677,701 | 505,000 | 131,509 ^{g/} | ... | 131,509 | 25,000 |
| Motor vehicle carriers | 29,576,800 ^{k/} | 1,183,000 | 616,020 ^{k/} | 309,599 ^{l/} | 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 $\frac{3}{20}$ 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.^{1/}

^{1/} 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. 1/
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

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

million^{1/} 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.^{2/} Twenty-five states conformed their tax to some degree to the federal provisions.^{3/} 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

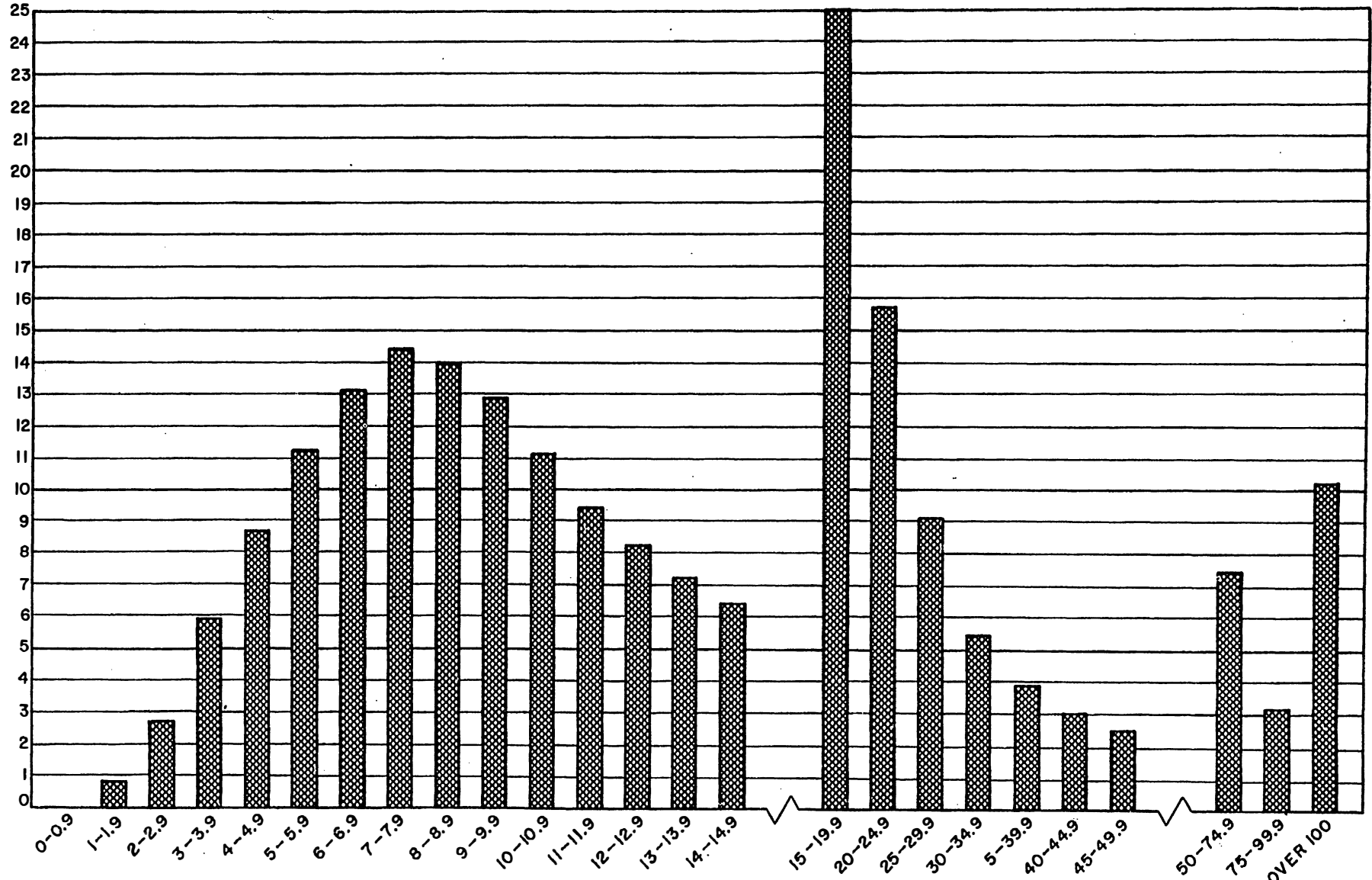
^{1/} Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1968," Special Computer Printout (Richmond: September, 1970).

^{2/} 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.

^{3/} 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

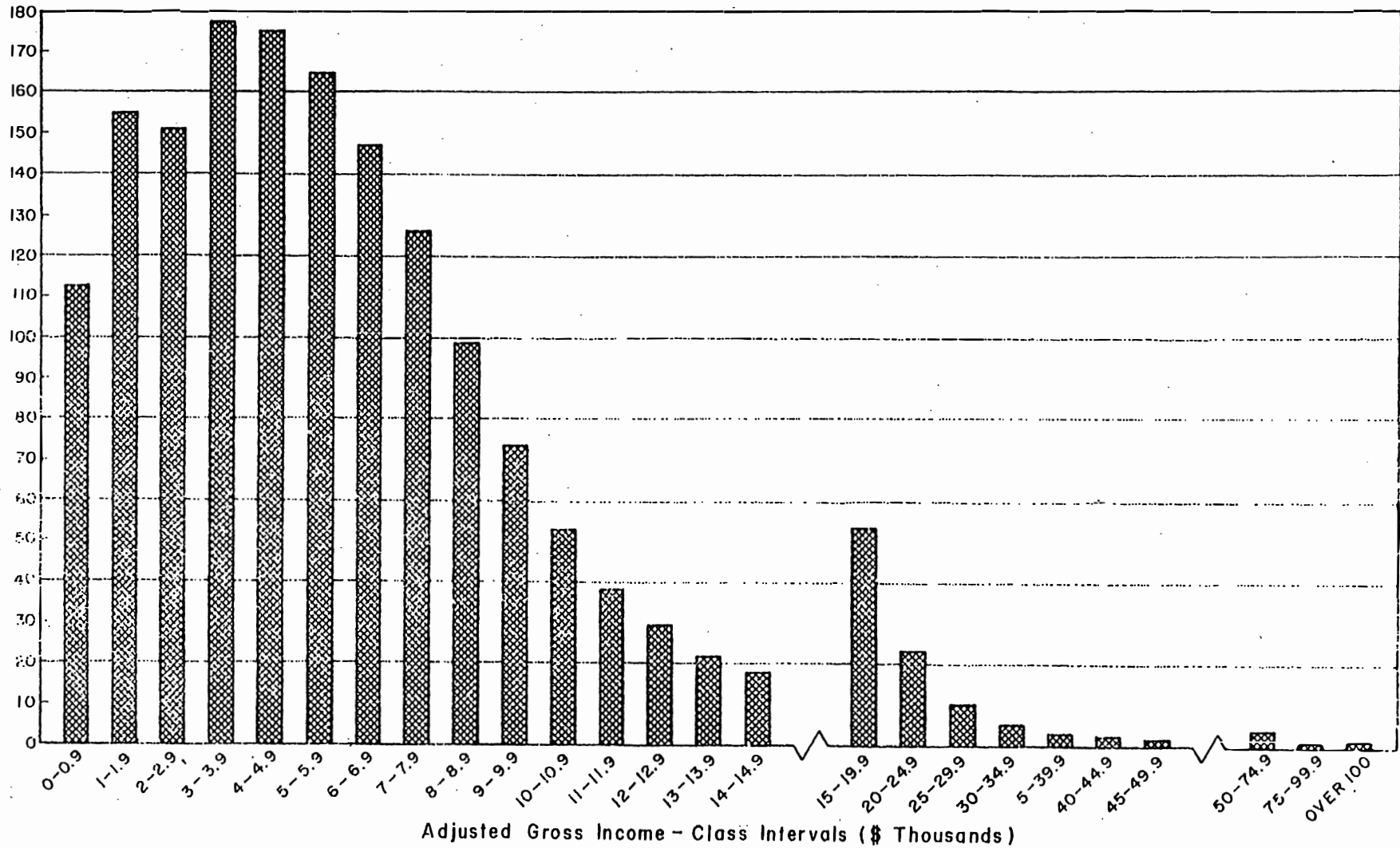


Adjusted Gross Income - Class Intervals (\$ Thousands)

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

Number of
 Returns
 Thousands



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 ¹ | Blindness ¹ |
| Alabama | \$1,500 | \$3,000 | \$300 | | |
| Alaska | ² | ² | ² | ² | ² |
| Arizona | 1,000 | 2,000 | 600 | \$1,000 | \$500 |
| Arkansas ³ | 17.50(1,750) | 35(3,250) | 6(333) | | 17.50 ⁴ |
| California ³ | 25(2,250) | 50(4,500) | 8(400) | | 8(400) |
| Colorado ⁵ | 750 | 1,500 | 750 | 750 | 750 |
| Delaware | 600 ⁶ | 1,200 | 600 | 600 | 600 |
| Georgia | 1,500 | 3,000 | 600 ⁷ | 600 | 600 |
| Hawaii ⁵ | 625 | 1,250 | 625 | 625 ⁸ | 5,000 |
| Idaho ^{5,9} | ² | ² | ² | ² | ² |
| Illinois | 1,000 | 2,000 | 1,000 | 1,000 | 1,000 |
| Indiana ⁵ | 1,000 | 2,000 ¹⁰ | 500 | 500 | 500 |
| Iowa ³ | 15(1,500) | 30(2,333) | 10(467) | 15 ¹¹ | 15 ¹¹ |
| Kansas ⁵ | 600 | 1,200 | 600 | 600 | 600 |
| Kentucky ³ | 20(1,000) | 40(2,000) | 20(1,111) | 20(1,000) | 20(1,000) |
| Louisiana ¹² | 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 ¹³ | 800 ¹³ | 800 |
| Massachusetts ^{5,14} | 2,000 | 2,600-4,000 | 600 | 600 | 2,000 |
| Michigan | 1,200 | 2,400 | 1,200 | 1,200 | 1,200 |
| Minnesota ^{3,5} | 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 ⁵ | ² | ² | ² | ² | ² |
| New Hampshire ¹⁶ | 600 | 600 ¹⁷ | | | |
| New Jersey ¹⁸ | 600 | 1,200 | 600 | 600 | 600 |
| New Mexico | ² | ² | ² | ² | ² |
| New York ¹⁹ | 625 | 1,250 | 625 | 625 | 625 |
| North Carolina | 1,000 | 2,000 ²⁰ | 600 ²¹ | 1,000 | 1,000 |
| North Dakota | ² | | | | ² |
| Oklahoma | 1,000 | 2,000 | 500 | | ... ² |
| Oregon | | ² | ² | | |
| Rhode Island ²² | 2,000 | 2,000 | | 2,000 | 2,000 |
| South Carolina | 800 | 1,600 | 800 ²³ | 800 | 800 |
| Tennessee ¹⁶ | | | | | |
| Utah | 600 | 1,200 | 600 | 600 | 600 |
| Vermont ⁵ | ² | ² | ² | | ² |
| Virginia | 1,000 | 2,000 | 300 ²⁴ | 600 | 600 |
| West Virginia | 600 | 1,200 | 600 | 600 | 600 |
| Wisconsin ^{3,5} | 10(370) | 20(740) | 10(361) | 5 ²⁵ | |
| 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)

- ¹ 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.
- ² Since the State tax is based on either federal taxable income or federal tax liability, in effect, federal personal exemptions are adopted.
- ³ 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.
- ⁴ Single persons \$1,000; married couple, \$1,125.
- ⁵ 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.
- ⁶ An additional \$300 exemption is allowed if the taxpayer is the head of a household.
- ⁷ The exemption is allowed for students regardless of age or income. For students beyond the high school level, \$1,200 per dependent and \$800 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.
- ⁸ 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).
- ⁹ In addition to the personal exemption deductions, a \$10 tax credit is allowed for each personal exemption.
- ¹⁰ Each spouse is entitled to the lesser of \$1,000 or adjusted gross income (minimum of \$500 each).
- ¹¹ Single person, \$833; married couple, \$1,167.
- ¹² The exemptions and credits for dependents are deductible from the lowest income bracket and equivalent to the tax credits shown in parentheses.
- ¹³ An additional exemption of \$800 is allowed for each dependent 65 years of age or over.
- ¹⁴ 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.
- ¹⁵ 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.
- ¹⁶ The tax applies only to interest and dividends. New Hampshire also imposes a 4% commuter's income tax.
- ¹⁷ An additional exemption of \$600 is allowed a married woman with separate income; joint returns are not permitted.
- ¹⁸ In addition to the personal exemptions, the following tax credits are granted: Single persons, \$10; married taxpayers and heads of households, \$25.
- ¹⁹ In addition to the personal exemptions, the following tax credits are granted: Single persons, \$12.50; married taxpayers and heads of households, \$25.
- ²⁰ An additional exemption of \$1,000 is allowed a married woman with separate income; joint returns are not permitted.
- ²¹ Plus an additional \$600 for each dependent who is a full-time student at an accredited university or college.
- ²² 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.
- ²³ The exemption is extended to dependents over the age of 21 if they are students in an accredited school or college.
- ²⁴ Exemption for one dependent of unmarried person is \$1,000, if dependent is father, mother, son, daughter, sister or brother.
- ²⁵ 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 | Percent ¹ | Size of standard deduction | | | Optional tax table |
|---------------------------|----------------------|----------------------------|------------------|----------------------|--------------------|
| | | Single | Maximum | | |
| | | | Separate return | Married Joint return | |
| Alabama | *10 | \$1,000 | \$1,000 | \$1,000 | x |
| Alaska ² | 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 ² | *10 | 1,000 | 500 | 1,000 | x |
| Delaware ³ | *10 | 500 | 500 | 1,000 | |
| Georgia | 10 | 1,000 | 500 | 1,000 | |
| Hawaii | 10 | 1,000 | 500 | 1,000 | x |
| Idaho ² | *10 | 1,000 | 500 | 1,000 | x |
| Illinois | | | | | |
| Indiana | | | | | |
| Iowa | *5 | 250 | 250 | 250 | x |
| Kansas ² | *10 | 1,000 | 500 | 1,000 | x |
| Kentucky ⁴ | * | 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 ² | 10 | 1,000 | 500 | 1,000 | x |
| New Jersey | 10 | 1,000 | 1,000 | 1,000 | |
| New Mexico ² | 10 | 1,000 | 500 | 1,000 | |
| New York | 10 | 1,000 | 500 ⁵ | 1,000 ⁶ | x |
| North Carolina | 10 | 500 | 500 | 1,000 | |
| North Dakota ² | *10 | 1,000 | 500 | 1,000 | |
| Oklahoma | *10 | 1,000 | 500 | 1,000 | x |
| Oregon ² | *5 | 250 | 250 | 500 | x |
| South Carolina | *10 | 500 | 500 | 1,000 | x |
| Utah | *10 | 1,000 | 500 | 1,000 | |
| Vermont ² | 10 | 1,000 | 500 | 1,000 | x |
| Virginia | 5 | 500 | 250 | 500 | |
| West Virginia | 10 | 1,000 | 500 ⁵ | 1,000 | x |
| Wisconsin | 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.

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

² Standard minimum deduction of \$300.

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

⁴ 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.

⁵ 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.

⁶ 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:

| | State and Local Individual Income Tax Receipts in Fiscal Year 1968-69 | | |
|---|--|--|--|
| | Per Capita in 1969 | Per \$1,000 of Personal Income in 1969 | Per \$1,000 of Federal AGI in 1968 |
| 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.^{1/}

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

^{1/} 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

PRESENT SCHEDULE

| Taxable Income | Rate |
|------------------|------|
| First \$3,000 | 2% |
| \$3,001-\$5,000 | 3% |
| \$5,001 and over | 5% |

PROPOSED RATE SCHEDULES

Maintain Present Brackets But Change Rates

| Schedule 1 | | Schedule 2 | |
|------------------|------|------------------|------|
| Taxable Income | Rate | Taxable Income | Rate |
| 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

| Schedule 3 | | Schedule 4 | |
|-------------------|------|-------------------|------|
| Taxable Income | Rate | Taxable Income | Rate |
| 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

| Schedule 5 | | Schedule 6 | |
|-------------------|------|-------------------|------|
| Taxable Income | Rate | Taxable Income | Rate |
| 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%

| Schedule 7 | |
|-------------------|------|
| Taxable Income | Rate |
| 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%

| Schedule 8 | | Schedule 9 | |
|-------------------|------|-------------------|------|
| Taxable Income | Rate | Taxable Income | Rate |
| First \$5,000 | 3% | First \$5,000 | 3% |
| \$5,001-\$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^{a/} WITH PRESENT AND PROPOSED RA SCHEDULES

| Adjusted Gross Income ^{b/} | Present Rate Schedule | Tax Liability | | | | | | | | |
|-------------------------------------|-----------------------|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | Alternative Rate Schedules | | | | | | | | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Individual Under 65 | | | | | | | | | | |
| \$ 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 | 265.00 | 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 | 490.00 | 564.00 | 548.00 | 418.00 | 543.00 | 568.00 | 568.00 |
| 20,000 | 705.00 | 822.00 | 872.00 | 705.00 | 822.00 | 849.00 | 719.00 | 844.00 | 869.00 | 869.00 |
| Couple Under 65^{c/} | | | | | | | | | | |
| \$ 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 | 460.00 | 528.00 | 506.00 | 380.00 | 503.00 | 526.00 | 528.00 |
| 20,000 | 675.00 | 786.00 | 836.00 | 675.00 | 786.00 | 807.00 | 677.00 | 802.00 | 827.00 | 827.00 |
| Family of Three^{c/} | | | | | | | | | | |
| \$ 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 | 46.00 | 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 | 430.00 | 492.00 | 464.00 | 350.00 | 467.00 | 484.00 | 467.00 |
| 20,000 | 645.00 | 750.00 | 800.00 | 645.00 | 750.00 | 765.00 | 635.00 | 760.00 | 785.00 | 785.00 |
| Family of Four^{c/} | | | | | | | | | | |
| \$ 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 |
| Family of Five^{c/} | | | | | | | | | | |
| \$ 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 |
| Family of Six^{c/} | | | | | | | | | | |
| \$ 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 |
| Individual Over 65 | | | | | | | | | | |
| \$ 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 | 460.00 | 528.00 | 506.00 | 380.00 | 503.00 | 526.00 | 528.00 |
| 20,000 | 675.00 | 786.00 | 836.00 | 675.00 | 786.00 | 807.00 | 677.00 | 802.00 | 827.00 | 827.00 |
| Couple Over 65^{c/} | | | | | | | | | | |
| \$ 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

| Rate Schedule | Revenues (Millions) | Change from Present Rate Schedule | |
|---------------|------------------------|--------------------------------------|---------|
| | | Amount (Millions) | Percent |
| 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.^{1/} 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

^{1/} 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.^{1/} 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.^{2/} 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

^{1/} 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.

^{2/} 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^{1/}

| 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 ² | 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. 235-66 | |
| | 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 ⁴ | 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^{1/} (Continued)

| State | Type of credit | Year adopted | Amount of credit | Law | Administrative Procedure |
|---------------------|--|--------------|---|---|---|
| Minnesota | For senior citizen homestead relief ⁵ | 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 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 ⁶ | 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) ⁷ | 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 ⁸ | 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 TAXES¹ (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. 8/10/64. 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 ⁹ (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).

- ¹ 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).
- ² 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.
- ³ Ranges from \$12 per qualified exemption for taxpayers having taxable income under \$1,000 to \$0 where such income is over \$7,000.
- ⁴ Credits are only allowed if total taxable income of taxpayer and spouse, if any, does not exceed \$5,000 for the taxable year.
- ⁵ 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.
- ⁶ Elderly may choose this relief or senior citizen relief but not both.
- ⁷ Ranges from \$12 to \$81 for taxpayers having less than \$1,000 total household income to \$0 to \$36 for those having between \$8,000 and \$9,999 income, based on number of personal exemptions.
- ⁸ 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.
- ⁹ Low income taxpayers (AGI not over \$8,000) 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^{1/} 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.^{2/}

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.^{3/} 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

^{1/} 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.

^{2/} 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.

^{3/} The credit is tied to income in Hawaii, Kansas, Minnesota, Vermont, and Wisconsin, and Washington, D. C.

\$14.5 million^{1/} --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.^{2/} 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.

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

| <u>Adjusted Gross Income</u> | <u>Number of Exemptions^{a/}</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> |

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.

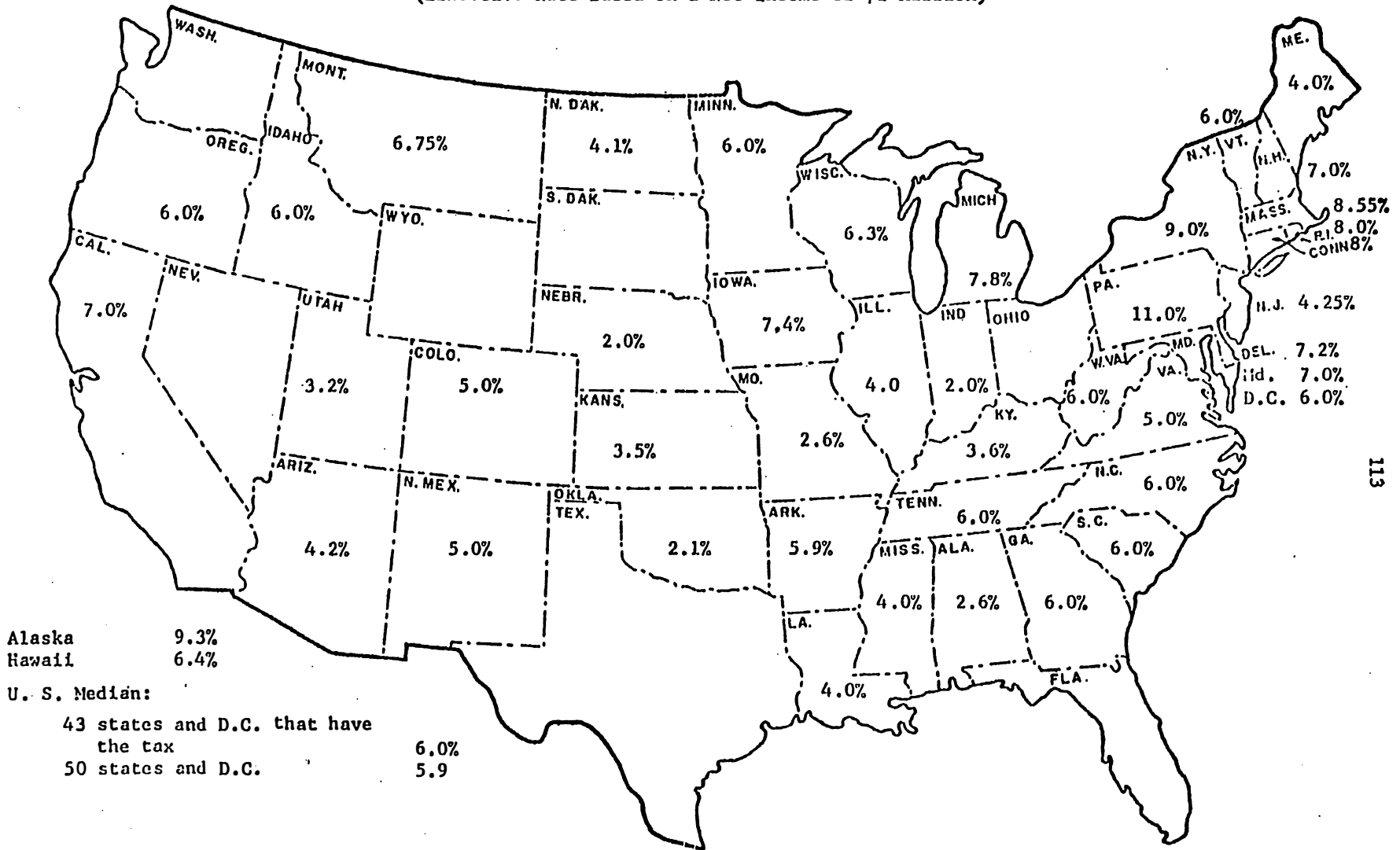
Table 3.17 shows the corporate income tax rates for all states having a corporate tax in early 1971. It also shows each state allowing the federal corporate income tax to be deducted from the tax base and provides effective tax rates. Effective tax rates standardize the actual rates to take account of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

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 |

^{1/} Those states which 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, AS OF SEPTEMBER 14, 1971
 (Effective Rate Based on a Net Income of \$1 Million)



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

Source: Originally computed by the Division of Industrial Development and updating from Prentice-Hall, Inc. State and Local Taxes: All States' Tax Guide, 1971; State Tax Review, selected editions, (Commerce Clearing House, Inc: 1971).

TABLE 2.17.—SINGLE CORPORATE INCOME TAX RATES 1971

| State | Tax Rate | Allow Deduction For Federal Income Taxes | Effective Rate ^{1/} | State | Tax Rate | Allow Deduction For Federal Income Taxes | Effective Rate ^{1/} |
|----------------------|---|--|------------------------------|----------------------------|---|--|------------------------------|
| Alabama | 5% | Yes | 2.6% | Massachusetts | 8.55% | No | 8.55% |
| Alaska | 18% of federal tax ^{2/} | No | 9.3% | Michigan | 7.8% | No | 7.8% |
| 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 ^{3/} | 4.2% | Minnesota | 11.33% | Yes ^{2/} | 6.0% |
| Arkansas | 1% on first \$1,000 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 ^{3/} | 2.6% |
| Colorado | 5% | No | 5.0% | Montana | 6.75% | No | 6.75% |
| Connecticut | 8% | No | 8.0% | Nebraska | 2% | No | 2.0% |
| Delaware | 6% ^{4/} | No | 7.2% | New Hampshire | 7% | No | 7.0% |
| 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 | 9% ^{6/} | No | 9.0% |
| Idaho | 6% plus \$10 excise tax | No | 6.0% | North Carolina | 6% | No | 6.0% |
| Illinois | 4% | No | 4.0% | North Dakota ^{2/} | 3% on first \$3,000 4% on next \$5,000 5% on next \$7,000 6% on balance | Yes ^{3/} | 4.1% |
| Indiana | 2% | No | 2.0% | Oklahoma | 4% | Yes ^{3/} | 2.1% |
| Iowa | 6% on first \$25,000 8% on next \$75,000 10% on balance | Yes ^{5/} | 7.4% | Oregon | 6% | No | 6.0% |
| Kansas | 4.5% on first \$25,000 6.75% on balance | Yes ^{3/} | 3.5% | Pennsylvania | 11% | No | 11.0% |
| Kentucky | 5% on first \$25,000 7% on balance | Yes | 3.6% | Rhode Island | 8% ^{8/} | No | 8.0% |
| Louisiana | 4% | No | 4.0% | South Carolina | 6% | No | 6.0% |
| Maine | 4% | No | 4.0% | Tennessee | 6% | No | 6.0% |
| 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 ^{9/} | 6.3% |

1/ Effective rate based on a net income of \$1 million and allowance for deduction of federal income taxes where applicable.
 2/ 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.
 3/ Limited to federal tax on income taxed by the state.
 4/ Plus a 20 percent surtax on the corporate income tax beginning August 1, 1971 through June 30, 1971.
 5/ Deductible up to 50 percent.
 6/ Or 1.6 mills on value of business and investment capital allocable to New York.
 7/ 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 instate salaries and wages paid, 1/2 percent for fourth and fifth years.
 8/ Alternate tax of 40c per \$100 of corporate excess, whichever is larger.
 9/ Only federal income tax paid on income taxable in Wisconsin; limited to 10 percent of net income before deductions for contributions and federal taxes.
 Sources: Prentice-Hall, Inc., State and Local Taxes: All States Tax Guide, 1971; State Tax Review, selected editions, (Commerce Clearing House, Inc: 1971).

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, the same as Tennessee's, but lower than the effective rates in the District of Columbia, Georgia, Maryland, North Carolina, South Carolina, 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.^{1/} 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

^{1/} 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.

| Item | Assumed Values for Taxable Items | Type of Tax | Tax Rate | Assessment Ratio | Annual Tax | Percent of Total Bill |
|--|----------------------------------|-------------------------|---|---|-----------------|-----------------------|
| Real estate | \$ 1,267,053 | Real property (L) | \$3.13 per \$100 ^{a/} | 35.1 of fair market value ^{a/} | \$13,920 | 15.8 |
| Machinery and tools: original cost | 3,561,179 | Personal property (L) | \$4.00 per \$100 ^{b/} | 10% of original cost ^{b/} | 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 ^{c/} | | ... | ... |
| Electricity: | | | | | | |
| Plant | 73,530 | None | No tax | | ... | ... |
| Office | 24,510 | None | No tax | | ... | ... |
| Fuels: | | | | | | |
| Plant | 84,476 | None | No tax ^{c/} | | ... | ... |
| Office | 28,159 | Sales and use (L),(S) | 4% | | 1,126 | 1.3 |
| 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.^{1/} 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

| State | Per Capita Revenues | Relative to Virginia (Virginia = 100) |
|----------------|---------------------|--|
| 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.

^{1/} 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, ¹ S. Carolina, ¹ Vermont ¹ . |
| Inheritance tax only (2) | South Dakota, West Virginia. |
| Inheritance tax and "pickup" tax (32) | California, ¹ Colorado, ¹ Connecticut, Delaware, District of Columbia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, ¹ Maine, Maryland, Massachusetts, Michigan, Minnesota, ¹ Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, North Carolina, ¹ Pennsylvania, Tennessee, ¹ Texas, Virginia, ¹ Washington, ¹ Wisconsin, ¹ Wyoming. |
| Estate tax and inheritance tax (1) | Oregon. ¹ |
| Inheritance, estate and "pickup" taxes (1) | Rhode Island. ¹ |
| No tax (1) | Nevada. |

¹Also 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^{1/}

| 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 ² | 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 ² | 2-21 percent | 10,100,000 | ³ |
| North Dakota | 2-23 percent | 1,500,000 | ⁴ |
| Ohio ⁵ | 2-7 percent | 500,000 | 5,000 ⁶ |
| Oklahoma ² | 1-10 percent | 10,000,000 | 15,000 |
| Oregon | 1-10 percent | 500,000 | 15,000 |
| Rhode Island ² | 1 percent | ⁷ | 10,000 |
| South Carolina | 4-6 percent | 100,000 | 60,000 |
| Utah | 3-10 percent | 125,000 | 10,000 ⁶ |
| Vermont ² | The tax rate is 30% of the federal estate tax liability due to Vermont gross estate. | | |

¹Excludes 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.

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

³\$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.

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

⁵Replaced inheritance tax, effective July 1, 1968.

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

⁷Entire estate above exemption.

⁸Transfers, 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 ¹ | 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 ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Alaska ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Arizona ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Arkansas ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| California ^{3,4} | \$ 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 ⁵ | 2-8 | 2-8 | 3-10 | 10-19 | 50,000 | 500,000 |
| Connecticut ^{3,6,7} | 50,000 | 10,000 ⁸ | 10,000 ⁸ | 3,000 | 500 | 3-8 ⁹ | 2-8 | 4-10 | 8-14 | 150,000 | 1,000,000 |
| Delaware ³ | 20,000 | 3,000 | 3,000 | 1,000 | None | 1-4 | 1-4 | 2-5 | 5-8 | 30,000 | 200,000 |
| District of Col. ³ | 5,000 | 5,000 | 5,000 | 2,000 | 1,000 | 1-5 | 1-5 | 3-10 | 5-15 | 50,000 | 1,000,000 |
| Florida ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Georgia ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Hawaii | 20,000 | 5,000 | 5,000 | 500 | 500 | 2-6 ⁹ | 1.5-7.5 | 3.5-9 | 3.5-9 | 15,000 | 250,000 |
| Idaho ⁴ | 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 ¹⁰ | 2-14 | 2-14 | 10-30 | 20,000 | 500,000 |
| Indiana ³ | 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 ¹¹ | None ¹¹ | 1-8 | 1-8 | 5-10 | 10-15 | 5,000 | 150,000 |
| Kansas | 75,000 | 15,000 | 15,000 | 5,000 | 200 ⁵ | 0.5-2.5 ⁹ | 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 ^{3,4} | 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 ⁵ | 150 | 150 | 150 | 150 | 150 | 1 | 1 | 7½ | 7½ | ¹² | ¹² |
| Massachusetts ^{5,13} | 30,000 ¹⁴ | 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 ^{3,15} | 30,000 ¹⁶ | 5,000 | 5,000 | 5,000 | None | 2-8 | 2-8 | 2-8 | 10-15 | 50,000 | 750,000 |
| Minnesota ^{3,17} | 30,000 | 15,000 | 6,000 | 1,500 | 500 | 1.5-10 | 2-10 | 6-25 | 8-30 | 25,000 | 1,000,000 |
| Mississippi ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Missouri | 20,000 ¹⁸ | 5,000 ¹⁹ | 5,000 ¹⁹ | 500 | 100 ⁵ | 1-6 | 1-6 | 3-18 | 5-30 | 20,000 | 400,000 |
| Montana ³ | 20,000 | 5,000 | 2,000 | 500 | None | 2-8 | 2-8 | 4-16 | 8-32 | 25,000 | 100,000 |
| Nebraska ³ | 10,000 | 10,000 | 10,000 | 10,000 | 500 | 1 | 1 | 1 | 6-18 | ¹² | ¹² |
| Nevada | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ | ²⁰ |
| New Hampshire | ²⁰ | ²⁰ | ²⁰ | None | None | ²⁰ | ²⁰ | 15 | 15 | ²⁰ | ²⁰ |
| New Jersey | 5,000 | 5,000 | 5,000 | 500 ⁵ | 500 ⁵ | 1-16 | 1-16 | 11-16 | 15-16 | 10,000 ¹² | 3,200,000 ¹² |
| New Mexico ⁴ | 10,000 ²¹ | 10,000 ²¹ | 10,000 ²¹ | 10,000 ²¹ | 500 ⁵ | 1 | 1 | 5 | 5 | ¹² | ¹² |
| New York ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| North Carolina ^{2,2} | 10,000 | 5,000 | 2,000 | None | None | 1-12 | 1-12 | 4-16 | 8-17 | 10,000 | 3,000,000 |
| North Dakota ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Ohio ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Oklahoma ² | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |

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 ¹ | 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 ^{2,3,24*} | None | None | None | \$1,000 | \$ 500 | 1 - 10 | 1 - 10 | 1 - 15 | 1 - 20 | \$10,000 ¹² | \$ 500,000 ¹² |
| Pennsylvania | \$ 1,000 | None ^{2,5} | None ^{2,5} | None | None | 6 | 6 | 15 | 15 | | |
| Rhode Island ^{3,23} | 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 ² | | | | | | | | | | | |
| South Dakota ^{3*} | 15,000 | 10,000 | 10,000 | 500 | 100 | 1½ - 4 | 1½ - 4 | 4 - 12 | 6 - 20 | 15,000 | 100,000 |
| Tennessee ³ | 10,000 ^{2,6} | 10,000 ^{2,6} | 10,000 ^{2,6} | 1,000 ^{2,6} | 1,000 ^{2,6} | 1.4 - 9.5 | 1.4 - 9.5 | 6.5 - 20 | 6.5 - 20 | 25,000 | 500,000 |
| Texas ^{3,4} | 25,000 | 25,000 | 25,000 | 10,000 | 500 | 1 - 6 | 1 - 6 | 3 - 10 | 5 - 20 | 50,000 | 1,000,000 |
| Utah ¹ | | | | | | | | | | | |
| Virginia ³ | 5,000 | 5,000 | 5,000 | 2,000 | 1,000 | 1 - 5 | 1 - 5 | 2 - 10 | 5 - 15 | 50,000 | 1,000,000 |
| Washington ^{3,4} | 5,000 ^{2,7} | 5,000 ^{2,7} | 5,000 ^{2,7} | 1,000 ⁶ | None | 1 - 10 | 1 - 10 | 3 - 20 | 10 - 25 | 25,000 | 500,000 |
| West Virginia ^{3*} | 15,000 | 5,000 | 5,000 | None | None | 3 - 13 | 3 - 13 | 4 - 18 | 10 - 30 | 50,000 | 1,000,000 |
| Wisconsin ^{3,18} | 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 | | |

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

² Imposes only estate tax. See table 3.20.

³ Exemptions are deductible from the first bracket.

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

⁵ 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.

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

⁷ An additional 30 percent surtax is imposed.

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

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

¹⁰ 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.

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

¹² Entire share (in excess of allowable exemption).

¹³ 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.

¹⁴ 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.

¹⁵ 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

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

¹⁷ 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.

¹⁸ 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.

¹⁹ Or the value of the homestead allowance, whichever is greater.

²⁰ No tax imposed.

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

²² 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.

²³ Imposes also an estate tax. See table 3.20.

²⁴ 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 exempted from the additional tax.

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

²⁶ 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.

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

²⁸ 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.^{1/} 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.^{2/}

Receipts

The Bureau of the Census has compiled data on death and gift taxes of state governments.^{3/} Since death taxes account for the majority of such

^{1/} 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.

^{2/} 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.

^{3/} 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 ^{a/} | 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 |

a/ 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> | Death and Gift Tax Receipts in Fiscal Year 1968-69 | |
|------------------|---|---|
| | <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.^{1/} 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.

^{1/} 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

Class A Beneficiaries

| Number of Beneficiaries Taxable at <u>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 |
| | 11,775 | \$265,485,977 | \$4,146,733 |

Class B Beneficiaries

| Number of Beneficiaries Taxable at <u>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 |
| | 4,149 | \$ 50,163,178 | \$1,759,769 |

Class C Beneficiaries

| Number of Beneficiaries Taxable at <u>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 |
| | 2,638 | \$ 21,368,576 | \$1,254,431 |
| Total, all classes | <u>18,562</u> | \$337,017,731 | \$7,160,933 |

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.^{1/}

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^{2/}, and it would be necessary to file and process many nontaxable returns in order to clear estates.

^{1/} Table 3.23 illustrates the fact that for large inheritances, the "pick-up" becomes effective.

^{2/} 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 | ... | <u>3</u> | <u>22,472,726</u> | <u>2,233,697</u> |
| 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.^{1/} 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.^{2/} The sample indicated that the provisions in Table 3.27 would result in a \$1.2 million or

^{1/} These computations are based solely on Table 3.25.

^{2/} 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, σ 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.^{1/} 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.

^{1/} 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.^{1/} 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.^{2/}

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.^{3/}

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.

^{1/} See the Code of Virginia, Section 4-15.3.

^{2/} Ibid., Section 4-40.

^{3/} 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,^{1/} 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-a-vis the District, and the more the price difference is widened the more people would travel to Washington to buy liquor.

^{1/} 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,^{1/} 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.

^{1/} 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.^{1/} 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.^{2/} 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

^{1/} Tobacco Tax Council, Inc., The Tax Burden on Tobacco, Vol. 5, (Richmond, 1970), p. 68.

^{2/} Information in a memo by the Tobacco Tax Council, Inc. to Virginia Municipal Tax and Finance Officers in Places Impoing Local Cigarette Taxes, March, 1971.

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

| | Projected Revenue (\$Mil.) | Change from Present Tax Amount (\$Mil.) | Percent |
|--------------------------|----------------------------------|---|---------|
| Present 2½ cent tax | \$14.3 | \$ | |
| 5 cent tax with: | | | |
| no change in sales | 28.6 | +14.3 | +101 |
| 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

| State | Cents | State | Cents |
|---------------|-------|----------------|-------|
| 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.^{1/} 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,^{2/} 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

^{1/} 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.

^{2/} 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 Exem t | Income Tax Credit | State | State Rate | Local Rate Max. | Food Exem t | 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.^{1/} 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:^{2/}

| State | <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

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

^{2/} 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.^{1/}

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,

^{1/} 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.^{1/}

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.^{2/}

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

^{1/} John F. Due, State Sales Tax Administration, (Chicago: Public Administration Service, 1963), pp. 188-91.

^{2/} 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

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

| 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 3.3]--EXAMINATION OF POSSIBLE TAXABLE SERVICES AND RELATED ISSUES (Continued)

| Possible Taxable Service | Is the Service Subject to Other Gross Receipts Taxes? | Ease of Administration | Taxpayer Equity | Potential Net Revenue Impact |
|---|--|---|--|---|
| <p>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.</p> | <p>Many professionals are subject to local license taxes on gross receipts.</p> | <p>This tax may be difficult to collect from so many independent practitioners.</p> | <p>There are questions about taxing health and legal services. Who pays the tax bill on court assigned legal services?</p> | <p>Very good.</p> |
| <p>Public Utilities - electric power; gas; water; telephone and telegraph.</p> | <p>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.</p> | <p>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.</p> | <p>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.</p> | <p>Very good if all present taxes are maintained.</p> |
| <p>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.</p> | <p>Frequently subject to local license taxes.</p> | <p>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.</p> | <p>Satisfactory.</p> | <p>Very good.</p> |
| <p>Intrastate Transportation Services - buses; taxis; trucks; trains; airplanes.</p> | <p>Many are taxed by the state on gross receipts.</p> | <p>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.</p> | <p>Penalizes nonvertically integrated firms and individuals not using private transportation. Discourages public transportation which many areas have found desirable enough to subsidize.</p> | <p>Very good.</p> |
| <p>Miscellaneous - boarding of animals; grooming of animals; stud fees; engraving, photography, and retouching; printing and binding; refuse services; parking lots, storage warehouses and lockers.</p> | <p>These may be subject to license taxes in many localities.</p> | <p>Most of these are fairly easy to define and to administer.</p> | <p>Satisfactory.</p> | <p>Low for any one of these categories.</p> |

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+).^{1/} 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.

^{1/} 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 Amount | Change from Present | Tax Receipts with 4% Rate Amount | Change from Present |
|---|--------------------------------|-------------------------------------|------------------------|-------------------------------------|------------------------|
| Present sales and use tax ^{a/} | \$6,879,000,000 | \$206,400,000 | \$ | \$275,200,000 | \$+68,800,000 |
| Present base ^{b/} with food exemptions | 5,237,000,000 | 157,100,000 | -49,300,000 | 209,500,000 | +3,100,000 |
| Present base with food and nonprescription drug exemptions ^{c/} | 5,120,000,000 | 153,600,000 | -52,800,000 | 204,800,000 | -1,600,000 |
| Present base plus coverage of selected services ^{d/} | 7,560,000,000 | 226,800,000 | +20,400,000 | 302,400,000 | +96,000,000 |
| Present base plus coverage of selected services less exemptions for food and nonprescription drugs | 5,801,000,000 | 174,000,000 | -32,400,000 | 232,000,000 | +25,600,000 |

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^{a/} 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.

^{b/} 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.

^{c/} 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.

^{d/} 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 2.71--ESTIMATED INCREASE IN SALES TAX BASE FROM TAXING SELECTED SERVICES, FISCAL YEAR 1969-70

| | 1967 Sales (Census) | 1970 Sales ^{a/} | Amount Currently Nontaxable Which Would Become Taxable Ratio to Total Sales | |
|--|------------------------|--------------------------|--|---------------|
| Beauty & Barber Shops SIC 723 & 724 | \$ 65,015,000 | \$ 86,340,000 | .964 ^{b/} | \$ 83,232,000 |
| Auto Parking SIC 752 | 3,362,000 | 11,439,000 | | 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 ^{b/} | 63,685,000 |
| Motion Pictures SIC 78 | 22,914,000 | 99,298,000 | | 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 ^{b/} | 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 ^{b/} | 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 ^{b/} | 57,747,000 |
| Department Stores ^{c/} SIC 531 | 668,161,000 | 887,318,000 | .500 | 44,366,000 |
| Automotive Dealers ^{c/} SIC 55 ex 554 | 1,174,569,000 | 1,559,828,000 | .700 | 109,188,000 |
| Gasoline Service Stations ^{c/} SIC 554 | 472,921,000 | 628,039,000 | .700 | 43,963,000 |
| Apparel & Accessory Stores ^{c/} SIC 56 | 308,499,000 | 409,687,000 | .500 | 20,484,000 |
| Household Appliance Stores ^{c/} SIC 572 | 59,247,000 | 78,680,000 | .500 | 3,934,000 |
| Total | \$3,095,065,000 | \$4,110,245,000 | | \$681,063,000 |

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

^{b/} 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 | | |

^{c/} Sales of retail stores which also provide services. Ratio of services to total sales for automotive dealers and gasoline service stations was obtained by taking the median of figures from several automotive dealers on percentage of total sales accounted for by service. Assuming the remaining establishments would have a lower ratio of service sales to retail sales, a 5 percent ratio was applied to them.

Sources: U. S. Bureau of the Census, Census of Business: 1967 Selected Services, Virginia, BC 67-SA48 and 1967 Retail Sales, Virginia, BC 67-RA48 (Washington, D. C.: Government Printing Office, 1969 and 1970). Table 1 in both volumes; 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 \$681 million to the tax base or \$20.4 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.^{1/} 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.

| Rate | Number of States |
|------|------------------|
| 0.75 | |
| 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,

^{1/} 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 ^{a/} | dealer | no | yes |
| Alaska | none ^{b/} | ... | ... | ... | ... |
| Arizona | sales/use | 3 ^{c/} | dealer | no | yes |
| Arkansas | sales/use | 3 ^{d/} | dept. of revenue | yes | no |
| California | sales/use | 4 ^{e/} | dealer | yes | no |
| Colorado | sales/use | 3 ^{f/} | 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 ^{g/} | 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 ^{h/} | 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 | ^{i/} | no | no |
| Nebraska | sales/use | 2.5 | treasurer | yes | yes |
| Nevada | sales/use | 2 ^{j/} | 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 ^{k/} | dealer | yes | yes |
| North Carolina | sales/use | 2 ^{l/} | dealer | special provisions | no |
| North Dakota | excise/use | 4 | div. of motor vehicles | yes | yes |
| Ohio | sales/use | 4 ^{m/} | 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 ^{n/} | dealer | no | yes |
| Texas | sales/use | 3 | dealer | yes | yes |
| Utah | sales/use | 4 ^{o/} | 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."^{1/} 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

^{1/} 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.^{1/}

^{1/} 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^{1/}

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

^{1/} 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".^{1/} 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

^{1/} House Joint Resolution No. 8.

TABLE 3.37.--STATE PARI-MUTUEL TAX RATES^{a/}

| State | Tax Rate ^{b/} | Amount | Breakage 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^{1/} but achieved only \$631,932. Delaware Park had a \$790,141 average daily handle, 19.4 percent below the 1968 figure of \$979,807.^{2/}

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,

^{1/} 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.

^{2/} 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.^{1/} 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.^{2/} 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.^{3/}

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.

^{1/} 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.

^{2/} 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.

^{3/} 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

| State | Thoroughbred | | | Standardbred | | | Total | | |
|---------------|--------------|-------------------------|--------------------|--------------|-------------------------|--------------------|-------------|-------------------------|--------------------|
| | Racing Days | Total Handle (Millions) | Revenue (Millions) | Racing Days | Total Handle (Millions) | Revenue (Millions) | Racing Days | Total Handle (Millions) | Revenue (Millions) |
| 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.^{1/}

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.^{2/} 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.

^{1/} 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.

^{2/} 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, n. 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)^{1/} 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.^{2/}

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.^{3/} We estimate that in Virginia a lottery with these elements would net \$2 million

^{1/} 1970 Census of Population total population figures are used for all per capita figures.

^{2/} The Wall Street Journal, March 3, 1971, p. 1.

^{3/} 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 \$75 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 (+\$26.0 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 |
| PUBLIC SERVICE CORPORATION TAXES | | | | |
| 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 |
| INDIVIDUALS AND FIDUCIARIES-- | | | | |
| INCOME TAX | | | | |
| 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 |
| TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION) | | | | |
| \$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 |
| CORPORATIONS--INCOME TAX | | | | |
| Present structure; present rates | 57.2 | ... | 60.3 | ... |
| Present structure; 6% rate | 68.6 | +11.4 | 72.4 | +12.1 |
| INHERITANCE TAX | | | | |
| 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 |
| CROWN TAX ON SOFT DRINKS | | | | |
| West Virginia structure and rates | 16.0 | +16.0 | 17.2 | +17.2 |
| TOBACCO PRODUCTS TAX | | | | |
| 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 |
| STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION) | | | | |
| 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 | 288.5 | +26.0 | 313.3 | +28.2 |
| Adding selected services; 4% rate | 384.7 | +122.2 | 417.7 | +132.6 |
| Adding selected services but excluding food and nonprescription drug purchases; present rate | 221.3 | -41.2 | 240.3 | -44.8 |
| Adding selected services but excluding food and nonprescription drug purchases; 4% rate | 295.1 | +32.6 | 320.4 | +35.3 |

(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 |
| MOTOR VEHICLES SALES AND USE TAX (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 |
| LOTTERY AND PARI-MUTUEL BETTING | | | | |
| 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 ± 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.^{1/} As part of the method, no changes are

^{1/} 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",^{1/} 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,

^{1/} 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

| | Projection Base (1971-72 Appropriations) | Population Whose Projected Annual Rates of Increase Are the Basis for the <u>Population-Workload</u> 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 ^{a/} | Medical services portion of the CPI |
| Medicaid ^{b/} | \$ 30,250,595 | Program caseload | Medical services portion of the CPI |
| Public welfare | | | |
| Old age assistance | \$ 4,593,000 (\$ 8,907,695) ^{c/} | Program recipients | CPI and medical services portion of the CPI |
| Aid to families with dependent children | 15,777,000 (\$29,924,270) ^{c/} | Program recipients | CPI |
| Aid to the permanent and totally disabled | 2,714,000 (\$ 4,376,985) ^{c/} | Program recipients | CPI and medical services portion of the CPI |
| Aid to the blind | 337,500 (\$ 540,000) ^{c/} | Program recipients | CPI |
| Three other major programs (General Relief, Foster Care for Children, and Hospitalization of the Indigent) | 9,881,000 (\$11,363,521) ^{c/} | Program recipients | CPI and medical services portion of the CPI |
| Other (particularly administration) | 8,635,635 (\$10,906,183) ^{c/} | 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) ^{c/} | | |
| Vocational rehabilitation | | | |
| Administered by the Department of Vocational Rehabilitation | \$ 2,809,975 | Total population ^{d/} | 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 | GNP Implicit Price Deflator | Annual Rate of Change (Percent) | | |
|-------------|-----------------------------|---|----------------------|--|
| | | 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^{a/}

| <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 ^{b/} | 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 |

a/ 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).

b/ 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:

| Fiscal Year | Percent Change | | |
|-------------|---------------------------|----------------------|------------------------------|
| | Four-Year Institutions | Two-Year Branches | Community <u>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^{1/}, 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

^{1/} 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

| Biennium | Amount | Change from Preceding Biennium | |
|------------------------|---------------|--------------------------------|---------|
| | | Amount | Percent |
| 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> |
| <u>Actual appropriations</u> | | | |
| 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 |
| <u>Projected expenditures</u> | | | |
| 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> |
| <u>Actual appropriations</u> | | | |
| 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 |
| <u>Projected expenditures</u> | | | |
| 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 ^{a/} | +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 |

^{a/} 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:

1. Old Age Assistance

| <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 |

2. Aid to Families with Dependent Children

| <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^{a/}</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 |

^{a/} 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> |
| Actual appropriations | | | |
| 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 |
| Projected expenditures | | | |
| 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 DevelopmentTABLE 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> |
| Actual appropriations | | | |
| 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 |
| Projected expenditures | | | |
| 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 | ... | ... | ... | 25,140,000 | 25,890,000 | 31,711,354 | 32,405,677 | 34,200,000 | 36,000,000 |
| Revenues | ... | ... | ... | 130,000 | 5,000 | 18,716,600 | 17,800,000 | 16,700,000 | 15,600,000 |
| Debt Service | 1,732,000 | 1,730,000 | 225,000 | ... | ... | ... | ... | ... | ... |
| 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)

| Biennium | Revenues | Operating <u>Expenditures</u> | Gap (Revenues Minus <u>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:

$$\frac{1969-70 \text{ Appropriations}}{1960-61 \text{ Appropriations}} \times \frac{\text{Population-Workload Ratio}}{\text{Population-Workload Ratio}} \times \frac{\text{Price Ratio}}{\text{Price Ratio}} = \text{Scope and Quality Ratio}^{\frac{1}{}}$$

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

^{1/} 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^{a/}

| <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 |

a/ 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.

b/ 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.^{1/}

Public Welfare and Medicaid

Applying the 4 percent ratio to public welfare and medicaid would raise outlays by:

^{1/} 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> | Public Welfare (Millions) | Medicaid (Millions) | Total (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> | Programs (Millions) | Administration (Millions) | Total (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^{a/}</u> | | <u>Under 21^{a/}</u> | | <u>Total</u> |
|-----------------|-------------------------------------|----------------------------|------------------------------|------------------------|--------------|
| | <u>Baseline Population</u> | <u>Categorically Needy</u> | <u>Regular Services</u> | <u>Dental 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 Year</u> | <u>Baseline Population</u> | <u>Categorically 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 Health</u> | <u>Public Health</u> | <u>Administration of Justice</u> | <u>Resource and Economic Development</u> | <u>General 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> (Millions) | <u>Additional Outlays for Scope and Quality</u> (Millions) | = | <u>Scope and Quality Gap</u> (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> (Millions) | <u>Additional Outlays for Scope and Quality in Elementary-Secondary Education</u> (Millions) | = | <u>Elementary-Secondary Education Scope and Quality Gap</u> (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^{1/}, 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

^{1/} Article X, Section 9(c) of the Constitution permits the state to secure revenue bonds with its full faith and credit subject to certain

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 & Economic Development and Other Categories^{a/}</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 |

^{a/} 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 ^{a/} |
| 1970-72 | | 43.2 |
| Simple Average | 7.0 | \$ 56.3 |

^{a/} 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> | Baseline Capital Outlays (Millions) |
|-----------------|---|
| 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> | Scope and Quality Capital Outlays (Millions) |
|-----------------|--|
| 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> | Baseline Gap (Millions) | Scope and Quality Gap (Millions) | Baseline Gap with Capital Outlays (Millions) | Scope and Quality Gap with Capital Outlays (Millions) |
|-----------------|----------------------------|--|---|---|
| 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.^{1/}

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

^{1/} 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 ^{a/} | Projected Average Annual Sales and Income Taxes, Previous 3 Years | Calculation Base ^{b/} | Maximum Debt Which Could be Authorized ^{c/d/} For the Biennium | Outstanding at End of Fiscal Year | | | Overall Debt ^{e/} Limit ^{f/} |
|---|---|-----------------------------------|---|-----------------------------------|-------------------------------|-------------|--|
| | | | | Gross Debt | Sinking Fund ^{g/} | Net Debt | |
| 1971-72 | \$567.3 ^{g/} | \$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 ^{a/}
(Millions of Dollars)

| Biennium | Interest ^{b/} <u>Payments</u> | Payments To Sinking Fund ^{c/} | Total |
|----------|---|--|--------|
| 1972-74 | \$ 5.8 | \$ 6.2 | \$12.0 |
| 1974-76 | 15.0 | 16.8 | 31.8 |
| 1976-78 | 19.2 | 23.1 | 42.3 |

^{a/} This table does not include debt service on the already outstanding \$81.0 million issue of May, 1969.

^{b/} 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.

^{c/} 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).^{1/} 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.)^{2/} 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.

^{1/} 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.

^{2/} 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

| Fiscal Year | Federal Appropriations (Millions) | Distributed to Virginia (millions) | | |
|-------------|---|------------------------------------|----------------|----------------|
| | | Total | State Share | Local Share |
| 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,^{1/} 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.

^{1/} 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:

$$\begin{array}{rcl} \text{state tax: } & \$100 \times .05 & = \$ 5 \\ \text{federal tax: } & (\$100 - \$5) \times .20 & = \$19 \\ \text{combined state-federal tax} & & = \$24 \end{array}$$

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:

$$\begin{array}{rcl} \text{state tax: } & \$100 \times .05 & = \$ 5 \\ \text{federal tax: } & (\$100 \times .20) - (\$5 \times .40) & = \$18 \\ \text{combined state-federal tax} & & = \$23 \end{array}$$

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.^{1/}

1/ 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.^{1/} 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

^{1/} 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 ^{a/} | Estimated Virginia Receipts Based on % of Personal Income ^{b/} | General Basis for Allocation of Grant ^{c/} |
|-------------------------------------|---|---------------------|------------------------------------|--------------------|--|---|--|
| 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 | ... ^{d/} | 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 | | | | | | | |
| 15 | Economic Development Administration 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 | 233,111 | 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 |
| 22 | FEDERAL POWER COMMISSION Payments to states under FPA--shared revenues | 79,704 | 16 | ... ^{d/} | 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 ^{a/} | Estimated Virginia Receipts Based on % of Personal Income ^{b/} | General Basis for Allocation of Grant ^{c/} |
|---|---|---------------------|------------------------------------|--------------------|--|---|---|
| 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 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 | 282,000 | 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 | Estimated Virginia Receipts Based on % of Personal Income | General Basis for Allocation of Grant ^{2/} |
|--|---|---------------------|------------------------------------|--------------------|--|---|--|
| 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 |

(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 ^{a/} | Estimated Virginia Receipts Based on % of Personal Income ^{b/} | General Basis for Allocation of Grant ^{c/} |
|------------------------------|--|---------------------|------------------------------------|--------------------|--|---|--|
| 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 ^{e/} | ... | 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 | ... ^{d/} | 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 | 363,800,197 | ... | ... | 8,258,000 | 7,567,000 | Miscellaneous special grants |
| 99 | GRAND TOTAL | \$24,194,090,576 | \$465,682,360 | 1.9 | \$549,206,000 | \$503,237,000 | |

a/ Virginia total population, as of the 1970 Census, equals 2.27 percent of U.S. total population.

b/ Virginia personal income equals 2.08 percent of U.S. personal income, in fiscal year 1969-70.

c/ 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).

d/ Less than one-tenth of one percent.

e/ 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(V1)-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.^{1/}

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).^{2/} 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.^{3/}

^{1/} These figures are one-half of the twelve-month figures. All data were provided by the Office of Management and Budget.

^{2/} 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).

^{3/} 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.^{1/}

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.^{2/}

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.

^{1/} If the state did supplement the payments for these other categories, the federal government would pay part of the cost.

^{2/} 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^{a/}

| Revenue Source | Percent of Total | | | | |
|---------------------------------|------------------|---------|---------|---------|---------|
| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 |
| 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 |

^{a/} 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,^{1/} public welfare, and highways. Together these four functions accounted for 71.8 percent of total outlays in 1968-69.

^{1/} 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^{a/}

| Function | Percent of Total | | | | |
|---|------------------|---------|---------|---------|---------|
| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 |
| 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 |

^{a/} 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^{1/}).

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."^{2/} This law, passed in 1966,

^{1/} Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities," April 1, 1971.

^{2/} 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.^{1/} 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

^{1/} 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 ^{a/} | Projected Assessed Value ^{b/} |
|-------------|--|---|----------|--------------------------------|-----------|---|---|
| | Amount | Value to be Assessed at Same Local Ratio As Other Types of Property | | Value to be Assessed at 40% | | | |
| | | Proportion | Amount | Proportion | Amount | | |
| 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.^{1/} 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.

^{1/} 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.^{1/} 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.^{2/} 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.

^{1/} Annual Report of the Superintendent of Public Instruction 1969-70, Table 40, (Richmond: State Board of Education, December, 1969).

^{2/} 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.^{1/}

Future projections of state cash transfers for public welfare were

^{1/} 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;^{1/} 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)

| Fiscal Year | Total State Cash Transfers for General <u>Support</u> | A.B.C. Profits and Wine and Spirits Tax Distributed To Localities | % of Total State Cash Transfers for General <u>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).

^{1/} 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^{a/}
(Millions of Dollars)

| Revenue Source | Actual | | | | | Estimated | Projections | | | | | | | |
|---|-----------------|-----------------|-----------------|-------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 ^{b/} | 1970-71 | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 |
| LOCAL SOURCES | | | | | | | | | | | | | | |
| TAXES: | | | | | | | | | | | | | | |
| Property ^{c/} | | | | | | | | | | | | | | |
| 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 |
| OTHER SOURCES | | | | | | | | | | | | | | |
| STATE CASH TRANSFERS:^{e/} | | | | | | | | | | | | | | |
| 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 |
| 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 |

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 |

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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)

| | Gross Debt Outstanding at End of Fiscal Year | Reservation for <u>Redemption of Debt</u> | % of Gross Debt <u>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^{a/}
(Millions of Dollars)

| Function ^{a/} | Actual | | | | | Estimated | Projections | | | | | | | |
|---|----------|----------|-----------|-----------|-----------|-----------------------|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 ^{b/} | 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 ^{d/} | 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 | 211.6 | 224.6 | 237.5 | 306.1 | 345.7 | 371.2 | 400.1 | 430.1 | 459.3 | 489.5 | 521.7 | 552.8 | 581.9 | 613.1 |
| 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 ^{e/} | \$ 59.0 | \$ 75.0 | \$ 64.0 | \$ 70.9 | \$ 71.4 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 | \$ 74.3 |
| 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^{a/}
(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 |
| Revenues | | | | | | | | | | | | | | |
| 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 | 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 |
| 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 |
| Expenditures | | | | | | | | | | | | | | |
| 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 | 59.0 | 75.0 | 64.0 | 70.9 | 71.4 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 | 74.3 |
| 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 ^{a/} | \$-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 |

^{a/} 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.^{1/}

^{1/} 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> ^{a/} | <u>Average Annual Percentage Increase in Scope and Quality</u> ^{b/} |
|-----------------------------------|--|
| Education | 5.6 |
| Highways | 7.1 |
| Public welfare ^{c/} | 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 ^{a/} | \$-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 |

^{a/} 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.^{1/} 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.^{2/} Over the entire period, this adjustment would provide an additional \$996.5 million in funds for local governments.

^{1/} 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.

^{2/} 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)

| Fiscal Year | Inflow of Funds from Borrowing ^{a/} | Additional Redemption Cost Associated With Borrowing | Additional Interest Costs Because of Borrowing | Net Inflow of Funds Available to Finance Capital Outlays ^{b/} |
|-------------|--|--|--|--|
| 1969-70 | \$+126.2 | \$... ^{c/} | \$ +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 |

a/ 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.

b/ Projected deficits would be reduced by the amounts listed here.

c/ 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^{a/}

| | Total Amounts (Millions of Dollars) | | Central City Amounts as Percent of Amounts of All Local Governments | Per Capita Amounts ^{b/} | | 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 | |
| General Revenue | | | | | | |
| 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 ^{c/} | 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 |
| General Direct Expenditures | | | | | | |
| 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.

a/ Most recent figures for Portsmouth and Roanoke are for fiscal year 1967-68.

b/ Based on 1970 population counts. Richmond City population figures were adjusted to take out 47,450 Chesterfield County residents annexed January 1, 1970.

c/ 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 ^{a/} | | Percentage Change 1960-61 to 1968-69 |
|---|--|------------|--|----------------------------------|-----------|--|
| | 1960-61 | 1968-69 | | 1960-61 | 1968-69 | |
| All Local Governments | | | | | | |
| Revenue | | | | | | |
| 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 | \$ 178.1 | \$ 525.4 | +195.0 | \$ 44.90 | \$ 113.03 | +151.7 |
| Total revenue | \$ 507.2 | \$ 1,214.7 | +139.5 | \$ 127.86 | \$ 261.31 | +104.4 |
| General Direct Expenditures | | | | | | |
| 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 | \$ 579.7 | \$ 1,250.6 | +115.7 | \$ 146.13 | \$ 269.03 | +84.1 |
| Central Cities^{b/} | | | | | | |
| Revenue | | | | | | |
| 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 ^{c/} and other localities | 14.8 | 18.0 | +21.6 | 13.63 | 15.83 | +16.1 |
| Total intergovernmental revenue | \$ 55.8 | \$ 132.6 | +137.6 | \$ 51.40 | \$ 116.59 | +126.8 |
| Total revenue | \$ 177.8 | \$ 365.2 | +105.4 | \$ 163.80 | \$ 321.10 | +96.0 |
| General Direct Expenditures | | | | | | |
| 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 | \$ 185.6 | \$ 402.8 | +117.0 | \$ 170.99 | \$ 354.15 | +107.1 |
| Exhibit: | | | | | | |
| 1960 population | | | | | | |
| All local governments | 3,966,949 | | | | | |
| Central cities | 1,085,443 | | | | | |
| 1970 population | | | | | | |
| All local governments | 4,648,494 | | | | | |
| Central cities | 1,137,365 | | | | | |

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

^{a/} 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.

^{b/} Most recent figures for Portsmouth and Roanoke are for fiscal year 1967-68.

^{c/} 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^{a/}</u> | | | <u>Per Capita^{b/}</u> | | |
|------------------|---|-----------------|---------------------------|--------------------------------|-------------|---------------------------|
| | <u>Total</u> | | <u>Percent Change</u> | <u>Per Capita^{b/}</u> | | <u>Percent Change</u> |
| | <u>1958</u> | <u>1967</u> | | <u>1958</u> | <u>1967</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>Per Capita^{b/}</u> | | |
|------------------|-------------------------------|--------------------------|---------------------------|--------------------------------|-------------|---------------------------|
| | <u>Total</u> | | <u>Percent Change</u> | <u>Per Capita^{b/}</u> | | <u>Percent Change</u> |
| | <u>1962^{c/}</u> | <u>1969^{d/}</u> | | <u>1962</u> | <u>1969</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.^{1/} 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^{2/} 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

^{1/} 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.

^{2/} 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.^{1/} 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.^{2/}

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

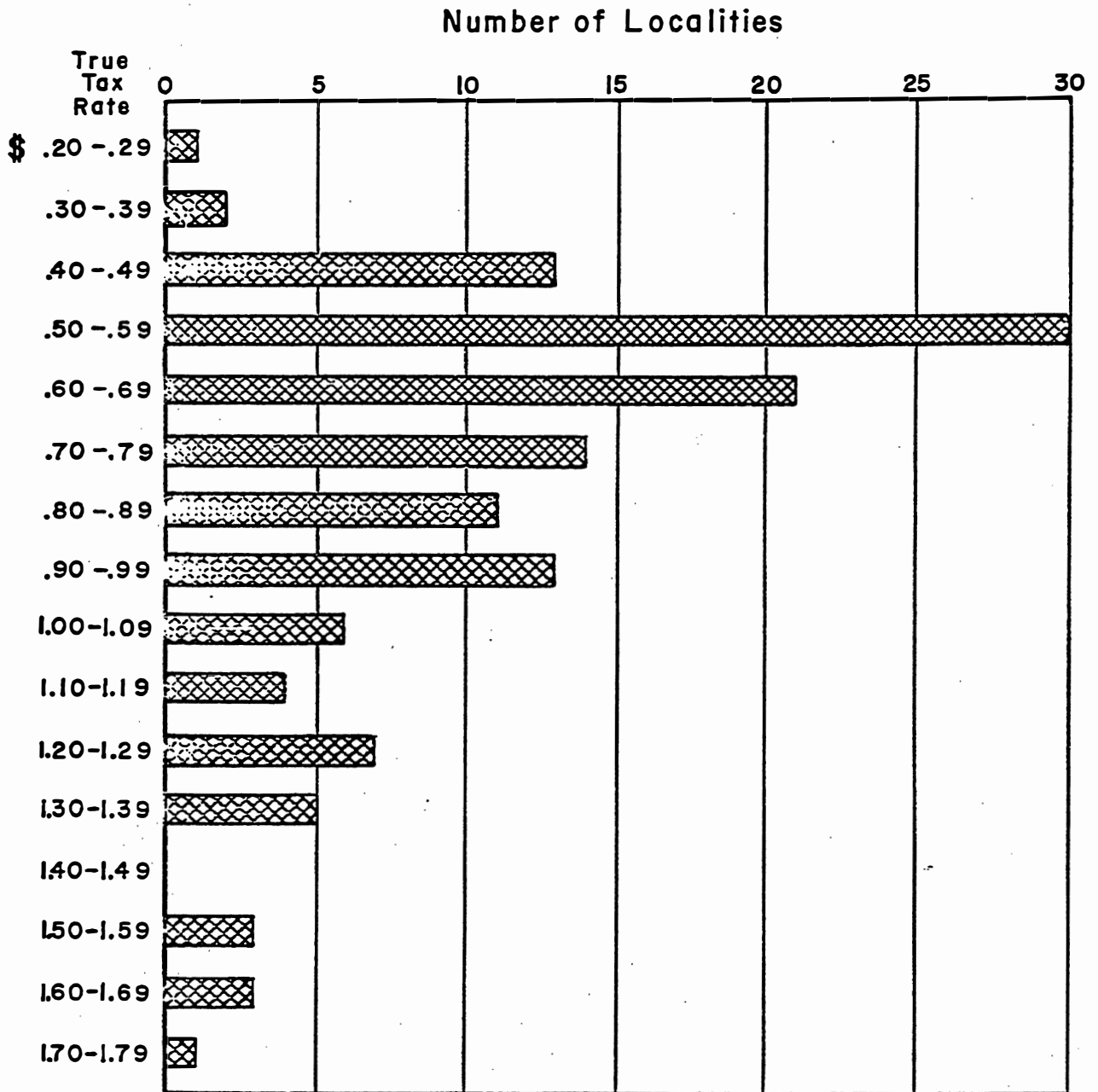
Although the property tax is the workhorse of local government, in many localities it is not being used to its full potential. Only 14 cities and 6 counties employ full-time assessors.^{3/} Many localities assess only as required by law--every four years for cities and every six years for counties. Often, this is too infrequent for an age marked by population change, new land use patterns, and inflation.

^{1/} U.S. Bureau of the Census, 1967 Census of Governments: Taxable Property Values, Vol. 2 (Washington: Government Printing Office, 1968), p. 15.

^{2/} U.S. Department of Agriculture, Economic Research Service, "Farm Real Estate Taxes" RET-10 (February, 1971), pp. 16-17.

^{3/} 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.^{1/} 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

^{1/} 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.^{1/} 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.^{2/}

The property tax could be made a more equitable and efficient^{3/} tax

^{1/} U. S. Bureau of the Census, 1967 Census of Governments: Taxable Property Values, Vol. 2 (Washington: Government Printing Office, 1968), p. 47.

^{2/} 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.

^{3/} 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^{a/}</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 RATIO AND COEFFICIENTS OF DISPERSION, 1970

| Locality | Assessment Ratio | Coefficient of Dispersion ^{a/} (Percent) | Locality | Assessment Ratio | Coefficient of Dispersion ^{a/} (Percent) | Locality | Assessment Ratio | Coefficient of Dispersion ^{a/} (Percent) | Locality | Assessment Ratio | Coefficient of Dispersion ^{a/} (Percent) |
|-----------------|------------------|---|----------------|------------------|---|-----------------|------------------|---|------------------|------------------|---|
| Counties | | | | | | | | | | | |
| Accomack | .196 | 22.2 | Gloucester | .257 | 32.2 | Powhatan | .242 | 17.0 | Colonial Heights | .892 | 5.4 |
| 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 |
| Ashurst | .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 | .358 | 9.6 | 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 | .455 | 13.1 |
| Buckingham | .129 | 42.9 | King William | .185 | 40.9 | Southampton | .130 | 25.1 | Hartinsville | .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 | Hadison | .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 | Hecklenburg | .182 | 20.0 | Westmoreland | .255 | 22.7 | Roanoke | .409 | 7.9 |
| Culpeper | .195 | 22.2 | Hiddlesex | .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 | Cities | | | | | |
| 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 | Cheapeake | .405 | 11.1 | | | |
| Frederick | .163 | 23.4 | Patrick | .154 | 30.0 | Clifton Forge | .371 | 23.3 | | | |
| Giles | .131 | 32.3 | Pittsylvania | .198 | 23.4 | | | | | | |

^{a/} Coefficient of dispersion = $\frac{0.5 (3rd\ quartile - 1st\ quartile)}{median} \times 100$

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 | | |
|---|----------|------------|----------|
| | Counties | Cities | Total |
| 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."^{1/} 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

^{1/} "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.^{1/} 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

^{1/} 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^{1/}--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.

^{1/} 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."^{1/} 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.^{2/}

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

^{1/} "New Ways to Sell Municipal Bonds," Business Week (January 16, 1971), p. 32.

^{2/} 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 10 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).^{1/} 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

^{1/} 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> | 1970-72 Biennium | |
|--|-----------------------|-------------------|
| | <u>Appropriations</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 | 21,700,855 | 2.7 |
| 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.^{1/}
- 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.

^{1/} 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 x 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.^{1/} 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.^{1/} 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.

^{1/} 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:

| | Amount (\$ millions) | % of Total |
|--|-------------------------|---------------|
| 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 | 5.3 | 5.8 |
| Total | \$91.2 ^{a/} | 100.0 |

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

^{a/} 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.^{1/} 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.

^{1/} 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 ^{a/} (2) | Sales Tax ^{b/} (3) | Total State Aid ^{c/} (4) | Federal Aid Excluding Impact Funds (Oper. Only) ^{d/} (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 | | | | | | | |
|-----------------------|--------------------------|------------------------------------|---------------------------|---------------------|------------------------------|---|--|--|
| | 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) | Total State and Federal Aid Excluding Impact Funds (Oper. Only) (7) | Total State and 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 | 100.0 | 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 ^{a/} | | | | Per Student in ADA | | | | Percent of All Sources ^{e/} | | | |
|-----------------------|---|----------------------------|------------------------------|--------------------|--------------------|--------------|----------------|--------------------|--------------------------------------|---------------|-----------------|---------------------|
| | Local ^{b/} (1) | State ^{c/} (2) | Federal ^{d/} (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 aid 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:

| | % increase | | % increase |
|---------------------|---------------|-----------------------|---------------|
| 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 |

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.^{1/} 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^{2/} by the sum of the locality's low-income children, AFDC^{3/} 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

^{1/} 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.

^{2/} The per pupil expenditure factor is defined as one-half the national average per pupil expenditure for education.

^{3/} 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."^{1/} 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."^{2/}

State Aid for Welfare^{3/}

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.^{4/} This will leave local governments with continued responsibility for their share of all administration costs and

^{1/} 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.

^{2/} 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.

^{3/} For more information on this subject see Chapter IV, pp. 213-15.

^{4/} 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 fiscal 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.^{1/} The \$11.1 million figure is probably a low estimate, since if the state were to take over full costs,

^{1/} 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.^{1/}

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

^{1/} Expenditure data for fiscal year 1969-70 was supplied by Mr. A. E. Price, Fiscal Director of the Department of Health.

million.^{1/} 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.^{2/} This amount would have been

^{1/} 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".

^{2/} 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 | 94 State Supported Counties | Total, All Localities |
|---|--|------------------|-------------------|--------------------------------|-------------------|-----------------------------|-----------------------|
| | Municipalities | | | Arlington and Henrico Counties | | | |
| | Under 5,000 | 5,000 to 49,999 | 50,000 & Over | | | | |
| Receipts: | | | | | | | |
| Total receipts from local sources ^{a/} | \$2,281,800 | \$ 9,211,939 | \$23,734,041 | \$ 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>9,188,191</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 | \$32,922,232 | \$12,158,820 | \$62,372,012 | \$6,284,244 | \$68,656,256 |
| Disbursements: | | | | | | | |
| Total direct highway disbursements for capital outlay | \$ 597,435 | \$ 3,255,674 | \$ 5,792,168 | \$ 4,161,383 | 13,806,660 | \$ 164,555 | 13,971,215 |
| Total direct highway disbursements for maintenance | 1,606,342 | 4,997,266 | 10,600,731 | 2,043,929 | 19,248,268 | 681,850 | 19,930,118 |
| Interest on debt ^{b/} | 1,330 | 285,228 | 1,661,170 | 1,366,063 | 3,313,791 | ... | 3,313,791 |
| Other ^{c/} | <u>982,864</u> | <u>3,276,978</u> | <u>10,055,215</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 ^{b/} | \$3,187,971 | \$11,815,146 | \$28,109,284 | \$11,200,070 | \$54,312,471 | \$3,795,972 | \$58,108,443 |
| Intergovernmental transfers ^{d/} | 306,972 | 2,103,957 | 2,921,256 | ... | 5,332,185 | ... | 5,332,195 |
| Debt redemption | <u>6,425</u> | <u>590,924</u> | <u>4,326,170</u> | <u>958,750</u> | <u>5,882,269</u> | <u>...</u> | <u>5,982,269</u> |
| Total disbursements | \$3,501,368 | \$14,510,027 | \$35,356,710 | \$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^{1/}

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 . percent state levy distributed on the basis of place of sale.^{2/}

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^{3/}

Local income taxes are imposed in more than 3,500 local jurisdictions with the majority concentrated in Ohio (267 local jurisdictions) and Pennsylvania

^{1/} For more on the tax see pp. 141-56.

^{2/} 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.

^{3/} 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 shown 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 |
| | Eric, 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 ^a | | 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 | \$900 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 | \$600 ea. | No | Yes |
| Baltimore, Md. | Zero | Yes | Yes | No | Yes | Yes | Yes | No | \$800 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 | No | 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 | % of 1% or 1% ¹ | 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 ² | 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 | 26,200 | 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 |
| Eig Rapids | 4 | XXX | XXX | XXX |
| Detroit | 4,5 | 202,306 | 78,720 | 33.9 |
| Flint | 4 | 17,955 | 9,452 | 52.6 |
| Grand Rapids | 4 | 14,939 | 6,701 | 44.8 |
| 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 1960) | | |
|---|--|--|----------------------------------|--------------------------------------|
| | | Total tax collections | Income tax collections Amount | As a percent of total collections |
| Highland Park | 4 | XXX | XXX | XXX |
| Jackson | 4 | 2,858 | 3 | 3 |
| 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 ⁶ | 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 |
| Palma | 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: ⁷ | | | | |
| Cities, 50,000 population and over - | | | | |
| Abington Township | 1.0 ⁸ | 2,611 | 3 | 3 |
| Allentown | 1.0 ⁸ | 6,820 | 1,588 | 23.3 |
| Altoona | 1.0 ⁹ | 2,783 | 573 | 20.6 |
| Bethlehem | 1.0 ⁸ | 4,683 | 1,109 | 23.7 |
| Chester | 1.0 ¹⁰ | 3,706 | 1,822 | 49.2 |
| Erie | 1.0 ⁸ | 8,458 | 1,582 | 18.7 |
| Harrisburg | 1.0 ⁸ | 4,680 | 912 | 19.5 |
| Johnstown | 1.0 ⁹ | 2,259 | 417 | 18.5 |
| Lancaster | 0.5 ¹¹ | 2,436 | 655 | 26.9 |
| Penn Hills Township | 1.0 ⁹ | 2,180 | 836 | 38.3 |
| Philadelphia | 3.0 ¹² | 287,491 | 141,303 | 49.2 |
| Pittsburgh | 1.0 ⁸ | 58,695 | 11,958 | 20.4 |
| Reading | 1.0 ¹⁰ | 4,784 | 3 | 3 |
| Scranton | 1.0 ^{8,13} | 5,898 | 1,643 | 27.9 |
| Wilkes Barre | 0.5 ⁸ | 3,015 | 589 | 19.5 |
| York | 1.0 ⁸ | 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)

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.

- ¹ 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.
- ² 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.
- ³ Tax went into effect after reporting period.
- ⁴ 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.
- ⁵ The rate for residents in Detroit was increased from 1 percent to 2 percent effective October 1, 1968.
- ⁶ 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.
- ⁷ 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.
- ⁸ The school district rate is the same as the municipal rate.
- ⁹ The school district rate is 0.5 percent.
- ¹⁰ There is no school district income tax.
- ¹¹ The school district rate is 1.0 percent.
- ¹² The Philadelphia school district imposes a 2% tax on investment income.
- ¹³ Combined city and school district rate may not exceed 2.0 percent.

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.^{1/} Generally, the tax is applicable to wages and salaries

^{1/} 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 non-resident 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.^{1/}

^{1/} 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.^{1/}

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.^{2/} Without District reciprocity

1/ Ibid., p. 1323.

2/ 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 would be allowed against state individual income tax liability, but this would be a costly option for the state.

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.^{1/} 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.^{2/}

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.

^{1/} Ibid., pp. 1372-73.

^{2/} 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.^{1/}

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.

^{1/} 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^{1/}

The Motor Vehicle Sales and Use Tax is presently reserved as a state tax, and localities are prohibited from using it.^{2/} 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

^{1/} For more information see Chapter III, pp. 157-61.

^{2/} 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.^{1/}

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^{a/}

| <u>Locality</u> | <u>Estimated Revenue</u> |
|----------------------------|--------------------------|
| Alexandria | \$ 418,000 |
| Augusta | 64,000 |
| Buckingham | 13,000 |
| Chesapeake | 188,000 |
| Chesterfield ^{b/} | 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 ^{b/} | 835,000 |
| Roanoke | 376,000 |
| Waynesboro | 73,000 |
| Wise | 110,000 |
| State | 13,260,000 |

^{a/} 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.

^{b/} Pre-annexation boundaries

^{1/} 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.^{1/} 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"^{2/} 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.

^{1/} The term base means the place where the rolling stock is most frequently dispatched, garaged, serviced, maintained, operated, or otherwise controlled.

^{2/} 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, Danville, Hampton, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, and Colonial Heights-Hopewell-Petersburg.

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, and Virginia Beach.

Developing Suburban Areas--the counties of Albemarle, Bedford, Botetourt, Charles City, Goochland, James City, Nansemond, New Kent, Pittsylvania and Powhatan, and the cities of Bedford, Suffolk, and Williamsburg.

Small Urban Areas--the counties of Alleghany, Augusta, Carroll, Culpeper, Frederick, Grayson, Greensville, Halifax, Henry, Montgomery, Pulaski, Rockbridge, Rockingham, Smyth, Southampton, Spotsylvania, Stafford, Tazewell, Warren, Washington, Wise, and Wythe, and the cities of Bristol, Buena Vista, Charlottesville, Clifton Forge, Covington, 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 ^{a/} | |
|--------------------------|------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|---------------------|----------------------|------------------------|
| | \$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 | 67,151,580 | 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 | ... | ... | ... | ... | ... | ... | ... | ... | ... | 271,207,494 |
| 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 | 26,517,277 | 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 | 5,001,467 | 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).

| AGI CLASSIFICATION | TOTAL NUMBER OF RETURNS | \$1000 | TOTAL NUMBER OF EXEMPTIONS AGE AND/OR | | | | NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS | | | | | | |
|------------------------|-------------------------|---------|---------------------------------------|---------|-------|---------|---|--------|--------|--------|-------|--------|--|
| | | | BLINDNESS | \$300 | \$700 | TOTAL | 1 | 2 | 3 | 4 | 5 | 6/OVER | |
| \$0 - 999 | | | | | | | | | | | | | |
| 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 | |
| \$1,000 - 1,999 | | | | | | | | | | | | | |
| INDIVIDUAL RETURNS | 77,950 | 77,950 | 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 | |
| \$2,000 - 2,999 | | | | | | | | | | | | | |
| 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 | 68 | 23,415 | 13,822 | 6,964 | 3,315 | 2,801 | |
| \$3,000 - 3,999 | | | | | | | | | | | | | |
| 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 | |
| \$4,000 - 4,999 | | | | | | | | | | | | | |
| 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 | 62,061 | 62,061 | 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 | |
| \$5,000 - 5,999 | | | | | | | | | | | | | |
| 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 | | 18,368 | 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 | |
| \$6,000 - 6,999 | | | | | | | | | | | | | |
| 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 | | 221,878 | | 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 | 376,488 | 56,928 | 29,236 | 24,912 | 17,449 | 9,311 | 9,098 | |
| \$7,000 - 7,999 | | | | | | | | | | | | | |
| INDIVIDUAL RETURNS | 18,935 | 18,935 | 1,283 | 6,982 | 4,082 | 31,287 | 14,532 | 187 | 2,653 | 990 | 369 | 204 | |
| JOINT RETURNS | 56,185 | 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 | 126,586 | 182,770 | 5,989 | 153,546 | 4,082 | 346,387 | 40,936 | 26,244 | 23,765 | 17,825 | 9,409 | 8,407 | |
| \$8,000 - 8,999 | | | | | | | | | | | | | |
| 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 | | 72,740 | 16,693 | 8,470 | 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 |
| \$9,000 - 9,999 | | | | | | | | | | | | |
| 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 |
| \$10,000 - 10,999 | | | | | | | | | | | | |
| 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 |
| \$11,000 - 11,999 | | | | | | | | | | | | |
| 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 |
| \$12,000 - 12,999 | | | | | | | | | | | | |
| 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 |
| \$13,000 - 13,999 | | | | | | | | | | | | |
| 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 |
| \$14,000 - 14,999 | | | | | | | | | | | | |
| 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 | 1,847 | 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 |
| \$15,000 - 19,999 | | | | | | | | | | | | |
| 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 |
| \$20,000 - 24,999 | | | | | | | | | | | | |
| 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 |
| \$25,000 - 29,999 | | | | | | | | | | | | |
| 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 | 2,149 | 2,149 | 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 |
| \$30,000 - 34,999 | | | | | | | | | | | | |
| 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 |
| \$35,000 - 39,999 | | | | | | | | | | | | |
| 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 |
| \$40,000 - 44,999 | | | | | | | | | | | | |
| 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 | 367 | 363 | 298 | 270 |
| \$45,000 - 49,999 | | | | | | | | | | | | |
| 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 |
| \$50,000 - 74,999 | | | | | | | | | | | | |
| 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 |
| \$75,000 - 99,999 | | | | | | | | | | | | |
| 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 | | 889 | 175 | 57 | 57 | 33 | 21 | 18 |
| TOTAL | 1,066 | 1,665 | 220 | 1,677 | 16 | 3,578 | 263 | 224 | 166 | 148 | 138 | 127 |
| \$100,000 - OVER | | | | | | | | | | | | |
| 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 |
| TOTAL FOR ALL CLASSES | | | | | | | | | | | | |
| INDIVIDUAL RETURNS | 418,981 | 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 | 88,187 | 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 | 74,870 | 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 ^{1, 2} | 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 ¹ | 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. ³ 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 ⁴ | |
| | \$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 ² | 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 ¹ | 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 ⁵ | ..... |
| | \$3,001-\$4,000 | 3 | | |
| | \$4,001-\$5,000 | 4 | | |
| | \$5,001-\$8,000 | 5 | | |
| | Over \$8,000 | 6 | | |
| Louisiana ¹ | 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 ² | 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 | |
| | \$1,001-\$2,000 | 1.5 | | | \$ 5 |
| | \$2,001-\$3,000 | 2 | | | \$ 15 |
| | \$3,001-\$5,000 | 2.5 | | | \$ 30 |
| | \$5,001-\$7,000 | 3 | | | \$ 55 |
| | \$7,001-\$9,000 | 3.5 | | | \$ 90 |
| | Over \$9,000 | 4 | | | \$135 |
| 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 ² | 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 ^{1 2} | 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 ² | 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 ² (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 ⁶ | 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 | | |
| | \$4,001-\$5,000 | 9 | | |
| | 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 ⁷ | 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 | | |
| | \$8,001-\$10,000 | 6 | | |
| | 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 | | |
| | \$4,001-\$5,000 | 6 | | |
| | Over \$5,000 | 6.5 | | |
| Vermont ² | 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. ³ | | | 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- |

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 ² (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 ² | 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 | | |

¹Community property State in which, in general, 1/2 the community income is taxable to each spouse.

²Allows deduction of State individual income tax itself in computing State tax liability.

³Effective 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.

⁴Limited to \$300 for single persons and \$600 for married persons filing joint returns.

⁵Limited 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.

⁶Any 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.

⁷Limited to \$500 per taxpayer.

⁸The 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 ¹ | 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 ² | 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 ⁴ | 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 ⁵ | do | 5 | .... | 5 ⁶ | 5 | .... | .... | .... | .... | Storing for use or consumption of any article or item of tangible personal property, 5%. |
| Florida | do | 4 ² | 4 | 4 | 4 | 4 | 4 ⁷ | .... | .... | 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 ¹ | 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 ⁴ | 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 ¹ | 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 ⁷ | 2 ⁷ | 2 ⁷ | .... | 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 ⁷ | 3 ⁷ | .... | 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 ⁸ | 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 ¹ | 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 ² | .... | 4 ⁶ | 4 | .... | 4 ⁷ | .... | .... | 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 | 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 ⁹ | Multiple stage sales | 5 ² | .... | 5 | 5 | 5 | 5 ⁷ | 5 | 5 ⁴ | Wholesaling, 1/8% (with following exceptions: sales of meat for human consumption, 1/2%; 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 1/2%; 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 ¹ | 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 ⁹ (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 ⁷ | 3 | 3 ⁴ | 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 ¹⁰ | 5 | 5 | .... | .... | .... | .... | Advertising, renting, leasing, producing, fabricating, processing, printing, or imprinting, and installation or maintenance of tangible personal property, 5%. |
| New Mexico | do | 4 ² | 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 ¹⁰ | 3 ⁶ | 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 ¹ | 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 ² | .... | 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 ² | 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 ² | 2 | 2 | 2 | 2 | 2 | .... | 2 ⁴ | 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 ¹ | 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 ⁷ | .... | .... | Renting or leasing of tangible personal property, and laundry and drycleaning, 4%. |
| South Dakota | do | 4 ² | 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 ⁷ | 3 ⁷ | .... | 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 ¹ | 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 ² | .... | 3% | .... | .... | 3½ ⁷ | .... | .... | Producing, processing, and lease or rental of tangible personal property, 3¼%. |
| Utah | do | 4 | 4 | 4 | 4 | 4 | 4 | .... | 4 ⁴ | Laundry, and drycleaning, repairing, renovating, installing, fabricating, and lease or rental of tangible personal property, 4%. |
| Vermont | do | 3 | 3 | " | " | .... | 3 | .... | .... | Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 3%. |
| Virginia | do | 3 ² | .... | 3 | 3 | .... | .... | .... | .... | Fabricating, storage, lease or rental of tangible personal property, 3%. |
| Washington | do | 4% | 4% | 4% | 4% | .... | .... | .... | .... | Charges for certain specified services, 4%; selected amusement and recreation activities, 4% (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 ² | 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 ¹⁰ | 4 | 4 | 4 | 4 ⁷ | .... | .... | Laundry, drycleaning, photographic services, the repair, service, maintenance, lease or rental of all items of taxable tangible personal property, 4%. |

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 ¹ | 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 ⁷ | .... | 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 ² | 4 | 5 | 5 | 4 | 4 ⁷ | 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%. |

¹ 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%.

² 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.

³ Gross sales or gross receipts taxable under separate "Utility Tax Act."

⁴ 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.

⁵ Sales under 10¢ taxed at ½ the regular rate.

⁶ 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)

⁷ 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.

⁸ 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.

⁹ 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.

¹⁰ 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.

¹¹ 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) | | | | | 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 | Consumer Price Index (1957-59=100) | |
| 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 ^{a/} | 151.8 ^{b/} | 130.7 ^{b/} | 127.7 | 155.0 |
| 1970 | 134.9 ^{a/} | 161.3 ^{a/} | n.a. ^{b/} | n.a. ^{b/} | 135.0 ^{a/} | 164.4 ^{a/} |

^{a/} Preliminary figures.

^{b/} 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)

| Fiscal Year | Amount | Change From Preceding Year | |
|-------------------------------|---------|----------------------------|---------|
| | | Amount | Percent |
| Actual revenues ^{a/} | | | |
| 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 ^{a/} | | | |
| 1964-65 | \$34.1 | \$... | ... |
| 1965-66 | 38.1 | +4.0 | +11.7 |
| 1966-67 | 37.0 ^{b/} | -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 ^{a/} | | | |
| 1964-65 | \$46.8 | \$... | ... |
| 1965-66 | 49.1 | +2.3 | + 4.9 |
| 1966-67 | 44.1 ^{b/} | -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 ^{a/} | | | |
| 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)

| Fiscal Year | Amount | Change from Preceding Year | |
|-------------------------------|--------|----------------------------|---------|
| | | Amount | Percent |
| Actual revenues ^{a/} | | | |
| 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 | ... | ... |

^{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.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 ^{a/} | | | |
| 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 ^{a/} | | | |
| 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)

| Fiscal Year | Amount | Change from Preceding Year | |
|-------------------------------|--------|----------------------------|---------|
| | | Amount | Percent |
| Actual revenues ^{a/} | | | |
| 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 |

^{a/} 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 ^{a/} | 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

| Fiscal Year | Amount | Change from Preceding Year | |
|----------------------------|---------|----------------------------|---------|
| | | Amount | Percent |
| 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 ^{a/} | +0.6 | +4.3 |
| 1970-71 | 17.2 ^{b/} | +2.7 | +18.6 |
| 1971-72 | 17.2 ^{b/} | ... | ... |
| 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> |
| Actual transfers | | | |
| 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 |
| Projected transfers | | | |
| 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> |
| Actual expenditures | | | |
| 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 |
| Projected expenditures | | | |
| 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 ^{a/} | 1962 | 1970 | Absolute Change ^{a/} |
| Counties | | | | | | |
| 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 | | - .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 ^{a/} | 1962 | 1970 | Absolute Change ^{a/} |
| Halifax | .207 | .169 | -.038 | \$0.49 | \$0.48 | \$-.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 | .53 ^{b/} | -.22 |
| King William | .258 | .185 | -.073 | .59 ^{b/} | .53 ^{b/} | -.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 ^{c/} | .68 ^{c/} | -.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 | .86 | +.34 |
| Prince Edward | .151 | .144 | -.007 | .15 ^{d/} | .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 ^{e/} | .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 ^{a/} | 1962 | 1970 | Absolute Change ^{a/} |
| Russell | .165 | .170 | +0.005 | \$0.39 | \$0.63 | +\$0.24 |
| Scott | .099 | .072 | -.027 | .80 | .59 | -.21 |
| Shenandoah | .148 | .189 | +0.041 | .38 | .42 | +.04 |
| Smyth | .086 | .098 | +0.012 | .45 | .59 | +.14 |
| Southampton | .153 | .130 | -.023 | .48 | .56 | +.08 |
| Spotsylvania | .330 | .259 | -.071 | .76 | .76 | ... |
| Stafford | .191 | .352 | +0.161 | .46 | 1.06 | +.60 |
| Surry | .191 | .132 | -.059 | .44 | .30 | -.14 |
| Sussex | .165 | .148 | -.017 | .58 | .59 | +.01 |
| Tazewell | .143 | .184 | +0.041 | .72 | .87 | +.15 |
| Warren | .164 | .139 | -.025 | .45 | .54 | +.09 |
| Washington | .062 | .084 | +0.022 | .58 | .74 | +.16 |
| Westmoreland | .300 | .255 | -.045 | .87 | .82 | -.05 |
| Wise | .165 | .181 | +0.016 | .85 | .77 | -.08 |
| Wythe | .152 | .139 | -.013 | .68 ^{f/} | .63 ^{f/} | -.05 |
| York | .202 | .203 | +0.001 | .48 ^{f/} | .85 ^{f/} | +.37 |
| County weighted average | .237 | .256 | +0.019 | \$0.77 | \$0.97 | +\$0.20 |
| Cities | | | | | | |
| Alexandria | .436 | .432 | -.004 | \$1.37 | \$1.62 | +\$0.25 |
| Bedford ^{g/} | n.a. | .486 | n.a. | n.a. | .56 | n.a. |
| Bristol | .361 | .317 | -.044 | .87 | 1.27 | +.40 |
| Buena Vista | .300 | .326 | +0.026 | 1.11 | 1.17 | +.06 |
| Charlottesville | .274 | .251 | -.023 | .96 | 1.20 | +.24 |
| Chesapeake ^{h/} | n.a. | .405 | n.a. | n.a. | 1.21 | n.a. |
| Clifton Forge | .339 | .371 | +0.032 | 1.10 | 1.21 | +.11 |
| Colonial Heights | .846 | .892 | +0.046 | 1.02 | 1.16 | +.14 |
| Covington | .303 | .259 | -.044 | 1.09 | 1.00 | -.09 |
| Danville | .613 | .630 | +0.017 | .92 | .95 | +.03 |
| Emporia ^{i/} | n.a. | .199 | n.a. | n.a. | .80 | n.a. |
| Fairfax | .339 | .415 | +0.076 | 1.17 | 1.65 | +.48 |
| Falls Church | .440 | .370 | -.070 | 1.43 | 1.27 | -.16 |
| Franklin | .168 | .473 | +0.305 | .71 | 1.09 | -.38 |
| Fredericksburg | .426 | .341 | -.085 | .85 | 1.02 | +.17 |
| Galax | .116 | .145 | +0.029 | .75 | .94 | +.19 |
| Hampton | .333 | .438 | +0.105 | 1.00 | 1.38 | +.38 |
| Harrisonburg | .355 | .375 | +0.020 | .94 | .94 | ... |
| Hopewell | .400 | .371 | -.029 | .98 | 1.19 | +.21 |
| Lexington ^{j/} | 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 ^{a/} | 1962 | 1970 | Absolute Change ^{a/} |
| 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 ^{m/} | +.032 | 1.59 | 1.77 ^{m/} | + .18 |
| Roanoke | .346 | .400 | +.054 | 1.02 | 1.38 | + .36 |
| Salem ^{k/} | 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 ^{l/} | 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 | +0.25 | \$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).

