

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

FISCAL PROSPECTS AND ALTERNATIVES: 1974

Senate Document No. 15A

By

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and

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**June/1973
Richmond, Virginia**

ABSTRACT

TITLE: Fiscal Prospects and Alternatives: 1974

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SUBJECT: State General Fund Revenues and Expenditures:
Local Revenues and Expenditures, 1974-80

AGENCIES: Division of State Planning and Community Affairs and
Department of Taxation

SOURCE OF
COPIES: Division of State Planning and Community Affairs
Finance Section
1010 Madison Building
Richmond, Virginia 23219

SERIES
NUMBER/EDITION: Third of Series
First Edition

NUMBER OF
COPIES: 750 Copies

NUMBER OF
PAGES: 416

ABSTRACT: A study designed to assist the Revenue Resources and Economic Study Commission in decision making. Included are projections of revenues from various sources for both state and local governments as well as projections of their expenditures. Alternate revenue and expenditure programs are presented and evaluated. The study is primarily concerned with revenues and expenditures relating to the General Fund. Local revenue and expenditures projections are aggregate figures with no data presented for individual local governments.

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ACKNOWLEDGEMENTS

This study for the Revenue Resources and Economic Study Commission has been prepared by members of the Finance Section of the Division of State Planning and Community Affairs and the Research Division of the Department of Taxation who were on loan to the Commission. The authors are Barry E. Lipman, Chief Research Economist of the Research Division of the Department of Taxation, and Ben A. Vorhies, Senior Economist in the Finance Section of the Division of State Planning and Community Affairs, and economists Richard D. Brown, John A. Garka, Richard H. Marshall, and Gail V. Tatum. Other contributors who added valuable material to the report included Thomas M. Humphries, Daniel A. Karp, John L. Knapp, Charles J. Gallagher and George E. Hoffer. Christine G. Childs, Sue A. Dawson, W. Blair Harvie, Jr., Helen B. McKinney, and Albert K. Missimer, Jr. provided valuable technical assistance. The secretarial staff was composed of Gloria T. McCanna and Patricia H. Ring from the Department of Taxation and Nancy C. Cothran, Carolyn C. Grubbs, Betty E. Hoffer, and Terry L. Sweet from the Division of State Planning and Community Affairs. In addition, Earl A. Scott, Chief of the Technical Support Section; Richard V. Scott, Supervisor of the Print Shop; and Maryland Holmes, Assistant Supervisor of the Print Shop, all of the Division of State Planning and Community Affairs, provided valuable aid in the preparation of the final printed report.

Many persons gave generous assistance in the preparation of this report; however, it is impossible to mention each one. Particular recognition is due Dr. Thomas C. Atkeson, Chancellor Professor of Taxation, College

of William and Mary, and John L. Knapp of the Tayloe Murphy Institute, Graduate School of Business Administration of the University of Virginia, the two special consultants to the Commission, for their advise and counsel. W. H. Forst, Secretary of Finance; and from the Department of Taxation, S. W. Connock, Acting Tax Commissioner; W. J. West, Director, Corporation Tax Division; J. M. Carpenter, Director, Division of Data Processing; F. C. Forberg, Director, Real Estate Appraisal and Mapping Division, supplied important, historical data and ideas. Our efforts were aided considerably by J. R. McCutcheon, Director, Division of the Budget, E. J. Crockin, Deputy Director, and by C. R. O'Bier, Jr., Budget Examiner, who worked up the historical appropriations data. Assistance was also provided by F. B. Miller, Jr., Treasurer, Commonwealth of Virginia; H. R. Fields, Director of Accounts, Department of Accounts; J. S. Barret, Assistant Director, Division of Engineering and Buildings; L. B. Younger, Director, Public Utilities Taxation Division, State Corporation Commission; and Dr. John Shannon, Assistant Director, Taxation and Finance Staff, Advisory Commission on Intergovernmental Relations.

Several more individuals merit recognition. Special mention must be made of the counsel and data provided by W. H. Cochran, Assistant Superintendent for Administration and Finance, and W. L. Lukhard, Director, Department of Welfare and Institutions. Others who were most cooperative were L. Shaw, Chief, Bureau of Research and Reporting, Department of Welfare and Institutions; J. S. Cribbs, Coordinator, Fiscal Research, Council of Higher Education; T. R. Southall, Fiscal Officer, Accounting, Commission for the Visually Handicapped; T. A. Stephens, Program Analyst, Division of Medical and Hospital Services, Department of Health; A. E. Wolfe, Assistant Commissioner, Administration, Department of Mental Hygiene and Hospitals; P. M.

Ware, Economist, Research, Division of Industrial Development; T. B. Omohundro, Jr., Fiscal Manager, Accounting Division, Department of Highways; L. C. Haake, Jr., Director, Inheritance and Gift Taxes, Department of Taxation; and J. M. Lesner, Director, Division of Information, Alcoholic Beverage Control Board.

Any errors that remain in the report are the sole responsibility of the authors. The opinions and conclusions are those of the authors and do not necessarily represent the views of the Division of State Planning and Community Affairs, the Department of Taxation, or any other offices of state government.

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June, 1973

CHAPTER I

SUMMARY

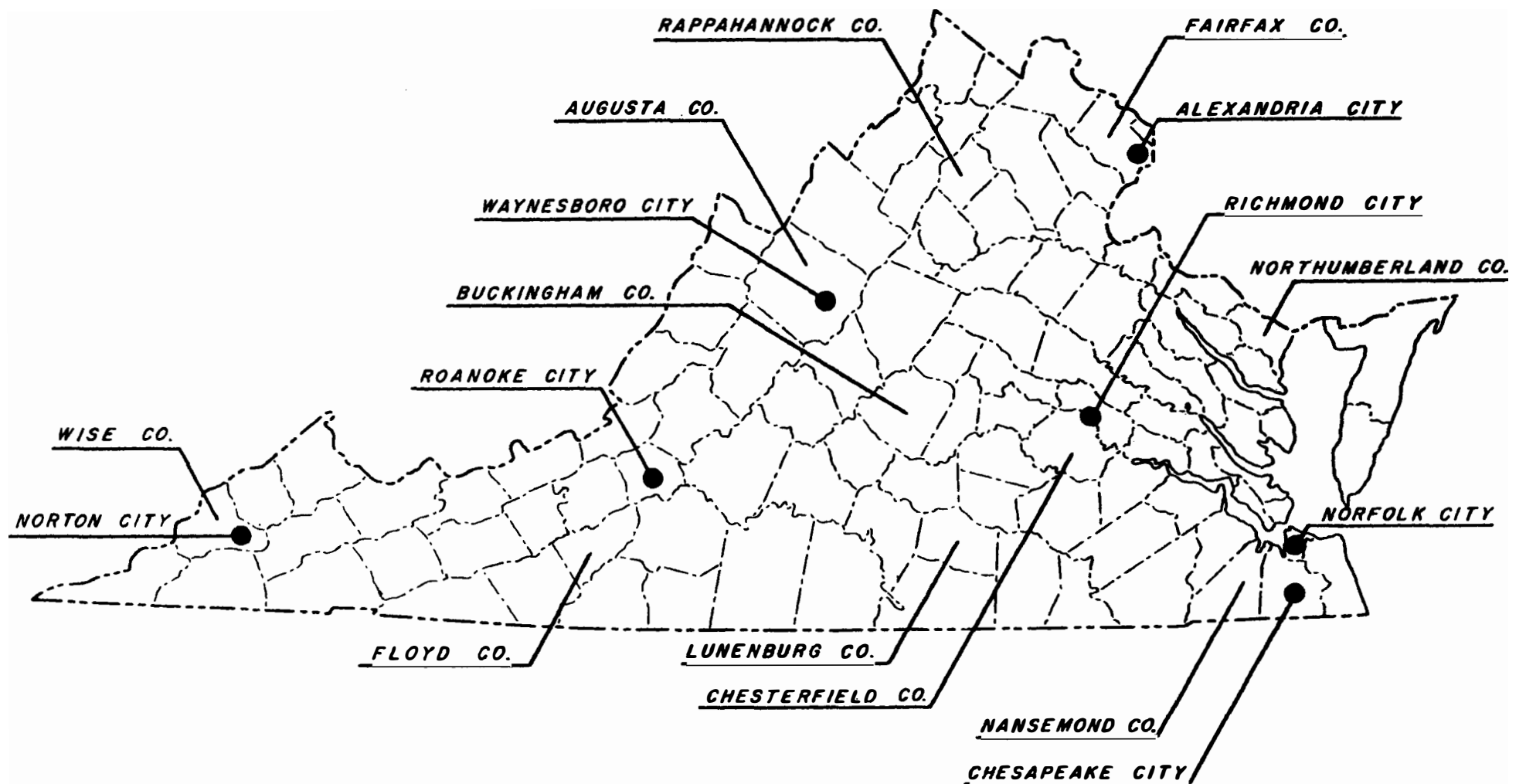
Introduction

In this study we develop a framework of analysis to assist the Revenue Resources and Economic Study Commission in making decisions. We do this by making projections, investigating alternatives, and evaluating the results. Final recommendations are not provided, since they are the prerogative of the members of the commission.

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

Throughout the study the projection period extends to 1979-80, 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 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.

CHART 1.1-CITIES AND COUNTIES IN 17 AREA SAMPLE



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 effort and capacity, 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 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 state revenues. It is, nevertheless, the focus of most of the legislative appropriation process and therefore 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.

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 one-time stimulants 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 rise in general fund revenues, particularly in the second half of the decade. Instead of growth of about 20 to 22 percent per biennium, revenues rose by 41 percent in 1966-68 and by 46 percent in 1968-70. In the 1970-72 biennium revenues increased not quite 20 percent, reflecting the impact of the recession and slow recovery in 1970-71, some slowdown in the rate of inflation, and the 1968-70 base for calculating the relative change being swollen by one-time windfalls.

The official estimate for the 1972-74 biennium shows a gain of nearly 31 percent, resulting primarily from an expected continuation of the rapid economic expansion that began in the second half of 1971-72 and from increases in the corporate income tax rate from 5 to 6 percent and the individual income tax rate from 5 to 5.75 percent over \$12,000 of taxable income adopted by the 1972 General Assembly.

Our projections for the next three bienniums show gains of 28 percent in 1974-76, 24 percent in 1976-78, and 24 percent in 1978-80. Thus, even with the two recent rate hikes general fund revenues will not show percentage gains in the 1970's as high as those experienced in the last two bienniums of the previous decade.

Among the various sources of revenue, the individual income tax will continue to be preeminent. It presently accounts for about two-fifths of general fund revenues and is expected to represent one-half by 1978-80. Although the sales and use tax will continue to rank second in importance, its share of the total is expected to drop from 26 percent in the current biennium to 22 percent in 1978-80.

A new source of revenue to be added to the baseline forecast is federal general revenue sharing. In the next biennium there will be about \$116 million in such funds available, and in the 1976-78 biennium, about \$33 million. The program expires at the end of 1976; as a result, no funds will be available for 1978-80.

Expenditure Projections

We first make baseline projections of maintenance and operating expenditures (current outlays). These forecasts assume no change in the scope or quality of programs but do allow for growth in population-workloads and for price increases. Forecasts of future population-workloads for specific functions (e.g., enrollment in elementary and secondary schools) were obtained from the appropriate state agencies. The workload figures are crude estimates, and we take full responsibility for them--they should not be confused with more detailed figures 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,

TABLE 1.1--GENERAL FUND OPERATING EXPENSES: ACTUAL APPROPRIATIONS AND PROJECTED BASELINE EXPENDITURES 1972-74 TO 1978-80

Function	Actual Appropriations 1972-74	Projected Expenditures 1974-76	Percent Change from Previous Biennium	Projected Expenditures 1976-78	Percent Change from Previous Biennium	Projected Expenditures 1978-80	Percent Change from Previous Biennium
EDUCATION							
Elementary-Secondary Education	\$1,004,448,335	\$1,163,100,000	+15.8	\$1,285,600,000	+10.5	\$1,423,900,000	+10.8
Higher Education	384,396,580	474,500,000	+23.4	560,700,000	+18.2	642,700,000	+14.6
Other Education and Cultural	7,657,700	8,500,000	+11.0	9,700,000	+14.1	11,000,000	+13.4
HEALTH AND WELFARE							
Mental Health	117,749,150	114,700,000	-2.6	110,600,000	-3.6	114,000,000	+3.1
Public Health	59,973,640	68,000,000	+13.4	77,300,000	+13.7	87,800,000	+13.6
Medicaid	110,890,685	155,300,000	+40.0	189,500,000	+22.0	227,400,000	+20.0
Public Welfare	142,016,990	153,700,000	+8.2	166,500,000	+8.3	185,300,000	+11.3
Vocational Rehabilitation	6,872,380	8,000,000	+16.4	9,300,000	+16.3	10,900,000	+17.2
ADMINISTRATION OF JUSTICE	157,052,450	178,200,000	+13.5	202,400,000	+13.6	229,900,000	+13.6
RESOURCE AND ECONOMIC DEVELOPMENT	57,659,095	66,200,000	+14.8	75,200,000	+13.6	85,400,000	+13.6
GENERAL ADMINISTRATION AND LEGISLATIVE							
General Administration	59,844,995	67,500,000	+12.8	76,700,000	+13.6	87,100,000	+13.6
Legislative	7,142,220	8,300,000	+16.2	9,500,000	+14.5	10,700,000	+12.6
TRANSPORTATION	8,578,770	9,500,000	+10.7	10,700,000	+12.6	12,200,000	+14.0
UNALLOCATED BY FUNCTION							
Employee Benefits	62,211,655	73,900,000	+18.8	83,900,000	+13.5	95,300,000	+13.6
State Aid to Localities--Shared Revenues	33,600,000	37,300,000	+11.0	40,500,000	+8.6	43,200,000	+6.7
Debt Service	17,794,400	16,700,000	-6.2	15,600,000	-6.6	14,600,000	-6.4
Other	33,218,415	56,700,000	+70.7	64,400,000	+13.6	73,200,000	+13.7
TOTAL OPERATING EXPENSES	\$2,271,107,460	\$2,660,100,000	+17.1	\$2,988,100,000	+12.3	\$3,354,600,000	+12.3

Source: Table 4.20.

higher education, public welfare, and medicaid are expected to account for about three-fourths of operating expenses. For elementary-secondary education, enrollment is projected to decline slightly throughout the projection period. 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 increase more gradually than they have in the last few years. Caseloads are expected to maintain a low growth rate and the federal government will assume the program and administrative burden of old age assistance, aid to the permanently and totally disabled, and aid to the blind. 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 2.5 and 5 percent. In the other functional categories, the population served is projected to decline significantly (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 because of improvements in scope and quality. These are defined as new programs or expansion of old ones. For example, an increase in state aid to elementary-secondary education would be an expansion in scope and quality. Scope and quality expenditures grew by roughly 2.5 percent annually in the late 1960's and early 1970's, and, on average, we anticipate a similar growth rate for the 1970's.

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 about 7 percent of current outlays.

Revenue-Expenditure Gaps

We have discussed the method for deriving the baseline revenue projection and four projections of expenditures. Combining them yields the following results:

TABLE 1.2.--SUMMARY OF GENERAL FUND REVENUES AND EXPENDITURES,
1974-76 TO 1978-80 BIENNIUMS
(Millions of Dollars)

	<u>1974-76</u>	<u>1976-78</u>	<u>1978-80</u>
Baseline revenues	\$3,092.9	\$3,716.7	\$4,580.2
Expenditures			
Baseline	2,660.1	2,988.1	3,354.6
Scope and quality	2,851.6	3,489.6	4,277.3
Baseline plus capital outlay	2,843.6	3,194.3	3,586.1
Scope and quality plus capital outlay	3,048.4	3,730.4	4,572.4
Gap			
Baseline	+438.8	+728.6	+1,225.6
Scope and quality	+241.3	+227.1	+ 302.9
Baseline plus capital outlay	+249.3	+522.4	+ 994.1
Scope and quality plus capital outlay	+ 44.5	- 13.7	+ 7.8

Source: Tables 3.2 & 4.20, pp. 201,202.

Chart 1.2 displays graphically the "gaps" (revenues minus expenditures) that are projected. In the next three bienniums, we project positive gaps or surpluses for each of the first three concepts. The surpluses range from +\$438.8 million to +\$241.3 million in 1974-76, from +\$728.6 million to +\$227.1 million in 1976-78, and from +\$1,225.6 million to +\$302.9 million in the last biennium. For the fourth and broadest concept, scope and quality plus capital outlay, the gaps vary from small surpluses, +\$44.5 million in the next biennium and +\$7.8 million in 1978-80, to a small deficit, -\$13.7 million, in the 1976-78 biennium.

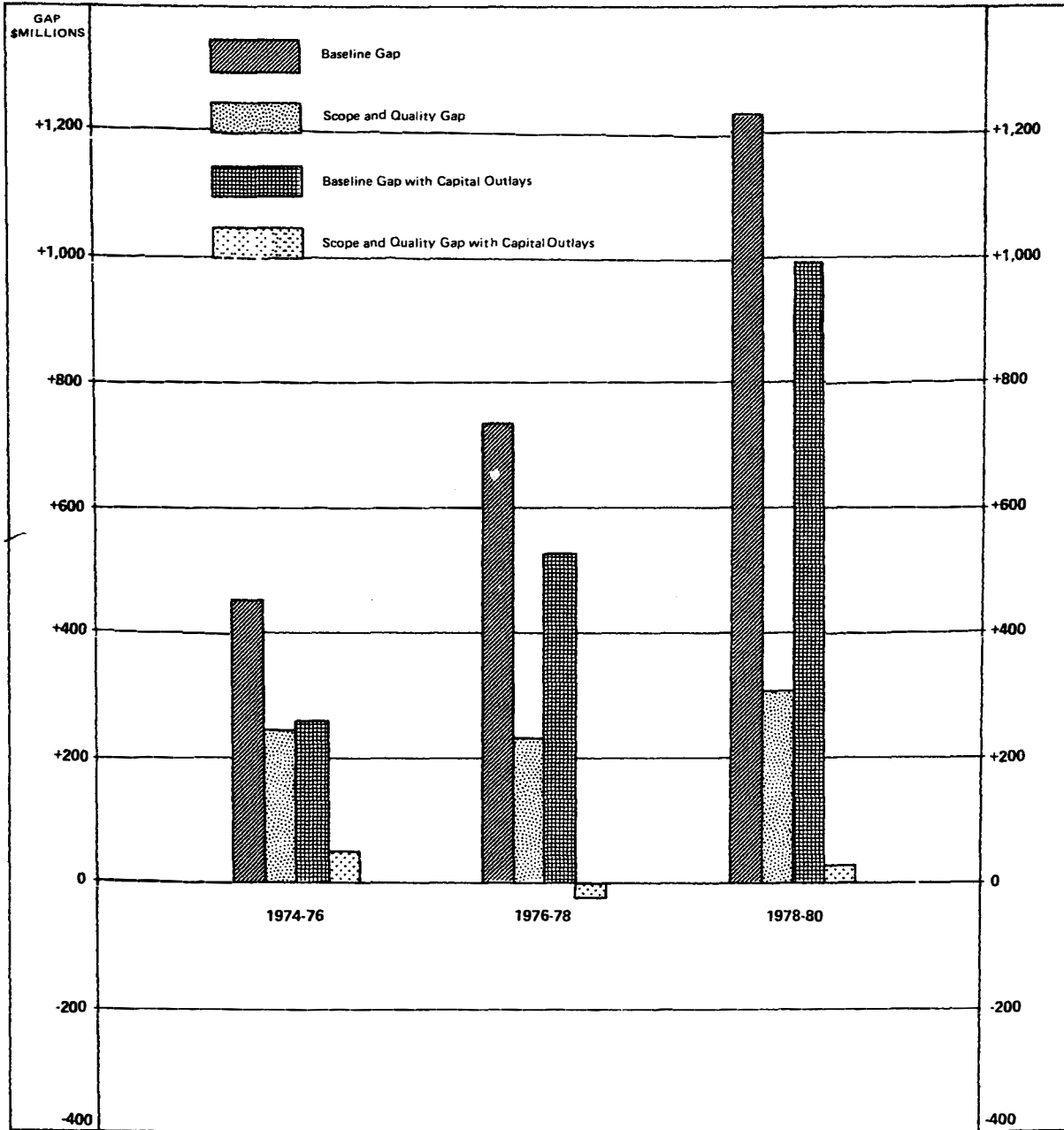
The gaps forecast are projections based on reasonable assumptions but are, of course, subject to error. Such a residual measure is particularly sensitive to estimating errors, since a small change in projected revenues or expenditures will have a magnified impact on the gap. In addition, the short-run forecasts are generally more accurate than the long-run forecasts.

Another note of caution in evaluating the gaps is that the methodology for the expenditure projections has an upward bias. 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. Moreover, there is no provision for new, lower cost methods of fulfilling program requirements.

Finally, we must emphasize the impact of the recent tax increases and federal revenue sharing on the gaps. For example, in 1974-76 the \$44.5 million surplus for scope and quality plus capital outlay would turn into a \$167.3 million deficit without them. In the following biennium, using the same concept and excluding the two would expand the deficit from \$13.7 million to \$138.8 million.

CHART 1.2

GENERAL FUND REVENUE EXPENDITURE GAP,
BIENNIUMS 1974-76 TO 1978-80



Note: Gap equals projected revenues minus
projected expenditures.

New Revenue Sources and Borrowing

If the gaps forecast are reasonably accurate, there may be no need to raise taxes or borrow for capital outlay to meet anticipated expenditure demands. There may, however, be a desire to undertake large, new programs, which would probably require additional revenue, or to have some borrowing. Alternative means of raising more revenue and the state's borrowing potential are discussed below.

New Revenue Sources

Table 1.3 summarizes the revenue potential of modifications in several general fund revenue sources. Since nearly three-fourth of the general fund is expected to come from two sources--the individual income tax and the sales and use tax--any significant changes calling for more revenue would require raising one or both of them.

For example, exclusion of food for home consumption would reduce the present sales tax base about one-fourth with a revenue loss of about \$77 million in the first year of the next biennium and about \$91 million in the second year. Additional exclusion of nonprescription drugs would raise the cost roughly \$6 million in each year. These estimates are restricted to the state's 3 percent tax; local revenues from the 1 percent local option tax would decline by one-third of the state loss.

An alternative form of relief for the sales tax paid on food and nonprescription drugs would be an individual income tax credit. It would avoid the administrative costs and difficulties that exclusion would involve. In the next biennium a \$16 credit per exemption would cost about \$76 to \$77 million per year. If the credit were limited to eligible persons with adjusted gross incomes under \$6,000, the annual cost would be about \$27 million.^{1/}

^{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.

TABLE 1.3.--PROJECTED REVENUES FROM ALTERNATIVE
CHANGES IN REVENUE STRUCTURE AND/OR RATES,
1974-76 BIENNium
(Millions of Dollars)

Revenue Source	1974-75		1975-76	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
INDIVIDUALS AND FIDUCIARIES--				
INCOME TAX				
Present structure; present rates	\$628.7	\$...	\$723.4	\$...
Present structure; rate schedule 1	696.4	+ 67.7	782.7	+ 59.3
Present structure; rate schedule 2	839.2	+210.5	907.9	+184.5
Present structure; rate schedule 3	725.3	+ 96.6	808.0	+ 84.6
Present structure; rate schedule 4	719.5	+ 90.8	803.0	+ 79.6
Present structure; rate schedule 5	714.6	+ 85.9	798.6	+ 75.2
Present structure; rate schedule 6	551.9	- 76.8	656.1	- 67.3
Present structure; rate schedule 7	665.9	+ 37.2	756.0	+ 32.6
Present structure; rate schedule 8	738.5	+109.8	819.6	+ 96.2
Present structure; rate schedule 9	733.5	+104.8	815.3	+ 91.9
 \$750 exemption; present rates	 589.4	 - 39.3	 692.0	 - 31.4
TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION)				
\$16 credit per exemption	-76.2	-76.2	-77.3	- 77.3
\$16 credit per exemption but limited to AGI of under \$6,000	-26.6	-26.6	-27.0	- 27.0
INHERITANCE TAX				
Present structure; present rates	18.3	...	20.2	...
Present structure with inclusion of insurance; present rates	19.0	+ .7	21.5	+ 1.3
Proposed structure; proposed rates	19.4	+1.1	22.3	+ 2.1
CROWN TAX ON SOFT DRINKS				
Average per capita revenue of states with the tax	9.7	+9.7	11.3	+ 11.3
TOBACCO PRODUCTS TAX				
Present structure; present rates	16.1	...	16.3	...
Present structure; 5 cent rate; no change in sales	32.2	+16.1	32.6	+ 16.3
Present structure; 5 cent rate; 5% drop in sales	30.6	+14.5	31.0	+ 14.7
Present structure; 5 cent rate; 10% drop in sales	29.0	+12.9	29.3	+ 13.0
Present structure; 5 cent rate; 20% drop in sales	25.8	+ 9.7	26.1	+ 9.8
STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION)				
Present structure; present rate	350.0	...	380.8	...
Present structure; 4% rate	457.5	+107.5	507.7	+126.9
Excluding food purchases; present rate	272.6	- 77.4	289.4	- 91.4
Excluding food purchases; 4% rate	354.3	+ 4.3	385.9	+ 5.1
Excluding food and nonprescription drugs; present rate	267.1	- 82.9	282.9	- 97.9
Excluding food and nonprescription drugs; 4% rate	346.9	- 3.1	377.2	- 3.6
Adding selected services; present rate	381.6	+ 31.6	418.1	+ 37.3
Adding selected services; 4% rate	499.6	+149.6	557.4	+176.6
PARI-MUTUEL BETTING AND LOTTERY				
Pari-mutuel betting	From two racing facilities the state could expect about \$3 million in the first year of operation, \$7.5 million after two or three years, and around \$10 million after five years. Only the \$3 million figure might be achieved in the next biennium.			
Lottery	Estimated receipts for a year range between \$9.5 million and \$47 million depending on the degree of public acceptance.			

Note: For a summary of the methodology, see notes to Table 3.35. For additional detail, see the discussion of each source in Chapter III.

An increase in the state sales tax rate to 4 percent would come within \$3 million annually of offsetting the revenue loss caused by elimination of food and nonprescription drugs from the tax base. Making the sales tax applicable to selected services not presently taxed would expand the base by nearly 10 percent, or \$31.4 million in 1974-75 and \$37.3 million in 1975-76. This extra revenue could cover the cost of the \$16 credit for persons with incomes under \$6,000. Adoption of one of the nine alternative individual income tax rate schedules in Table 1.4 would also make up for the decline in revenues caused by exclusion or a credit. As an illustration, schedule 4 would more than replace the revenues lost through a \$16 credit for every exemption in the 1974-76 biennium.

Borrowing

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

<u>Year</u>	<u>Millions of Dollars</u>
1974	\$208.1
1976	76.0
1978	81.5

Source: Table 4.25.

Thus, the new debt provisions will permit large new borrowings in the next three bienniums if the General Assembly and the voters wish to use the maximum authority. Only in the 1974-76 bienium, however,

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

Present Rate Schedule

<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%
\$3,001 - \$5,000	3%
\$5,001 - \$12,000	5%
\$12,001 and over	5.75%

Proposed Rate Schedules

<u>Schedule 1</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%
\$3,001 - \$5,000	3%
\$5,001 and over	6%

<u>Schedule 2</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	3%
\$3,001 - \$5,000	4%
\$5,001 and over	6%

<u>Schedule 3</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 and over	6%

<u>Schedule 4</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 - \$10,000	5%
\$10,001 and over	7%

<u>Schedule 5</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 - \$8,000	5%
\$8,001 - \$15,000	6%
\$15,001 and over	7%

<u>Schedule 6</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$5,000	2%
\$5,001 - \$8,000	3%
\$8,001 - \$15,000	5%
\$15,001 - \$25,000	7%
\$25,001 and over	8%

<u>Schedule 7</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%
\$3,001 - \$5,000	3%
\$5,001 - \$10,000	5%
\$10,001 - \$25,000	6%
\$25,001 - \$50,000	7%
\$50,001 and over	8%

<u>Schedule 8</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 - \$10,000	5%
\$10,001 - \$25,000	7%
\$25,001 - \$50,000	8%
\$50,001 and over	9%

<u>Schedule 9</u>	
<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%
\$2,001 - \$5,000	3%
\$5,001 - \$8,000	5%
\$8,001 - \$15,000	6%
\$15,001 - \$25,000	7%
\$25,001 - \$50,000	8%
\$50,001 and over	9%

could the maximum debt that could be authorized (\$208.1 million) completely substitute for general fund revenues as a method of financing projected capital outlays (\$196.8 million with \$183.5 million in base-line capital outlays and \$13.3 million in scope and quality capital outlays). In the last two bienniums, maximum debt authorizations would cover only about 30 percent of projected capital outlays. Of course, any new authorized debt would have to be serviced out of general fund revenues. We project 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>
1974-76	\$20.3
1976-78	46.4
<u>1978-80</u>	<u>59.1</u>

Source: Table 4.26.

Other Tax Issues

For several general fund revenue sources we investigate issues that involve equity considerations rather than revenue potential. In the public service corporation area, we study the state and local taxes paid by two competitive modes of transportation, railroads and trucks. Our evidence indicates that railroads pay more taxes than trucks, and from this we can conclude either that trucks ought to pay more or that railroads ought to pay less.

Under the individual income tax the retirement income of state and federal government employees and military personnel is excluded to some degree from taxation. These exclusions violate the notion of horizontal equity, or "equal treatment of equals." For example, the retiree with an industrial pension receives no exclusion, and wage earners probably

have expenses in connection with raising a family much greater than those of most retirees. Solutions to the problem would be eliminating the exclusions entirely or limiting them to the middle and lower income brackets.

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

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

According to our projections, local revenues will grow at an average annual rate of 7.2 percent during the next seven years. This compares with an annual growth rate of 13.2 percent from 1965-66 to 1970-71. The major reason for the difference is the adoption of the sales and use tax during the earlier period. Separating revenues into their two major components, we project a 9.4 percent average annual increase in local sources and a 6.3 percent annual increase in state and federal transfers, which include federal general revenue sharing.

Local Expenditure Projections

The basic projection methodology is the same as for general fund

outlays, but we merge current and capital outlay expenditures because of a lack of detailed data. From 1972-73 to 1979-80, total baseline plus capital outlay expenditures are projected to grow at an average annual rate of 5.1 percent. During this time, education, public welfare, police and fire protection, and sewerage and sanitation will remain the major expenditure items and will account for nearly three-fourths of total expenditures by fiscal year 1979-80. Scope and quality changes are allowed for by assuming a 5.2 percent average annual increase in the baseline projections of outlays financed from own sources in fiscal year 1971-72.

Local Revenue-Expenditure Gaps

Positive baseline and scope and quality gaps are forecast through 1979-80 (see Table 1.5 and Chart 1.3). The gap estimates are subject to the same limitations as previously mentioned for the general fund.

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 percent annually), then the following amounts will be available from borrowing in each fiscal year:

	(Millions of Dollars)						
	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
Borrowing	\$173.5	\$187.3	\$202.3	\$218.5	\$236.0	\$254.9	\$275.3
Less allowance for debt service	39.5	58.0	77.6	98.2	120.1	143.5	168.4
Amount available ^{a/}	\$134.0	\$129.3	\$124.7	\$120.3	\$115.9	\$111.4	\$106.9

^{a/} Although debt service costs would come from current outlays, we have assumed that they would have the effect of reducing total funds available for financing a negative gap.

Source: Table 5.13.

Such borrowing could substitute for the use of current revenues for capital projects.

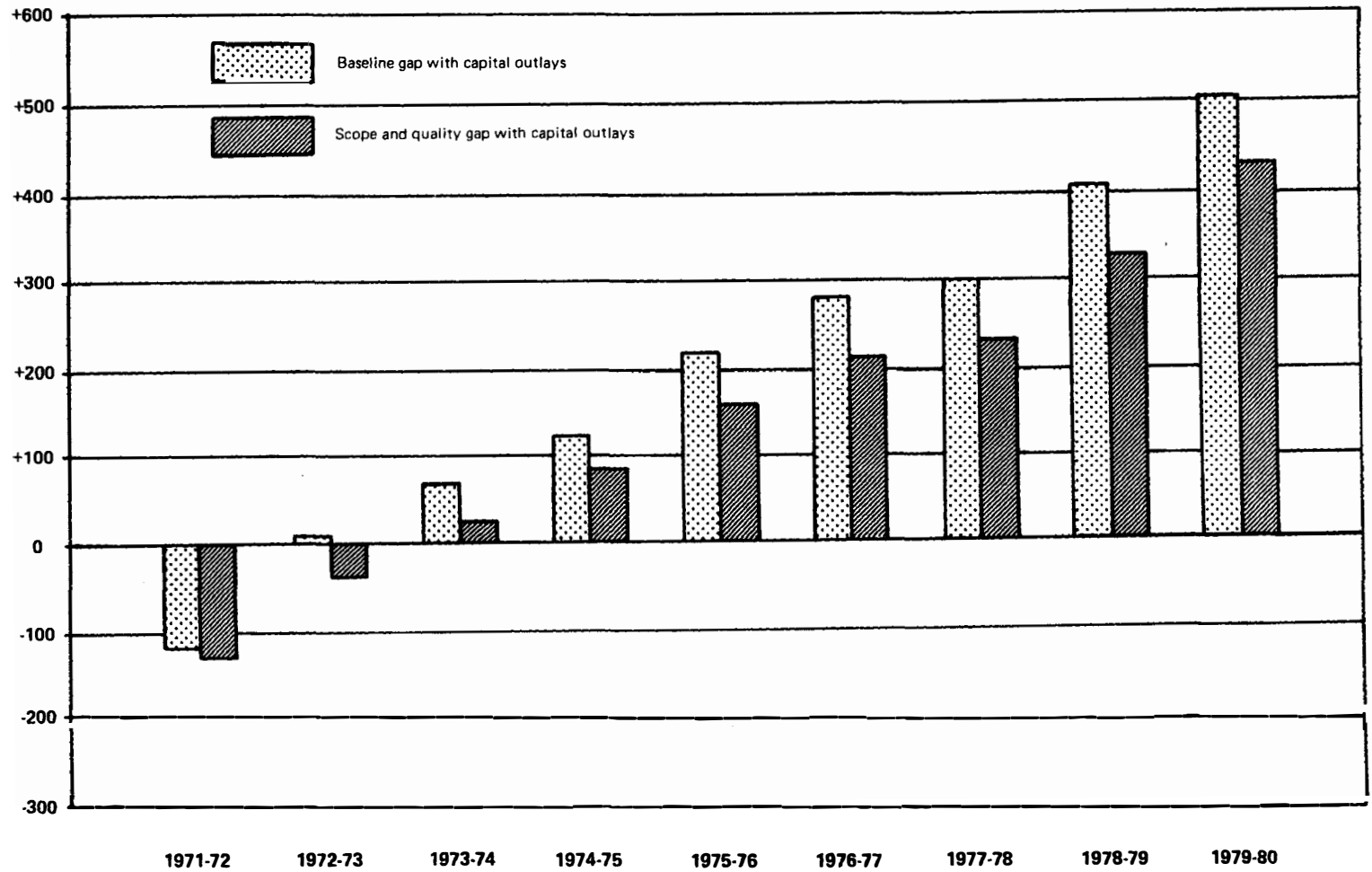
TABLE 1.5.--SUMMARY OF LOCAL GOVERNMENT REVENUES AND EXPENDITURES
FISCAL YEARS 1973-74 TO 1979-80
(Millions of Dollars)

	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
Revenues	\$2,294.2	\$2,453.2	\$2,625.6	\$2,788.2	\$2,918.4	\$3,134.9	\$3,367.1
Expenditures							
Baseline plus capital outlay	2,219.8	2,312.4	2,410.3	2,511.6	2,618.8	2,737.3	2,860.5
Scope and quality plus capital outlay	2,272.3	2,367.9	2,468.7	2,574.2	2,688.2	2,810.3	2,937.3
Gap							
Baseline plus capital outlay	+74.4	+140.8	+215.3	+276.6	+299.6	+397.6	+506.6
Scope and quality plus capital outlay	+21.9	+85.3	+156.9	+214.0	+230.2	+324.6	+429.8

Sources: Tables 5.10 and 5.12.

CHART 1.3
LOCAL GOVERNMENT REVENUE
EXPENDITURE GAP, FISCAL YEARS
1971-72 TO 1979-80

GAP
 \$ MILLIONS



Note: Gap equals projected revenues minus projected expenditures

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. In the recent past, the weighted average true tax rates per \$100 of real estate were as follows: 1962 (\$0.92); 1964 (\$0.99); 1966 (\$1.00); 1968 (\$1.05); 1970 (\$1.10); and 1971 (\$1.06). Continuation of this trend, even by a modest amount, would offer a substantial increase in revenues. Also, any new federal and state aid would be additional sources of revenue not included in the baseline revenue projections.

The fiscal projections in this study are for all local governments, and the estimates are done on an overall, not an additive, basis. The projections therefore 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 optimistic as for local governments in general.

Chapter VI covers the principal devices that the state could use to assist local governments, and a synopsis is provided here. Before discussing them, we must note 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 19 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. 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 1971, the weighted average for all localities was \$1.06 per \$100 of true value. But this measure was strongly affected by the heavily populated urban areas; 105 of the localities had rates lower than the weighted average. The median rate of only \$0.67 reflects this. Improvements in property tax administration could follow the eight recommendations for reform made by the Governor's Committee on State-Local Cooperation in 1971.^{1/}

State Aid to Localities

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

Revenue Sharing

The term "revenue sharing" is now popularly associated with the federal program, but the concept also applies to state government. In Virginia, we already have revenue sharing with the sales and use tax, A.B.C. profits, and the wine 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 with the amount available depending on the increase in rates. Table 1.3 indicates the additional revenues that

^{1/} The property tax is currently under study by the Office of Finance.

nine alternative rate schedules would produce in the next biennium. 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. 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 allocator 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 \$108 million in fiscal year 1974-75.

Participation in Local Expenditure Programs

The state already plays a major role in financing local governments. In 1970-71, 37 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 38 percent of the cost. For 1973-74 the major types of state aid are the basic school aid fund, the local share of the state sales and use tax, and state paid fringe benefits. Together these programs account for \$9 out of every \$10 of

state aid. For the 1974-76 biennium it will be necessary to develop a new method for distributing state aid, since the Attorney General has ruled that use of the basic school aid formula does not conform to state constitutional requirements for funding the actual cost of quality education. Major concepts likely to be incorporated into a new aid program for the next biennium are: (1) a new measure of local fiscal capacity that will include local personal income and taxable sales in addition to the true value of real estate; (2) a new formula that will incorporate a local fiscal capacity measure and a standards of quality cost per pupil; (3) aid for compensatory education that would be distributed on the basis of local poverty measures or test scores; (4) aid for capital outlays; and (5) recognition of differences in local costs, particularly those between urban and rural areas.^{1/}

Welfare

Welfare funding is becoming more and more a federal and state responsibility. On January 1, 1972, the state assumed 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. However, all of these programs, with the exception of aid to families with dependent children, are scheduled to be taken over completely by the federal government on January 1, 1974. Localities will continue to be responsible for their share of public assistance costs for the three state-local programs--general relief, foster care and hospitalization of the indigent--and administrative costs.

^{1/} At present, state aid to education is being studied by the Task Force on Financing the Standards of Quality.

Complete state takeover of local welfare costs would have cost the state about \$12.7 million in 1971-72 and would have primarily helped the central cities with their high welfare loads.^{1/}

Health

The State Department of Health now operates all local health departments 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 have all localities paying the same share. Ninety percent funding by the state in 1971-72 would have required an additional \$10.4 million.

Highways

Highways are an important cost item to the municipalities and two counties that 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 \$20 million extra in fiscal year 1970-71 for local governments maintaining their own highways.

New Local Tax Powers

Local governments receive their taxing 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.

^{1/} This estimate assumes the circumstances prevailing as of January 1, 1974. As of that date the federal government becomes responsible for all administrative and program costs for old age assistance, aid to the permanently and totally disabled, and aid to the blind, but the state continues to pay the non-federal share of assistance costs for aid to families with dependent children.

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, 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. A local tax could then 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 \$165 million in 1974-75 and \$145 million in 1975-76.^{1/} 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 taxpayer residence.

^{1/} The projected changes for 1974-75 include seventeen months of revenues because an effective date of January 1, 1974, with a thirty day collections lag is assumed.

Additional 1 Percent Local Option Sales and Use Tax

All localities impose a 1 percent local option sales tax that 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 \$108 million would be made available in fiscal year 1974-75.

Concluding Remarks

Our analysis indicates that during the 1970's revenues from the present tax system will keep up with or exceed expenditures at both the state and local levels. At the same time, the introduction of any large new programs would probably require additional revenue. The most likely source of these revenues would be either the individual income tax or the sales and use tax.

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 five 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, intergovernmental relationships, and county and city fiscal capacity and effort.

Population

In 1970, the census count for Virginia was 4,651,448. This was equivalent to a 1.6 percent average annual growth rate since 1960--a rate of increase about one-third higher than the national average. The state's natural increase rate (births minus deaths per 1,000 population) is now quite close to the national average, so differences in growth are attributable mainly to migration.

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

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

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 763,000 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 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. In 1970 and 1971 both activities experienced slight downturns in Virginia and the trend continued into 1972 for federal government employment, but manufacturing employment increased significantly having its best year since 1968.

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 reason 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

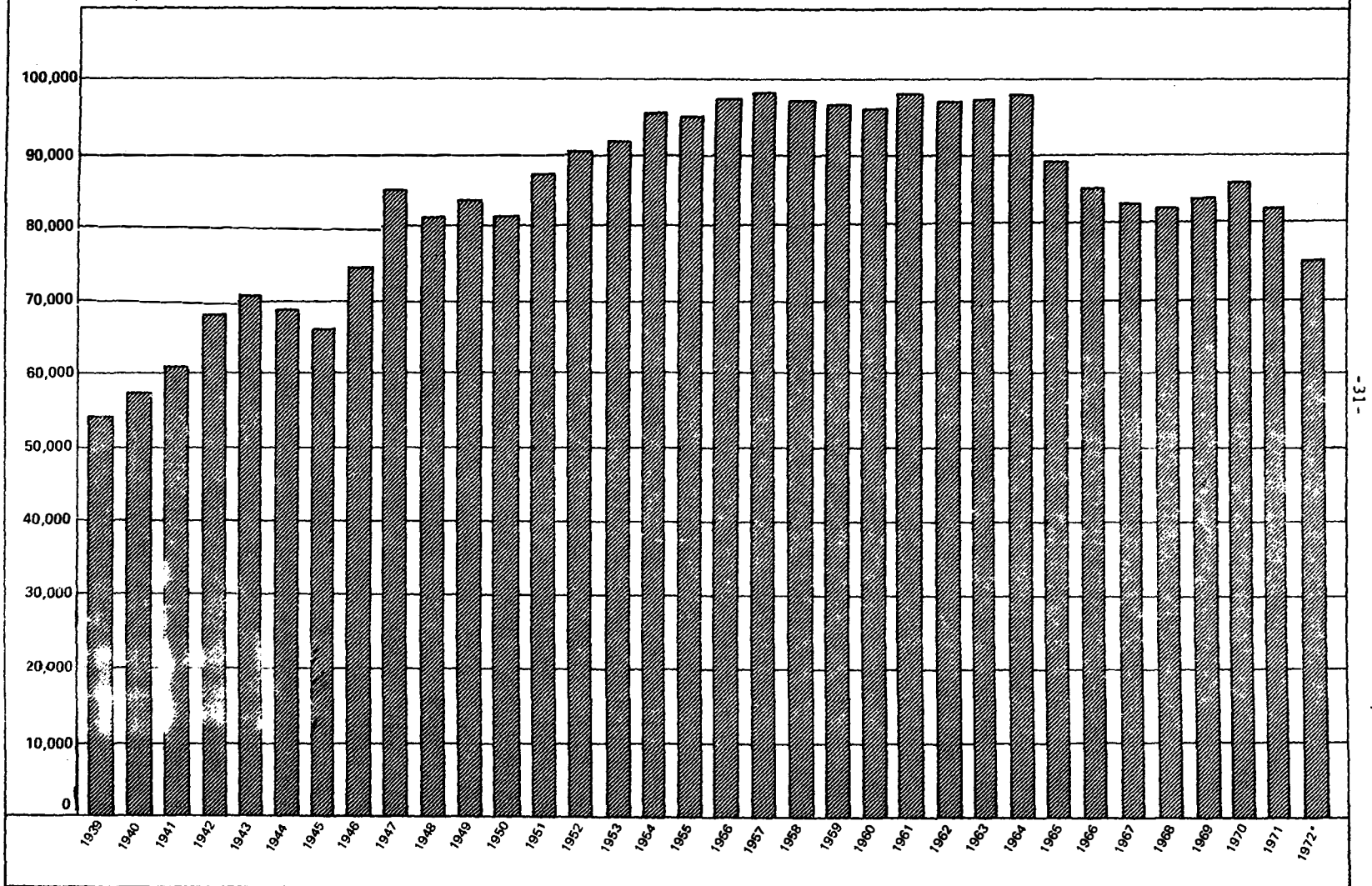
Source: Robert J. Griffis, "Virginia's Population", a staff paper prepared in the Office of Research and Information, Division of State Planning and Community Affairs (December 3, 1970).

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.

CHART 2.1

VIRGINIA BIRTHS, 1939 TO 1972



Source: Virginia Department of Health

*Preliminary Estimate

The lag time between births and enrollment is very brief for public schools, amounting to only five years. The early grades in primary schools are now being affected by the downturn in births that began in 1965, and the low number of births in the 1960's will have a dramatic effect on public school enrollment for the remainder of the current decade. In some years of the 1970's public school enrollment will be lower than in the 1960's.

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

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

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

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

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

	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 total personal income has grown at an average annual rate of 9.0 percent, a rate higher than the national average of 7.5 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 1961, Virginia per capita income was 83.8 percent of the national average; ten years later, it was 93.8 percent (see Table 2.4). The Virginia per capita personal income annual growth rate during this period was 7.5 percent - significantly higher than the U. S. average of 6.2 percent.

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 19.1 percent of all personal income in the Commonwealth compared with 5.3 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 1972

Year	Personal Income					
	Total (\$Mil.)			Per Capita		
	Va.	U.S.	% of U.S.	Va.	U.S.	% of U.S.
1950	\$ 4,070	226,214	1.80	\$1,228	1,496	82.1
1951	4,763	253,232	1.88	1,387	1,652	84.0
1952	5,150	269,769	1.91	1,470	1,733	84.8
1953	5,292	285,456	1.85	1,488	1,804	82.5
1954	5,338	287,607	1.86	1,501	1,785	84.1
1955	5,638	308,266	1.83	1,571	1,876	83.7
1956	6,084	330,479	1.84	1,634	1,975	82.7
1957	6,349	348,460	1.82	1,652	2,045	80.8
1958	6,591	358,474	1.84	1,684	2,068	81.4
1959	6,995	380,964	1.84	1,770	2,161	81.9
1960	7,340	398,726	1.84	1,842	2,216	83.1
1961	7,777	414,411	1.88	1,899	2,265	83.8
1962	8,443	440,189	1.92	2,020	2,370	85.2
1963	8,983	463,054	1.94	2,101	2,458	85.5
1964	9,905	494,912	2.00	2,273	2,590	87.8
1965	10,718	535,948	2.00	2,430	2,770	87.7
1966	11,684	583,828	2.00	2,622	2,987	87.8
1967	12,741	625,576	2.04	2,826	3,170	89.1
1968	14,123	684,745	2.06	3,098	3,436	90.2
1969	15,461	746,449	2.07	3,351	3,708	90.4
1970	16,986	801,493	2.12	3,650	3,933	92.8
1971	18,400	857,085	2.15	3,899	4,156	93.8
1972	20,287	932,420	2.18	4,258	4,478	95.1

Note: Includes Alaska and Hawaii for 1960-71, but not in earlier years.

Source: Survey of Current Business, Vol. 53, No. 4 (April, 1973), pp. 22 and 26; Vol. 52, No. 8 (August, 1972), pp. 24 and 26; Vol. 49, No. 4 (April, 1969), pp. 22 and 26.

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 (72.9 percent) than nationally (66.3 percent).

The composition of Virginia's personal income has changed significantly in the last twenty-one 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 72.9 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 1.0 percent in 1971.

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 1971 than in 1950, but was greater than in some of the intervening years. Increases in federal programs have made transfer payments a much more important source of personal income in 1971 (9.3 percent) than they were in 1950 or 1960 (both 6.2 percent).

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 1962-63 to 1971-72 period. It showed that for each 1 percent gain in GNP, personal income rose by about 1.2 percent. The elasticity measure was applied to projections of GNP in order to develop figures for personal income.

TABLE 2.5.--PERCENTAGE DISTRIBUTION OF PERSONAL INCOME PAYMENTS BY SOURCE,
VIRGINIA, 1950 TO 1971, AND UNITED STATES, 1971

Percent of Total						
Type of Income	Virginia					United States 1971
	1950	1960	1965	1970	1971	
Total personal income.....	100.0	100.0	100.0	100.0	100.0	100.0
Wage and salary disbursements.....	68.9	72.7	72.8	73.3	72.9	66.3
Farm.....	1.3	0.8	0.4	.3	.3	.4
Mining.....	1.5	0.9	0.7	.7	.7	.7
Contract construction.....	3.6	4.0	4.7	4.3	4.4	4.1
Manufacturing.....	15.1	15.8	15.6	14.3	14.0	18.7
Wholesale and retail trade.....	10.0	10.6	10.4	10.2	10.2	11.1
Fin., ins., and real estate.....	2.2	2.7	2.8	2.9	3.0	3.5
Transportation, communications, and public utilities.....	6.5	6.3	5.3	4.9	5.0	5.0
Services.....	5.6	7.1	7.5	8.1	8.2	8.8
Government.....	22.8	24.3	25.3	27.5	27.0	13.9
Federal, civilian.....	10.4	11.4	11.8	12.2	12.3	3.5
Federal, military.....	8.2	7.0	6.8	7.3	6.8	1.8
State and local.....	4.2	6.0	6.7	8.0	7.9	8.6
Other industries.....	0.2	0.1	0.1	.1	.1	.1
Other labor income.....	1.4	2.5	3.0	3.3	3.5	4.3
Proprietors' income.....	15.0	9.7	8.2	6.6	6.2	8.2
Farm.....	6.4	2.6	1.9	1.2	1.0	2.0
Nonfarm.....	8.6	7.0	6.3	5.4	5.2	6.1
Property income.....	10.0	11.5	12.2	11.9	11.7	14.0
Transfer payments.....	6.2	6.2	6.6	8.5	9.3	10.9
Less: personal contributions for social insurance.....	1.5	2.5	2.7	3.6	3.7	3.6

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

Source: Survey of Current Business, Vol. 52, No. 8 (August, 1972); unpublished data from the U.S. Department of Commerce, Office of Business Economics.

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 substantial real growth and, in comparison to recent years, a limited amount of inflation. In our projections we have assumed a decline in real growth until it reaches a long-time rate of 4 percent annually beginning with fiscal year 1974-75. The inflation rate is expected to increase a bit in 1973-74, but by the second half of the decade we forecast a slowing to 3 percent annually. 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 (1974-75 to 1979-80).

Table 2.6 shows actual Virginia personal income adjusted to fiscal years for 1960-61 to 1971-72 and projections to 1979-80. 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 oranges. To get around this problem, it is best to compare combined revenue burdens of state and local governments.

In 1970-71, general revenues of all Virginia governments (state and local) from their own sources represented 13.1 percent of personal income compared

TABLE 2.6.--GROSS NATIONAL PRODUCT AND VIRGINIA PERSONAL INCOME, CURRENT DOLLARS
 ACTUAL: FISCAL YEARS 1960-61 TO 1971-72, AND
 PROJECTED: FISCAL YEARS 1972-73 TO 1979-80

PROJECTED: FISCAL YEARS 1972-73 TO 1979-80

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	
<u>Actual</u>					
1960-61	\$ 506.5	+2.2	\$ 7,558	+5.5	2.50
1961-62	541.7	+6.9	8,112	+7.3	1.06
1962-63	574.5	+6.0	8,716	+7.4	1.23
1963-64	611.6	+6.4	9,446	+8.4	1.31
1964-65	655.6	+7.2	10,293	+9.0	1.25
1965-66	718.5	+9.6	11,228	+9.1	0.95
1966-67	771.4	+7.4	12,163	+8.3	1.12
1967-68	827.0	+7.2	13,405	+10.2	1.42
1968-69	899.0	+8.7	14,823	+10.6	1.22
1969-70	955.1	+6.2	16,254	+9.7	1.56
1970-71	1,010.6	+5.8	17,662	+8.7	1.50
1971-72	1,095.9	+8.4	19,318	+9.4	1.12
<u>Projections</u>					
1972-73	1,208.4	+10.3	21,628	+12.0	1.16
1973-74	1,308.0	+8.2	23,846	+10.2	1.24
1974-75	1,406.1	+7.5	26,069	+9.3	1.24
1975-76	1,505.9	+7.1	28,368	+8.8	1.24
1976-77	1,612.8	+7.1	30,869	+8.8	1.24
1977-78	1,727.3	+7.1	33,592	+8.8	1.24
1978-79	1,849.9	+7.1	36,554	+8.8	1.24
1979-80	1,981.2	+7.1	39,777	+8.8	1.24

Sources: GNP, Data for 1960.3-1966.4: BCD (December, 1969), p. 108; Data for 1967.1-1968.4: BCD (August, 1971), p.100; Data for 1969.1-1972.2: BCD (August, 1972), p. 69; Virginia Personal Income, Data for Years 1958-1963: 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; Year 1967: Survey of Current Business (October, 1970), p. 13; Year 1968: Survey of Current Business (October, 1971), p. 18; Years 1969-1972.2: Survey of Current Business (October, 1972), p. 17.

with the national average of 14.9 percent.^{1/}

Since 1958-59 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 to 13.0 percent in 1971 (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 81.2 percent of the national average in 1970-71, 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. The foregoing remarks about the state's relative position are for the most part unchanged. The state's figure was 80.9 percent of the national average, and it

^{1/} Source: U. S. Bureau of the Census, Governmental Finances in 1970-71, GF71, No. 5 (Washington: Government Printing Office, 1972), 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 1970-71^{a/}

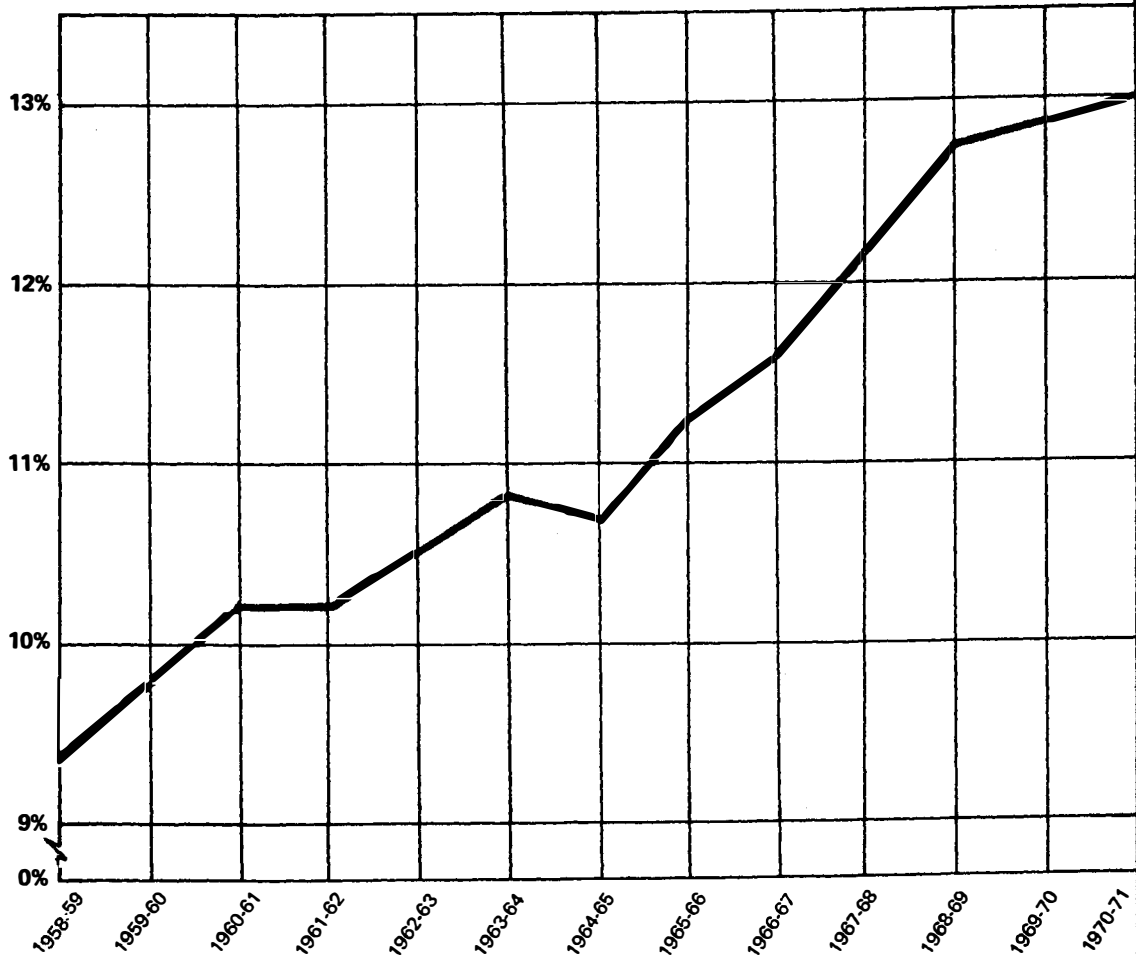
<u>Fiscal Year</u>	<u>General Revenue from Own Sources (\$Mil.)</u>	<u>Personal Income (\$Mil.)</u>	<u>General Revenue from Own Sources As a % of Personal Income</u>
1958-59	\$ 620.7	\$ 6,593	9.4
1959-60	685.7	6,994	9.8
1960-61	745.2	7,339	10.2
1961-62	792.3	7,776	10.2
1962-63	886.3	8,448	10.5
1963-64	968.4	8,984	10.8
1964-65	1,059.4	9,909	10.7
1965-66	1,203.7	10,725	11.2
1966-67	1,343.8	11,688	11.5
1967-68	1,536.8	12,740	12.1
1968-69	1,796.0	14,154	12.7
1969-70	1,985.2	15,461	12.8
1970-71	2,205.0	16,986	13.0

^{a/} Personal income for the whole year which represents the first part of the fiscal year, e.g., personal income for calendar year 1970 is compared with general revenue for fiscal year 1970-71.

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. 52, No. 8 (August, 1972), p. 25.

CHART 2.2

VIRGINIA STATE AND LOCAL GENERAL
REVENUE FROM OWN SOURCES AS A
PERCENTAGE OF PERSONAL INCOME
FISCAL YEARS 1958-59 TO 1970-71



Source: Table 2.7.

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TABLE 2.8--PER CAPITA AMOUNTS OF STATE AND LOCAL GENERAL REVENUE
FROM OWN SOURCES, FISCAL YEAR 1970-71

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Percent of U.S. Average</u>
1	Alaska	\$1,052.72	182.8
2	New York	820.41	142.5
3	Nevada	781.60	135.7
4	Hawaii	767.61	133.3
5	California	739.40	128.4
6	Wyoming	707.49	122.9
7	District of Columbia	691.76	120.1
8	Delaware	682.18	118.4
9	Wisconsin	652.83	113.4
10	Washington	648.60	112.6
11	Minnesota	646.16	112.2
12	Massachusetts	626.42	108.8
13	Maryland	624.76	108.5
14	Michigan	621.71	108.0
15	Connecticut	617.95	107.3
16	Illinois	602.57	104.6
17	Vermont	595.31	103.4
18	New Jersey	589.85	102.4
19	North Dakota	588.31	102.2
20	Arizona	586.35	101.8
21	Colorado	584.77	101.5
22	Iowa	577.80	100.3
23	Nebraska	574.34	99.7
24	South Dakota	568.15	98.7
25	New Mexico	554.79	96.3
26	Oregon	549.25	95.4
27	Rhode Island	541.33	94.0
28	Kansas	537.03	93.3
29	Montana	533.82	92.7
30	Pennsylvania	525.37	91.2
31	Louisiana	519.13	90.1
32	Indiana	516.72	89.7
33	Idaho	510.78	88.7
34	Utah	503.86	87.5
35	Florida	496.02	86.1
36	Maine	483.68	84.0
37	Ohio	476.79	82.8
38	VIRGINIA	467.75	81.2
39	New Hampshire	463.30	80.4
40	Georgia	455.83	79.2
41	Oklahoma	454.98	79.0
42	Texas	453.63	78.8
43	Missouri	451.15	78.3
44	Mississippi	435.96	75.7
45	North Carolina	424.12	73.6
46	Kentucky	422.54	73.4
47	West Virginia	417.29	72.5
48	Alabama	404.05	70.2
49	Tennessee	401.30	69.7
50	South Carolina	386.10	67.0
51	Arkansas	361.55	62.8
Exhibit:			
	United States Average	\$575.89	100.0
	Median State	549.25	95.4

Source: U.S. Bureau of the Census, Governmental Finances in 1970-1971, Series GF71, No. 5 (Washington: Government Printing Office, 1972), p. 45.

TABLE 2.9.--PER CAPITA AMOUNTS OF STATE AND LOCAL TAXES, FISCAL YEAR 1970-71

<u>Rank</u>	<u>State</u>	<u>Per Capita Taxes</u>	<u>Percent of U.S. Average</u>
1	New York	\$ 688.60	149.5
2	Hawaii	613.69	133.3
3	California	603.22	131.0
4	District of Columbia	585.97	127.3
5	Nevada	579.30	125.8
6	Massachusetts	548.54	119.1
7	Wisconsin	534.90	116.1
8	Connecticut	533.19	115.8
9	Illinois	513.48	111.5
10	Maryland	508.17	110.4
11	Delaware	499.49	108.5
12	New Jersey	498.55	108.3
13	Minnesota	497.70	108.1
14	Vermont	495.10	107.5
15	Michigan	491.33	106.7
16	Washington	486.90	105.7
17	Wyoming	482.83	104.9
18	Alaska	466.37	101.3
19	Rhode Island	465.96	101.2
20	Arizona	462.46	100.4
21	Iowa	450.76	97.9
22	Colorado	447.48	97.2
23	Pennsylvania	444.37	96.5
24	South Dakota	435.32	94.5
25	Nebraska	431.71	93.8
26	Montana	422.71	91.8
27	North Dakota	419.58	91.1
28	Kansas	416.34	90.4
29	Oregon	416.13	90.4
30	Maine	411.07	89.3
31	Indiana	401.70	87.2
32	Idaho	398.79	86.6
33	New Mexico	391.17	85.0
34	Utah	387.50	84.2
35	Louisiana	379.38	82.4
36	New Hampshire	375.20	81.5
37	Florida	374.63	81.4
38	VIRGINIA	372.29	80.9
39	Ohio	363.87	79.0
40	Missouri	360.61	78.3
41	Texas	342.66	74.4
42	North Carolina	336.27	73.0
43	West Virginia	333.96	72.5
44	Georgia	332.04	72.1
45	Oklahoma	322.99	70.1
46	Kentucky	316.30	68.7
47	Mississippi	315.18	68.4
48	Tennessee	301.94	65.6
49	South Carolina	297.53	64.6
50	Alabama	275.72	59.9
51	Arkansas	268.98	58.4
Exhibit:			
	U.S. Average	\$460.47	100.0
	Median State	422.71	91.8

Source: U.S. Bureau of the Census, Governmental Finances in 1970-1971, Series GF71, No. 5 (Washington: Government Printing Office, 1972), p. 45.

ranked thirty-eight. Compared with neighboring states, Virginia's per capita taxes were higher than in North Carolina, 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 fiscal capacity to pay. A popular device for relating revenues to capacity 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 8 percent below the national average.


Revenues from its own sources were 88.1 percent of the national average in 1970-71, and the state ranked forty-fifth (see Table 2.10). Using this measure all neighboring states except the District of Columbia made a greater revenue raising effort than Virginia.

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 \$104.29 per \$1,000 of personal income was 87.7 percent of the national average and placed it forty-first in rank. Among neighboring states, Virginia's effort exceeded that of Tennessee only.

In rather widely publicized work for the Southern Regional Education Board, Kenneth E. Quindry uses 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 amounts are then summed to show the net unutilized potential, a figure estimated by Quindry to be \$329,690,000 in 1970-71 for Virginia.^{1/}

^{1/} Kenneth E. Quindry, State and Local Revenue Potential 1971, (Atlanta: Southern Regional Education Board, 1972), p. 88.

TABLE 2.10.--STATE AND LOCAL GENERAL REVENUE FROM OWN SOURCES
PER \$1,000 OF PERSONAL INCOME, FISCAL YEAR 1970-71

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Percent of U.S. Average</u>
1	Alaska	235.36	158.3
2	Wyoming	203.64	137.0
3	North Dakota	198.97	133.8
4	South Dakota	180.60	121.5
5	New Mexico	179.40	120.7
6	Wisconsin	178.71	120.2
7	Vermont	176.50	118.7
8	Hawaii	175.82	118.3
9	Nevada	174.81	117.6
10	New York	173.21	116.5
11	Minnesota	172.00	115.7
12	Louisiana	171.69	115.5
13	Mississippi	170.08	114.4
14	Arizona	168.96	113.6
15	California	168.34	113.2
16	Washington	163.63	110.1
17	Utah	162.09	109.0
18	Idaho	161.86	108.9
19	Montana	160.92	108.2
20	Delaware	159.76	107.5
21	Iowa	158.18	106.4
22	Colorado	157.65	106.0
23	Nebraska	155.91	104.9
24	Michigan	154.84	104.2
25	Oregon	152.41	102.5
26	Maine	149.95	100.9
27	Maryland	148.85	100.1
28	Massachusetts	145.15	97.6
29	Alabama	142.97	96.2
30	Kansas	141.03	95.9
31	Kentucky	140.07	94.2
32	Florida	140.05	94.2
33	Rhode Island	140.04	94.2
34	Oklahoma	139.90	94.1
35	West Virginia	139.02	93.5
36	Georgia	138.55	93.2
37	Indiana	138.48	93.1
38	Pennsylvania	134.71	90.6
39	Illinois	134.58	90.5
40	North Carolina	133.64	89.9
41	South Carolina	133.18	89.6
42	New Hampshire	132.71	89.3
43	Tennessee	132.03	88.8
44	Texas	131.04	88.1
45	VIRGINIA 	131.04	88.1
46	Arkansas	130.75	87.9
47	New Jersey	130.15	87.5
48	Connecticut	128.76	86.6
49	District of Columbia	126.04	84.8
50	Missouri	123.49	83.1
51	Ohio	121.25	81.6
Exhibit:			
	United States Average	148.67	100.0
	Median State	149.95	100.9

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TABLE 2.11--STATE AND LOCAL TAXES PER \$1,000 OF PERSONAL INCOME
FISCAL YEAR 1970-71

<u>Rank</u>	<u>State</u>	<u>Amount</u>	<u>Percent of U. S. Average</u>
1	Vermont	\$146.77	123.5
2	Wisconsin	146.42	123.2
3	New York	145.38	122.3
4	North Dakota	141.90	119.4
5	Hawaii	140.55	118.2
6	Wyoming	139.00	116.9
7	South Dakota	138.36	116.4
8	California	137.33	115.5
9	Arizona	133.23	112.1
10	Minnesota	132.48	111.4
11	Nevada	129.55	109.0
12	Maine	127.45	107.2
13	Montana	127.40	107.2
14	Massachusetts	127.09	106.9
15	New Mexico	126.50	106.4
16	Idaho	126.37	106.3
17	Louisiana	125.47	105.6
18	Utah	124.66	104.9
19	Iowa	123.39	103.8
20	Mississippi	122.96	103.4
21	Washington	122.83	103.3
22	Michigan	122.37	102.9
23	Maryland	121.07	101.9
24	Colorado	120.64	101.5
25	Rhode Island	120.53	101.4
26	Nebraska	117.19	98.6
27	Delaware	116.96	98.4
28	Oregon	115.47	97.1
29	Illinois	114.67	96.5
30	Pennsylvania	113.94	95.8
31	West Virginia	111.25	93.6
32	Connecticut	111.10	93.5
33	New Jersey	110.00	92.5
34	Kansas	109.34	92.0
35	Indiana	107.65	90.6
36	New Hampshire	107.48	90.4
37	District of Columbia	106.76	89.8
38	North Carolina	105.96	89.1
39	Florida	105.77	89.0
40	Kentucky	104.85	88.2
41	VIRGINIA ↗	104.29	87.7
42	Alaska	104.26	87.7
43	South Carolina	102.63	86.3
44	Georgia	100.92	84.9
45	Tennessee	99.33	83.6
46	Oklahoma	99.31	83.5
47	Texas	98.98	83.3
48	Missouri	98.70	83.0
49	Alabama	97.56	82.1
50	Arkansas	97.26	81.8
51	Ohio	92.53	77.8
Exhibit:			
	U. S. Average	118.87	100.0
	Median State	117.19	98.6

Source: U. S. Bureau of the Census, Governmental Finances in 1970-71, 6F71, No. 5
Washington: Government Printing Office, 1972), p. 50.

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. $(\$11.887 - \$10.429) (\$16,986,000,000) = \$247,656,000$.

This figure is \$82 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 43 states in 1970-71, the weighted average for states with the tax is much higher than a 50-state weighted average. For example, using Quindry's data, the 43 state weighted average for states with the individual income tax was \$16.891 per \$1,000 of personal income, but based on 50 states and the District of Columbia, the average was \$13.852.^{1/} By using the 43 state average Quindry shows that Virginia collected \$2,190,000 above the yield collectible at the "average rate."^{2/} Substitution of the average of the 50 states and D. C. raises the comparable figure to \$25,488,000.

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. Using 1968-69 data, ACIR estimated Virginia's tax capacity to be \$63 million greater than its tax revenues.^{3/} If this same relationship held in 1970-71 Virginia's potential additional tax revenue if average rates were applied would have been \$78,688,000.

^{1/} Ibid., pp., 21, 42-43. The 50-state average was computed from data in the report.

^{2/} Ibid., p. 81.

^{3/} 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.

This figure is considerably lower than Quindry's \$329 million, and also lower than the \$247 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.

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.

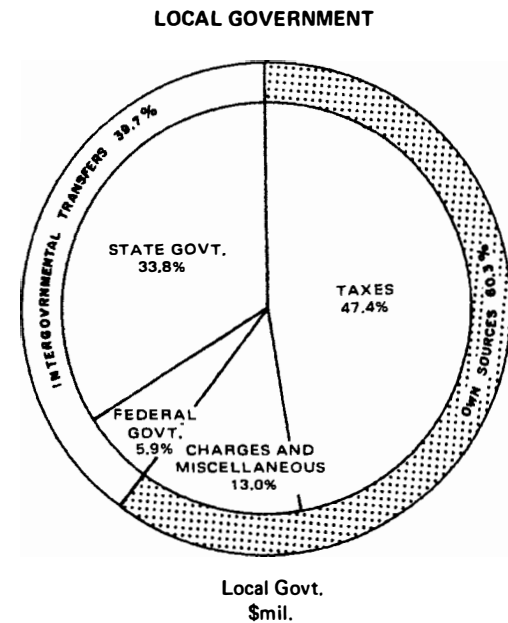
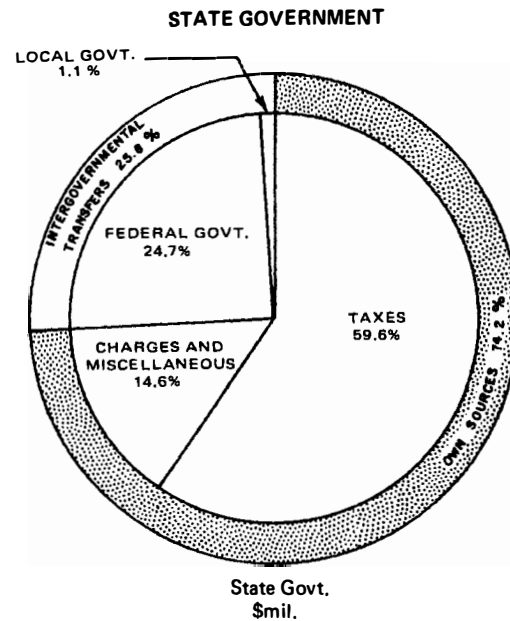
Chart 2.3 shows the sources of general revenue for the state government and for all local governments in fiscal year 1970-71. First, consider the state government. Almost three-fourths of its revenue is raised from its own sources--state imposed taxes, institutional charges, and miscellaneous fees and receipts. Nearly all of the remaining funds come from the federal government.

The local governments present a different picture. Their own sources provide

^{1/} Quindry, State Local Revenue Potential, 1971, p. 81; ACIR, Measuring the Fiscal Capacity and Effort, p. 79.

CHART 2.3

MAJOR SOURCES OF REVENUE OF THE
STATE AND LOCAL GOVERNMENTS IN VIRGINIA
1970-71



1745.5	Total general revenue	1508.4
1294.9	Own sources	910.1
1040.6	Taxes	714.4
254.3	Charges and miscellaneous	195.7
450.7	Intergovernmental transfers	598.2
432.0	Federal government	88.6
	State Government	509.6
18.7	Local Government	

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

Source: U. S. Bureau of the Census, Governmental Finances in 1970-71, GF 71, No. 5 (Washington: Government Printing Office, 1972), pg. 33.

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 5.9 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 1970-71, 33.8 percent of local government general revenue came from the state government. The new general revenue sharing law discussed in Chapter III will increase the federally supplied share of local revenues provided there is not an equal reduction of federal grants in aid.

Most of the state aid--slightly under 70 percent in fiscal year 1970-71 is spent for one function, education. The remainder is primarily 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 resources.

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 1970-71 transfers from the state provided 45.5 percent of the funding of local public schools.

^{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 1970-71
(Millions of Dollars)

	Total Local Government Direct General Expenditure	<u>State Cash Transfers</u> ^{a/}		<u>Federal Cash Transfers</u>	
		<u>Amount</u>	<u>% of Local Expenditure for Function</u>	<u>Amount</u>	<u>% of Local Expenditure for Function</u>
All Functions	\$1,629.3	\$571.6 ^{b/}	35.1	\$80.8	5.0
Education	873.4	397.3	45.5	n.a.	n.a.
Highways	63.0	19.5	31.0	n.a.	n.a.
Welfare	137.4	95.9	69.8	n.a.	n.a.

n.a. - not available

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

b/ Differs from \$509.6 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 1970-71, GF71, No. 5 (Washington: Government Printing Office, 1972), p. 38; U.S. Bureau of the Census, State Government Finances in 1971, GF71, No. 3 (Washington: Government Printing Office, 1972), p. 38.

Highways are primarily a state function. Of total direct expenditure in 1970-71, 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 \$2,500 per lane 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 \$1,500 per lane mile. The state also pays 85 percent of the municipalities' new construction costs. Of the total amount spent by localities on streets and highways in 1970-71, state aid covered 31 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 1970-71, almost 70 percent 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 1970-71 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 government. In this case, the originating level of government is the federal government, while the final recipient level is the local government.

What has happened during recent years is clear. The federal government has become an increasingly more important source of revenue for the state and local governments. In 1958-59, it provided 13.5 percent of the state and local

^{1/} The terms "direct outlays" and "direct expenditures" refer to all payments other than intergovernmental payments.

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 1970-71

Fiscal Year	Percent Distribution						
	By Originating Level of Govern- ment (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	44.6	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
1969-70	100.0	17.0	49.4	33.4	100.0	45.4	54.5
1970-71	100.0	19.1	47.5	33.3	100.0	45.3	54.6

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

government revenues in Virginia. In 1970-71, it provided 19.1 percent. Most of the money received from the federal government goes to the state government. In 1970-71 the state's share amounted to 83 percent.^{1/} 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 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 slightly while the local share has dropped (from 39.9 percent in 1958-59 to 33.3 percent in 1970-71).

The breakdown by final recipient level shows that the local governments account for the majority of general revenues (54.6 percent in 1970-71), 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/} Derived from Chart 2.3, p. 49.

County and City Fiscal Capacity and Effort

Interstate comparisons of state and local finances provide an incomplete picture of fiscal relationships because they do not tell us anything about intrastate variations in local finances. Comparisons among localities within the state are hampered by the absence of timely and complete information. There are no comprehensive reports on the finances of incorporated towns, and the State Auditor's reports on counties and cities have a three-year lag, are not comparable, and lack many types of needed information.

Notwithstanding these problems, there is still a need for intra state comparisons. The following analysis addresses this need despite the limited data available.

Local Fiscal Capacity

Local fiscal capacity is a measure of the ability of a local government to obtain resources for public purposes. The economic well-being of the residents of a community only partially determines the financial capability of their local government since business activity also has an effect. For example, a locality with the property tax base provided by a big power generating plant may have a fiscal capacity quite large relative to the incomes and property values of the resident population.

Table 2.14 shows three measures of fiscal capacity. Two, of them, true value of real estate per capita and personal income per capita, are traditional measures with certain limitations that are explained

TABLE 2.14-- SELECTED MEASURES OF LOCAL FISCAL CAPACITY

State	Amount			Relative to State Average x 100		
	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population 1970	Computed Revenue Capacity Per Capita, 1970	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population 1970	Computed Revenue Capacity Per Capita, 1970
	\$ 7,616 ^a /	\$ 3,102	\$152.96	100	100	100
<u>Counties</u>						
Accomack	5,921	1,944	114.06	78	64	74
Albemarle	10,315	3,042	171.98	135	101	112
Alleghany	6,107	2,294	114.91	80	76	75
Amelia	7,152	1,842	120.28	94	61	79
Amherst	4,788	2,141	100.56	63	71	66
Appomattox	7,660	2,248	136.34	100	75	89
Arlington	12,851	5,452	250.82	168	181	164
Augusta	6,872	2,493	133.51	90	83	87
Bath	8,501	2,052	151.88	112	68	99
Bedford	6,990	2,317	122.03	92	77	80
Bland	4,555	1,847	92.04	60	61	60
Botetourt	7,351	2,482	134.64	96	82	88
Brunswick	5,746	1,801	107.22	75	60	70
Buchanan	6,900	1,714	116.72	90	57	76
Buckingham	9,355	1,707	139.58	123	57	91
Campbell	5,685	2,634	123.21	75	87	80
Caroline	8,152	1,978	131.62	107	66	86
Carroll	4,316	2,005	94.50	57	66	62
Charles City	6,093	1,621	99.12	80	54	65
Charlotte	6,590	1,899	117.40	86	63	77
Chesterfield	9,906	3,266	180.08	130	108	118
Clarke	10,468	3,080	179.57	137	102	117
Craig	6,000	2,016	111.00	79	67	72
Culpeper	10,190	2,304	167.63	134	76	110
Cumberland	7,266	1,677	117.97	95	56	77
Dickenson	6,821	1,527	110.00	90	51	72
Dinwiddie	3,612	1,988	81.02	47	66	53
Essex	9,645	2,050	160.93	127	68	105
Fairfax	10,673	4,521	206.54	140	150	135
Fauquier	13,292	2,756	204.62	174	92	134
Floyd	4,800	2,221	102.83	63	74	67
Fluvanna	13,129	2,030	183.15	172	67	120
Franklin	5,721	2,223	117.91	75	74	77
Frederick	7,075	2,548	140.90	93	84	92
Giles	8,148	2,278	142.65	107	76	93
Gloucester	9,059	2,259	150.56	119	75	98
Goochland	11,032	2,268	165.80	145	75	108
Grayson	4,464	1,914	91.02	59	64	60
Greene	5,716	1,892	104.18	75	63	68
Greensville	6,351	1,546	109.19	83	51	71
Halifax	5,304	1,818	100.33	70	60	66
Hanover	8,455	2,931	155.84	111	97	102
Henrico	7,629	3,713	170.79	100	123	112
Henry	5,058	2,468	114.44	66	82	75
Highland	9,401	1,889	144.99	123	63	95
Isle of Wight	8,308	2,075	138.69	109	69	91
James City	5,993	2,422	115.17	79	80	75
King & Queen	9,243	2,058	144.02	121	68	94
King George	7,681	2,964	142.19	101	98	93
King William	18,140	2,401	186.25	238	80	122

TABLE 2.14.--SELECTED MEASURES OF LOCAL FISCAL CAPACITY (Continued)

	Amount			Relative to State Average x 100		
	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population 1970	Computed Revenue Capacity Per Capita, 1970	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population 1970	Computed Revenue Capacity Per Capita, 1970
Lancaster	\$10,416	\$ 2,293	\$172.37	137	76	113
Lee	4,194	1,480	83.70	55	49	53
Loudoun	16,109	3,070	240.43	210	102	157
Louisa	8,417	1,965	136.41	110	65	89
Lunenburg	6,028	1,893	110.77	79	63	72
Madison	9,519	2,016	149.05	125	67	97
Mathews	8,880	2,953	160.97	116	98	105
Mecklenburg	5,424	2,014	111.07	71	67	73
Middlesex	8,809	2,106	148.66	116	70	97
Montgomery	4,792	2,604	113.16	63	86	74
Nelson	6,721	1,784	112.73	88	59	74
New Kent	10,502	2,169	162.67	138	72	106
Northampton	6,157	1,698	106.87	81	56	70
Northumberland	9,320	2,275	151.67	122	76	99
Nottoway	5,414	2,104	112.93	71	70	74
Orange	12,442	2,348	190.12	163	78	124
Page	6,717	2,187	127.62	88	73	83
Patrick	5,954	2,101	113.33	78	70	74
Pittsylvania	5,652	1,963	105.23	74	65	69
Powhatan	8,001	2,461	136.37	105	82	89
Prince Edward	6,088	2,225	124.93	80	74	82
Prince George	2,923	2,563	82.83	38	85	54
Prince William	8,319	3,006	155.46	109	100	102
Pulaski	4,549	2,589	111.63	60	86	73
Rappahannock	13,018	1,980	180.68	171	66	118
Richmond	9,268	1,927	156.93	122	64	102
Roanoke	7,361	3,247	152.18	97	108	99
Rockbridge	7,238	2,206	128.64	95	73	84
Rockingham	6,553	2,386	126.69	86	79	83
Russell	7,937	1,805	128.47	104	60	84
Scott	4,435	1,847	92.50	58	61	60
Shenandoah	8,083	2,293	145.97	106	76	95
Smyth	4,746	2,132	105.50	62	71	69
Southampton	7,616	1,862	122.73	100	62	80
Spotsylvania	8,682	2,369	145.94	114	79	95
Stafford	7,324	2,631	132.76	96	87	87
Surry	19,889	1,872	248.04	261	62	162
Sussex	6,864	1,938	120.71	90	64	79
Tazewell	4,252	2,187	103.22	56	73	67
Warren	9,520	2,689	171.18	125	89	112
Washington	5,217	2,066	107.67	68	68	70
Westmoreland	11,291	1,979	149.34	148	66	98
Wise	3,879	1,828	90.85	51	61	59
Wythe	5,108	2,125	111.14	67	71	73
York	9,257	2,963	141.76	121	98	93
Cities						
Alexandria	10,669	4,631	224.70	140	154	147
Bedford	6,521	2,886	136.22	86	96	89
Bristol	5,492	2,376	132.58	72	79	87
Buena Vista	5,452	2,310	115.00	72	77	75
Charlottesville	8,234	3,190	179.66	108	106	117

TABLE 2.14.-- SELECTED MEASURES OF LOCAL FISCAL CAPACITY (Continued)

	Amount			Relative to State Average x 100		
	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population, 1970	Computed Revenue Capacity Per Capita, 1970	True Value of Real Estate Per Capita, 1970	Personal Income, 1969 ÷ Population, 1970	Computed Revenue Capacity Per Capita, 1970
Chesapeake	\$ 7,109	\$ 2,593	\$133.24	93	86	87
Clifton Forge	5,648	2,617	129.04	74	87	84
Colonial Heights	6,172	3,397	143.45	81	113	94
Covington	6,468	2,557	140.98	85	85	92
Danville	5,334	2,796	135.77	70	93	89
Emporia	5,690	2,468	136.55	75	82	89
Fairfax	10,688	4,182	231.23	140	139	151
Falls Church	13,696	5,108	328.61	180	167	215
Franklin	5,736	3,112	138.86	75	103	91
Fredericksburg	8,127	3,140	193.48	107	104	126
Galax	6,706	2,720	164.65	88	90	108
Hampton	5,451	3,002	129.20	72	100	84
Harrisonburg	7,204	2,742	171.16	94	91	112
Hopewell	6,280	2,883	137.43	82	96	90
Lexington	5,354	2,581	126.15	70	86	82
Lynchburg	6,590	3,045	159.75	86	101	104
Martinsville	7,669	2,927	165.98	101	97	108
Nansemond	5,999	2,209	111.93	79	73	73
Newport News	6,655	3,034	140.70	87	101	92
Norfolk	5,284	2,797	125.94	69	93	82
Norton	5,409	2,462	134.04	71	82	88
Petersburg	6,890	2,544	148.66	90	84	97
Portsmouth	4,400	2,636	111.10	58	88	73
Radford	5,292	2,529	122.75	69	84	80
Richmond	7,366	3,168	162.62	97	105	106
Roanoke	6,210	2,935	155.58	82	97	102
Salem	7,067	2,951	156.71	93	98	102
South Boston	5,937	2,623	140.66	78	87	92
Staunton	5,955	2,888	140.08	78	96	92
Suffolk	7,719	2,612	164.78	101	87	108
Virginia Beach	8,897 ^{a/}	3,098	163.41	117	103	107
Waynesboro	7,977	3,170	171.02	105	105	112
Williamsburg	11,601	3,066	245.10	152	102	160
Winchester	12,329	2,954	222.96	162	98	146

a/ The figure used for state true value was \$35,401,464,000. No adjustment was made in the state total for a revision in Virginia Beach's assessment ratio which lowered its assessed value by \$243,578,000. However, the figure for Virginia Beach was adjusted.

Source: Department of Taxation, "Estimated True (Full) Value of Locally Taxed Property in the Several Counties and Cities of Virginia--1970 (Real Estate and Public Service Corporation," n.d.; Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities--1968 and 1970, Errata Sheet" (April 19, 1973); U. S. Bureau of the Census, Census of Population: 1970 General Social and Economic Characteristics, Final Report PC(1)-C48 Virginia (Washington: Government Printing Office, 1972), pp. 203, 204, 228, 460-71; listing of motor vehicle registrations, March 15-June 30, 1970 supplied by the Division of Motor Vehicles, April 13, 1972; Report of the Department of Taxation, Fiscal Year Ending June 30, 1970 (Richmond, 1970), p. 20.

below. As an alternative, computed revenue capacity per capita, is also shown.

Standardizing by resident population is a common method of making data for different sized localities comparable, and it has been used for the capacity measures. However, the population used in the denominator may not always be representative of the population receiving a full range of governmental services. Most affected by such considerations are localities with military bases and colleges.

True Value of Real Estate Per Capita

This measure recognizes that real estate is the most important source of local revenues, accounting for 50 percent statewide. However, caution should be exercised in using real estate as the sole measure of capacity since it does not represent all locally raised revenues, and in many cases, it is not a good predictor of other revenue bases. Furthermore, the relative importance of real estate taxes varies, ranging from 29 percent in Franklin City to 82 percent in Fluvanna.^{1/} As a rule, the real property tax tends to be relatively more important as a revenue source in rural areas since they lack the variety of sources and commercial revenue bases available in urban areas.

The state weighted average true value of real estate per capita was \$7,616 in 1970. The median was \$6,945 and the range 7 to 1, with

^{1/}John L. Knapp, Measuring Fiscal Capacity to Finance Public Education in Virginia (Tayloe Murphy Institute, University of Virginia, 1973), pp. 8, 35-40.

the high represented by Surry, the location of a large nuclear generating plant, and the low by Prince George, a military area with much nontaxable property.

Personal Income Per Capita

Although Virginia counties and cities are prohibited from taxing income directly, it can be used as a general measure of ability to pay other taxes and nontax charges. A limitation of this approach is that sole reliance on income as a measure of capacity understates tax bases not locally owned. The existence of a large public service corporation would not be reflected by an income measure despite the fact that it would represent a major tax base.

The statewide weighted average was \$3,012 and the median was \$2,332. The range was 4 to 1 with the high represented by Arlington and the low represented by Lee.

Computed Revenue Capacity Per Capita

This method is based on the ACIR "average effort" approach which was explained in the section on interstate comparisons. Each major tax base in a locality was multiplied by the statewide average effort. The true value of real estate was multiplied by \$.0101, and personal income, a proxy for nonproperty and nonsales taxes and other revenues was multiplied by \$.0161. The number of motor vehicles was multiplied by \$26.43 as a proxy for personal property taxes. The resulting products were added to local option sales tax collections to obtain computed revenue which was then standardized by dividing by population.

This method gives a more balanced picture of local fiscal capacity than a single measure such as true value of real estate or personal income. The state weighted average was \$152.96 per capita and the median was \$136.39. The range from highest to lowest locality was 4 to 1 with Falls Church the highest area and Dinwiddie the lowest.

Local Fiscal Effort

Effort measures are obtained by relating revenues raised from own sources to fiscal capacity. A measure of fiscal effort gauges how much of capacity is being used.

Four measures of local fiscal effort are shown in Table 2.15. Three of the measures relate revenues from own sources (excluding state and federal aid) to the capacity measures already developed. The true tax rate on real estate is included as a fourth measure.

The figures for revenues from own sources exclude incorporated towns since they are not reported by the State Auditor. Inclusion of the towns would have increased total county revenues from own sources by about 5 percent.^{1/} The impact for counties containing incorporated towns would have been relatively larger.

^{1/}County revenues from own sources in 1969-70 were \$355 million and the increase from including incorporated towns would have been about \$20 million. This was estimated from the 1967 Census of Governments by adding 1967 revenues from own sources for Pulaski and Vienna to the sum of such revenues for all municipalities under 5,000 population in 1960 and to the product of the population of incorporated towns with 1970 population between 5,000 and 9,999 and average per capita revenues of municipalities with a 1960 population in the 2,500 to 4,999 size class. The resulting figure was increased by 30 percent to allow for 1967-70 growth.

Source: U.S. Bureau of the Census, Census of Governments, 1967, Vol. 7: State Reports, No. 46: Virginia (Washington: U.S. Government Printing Office, 1970), pp. 33, 68, 69.

TABLE 2.15.--SELECTED MEASURES OF LOCAL FISCAL EFFORT

State Counties	Amount				Relative to State Average x 100, 1969-70 Revenues from Own Sources				1969-70 Revenues from Own Sources Per Capita ÷ Computed Revenue Capacity, Per Capita, 1970		Relative to State Average x 100, Average Effective True Tax Rate on Real Estate, 1970	
	1969-70 Revenues from Own Sources			Average Effective True Tax Rate per \$100 on Real Estate 1970	Per \$100 True Value of Real Estate, 1970		Per \$100 of Personal Income 1969					
	Per \$100 True Value of Real Estate, 1970	Per \$100 of Personal Income 1969	Per Capita 1970		Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank
		\$ 2.01 ^{a/}	\$ 5.07	\$152.96	\$1.10	100		100		100		100
Accomack	1.10	3.35	114.06	0.59	55	78	66	90.5	57	86	54	90
Albemarle	1.37	4.62	171.98	.78	68	53	91	48	82	42	71	54.5
Alleghany	1.29	3.44	114.91	.90	64	60.5	68	83.5	69	60	82	43
Amelia	.81	3.13	120.28	.46	40	123	62	98.5	48	118.5	42	126.5
Amherst	.93	2.06	100.56	.45	46	107	41	133	44	129.5	41	126
Appomattox	.91	3.09	136.34	.53	45	112	61	102	51	106	48	110
Arlington	1.93	4.56	250.82	1.71	96	39	90	49.5	99	34.5	155	2
Augusta	1.49	4.13	133.51	.67	74	47	81	66.5	77	50	61	73.5
Bath	1.27	5.25	151.88	.76	63	63.5	104	35.5	71	56.5	69	60.5
Bedford	1.29	4.12	122.03	.55	64	60.5	81	66.5	74	53	50	104
Bland	1.03	2.53	92.04	.47	51	85.5	50	122	51	106	43	123.5
Botetourt	1.05	3.10	134.64	.67	52	82.5	61	102	57	86	61	73.5
Brunswick	1.13	3.61	107.22	.65	56	75.5	71	81	61	74	59	79
Buchanan	1.00	4.04	116.72	.56	50	88.5	80	70.5	59	78	51	101.5
Buckingham	.61	3.34	139.58	.32	30	131.5	66	90.5	41	131	29	132
Campbell	1.16	2.51	123.21	.67	58	72	50	122	54	97	61	73.5
Caroline	.73	2.99	131.62	.57	36	129	59	105	45	128	52	98
Carroll	1.08	2.32	94.50	.58	54	79	46	128	49	115	53	95
Charles City	.98	3.67	99.12	.63	49	93	72	78.5	60	76	57	81
Charlotte	.83	2.87	117.40	.50	41	121	57	110	47	122.5	45	117.5
Chesterfield	2.27 ^{b/}	6.89 ^{b/}	180.08 ^{b/}	.91	113	29	136	11	125	13.5	83	41.5
Clarke	1.00	3.40	179.57	.74	50	88.5	67	86.5	58	82	67	64
Craig	1.04	3.08	111.00	.62	52	82.5	61	102	56	89.5	56	84
Culpeper	.93	4.10	167.63	.57	46	107	81	66.5	56	89.5	52	98
Cumberland	.95	4.12	117.97	.46	47	101	81	66.5	58	82	42	126.5
Dickenson	1.30	5.80	110.00	.75	65	58	114	25.5	81	44	68	62
Dinwiddie	1.40	2.54	81.02	.60	70	51	50	122	62	70.5	54	90
Essex	1.01	4.75	160.93	.51	50	88.5	94	46	61	74	46	115.5
Fairfax	2.27	5.34	206.54	1.53	113	29	105	33.5	117	17.5	139	7
Fauquier	.85	4.12	204.62	.47	42	118	81	66.5	56	89.5	43	123.5
Floyd	1.23	2.67	102.83	.74	61	66	53	116	58	82	67	64
Fluvanna	.77	4.96	183.15	.47	38	125.5	98	41.5	55	93	43	123.5
Franklin	.97	2.50	117.91	.52	48	97	49	124.5	47	122.5	47	113
Frederick	.99	2.77	140.90	.49	49	93	55	114	50	110.5	44	120
Giles	1.39	5.00	142.65	.58	69	52	99	40	80	46	53	95

TABLE 2.15.--SELECTED MEASURES OF LOCAL FISCAL EFFORT (continued)

Counties (continued)	Amount				Relative to State Average x 100, 1969-70 Revenues from Own Sources				1969-70 Revenues from Own Sources Per Capita + Computed Revenue Capacity, Per Capita, 1970		Relative to State Average x 100, Average Effective True Tax Rate on Real Estate, 1970					
	1969-70 Revenues from Own Sources			Average Effective True Tax Rate per \$100 on Real Estate, 1970	Per \$100 True Value of Real Estate, 1970		Per \$100 of Personal Income, 1969		Amount	Rank	Amount	Rank				
	Per \$100 True Value of Real Estate, 1970	Per \$100 of Personal Income, 1969	Per Capita, 1970		Amount	Rank	Amount	Rank								
Gloucester	\$.86	\$ 3.46	\$150.56	\$.57	43	116	68	83.5	52	102	52	98				
Goochland	.92	4.49	165.80	.59	46	107	88	52.5	62	70.5	54	90				
Grayson	.95	2.22	91.02	.48	47	101	44	130.5	44	129.5	44	120				
Greene	.93	2.83	104.18	.69	46	107	56	111.5	51	106	63	68.5				
Greensville	1.49	6.12	109.19	.52	74	47	121	18.5	87	40	47	113				
Halifax	.95	2.78	100.33	.48	47	101	55	114	50	110.5	44	120				
Hanover	.97	2.81	155.84	.66	48	97	55	114	53	100	60	77				
Henrico	2.03	4.17	170.79	1.00	100	36.5	82	63	91	38	91	28.5				
Henry	1.21	2.48	114.44	.66	60	68	49	124.5	54	97	60	77				
Highland	1.13	5.67	144.99	.68	56	75.5	112	27	74	53	62	70.5				
Isle of Wight	1.06	4.27	138.69	.62	53	80	84	58.5	64	65	56	84				
James City	1.55	3.84	115.17	.99	77	45	76	73	81	44	90	30				
King & Queen	.74	3.33	144.02	.53	37	127.5	66	90.5	48	118.5	48	110				
King George	1.29	3.36	142.19	.89	64	60.5	66	90.5	70	58.5	81	44				
King William	.56	4.21	186.25	.53	28	133	83	61	36	132	48	110				
Lancaster	.82	3.74	172.37	.52	41	121	74	75.5	50	110.5	47	113				
Lee	1.48	4.20	83.70	.83	74	47	83	61	74	53	75	50				
Loudoun	.93	4.86	240.43	.73	46	107	96	44.5	62	70.5	66	66.5				
Louisa	.75	3.23	136.41	.40	37	127.5	64	94.5	47	122.5	36	131				
Lunenburg	.93	2.96	110.77	.58	46	107	58	108	51	106	53	95				
Madison	.77	3.65	149.05	.50	38	125.5	72	78.5	49	115	45	117.5				
Mathews	.98	2.96	160.97	.66	49	93	58	108	54	97	60	77				
Mecklenburg	.96	2.58	111.07	.54	48	97	51	119	47	122.5	49	106.5				
Middlesex	.98	4.11	148.66	.60	49	93	81	66.5	58	82	54	90				
Montgomery	1.19	2.19	113.16	.73	59	69.5	43	132	50	110.5	66	66.5				
Nelson	1.16	4.39	112.73	.47	58	72	86	56.5	70	58.5	43	123.5				
New Kent	.94	4.55	162.67	.56	47	101	90	49.5	61	74	51	101.5				
Northampton	1.22	4.43	106.87	.68	61	66	87	55	62	70.5	62	70.5				
Northumberland	.83	3.41	151.67	.62	41	121	67	86.5	51	106	56	84				
Nottoway	1.22	3.14	112.93	.77	61	66	62	98.5	59	78	70	57.5				
Orange	.85	4.49	190.12	.69	42	118	88	52.5	55	93	63	66.5				
Page	.98	3.01	127.62	.61	49	93	59	105	52	102	55	86				
Patrick	1.05	2.98	113.33	.54	52	82.5	59	105	55	93	49	106.5				
Pittsylvania	.91	2.62	105.23	.54	45	112	52	117	49	115	49	106.5				
Powhatan	.79	2.58	136.37	.86	39	124	51	119	47	122.5	78	47				

TABLE 2.15.-- SELECTED MEASURES OF LOCAL FISCAL EFFORT (continued)

	Amount				Relative to State Average x 100, 1969-70 Revenues from Own Sources				1969-70 Revenues from Own Sources Per Capita ÷ Computed Revenue Capacity, Per Capita, 1970				Relative to State Average x 100, Average Effective True Tax Rate on Real Estate, 1970			
	1969-70 Revenues from Own Sources			Average Effective True Tax Rate per \$100 on Real Estate 1970	Per \$100		Per \$100 of		Per \$100		Per Capita ÷		Average Effective			
	Per \$100	Per \$100 of	Per		True Value	Personal	True Value	Personal	Computed Revenue	Per Capita ÷	True Tax Rate					
	True Value	Personal	Capita		of Real	Income	of Real	Income	Capacity, Per	on Real Estate,						
	of Real	Income	Capita		Estate	1969	Estate, 1970	1969	1970	1970	1970					
Estate, 1970	1969	1970	1970	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank			
Counties (continued)																
Prince Edward	\$.61	\$ 1.68	\$ 124.93	.29	30	131.5	33	134	30	133	26	134				
Prince George	2.03	2.32	82.83	.77	100	36.5	46	128	72	55	70	57.5				
Prince William	1.80	4.98	155.46	1.28	90	41.5	98	41.5	96	37	116	14				
Pulaski	1.28	2.24	111.63	.81	64	60.5	44	130.5	52	102	74	51.5				
Rappahannock	.68	4.47	180.68	.43	34	130	88	52.5	49	115	39	129				
Richmond	1.13	5.43	156.93	.67	56	75.5	107	30.5	67	62	61	73.5				
Roanoke	1.47	3.33	152.18	.85	73	49	66	90.5	71	56.5	77	48.5				
Rockbridge	1.33	4.38	128.64	.78	66	56	86	56.5	75	51	71	54.5				
Rockingham	.89	2.45	126.69	.51	44	114.5	48	126	46	126.5	46	115.5				
Russell	1.01	4.47	128.47	.63	50	88.5	88	52.5	63	67.5	57	81				
Scott	1.35	3.24	92.50	.59	67	54	64	94.5	65	63	54	90				
Shenandoah	.84	2.96	145.97	.42	42	118	58	108	46	126.5	38	130				
Smyth	1.04	2.32	105.50	.59	52	82.5	46	128	47	122.5	54	90				
Southampton	.93	3.81	122.73	.56	46	107	75	74	58	82	51	101.5				
Spotsylvania	.95	3.47	145.94	.76	47	101	68	83.5	56	89.5	69	60.5				
Stafford	1.13	3.16	132.76	1.06	56	75.5	62	98.5	63	67.5	96	25				
Surry	.30	3.19	248.04	.30	15	134	63	96	24	134	27	133				
Sussex	1.03	3.65	120.71	.59	51	85.5	72	78.5	59	78	54	90				
Tazewell	1.32	2.57	103.22	.87	66	56	51	119	54	97	79	45.5				
Warren	.88	3.13	171.18	.54	44	114.5	62	98.5	49	115	49	106.5				
Washington	1.32	3.33	107.67	.74	66	56	66	90.5	64	65	67	64				
Westmoreland	.91	5.18	149.34	.82	45	112	102	37.5	57	86	74	51.5				
Wise	1.90	4.04	90.85	.77	94	40	80	70.5	81	44	70	57.5				
Wythe	1.18	2.85	111.14	.63	59	69.5	56	111.5	54	97	57	81				
York	1.17	3.67	141.76	.85	58	72	72	78.5	64	65	77	48.5				
Cities																
Alexandria	2.70	6.23	224.70	1.62	134	14.5	123	16.5	128	10	147	5				
Bedford	1.73	3.90	136.22	.56	86	43.5	77	72	83	41	51	101.5				
Bristol	2.56	5.93	132.58	1.27	127	18.5	117	21.5	106	25	115	15.5				
Buena Vista	2.23	5.28	115.00	1.17	111	32.5	104	35.5	106	25	106	21				
Charlottesville	2.42	6.26	179.66	1.20	120	23	123	16.5	111	19.5	109	19				

TABLE 2.15.--SELECTED MEASURES OF LOCAL FISCAL EFFORT (continued)

Cities (continued)	Amount				Relative to State Average x 100, 1969-70 Revenues from Own Sources				1969-70 Revenues from Own Sources Per Capita + Computed Revenue Capacity, Per Capita, 1970		Relative to State Average x 100, Average Effective True Tax Rate on Real Estate, 1970	
	1969-70 Revenues from Own Sources			Average Effective True Tax Rate per \$100 on Real Estate 1970	Per \$100		Per \$100 of		Amount	Rank	Amount	Rank
	Per \$100	Per \$100 of	True Value		Personal							
	True Value	Personal	True Value		Personal							
	of Real	Income	of Real		Income							
Estate, 1970	1969	1970	1970	Estate, 1970	1969	Estate, 1970	1969	Estate, 1970	1969	Estate, 1970	1969	
Chesapeake	\$1.97	\$5.40	\$133.24	\$1.21	98	38	106	32	105	28.5	110	17.5
Clifton Forge	2.26	4.89	129.04	1.21	112	31	96	44.5	99	34.5	110	17.5
Colonial Heights	2.33	4.24	143.45	1.16	116	27	84	58.5	100	32.5	105	22
Covington	2.39	6.05	140.98	1.00	119	24	119	20	110	21	91	28.5
Danville	2.69	5.14	135.77	.95	134	14.5	101	39	106	25	86	34.5
Emporia	2.12	4.90	136.55	.80	105	35	97	43	89	39	73	53
Fairfax	2.62	6.70	231.23	1.65	130	17	132	12.5	121	15	150	4
Falls Church	2.55	6.97	328.61	1.27	127	18.5	137	9.5	106	25	115	15.5
Franklin	3.05	5.63	138.86	1.09	152	8	111	28.5	126	12	99	24
Fredericksburg	2.53	6.57	193.48	1.02	126	20	130	14	107	22	93	27
Galax	2.73	6.72	164.65	.94	136	13	132	12.5	111	19.5	85	37
Hampton	3.25	5.90	129.20	1.38	162	5.5	116	23.5	137	4.5	125	10.5
Harrisonburg	2.81	7.39	171.16	.94	140	11	146	6	118	16	85	37
Hopewell	2.93	6.39	137.43	1.19	146	9	126	15	134	8	108	20
Lexington	2.48	5.15	126.15	1.03	123	21	102	37.5	105	28.5	94	26
Lynchburg	3.35	7.26	159.75	1.31	167	3.5	143	8	138	3	119	12
Martinsville	2.23	5.86	165.98	.97	111	32.5	116	23.5	103	30.5	88	32.5
Nansemond	1.26	3.44	111.93	.77	63	63.5	68	83.5	68	61	70	57.5
Newport News	2.46	5.41	140.70	1.39	122	22	107	30.5	117	17.5	126	9
Norfolk	3.25	6.14	125.94	1.29	162	5.5	121	18.5	136	6.5	117	13
Norton	3.17	6.97	134.04	.92	158	7	137	9.5	128	10	84	39.5
Petersburg	2.76	7.48	148.66	1.66	137	12	148	5	128	10	151	3
Portsmouth	3.46	5.77	111.10	1.55	172	2	114	25.5	137	4.5	141	6
Radford	1.80	3.78	122.75	.87	90	41.5	74	75.5	78	49	79	45.5
Richmond	3.36	7.82	162.62	1.77	167	3.5	154	4	152	2	161	1
Roanoke	4.12	8.73	155.58	1.38	205	1	172	1	165	1	125	10.5
Salem	2.36	5.65	156.71	.95	117	25.5	111	28.5	106	25	86	34.5
South Boston	2.35	5.33	140.66	.91	117	25.5	105	33.5	100	32.5	83	41.5
Staunton	2.28	4.70	140.08	.97	113	29	93	47	97	36	88	32.5
Suffolk	2.66	7.88	164.78	1.50	132	16	155	3	125	13.5	136	8
Virginia Beach	1.46 ^a	4.19	163.41	.98 ^a	86	43.5	83	61	79	47.5	89 ^a	31
Waynesboro	2.91	7.32	171.02	1.11	145	10	144	7	136	6.5	101	23
Williamsburg	2.17	8.24	245.10	.94	108	34	162	2	103	30.5	85	37
Winchester	1.42	5.94	222.96	.92	71	50	117	21.5	79	47.5	84	39.5

a/ The figure used for total state true value was \$35,401,464,000. No adjustment was made in the state total for a revision in Virginia Beach's assessment ratio which lowered its assessed value by \$243,578,000. However, the figure for Virginia Beach was adjusted.

b/ Chesterfield revenues from own sources were adjusted to exclude a special \$7,806,857 annexation payment from the City of Richmond.

TABLE 2.15.--SELECTED MEASURES OF LOCAL FISCAL EFFORT (continued)

Sources: Sources used for Table 2.14 plus the following: Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities - 1970 and 1971" (May 1, 1973), pp. 4-6; Report of the Auditor of Public Accounts on Comparative Cost of County Government, Year Ended June 30, 1970 (Richmond, 1971), p. 16; Report of the Auditor of Public Accounts on Comparative Cost of City Government Year Ended June 30, 1970 (Richmond, 1972); p. 10; Report of the Department of Taxation, Fiscal Year Ending June 30, 1970 (Richmond, 1970), p. 20; Report of the Department of Taxation, Fiscal Year Ending June 30, 1971 (Richmond, 1971), pp. 39, 40, 46-49. County revenues from own sources were adjusted to exclude service charges of county owned enterprises. The distribution of property taxes between real, personal, and other types was based on their respective shares of property tax levies.

Revenues from Own Sources per \$100 of True Value of Real Estate

This measure relates locally raised revenues to a single revenue base, the true value of real estate. The logic for this approach is the predominance of the real estate tax base in most local revenue bases. Nonetheless, as already mentioned, there is a great deal of diversity within Virginia as to the relative importance of the real estate tax. The state weighted average effort was \$2.01 per \$100 of true value. The range was 14 to 1 represented by Roanoke City (\$4.12) and Surry (\$0.30).

Revenue from Own Sources per \$100 of Personal Income

Like the previous measure, this one relates locally raised revenues to a single revenue base, personal income, which is used as a general measure of ability to pay. The limitations of sole reliance on personal income have already been developed. The state weighted average effort was \$5.07 per \$100 of personal income, and the range was 5 to 1 represented by Roanoke City (\$8.73) and Prince Edward (\$1.68).

Revenue from Own Sources Divided by Computed Revenue Capacity^{1/}

This measure provides a comprehensive picture of local effort, and it avoids some of the extremes inherent in the use of other methods. By definition, the state average had an index value of 100. The range was from 7 to 1, represented by Roanoke City (172) and Surry (24).

^{1/}Although per capita relationships are shown in Table 2, the index has the same value when total amounts are used since the same population is used in the numerator and the denominator.

Real Estate True Tax Rate

The true tax rate is often used as the sole measure of local effort, an inappropriate procedure in view of the previous remarks. However, the true tax rates for 1970 are included in Table 2.15 in order to facilitate comparisons. The weighted state average was \$1.10 per \$100 and the range was from 6 to 1, represented by Richmond City (\$1.77) and Prince Edward (\$0.29).

The Department of Taxation has recently released a study for 1971 which is based on new and improved techniques for measuring effective tax rates. The data could not be incorporated in the tables since they cover a later year than currently available for many of the other measures. Although there was general correspondence in the 1970 and 1971 effective tax rates, the ranking for some areas differed significantly. Statewide the weighted average was \$1.06, and the range was 7 to 1, represented by Richmond City (\$1.76) and Surry (\$0.24).

Conclusion

The answer to "how much fiscal effort does a locality make?" depends on the measure used, as well as the efficiency of local government and the preference of the local population for governmental services. If a single measure must be chosen, the most preferred is revenue from own sources divided by computed revenue capacity. If several measures can be used, then an effective approach is to determine those localities that are consistently in the top and bottom quartiles in terms of rank.

On that basis, the following 22 localities were in the top one-fourth no matter which measure was used: Alexandria, Bristol, Charlottesville, Covington, Fairfax City, Falls Church, Franklin City, Fredericksburg, Hampton, Hopewell, Lynchburg, Martinsville, Newport News, Norfolk, Petersburg, Portsmouth, Richmond City, Roanoke City, Salem, Suffolk, Waynesboro, and Fairfax County. The 9 localities that were consistently in the bottom one-fourth were Amherst, Appomattox, Charlotte, Grayson, Halifax, Pittsylvania, Prince Edward, Rockingham, and Shenandoah.

CHAPTER III

STATE REVENUES: GENERAL FUND AND SPECIAL FUNDS

Introduction

In the first section this chapter provides projections of general fund revenues with historical background material. A second section develops alternative means of changing general fund taxes to provide additional revenues. The final section briefly investigates the special funds, in particular the gasoline tax and the motor vehicle sales and use tax.

General Fund Revenue Projections Under Existing Structures and Rates

The general fund currently represents less than half of total revenues (see Table 3.1). It is, nevertheless, the focus of most of the legislative appropriation process and, as a result, 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 3.2 provides detailed historical data and the projections for the general fund. The purpose of the projections is to indicate the amount of general fund revenue that will be available in the next three bienniums assuming no change in the present tax structures and rates. Combined with

TABLE 3.1.--TOTAL STATE REVENUES, 1962-64 TO 1970-72
(Millions of Dollars)

<u>Biennium</u>	<u>General Fund^{a/}</u>	<u>Special Funds^{b/}</u>	<u>Other Funds^{c/}</u>	<u>Total</u>
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
1970-72	1,779.6	2,025.1	45.5	3,850.1

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: 1962-64 to 1968-70: Report of Comptroller, Fiscal Year Ended June 30, 19--, Exhibit B, Statement Nos. 3 and 4, (Richmond: Department of Accounts). 1970-72: Unpublished Statement of Revenues Collected, All Funds and General Fund, July 1 to June 30, 1972 and July 1 to June 30, 1971: Unpublished Summaries of Operations for the Fiscal Years Ended June 30, 1971 and 1972 (Richmond: Department of Accounts).

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?

During the 1960's general fund revenue growth received several one-time stimulants such as the adoption of individual income tax withholding,

TABLE 3.2.--GENERAL FUND REVENUES, ACTUAL 1962-64 TO 1970-72 AND PROJECTED 1972-74 TO 1978-80

Revenue Source	Actual					Official	Projections		
	1962-64	1964-66	1966-68	1968-70	1970-72	Estimate 1972-74	1974-76	1976-78	1978-80
FROM TAXATION									
TAXES									
Public Service Corporations	\$ 48,848,650	\$ 52,520,529	\$ 59,076,713	\$ 81,404,221 ^u	\$ 82,471,430	\$ 101,600,000	\$ 112,800,000	\$ 129,700,000	\$ 149,100,000
Capital Not Otherwise Taxed	18,326,988 ^b	16,004,448 ^{b/c}	8,634,789 ^b	9,046,459	10,339,058	10,800,000	12,300,000	13,600,000	15,100,000
Individuals and Fiduciaries Income	256,117,611 ^d	306,577,074	415,019,382 ^e	556,198,913 ^e	678,362,436 ^h	997,700,000	1,352,100,000	1,790,600,000	2,371,200,000
Corporations - Income	66,142,525	87,658,331	98,176,680	134,851,250 ^h	142,347,598 ^h	240,600,000	310,200,000	364,800,000	427,400,000
Insurance Companies - Premiums	30,224,926	35,691,281	41,601,156	62,682,164 ⁱ	65,233,253	73,600,000	99,100,000	119,600,000	144,400,000
Bank Stock	3,025,403	3,424,220	3,843,952	4,382,694	5,079,124	5,300,000	6,000,000	6,500,000	7,000,000
Inheritance, Gift	13,172,532	16,342,090	18,802,352	24,209,934	28,483,419 ^j	35,000,000	40,600,000	49,000,000	59,200,000
Wills, Suits, Deeds, Contracts	10,605,015	13,172,768	13,299,969	16,968,748 ^k	24,627,600	26,900,000	35,000,000	38,600,000	42,100,000
Beer and Beverage Excise	22,391,415 ^l	26,875,576 ^l	24,407,505 ^l	29,034,826	30,899,213	34,800,000	42,900,000	49,000,000	55,800,000
Alcoholic Beverages State Tax	23,198,507	25,537,990	31,611,262 ^m	32,067,685	49,106,376	56,100,000	61,800,000	67,400,000	74,000,000
Tobacco Products Tax	30,216,553	31,732,865	26,429,238 ⁿ	27,246,657	29,449,710	30,400,000	32,400,000	33,400,000	34,400,000
State Sales and Use Tax ^d	...	...	189,999,992 ^o	395,308,346	488,875,837	598,500,000	730,800,000	865,100,000	1,024,000,000
Miscellaneous Taxes and Penalties ^q	3,484,186	3,164,655 ^r	3,475,634 ^r	4,102,515	5,366,153	5,900,000	7,200,000	7,900,000	8,600,000
Total Taxes	525,754,311	618,901,827	934,378,624	1,377,504,412	1,640,641,207	2,217,200,000	2,843,200,000	3,535,200,000	4,412,300,000
RIGHTS AND PRIVILEGES									
Licenses and Permits	30,293,916	33,913,738	9,407,447 ^s	6,657,215	7,240,374	7,500,000	7,800,000	8,100,000	8,500,000
Corporate Franchise and Charters	2,960,037	3,294,855	3,796,107	4,366,901	4,737,841	5,600,000	6,200,000	7,000,000	7,900,000
Total from Taxation	559,008,264	656,110,420	947,582,178	1,388,528,528	1,652,619,422	2,230,300,000	2,857,200,000	3,535,200,000	4,428,700,000
OTHER THAN TAXATION									
Institutional Revenues	9,365,314	10,713,447	12,459,668 ^t	20,197,374 ^u	31,589,606	6,500,000 ^v	6,000,000	6,600,000	7,200,000
Interest and Rents	6,841,032	10,720,188	12,519,810	25,863,844 ^w	29,401,278	17,200,000	30,400,000	34,800,000	42,800,000
Excess and Other Fees from Officers ^x	2,551,844	3,550,768	3,540,601	3,582,644	4,109,078	4,500,000	5,000,000	5,500,000	6,100,000
Other Miscellaneous Revenues ^y	7,907,709	8,760,468	10,087,504	11,803,306	12,888,953	18,100,000	16,200,000	18,900,000	22,000,000
Total Other Than Taxation	26,665,899	33,744,871	38,607,583	61,447,168	77,988,915	46,300,000	57,600,000	65,800,000	78,100,000
Total Revenue	585,674,163	689,855,291	986,189,761	1,449,975,696	1,730,608,337	2,276,600,000	2,914,800,000	3,616,100,000	4,506,800,000
TRANSFERS									
A.B.C. Profits ^z	31,270,697 ^{aa}	34,585,879 ^{aa}	35,189,593 ^{bb/cc}	39,634,624 ^{dd}	48,976,528	49,200,000	54,700,000	58,400,000	62,200,000
Other Transfers ^{ee}	...	...	...	...	5,343,330	6,372,255	7,700,000	9,300,000	11,200,000
Total	\$ 616,944,860	\$ 724,441,170	\$ 1,021,379,354	\$ 1,489,610,320	\$ 1,784,928,195	\$ 2,332,172,255	\$ 2,977,200,000	\$ 3,683,800,000	\$ 4,580,200,000
EXHIBIT									
Earmarked Revenues:									
Local Share of Wine and Spirits ^{ff}	\$ 1,335,982	\$ 1,512,115	\$ 1,686,845	\$ 1,939,742	\$ 2,657,046	\$ 2,800,000	\$ 3,400,000	\$ 3,700,000	\$ 4,000,000
Local Share of Sales and Use Tax ^{gg}	...	...	94,999,996	131,769,449	162,795,653	199,300,000	243,400,000	288,100,000	341,000,000
Local Share of A.B.C. Profits ^{hh}	23,211,290	23,211,290	23,585,861	27,442,328	32,667,344	31,800,000	35,400,000	38,000,000	40,400,000
Total Earmarked Revenues	24,547,272	24,723,405	120,272,702	161,151,519	198,120,043	233,900,000	282,200,000	329,800,000	385,400,000
Total General Fund Revenues minus earmarked revenues	\$ 592,397,588	\$ 699,717,765	\$ 901,106,652	\$ 1,328,458,801	\$ 1,586,808,152	\$ 2,098,272,255	\$ 2,695,000,000	\$ 3,354,000,000	\$ 4,194,800,000

(See footnotes on following page)

TABLE 3.2.--GENERAL FUND REVENUES, ACTUAL 1962-64 TO 1970-72 AND PROJECTED 1972-74 TO 1978-80 (Continued)

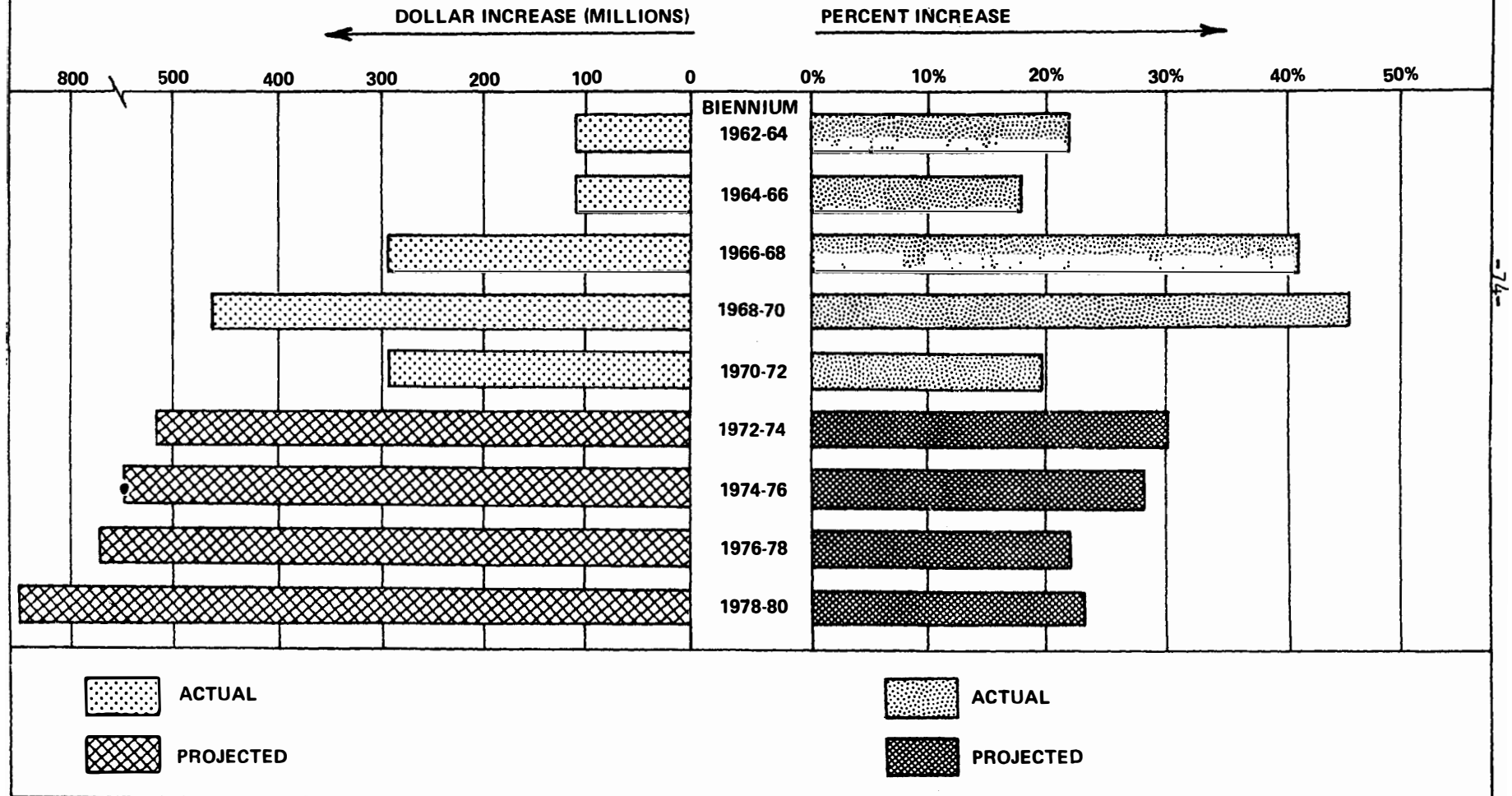
- a/ Includes \$13,412,305 windfall in fiscal year 1968-69 due to public service corporations filing declarations of estimated tax and paying the estimated tax in installments.
- b/ Tax rates reduced from 75¢ per \$100 of assessed value to 65¢ in fiscal year 1963-64, and 30¢ in fiscal year 1966-67. Effective tax year 1965, money and tangible personal property of certain businesses excluded from definition of capital.
- c/ 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.
- d/ Includes \$31,081,135 windfall due to the withholding of taxes for taxable year 1963, the collections of estimated taxes, and early payments.
- e/ 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.
- f/ Includes \$29,709,290 windfall due to monthly collections of withheld income taxes in fiscal year 1968-69.
- g/ A speed-up in the refund process resulted in a \$4.3 million one-time loss in fiscal year 1971-72.
- h/ Includes a windfall in fiscal year 1968-69 of \$13,015,047, and a windfall in fiscal year 1969-70 of \$11,670,490 resulting from a change in law requiring corporations to pay their income tax in installments if their tax liability exceeded \$5,000. A further change requiring installment payments when tax liability exceeds \$1,000 resulted in a windfall of \$1,774,518 in fiscal year 1970-71 and an estimated windfall of \$1.7 million in fiscal year 1971-72.
- 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 an estimated \$2 million windfall in fiscal year 1971-72 due to a speed-up in reporting resulting from a change in federal law which requires estate tax payment in 9 months rather than 12.
- k/ Includes \$885,932 windfall in fiscal year 1968-69 due to a new tax on deeds of conveyances.
- l/ 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.
- 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 was decreased from 3¢ to 2½¢ per package, September 1, 1966. The 3¢ rate applied to one-fourth of fiscal year 1966-67.
- o/ Total State Sales and Use Tax including local share but excluding local option.
- p/ 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.
- q/ 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.
- r/ Public Rock Oyster Tax no longer applicable to the General Fund effective fiscal year 1962-63.
- s/ 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.
- t/ Tax on wholesale and retail establishments repealed January 1, 1967 (fiscal year 1966-67).
- u/ 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.
- v/ Effective fiscal year 1972-73, certain mental hospital revenues will go into a special fund rather than the general fund, resulting in a drop in the Institutional Revenues category.
- 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' Salaries, Miscellaneous Revenue, and Grants and Donations.
- z/ Total A.B.C. profits including local share.
- aa/ 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.
- bb/ In fiscal year 1966-67, \$1 million was taken out of A.B.C. profits for a center for research on alcoholism.
- cc/ On June 28, 1968, an additional tax on alcoholic beverages bought for resale by the drink became effective.
- dd/ Excludes \$750 thousand which went to a reserve fund for a central warehouse in fiscal year 1968-69.
- ee/ Effective fiscal year 1970-71 reimbursements from special funds to the general fund are no longer shown in general fund revenue categories but are carried as a separate item. The general fund categories affected are Public Service Corporations, Miscellaneous Taxes and Penalties, Other Miscellaneous Revenue, and Licenses and Permits.
- 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, after the first \$750,000, 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, after the first \$750,000, 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: 1962-64 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); 1970-72 data: "Report of General Fund Revenues", June 30, 1971 and 1972, (Richmond: Department of Accounts, 1971 and 1972); Official estimates: Department of Accounts; Projections b.

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 second half of the decade. Instead of growth of about 20 to 22 percent per biennium, revenues rose by 41 percent in 1966-68 and by 46 percent in 1968-70. In the 1970-72 biennium revenues increased not quite 20 percent, reflecting the impact of the recession and slow recovery in 1970-71, some slowdown in the rate of inflation, and the 1968-70 base for calculating the relative change being swollen by one-time windfalls.

The official estimate for the 1972-74 biennium shows a gain of nearly 31 percent, resulting primarily from an expected continuation of the rapid economic expansion that began in the second half of 1971-72 and from increases in the corporate income tax rate from 5 to 6 percent and the individual income tax rate from 5 to 5.75 percent over \$12,000 of taxable income adopted by the 1972 General Assembly. Our projections for the next three bienniums show relative gains of 28 percent in 1974-76, 24 percent in 1976-78, and 24 percent in 1978-80 (see Chart 3.1 and Table 3.3). Thus, even with the two recent rate hikes general fund revenues will not show percentage gains in the 1970's as high as those experienced in the last two bienniums of the previous decade.

CHART 3.1
GROWTH OF GENERAL FUND REVENUES,
ACTUAL AND PROJECTED 1962-64 TO 1978-80



Source: Table 3.3.

TABLE 3.3--SUMMARY OF GENERAL FUND REVENUES,
ACTUAL 1958-60 TO 1970-72 AND PROJECTED 1972-74 TO 1978-80

<u>Biennium</u>	<u>Amount</u> <u>(\$Mil.)</u>	<u>Change from</u> <u>Preceding Biennium</u>	
		<u>Amount</u> <u>(\$Mil.)</u>	<u>Percent</u>
Actual			
1958-60	\$ 404.2	...	...
1960-62	505.2	+101.0	+25.0
1962-64	616.9	+111.7	+22.1
1964-66	724.4	+107.5	+17.4
1966-68	1,021.4	+296.9	+41.0
1968-70	1,489.6	+468.2	+45.8
1970-72	1,784.9	+295.3	+19.8
Projected			
1972-74	2,332.2 ^{a/}	+547.3	+30.7
1974-76	2,977.2	+645.0	+27.7
1976-78	3,683.8	+706.6	+23.7
1978-80	4,580.2	+896.4	+24.3

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

^{a/} Official estimate adopted when appropriations were enacted April, 19

Source: Table 3.2, p 71.

The percentage distribution of major sources of revenue is shown in Table 3.4. The great importance of the income tax on individuals and fiduciaries is obvious. In the 1970-72 biennium, it accounted for 38 percent of revenues. By 1978-80, with the rate hike and its high degree of responsiveness to economic growth, the projections show the income tax representing one-half of the total. 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 the future. In the 1970-72 biennium the sales and use tax provided 27

TABLE 3.4.--PERCENTAGE DISTRIBUTION OF GENERAL FUND REVENUE SOURCES,
ACTUAL 1962-64 TO 1970-72 AND PROJECTED 1972-74 TO 1978-80

Revenue Source	Actual					Projected			
	1962-64	1964-66	1966-68	1968-70	1970-72	1972-74	1974-76	1976-78	1978-80
FROM TAXATION									
TAXES									
Public Service Corporations	7.9	7.2	5.8	5.5	4.6	4.4	3.8	3.5	3.3
Capital Not Otherwise Taxed	3.0	2.2	0.8	0.6	0.6	0.5	0.4	0.4	0.3
Individuals and Fiduciaries -									
Income	41.5	42.3	40.6	37.3	38.0	42.8	45.5	48.6	51.8
Corporations - Income	10.7	12.1	9.6	9.0	8.0	10.3	10.4	9.9	9.3
Insurance Companies - Premiums	4.9	4.9	4.1	4.2	3.7	3.2	3.3	3.2	3.2
Bank Stock	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Inheritance, Gift	2.1	2.3	1.8	1.6	1.6	1.5	1.4	1.3	1.3
Wills, Suits, Deeds, Contracts	1.7	1.8	1.3	1.1	1.4	1.2	1.2	1.0	0.9
Beer and Beverage State Tax	3.6	3.7	2.4	1.9	1.7	1.5	1.4	1.3	1.2
Alcoholic Beverage State Tax	3.8	3.5	3.1	2.2	2.8	2.4	2.1	1.8	1.6
Tobacco Products Tax	4.8	4.4	2.6	1.8	1.6	1.3	1.1	0.9	0.8
State Sales and Use Tax	...	...	18.6	26.5	27.4	25.7	24.6	23.5	22.4
Miscellaneous Taxes and Penalties	0.6	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
RIGHTS AND PRIVILEGES									
Licenses and Permits	4.9	4.6	0.9	0.4	0.4	0.3	0.3	0.2	0.2
Corporate Franchise and									
Charters	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2
OTHER THAN TAXATION									
Institutional Revenues	1.5	1.5	1.2	1.4	1.8	0.3	0.2	0.2	0.2
Interest, Rents	1.1	1.5	1.2	1.7	1.6	0.7	1.0	0.9	0.9
Excess and Other Fees from Officers	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.1	0.1
Other Miscellaneous Revenues	1.3	1.2	1.0	0.8	0.7	0.8	0.5	0.5	0.5
A.B.C. Profits	5.1	4.8	3.4	2.7	2.7	2.1	1.8	1.6	1.4
Other Transfers	...	...	...	...	0.3	0.3	0.3	0.3	0.2
TOTAL GENERAL FUND REVENUE	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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

Source: Table 3.2.

percent of total revenues, and in 1978-80 we expect it to provide 22 percent.

Methodology

The projections were based on the assumptions that the nation would not become involved in a major armed conflict and that no economic downturns would occur. 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 37-38). Population is forecast to grow by 1.5 percent annually. For the current biennium (1972-74), the general fund projections are based on the official estimates made at the time of budget adoption in April, 1972.

The projections from 1974-76 to 1978-80 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; 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 1962-63 to 1971-72.

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 3.5 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 projections are subject to considerable error, particularly those that cover the distant future. For this reason, the 1974-76 projection is likely to be closer to the mark than the 1978-80 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 3.6 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.

Definitions

The Report of the 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 over-

TABLE 3.5.--METHODOLOGY FOR GENERAL FUND REVENUE PROJECTIONS

Dependent Variable	Equation	X	Coefficient of Correlation (r)	Standard Error of Estimate (Syx)	t value
Revenue Sources					
Public Service Corporations ^{a/}	Log Y = 4.077 + 0.826 Log X	Virginia personal income (f.y.)	0.98888	0.01550	18.805
Capital Not Otherwise Taxed	Log Y = 6.492 + 0.022 X	Time; 1962-63 = 1	0.90926	0.03233	6.179
Individual and Fiduciaries - Income ^{b/}	Log Y = 1.455 + 1.662 Log X	Virginia personal income (f.y.)	0.99524	0.02030	28.888
Corporations - Income ^{a/} ^{c/}	Y = -21,250,696 + 986,136 X	National corporate profits before taxes or IVA (April-March year)	0.75309	9,242,790.1	3.238
Insurance Companies - Premiums	Log Y = 7.107 + 0.041 X	Time; 1962-63 = 1	0.99128	0.01745	21.276
Bank Stock	Y = 1,272,886 + 127,755 X	Time; 1962-63 = 1	0.98666	67703.2	17.139
Inheritance, Gift	Log Y = 6.753 + 0.041 X	Time; 1962-63 = 1	0.92923	0.05240	7.113
Wills, Suits, Deeds, Contracts ^{a/}	Y = 4,279,682 + 717,013 X	Time; 1962-63 = 1	0.85226	1,413,290.9	4.608
Beer and Beverage Excise	Log Y = 3.895 + 0.775 Log X	Virginia personal income (f.y.)	0.95820	0.02888	9.472
Alcoholic Beverages State Tax	Log Y = 5.086 + 0.542 Log X	Virginia personal income (f.y.)	0.99516	0.00667	28.650
Tobacco Products Tax ^{a/}	Y = 12,123,140 + 237,382 X	Time; 1962-63 = 1	0.87082	430,350.1	5.010
State Sales and Use Tax	Y = (1 + percent change in Virginia Personal Income) X	State Sales and Use Tax; previous fiscal year			
Miscellaneous Taxes and Penalties	Y = 1.045 X	Miscellaneous Taxes and Penalties, previous fiscal year			
Licenses and Permits	Log Y = 6.479 + 0.008 X	Time; 1962-63 = 1	0.67914	0.02906	2.617
Corporate Franchise and Charters	Log Y = 6.128 + 0.027 X	Time; 1962-63 = 1	0.99399	0.00945	25.685
Institutional Revenues	Log Y = 6.204 + 0.020 X	Time; 1962-63 = 1	0.79904	0.04896	3.759
Interest and Rents	Y = 1.07 X	Interest and Rents; previous fiscal year			
Excises and Other Fees from Officers	Log Y = 6.114 + 0.021 X	Time; 1962-63 = 1	0.85501	0.04103	4.663
Other Miscellaneous Revenues	Log Y = 6.459 + 0.033 X	Time; 1962-63 = 1	0.94439	0.03720	8.123
A.A.C. Profits	Y = 14,820,468 + 929,153 X	Time; 1962-63 = 1	0.95851	887,417.2	9.510
Other Transfers	Y = 1.15 X	Other Transfers; previous fiscal year and second year of the previous biennium			
	Y = 1.05 X	Other Transfers; previous fiscal year and first year of the present biennium			
Other Variables Projected					
GNP ^{d/}	Fiscal Year 1974-75, Y = 1.075 X Fiscal Year 1975-76, Y = 1.071 X Fiscal Year 1976-77, Y = 1.071 X Fiscal Year 1977-78, Y = 1.071 X Fiscal Year 1978-79, Y = 1.071 X Fiscal Year 1979-80, Y = 1.071 X	GNP, previous fiscal year			
Virginia Personal Income	Log Y = 0.537 + 1.232 Log X	GNP in current dollars (f.y.)	0.99870	0.00637	55.356
National Corporate Profits Before Taxes or IVA (April-March Year)	Fiscal Year 1974-75, Y = 1.074 X Fiscal Year 1975-76, Y = 1.070 X Fiscal Year 1976-77, Y = 1.070 X Fiscal Year 1977-78, Y = 1.070 X Fiscal Year 1978-79, Y = 1.070 X Fiscal Year 1979-80, Y = 1.070 X	National Corporate Profits Before Taxes or IVA (April-March Year), previous year			

^{a/} After derivation of the equation, the projections were made by extending the equation slope from actual collections in fiscal year 1971-72.

^{b/} After use of the equation, the result was adjusted to account for the revenue loss caused by conformity to the federal provisions and for the additional revenue produced by the rate increase from 5 to 5.75 percent over \$12,000 of taxable income.

^{c/} After use of the equation, the result was adjusted to account for the increased revenue generated by raising the rate from 5 to 6 percent.

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

TABLE 3.6--POSSIBLE ERROR RANGE OF GENERAL FUND REVENUE
PROJECTIONS, 1974-76 TO 1978-80

<u>Biennium</u>	<u>(\$Millions)</u>	
	<u>Projected Revenue</u>	<u>+4% Error</u>
1974-76	\$2,977.2	+\$119.1
1976-78	3,683.8	+ 147.4
1978-80	4,580.2	+ 183.2

Source: Table 3.2.

state financial activity and to insure comparability with the manner of presentation in the budget.

Exhibit C in the Report of the 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 (\$97.6 million in fiscal year 1971-72) constitute special revenues outside of the appropriation process. Sales of liquor (\$164.4 million in fiscal year 1971-72) 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 (\$25.1 million in fiscal year 1971-72) 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 Exhibit C 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.

General Fund Revenue Alternatives

Public Service Corporation Taxes

Introduction

The subject of public service taxation is large and complex, and there are many issues deserving study. Among them are differences in the taxation of intrastate and interstate firms, differences in the taxation of various types of public service corporations, and differences in the taxation of public service and other types of corporations. We shall discuss in some detail the second point, make some comments about the last one, and conclude with recommendations on the shape and direction for any further efforts.

Taxation of Different Types of Public Service Corporations

We analyze the differences in taxation for two groups of public service corporations, the railroads and trucks operating in Virginia and the electric power companies, telephone companies, and gas companies in the state. The major shortcoming of such interindustry comparisons is their neglect of the issues of tax shifting and incidence, for all taxes are ultimately borne by individuals, not firms. Business taxes are initially imposed on firms but eventually are shifted through product price increases and/or factor-input price decreases to individuals in their capacities as consumers or suppliers of labor and capital. As a result, we are not justified in discussing the fairness or unfairness of the distribution of taxes among businesses.

Business taxes are, nevertheless, important for several reasons. They can have important effects on income distribution and incentives for

entrepreneurs to enter into economic activity. High business taxes can lead to loose cost control and wasteful expenditures because a significant portion of the expenditures will be paid by the government in the form of lower tax collections. Most important are their non-neutral effects on resource allocation. Taxing one industry more heavily than another, assuming all other things remain unchanged, tends to drive labor and capital from the more heavily taxed industry to the more lightly taxed one, thereby distorting the allocation of resources. Generally, the loss of output due to inefficient resource allocation will be greater the more non-neutral the business tax system. Usually, one indicator of the degree of non-neutrality will be disparities between the effective tax rates of individual firms and industries.

Railroads and Trucks Operating in Virginia

In order to analyze any disparities in taxation for railroads and trucks operating in Virginia, we select one form of effective tax rate, state and local taxes paid as a percentage of gross receipts.^{1/} A significantly higher ratio for either one would show that state and local governments in Virginia are taxing one mode of transportation more heavily than the other. It should be noted that these are aggregate figures and that results will vary considerably among individual railroad and trucking concerns. We think, however, that the figures do reflect the general trend.

^{1/} No other bases, including net income, were available for calculating effective tax rates.

Sample Description and Data Sources.--For railroads the gross receipts and taxes paid are for the twenty-seven Class I railroad companies operating in Virginia in 1971. For trucks the data are for Class I intercity motor carriers in 1970 and have been collected for a sample of 25 trucking organizations, primarily interstate. These organizations operate mostly heavy vehicles (3 axles or more), and selecting them permits a comparison of the railroads and their chief competitors, the large trucks. Undoubtedly a sample including many smaller firms would produce different results. Complete data for all the carriers in Virginia, whose number exceed 30,000 counting private carriers are, however, unavailable. In addition, a sample focusing only on big trucks is perhaps more relevant than a broader sample including trucking concerns (and trucks) of all sizes if our purpose is to compare competing operations.

The data on state taxes and gross receipts for railroads were provided by the State Corporation Commission (SCC), and the figures on local taxes were obtained from the American Association of Railroads. The taxes are primarily on gross receipts at the state level and real property at the local level. For trucks the data on state and local taxes and gross receipts came from the Annual Reports of the Interstate Commerce Commission (ICC), and information on mileage traveled in Virginia was furnished by the SCC. About 85 percent of the taxes are state fuel taxes, or highway user charges, with most of the remainder composed of state income and local property taxes.

Methodology.--The ratios compare taxes paid with gross receipts earned in Virginia. Since most of the railroads and trucks in the sample

operated interstate, the figure for Virginia gross receipts could only be obtained by allocating total gross receipts to Virginia through several different estimating techniques.

For railroads the ratio of miles of track in Virginia to total miles of track was multiplied by total gross receipts to yield a figure for Virginia gross receipts. The SCC employs this method to determine Virginia gross receipts as the basis for computing the gross receipts tax paid by the railroads to the state.

For trucks the comparable figure would seem to be miles of roads in Virginia compared to miles of road in other states, but this method provides no measure of the volume of business carried on in Virginia compared with other states. As a result, Virginia's gross receipts for trucking concerns were estimated by multiplying the total volume of gross receipts by the ratio of Virginia vehicle miles to total vehicle miles.^{1/}

Findings.--The effective tax rates for railroads and trucks are:

<u>Type of Public Service Corporation</u>	<u>Gross Receipts Allocated to Virginia (Mil.)</u>	<u>State and Local Taxes (Mil.)</u>	<u>Effective Tax Rate (Percent)</u>
Railroads (1971)	\$ 330.5	\$ 16.9	5.1
Trucks (1970)	136.8	4.2	3.1

On the basis of these figures a substantial disparity appears to exist between the effective rates for railroads and trucks. In order to pinpoint the source of the disparity, the various trucking companies were

^{1/} To improve the comparison, a ratio for mileage traveled in Virginia by railroads could be utilized. Such figures were not available, and the results would probably not vary significantly if they were.

subdivided into categories based on travel in Virginia. In this way the thesis that out-of-state truckers pay substantially less than those operating in-state could be tested. By no means do our data provide a complete test of this thesis because all motor carriers in our sample are interstate operators. A broader sample, including intrastate carriers, would provide a better look at the problem, and we suggest that it be used in any future study.

The following table shows effective rates for trucking companies with principal terminals located in Virginia and those companies operating in varying degrees in Virginia:

<u>Truck Category^{a/}</u>	<u>Number in Sample</u>	<u>Gross Receipts Allocated to Virginia (Mil.)</u>	<u>State and Local Taxes (Mil.)</u>	<u>Effective Tax Rate (Percent)</u>
Principal terminal in Virginia	6	\$ 40.7	\$ 1.9	4.7
25 Percent or more of fuel taxes paid to Virginia	11	57.0	2.3	4.0
15 Percent or more of fuel taxes paid to Virginia	17	105.6	3.2	3.0
All	25	153.8 ^{b/}	4.2	2.7

^{a/} One of the carriers included in the first category does not appear in the second or third. This is perfectly plausible, since a carrier can be based in Virginia and yet operate primarily out-of-state. All other carriers in the first category also appeared in the others.

^{b/} This figure differs from the one in the first table because gross receipts here were allocated on a fuel tax basis rather than on a mileage basis. The difference in the ratios, 2.7 percent versus 3.1 percent, or about 10 percent, suggests that the fuel tax ratio does not deviate that significantly from the mileage ratio.

Some formidable data problems, not encountered in preparing the first table, hampered this effort. In particular, the SCC by law cannot divulge mileage data for individual carriers; therefore, mileage could not be used to allocate the gross receipts of any sample smaller than the total sample. As a substitute gross receipts were allocated by the ratio of fuel taxes paid to Virginia to fuel taxes paid to all states in which the various carriers operated. These data were available on an individual basis from the ICC and do not appear to bias the results. In constructing the subgroupings the choice of the 25 percent and 15 percent categories was somewhat arbitrary and was made only because the percentages for the various companies tended to bunch in the 25-30 percent and 15-20 percent ranges. Given the number of companies in each subgroup, the chosen categories seem reasonable.

The table indicates that as more and more of the carriers traveling comparatively little in Virginia are encompassed in the sample, the effective tax rate declines. The inference seems to be that the disparity between the effective rates of railroads and trucks would be lower if carriers operating only occasionally in Virginia paid their taxes at the same effective rate as do those using Virginia highways relatively more often.

Analysis of the Findings.--Many transportation economists maintain that the effective tax rates of truckers and railroads, such as those just presented, are not comparable. Instead, they feel that user charges paid by truckers should be viewed as payments for right-of-way and that only payments by truckers to the general fund should be compared with railroad

taxes. Their case is based on railroads paying for the construction and maintenance of their own right-of-way, with all of their taxes, including property taxes on the right-of-way, going to state and local general funds and being used to finance general government services not specifically related to railroad operations. On the other hand, trucks have their right-of-way publicly provided, and the bulk of their taxes are user charges that defray highway expenditures (e.g., those for the construction and maintenance of highways) and come back to yield direct benefits to the truckers.

In marginal terms their argument, based on the benefit principle of taxation, would be:

Funds from an additional levy of highway user taxes will go towards additional construction and maintenance of highways while additional taxes on railroads are unlikely to provide railroads with marginal benefits of such magnitude.

Two methods for incorporating this user tax factor into the analysis are possible. One would be to calculate the annual railroad right-of-way expenses as a percentage of gross revenues and to add this fraction to the railroad tax ratio as already computed in order to arrive at a figure for the railroads' total effective tax rate. The corresponding figure for trucks would be unchanged because truckers do not incur significant maintenance-of-way expenses other than highway user taxes. The total ratios would be:

Railroads:
$$\frac{\text{general fund taxes} + \text{maintenance-of-way expenses}}{\text{gross receipts}}$$

Trucks:
$$\frac{\text{general fund taxes} + \text{highway user taxes}}{\text{gross receipts}}$$

No maintenance-of-way ratios for the twenty-seven railroads used are presently available; nevertheless, a broad sample of railroads in the eastern United States, the southern United States, and the nation as a whole indicates that a figure in the neighborhood of 12 to 15 percent is reasonable.^{1/} Adding these figures to the original railroad ratio would put the effective rate in the 17 to 20 percent range as compared to an unchanged trucking figure of 3.1 percent.

A second method of dealing with user taxes paid by truckers would be to eliminate them from consideration and to compare only general fund taxes paid by railroads and trucks. In this case, the railroad ratio would be unchanged at 5.1 percent, but the truck ratio would decline to .4 percent.^{2/}

Some factors not yet considered may have exaggerated these total effective tax rate differentials. First, only the additional costs that railroads incur by maintaining their own right-of-way and not the benefits of ownership, which give an advantage to railroads, have been considered. Railroads may improve, repair, and, subject to approval of the regulatory agencies, extend their right-of-way as they wish. Having no property rights to the public roads, truckers can exercise little discretion or control over their roadbed facilities. They must at best rely on indirect methods, such as exerting pressure on public authorities, before construction of new roads or repair

^{1/} The figures may be found in Association of American Railroads, Yearbook of Railroad Facts, 1972 (Washington: 1972), p. 66. The average for the United States is about 14 percent.

^{2/} As before, those truckers that pay more in total taxes to Virginia pay more in general fund taxes.

of existing roads is undertaken. Moreover, a sizeable percentage of highway funds come from the federal highway trust fund into which trucks pay federal user taxes. These have been excluded from the ratios, which reflect only state and local tax payments. It is therefore incorrect to say that their state fuel tax payments alone are equivalent to total right-of-way payments.

Unfortunately, it is impossible to agree on an accurate measure of the extent of the exaggeration caused by these two factors or any others that might be developed. For example, we would expect railroad operators to discount the benefits of ownership as negligible while truckers would consider them sufficient enough to cancel out the additional maintenance-of-way costs of railroads. Perhaps to discount 50 percent of the change in the effective tax rates modified first for railroads and then for trucks would be acceptable. With the first method that would make the total effective tax rate for railroads about 11 to 12.5 percent (5.1 percent plus 6 to 7.5 percent) as compared with the truckers' 3.1 percent. With the second method the total effective tax rate for trucks would be 1.8 percent (.4 percent plus 1.4 percent) versus the 5.1 percent for railroads.^{1/} Although precision is not possible in making these comparisons, the disparities are sufficient to reinforce the basic finding that effective tax rates for railroads are greater than those for trucks.

Conclusion.--We have shown that railroads pay more state and local taxes than trucks but cannot conclude from this that trucks ought to pay

^{1/} For railroads this is primarily an effort to quantify the advantages of their ownership of the right-of-way. For trucks it is basically an attempt to quantify the disadvantages of having the right-of-way publicly provided.

more. From the analysis we might make an equally cogent case for lowering railroad taxes rather than raising truck taxes.

Electric Power, Telephone, and Gas Companies Operating in Virginia

Electric power, gas, and telephone companies pay a variety of state and local taxes in Virginia with the largest ones being those on gross receipts and real property. The state and local effective tax rates used to discern any differences in taxation between the three relied on four different bases, gross receipts, assets, equity, and net income after taxes.

For each type of public service corporation, the top five companies in terms of gross receipts were taken as a representative sample. In each case, selection of the top five companies was sufficient to include those corporations accounting for 80 percent or more of the gross revenues earned during 1971, the sample year. The SCC supplied all tax data and the values for the four denominators for intrastate corporations. For the corporations operating in states besides Virginia, there was the problem of deriving bases at least roughly comparable to those for intrastate corporations. The figures for Virginia gross receipts were provided by the SCC, but for the other three measures, allocators for converting total figures to Virginia figures had to be employed. Total net income after taxes was multiplied by the ratio of operating revenues earned in Virginia, a figure provided by the SCC, to total operating revenues to estimate Virginia net income. For the assets and equity categories, the allocator used to arrive at a Virginia figure was the ratio of the

value of the corporation's operating plant in Virginia to the value of the total plant.^{1/}

Table 3.7 provides the effective rates for just state taxes and state and local taxes. Two observations may be drawn from it:

1. The ratios do indicate some disparities in effective tax rates among these types of public service corporations. These differences are reduced by the relatively unequal amounts of taxes collected from the public service corporations by the various localities, and may not be as significant as they appear because of the variability that the different denominators cause in the calculation of the effective rates. If we make the most important comparison, that between electric power and gas companies, which are competitive with each other to a large extent, their effective state rate in terms of gross receipts is the same, but the higher local property taxes for power companies cause the ratio in terms of gross receipts to be higher for power than for gas companies. The three other measures all indicate higher effective rates for the gas companies, but the differences in property taxes paid by the two actually reduces the discrepancies produced by state taxes alone when using these other bases. In terms of assets and equity, gas companies pay 2.5 times as much in state taxes but only 1.5 times as much when state and local taxes are taken together. Expressed as a percentage of net income, state taxes for gas companies are 4 times as much as state taxes for power companies as compared with a 3:1 relationship with state and local taxes.
2. Effective tax rates expressed in terms of net income are significantly higher than those expressed in terms of gross receipts. Net income for public service corporations is a relatively low figure

^{1/} Water companies, another class of public service corporations, were excluded from the analysis because of a lack of available data. If possible, we would recommend their inclusion in a future study.

TABLE 3.7.--EFFECTIVE TAX RATES OF ELECTRIC POWER, TELEPHONE AND
GAS COMPANIES IN THE STATE OF VIRGINIA, 1971
(Percent)

Category	State Taxes			
	As a Percent of Gross Receipts	As a Percent of Assets	As a Percent of Equity	As a Percent of Net Income After Taxes
Electric Power Companies	3.6	0.6	1.6	16.1
Telephone Companies	3.1	2.2	3.8	19.3
Gas Companies	3.6	1.6	3.8	69.6

Category	State and Local Taxes			
	As a Percent of Gross Receipts	As a Percent of Assets	As a Percent of Equity	As a Percent of Net Income After Taxes
Electric Power Companies	9.1	1.6	4.0	41.3
Telephone Companies	6.8	4.7	8.1	41.5
Gas Companies	6.5	2.9	6.9	126.4

Source: State Corporation Commission, Statement Showing the Assessed Value as of January 1, 1972, of the property of telephone companies, gas companies, and power companies, and taxes extended for the year 1972.

because their rate of return is set by a regulatory agency and because there may be few incentives to generate profit, but these data do reinforce the observation that public service corporations would pay much less in state taxes with a tax based on income rather than on gross receipts.^{1/}

Recommendations for Further Study

Besides topics suggested for further study given in the text and the potential for refining any of the analysis already done, we do have several specific recommendations on the scope and direction of future efforts:

1. That a comparison be made of state and local taxes paid by public service corporations and other industries in Virginia. Non-neutralities in the tax structure induce resource flows between the public service sector and non-public service sector as well as within the public service sector. The basic indicator of any disparities could be the ratio of state and local taxes to gross receipts or value-added. Value-added figures for most Virginia manufacturing industries are available from U. S. Bureau of Census, Census of Manufactures for 1967 and soon to be available for 1971; for public service corporations, value-added figures could be easily derived from the gross receipts data available at the SCC.^{2/} Unfortunately, data on state and local taxes in Virginia are not presently available on an industry-wide basis and would have to be generated by the State Department of Taxation or elsewhere.

^{1/} See John L. Knapp et al, Fiscal Prospects and Alternatives (Richmond: Division of State Planning and Community Affairs, April, 1971), pp. 88-89 for this same finding.

^{2/} The use of value-added would avoid the downward biases in the net income of public service corporations and the potential for double counting in the gross receipts of any manufacturing industries that have vertically integrated firms.

2. That for each public service corporation sector a determination of the ability to pay taxes ought to follow from an examination of the structure of the individual firms, the degree of competition in each sector, both intrastate and interstate, the profitability within each sector, and any other critical factors. Effective tax rates are useful in quantifying the problem, but final policy recommendations must rest on a more thorough analysis.
3. That with respect to the taxation of trucks and railroads:
 - a. A transportation economist should be hired to completely investigate the issues, some of which were covered in our earlier section. The economist could probably be employed for a specified time period (e.g., one year).
 - b. The individual ought to be granted full access to statistics, records of previous studies, testimony of witnesses, etc., held by the SCC, the Division of Motor Vehicles, the State Highway Department, and any other relevant agency.
 - c. In particular, the economist should thoroughly investigate the issue of the taxation of trucks versus the taxation of other modes of transportation.^{1/}

^{1/} A detailed memorandum, setting out many of the points that a study attempting to look into this issue would have to cover, is on file with the staff of the Revenue Resources and Economic Study Commission.

Individual and Fiduciaries Income Tax

Introduction

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. Moreover, the 1972 session of the legislature added a bracket with a slightly higher marginal rate to the top of the rate schedule. In the first section, the present structure and rate schedule are reviewed. A comparison with other states is made in the second section, and proposed rate schedules and their revenue impact are then analyzed. In the next section there is a brief discussion of three structural issues - adoption of the federal exemptions, capital gains taxation, and exclusions from the adjusted gross income (AGI) used to determine tax liability. The fourth section indicates the potential for federal collection of the state individual income tax under the federal general revenue sharing law. Finally, an income tax credit on food for home consumption is discussed.

The Present Structure and Rate Schedule

The present or conformity structure became effective January 1, 1972. Its basic elements are:

1. \$600 exemption for three classes, personal, dependent, and blindness, and, beginning in 1973, a \$1,000 exemption for age sixty-five or over. (The federal exemption for all classes is \$750.)
2. The federal maximum standard deduction of 15 percent up to \$2,000.
3. The federal minimum standard deduction of \$1,300.

4. Existing treatment of joint returns (or no provision for a split income option).

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 present rate schedule also became effective January 1, 1972, and is only slightly different from the previous one:

<u>Previous Rate Schedule</u>		<u>Present Rate Schedule</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	2%
\$3,001 - \$5,000	3%	\$3,001 - \$5,000	3%
\$5,001 and over	5%	\$5,001 - \$12,000	5%
		\$12,001 and over	5.75%

With the existing structure it can be expected to produce about 3.6 percent more in revenue than the previous rate schedule.^{1/}

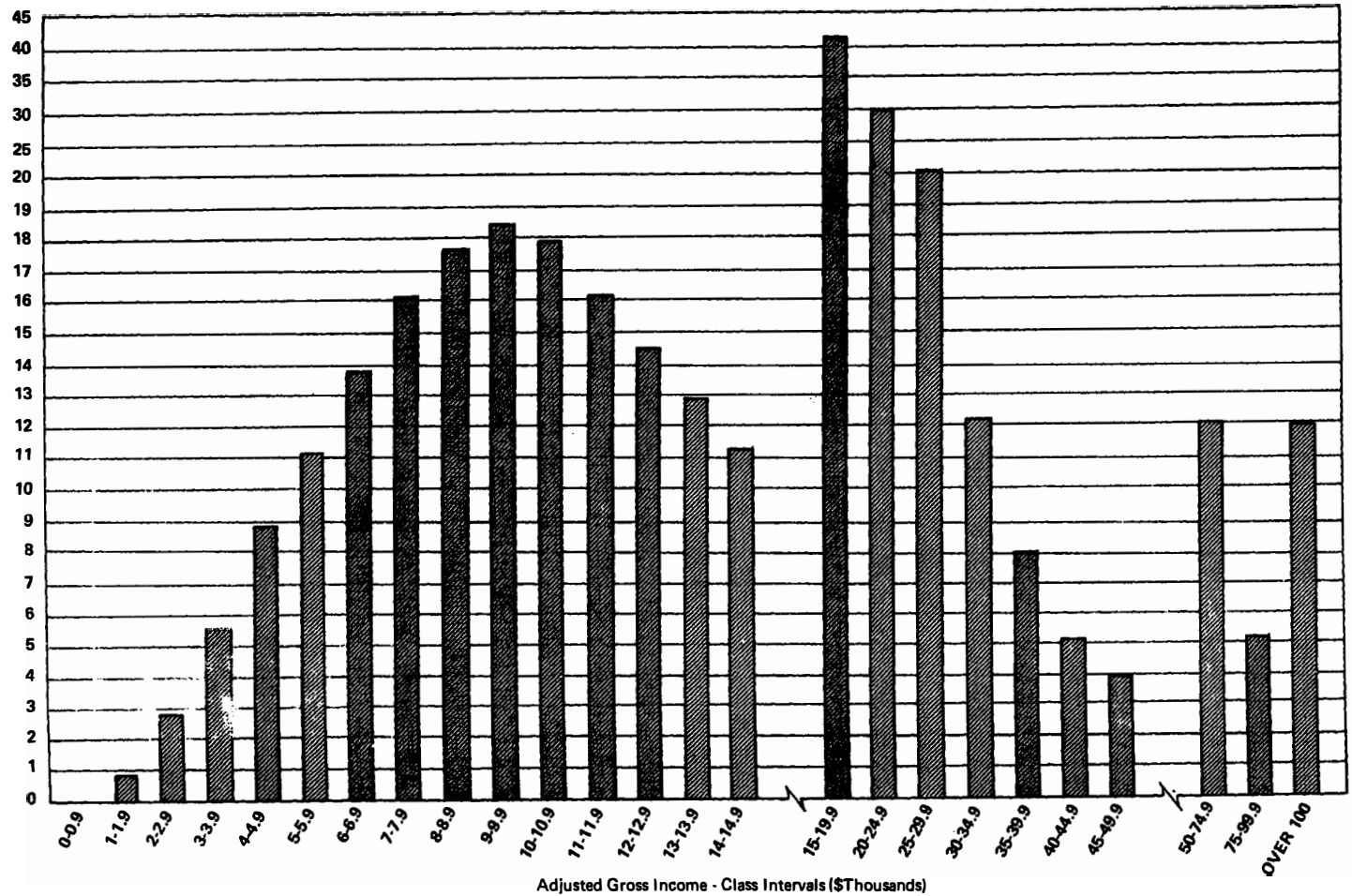
Chart 3.2 shows the distribution of tax receipts by AGI class under the preconformity structure and the previous rate schedule for tax year 1971. The distribution for the present structure and rate schedule is quite similar. Chart 3.3 shows 1971 returns distributed by AGI class.

^{1/} The basis for this estimate and all others under the individual income tax is Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1971," Special Computer Printout (Richmond: February, 1973). Not incorporated into the computer tabulations were changes adopted by the 1973 session of the General Assembly in Senate Bill No. 876. This bill increases the exemption for those age sixty-five and over from \$600 to \$1,000 and extends the retirement income exclusion to the first \$1,000 of retirement benefits received by the surviving spouses of civil service retirees and by the surviving spouses at least age sixty of military retirees. These changes will be effective for calendar year 1973. In 1971 the three modifications would have caused revenues to decline by \$1.5 to \$3 million.

CHART 3.2

TOTAL INDIVIDUAL INCOME TAX RECEIPTS
BY AGI CLASSIFICATION
TAX YEAR 1971

TOTAL TAX
RECEIPTS
\$MILLIONS



16-

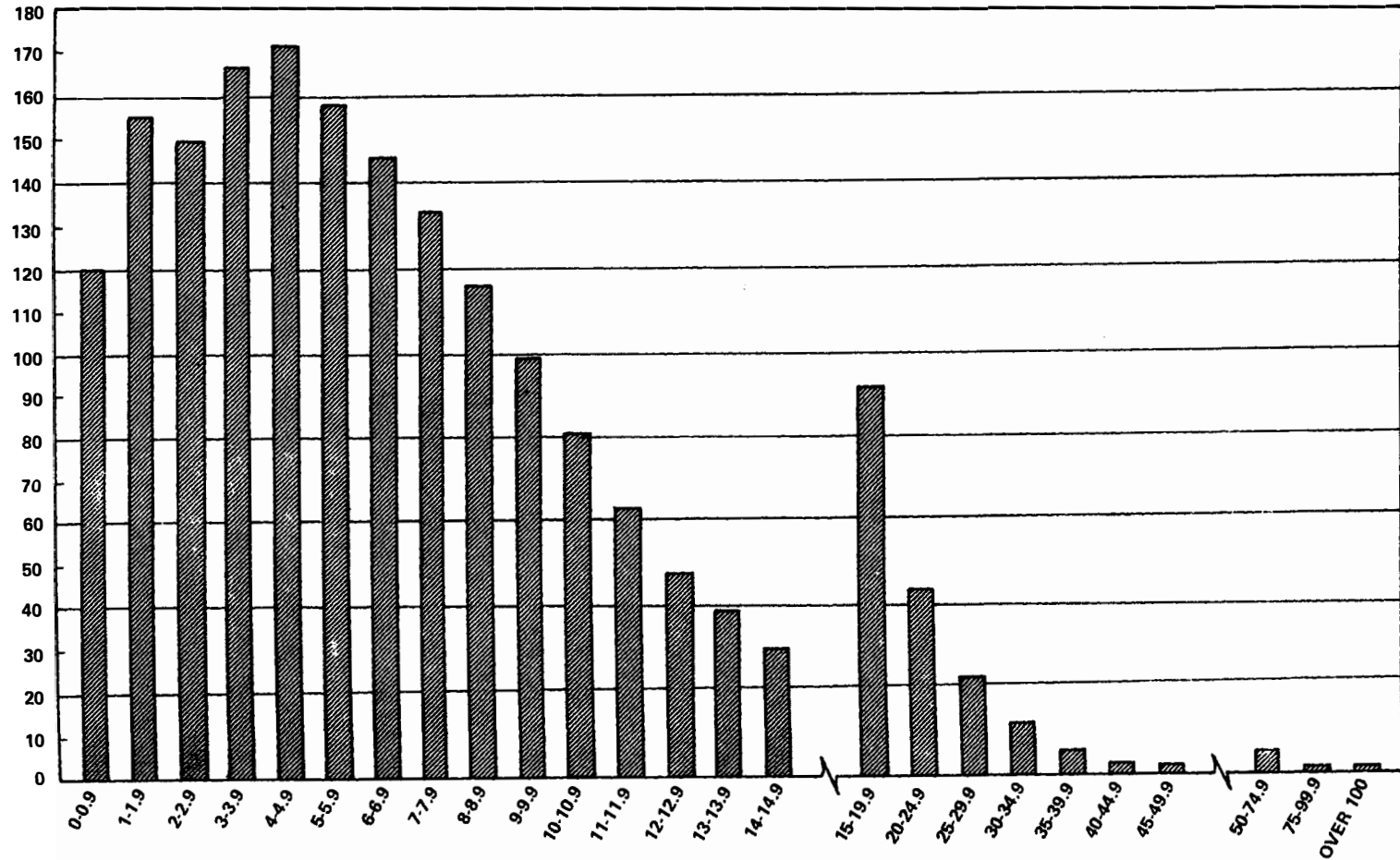
Note: Structure and rates were those applicable
to tax year 1971 returns.

Source: Department of Taxation, Special Computer
Printout, February, 1973.

CHART 3.3

TOTAL NUMBER OF INDIVIDUAL INCOME
TAX RETURNS BY AGI CLASSIFICATION
TAX YEAR 1971

NUMBER OF
RETURNS
THOUSANDS



Source: Appendix, Table A.4.

Adjusted Gross Income - Class Intervals (\$Thousands)

Comparisons with Other States

As of December 31, 1971, forty-one states plus the District of Columbia imposed an income tax on individuals.^{1/} Twenty-nine states conformed their tax to some degree to the federal provisions.^{2/}

Table 3.8 compares the exemptions granted by the states and the District of Columbia, and Table 3.9 shows their standard deductions. For Virginia the preconformity exemptions and standard deduction and the present exemptions and standard deduction, given in parentheses, are provided.

The present rate schedule in Virginia is compared to those in the other states in appendix Table A.5. The majority of the states had 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 on net taxable income between \$10,000 and \$15,000. These schedules therefore are more progressive than the present one in Virginia. Among contiguous states, Maryland had 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 had more progressive rate schedules than the present one in Virginia. Tennessee taxed only interest and dividends as explained in an earlier footnote.

^{1/} Two additional states, Tennessee and New Hampshire, limit the tax to interest and dividends, and Connecticut taxes only capital gains.

^{2/} Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 211-213.

TABLE 3.8.--STATE INDIVIDUAL INCOME TAXES:
PERSONAL EXEMPTIONS, DECEMBER 31, 1971

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(3,200)	6(267)	....	17.50
California ³	25(2,250)	50(4,500)	8(400)	....	8(400)
Colorado ⁴	750	1,500	750	750	750
Delaware	600 ⁵	1,200	600	600	600
Georgia ⁶	1,500	3,000	700 ⁷	700	700
Hawaii ⁴	650	1,300	650	650 ⁸	5,000
Idaho ^{4,9}	650	1,300	650	650	650
Illinois	1,000	2,000	1,000	1,000	1,000
Indiana ⁴	1,000	2,000 ¹⁰	500	500	500
Iowa ³	15(1,500)	30(2,250)	10(370)	15	15
Kansas ⁴	600	1,200	600	600	600
Kentucky ³	20(1,000)	40(2,000)	20(1,111)	20(1,000)	20(1,000)
Louisiana ¹¹	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 ¹²	800 ¹²	800
Massachusetts ^{4,13}	2,000	2,600-4,600	600	600	2,000
Michigan	1,200	2,400	1,200	1,200	1,200
Minnesota ^{3,4}	20(1,054)	40(1,669)	20(558)	¹⁴	¹⁴
Mississippi	4,000	6,000	....	....	....
Missouri	1,200	2,400	400	....	....
Montana	600	1,200	600	600	600
Nebraska ⁴	²	²	²	²	²
New Hampshire ¹⁵	600	600 ¹⁶	....	....	....
New Jersey ¹⁷	650	1,300	650	650	650
New Mexico	²	²	²	²	²
New York ¹⁸	650	1,300	650	650	650
North Carolina	1,000	2,000 ¹⁹	600 ²⁰	1,000	1,000
North Dakota	600	1,500	600	600	600
Ohio (eff. 1/1/72) ²¹	500	1,000	500	500	500
Oklahoma	750	1,500	750	750	750
Oregon	²	²	²	²	²
Rhode Island	²	²	²	²	²
South Carolina	800	1,600	800 ²²	800	800
Tennessee ¹⁶	....	....	....	....	....
Utah	600	1,200	600	600	600
Vermont ⁴	²	²	²	²	²
Virginia ²³	1,000 (600)	2,000(1,200)	300 ²⁴ (600)	600(600)	600(600)
West Virginia	600	1,200	600	600	600
Wisconsin ^{3,4}	12(429)	24(857)	12(446)	⁷	....
Dist. of Columbia	1,000	2,000	500	500	500

See footnotes at the end of table.

TABLE 3.8.--STATE INDIVIDUAL INCOME TAXES:
PERSONAL EXEMPTIONS, DECEMBER 31, 1971 (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 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 96.
- ⁵ An additional \$300 exemption is allowed if the taxpayer is the head of a household.
- ⁶ In addition to the personal exemption deductions, low income tax credits are provided. The credits range from \$1 to \$15 for single persons with Federal adjusted gross income under \$3,015, and \$1 to \$30 for married persons filing joint returns with Federal AGI under \$6,030.
- ⁷ The exemption is allowed for students regardless of age or income. For students beyond the high school level, \$1,400 per dependent and \$700 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 \$700 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 The exemptions and credits for dependents are deductible from the lowest income bracket and equivalent to the tax credits shown in parentheses.
- ¹² An additional exemption of \$800 is allowed for each dependent 65 years of age or over.
- ¹³ 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) \$2,600, plus the income of the spouse having the smaller income.
- ¹⁴ 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.
- ¹⁵ The tax applies only to interest and dividends. New Hampshire also imposes a 4% commuter's income tax.
- ¹⁶ An additional exemption of \$600 is allowed a married woman with separate income; joint returns are not permitted.
- ¹⁷ In addition to the personal exemptions, the following tax credits are granted: Single persons, \$10; married taxpayers and heads of households, \$25.
- ¹⁸ In addition to the personal exemptions, the following tax credits are granted: Single persons, \$12.50; married taxpayers and heads of households, \$25.
- ¹⁹ An additional exemption of \$1,000 is allowed a married woman with separate income; joint returns are not permitted.
- ²⁰ Plus an additional \$600 for each dependent who is a full-time student at an accredited university or college.
- ²¹ Maximum personal exemption is \$3,000 per return.
- ²² The exemption is extended to dependents over the age of 21 if they are students in an accredited school or college.
- ²³ Personal exemptions changed to \$600 per exemption allowed for Federal income tax purposes, effective for taxable year beginning on or after 1/1/72.
- ²⁴ Exemption for one dependent of unmarried person is \$1,000, if dependent is father, mother, son, daughter, sister or brother.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 208-209.

TABLE 3.9. --STATE INDIVIDUAL INCOME TAXES: USE OF STANDARD DEDUCTION AND OPTIONAL TAX TABLE, DECEMBER 31, 1971

State	Percent ¹	Size of standard deduction			Optional tax table
		Maximum			
		Single	Married		
			Separate return	Joint return	
Alabama	10 ₃	\$1,000 ₃	\$1,000 ₃	\$1,000 ₃	x
Alaska ²					x
Arizona	10	500	500	1,000	x
Arkansas	10	1,000	500	1,000	....
California	....	1,000	1,000	2,000	x
Colorado ¹	10	1,000	500	1,000	x
Delaware ⁴	10 ₃	500 ₃	500 ₃	1,000 ₃	....
Georgia					....
Hawaii	10 ₃	1,000 ₃	500 ₃	1,000 ₃	x
Idaho ²					x
Illinois	....	....	....	....	....
Indiana	....	....	....	....	....
Iowa	5 ₃	250 ₃	250 ₃	250 ₃	x
Kansas ²					x
Kentucky ⁵	....	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 ₃	500 ₃	500 ₃	1,000 ₃	....
Nebraska ²					x
New Jersey	13 ₃	1,500 ₃	⁶ ₃	1,500 ₃	....
New Mexico ²			⁶		....
New York	13	1,500	⁶	1,500 ₇	x
North Carolina	10 ₃	500 ₃	500 ₃	₃	....
North Dakota ²					....
Oklahoma	15 ₃	2,000 ₃	1,000 ₃	2,000 ₃	x
Oregon ²					x
Pennsylvania	....₃	....₃	....₃	....₃	....
Rhode Island					....
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(15)	500(2,000)	250 ⁶ (1,000)	500(2,000)	....
West Virginia	10	1,000		1,000	x
Wisconsin ²	11	1,250	625	1,250	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 Connecticut where tax applies to capital gains.

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

² A low income allowance is provided.

³ Since the State uses either the Federal tax base or Federal tax liability in computing the State tax, in effect, the Federal standard deduction is adapted.

⁴ In lieu of all other deductions except Federal income taxes up to \$300 for individuals and \$600 for married couples filing joint return.

⁵ 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.

⁶ The standard deduction allowed a married couple may be taken by either or divided between them in such proportion as they may elect.

⁷ An additional \$500 is allowed a married women with separate income; joint returns are not permitted.

Source: Commerce Clearing House, State Tax Reporter as shown in Advisory Commission on Intergovernment Relations, State - Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), p. 210.

The burden of Virginia's income tax can be compared to the burden in other states on a national and regional basis. In 1970 and 1971 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 given in Table 3.10. The present structure and rate schedule would cause a slight increase in Virginia's overall burden; as a result, our relative position would probably remain the same.

At the regional level, effective tax rates for selected taxpayers at different levels of income for Virginia and contiguous states would best illustrate the comparative burden. If the comparison were made for 1971, it would show that in general the Virginia income tax before the recent changes 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 generally lower than in Virginia for both individuals and families. Applying the present conformity structure and rate schedule in Virginia would, on the whole, bring the effective rates for these typical taxpayers closer to those in West Virginia. By March, 1973, the surrounding states had made no substantial changes in their individual income taxes; as a result, the findings based on the 1971 comparison would still apply. In short, the recent changes in the structure and the rate schedule would have little or no effect on the relative burden of Virginia's individual income tax at either the regional or national level.^{1/}

^{1/} Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 201-213; Prentice-Hall, Inc., State and Local Taxes: All States Tax Guide, 1973.

TABLE 3.10.--STATE AND LOCAL INDIVIDUAL INCOME TAX BURDEN, 1970-71

<u>Area</u>	<u>State and Local Individual Income Tax Receipts in Fiscal Year 1970-71</u>		
	<u>Per Capita in 1971</u>	<u>Per \$1,000 of Personal Income in 1971</u>	<u>Per \$1,000 of Federal AGI in 1969</u>
Virginia	\$ 66.39	\$ 17.01	\$ 24.32
U. S. Average (incl. D.C.)	57.56	13.85	19.72
Average of States and the District of Columbia that Impose an Individual Income Tax	64.95	15.49	21.97

Sources: Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1972 Edition, (Washington: Government Printing Office, 1972), pp. 217 and 218; Kenneth E. Quindry, State and Local Revenue Potential, 1971, SREB Research, (Atlanta, Georgia: Southern Regional Education Board, 1972), pp. 32-43; U.S. Department of Commerce, Bureau of the Census, State Government Finances in 1971, GF71, No. 3, (Washington: Government Printing Office, June 1972), p. 50.

Proposed Rate Schedules

Revenue from the income tax could be increased again by changing the present rate schedule. In Table 3.11 nine proposed rate schedules along with the present one are given. The effect that the rate schedules have on the tax liabilities of eight typical taxpayers at seven selected levels of AGI are shown in Table 3.12. The amount of revenue that each would have produced in tax year 1971 is presented in Table 3.13.

Schedules 1 and 2 revert to the brackets in the previous rate schedule but raise the rates. In Schedule 1 the additional 1 percent on taxable income of \$5,001 and over would have increased revenue by \$26.6 million or 8.2 percent. Raising the rate 1 percent in each bracket in Schedule 2 imposes an additional burden on all taxpayers and would

TABLE 3.11.--THE PRESENT RATE SCHEDULE AND PROPOSED RATE
SCHEDULES FOR THE TAX ON INDIVIDUALS AND FIDUCIARIES

Present Rate Schedule

<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%
\$3,001 - \$5,000	3%
\$5,001 - \$12,000	5%
\$12,001 and over	5.75%

Proposed Rate Schedules

<u>Schedule 1</u>		<u>Schedule 2</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$3,000	3%
\$3,001 - \$5,000	3%	\$3,001 - \$5,000	4%
\$5,001 and over	6%	\$5,001 and over	6%
<u>Schedule 3</u>		<u>Schedule 4</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$2,000	2%
\$2,001 - \$5,000	3%	\$2,001 - \$5,000	3%
\$5,001 and over	6%	\$5,001 - \$10,000	5%
		\$10,001 and over	7%
<u>Schedule 5</u>		<u>Schedule 6</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$2,000	2%	First \$5,000	2%
\$2,001 - \$5,000	3%	\$5,001 - \$8,000	3%
\$5,001 - \$8,000	5%	\$8,001 - \$15,000	5%
\$8,001 - \$15,000	6%	\$15,001 - \$25,000	7%
\$15,001 and over	7%	\$25,001 and over	8%
<u>Schedule 7</u>		<u>Schedule 8</u>	
<u>Taxable Income</u>	<u>Rate</u>	<u>Taxable Income</u>	<u>Rate</u>
First \$3,000	2%	First \$2,000	2%
\$3,001 - \$5,000	3%	\$2,001 - \$5,000	3%
\$5,001 - \$10,000	5%	\$5,001 - \$10,000	5%
\$10,001 - \$25,000	6%	\$10,001 - \$25,000	7%
\$25,001 - \$50,000	7%	\$25,001 - \$50,000	8%
\$50,001 and over	8%	\$50,001 and over	9%
<u>Schedule 9</u>			
<u>Taxable Income</u>	<u>Rate</u>		
First \$2,000	2%		
\$2,001 - \$5,000	3%		
\$5,001 - \$8,000	5%		
\$8,001 - \$15,000	6%		
\$15,001 - \$25,000	7%		
\$25,001 - \$50,000	8%		
\$50,001 and over	9%		

TABLE 3.12.--TYPICAL TAXPAYERS, TAX LIABILITY UNDER PRESENT STRUCTURE^{a/} WITH PRESENT AND PROPOSED RATE 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	\$ 22.00	\$ 22.00	\$ 33.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00	\$ 22.00
5,000	63.00	63.00	94.00	73.00	73.00	73.00	62.00	63.00	73.00	73.00
7,500	150.00	156.00	206.00	166.00	160.00	160.00	118.00	150.00	160.00	160.00
10,000	265.00	294.00	344.00	304.00	275.00	275.00	187.00	265.00	275.00	275.00
15,000	493.00	564.00	614.00	574.00	548.00	544.00	410.00	514.00	548.00	544.00
20,000	734.50	816.00	866.00	826.00	842.00	812.00	652.00	766.00	842.00	812.00
50,000	2,304.25	2,454.00	2,504.00	2,464.00	2,753.00	2,723.00	2,752.00	2,593.00	2,942.00	2,912.00
Couple Under 65^{c/}										
\$ 3,000	\$ 10.00	\$ 10.00	\$ 15.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
5,000	50.00	50.00	75.00	55.00	55.00	55.00	50.00	50.00	55.00	55.00
7,500	120.00	120.00	170.00	130.00	130.00	130.00	100.00	120.00	130.00	130.00
10,000	235.00	258.00	308.00	268.00	245.00	245.00	169.00	235.00	245.00	245.00
15,000	460.00	528.00	578.00	538.00	508.00	508.00	380.00	478.00	508.00	508.00
20,000	700.00	780.00	830.00	790.00	770.00	770.00	610.00	730.00	800.00	770.00
50,000	2,269.75	2,418.00	2,468.00	2,428.00	2,711.00	2,681.00	2,704.00	2,551.00	2,894.00	2,864.00
Family of Three^{c/}										
\$ 3,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
5,000	38.00	38.00	57.00	38.00	38.00	38.00	38.00	38.00	38.00	38.00
7,500	102.00	102.00	146.00	112.00	112.00	112.00	88.00	102.00	112.00	112.00
10,000	205.00	222.00	272.00	232.00	215.00	215.00	151.00	205.00	215.00	215.00
15,000	430.00	492.00	542.00	502.00	464.00	472.00	350.00	442.00	464.00	472.00
20,000	665.50	744.00	794.00	754.00	728.00	728.00	568.00	694.00	758.00	728.00
50,000	2,235.25	2,382.00	2,432.00	2,392.00	2,669.00	2,639.00	2,656.00	2,509.00	2,846.00	2,816.00
Family of Four^{c/}										
\$ 3,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
5,000	26.00	26.00	39.00	26.00	26.00	26.00	26.00	26.00	26.00	26.00
7,500	84.00	84.00	122.00	94.00	94.00	94.00	76.00	84.00	94.00	94.00
10,000	175.00	186.00	236.00	196.00	185.00	185.00	133.00	175.00	185.00	185.00
15,000	400.00	456.00	506.00	466.00	422.00	436.00	320.00	406.00	422.00	436.00
20,000	631.00	708.00	758.00	718.00	676.00	688.00	530.00	658.00	716.00	688.00
50,000	2,200.75	2,346.00	2,396.00	2,356.00	2,627.00	2,597.00	2,608.00	2,467.00	2,798.00	2,768.00
Family of Five^{c/}										
\$ 3,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
5,000	14.00	14.00	21.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
7,500	66.00	66.00	98.00	76.00	76.00	76.00	64.00	66.00	76.00	76.00
10,000	145.00	150.00	200.00	160.00	155.00	155.00	115.00	145.00	155.00	155.00
15,000	370.00	420.00	470.00	430.00	380.00	400.00	290.00	370.00	380.00	400.00
20,000	596.50	672.00	722.00	682.00	674.00	652.00	500.00	622.00	674.00	652.00
50,000	2,166.25	2,310.00	2,360.00	2,320.00	2,585.00	2,555.00	2,560.00	2,425.00	2,750.00	2,720.00
Family of Six^{c/}										
\$ 3,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
5,000	2.00	2.00	3.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
7,500	52.00	52.00	78.00	58.00	58.00	58.00	52.00	52.00	58.00	58.00
10,000	117.00	117.00	166.00	127.00	127.00	127.00	98.00	117.00	127.00	127.00
15,000	340.00	384.00	434.00	394.00	350.00	364.00	260.00	340.00	350.00	364.00
20,000	562.00	636.00	686.00	646.00	632.00	616.00	470.00	586.00	632.00	616.00
50,000	2,131.75	2,274.00	2,324.00	2,284.00	2,543.00	2,513.00	2,512.00	2,383.00	2,702.00	2,672.00
Individual Over 65										
\$ 3,000	\$ 2.00	\$ 2.00	\$ 3.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00
5,000	42.00	42.00	63.00	43.00	43.00	43.00	42.00	42.00	43.00	43.00
7,500	108.00	108.00	154.00	118.00	118.00	118.00	92.00	108.00	118.00	118.00
10,000	215.00	234.00	284.00	244.00	225.00	225.00	157.00	215.00	225.00	225.00
15,000	440.00	504.00	554.00	514.00	478.00	484.00	360.00	454.00	478.00	484.00
20,000	677.00	756.00	806.00	766.00	722.00	742.00	582.00	706.00	772.00	742.00
50,000	2,246.75	2,394.00	2,444.00	2,404.00	2,683.00	2,653.00	2,672.00	2,523.00	2,862.00	2,832.00
Couple Over 65^{c/}										
\$ 3,000	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
5,000	10.00	10.00	15.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
7,500	60.00	60.00	90.00	70.00	70.00	70.00	60.00	60.00	70.00	70.00
10,000	135.00	138.00	188.00	145.00	145.00	145.00	109.00	135.00	145.00	145.00
15,000	360.00	408.00	458.00	418.00	370.00	388.00	280.00	360.00	370.00	388.00
20,000	585.00	660.00	710.00	670.00	660.00	640.00	490.00	610.00	660.00	640.00
50,000	2,154.75	2,298.00	2,348.00	2,308.00	2,571.00	2,541.00	2,544.00	2,411.00	2,734.00	2,704.00

^{a/} All income is assumed to be in the form of salaries and wages. Figures assume that taxpayers making \$15,000 or less take the standard deduction (\$1,300 minimum standard deduction or 15 percent up to \$2,000 maximum standard deduction), that those making \$20,000 itemize deductions in the amount of \$2,800, and that those making \$50,000 itemize deductions in the amount of \$5,500.

^{b/} It is assumed joint returns are filed.

^{c/} The \$1,000 exemption is used for those age sixty-five or over.

have meant \$82.8 million or 25.5 percent more in revenue. The typical taxpayer table illustrates the extra burden that Schedule 2 places on all taxpayers. Schedule 3 reduces the first bracket to \$0 - \$2,000 but retains a 2 percent rate for it and imposes a 6 percent rate over \$5,000. The result would have been a \$37.9 million or 11.7 percent increase in revenue.

Schedule 4 uses the first two brackets and rates of Schedule 3 but adds a \$5,001 - \$10,000 bracket at 5 percent and a \$10,001 and over bracket at 7 percent. It would have generated an added \$35.6 million or 11 percent in revenue. Schedule 5 also employs the first two brackets and rates of Schedule 3, adds three brackets over \$5,000, \$5,001 - \$8,000 at 5 percent, \$8,001 - \$15,000 at 6 percent, and over \$15,000 at 7 percent and would have produced an extra \$33.8 million or 10.4 percent in revenue. The brackets in Schedule 6 are those from Schedule 5 without the \$0 - \$2,000 bracket but with one added over \$25,000. Revenues would have declined by \$30.2 million or 9.3 percent because the loss in revenues caused by the lower rates on the bottom two brackets are not completely offset by the higher rates in the last two brackets.

Schedule 7 has the first two brackets and rates of the present rate schedule but adds four brackets over \$5,000 with the final one imposing an 8 percent rate on taxable income over \$50,000. It would have caused revenues to rise by \$14.5 million or 4.5 percent. Schedule 8 is Schedule 4 with additional brackets over \$10,000 and a top marginal rate of 9 percent over \$50,000 and would have expanded revenues by \$43.1 million or 13.3 percent. Schedule 9, which is Schedule 5 with several extra brackets over \$15,000 and a 9 percent top rate over \$50,000, would have increased revenues by \$41.3 million or 12.7 percent.

TABLE 3.13.--REVENUES FROM PRESENT RATE SCHEDULE AND PROPOSED RATE SCHEDULES 1-9 FOR THE PRESENT TAX STRUCTURE, TAX YEAR 1971

<u>Rate Schedule</u>	<u>Revenues</u> (Mil.)	<u>Change from Present</u> <u>Rate Schedule</u>	
		<u>Amount</u> (Mil.)	<u>Percent</u>
Present	\$ 324.5	\$ ...	...
1	351.1	+ 26.6	+ 8.2
2	407.3	+ 82.8	+ 25.5
3	362.4	+ 37.9	+ 11.7
4	360.1	+ 35.6	+ 11.0
5	358.3	+ 33.8	+ 10.4
6	294.3	- 30.2	- 9.3
7	339.0	+ 14.5	+ 4.5
8	367.6	+ 43.1	+ 13.3
9	365.8	+ 41.3	+ 12.7

Source: Appendix Table A.3.

The analysis of the proposed schedules allows us to make several generalizations. A schedule such as the second one that returns to the basic bracketing system of the schedule used until 1972 and imposes a higher marginal rate in each bracket would increase revenues by about 25 percent but would raise the burden of all taxpayers. On the other hand, an attempt like Schedule 6 to widen the first two brackets to \$0 - \$5,000 and \$5,001 - \$8,000, thereby accounting for the impact of inflation since their establishment in 1948,^{1/} to maintain the 2 and 3 percent rates in them, and to add several brackets over \$8,000 with rates reaching 8 percent (or, as further calculations would show, even 10 percent) would cost the state millions of dollars in revenues per year and would lower the burden of most taxpayers (see Table 3.12). Between these

^{1/} After being inflated by the consumer price index, \$0 - \$3,000 and \$3,001 - \$5,000 are in current dollars roughly equivalent to \$0 - \$5,000 and \$5,001 - \$8,000.

two extremes are several alternatives that would primarily increase the burden of people in the middle and upper income ranges. A rate schedule with the basic bracketing of the pre-1972 schedule but with a few modifications in rates or brackets (e.g., Schedules 1 and 3) would lead to about 10 percent more in revenues than the present schedule. A proposal like Schedule 4 or 5 adding several brackets in the middle income range with rates from 6 to 8 percent and retaining at least one bracket below \$5,000 would result in approximately a 10 percent rise in revenues. Finally, additional marginal brackets over \$10,000 or \$15,000 with high (up to 9 or 10 percent) rates, such as those in the last three schedules, would generate small increments in revenue. For example, Schedule 8 is a more progressive version of Schedule 4 but would have produced only about 3 percent more revenue.

Of course, the nine alternative schedules provided 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.3, which gives the distribution of net taxable income by first \$1,000 income brackets up to \$25,000 and then by \$5,000 brackets up to \$100,000 under the conformity structure for tax year 1971.^{1/}

Changes in the Tax Structure

Among the structural issues deserving analysis are the adoption of

^{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 1971 a 2.3 percent rate would have produced the same revenue as the present structure and rate schedule. Each 1 percent rise in the rate would have generated about another \$140 million in revenue.

the \$750 federal exemption, the taxation of 100 percent of capital gains, and exclusions from the AGI used to determine tax liability. The present structure uses \$600 exemptions for all classes except those age sixty-five or over (\$1,000) and the federal standard and itemized deductions. Conforming to the federal provisions on deductions appeared in 1971 to achieve better than any other alternative the original goal of maximizing the degree of conformity while minimizing the revenue loss (at about 2 percent).^{1/} To increase the \$600 exemptions to \$750 would cost the state millions of dollars in revenue. In 1971, raising the exemption for all classes by \$150 would have caused the total amount of exemptions to rise by \$620 million (see appendix Table A.2) and revenues to decline by about \$19 million or 6 percent with the present rates. Already having the \$1,000 exemption for age sixty-five and over would have cut the revenue loss by \$1 or \$2 million.

Under the preconformity structure 100 percent of all capital gains, short-term and long-term, were taxable. With conformity the federal provision of taxing 50 percent of long-term capital gains (those realized on assets held longer than six months) was adopted. On the basis of available data, it seems that following the federal law will lead to improved reporting of such income. In 1970 net capital gains over losses reported to Virginia were \$218.5 million while net capital gains over losses reported to the federal government from Virginia were \$141.4 million. Yet all net capital gains at the federal level were long-term, or 50 percent of their total value of \$282.8 million. If we make the reasonable assumption that tax should have been paid on the same capital

^{1/} See The Income Tax Conformity Statute Study Commission, Implementation of a Simplified Tax System for Virginia Taxpayers, (Richmond: Department of Purchases and Supply, 1971).

gains at the state and federal levels, \$64.3 million (\$282.8 million minus \$218.5 million) went unreported to Virginia. Conformity would have captured 50 percent, or \$32.1 million, of this difference and would have maintained the capital gains subject to tax at the federally reported total of \$141.4 million. Since most capital gains are taxable at the 5 or 5.75 percent marginal rates with the present rate schedule, the decline in revenues would have been reduced by \$1.5 to \$2 million. Taxing 100 percent of capital gains after the introduction of conformity would have meant the reporting of the entire \$282.8 million to Virginia and an additional \$7 to \$8 million in revenue (the extra \$141.4 million x 5 or 5.75 percent). We must emphasize that the amount of capital gains and the ratio of short-term to long-term are quite volatile from year to year and that the reliability of any revenue forecasts based on a single year would therefore be quite limited. We do, nevertheless, believe that conformity will improve the reporting of capital gains at the state level and that combining conformity with the taxation of 100 percent of capital gains could increase individual income tax revenues by roughly 1 or 2 percent.^{1/}

Several types of income are excluded from the AGI used to determine tax liability. They include:

1. Retirement income received under the Virginia Supplemental Retirement System (after cost recovery).

^{1/} All data are taken from a special computer printout provided by the Internal Revenue Service and from Virginia Department of Taxation, "Incomes of Resident and Nonresident Individuals and Fiduciaries for the Taxable Year 1970," Special Computer Printout (Richmond: February, 1972). The potential for better reporting of capital gains through conformity was originally pointed out in The Virginia Income Tax Study Commission, Toward a Simplified Income Tax System for Virginia Taxpayers (Richmond: Department of Purchases and Supply, 1967), p. 18.

2. The first \$2,000 of retirement income received by civil service retirees and, effective 1973, the first \$1,000 received by the surviving spouses of civil service retirees (after cost recovery).
3. The first \$2,000 of retirement benefits received by military retirees age sixty or over and, effective 1973, the first \$1,000 of benefits received by the surviving spouses at least age sixty of military retirees (after cost recovery).

These retirement income exclusions push the state individual income tax system away from conformity and away from the notion of horizontal equity, or "equal treatment of equals". For example, if we assume five 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 incomes from separate sources, their tax would be as follows, based on the present rate schedule:

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

The exclusions may be reasonable for retirees with, say, a \$5,000 pension plus social security, which is also not taxable. The case is weakened, though, when it is recognized that the retiree with the industrial pension receives no exclusion and that wage earners probably have expenses in connection with raising a family much greater than those of most retirees. It

is further weakened by the continuously increasing number of retired persons who supplement their pensions through part-time employment and investment opportunities and earn a total of \$10,000 to \$20,000 annually.

There appear to be three alternative ways of handling the income exclusions:

1. Eliminate them entirely.
2. Permit the present exclusions to be reduced by the amount of social security benefits.
3. Limit the present exclusions to the middle and lower income brackets, for example, \$10,000 or less in total income. One method would be to reduce the exclusions by the amount that they exceed AGI (including income from all sources) in excess of \$10,000. For example, a state retiree with \$6,000 in taxable interest income and a \$12,000 pension under the Virginia Supplemental Retirement System would have an AGI of \$18,000 for purposes of computing the limitation. The excess of \$18,000 over \$10,000 would be \$8,000, and his present \$12,000 exclusion would be reduced by that \$8,000 to \$4,000.

Of course, any of these alternatives would produce some additional revenues. Although there is a lack of sufficient data to make reliable estimates, we doubt that even complete elimination of the exclusions would increase individual income tax revenues by more than 1 or 2 percent.

Federal Collection of the State Individual Income Tax

Under the federal general revenue sharing law enacted in 1972, the federal government will collect state individual income tax revenues as

long as there is participation by at least two states with residents who in total filed 5 percent or more of federal individual income tax returns in 1972. By April, 1973, no state had agreed to federal collection.

Advocates of federal collection claim that it would reduce the administrative costs of the states by eliminating duplication of effort, simplify the preparation of tax returns, and speed up the flow of revenue to the states because the deposit of withheld taxes would be expedited. On the other hand, states would lose control over their tax structure, for any state agreeing to federal collection would have to conform its tax law with few exceptions to the federal provisions. For Virginia such conformity would include adoption of the \$750 exemption for all classes and the split income option, both of which would cause substantial declines in revenue under the present rate schedule, and elimination of the exclusions from AGI used to calculate tax liability. Moreover, federal collection would eliminate some non-duplicative enforcement and compliance activities carried on by the states and, depending on the present requirements for the payment of withheld taxes to states, might not hasten the flow of revenues to them.^{1/}

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

^{1/} Public Law 92-512, Title II, Sections 201-204 and Commerce Clearing House, "NATA Reports on 'Piggyback' Collection of State Taxes," State Tax Review Vol. 34, No. 6 (Chicago: February 6, 1973), pp. 1-2.

credit. At the close of 1971, ten states and the District of Columbia used some form of the tax credit device. Of these, Colorado, Indiana, Nebraska, and the District of Columbia granted a personal income tax credit to compensate for a sales tax on food. The credit was granted on all resident income tax returns; in addition, refunds were made to those without a tax liability. The credit, as these areas used it, was calculated by the number of personal (exclusive of those for age and blindness) exemptions per tax return times the credit. Nebraska and Colorado had a \$7 credit, Indiana, an \$8 credit, and the District of Columbia, a credit ranging from \$2 to \$6 per personal exemption, depending on the taxpayer's income bracket, for those with low incomes. Two states--Hawaii and Massachusetts--gave credits for consumer type taxes. The tax credit mechanism was used in Kansas, Minnesota, Vermont, and Wisconsin for senior citizen homestead relief. Vermont also allowed a credit for sales taxes paid, based on income and number of personal exemptions. Finally, Idaho granted a \$10 tax credit against sales taxes paid for each personal exemption. For summary information on the tax credit plans used by the ten states and the District of Columbia, see Table 3.14.

A tax credit has several advantages over exemption. It eliminates the administrative costs and difficulties of exempting food for home consumption from the sales tax. In addition, if there were a desire to provide benefits to a specific group, such as residents or low income persons, a tax credit could be devised to benefit only those persons, but a food exemption would apply to all residents and nonresidents. Since any tax credit

TABLE 3.14.--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.
	For senior citizen property tax relief (homeowners and renters)	1971	Varies with income up to \$3700; limited to 50 percent of property tax or \$200	Chap. 138, Art. 1 (Secs. 138-1-20 & 138-1-21 added by H.B. 1040, Laws 1971, effective 7/1/71)	Credit claimed on income tax returns or, for those having no taxable income, on forms prescribed by the Department 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 income tax payments due, the excess of credits over payments due shall be refunded to the taxpayer.
	For drug or medical expenses	1970	do	Act 180, Laws 1970; sec. 235-56	
	For household rent	1970	do	Act 180, Laws 1970	
Idaho	For sales taxes paid	1965 and 1969	\$10 credit per personal exemption (rebate applicable to taxpayers 65 and over only)	Chap. 195, Laws 1965; Chap. 456, Laws 1969; Sec. 63-3024(d)	Credit (or rebate if credit exceeds tax liability) to be claimed on income tax returns. For resident individuals (65 and over) without taxable income a refund will be granted on such forms or returns for refund as prescribed by the State Tax Commission.
Indiana	For sales tax paid on food	1963	\$8 per personal exemption (exclusive of age and blindness)	Chap. 50 (Chap. 30, Sec. 6d added by H.B. 1226, Laws 1963, 1st sp. sess., effective 4/20/63)	Credit to be claimed on income tax returns. If an individual is not otherwise required to file a return, he may obtain a refund by filing a return, completing such return insofar as may be applicable, and claiming such refund.
Kansas	For senior citizen homestead relief	1970	Varies, based on income and amount of property tax	Chap. 403 (H.B. 1253, Laws 1970)	Tax credit (or rebate if credit exceeds tax liability). The Department of Revenue shall make available suitable forms with instructions for claimants, including a form which may be included with or a part of the individual income tax blank.
Massachusetts	For consumer-type taxes	1966	\$4 for taxpayer, \$4 for spouse, if any, and \$8 for each qualified dependent ⁴	Chap. 62 (Sec. 6b added by ch. 14, Acts 1966)	Same as Indiana.

See footnotes at the end of table.

TABLE 3.14.--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 \$800 (Max. credit \$450)	Chap. 290 (Secs. 290.0601 to 290.0617 added by Ch. 32, Art. VI, Laws 1967, effective 1/1/68)	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	7.5% of the total amount paid by claimant as rent, not to exceed \$90 ⁶	Chap. 290 (Secs. 290.981 to 290.992 added by Ch. 32, Art. XVII, Laws 1967, effective 1/1/68)	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 3.14.--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
Wisconsin	For senior citizen homestead tax relief	1963	Varies, based on income and amount of property tax or rental payment	Chap. 71 (Sec. 71.09 (7) added by Ch. 566 (A.B. 301) eff. 6/10/64. Ch. 580 (A.B. 907) repealed & recreated Sec. 71.09(7) effective Dec. 19, 1964.)	Tax credit or refund 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 86 for exemption of food and medicine in State general sales taxes. See table 91 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 \$6,000 and \$6,999 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 \$6,000) are allowed a credit ranging from \$2 to \$6 per personal exemption, depending upon the taxpayer's income bracket.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State - Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 214-216.

system would at least exclude nonresidents, the revenue losses caused by it could not exceed and would probably be less than those caused by a food exemption. Finally, food consumption differs by income level, family size, age distribution, marital status, tastes, and other less obvious factors. As a result, outlays for food for home consumption are a crude measure for designing a specific pattern of tax distribution. A tax credit can be designed to provide a constant amount of relief regardless of income or can be made to vary by income class and perhaps other designated policy variables.^{1/}

One drawback of a credit is that administrative procedures would have to be adopted to avoid its abuse. 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. A third potential problem is that the number of income tax returns filed in Virginia would increase by an estimated 200,000 to 300,000, since any resident citizen would qualify for the tax credit regardless of his income.^{2/}

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 1971, an estimated \$58.4 million in sales tax receipts would have been collected from purchases of food for home consumption taxed at the state rate of 3 percent.

^{1/} For more on the subject of a tax credit versus the exemption of food for home consumption, see James A. Papke, "New Perspectives in Retail Sales Taxation," Proceedings, National Tax Association, (New Orleans, 1965), pp. 258-270.

^{2/} 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.

The civilian resident population of the state in 1971 is estimated to have been 4,545,000.^{1/} If we divide the sales tax receipts for food for home consumption by the civilian resident population, the tax credit per person would be \$12.85, or a rounded figure of \$13. An estimated 4,519,000 people^{2/} would have applied for this credit, costing the state \$58.7 million in revenue. If, on the other hand, we were to grant a \$10 credit, the cost to the state would have dropped to \$45.2 million.^{3/}

An income tax credit for the sales tax on food would mean a revenue loss roughly equivalent to 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 \$10 for example--not all food consumption would be exempt. People consuming luxury foods would therefore have only a portion of their food budget excluded from the tax.

Another possible option is to base the credit on income level.^{4/} For example, the \$13 credit might be restricted to returns with less than

^{1/} U.S. Bureau of the Census, "Estimates of the Population of States: July 1, 1971 and 1972," Series P-25, No. 488 (Washington: Government Printing Office, September, 1972).

^{2/} The 4,519,000 was derived by increasing the 1,871,064 returns in 1971 by 15 percent to 2,151,724 and multiplying by an average 2.1 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 (Lancaster: September, 1968), p. 270.

^{3/} If the credit were to compensate for food and nonprescription drugs, it would be \$14 per person based on 1971 tax receipts.

$$\frac{\$58.4 \text{ million } [\text{food}] + \$4.1 \text{ million } [\text{nonprescription drugs}]}{4,545,000} = \$14$$

The revenue loss would have been \$63.3 million.

^{4/} In 1971 the credit was tied to income in Hawaii, Kansas, Minnesota, Vermont, Wisconsin, and Washington, D. C.

\$6,000 of AGI. In 1971 we estimate that this would have cost \$20.5 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 whose AGI rose from \$5,999 to \$6,000 would not receive the \$13 credit. An alternative that would temper the impact of such a change in income is a variable or vanishing credit. The credit could be \$13 for persons with an AGI less than \$1,000 and could decline in \$2 increments for each \$1,000 rise in AGI until it reaches \$3 for the \$5,000 - \$5,999 AGI class and disappears for an AGI of \$6,000 or greater. For 1971 we estimate that the revenue cost of this option would have been \$15 million.^{2/}

^{1/} Based on the following estimates of number of exemptions:

<u>Adjusted Gross Income</u>	<u>Number of Exemptions^{a/}</u>
None	589,386
\$0 - \$999	123,540
\$1,000 - \$1,999	146,832
\$2,000 - \$2,999	147,606
\$3,000 - \$3,999	175,907
\$4,000 - \$4,999	194,594
<u>\$5,000 - \$5,999</u>	<u>201,648</u>

^{a/} Excludes exemptions reported on separate returns, since it was assumed the combined AGI of both husband and wife would exceed \$6,000.

^{2/} For more on this question and other equity implications of a tax credit, see James A. Papke and Timothy G. Shahan, "Optimal Consumption - Base Taxes: The Equity Effects of Tax Credits," National Tax Journal, Vol. 25, No. 3 (Lancaster: September, 1972), pp. 479-487.

Summary

Through either an income tax credit or exemption from the sales tax for food for home consumption, the state would lose substantial revenue.^{1/} The income tax credit would apply only to residents and could be designed to provide a lower loss of revenue. 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 3.35, which presents the projected impact of alternative changes in the revenue structure for the 1974-76 biennium, the credit is raised to \$16 to account for the expected increase in the cost of food.

^{1/} 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 Tax

The Virginia corporate income tax covers all domestic (incorporated in Virginia) and foreign (incorporated outside Virginia) corporations doing business in the state with the exception of public service corporations, insurance companies, inter-insurance 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. Those excluded are subject to other forms of taxation or are exempt from any taxes.

The corporate tax rate was raised from 5 to 6 percent by the 1972 session of the General Assembly with a January 1, 1972, effective date. It is applied to a corporation's federal taxable income, with necessary modifications, as a result of the conformity legislation passed by the 1971 session of the General Assembly. Modifications include adding to federal taxable income (1) income taxes imposed by Virginia or any other taxing jurisdiction, since such income taxes are deductible in computing federal taxable income and (2) certain interest and dividends.

Virginia permits corporations engaged in multi-state activities who have income taxable by Virginia and out-of-state political subdivisions to allocate and apportion their Virginia taxable income through the following three factor formula so that different states do not impose a tax on the same income:

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 the applicable number of factors to determine the portion of total taxable income subject to the Virginia tax. It should be noted that not all factors necessarily pertain to all corporations although this is the exception rather than the rule.

In fiscal 1971-72, the yield of the 5 percent tax was \$75.9 million after adjustment to exclude a special windfall^{1/}, or 8.1 percent of total general fund revenues. Our projections indicate that revenues from the corporate income tax with the 6 percent rate will comprise about 10.4 percent of the general fund in the next biennium and about 9.3 percent by the end of the decade. We assume in these forecasts that corporate profits before taxes will be the same under a 6 percent rate as they were under a 5 percent rate even though the accuracy of this assumption may be debatable.

Interstate Comparison of the Corporate Income Tax

Table 3.15 shows the corporate income tax rates for the 46 states and the District of Columbia with a tax on corporate profits as of March 31, 1973. Most states impose a flat rate tax ranging from 4 to 12 percent, but a few have a progressive rate schedule. The table also denotes whether the individual state allows the federal corporate income tax to be deducted from the tax base used to calculate the state corporate income tax. Effective tax rates are provided because they standardize the nominal

^{1/} Excludes an estimated windfall of \$1.7 million in fiscal year 1971-72 resulting from a change in filing procedures for some corporations.

TABLE 3.15.--STATE CORPORATE INCOME TAX RATES, AS OF MARCH 31, 1973

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%	Michigan	7.8%	No	7.8%
Alaska	18% of Federal tax ^{2/}	No	9.3%	Minnesota	12%	No	12.0%
Arizona	2% on first \$1,000 3% on second \$1,000 4% on third \$1,000 5% on fourth \$1,000 6% on fifth \$1,000 7% on sixth \$1,000 8% on balance	Yes	4.2%	Mississippi	3% on first \$5,000 4% on balance	No	4.0%
				Missouri	5%	Yes	2.6%
				Montana	6.75%	No	6.75%
Arkansas	1% on first \$3,000 2% on second \$3,000 3% on next \$5,000 5% on next \$14,000 6% on balance	No	5.9%	Nebraska	3.75%	No	3.75%
				New Hampshire	7%	No	7.0%
				New Jersey	5.5% ^{9/}	No	5.5%
California	7.6% ^{3/}	No	7.6%	New Mexico	5%	No	5.0%
Colorado	5%	No	5.0%	New York	9% ^{10/}	No	9.0%
Connecticut	8% ^{4/}	No	8.0%	North Carolina	6%	No	6.0%
Delaware	6% ^{5/}	No	7.2%	North Dakota	3% on first \$3,000 ^{11/} 4% on next \$5,000 5% on next \$7,000 6% on balance	Yes	4.1%
District of Columbia	7% ^{6/}	No	7.0%				
Florida	5%	No	5.0%	Ohio	4% on first \$25,000 ^{12/} 8% on balance	No	7.9%
Georgia	6%	No	6.0%	Oklahoma	4%	No	4.0%
Hawaii	5.85% on first \$25,000 6.435% on balance	No	6.4%	Oregon	6%	No	6.0%
Idaho	6.5% plus \$10 excise tax	No	6.5%	Pennsylvania	11%	No	11.0%
Illinois	4%	No	4.0%	Rhode Island	8% ^{13/}	No	8.0%
Indiana	4% ^{7/}	No	4.0%	South Carolina	6%	No	6.0%
Iowa	6% on first \$25,000 8% on next \$75,000 10% on balance	Yes ^{8/}	7.4%	South Dakota	--	--	^{14/}
				Tennessee	6%	No	6.0%
Kansas	4.5% on first \$25,000 6.75% on balance	Yes	3.5%	Utah	6%	Yes	3.2%
Kentucky	4% on first \$25,000 5.8% on balance	No	5.75%	Vermont	6%	No	6.0%
Louisiana	4%	No	4.0%	VIRGINIA	6%	No	6.0%
Maine	4%	No	4.0%	West Virginia	6%	No	6.0%
Maryland	7%	No	7.0%	Wisconsin	2.3% on first \$1,000 ^{15/} 2.8% on second \$1,000 3.4% on third \$1,000 4.5% on fourth \$1,000 5.6% on fifth \$1,000 6.8% on sixth \$1,000 7.9% on balance	Yes	7.1%
Massachusetts	8.55%	No	8.55%				

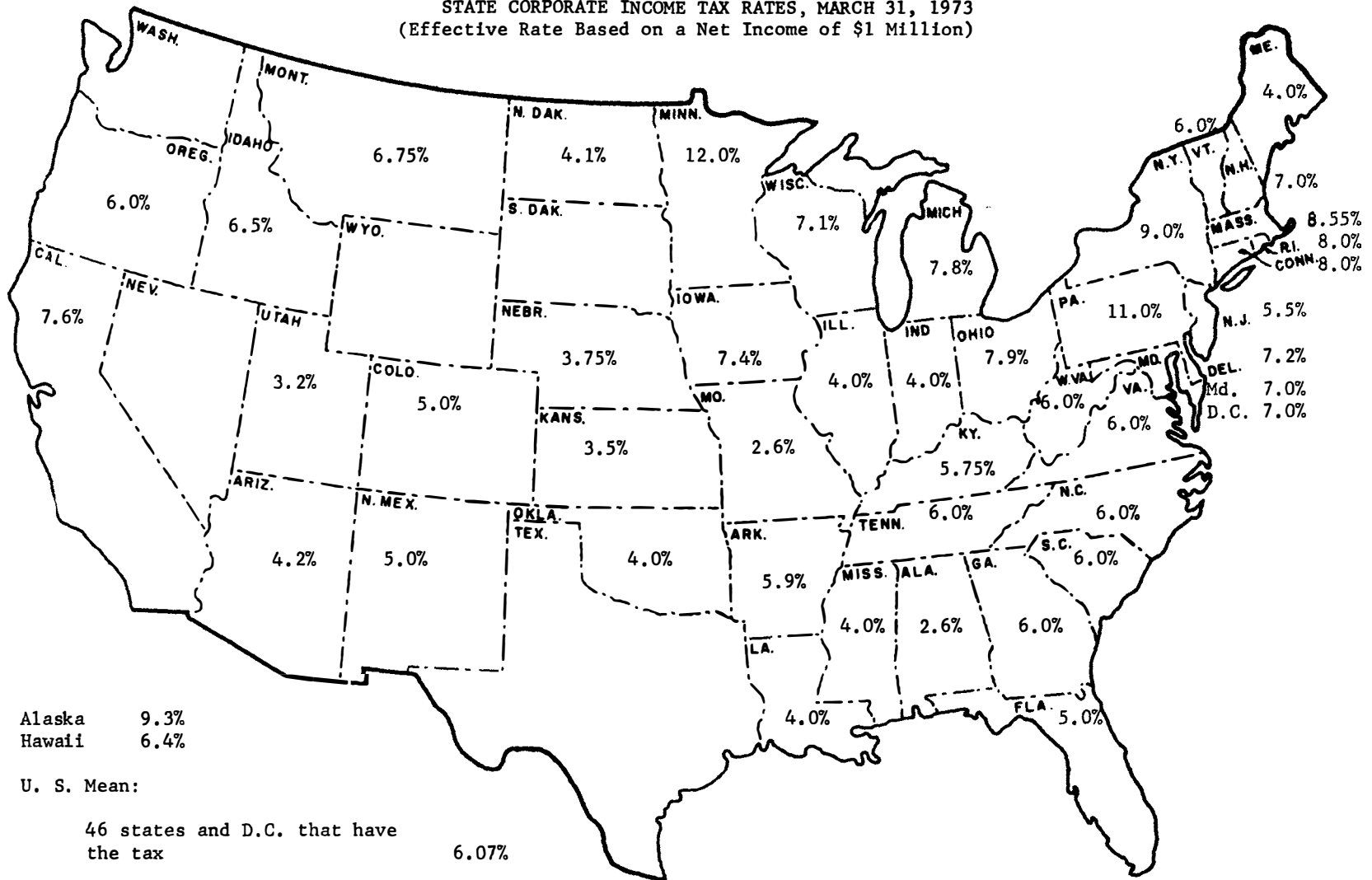
the end of table.

TABLE 3.15.--STATE CORPORATE INCOME TAX RATES, AS OF MARCH 31, 1973 (continued)

- 1/ Effective rate based on a net income of \$1 million and allowance for deduction of federal income taxes when applicable.
 - 2/ Based on federal rates as of December 31, 1963, which were 30% on the first \$25,000 and 52% on all over \$25,000.
 - 3/ Effective July 1, 1973, the California corporate income tax rate will increase from 7.6% to 9.0%.
 - 4/ Or 4 mills per dollar of capital less stock holdings, whichever is the greatest.
 - 5/ Plus a 20% surtax.
 - 6/ The income taxes for corporations and unincorporated businesses have been increased to 8% effective for all taxable years after December 31, 1973.
 - 7/ Or $\frac{1}{2}$ of 1% or 2% of gross income if tax liability is greater under the Gross Income Tax.
 - 8/ Deductible up to 50%.
 - 9/ Plus additional mill levy on allocated net worth.
 - 10/ Or 9% of 30% of net income and salaries, or $1\frac{6}{10}$ mill per dollar of capital, or \$125, plus $\frac{8}{10}$ mill per dollar of subsidiary capital whichever is greater.
 - 11/ Additional 1% tax on corporations whose personal property is not assessed, who are not subject to a special tax in lieu of personal property taxes and who are required to file a return. Second additional tax, 1% of taxable income, maximum \$25.
 - 12/ Or 5 mills times the value of stock determined by total value of capital, surplus, undivided profits and reserves.
 - 13/ Or 40c per \$100 of corporate excess, whichever is greater.
 - 14/ Corporate income tax in South Dakota is limited to banks and financial institutions.
 - 15/ Limited to 10% of net income before deductions for contributions and federal taxes.
- Sources: Prentice-Hall, Inc., State and Local Taxes: All State Tax Guide, 1973; Commerce Clearing House, Inc., State Tax Review, (weekly editions).

CHART 3.4

STATE CORPORATE INCOME TAX RATES, MARCH 31, 1973
(Effective Rate Based on a Net Income of \$1 Million)



Alaska 9.3%
Hawaii 6.4%

U. S. Mean:

46 states and D.C. that have
the tax

6.07%

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

rates to take account of the deductibility of the federal tax in 8 states.^{1/}

Virginia's effective rate is 6 percent. This compares with the other states as follows:

<u>Effective Rate Compared with Virginia</u>	<u>Number of States</u>
No tax	4
Lower rate	20
Same rate	8
Higher rate	19

The median effective rate for all states with a corporate income tax is 6 percent. Virginia does appear competitive with its neighbors and major competitors, for its effective tax rate is equal to the rates of Georgia, Kentucky, North Carolina, South Carolina, Tennessee and West Virginia, slightly lower than the 7 percent Maryland rate, and modestly higher than the 5.75 percent effective rate of Kentucky.^{2/}

Other Taxes on Corporations

The corporate income tax is the most visible and well-known tax paid by the typical concern, and in Virginia as in most states it constitutes the largest single tax that a corporation pays to a state or local government. It must, however, be emphasized that a corporation either operating in or contemplating relocation to a state will view

^{1/} Those states which exempt part or all of federal tax payments require payment on a much smaller tax base. The effective tax rates for these states are therefore lower than the nominal rates. For those states not allowing the federal tax deduction, the nominal and effective rates are identical.

^{2/} Virginia's major competitors for industry, as defined by the Virginia Division of Industrial Development, are Georgia, Kentucky, North Carolina, South Carolina, and Tennessee.

its total tax liability rather than the corporate income tax alone. To provide some perspective on the total tax liability faced by a firm in Virginia we have drawn on information provided by the Virginia Division of Industrial Development. Table 3.16 shows the estimated state and local taxes on a hypothetical manufacturer in Virginia with a net income of \$1 million before federal income tax payments. The corporate income tax accounts for 63.6 percent of the estimated total state and local tax bill paid by the "typical" manufacturer. Various property taxes represent 26 percent of the tax bill and other than the income tax are the primary tax on corporations.

Although interstate comparisons of property taxes involve formidable measurement problems, a crude analysis of relative property tax revenues shows the revenues that various states collect. Table 3.17 shows per capita state and local property tax revenues for Virginia and neighboring states. Virginia is higher than all neighboring states except Maryland, but it is well below the national average.

If we compare Virginia's total tax bill on a "typical" corporation with the tax bills that neighboring or competing states levy, we see that Virginia imposes a fairly low tax load on its corporations. Table 3.18 provides the average tax bill for a hypothetical corporation with a net income of \$1 million in Virginia and selected other states. Virginia imposes the second lowest tax load if exemptions or credits are not considered and the fourth lowest if they are taken into account. This favorable tax position explains, at least in part, the high growth rate in the manufacturing sector that Virginia has achieved. Between 1958 and 1967

TABLE 3.13--ESTIMATED STATE AND LOCAL TAXES ON A HYPOTHETICAL MANUFACTURER IN VIRGINIA, 1972-73

Item	Assumed Values for Taxable Items	Type of Tax	Tax Rate	Assessment Ratio	Annual Tax	Percent of Total Bill
Real Estate	\$ 900,000	Real property (L)	\$3.21 per \$100 ^{a/}	33.0% of fair market value ^{a/}	\$ 9,534	10.1
Machinery and tools: original cost	3,750,000	Personal property (L)	\$4.00 per \$100 ^{b/}	10% of original cost ^{b/}	15,000	15.9
Office furniture and fixtures	50,000	Business capital (S)	30c per \$100	100% of book value	150	0.2
Trucks and company cars ^{c/}	50,000	Business capital (S)	30c per \$100	100% of book value	150	0.2
Inventory	1,850,000	Business capital (S)	30c per \$100	100% of book value	5,550	5.9
Receivables less payables ^{d/}	1,000,000	Business capital (S)	30c per \$100	100% of book value	3,000	3.2
Cash	450,000	None	No tax		...	...
Net income before federal income tax	1,000,000	Corporate Income (S)	6%		60,000	63.6
Net worth	5,350,000	None	No tax		...	...
Total sales (gross receipts)	12,000,000	None	No tax		...	...
Capital stock	1,250,000	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	383,000	None	No tax ^{e/}		...	...
Electricity:						
Plant	60,000	None	No tax		...	...
Office	22,000	None	No tax		...	...
Fuels:						
Plant	69,000	None	No tax ^{e/}		...	...
Office	23,000	Sales and use (L),(S)	4%		920	1.0
TOTAL					\$ 94,329	100.0

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

^{a/} Median for 1971 for all counties and cities in Virginia as compiled in a study by the Virginia Department of Taxation.

^{b/} Average for 1971-72 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/} Effective January 1, 1974, the trucks and company cars of manufacturers will be taxed locally as tangible personal property; the true tax rate for all communities in the state is not available.

^{d/} Not taxed if books maintained outside Virginia.

^{e/} No tax if used directly in manufacturing tangible personal property for sale.

Source: Virginia Division of Industrial Development.

TABLE 3.17.--STATE AND LOCAL PROPERTY TAX REVENUES,
VIRGINIA AND SELECTED STATES, PER CAPITA, FISCAL YEAR 1970-71

<u>State</u>	<u>Per Capita Revenues</u>	<u>Relative to Virginia (Virginia = 100)</u>
Georgia	\$ 107.01	97
Kentucky	70.35	64
Maryland	166.58	152
North Carolina	84.69	77
South Carolina	66.01	60
Tennessee	85.16	80
<u>Virginia</u>	109.29	100
West Virginia	74.14	68
U. S. Average	183.52	168

Source: U. S. Department of Commerce, Governmental Finances in 1970-71, GF 71, No. 5 (Washington: Government Printing Office, 1972), pp. 31-33.

manufacturing employment grew by 32 percent in Virginia compared with 21 percent for the nation and 39 percent for its major competitors. Value added in manufacturing gives a similar picture, for in the same time period it grew by 92 percent in Virginia as compared with 85 percent for the nation and 117 percent for Virginia's major competitors.^{1/}

Before discussing a change in the Virginia corporate tax rate it should be noted that corporations, when considering locational changes, examine not only taxes but a number of other factors. Each industry will attach a different level of importance to different factors. Some of them might be the quality of the labor force, availability and efficiency

^{1/} These statistics are calculated from figures given by the U. S. Bureau of the Census, Statistical Abstract of the United States: 1970, 91st edition, (Washington, D. C.: Government Printing Office, 1970) pp. 698-699. Data from the 1971 Census of Manufactures were not available.

TABLE 3.18.--TOTAL STATE AND LOCAL TAXES IMPOSED ON
A HYPOTHETICAL MANUFACTURER
(assuming net income equals \$1 million)

<u>State</u>	<u>Without Exemptions or Credits</u>	<u>With Exemptions or Credits</u>
California	\$ 208,789	\$ 208,789
Georgia	137,816	137,816
Illinois	202,154	202,154
Kentucky	94,351	89,494
Maryland	120,562	80,683
Massachusetts	147,895	129,395
New Jersey	141,425	141,425
New York ^{a/}	124,020 to 145,840	124,020 to 145,850
North Carolina	122,589	122,589
Ohio	182,819	182,819
Pennsylvania	150,791	150,791
South Carolina	118,696	64,200
Tennessee	100,995	100,995
Virginia	94,542	94,542
West Virginia	182,737	137,187
All State Average (using New York's lowest)	142,012	131,127

Note: The above Virginia figure is slightly different from the figure given in Table 3.16 which used the 1971 real estate tax rates and assessment ratios. Only 1970 data were available to the Virginia Division of Industrial Development in December, 1972.

^{a/} New York has a range because of the differences in the possible local sales taxes.

Source: Commonwealth of Virginia, Division of Industrial Development, "The Virginia Economic Review," (Richmond: December, 1972), p. 4.

of the transportation network, proximity to raw material supplies, location of important markets, area wage rates, or the prices of basic energy sources.

Consideration of a Change in the Virginia Corporate Tax Rate

To increase the present 6 percent rate to, say, 7 percent during the 1974-76 biennium would represent a 40 percent increase in state corporate income tax liability within a period of four years. Such a change would

be quite significant if we consider that the 5 percent rate remained unchanged for nearly 25 years. On the other hand, the full tax increase would not be paid entirely by the corporation. Because the state income tax is a deductible item in computing federal corporate income tax liability, a 1 percentage point increase in the tax rate would involve an effective increase of approximately one-half that amount with the other one-half being paid by the federal government.

If Virginia did raise the corporate rate while other states did not, the state's position would deteriorate vis-a-vis neighboring or competing states. To better understand how an increase in the corporate tax rate would affect Virginia we refer back to Table 3.18. Increasing the rate to 7 percent would boost a hypothetical Virginia manufacturer's tax bill to \$104,542, which would move Virginia from the second lowest ranked state to third lowest exclusive of exemptions or credits behind Kentucky and Tennessee, two major competitors. If exemptions or credits are included, Virginia's rank would drop from fourth lowest to fifth lowest.

As with many other policy decisions a change in the corporate income tax rate must be considered in light of the trade offs that would result. Specifically, an increase in the tax rate would result in additional revenues in the short-term but in the long run could hurt the chances for expanding the corporate tax base in Virginia. Thus, some major considerations that center around increasing the rate are:

1. How much growth does Virginia desire?
2. How will companies planning to relocate or expand their facilities be affected by an increase in the tax rate?
3. To what extent does Virginia desire to trade additional present revenues for increased future revenues?

Taxation of Banks

Introduction

Currently Virginia taxes the value of the shares of all state and national commercial banks in the state at the rate of \$1 per \$100 of stock value. Cities may receive up to 40 percent of the revenues collected, and counties and incorporated towns may take up to 80 percent. Revenues are paid directly to the state and the localities by the banks. In recent years the split of total revenues has been about 45 percent to the state and 55 percent to local governments with nearly all localities participating. Virginia is one of 14 states with a shares tax as the principal form of bank taxation. Among neighboring states, Kentucky, Tennessee, and West Virginia have a shares tax.

An alternative to the bank stock tax would be the imposition of an income tax. We investigate the effects of such a change in this section.

Revenues under the Alternative Taxes

Table 3.19 compares the actual revenues of the bank stock tax in calendar year 1969 with hypothetical yields under a 6 percent state income tax.^{1/} Two alternative types of income tax are considered. The first is a corporate income tax applied directly to bank income. This tax would not allow interest on federal obligations to be included in the tax base. The second type of levy is an excise tax on the corporate franchise as

^{1/} Data for 1969 were used because that is the most recent year for which complete information was available. The figures refer to all Virginia commercial banks. These data were compiled by the Board of Governors of the Federal Reserve System, as part of a larger study of the state and local tax expenses of all insured commercial banks in the U. S. See State and Local Taxation of Banks, Part III, Appendixes to a Report of a Study Under Public Law 91-156 (Washington: Government Printing Office, 1971) pp. 46-72.

TABLE 3.19--ESTIMATED REVENUES OF ALTERNATIVE
FORMS OF VIRGINIA STATE BANK TAXES, 1969

<u>Type of Tax</u>	<u>Total Revenues</u> (Mil.)	<u>State Revenues</u> (Mil.)
Bank stock tax ^{a/}	\$ 4.7	\$ 2.1
6 percent corporate income tax on bank taxable income (excluding interest on fed- eral obligations) ^{b/}	1.8	1.8
6 percent corporation fran- chise tax "measured by" bank income (including interest on federal obligations) ^{b/}	5.3	5.3

a/ Actual.

b/ Estimated.

Sources: U.S. Senate Committee on Banking, Housing, and Urban Affairs, State and Local Taxation of Banks, Part III Appendixes to a Report of a Study Under Public Law 91-156 (Washington: Government Printing Office, 1972), p. 70; Federal Deposit Insurance Corporation, Bank Operating Statistics--1970; Report of the Department of Taxation, Fiscal Year Ending June 30, 1972 (Richmond, 1972), p. 24.

"measured by" net income, which would permit the state to include interest on federal obligations in the tax base. The 6 percent rate is used because of the corporate rate hike effective January 1, 1972.

The table shows that if the present shares tax were replaced by a 6 percent corporate income tax, total revenues would have fallen from \$4.7 million to \$1.8 million, or about 60 percent. On the other hand, if banks were to be taxed under a corporation franchise or excise levy, tax revenues would have risen slightly to \$5.3 million. This estimated 13 percent increase is, however,

almost certainly overstated because it fails to consider the portfolio effects of the tax. As mentioned above, the franchise tax would include interest on federal obligations in the tax base. Bankers would surely react to the imposition of a tax on federal bond yields by altering the composition of their asset portfolios. In particular, portfolio mixes would probably shift away from federal obligations toward the tax-exempt obligations of Virginia municipalities. It is therefore unlikely that the revenue gain would exceed 10 percent, and it might be less.

Under either form of income tax, all revenues would flow to the state government. With the corporate income tax the local governments would have experienced a \$2.6 million decline in revenues, and the state would have had a \$300,000 drop. The result of a corporate franchise tax would have been the same \$2.6 million decline for localities but an increase of \$3.2 million for the state government. If the localities were permitted to levy a tangible personal property tax on the personal property of banks, which is not allowed under the present law, they could replace some or perhaps all of their lost revenues, but for the purposes of this analysis, we make no such assumption.

Interstate Comparisons of Effective Tax Rates for Banks

Table 3.20 compares total state and local effective tax rates of banks in Virginia and surrounding states. Four measures of effective rates are employed, state and local taxes as a percentage of (1) net income before taxes, (2) net income after taxes, (3) gross operating revenue, and (4) equity. We must note that from the standpoint of the

banks these ratios actually overstate their state and local effective tax rates because the federal government permits the deduction of state and local taxes in computing federal taxable income. With a federal corporate income tax rate of 48 percent, almost half of the state and local taxes paid by a bank are offset by a reduction in its federal tax liability. This feature does not affect the interstate ranking of the effective tax rates for the deductibility feature leads to the same proportionate bias in each state's ratio.

For the Virginia banks three sets of effective rates are shown, one indicating the rate under the existing shares tax and the other two representing the rates under the alternative 6 percent corporate income and corporation franchise taxes. The effective tax rate for Virginia banks under the existing system is somewhat less than the average effective rate for banks in surrounding states (see Table 3.20, columns 1 and 11). To substitute the corporate income tax for the shares tax would widen this differential (see Table 3.20, columns 2 and 11). If we accept the notion that banks situated in different states should bear the same state and local tax load, the replacement of the shares tax with an income tax would be a perverse move. Finally, the table indicates that imposing a corporation franchise tax would practically eliminate the spread between Virginia and average non-Virginia effective bank tax rates (see Table 3.20, columns 3 and 11). If the localities were to impose a tangible personal property tax on banks to replace lost bank shares tax revenues, the substitution would reduce or eliminate the differences between the ratios for the Virginia banks under an income tax and average

TABLE 3.20.--RATIOS OF STATE AND LOCAL TAX EXPENSES OF ALL INSURED COMMERCIAL BANKS TO SELECTED INCOME
STATEMENT AND BALANCE SHEET ITEMS: VIRGINIA AND SURROUNDING STATES, 1969
(Percent)

Ratio State & Local Taxes to:	Virginia			District of Columbia	Kentucky	Maryland	North Carolina	South Carolina	Tennessee	West Virginia	Average of Non-Virginia Ratios
	Shares Tax	6 Percent Corporate Income Tax	6 Percent Corporation Franchise Tax								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Net income before taxes	5.8	3.3	6.3	7.5	6.0	7.4	5.8	4.7	9.0	4.5	6.4
Net income after taxes	9.1	5.0	10.0	14.5	9.4	13.3	9.2	7.3	13.7	6.8	10.6
Gross operating revenue	1.3	0.7	1.4	2.4	1.7	2.1	1.2	1.3	2.0	1.2	1.5
Equity	1.1	0.6	1.2	1.9	1.2	1.6	1.1	1.0	1.5	0.7	1.3

Sources: U.S. Senate Committee on Banking, Housing, and Urban Affairs, State and Local Taxation of Banks, Part III Appendixes to a Report of a Study Under Public Law 91-156 (Washington: Government Printing Office, 1972), pp. 15-16, 53-54; Federal Deposit Insurance Corporation, Bank Operating Statistics--1970.

non-Virginia bank ratios and could even make the Virginia ratios greater than the average non-Virginia ones.

Conclusion

Presumably the main argument for bringing banks under the corporate income tax is greater uniformity in the business tax structure. Such a switch would, however, lower revenues and widen interstate differences in effective bank tax rates. Imposing a corporation franchise tax would only substitute one special business tax for another and would have little effect on revenues or interstate differences in effective tax rates.

Inheritance Tax

Present Structure and Revenues 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 and exemptions) received by the beneficiary and on the class of the beneficiary. There are three classes of beneficiaries.

Class A beneficiaries consist 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 amounts above that are 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

The class B beneficiaries are brothers, sisters, nephews and nieces. This class exempts the first \$2,000 of the inheritance and amounts above that are taxed in the following manner:

	<u>Class B</u>	<u>Class C</u>
Over \$1,000 to \$2,000	-	5 percent
Over \$2,000 to \$25,000	2 percent	5 percent
Over \$25,000 to \$50,000	4 percent	7 percent
Over \$50,000 to \$100,000	6 percent	9 percent
Over \$100,000 to \$500,000	8 percent	12 percent
Over \$500,000	10 percent	15 percent

Class C beneficiaries are comprised of grandnephews and grandnieces, firms, associations, corporations, other organizations, and those not elsewhere classified. In this class the first \$1,000 of the inheritance is exempt.

Qualifying these rates is the state law allying the Virginia inheritance tax with the federal estate tax laws in order to take full advantage of the federal credit for state death taxes. Virginia statutes impose a tax equal to the federal estate tax credit if that credit is larger than the Virginia inheritance tax. In this manner the state can maximize its revenues, given the federal rate, because the Virginia tax assessment will never be less than the maximum federal credit for state death taxes. This process of imposing a floor on the tax is referred to as the "pick-up" statute.

In fiscal year 1971-72, the revenues from the inheritance tax were \$15.2 million, which represented 1.6 percent of total general fund revenues. It should be noted that the revenues from this source are subject to continual fluctuation because of the dependence on large inheritances for much of the revenue.

Comparison of Death Taxes in Virginia and Other States

Structure

Tables 3.21 through 3.23 provide information on how the Virginia inheritance tax compares with the death taxes in other states. The tables present the types of state death taxes, rates, and exemptions in effect as of January 1, 1972. It will be noted that Virginia is among the large majority of states that have both an inheritance tax and a "pick-up" statute. The "pick-up" statute is widely used because with the present federal structure states can receive additional revenues while shifting the cost to the federal government. Examining Table 3.23 reveals that the exemptions that Virginia grants for widow, minor child, and adult child are significantly lower than the exemptions granted by the other states. The exemptions granted by Virginia for brother/sister and other than relative categories appear, however,

to be consistent with the exemptions of the other states. The rates and brackets of the states are widely diversified, although the rates are generally progressive. As for Virginia's rates with respect to other states, a large majority of states appear to have more progressive rate structures and higher rates.

In order to place the Virginia inheritance tax in better perspective, we shall compare it to the North Carolina tax for a class A spouse. The North Carolina inheritance tax was chosen because it has a highly progressive rate structure over a large number of size classes. Table 3.24 uses 13 hypothetical sizes of inheritance for the comparison.

TABLE 3.21.--TYPES OF STATE DEATH TAXES, JANUARY 1, 1972

Type of tax	State
"Pickup" tax only (5)	Alabama, Alaska, Arkansas, Florida, Georgia.
Estate tax only (2)	Mississippi, North Dakota.
Estate tax and "pickup" tax (7)	Arizona, New York, Ohio, Oklahoma, ¹ S. Carolina, ¹ Utah, Vermont ¹ .
Inheritance tax only (2)	South Dakota, West Virginia.
Inheritance tax and "pickup" tax (32)	California, ¹ Colorado, ¹ Connecticut, Delaware, ¹ 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.
Inheritance, estate and "pickup" taxes (2)	Oregon, ¹ Rhode Island ¹ .
No tax (1)	Nevada.

¹ Also has gift tax (15 States).

SOURCE: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State and Local Finances and Suggested Legislation, 1972, (Washington: Government Printing Office, 1972) p. 274.

TABLE 3.22.--STATE ESTATE TAX RATES AND EXEMPTIONS, JANUARY 1, 1972^{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	1-16 percent	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 ²	2-7 percent	500,000	5,000 ⁵
Oklahoma ²	1-10 percent	10,000,000	15,000
Oregon ²	2-10 percent	500,000	25,000
Rhode Island ²	1 percent	⁶	10,000
South Carolina ²	4-6 percent	100,000	60,000
Utah ²	5-10 percent	85,000	40,000 ⁷
Vermont ²	The tax rate is 30% of the federal estate tax liability due to Vermont gross estate.		

¹Excludes States shown in table 3.23 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.

⁵An additional \$20,000 for spouse, \$7,000 for minor child, and \$3,000 for adult child.

⁶Entire estate above exemption.

⁷Transfers 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, 1972, (Washington: Government Printing Office, 1972) p. 274.

TABLE 3.23.--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1972

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 ⁹	1 - 6	5 - 10	10 - 16	50,000	200,000
District of Col. ³	5,000	5,000	5,000	2,000	1,000	1 - 8	1 - 8	5 - 23	5 - 23	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 ^{3, 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 ²⁰	10,000 ²⁰	10,000 ²⁰	10,000 ²⁰	500 ²⁰	1 ²⁰	1 ²⁰	1 ²⁰	6 - 18 ²⁰	¹² ²⁰	¹² ²⁰
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	3,200,000
New Mexico ⁴	10,000 ²¹	10,000 ²¹	10,000 ²¹	10,000 ²¹	500 ⁶	1	1	1	5	¹²	¹²
New York ²	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
North Carolina ²²	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 3.23.--STATE INHERITANCE TAX RATES AND EXEMPTIONS, FOR SELECTED CATEGORIES OF HEIRS, JANUARY 1, 1972 (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 ^{2,3,4}	None ^{2,5}	None ^{2,5}	None ^{2,5}	\$1,000	\$ 500	2 - 10	2 - 10	2 - 15	4 - 20	\$25,000 ¹²	\$ 500,000 ¹²
Pennsylvania ³	None ^{2,5}	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 ^{3,6}	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 ²											
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 ^{3,6}	15,000	5,000	5,000	None	None	3 - 13	3 - 13	4 - 18	10 - 30	50,000	1,000,000
Wisconsin ^{3,28}	15,000	2,000	2,000	500	100	2 - 10	2 - 10	2 - 10	8 - 40	25,000 ¹²	500,000 ¹²
Wyoming	10,000	10,000	10,000	10,000	None	2	2	2	6		

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

²Imposes only estate tax. See table 3.22.

³Exemptions are deductible from the first bracket.

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

⁵No 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.

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

⁷An additional 30 percent surtax is imposed.

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

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

¹⁰With 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

¹¹6%. Tax rates on the taxable amount up to including \$5,000,000 are the same rates as provided for in excess of the exemption.

¹²Estate of less than \$1,000 after deduction of debts are not taxable.

¹³Entire share (in excess of allowable exemption).

¹⁴Applicable 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.

¹⁵In 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.

¹⁶There is no tax on the share of any beneficiary if the value of the share is less than \$100.

¹⁷Plus an additional \$5,000 for every minor child to whom no property is transferred.

¹⁸For 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.

¹⁹In 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.

²⁰Or the value of the homestead allowance, whichever is greater.

²¹No tax imposed.

²²Widows, children, and brothers and sisters are included in Class 1, with one \$10,000 exemption for the entire class.

²³A 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.

²⁴Imposes also an estate tax. See table 3.22.

²⁵Oregon 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 1 (spouse, children, parents, grandparents, stepchildren or lineal descendants) are exempted from the additional tax.

²⁶The \$1,500 family exemption is specifically allowed as a deduction.

²⁷Widows 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.

²⁸An additional \$5,000 exemption is allowed to the class as a whole.

²⁹These 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, 1972, (Washington, Government Printing Office, 1972), pp. 275-276.

TABLE 3.24.--A COMPARISON OF THE VIRGINIA AND NORTH CAROLINA INHERITANCE TAXES AT VARIOUS INHERITANCE LEVELS USING CLASS A SPOUSE.

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	36,560 ^{a/}	3.66	990,000	60,450	6.04
1,500,000	1,495,000	68,240	4.55	1,490,000	100,350	6.69
2,000,000	1,995,000	103,920	5.20	1,990,000	145,250	7.26
2,500,000	2,495,000	143,600	5.74	2,490,000	195,150	7.81
3,000,000	2,995,000	187,280	6.24	2,990,000	250,050	8.33
4,000,000	3,995,000	286,640	7.17	3,990,000	369,950	9.25

^{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.

For Virginia, the exemption and rates were given above. For North Carolina, the first \$10,000 is exempt 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 three smallest taxable inheritances.^{1/} The "pick-up" statute comes into use in Virginia for class A inheritances at approximately \$770,000 (see Table 3.24). At inheritance levels above that amount the "pick-up" statute has the effect of raising the effective rates above those produced by the Virginia structure.

Receipts

The Bureau of the Census has compiled data on death and gift taxes of state governments.^{2/} Since death taxes account for the majority of such collections, the data give an idea of the relative effort of the

^{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/} U. S. Bureau of the Census, State Government Finances in 1971, GF 71, No. 3 (Washington: Government Printing Office, 1972), pp. 21 and 50.

states that levy death taxes. The 1970-71 per capita and per \$1,000 of personal income receipts from these taxes are shown below for Virginia and neighboring states.

<u>State</u>	<u>Death and Gift Tax Receipts in Fiscal Year 1970-71</u>	
	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
U. S. average (excl. D. C.)	\$ 5.37	\$ 1.39
Kentucky	4.07	1.35
Maryland	2.72	0.65
North Carolina	3.82	1.20
Tennessee	4.97	1.63
<u>Virginia</u>	2.61	0.73
West Virginia	2.73	0.91

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

The Burden of the Inheritance Tax

There appears to be general agreement among economists that death taxes have less adverse effects on incentives than do income taxes. Thus, given an inheritance tax and an income tax (assuming equal revenue yields), the inheritance tax will impose less of a burden than an income tax. Economists generally measure the burden of a tax by the distortions that it causes in the allocation of resources. Income taxes distort the allocation of resources in the sense that they reduce economic activity because an income tax reduces the return from any given enterprise. When the rewards from a given effort are reduced less of that activity will be undertaken. Although death taxes cause distortions, there will be fewer distortions because death taxes are paid only after a lifetime of work and accumulation and are likely to be given much less weight in decisions to work, save, and invest. Efficiency is certainly not the only criteria for a tax system; however, it does deserve some consideration.

To examine who bears the burden of the inheritance tax in Virginia, Tables 3.25 to 3.27 have been prepared from 1968-69 data supplied by the Department of Taxation. Table 3.25 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 3.26) and those that fall under the "pick-up" (Table 3.27). As shown by Table 3.25, the distribution of the number of returns was 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. The tax collections, however, were skewed in the opposite direction. The returns in the lowest size class accounted for only 0.9 percent of the total tax collections, those in the two lowest size classes produced 2.6 percent, and those in the lowest four size classes produced 13.9 percent. These data confirm the hypothesis that most of the returns are in the lower size classes, especially the \$0 - \$5,000 class, and produce an extremely small amount of revenue.

One factor that must be kept in mind when looking at Table 3.25 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. It is impossible, however, to determine exactly what the deductions are or into which estate classes the exemptions indicated in Table 3.26 fall. One hint on exemptions is that 10,388 of the total of 18,562 beneficiaries

TABLE 3.25.--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.

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 3.26 shows for those inheritances that fall under the inheritance tax 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. These findings point up two things. One is that the majority of inheritances are small,

TABLE 3.26.--INHERITANCE TAXES EXCLUSIVE OF THE
"PICK-UP" FOR FISCAL YEAR 1968-69

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

Source: Special tabulation by the Department of Taxation.

and many are taxable because of the small exemptions. The other is that some of the larger inheritances, which are the largest revenue producers, come under the "pick-up" rather than the Virginia inheritance tax as a result of Virginia's low inheritance tax rates, especially in class A.

This last point is brought out in Table 3.27 which 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

Before discussing possible changes in the inheritance tax, we must indicate that there are likely to be substantial changes in the federal estate tax area in the near future. Because of the dependence of the Virginia law on the federal law it may be desirable to await developments at the federal level before making substantial changes in the Virginia tax. The potential for change in the federal law does not mean that possible modifications in the Virginia inheritance tax cannot be examined in the meantime.

A doubling of present exemptions would 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 the cost of administration because any gross estate of more than \$1,000 would still have to file

TABLE 3.27.--INHERITANCE TAXES ASSESSED UNDER THE
"PICK-UP" FOR FISCAL YEAR 1968-69

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

Source: Special tabulation by the Department of Taxation.

a return.^{1/} One way to lower administrative costs would be to increase the present \$1,000 limitation to, say, \$5,000. Since most gross estates up to \$5,000 would not be subject to tax, the revenue loss would be minimal.

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.^{2/} To offset this, an increase in the rates within the present brackets would have been the simplest change. 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 similar to the one proposed in Table 3.28.

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.

^{1/} Another possibility would be administrative changes enabling small estates to file only if they had a tax liability.

^{2/} These computations are based solely on Table 3.26.

A special sample of fiscal year 1968-69 returns was taken in order to obtain an estimate of the revenue yield of such changes.^{1/} The sample indicated that the provisions in Table 3.28 would result in a \$1.2 million or 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. It should be noted that if rate and/or bracket changes are made in the inheritance tax then concomitant changes in the gift tax would be necessary in order to maintain the existing relationship of gift taxes vis-à-vis inheritance taxes. If the existing relationship is not maintained (if gift taxes are not increased), then people will be encouraged to distribute some part of their inheritance through gifts, and the result will be less revenue.

^{1/} 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 3.28.--PROPOSED CHANGES IN THE INHERITANCE TAX

Class A		Class B	
	Rate (%)		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

The final problem to be discussed concerns the treatment 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, even though the basis of inheritance taxation is that property that succeeds from the decedent to a designated beneficiary is subject to tax. To exclude a part of life insurance from taxation appears to 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. Perhaps some modification of the ruling concerning life insurance proceeds should be considered.

If life insurance had been included in the tax base for the year 1970, the base would have increased by an estimated \$35.6 million.^{1/} Given the assumption that it would have fallen under the inheritance tax rates and knowing the overall effective rate for the inheritance tax is 2.1 percent, the additional revenue would have been approximately \$750,000.

^{1/} This estimate is based on federal estate tax returns filed during 1970. See Internal Revenue Service, Statistics of Income, 1969, Estate Tax Returns, (Washington: Government Printing Office, 1972) p. 11. The Virginia figure was estimated by taking the ratio of Virginia life insurance in force to U. S. life insurance in force in 1969.

Taxes on Alcoholic Beverages and Soft Drinks

Alcoholic Beverages

Liquor sold in the A.B.C. stores of Virginia is subject to a 14 percent markup and also a 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 on 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 barrel.^{2/}

Net profits from liquor sales and all alcoholic beverage taxes, except the additional tax on beverages that are bought for resale by the drink, are allocated to the general fund; however, two-thirds of the wine and spirits sales tax and two-thirds, but not 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 1971-72, revenues from the alcoholic beverages state tax were \$25,490,583. The wine and spirits sales tax contributed \$2,298,922 and the revenues from the beer and beverage excise tax were \$14,619,316. The tax on alcoholic beverages bought for resale by the drink amounted to \$537,938 (allocated to a special fund), and A.B.C. profits were \$25,109,293. The different forms of general fund taxes on alcoholic beverages comprised 7.1 percent of total general fund revenues for that

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

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

year. By the 1978-80 biennium they are expected to supply only 4.2 per cent of total general fund revenues, which indicates a decline in their relative importance.^{1/}

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. Kenneth E. Quindry has calculated alcoholic beverage revenues, including net profits of state-owned liquor stores, for fiscal year 1970-71.^{2/} The table below shows alcoholic beverage revenues for Virginia and neighboring states on a per capita and per \$1,000 of personal income basis.

RECEIPTS IN FISCAL YEAR 1970-71

<u>State</u>	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
U.S. Average (incl. D.C.)	\$ 9.54	\$ 2.46
District of Columbia	17.54	3.20
Kentucky	4.63	1.54
Maryland	4.26	1.01
North Carolina	12.79	4.03
Tennessee	10.87	3.58
<u>Virginia</u>	14.14	3.96
West Virginia	18.47	6.15

Both measures show that Virginia's alcoholic beverage revenues are relatively high whether compared with the U.S. average or with those of our

^{1/} Table 3.4, page 76

^{2/} Kenneth E. Quindry, State and Local Revenue Potential, 1971, SREB, (Atlanta, Southern Regional Education Board, 1972). Governmental Finances in 1970-1971, GF 71, No. 5 (Washington: Government Printing Office, 1972).

neighboring states.

The taxation of alcoholic beverages in the District of Columbia requires a few comments. Prices of liquor in the District are substantially lower than those in Virginia because of competition between sellers and a lower tax rate. The relatively high revenue per capita in the District indicates that this differential in prices attracts a substantial number of nonresidents, including Virginians, to purchase liquor there. Future discussion of raising additional revenues via an increase in alcoholic beverage taxation should bear in mind that a further increase in such taxation in Virginia will increase the price differential and worsen the already poor competitive price position of Virginia vis-à-vis the District. Thus, an increased rate of taxation will produce greater revenues, but this increase in revenues will be tempered by the resulting decline in sales because of higher prices and by the loss of sales to other political subdivisions offering more attractive prices.

Crown Tax on Soft Drinks

At the present time there are seven states with special taxes on soft drinks--Arkansas, Louisiana, Missouri, North Carolina, South Carolina, Tennessee and West Virginia. The amount of revenues collected in fiscal 1970-71 varied from a low of \$183,000 for Missouri to a high of \$18,551,000 for North Carolina. The revenues were dependent upon the rates imposed on the various forms of soft drinks and the treatment of intrastate and interstate business.

If Virginia taxed soft drinks at a similar amount per capita as any

one of the seven states^{1/}, the state could realize between approximately \$0.2 million (Missouri rate) and \$17 million (North Carolina rate) in revenue with a tax at the average amount per capita generating about \$8 million in revenue.

There are four points to consider in discussing this tax as a possible source of additional revenue for the Commonwealth. First, it would produce a limited amount of revenue (assuming Virginia used rates similar to those of the other states). In 1970-71 even \$17 million would have been only 2 percent of total general revenues. A second point deals with the notion that this tax should be applied to discourage the creation of litter. Undoubtedly a tax applied in the "correct" way would discourage litter, but the states now using it tax all soft drinks regardless of the container in which it is sold. Thus, its purpose is probably to raise revenue and not to save the environment. In addition, it may be unfair to charge soft drink consumers with the entire cost of attempting to clean our environment since litter is composed of many products other than soft drink containers. Another point is that an extra tax would be imposed on a particular type of food product which is already subject to the general sales tax. The final point is the possible regressivity of this form of taxation. Most economists define a regressive tax as one with an effective rate of taxation that declines as income rises. If the tax is regressive, policy makers will have to decide if this type of tax best serves the interests of the Commonwealth. A more detailed discussion of the effects and characteristics of a regressive tax may be found in the sales and use tax section of this chapter.

^{1/} Commerce Clearing House, Inc., State Tax Guide, Second Edition - All States: "Licenses and Miscellaneous," 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. Among the other neighboring states Kentucky has a tax of 3 cents per pack, Maryland and the District of Columbia, 6 cents, West Virginia, 12 cents, and Tennessee, 13 cents (see Table 3.29).

Virginia is among ten states where localities impose additional cigarette taxes.^{1/} In fiscal year 1971-72, 19 cities and 2 counties in Virginia imposed rates ranging from 2 to 10 cents per pack. A large majority of these localities were in the Northern Virginia or Hampton Roads areas. In fiscal 1971-72 these localities received \$11.4 million in revenue from the locally imposed cigarette taxes.^{2/}

In fiscal year 1971-72, the state tobacco products tax produced \$15.3 million in revenue. Due to the relatively slow growth of tobacco consumption, revenues from the 2.5 cents tax are not expected to rise at a fast pace in future years, although the rate of growth in tobacco products tax revenue has begun to increase recently. For the 1974-76 biennium the tax will probably earn the state approximately

^{1/} Tobacco Tax Council, Inc., The Tax Burden on Tobacco, Volume 7, (Richmond, 1972), p. 84.

^{2/} Information in a memo by the Tobacco Tax Council, Inc. to Virginia Municipal Tax and Finance Officers in Places Imposing Local Cigarette Taxes, January, 1973.

TABLE 3.29.--STATE CIGARETTE TAX RATES AS OF MARCH 1, 1973

<u>State</u>	<u>Cents per Pack</u>	<u>State</u>	<u>Cents per Pack</u>
Alabama	12	Missouri	9
Alaska	8	Montana	12
Arizona	10	Nebraska	13
Arkansas	17.75	Nevada	10
California	10	New Hampshire	11
Colorado	5	New Jersey	19
Connecticut	21	New Mexico	12
Delaware	14	New York	15
Dist. of Col.	6	North Carolina	2
Florida	17	North Dakota	11
Georgia	12	Ohio	15
Hawaii	10	Oklahoma	13
Idaho	9.1	Oregon	9
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	18.5
Maine	14	Utah	8
Maryland	6	Vermont	12
Massachusetts	16	Virginia	2.5
Michigan	11	Washington	16
Minnesota	18	West Virginia	12
Mississippi	9	Wisconsin	16
		Wyoming	8

Sources: Tobacco Tax Council, Inc., "Monthly State Cigaret Tax Report", January, 1973 and Commerce Clearing House, Inc., "State Tax Review", various recent issues.

\$16.2 million per year with the present structure.^{1/}

An increase in the state tobacco tax rate from the present 2.5 cents would increase revenues substantially, provided a significant portion of sales were not lost to North Carolina or the District of Columbia. This conclusion is based upon two propositions. One is that even if the rate of tax were doubled, the average rise in cigarette prices would be only 8 percent.^{2/} This small increase in price would probably not encourage many people to travel outside the state to purchase their tobacco products. The second crucial proposition is that the demand for tobacco products is inelastic,^{3/} or relatively stable over the relevant price range. This is just another way of saying that most people who smoke will consume only slightly less of the product because the price rises by a few pennies.

The following figures show the amount by which annual revenues would have increased in fiscal year 1971-72 with a 5 cent tax under

^{1/} House Bill No. 46, passed by the 1973 session of the General Assembly, increased from 5 to 10 percent the discount that wholesalers are allowed to retain from the face value of tobacco stamps, effective July 1, 1974. As a result, the revenues received by the state will decline by about 5.3 percent from the projections used in this study. For fiscal year 1971-72, the change would have caused a decline of \$802,308 in tobacco products revenue.

^{2/} This figure is based on the weighted average price of cigarettes in Virginia as furnished by the Tobacco Tax Council. The estimate is biased upward because the weighted average price of cigarettes does not take into account the localities which impose their own tobacco tax.

^{3/} Price elasticity = $\frac{\text{Percent change in quantity demanded}}{\text{Percent change in price}}$ and is

always negative which denotes an inverse relationship. Disregarding the sign, if this ratio is less than 1, the demand is inelastic. If the ratio is greater than 1, it is elastic.

various assumptions about changes in sales:

	Revenue <u>(\$Mil.)</u>	<u>Change from Present Tax</u>	
		<u>Amount</u> <u>(\$Mil.)</u>	<u>Percent</u>
Present 2½ cent tax	\$ 15.3	\$ ....	....
5 cent tax with:			
no change in sales	30.6	+15.3	100
5 percent drop in sales	29.1	+13.8	90
10 percent drop in sales	27.5	+12.2	80
20 percent drop in sales	24.5	+9.2	60

It appears that a 5 percent drop in sales would be the most realistic possibility, and thus a 90 percent increase in revenues would be the result of a doubling in the state tobacco tax. This observation is based on a review of the literature on the elasticity of cigarette sales with respect to price. Although there are some differences in the elasticity measures, virtually all investigations are in agreement that the demand for cigarettes is inelastic.^{1/} The figures range from -.1 to -1.4 with most studies estimating an elasticity of -.5 to -.7. Using an elasticity of -.6, would result in a decline of cigarette sales by 4.8 percent with the projected doubling of the tax.

^{1/} See for example, John M. Vernon, Norfleet W. Rives, Jr. and Thomas H. Naylor, "An Econometric Model of the Tobacco Industry," Review of Economics and Statistics, Vol. 51, No. 2 (Cambridge: May, 1969), pp. 149-158. S. M. Sackrin, "Factors Affecting the Demand for Cigarettes," Agricultural Economics Research, Vol. 14, No. 3 (Washington, D.C.: August, 1962), pp. 81-88.

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. The present tax rate for the state is 3 percent (increased from 2 percent on July 1, 1968). In addition, there is a 1 percent local option tax that all of Virginia's localities have adopted.

In fiscal year 1971-72 revenues from the sales and use tax, exclusive of the revenues from the local option, were \$259,452,229 or 27.3 percent of total general fund revenues. Our projections indicate that revenues from the sales and use tax will gradually decline in importance through the remainder of the decade. Sales tax revenues are expected to comprise approximately 25 percent of total general fund revenues in the next biennium and 22 percent of the total by 1978-80.

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 include the exemption of food and/or nonprescription drugs, which would lower revenues, and the extension of coverage to services, which would increase revenues. The change in the rate may be either an increase in the state rate or an increase in the permitted local option rate.

The first section will compare the Virginia tax to those of other states. The next section will consider some possible modifications of

the base. The last section will discuss various revenue estimates that result from modifications in either the sales tax base or rate.

Comparison with Other States

A summary of sales and use taxes levied throughout the United States is presented in Table 3.30. As of March 31, 1973, forty-five states and the District of Columbia levy a general state sales tax; in addition, twenty-five states have localities imposing their own sales tax either in addition to or in lieu of the state sales tax. The table indicates that the state tax rates range from 2 percent to 7 percent and that localities impose rates varying from 0.5 percent to 5 percent. Identifying the top local rate as 5 percent may be deceptive because it is levied by only a few localities in Alaska. This high rate appears to be, at least in some measure, in lieu of a state sales tax. If these few localities are excluded, the highest locally imposed rate becomes 3 percent. Table 3.31 presents a frequency distribution of combined state and local tax rates. Virginia is included in the 4 percent group, which also includes Maryland and North Carolina. Two other neighbors, Kentucky and the District of Columbia, levy rates of 5 percent while Tennessee imposes a rate of 5.25 percent. Among bordering states this leaves only West Virginia (3 percent) with a lower sales tax rate.

Two important points must be emphasized when considering combined state and local sales tax rates. First, the combined state and local rates reflect the maximum rate imposed by any locality in a state. Second, not all localities in a state may impose the tax, and, if they do, their rates may be lower than the maximum. At one extreme is Virginia with a uniform rate levied by all localities, and at the other is Louisiana's various local taxing jurisdictions imposing rates of 0, .5, .75, 1, 1.25, 1.5 and 2 percent. Moreover, in some cases

TABLE 3.30.--STATE AND LOCAL SALES TAXES, AS OF MARCH 31, 1973 - SUMMARY TABLE
(Percentage Rate)

State	State Rate	Local Rate (Max.)	Food Exempt	Drug Exempt	Income Tax Credit	State	State Rate	Local Rate (Max.)	Food Exempt	Drug Exempt	Income Tax Credit
Alabama.....	4	3				Missouri.....	3	1			
Alaska.....		5				Nebraska.....	2.5	1		X	X
Arizona.....	3	2		X		Nevada.....	3	.5		X	
Arkansas.....	3	1				New Jersey.....	5		X	X	
California.....	3.75 ^{a/}	1.25	X	X		New Mexico.....	4	.5			
Colorado.....	3	3		X	X	New York.....	4	3	X	X	
Connecticut.....	7		X	X		North Carolina.....	3	1		X	
District of Columbia...	5		X ^{b/}	X	X	North Dakota.....	4			X	
Florida.....	4		X	X		Ohio.....	4	.5	X	X	
Georgia.....	3	1				Oklahoma.....	2	2			
Hawaii.....	4				X	Pennsylvania.....	6		X	X	
Idaho.....	3			X		Rhode Island.....	5		X	X	
Illinois.....	4	1				South Carolina.....	4				
Indiana.....	2 ^{c/}			X	X	South Dakota.....	4	2			
Iowa.....	3					Tennessee.....	3.5 ^{d/}	1.75			
Kansas.....	3	.5				Texas.....	4	1	X	X	
Kentucky.....	5		X			Utah.....	4	.5			
Louisiana.....	3	3	X ^{b/}	X ^{b/}		Vermont.....	3		X	X	X
Maine.....	5		X	X		Virginia.....	3	1		X	
Maryland.....	4		X	X		Washington.....	4.5	.5			
Massachusetts.....	3		X	X	X	West Virginia.....	3			X	
Michigan.....	4					Wisconsin.....	4		X	X	
Minnesota.....	4	1	X	X		Wyoming.....	3				
Mississippi.....	5										

a/ The California state sales tax rate increases to 4.75 percent effective June 1, 1973.

b/ This category has a limited exemption. It is taxed at a reduced rate of 2 percent.

c/ The Indiana state sales tax rate increases to 4.0 percent effective May 1, 1973.

d/ The Tennessee rate is in effect until June 30, 1973. If no action is taken by then the rate will decrease to 3 percent.

Sources: Facts and Figures in Government Finance, 1973 (New York: Tax Foundation, Inc., 1973), pp. 198 and 249. Commerce Clearing House, Inc., State Tax Guide, Second Edition - All States: "Sales, Use and Gross Receipts Taxes," pp. 6001 - 6146. Commerce Clearing House, Inc., "State Tax Review," (weekly editions).

TABLE 3.31.--FREQUENCY DISTRIBUTION OF COMBINED STATE AND LOCAL
GENERAL SALES TAX RATES, AS OF MARCH 31, 1973

2%	3%	3.5%	4%	4.5%	5%	6%	7%
Indiana	Idaho Iowa Massachusetts Vermont West Virginia Wyoming	Kansas Nebraska Nevada	Arkansas Florida Georgia Hawaii Maryland Michigan Missouri North Carolina North Dakota Oklahoma South Carolina Virginia Wisconsin	New Mexico Ohio Utah	Alaska Arizona California District of Columbia Illinois Kentucky Maine Minnesota Mississippi New Jersey Rhode Island Tennessee (5.25) Texas Washington	Colorado Louisiana Pennsylvania South Dakota	Alabama Connecticut New York
<u>1</u>	<u>6</u>	<u>3</u>	<u>13</u>	<u>3</u>	<u>14</u>	<u>4</u>	<u>3</u>

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

The U. S. median for the 46 states and D. C. which have the tax is 4.5 percent.

Source: Table 3.30.

different taxing jurisdictions within a state apply the tax rate to a different set of goods and services.

Also shown in Table 3.30 are the states exempting food from the tax base or allowing an income tax credit for sales taxes paid. As of March 31, 1973, 17 states and the District of Columbia exempt food or at least tax it at a lower rate, and 6 states and the District of Columbia grant relief through a tax credit. Twenty-six states and the District exempt prescription drugs from the sales tax. The theoretical and empirical aspects of food and drug exemptions will be discussed in the next section.

In an examination of any state tax, it is important to investigate how the taxing effort of one state compares with that of other states. Two measures generally used are tax receipts per capita and tax receipts per \$1,000 of personal income. Estimates of the state and local sales tax efforts of Virginia and bordering states in fiscal year 1970-71 are shown below:^{1/}

<u>State</u>	<u>Receipts in Fiscal Year 1970-71</u>	
	<u>Per Capita</u>	<u>Per \$1,000 of Personal Income</u>
District of Columbia	\$ 105.26	\$ 17.65
Kentucky	88.32	26.71
Maryland	65.71	14.51
North Carolina	57.93	16.88
Tennessee	86.78	26.26
<u>Virginia</u>	64.79	16.60
West Virginia	109.49	33.13
U. S. Average (incl. D.C.)	86.27	20.76

These data indicate that Virginia's sales tax effort is low whether compared with the U. S. average or with that of bordering states.

The above measures, however, do not take account of income tax credits

^{1/} Kenneth E. Quindry, State and Local Revenue Potential 1971 (Atlanta: Southern Regional Education Board, 1972) p. 32.

for sales taxes paid, which lessen the impact of the tax in several states.

Modification of the Base

Exemption of Food and Nonprescription Drugs

As we just observed, a number of states exempt food and/or drugs from the sales tax base or grant an income tax credit for the sales tax paid on selected items. These modifications are an attempt to reduce the possible regressivity of the sales tax.

The term regressive refers to a tax whose effective rate decreases as income increases. It has generally been observed that lower income persons spend a greater proportion of their income on consumer items, particularly on food and the other goods subject to the typical broad based sales tax, than those with higher incomes. Thus, if the sales tax were passed on to the consumer through higher product prices, the tax would be regressive.

Many economists argue that the sales tax is passed along to consumers and is regressive. On the other hand, another group argues that the tax is shifted backward on to the owners of the factors of production; if it were, the tax would not be regressive. This controversy has not yet been resolved, although the case for forward shifting and regressivity does have more proponents. One reason for this controversy is that the typical general sales tax encompasses hundreds of products. It is difficult enough to calculate the degree of shifting for a particular product let alone to make such a determination for all products.

Even if we assume that the sales tax is regressive, there is no basis for claiming such taxes are undesirable unless a specific value judgment is made to that effect. One reason is that the sales

tax is one of many state, local, and federal taxes paid. Since some of these are presumably progressive, they can offset the regressivity of the sales tax. As a noted expert on sales taxation points out, the regressiveness "... of the tax is not so much an argument against use of the sales tax, but against excessive reliance upon it as an element in the overall tax structure."^{1/} Another is that any tax represents only half of a fiscal operation. Investigating who receives the benefits when the tax revenues are spent would be necessary before criticizing a tax as regressive.^{2/}

Most efforts to lessen any possible regressivity have taken the form of granting a food exemption which, as we saw earlier, 17 states and the District of Columbia offer at present. Exempting food from the tax base would decrease the tax burden on all consumers but especially on those at the lower income levels and would help to make the tax more proportional with respect to income. Of course, the cost of such an exemption would be the loss of revenue. We estimate that in fiscal year 1971-72 a food exemption would have reduced both state and local option sales tax revenues by approximately 24 percent. To the state this would have meant a decline in revenues of \$62 million, and for the localities the decrease would have been \$21 million. A food exemption would also involve problems with enforcement and administration. For instance, many stores selling food and taxable goods do not maintain correct records of the sale of exempt and taxable

^{1/} John F. Due, Sales Taxation, (Urbana, Illinois: University of Illinois Press, 1957), p. 37.

^{2/} James M. Buchanan, The Public Finances (Homewood: Richard D. Irwin, Inc., 1965), pp. 466-67.

commodities. The result is usually a loss of revenue since there is a tendency to overstate the exemption. The primary reasons for this overstatement are that time pressure at the counters is severe and that most stores use low-paid employees and have a high rate of personnel turnover. To solve this problem some states have devised 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 desirable in terms of social policy; however, to extend the exemption beyond prescriptions raises difficulties because of the lack of differentiation between medicine and related products. 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. The exemption of nonprescription drugs would cause about a 1.7 percent decline in state and local sales tax revenues. Perhaps one way to handle these problems would be to confine the exemption to prescriptions and a few major standard items, such as insulin.^{1/}

An alternative to exemption would be an individual income tax credit. A credit could accomplish the same goals as an exemption but in what might be a more efficient manner. For example, a tax credit could be designed to benefit only lower income persons at either a flat rate or on a sliding scale. A food exemption would benefit consumers not only at the lower income levels but also at the middle and upper income levels. In addition, most forms of a credit would result in a lower revenue loss than a food exemption.

^{1/} John F. Due, State Sales Tax Administration, (Chicago: Public Administration Service, 1963), pp. 188-191.

For a more thorough discussion of the tax credit, see the preceding section on the individual income tax.

Extension of Coverage to Services

Theoretical Arguments.--There are several logical arguments for including services in the sales tax base. First, the underlying philosophy of a sales tax is that it should cover as broad a base of consumption as feasible. This suggests that the tax should apply to services as well as goods because both categories are components of consumption. There is no inherent feature of most services that precludes their inclusion.

Second, as personal income rises, expenditures on services tend to increase as a percentage of income and at a rate faster than expenditures on commodities. As a result, the inclusion of services in the sales tax base would reduce any regressiveness in the tax, and the yield of the tax would be more responsive to economic activity.

Finally, a number of services are rendered in conjunction with the sale of tangible personal property. Compliance and administration are much simpler 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, will likely be partially offset by increases in administrative costs.

A second reason for concern in extending coverage to services is that such a change may not relieve regressiveness in the tax as much as desired. 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.

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 because 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 example, a small company using a taxable telephone answering service may be at a competitive disadvantage as compared to one handling this service internally because employer-employee related services are not taxable.

Practices in Other States.--Appendix Table A.6 shows wide differences in the way states treat services. All of the 45 states and the District of Columbia with sales taxes make provision for taxing meals. Forty states and the District of Columbia (including Virginia) tax transient lodgings. As for public utility services, only 29 states and the District tax telephone and telegraph services, 32 and the District tax gas and electricity, and 18 and the District tax water.

Nine 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. Laundry and dry cleaning, repair services, and the lease or rental of tangible personal property are the most commonly taxed services. 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. There is, however, a lack of uniformity as far as selected services are concerned with most states excluding different services from the tax base.

Discussion of Possible Taxable Services.--In order to more closely examine the possibility of Virginia taxing different services we have constructed Table 3.32. In the first column are listed general categories of services with examples. The 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 in the fifth column rough estimates of the potential annual revenue from each category are provided. These estimates range from low (less than \$200,000) to good (\$200,000 to \$3 million) to very good (over \$3 million).^{1/} The revenue estimates reflect net increases. We have tried to deduct from the estimates sales taxes

^{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(VI)-17 and PC(VI)-48.

TABLE 3.32.--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, plasterers, 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 3.32.--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
Professional Services - accountants; architects; attorneys; artists; chemists; doctors; dentists; nurses; allied health personnel; veterinarians; engineers; geologists; surveyors; morticians; pharmacists; chiropractors; fortune tellers; pawn brokers; taxidermists; interior decorators.	Many professionals are subject to local license taxes on gross receipts.	This tax may be difficult to collect from so many independent practitioners.	There are questions about taxing health and legal services. Who pays the tax bill on court assigned legal services?	Very good.
Public Utilities - electric power; gas; water; telephone and telegraph.	Most localities levy some type of user or sales tax on public utilities. These may have a nominal tax rate of as high as 25% although upper limits often lessen the effective rate. Many state public service corporation taxes relate to gross receipts.	These services are simple to define and to collect from. A question would arise about the local taxes. If permitted to continue, taxes would be excessive. If disallowed, localities would lose revenue.	Taxing these may discriminate against the users of electricity or natural gas when the alternatives are fuel oil or bottled gas, which are subject only to the regular sales tax.	Very good if all present taxes are maintained.
Repair Services - automobile repair; battery, tire, and allied; oilers and lubricators; washing, waxing, and polishing; wrecker service; vulcanizing and retreading; boat repair; machine repair; motorcycle, scooter, and bicycle repair; motor repair; tin and sheet metal repair; roof, shingle, and glass repair; electrical repair; household appliance, television and radio repair; jewelry and watch repair; furniture, rug, upholstery repair and cleaning; office and business machine repair; swimming pool cleaning; wood preparation; welding; finishers; polishers; exterminators.	Frequently subject to local license taxes.	Repair services are fairly easy to define. Many retail dealers offer repair services so that extending coverage to these would not be extremely difficult. It might lower the compliance costs to the dealer.	Satisfactory.	Very good.
Intrastate Transportation Services - buses; taxis; trucks; trains; airplanes.	Many are taxed by the state on gross receipts.	Intrastate transportation is difficult to define and difficult for both the Department of Taxation and dealer to collect taxes on since it requires the separation of intrastate from interstate transportation.	Penalizes nonvertically integrated firms and individuals not using private transportation. Discourages public transportation which many areas have found desirable enough to subsidize.	Very good.
Miscellaneous - boarding of animals; grooming of animals; stud fees; engraving, photography, and retouching; printing and binding; refuse services; parking lots, storage warehouses and lockers.	These may be subject to license taxes in many localities.	Most of these are fairly easy to define and to administer.	Satisfactory.	Low for any one of these categories.

presently paid by services on goods (e. g. plastic bags for dry cleaning) used in production, 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 were extended in addition to these taxes, the tax rate might be excessively high. However, if the localities were not permitted to continue levying their taxes on these items, most would experience a considerable decline in revenue.

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

The listings of services under the broad categories in Table 3.32 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 along with suggestions as to the most administratively feasible before specific services are proposed for inclusion in the tax base.

Revenue Estimates

Change in Rate

The current sales and use tax structure provided a base of \$8.3 billion in fiscal year 1971-72 (see Table 3.33). An increase in the tax rate of 1 percentage point would have increased revenues by about \$83 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 directly.^{1/}

Change in Base^{2/}

The exemption of food purchases from the tax base would have meant a 24 percent or \$2.0 billion reduction in the 1971-72 sales tax base; revenues would have dropped \$59.7 million at the present 3 percent rate. The 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 because a portion of their sales represent non-food items. On the other hand, a portion of the sales of drugstores, delicatessens, and other

^{1/} Actually, the additional revenue might be slightly less than \$83 million because the increase in the sales tax rate would increase prices which in turn might decrease sales. For a fuller discussion see Ann F. Friedlaender, Gerald J. Swanson and John F. Due, "Estimating Sales Tax Revenue Changes in Response to Changes in Personal Income and Sales Tax Rates," National Tax Journal, Vol. 26, No. 1 (Washington: March, 1973), pp. 103-110.

^{2/} These revenue estimates assume no late charge penalties or interest payments on delinquent sales tax payments (see Table 3.33). They are therefore slightly lower than any estimate based on applying the percentage change to total collections. For example, 24 percent of \$259.5 million (total 1971-72 state sales tax revenues) is \$62.3 million and of \$89 million (total 1971-72 local option sales tax revenues), \$21.4 million.

TABLE 3.33.--ESTIMATED TAX YIELDS FOR VIRGINIA FROM ALTERNATIVE
CHANGES IN THE SALES AND USE TAX, FISCAL YEAR 1971-72

	Estimated Tax Base, 1971-72	Tax Receipts with 3% Rate		Tax Receipts with 4% Rate	
		Amount	Change from Present	Amount	Change from Present
Present sales and use tax ^{a/}	\$8,289,000,000	\$248,700,000	\$...	\$331,600,000	\$ +82,900,000
Present base with food ex- emptions ^{b/}	6,300,000,000	189,000,000	-59,700,000	252,000,000	+3,300,000
Present base with food and nonprescription drug ex- emptions ^{c/}	6,159,000,000	184,800,000	-63,900,000	246,400,000	-2,300,000
Present base plus coverage of selected services ^{d/}	9,103,000,000	273,100,000	+24,400,000	364,100,000	+115,400,000
Present base plus coverage of selected services less exemptions for food and nonprescription drugs	6,973,000,000	209,200,000	-39,500,000	278,900,000	+30,200,000

^{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 (\$259 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 1971-72.

^{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 3.34. This is a net figure; sales of service establishments which are already subject to the sales and use tax are not included.

Source: Department of Taxation, a special computer printout based on Taxable Sales in Virginia Counties and Cities. Based on Retail Sales Tax Revenues, Quarterly Report, prepared for fiscal year 1971-72, (Richmond, June, 1973); also Table 3.34 of this study.

stores represent food sales that would be exempt.^{1/} Exempting both food and nonprescription drugs would have reduced the tax base by 25.7 percent or \$2.1 billion and would have led to a decrease in state revenues of \$63.9 million.

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 3.34. Extending coverage to these services would have added nearly 10 percent or \$814 million to the tax base with revenues increasing by \$24.4 million at a 3 percent rate.

^{1/} In the last few years, the ratio of food sales to total sales has declined by 1 percentage point. This trend supports the basic economic postulate that food outlays as a percentage of income slowly decline as income rises and makes it possible to infer that the relative revenue impact of a food exemption would lessen over time.

TABLE 3.34.--ESTIMATED INCREASE IN SALES TAX BASE FROM
TAXING SELECTED SERVICES, FISCAL YEAR 1971-72

	1967 Sales (Census)	1972 Sales ^{a/}	Amount Currently Nontaxable Which Would Become Taxable	
			Ratio to Total Sales	Amount, 1972
Beauty & Barber Shops SIC 723 & 724	\$ 65,015,000	\$ 103,240,000	.964 ^{b/}	\$ 99,520,000
Auto Parking SIC 752	3,362,000	13,680,000	.914 ^{b/}	12,500,000
Auto Services Except Repair (Mainly Auto Laundries) SIC 754	5,252,000			
Auto Repair Shops SIC 753	78,616,000	124,840,000	.610 ^{b/}	76,150,000
Motion Pictures SIC 78	22,914,000	118,740,000	.878 ^{b/}	104,250,000
Amusements, Recreation Services, Except Motion Pictures SIC 79	51,859,000			
Shoe Repair SIC 725	4,643,000	14,140,000	.813 ^{b/}	11,500,000
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	183,180,000	.961 ^{b/}	176,040,000
Miscellaneous Repair Services (Elec. Repair Shops, Watch Repair, Reupholsterers, Lock- smiths, Lawnmower Repair, Etc.) SIC 76	60,395,000	95,910,000	.720 ^{b/}	69,060,000
Department Stores ^{c/} SIC 531	668,161,000	1,061,000,000	.050	53,050,000
Automotive Dealers ^{c/} SIC 55 ex 554	1,174,569,000	1,865,200,000	.070	130,560,000
Gasoline Service Stations ^{c/} SIC 554	472,921,000	751,000,000	.070	52,570,000
Apparel & Accessory Stores ^{c/} SIC 56	308,499,000	489,900,000	.050	24,490,000
Household Appliance Stores ^{c/} SIC 572	59,247,000	94,080,000	.050	4,700,000
Total	\$3,095,065,000	\$4,915,000,000	...	\$814,400,000

a/ Estimated by multiplying 1967 sales by 1.588, the ratio of fiscal year 1971-72 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.

Pari-Mutuel Betting and a State Lottery

Introduction

Pari-mutuel betting on thoroughbred, standardbred, and greyhound racing and a lottery have been mentioned as potential state revenue sources. Adoption of legislation allowing any of them is now permitted under the constitution. Pari-mutuel betting is discussed first.

Pari-mutuel Betting

The 1971 extra session of the General Assembly created a commission to "study and report upon 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." The 1972 session of the legislature continued the commission, which submitted a report in the fall of 1972 recommending pari-mutuel wagering on horse racing. The necessary legislation was introduced at the 1973 session but was defeated, and the General Assembly continued the commission for another year.^{1/}

The commission's report discusses the basic issues involved in bringing horse racing to Virginia, including state control through a racing commission, the possible location of racing facilities, the types of tracks and their estimated cost, and the revenue potential of racing. To analyze this potential the report makes the following assumptions:

^{1/} House Joint Resolution No. 8 of 1971, House Joint Resolution No. 84 of 1972, and House Joint Resolution No. 291 of 1973.

1. That there would be two racing facilities operating, one in Northern Virginia and the other in the Hampton Roads area.
2. That the racing facilities would be designed for year-round use with each track allowed 100 or more days of racing.
3. That at each facility there would be a one mile thoroughbred racing strip and a five-eighths mile standardbred strip.
4. That the take-out from the pari-mutuel handle would be 15 percent with the state, the horsemen, and the racing association each receiving one-third. The breakage, or odd cents of a payoff, would also be divided equally among those three.

Using these assumptions, the report estimates that in the first year of operation of the two racing facilities the state would receive at least \$3 million as its share of the take-out and breakage. In the second or third year, the state share would rise to about \$7.5 million and after five years to around \$10 million.^{1/} Thus, if racing were approved during the 1974-76 biennium and if construction of the tracks began soon thereafter, revenues would not begin to reach their full potential until the early 1980's.

Another source of revenue related to horse racing is off-track betting, which so far has only been operating in New York City, beginning in 1971, and two other cities in New York state. Because of limited experience and start-up problems, any estimates of the fiscal significance of off-track betting are risky; however, in fiscal 1971-72 the New York City Off-Track Betting Corporation had net revenues of about \$2.00 per capita.

^{1/} For more on the subject see Report of the Pari-Mutuel Betting Study Commission (Richmond: Department of Purchases and Supply, 1972).

A State Lottery

In the last nine years eight states have established lotteries. New Hampshire was the first in 1964 followed by New York in 1967, New Jersey in 1970, Massachusetts and Connecticut in 1971 and Pennsylvania, Michigan, and Maryland in 1972. Each of them has a functioning lottery except for Maryland, which is still planning its operation.

For New Hampshire and New York the results fell short of expectations. For the first eight years the New Hampshire lottery netted an average of \$1.6 million per year (about \$2.00 per capita), and the New York lottery produced in net revenues an average of \$34 million per year (also about \$2.00 per capita) in its first five years. In New Jersey the lottery began operations in January, 1971, and proved more successful than either of its predecessors. Net revenues for the first eighteen months were \$102 million, or roughly \$10.00 per capita on an annualized basis.^{1/}

Because of the success of the New Jersey lottery it has become the prototype for the lotteries begun in Massachusetts, Connecticut, Pennsylvania, and Michigan. Preliminary reports indicate that these states are beginning to have the same success that New Jersey has enjoyed. Even New Hampshire and New York have modified their operations in the last two years to conform to the New Jersey pattern, and the result has been some increase in net revenues. The basic elements of the New Jersey system are:

1. Low priced tickets (50 cents).

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

2. Frequent drawings (at first weekly and as of November, 1972, also daily).
3. Numerous and easily accessible outlets for the purchase of tickets (including supermarkets, department stores, drug stores, and restaurants).
4. A fairly high probability of winning.
5. 45 percent of gross revenues set aside for prizes.
6. Numbered tickets in lieu of recording the names and addresses of purchasers.
7. A concerted effort by the state to promote the lottery after recognizing that it is a consumer service that not only must be designed to appeal to consumer tastes but to be successful must be merchandised like one.

There are, of course, other factors to consider besides the nature and structure of the lottery in trying to estimate its revenue potential. These include competition from lotteries in neighboring states, the level of personal income in the state and in surrounding ones, and the propensity of residents and nearby nonresidents to gamble.

It does appear that on the basis of the still preliminary evidence, a lottery of the New Jersey type can produce in net revenues as much as \$10 per capita. This potential could probably be greater except for federal laws that prohibit the mailing of matter related to a lottery, advertising a lottery in interstate commerce, and transporting lottery tickets in interstate commerce. These restrictions limit the state's access to the lottery market and raise operating costs.

Two additional questions that must be answered are:

1. For what purposes should the net receipts from a lottery be used? They are earmarked for education in New Hampshire and New York, and New Jersey allocates them to education and state institutions. Pennsylvania uses the revenues for property tax relief for the elderly, and Massachusetts

provides aid to local governments with them. In Connecticut and Michigan they are put into the general fund. Ear-marking may enhance the acceptability of the lottery but may just free non-earmarked revenue that would otherwise have been devoted to the designated activity.

2. Why should a government actively promote a lottery? No other form of consumption receives such official encouragement. In addition, it would involve the risk of government funds in an essentially commercial enterprise.^{1/}

To estimate the revenue potential of a lottery in Virginia, we assume that its main elements would fit the New Jersey pattern and that it would face competition from the Maryland lottery. With poor response we estimate that it would net \$9.5 million, with average response, \$23.5 million, and with very good response, \$47 million.

^{1/} For more on a lottery as well as off-track betting, see Council of State Governments, Gambling: A Source of State Revenue (Lexington: January, 1973), pp. 1-17 and Frederick D. Stocker "State Sponsored Gambling as a Source of State Revenue," National Tax Journal, Vol. 25, No. 3 (Lancaster: September, 1972), pp. 437-441.

Summary of Major Sources

In Table 3.35 we show the effects of alternative changes in several of the state's general fund revenue sources in the 1974-76 biennium. We still assume that new revenues from a crown tax, horse racing, or a lottery would be applied to the general fund. We select for each revenue source the most reasonable effective date for any changes. For example, the individual income tax, which is the most important source of revenue, is forecast to produce \$628.7 million in 1974-75 with the present structure and rates. If alternative rate schedule 1 were adopted, we assume that the change would become law on July 1, 1974, but with an effective date of January 1, 1974. For 1974-75 the schedule would produce an additional \$67.7 million from the seventeen month period (allowing for a thirty day lag in collections). Thus, the transitional effect of any change is reflected in the first year of the next biennium while the twelve month impact is shown in 1975-76.

The table can be used to put together any revenue package desired. As an illustration, to exclude food purchases from the sales tax base and increase the rate from 3 to 4 percent would generate at the state level an extra \$4.3 million in revenue in 1974-75.

TABLE 3.35.--PROJECTED REVENUES FROM ALTERNATIVE
CHANGES IN REVENUE STRUCTURE AND/OR RATES,
1974-76 BIENNIUM
(Millions of Dollars)

Revenue Source	1974-75		1975-76	
	Projected Revenue	Change from Present Tax	Projected Revenue	Change from Present Tax
INDIVIDUALS AND FIDUCIARIES--				
INCOME TAX				
Present structure; present rates	\$628.7	\$...	\$723.4	\$...
Present structure; rate schedule 1	696.4	+ 67.7	782.7	+ 59.3
Present structure; rate schedule 2	839.2	+210.5	907.9	+184.5
Present structure; rate schedule 3	725.3	+ 96.6	808.0	+ 84.6
Present structure; rate schedule 4	719.5	+ 90.8	803.0	+ 79.6
Present structure; rate schedule 5	714.6	+ 85.9	798.6	+ 75.2
Present structure; rate schedule 6	551.9	- 76.8	656.1	- 67.3
Present structure; rate schedule 7	665.9	+ 37.2	756.0	+ 32.6
Present structure; rate schedule 8	738.5	+109.8	819.6	+ 96.2
Present structure; rate schedule 9	733.5	+104.8	815.3	+ 91.9
\$750 exemption; present rates	589.4	- 39.3	692.0	- 31.4
TAX CREDIT TO COMPENSATE FOR SALES TAX ON FOOD (EXCLUDING LOCAL OPTION)				
\$16 credit per exemption	-76.2	-76.2	-77.3	- 77.3
\$16 credit per exemption but limited to AGI of under \$6,000	-26.6	-26.6	-27.0	- 27.0
INHERITANCE TAX				
Present structure; present rates	18.3	...	20.2	...
Present structure with inclusion of insurance; present rates	19.0	+ .7	21.5	+ 1.3
Proposed structure; proposed rates	19.4	+1.1	22.3	+ 2.1
CROWN TAX ON SOFT DRINKS				
Average per capita revenue of states with the tax	9.7	+9.7	11.3	+ 11.3
TOBACCO PRODUCTS TAX				
Present structure; present rates	16.1	...	16.3	...
Present structure; 5 cent rate; no change in sales	32.2	+16.1	32.6	+ 16.3
Present structure; 5 cent rate; 5% drop in sales	30.6	+14.5	31.0	+ 14.7
Present structure; 5 cent rate; 10% drop in sales	29.0	+12.9	29.3	+ 13.0
Present structure; 5 cent rate; 20% drop in sales	25.8	+ 9.7	26.1	+ 9.8
STATE SALES AND USE TAX (EXCLUDING LOCAL OPTION)				
Present structure; present rate	350.0	...	380.8	...
Present structure; 4% rate	457.5	+107.5	507.7	+126.9
Excluding food purchases; present rate	272.6	- 77.4	289.4	- 91.4
Excluding food purchases; 4% rate	354.3	+ 4.3	385.9	+ 5.1
Excluding food and nonprescription drugs; present rate	267.1	- 82.9	282.9	- 97.9
Excluding food and nonprescription drugs; 4% rate	346.9	- 3.1	377.2	- 3.6
Adding selected services; present rate	381.6	+ 31.6	418.1	+ 37.3
Adding selected services; 4% rate	499.6	+149.6	557.4	+176.6
PARI-MUTUEL BETTING AND LOTTERY				
Pari-mutuel betting	From two racing facilities the state could expect about \$3 million in the first year of operation, \$7.5 million after two or three years, and around \$10 million after five years. Only the \$3 million figure might be achieved in the next biennium.			
Lottery	Estimated receipts for a year range between \$9.5 million and \$47 million depending on the degree of public acceptance.			

Methodologies for projected revenues due to structure or rate changes are:

1. Individual and Fiduciaries Income Tax - Percentage relationships between 1971 revenue estimates under the present structure and rates and revenue estimates for the alternative rate schedules and structure were applied to projected revenues under the present structure and rates. The projected changes for 1974-75 include seventeen months of revenues because an effective date of January 1, 1974, with a thirty day collections lag was assumed. The impact of the \$1,000 exemption for the elderly was excluded from the calculations; with the present or alternative rates it will mean \$1 to \$2 million less in revenues, and maintaining it with a \$750 exemption for all other classes will reduce the revenue loss by \$1 to \$2 million.
2. Tax Credit to Compensate for Sales Tax on Food - The number of exemptions to which the credit would apply in tax year 1971 was assumed to be 4,519,000. This number was increased by 1.5 percent for 3½ and 4½ years, respectively, to allow for tax year 1971 containing one-half each of fiscal years 1970-71 and 1971-72. The methodology for the credit limited to those with incomes under \$6,000 was similar except that the initial number of exemptions was assumed to be 1,579,513. The credit was increased from \$13 to \$16 to account for the projected rise in the cost of food. An effective date of January 1, 1974, was utilized along with the assumption that persons would claim the credit on the tax return filed for 1974. No forecasts were made of the revenue loss caused by a sliding scale credit for persons with incomes under \$6,000, although the cost would have been less than that for the \$16 credit limited by that income level.

3. Inheritance Tax - Projections for revenues from including insurance were based on the percentage relationship of the estimate for calendar year 1970 to actual collections for 1969-70. Projections for revenues from the proposed changes in structure and rates relied on the 10.4 percent increase over the existing structure and rates indicated by the sample of 1968-69 returns. Inheritance tax revenues were estimated to be 95 percent of inheritance and gift tax revenues. The changes forecast for 1974-75 include six months of revenue, for an effective date of July 1, 1974, with a one-half year collection lag was assumed.
4. Crown Tax on Soft Drinks - The estimated revenue for Virginia for fiscal 1970-71, based on the average per capita revenue of states with the tax, was increased by 7.2 percent a year, the average annual ratio of growth of the value of soft drink shipments between 1963 and 1967, from the 1963 and 1967 Census of Manufacturers - Virginia. An effective date of July 1, 1974, with a thirty day collection lag was used; as a result, the forecast for 1974-75 reflects eleven months of revenues.
5. Tobacco Products Tax - For a doubling of the rate and no change in sales projected revenues from the 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. An effective date of July 1, 1974, with no collections lag was assumed. These forecasts do not account for the doubling of the discount to tobacco wholesalers, which will cost about \$850,000 annually.
6. State Sales and Use Tax - The percentage relationships between the present structure and rate and the alternatives shown in Table 3.33 for 1971-72 were applied to the projected revenues for the present structure and rate for 1974-75 and 1975-76. The changes projected for 1974-75 include eleven months of revenues because an effective date of July 1, 1974, with a thirty day collections lag was used.
7. Pari-Mutuel Betting and Lottery - Estimates were made in the text (pp.184-88) for racetracks and a lottery. If approved, a lottery could probably be in full operation by 1975-76, but racetracks could not until several years following the 1974-76 biennium.

SPECIAL FUNDS

This report is primarily concerned with analysis and projection of revenues and expenditures passing through the general fund. Revenues earmarked for special purposes however account for more than half the state's total collections (as can be seen in Table 3.36) and will be discussed briefly here.

TABLE 3.36.--TOTAL REVENUES FROM GENERAL FUND, SPECIAL
AND OTHER FUNDS 1964-1970
(Millions)

Revenues Going Into	Biennium							
	1964-66		1966-68		1968-70		1970-72	
	Amount	%	Amount	%	Amount	%	Amount	%
General Fund	\$ 724.4	40.0	\$1,021.4	44.6	\$1,489.6	49.3	\$1,784.9	46.3
Special and Other Funds	<u>1,087.3</u>	<u>60.0</u>	<u>1,267.3</u>	<u>55.4</u>	<u>1,535.3</u>	<u>50.7</u>	<u>2,070.6</u>	<u>53.7</u>
Total Funds	<u>\$1,811.7</u>	<u>100.0</u>	<u>\$2,288.7</u>	<u>100.0</u>	<u>\$3,024.9</u>	<u>100.0</u>	<u>\$3,855.5</u>	<u>100.0</u>

Source: Derived from Tables 3.2 and 3.37.

Table 3.37 shows historical collections of special funds revenue by source for the part five bienniums, while Table 3.38 summarizes the major special funds revenue sources for the 72-74 biennium. As can be seen, relatively few sources account for the bulk of special funds revenue. The three major motor vehicle related sources (motor vehicle fuel tax, motor vehicle sales and use tax and motor vehicle Licenses) account for 25 percent of special funds revenue, while grants from the federal government amount to almost 45 percent and institutional revenues account for an additional 15 percent. Together these major sources make up 85 percent of special funds revenue.

TABLE 3.37-- TOTAL REVENUES FROM SPECIAL FUNDS AND OTHER FUNDS NOT APPLICABLE TO THE GENERAL FUND, 1962-64 TO 1970-72

Revenue Source	1962-64 Biennium	1964-66 Biennium	1966-68 Biennium	1968-70 Biennium	1970-72 Biennium
TAXES					
Public Service Corporations	\$ 1,615,063	\$ 2,386,158	\$ 2,538,670	\$ 2,706,609	\$ 4,875,709
Capitation	3,663,786	3,555,468	2,474,158	1,618,068	683,368
Motor Vehicle Fuel Tax ^{a/}	200,679,847	227,616,161	253,915,591	288,013,205	334,681,773
Payroll Tax for Unemployment Compensation	52,753,048	40,321,541	33,944,233	28,366,474	26,179,095
Motor Vehicle Sales and Use Tax	...	...	34,116,517	53,132,767	68,667,163
Other Taxes	<u>1,067,004</u>	<u>1,275,382</u>	<u>1,076,543</u>	<u>1,687,874</u>	<u>2,739,098</u>
Sub-Total, Taxes	259,778,748	275,154,710	328,065,712	375,524,997	437,826,186
RIGHTS AND PRIVILEGES					
Hunting and Angling Licenses	4,565,180	5,026,741	5,823,227	6,585,252	7,559,460
Motor Vehicle Licenses	62,682,358	81,897,255	88,346,130	98,933,981	113,002,608
Registration of Title of Motor Vehicles	3,073,190	9,349,859	9,088,536	9,880,979	11,354,291
Chauffeurs' and Motor Vehicles Operators' Permits	3,424,019	8,713,692	9,242,553	12,875,512	16,892,331
All Other Licenses and Permits	3,030,369	3,764,064	4,306,822	5,480,327	6,963,424
Fees for Examination to Practice Professions	27,472	62,902	65,545	68,531	73,442
Fees for Miscellaneous Privileges and Services	<u>19,723,950</u>	<u>22,111,312</u>	<u>25,521,196</u>	<u>32,670,652</u>	<u>40,929,558</u>
Sub-Total, Rights and Privileges	96,526,538	130,925,825	142,394,009	166,495,234	196,775,174
Total from Taxation	\$356,305,286	\$ 406,080,535	\$ 470,459,721	\$ 542,020,231	\$ 634,601,360
OTHER THAN TAXATION					
SALES OF PROPERTY AND COMMODITIES ^{b/}	5,307,377	6,238,826	9,008,243	11,660,323	17,160,021
ASSESSMENT FOR SUPPORT OF SPECIAL SERVICES	6,810,212	7,947,751	7,831,659	8,987,604	11,584,081
INSTITUTIONAL REVENUES	106,968,317	133,825,738	174,339,361	233,016,540	303,800,408
INTEREST AND RENTS	27,853,270	38,871,279	51,510,805	73,230,661	104,799,763
GRANTS AND DONATIONS					
Grants from the Federal Government	320,662,334	460,213,767	502,174,770	603,615,008	929,934,368
Donations from Cities and Counties	4,447,065	5,751,798	14,552,423	19,030,056	22,012,960
Donations from Individuals and Others	<u>1,861,847</u>	<u>2,496,013</u>	<u>4,716,755</u>	<u>4,547,476^{a/}</u>	<u>2,678,632</u>
Sub-Total, Grants and Donations	326,971,246	468,459,578	521,443,948	627,192,540	954,625,960
FINES, FORFEITURES, COSTS, PENALTIES, AND ESCHEATS	9,454,829	10,619,233	12,566,280	14,396,829	15,861,803
MISCELLANEOUS					
Receipts from Cities, Counties, and Towns for Street and Road Work	4,736,735	6,141,035	7,381,081	12,728,382	12,900,742
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	3,915,539
Proceeds from the Sale of Surplus Property	1,404,084	1,964,913	2,242,615	2,245,509	2,701,105
Other	<u>2,633,519</u>	<u>4,528,378</u>	<u>4,792,912</u>	<u>4,850,032^{a/}</u>	<u>8,610,240</u>
Sub-Total, Miscellaneous	8,774,338	15,232,277	20,158,090	24,771,007	28,127,626
Total Other Than Taxation	\$ 492,139,589	\$ 681,194,682	\$ 796,858,386	\$ 993,255,504	\$ 1,435,959,662
Total ^{c/}	<u>\$848,444,875</u>	<u>\$1,087,275,217</u>	<u>\$1,267,318,107</u>	<u>\$1,535,275,735</u>	<u>\$2,070,561,022</u>
EXHIBIT					
Special Revenue Funds	\$825,860,669	\$1,059,283,510	\$1,234,440,091	\$1,496,149,811	\$2,025,063,739
Reserves for Specified Purposes	22,576,401	27,982,576	32,870,560	39,116,214	45,477,096
In Suspense--Not Allocated	7,805	9,131	7,456	9,710	20,157

a/ Excludes amount transferred to General Fund for appropriations for analyzing gasoline, diesel fuel, and motor oils.

b/ Excludes alcoholic beverage sales.

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 Miscellaneous-Other; therefore, this transfer is reflected in the category Miscellaneous-Other rather than Donations from Individuals and Others in this table.

Sources: Report of Comptroller, Fiscal Year Ended June 30, 1963 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; Unpublished Statement of Revenues Collected, All Funds and General Fund, July 1, 1971 to June 30, 1972 and July 1, 1970 to June 30, 1971; Unpublished Summaries of Operations for the Fiscal Years Ended June 30, 1971 and 1972 (Richmond: Department of Accounts).

TABLE 3.38.--SUMMARY OF MAJOR SOURCES OF SPECIAL FUNDS REVENUE 1970-72 BIENNIUM

<u>Revenue Source</u>	<u>Amount</u>	<u>Percent of Total Special Fund Revenues</u>	<u>Percent of Total Revenues from all Sources</u>
Taxes	\$ 437,826,186	21.1	11.4
Motor Vehicle Fuel Tax	\$334,681,773	16.2	8.7
Motor Vehicle Sales & Use Tax	68,667,163	3.3	1.8
Other Taxes	34,477,250	1.6	0.9
Rights and Privileges	196,775,174	9.5	5.1
Motor Vehicle Licenses	113,002,668	5.5	2.9
Other Rights and Priveleges	83,772,506	4.0	2.2
Institutional Revenues	303,800,408	14.7	7.9
Grants from Federal Government	929,934,368	44.9	24.1
All Other Sources*	<u>202,224,886</u>	<u>9.8</u>	<u>5.2</u>
Total	<u>\$2,070,561,022</u>	<u>100.0</u>	<u>53.7</u>

Source: Tables 3.2 and 3.37.

* Detailed sources of special fund revenues will be found in Table 3.37.

Motor Vehicle Related Special Funds Revenue Sources

Table 3.39 summarizes the future yield of special funds revenues from motor vehicle related sources as projected by the Department of Highways. The current climate of uncertainty regarding the future availability of motor vehicle fuels and the possibility that the use of motor vehicles may be curtailed by environmental protective legislation and regulation have been considered in making these projections. Based on the trend of prior periods they are relatively conservative.

TABLE 3.39.--PROJECTED HIGHWAY REVENUES
1972-74-----1978-80
(Thousands)

<u>REVENUE SOURCE</u>	<u>BIENNIUM</u>			
	<u>72-74</u>	<u>74-76</u>	<u>76-78</u>	<u>78-80</u>
Motor Vehicle Fuel Tax	\$468,800	\$498,100	\$ 518,100	\$ 538,900
Motor Vehicle Sales and Use Tax	81,100	95,500	103,200	111,600
Motor Vehicle Licenses	124,800	136,600	145,800	155,800
Motor Vehicle Title Registration	12,400	14,200	15,200	16,200
Other Motor Vehicle Related Fees ^{1/}	<u>28,100</u>	<u>33,500</u>	<u>36,000</u>	<u>38,600</u>
Sub Total	\$715,200	\$777,900	\$ 818,300	\$ 861,100
Less Other Agencies ^{2/}	<u>50,000</u>	<u>50,100</u>	<u>54,800</u>	<u>59,700</u>
Net State Revenue	\$665,200	\$727,800	\$ 763,500	\$ 801,400
Federal Aid	<u>258,000</u>	<u>258,000</u>	<u>258,000</u>	<u>258,000</u>
Total Revenue	<u>\$923,200</u>	<u>\$985,800</u>	<u>\$1,021,500</u>	<u>\$1,059,400</u>

Source: Department of Highways, unpublished data.

^{1/} Includes permit fees, offense assessments, state corporation fees, Department of Highway fees, and miscellaneous Division of Motor Vehicle fees.

^{2/} Funds for support of Division of Motor Vehicles and partial support of Highway Safety Division, Virginia State Police, and Department of Conservation and Economic Development.

Motor Vehicle Fuel Tax

As noted in Table 3.38 the motor vehicle fuel tax is a major source of revenue accounting for 16.2 percent of Virginia's special funds revenue and 8.7 percent of total revenue from all sources. Virginia's 9 cents per gallon rate is above the national 7.5 cent median. Virginia's neighboring states impose varying rates: Tennessee 7 cents, District of Columbia 8 cents, West Virginia 8.5 cents, North Carolina 9 cents and Kentucky 9 cents. Rates in other states range from five to ten cents as shown in Table 3.40.

TABLE 3.40.--STATE GASOLINE TAX RATES, JANUARY 1, 1972^{1/}
(per gallon)

less than 7¢	7¢	7.5¢	8¢	8.5¢	9¢ or more
Hawaii (5¢)	Alabama	Arkansas	Alaska	Idaho	Connecticut (10¢)
Nebraska (6¢)	Arizona	Georgia	Delaware	Nebraska	Kentucky (9¢)
Oklahoma (6.58¢)	California	Illinois	Dist. of Columbia	West Va.	Maine (9¢)
Texas (5¢)	Colorado	Massachusetts	Florida		Maryland (9¢)
	Iowa		Indiana		Michigan (9¢)
	Kansas		Louisiana		New Hampshire (9¢)
	Minnesota		Mississippi		N. Carolina (9¢)
	Missouri		New Jersey		Vermont (9¢)
	Montana		New York		Virginia (9¢)
	New Mexico		Pennsylvania		Washington (9¢)
	North Dakota		Rhode Island		
	Ohio		South Carolina		
	Oregon				
	South Dakota				
	Tennessee				
	Utah				
	Wisconsin				
	Wyoming				
Total..4	.....18	.....4	.....12	.....3	.....10

Source: Commerce Clearing House, Inc., "State Tax Review," various recent weekly issues, especially August 29, 1972.

Motor Vehicle Sales and Use Tax

Virginia's motor vehicle sales and use tax accounts for 3.3 percent of special funds revenue and 1.8 percent of revenue from all sources. It is imposed by the state at a rate of two percent of 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"^{1/}. Localities are prohibited from imposing this tax.^{2/}

Nationally only Delaware and New Hampshire impose no tax on the sale of motor vehicles. Alaska has no state tax on such sales but local general sales taxes apply. In thirty-six states motor vehicles sales are subject to the general sales tax while twelve others, including Virginia, impose a selective sales tax on motor vehicle transfers. In addition to the state tax, local sales taxes are allowed on motor vehicle sales in eleven states including Virginia's neighbors North Carolina and Tennessee.

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.

^{1/} Code of Virginia, Section 58-685.11.

^{2/} Code of Virginia, Section 58-685.25.

Institutional Revenues

Institutional revenues are those fees and charges collected by agencies for services rendered ie: tuition at colleges and universities and medical fees at hospitals. Analysis or projection of institutional revenues are beyond the scope of this report even though they account for almost fifteen percent of total special fund revenues.

Grants from Federal Government

Federal grants represent by far the largest single source of special funds revenue - amounting to 44.9 percent in 1970-72. They accounted for 24.1 percent of the total state revenue from all sources in that Biennium. As with institutional revenue, federal grants analysis is beyond the scope of this report. However, Table 3.41 will give the reader a general view of the magnitude of federal fund appropriations.

TABLE 3.41.--FEDERAL FUND APPROPRIATIONS BY FUNCTION 1972-74 BIENNIAL

<u>Function</u>	<u>Amount</u>	<u>Percent of Total Federal Funds</u>
<u>Operating Expenses</u>		
Education	\$ 268,275,930	23.6
Elementary-Secondary	\$197,861,050	17.4
Higher Education	68,401,620	6.0
Other Education	<u>2,012,260</u>	0.2
Health and Welfare	450,318,465	39.5
Mental Health	\$ 866,095	0.1
Public Health	16,780,360	1.5
Medicaid	160,987,400	14.1
Public Welfare	225,658,940	19.8
Vocational Rehabilitation	<u>46,025,670</u>	4.0
Administration of Justice	29,927,250	2.6
Resource and Economic Development	88,509,035	7.8
General Administration and Legislative	2,573,090	0.2
Transportation	261,028,000	22.9
Other Operating Expenses	<u>732,095</u>	<u>0.1</u>
Total Operating Expenses	\$1,101,363,865	97.7
Nonrecurring Items	22,031,140	1.9
Capital Outlays	<u>15,402,005</u>	<u>1.4</u>
Total Appropriations from Federal Funds	<u>\$1,138,797,010</u>	<u>100.0</u>

Source: Division of the Budget, unpublished data.

* Excludes appropriations made by 1973 session of the General Assembly.

Federal General Revenue Sharing and
Proposals for Federal Special Revenue Sharing

Introduction

We have just seen that special funds are composed in large part of federal aid. A major, new form of federal assistance - general revenue sharing - began in 1972 and formed the basis for the supplemental general fund appropriations approved at the 1973 session of the General Assembly and included in the expenditure projections to be presented in Chapter IV. We shall now discuss general revenue sharing and the most recent proposals for federal special revenue sharing.

General Revenue Sharing

The federal government appropriated \$30.2 billion over a five-year period for general revenue sharing in the fall of 1972. The amounts on a fiscal year basis are:

<u>Period</u>	<u>Amount</u> <u>(Mil.)</u>
January - June, 1972	\$2,650.0
July - December, 1972	2,650.0
January - June, 1973	2,987.5
Fiscal 1973-74	6,050.0
Fiscal 1974-75	6,200.0
Fiscal 1975-76	6,350.0
July - December, 1976	3,325.0

with each state receiving the higher amount of either the House or Senate formula.

The House formula, which now favors Virginia, distributes the funds on the basis of general tax effort, individual income tax collections, population, urbanized population, and population inversely weighted for per capita income. The Senate version distributes the funds on the basis of population, state and local tax effort, and inverse per capita income.

In 1972 Virginia received \$106.3 million with one-third, or \$35.4 million, going to the state government and two-thirds, or \$70.9 million, being distributed to localities.^{1/} To project the amount of revenue sharing to be received in future years requires three assumptions:

1. That Virginia will continue to receive the same percentage share (2.01 percent) of total funds in future years as in calendar year 1972. This assumption is necessary because of the numerous variables involved in a sophisticated forecast for which we lack data. Moreover, the Department of Treasury will not make forecasts of state entitlements.
2. That the total state share will be split one-third to the state government and two-thirds to local governments.
3. That payment will be made not later than five days after the close of each quarter. This would mean that the payment for the April-June quarter would fall in the next fiscal year.

With them we calculate the following amounts for the state and local governments:

<u>Fiscal Year</u>	<u>State Government Total (Mil.)</u>	<u>Local Government Total (Mil.)</u>
1972-73 ^{a/}	\$45.4	\$90.9
1973-74	40.4	80.8
1974-75	41.2	82.6
1975-76	42.2	84.6
1976-77	32.9	65.8

^{a/} Includes the \$106.3 million received in calendar year 1972.

The forecasts indicate that the state government would receive \$85.8 million in the 1972-74 biennium, \$83.4 million in the 1974-76 biennium, and \$32.9 million in the first year of the 1976-78 biennium. The state government may use the funds on any expenditure items. The state may not, however,

^{1/} These figures include the 3 percent held back on 1972 payments as a reserve by the federal government. Similar holdbacks are possible but are at the discretion of the U. S. Department of the Treasury.

use them to match federal categorical grants and must maintain the existing levels of financial aid to local governments. The 1973 session of the General Assembly appropriated for this biennium \$53.5 million of its \$85.8 million (plus \$19.2 million in surplus monies from the 1970-72 biennium) for a wide variety of programs. We assume for the purpose of our analysis that the state would decide to use the unexpended balance of \$32.3 million in the next biennium and, as a result, would have a total of \$115.7 million for 1974-76. (To study the impact of revenue sharing on the fiscal prospects of the state, see Chapter IV.)

The local revenue sharing funds are distributed to counties (or independent cities) on the basis of population, tax effort (adjusted taxes per \$1,000 of personal income), and relative income, or state per capita income divided by county per capita income, and are split between the county government and all towns within the county on the basis of adjusted taxes. The amount received by an individual town is also based on population, tax effort, and relative income. Local funds are restricted to high priority maintenance and operation expenditure categories, such as health, recreation, public safety, and public transportation, but for capital outlays there are no limitations. The funds may not be used for current outlays for education. Local governments also have the federal matching constraint. (To analyze the fiscal assistance that revenue sharing provides localities, see Chapter V, particularly page 271.)^{1/}

^{1/} All information was provided by the Office of Revenue Sharing of the Department of the Treasury.

The revenue sharing act does permit a state to change the formula allocating funds among counties or towns once during the five-year term of the program. The law says that:

"A State may by law provide for the allocation of funds among county areas, or among units of local government (other than county governments), on the basis of the population multiplied by the general tax effort factors of such areas or units of local government, on the basis of the population multiplied by the relative income factors of such areas or units of local government, or on the basis of a combination of those two factors..."^{1/}

The impact of any formula modifications can be analyzed by looking at a hypothetical state with three localities. We assume that the population and the other factors for the three are those in the note to Table 3.42 with \$1 million in local revenue sharing funds available for distribution. The table indicates the amount received by each locality under the present formula and three basic alternatives chosen from an infinite number of combinations. The present formula would distribute about 52 percent of the total to locality A, which has the largest population, the greatest tax effort, and the highest per capita income, 34 percent to locality B, and about 14 percent to locality C, which has the smallest of each of the three factors. Eliminating relative income from the formula would increase somewhat the amounts going to localities A and B but would nearly cut in half the funds received by locality C. Removing tax effort would primarily shift the funds from locality A to locality C. The amount actually received by locality C would not, however, be based on the alternative formula but on the maximum permitted any local government, which is 145 percent of the

^{1/} Public Law 92-512, Section 108(c).

TABLE 3.42 --DISTRIBUTION OF \$1 MILLION IN LOCAL REVENUE SHARING FUNDS TO THREE HYPOTHETICAL LOCALITIES UNDER THE PRESENT FORMULA AND THREE ALTERNATIVES

Locality	Present Formula		Population X Tax Effort		Population X ^{a/} Relative Income		Population ² X Tax Effort X Relative Income	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
A	\$521,000	52.1	\$577,000	57.7	\$451,147 (432,000)	45.1 (43.2)	\$642,000	64.2
B	340,000	34.0	367,000	36.7	367,603 (362,000)	36.8 (35.2)	315,000	31.5
C	139,000	13.9	77,000	7.7	181,250 (216,000)	18.1 (21.6)	43,000	4.3

Note: The factors used to allocate the \$1 million in general revenue sharing to the three hypothetical localities are:

Locality	Population	Adjusted Taxes	Personal Income	Per Capita Income	Tax Effort	Relative Income
A	20,000	\$1,500,000	\$ 60,000,000	\$3,000	\$25.00	.875
B	15,000	750,000	37,500,000	2,500	20.00	.952
C	<u>5,000</u>	<u>100,000</u>	<u>7,500,000</u>	<u>1,500</u>	<u>13.30</u>	<u>1.750</u>
State	40,000	\$2,350,000	\$105,000,000	\$2,625	\$22.38	1.000

^{a/} No locality is permitted to receive more than 145 percent, nor less than 20 percent of the per capita allocation to localities. In this example, the per capita amount is \$25, 145 percent of it is \$36.25, and 20 percent is \$5.00. This formula would provide locality A with \$432,000, or \$21.60 per capita, and locality B with \$362,000, \$24.13 per capita. Locality C would receive \$216,000, or \$43.20 per capita and as a result would be constrained to 5,000 x \$36.25, or \$181,250. The difference would be located between Localities A and B based on their relative shares.

per capita allocation to localities. Using population squared and the other two factors would raise by approximately one-fifth the funds distributed to the relatively populous locality A and would cut by about three-fourths the monies received by locality C with its smaller population. From these hypothetical examples, we can make the following observations for Virginia:

1. To shift revenue sharing funds to the central cities and suburban counties, which among Virginia localities have the larger populations and make a greater tax effort, would involve a formula placing greater emphasis on those two factors.
2. To shift the funds to the rural counties with their lower per capita incomes would mean giving greater weight to the relative income factor.
3. Any attempts to over- or underemphasize a particular factor could place specific localities against the maximum or minimum per capita constraints. The result could then be distributing the funds to localities not originally intended to receive them.^{1/}

Special Revenue Sharing

Because of the complexity of categorical grants and the restrictions placed on state and local fiscal planning by them, the Nixon administration proposed in its 1973-74 budget a special revenue sharing program. It would convert about 70 categorical aid programs into four broad-purpose grants to state and local governments in the areas of education, urban community development, law enforcement, and manpower development. These block grants would be in addition to general revenue sharing. They would contain no requirements for matching programs and would be distributed on the basis of

^{1/} For Virginia localities in 1972, the minimum per capita allocation payment, or 20 percent of the per capita to localities, was \$2.97, and the maximum, 145 percent of the allocation, was \$21.44. A number of central cities, such as Norfolk, Portsmouth, and Alexandria, were at the maximum, and several counties, such as Bedford and Botetourt, were at the minimum.

different criteria for each program area. The states and their localities would then be able to meet the demand for public services in these areas as they wished.

Education revenue sharing would provide \$2.8 billion to state and local governments in 1973-74 and would consolidate 30 categorical grant programs into five major areas, elementary and secondary education, federal education impact aid for students whose parents live and work on federal property, education for the handicapped, vocational and adult education, and school programs. Among the programs to be terminated will be most of those under the Elementary and Secondary Education Act of 1965. Urban community development revenue sharing would become effective in 1974-75 with funding of \$2.3 billion and would substitute for such programs as urban renewal, model cities, and open space grants. Special revenue sharing for law enforcement would begin in fiscal 1974 and would combine action grants, planning grants, correction grants, technical assistance, and manpower development funds totaling \$800 million. Manpower revenue sharing would be implemented under existing law beginning in 1973-74 whereas the others would require Congressional action. It would involve \$1.3 billion in that fiscal year and include programs like the local section of the Neighborhood Youth Corps, the Concentrated Employment Program, and the Public Service Careers program.^{1/}

^{1/} Office of Management and Budget, The Budget of the United States Government, Fiscal Year 1974, (Washington: Government Printing Office, 1973); Office of Management and Budget, Special Analyses, Budget of the United States Government, Fiscal Year 1974, (Washington: Government Printing Office, 1973).

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. The use of 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 1972-74 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 and employment security. 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.^{1/} Projections of general fund expenditures for each of the next three bienniums for programs whose scope (breadth) and quality (depth) remain unchanged are made first. These are designated as baseline projections. In the second section, the total baseline projection of general fund expenditures is compared for each of the bienniums to the estimate of total general fund revenues that assumes no changes in the law. The comparison illustrates any future baseline surplus or deficit or "gap." Legislated changes in specific programs that 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 potential for general obligation borrowing.

All expenditure projections are estimates that are solely the work of the staff and are separate from the administrative budget. The cooperating state agencies are not responsible for the projections, and 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 as listed in the 1972-74 budget.

^{1/} Explanations of specific concepts and methodologies follow in the appropriate sections.

The projections are as valid 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 1974-76 projections are likely to be closer to the mark than the 1978-80 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 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 variation in expenditures required to maintain a constant level of public services per eligible recipient at constant prices. Projections of price trends, 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 anticipated 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 assumed in the scope and quality of services unless already written into law.

A simple example illustrates how the methodology works. Assume that in

^{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.

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:

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

Application of the Methodology

Programs with operating expenses financed out of the general fund for fiscal year 1973-74 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 law (in effect, a change in scope and quality made in the past). The programs, 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 1973-74 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 10, 1972 and the Supplemental Appropriations Act approved March 20, 1973, 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, 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 membership from fiscal year 1973-74 to fiscal year 1979-80 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 1973-74 to fiscal year 1979-80 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 1973-74 to fiscal year 1979-80 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 in Chapter III.

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.

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

<u>Category</u>	<u>Projection Base</u> (1973-74 Appropriations)	<u>Population Whose Projected Annual</u> <u>Rates of Increase are the Basis for</u> <u>the Population-Workload Ratio</u>	<u>Price Index Whose Projected</u> <u>Annual Rates of Increase are the</u> <u>Basis for the Price Ratio</u>
Elementary-secondary education			
Basic school aid fund	\$312,751,105	Average daily membership	State and local impl' it price deflator
Shared revenue (sales and use tax)	104,500,000	One-third of projected sales and use tax revenue	
Other	118,834,680	Enrollment	State and local implicit price deflator
Subtotal	\$536,085,785		
Higher education			
Four-year institutions	\$158,920,633	Full-time equivalent enrollment	State and local implicit price deflator
Community colleges ^{a/}	41,189,690	Full-time equivalent enrollment	State and local implicit price deflator
Other	2,526,830	Constant percentage of the other 1973-74 appropriations	
Subtotal	\$202,637,175		
Other education and cultural	\$ 3,860,990	Total population	State and local implicit price deflator
Mental health	\$ 60,126,483	Program caseload	Medical services portion of the CPI
Public health	\$ 30,819,513	Total population ^{b/}	Medical services portion of the CPI
Medicaid	\$ 63,178,543	Program caseload	Medical services portion of the CPI
Public welfare			
Old age assistance	\$ 2,570,000 (Federalized) ^{c/}	Program recipients	CPI and medical services portion of the CPI
Aid to families with dependent children	41,978,600	Program recipients	CPI
Aid to the permanently and totally disabled	3,244,300 (Federalized) ^{c/}	Program recipients	CPI and medical services portion of the CPI
Aid to the blind	332,400 (Federalized) ^{c/}	Program recipients	CPI
Three other major programs (General Relief, Foster Care for Children, and Hospitalization of the Indigent)	12,862,400	Program recipients	CPI and medical services portion of the CPI
Other (particularly administration)	14,715,140	Total population and relevant program recipients	State and local implicit price deflator, CPI and medical services portion of the CPI
Subtotal	\$ 75,702,840 (69,556,140) ^{d/}		
Vocational rehabilitation			
Administered by the Department of Vocational Rehabilitation	\$ 3,213,850 ^{e/}	Total population	State and local implicit price deflator
Administered by the Commission for the Visually Handicapped	340,370	Program caseload	State and local implicit price deflator
Subtotal	\$ 3,554,220		
Administration of justice	\$ 80,650,375	Total population	State and local implicit price deflator
Resource and economic development	\$ 29,944,783	Total population	State and local implicit price deflator
General administration	\$ 30,548,630	Total population	State and local implicit price deflator
Legislative	\$ 3,769,990	Total population	State and local implicit price deflator
Transportation	\$ 4,278,950	Total population	State and local implicit price deflator
Unallocated by function			
Employee benefits	\$ 33,438,085	Total population	State and local implicit price deflator
State aid to localities - shared revenues	17,100,000	Projected in Chapter III	
Debt service	8,752,200	Projected by the Department of the Treasury	
Other	25,670,985	Total population	State and local implicit price deflator
Subtotal	\$4,961,270		
Total general fund operating expenses	\$1,210,119,375		

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

a/ Includes Richard Bland College, the only two-year branch extant.

b/ 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.

c/ The three federalized public welfare programs are shown to provide an accurate statement of 1973-74 general fund operating outlays. However, as of January 1, 1974, they will no longer be a factor in general fund appropriations. Therefore, they do not enter into the projections.

d/ This figure represents the total projection base for public welfare and is equal to the sum of the non-federalized programs.

e/ 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.

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 because 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 1962-64 to the 1972-74 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, 1966, grew rapidly in nearly all functional categories. The primary reasons were significant program changes which expanded the scope and quality of the services provided by the state. Therefore, in most cases the actual appropriations display a more rapid rate of growth than the projected expenditure

The programs or agencies placed under each functional category are provided. The annual rate of change for specific population-workloads, provided by the relevant agencies, are also given. Table 2.1 provides the data for categories with population-workload ratios based on the projected annual rate of change for total population. The projected price index changes developed by the staff appear below in Table 4.2.

TABLE 4.2--PROJECTED ANNUAL RATE OF CHANGE FOR SELECTED PRICE INDEXES

Fiscal Year	Annual Rate of Change (Percent)			
	GNP Implicit Price Deflator	Implicit Price Deflator for State and Local Govt. Purchases of Goods and Services	Consumer Price Index	Medical Services Portion of the Consumer Price Index
1974-75	+3.2	+5.4	+2.8	+5.3
1975-76	+3.0	+5.0	+2.6	+5.0
1976-77	+3.0	+5.0	+2.6	+5.0
1977-78	+3.0	+5.0	+2.6	+5.0
1978-79	+3.0	+5.0	+2.6	+5.0
1979-80	+3.0	+5.0	+2.6	+5.0

Source: Appendix Table A.7

Elementary-Secondary Education

TABLE 4.3--ELEMENTARY-SECONDARY EDUCATION, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 280,645,293	\$ ...	...
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
1972-74	1,004,448,335	+179,055,925	+21.7
Projected expenditures			
1974-76	1,163,100,000	+158,651,665	+15.8
1976-78	1,285,600,000	+122,500,000	+10.5
1978-80	1,423,900,000	+138,300,000	+10.8

Programs or agencies in the functional category include the Virginia Advisory Council on Educational T. V., Virginia School for the Deaf and Blind, the Virginia School at Hampton and the Department of Education.

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 percent 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

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1972-74	\$580,587,105 ^{a/}	\$ ...	...
Projected expenditures ^{b/}			
1974-76	666,300,000	+85,712,895	+14.8
1976-78	722,700,000	+56,400,000	+ 8.5
1978-80	784,500,000	+61,800,000	+ 8.6

^{a/} Includes \$24.7 million supplement appropriated by the 1973 session of the General Assembly.

^{b/} We have had to make several specific assumptions to project appropriations for the Basic School Aid Fund (which is subject to major revision for the 1974-76 biennium):

1. Although the distribution formula will change we do not expect total funds allotted in the form of general state aid to vary significantly from the projected figures.
2. Formerly, the Basic School Aid Fund was designed to allow for student-teacher ratios of 30:1 at the elementary level and 23:1 at the secondary level. Though this specification is no longer expected to be part of the formula we assume that the fiscal burden implied by the ratios will not change significantly.
3. The relationship between average daily membership and enrollment will remain constant.

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			
1972-74	\$199,500,000	\$ ...	...
Projected expenditures			
1974-76	243,600,000	+44,100,000	+22.1
1976-78	288,400,000	+44,800,000	+18.4
1978-80	341,400,000	+53,000,000	+18.4

After 1973-74 enrollment and average daily membership are expected to decrease slightly.^{1/} The primary reason for the decline is the drop in the number of births that occurred in the second half of the 1960's. It is estimated that total enrollment in 1973-74 will be approximately 1,113,500.^{2/} The projected annual rates of change for enrollment and average daily membership are negative, averaging about -0.3 percent.

Higher Education

TABLE 4.4--HIGHER EDUCATION, ACTUAL APPROPRIATIONS
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

		<u>Change from Preceding Biennium</u>	
<u>Biennium</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 69,749,766	\$ ...	...
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	279,746,730	+76,852,550	+37.9
1972-74	384,396,580	+104,649,850	+37.4
Projected expenditures			
1974-76	474,500,000	+90,103,420	+23.4
1976-78	560,700,000	+86,200,000	+18.2
1978-80	642,700,000	+82,000,000	+14.6

Programs or agencies in functional category include Virginia's four-year colleges and universities, the 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 scholar-

^{1/} Average daily membership and enrollment are expected to increase in 1973-74 over 1972-73 due to the significant expansion of kindergarten programs. The full impact of the change is not known at this time.

^{2/} Allows for 40.6 percent increase in kindergarten enrollment. This estimate may prove to be conservative.

ships, Norfolk Area Medical Center Authority, 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 three bienniums.

The projected expenditures for four-year institutions 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			
1972-74	\$304,338,950	\$ ...	...
Projected expenditures			
1974-76	364,800,000	+60,461,050	+19.9
1976-78	420,600,000	+55,800,000	+15.3
1978-80	481,300,000	+60,700,000	+14.4

2. Community Colleges ^{a/}			
<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1972-74	\$ 75,905,170	\$ ...	...
Projected expenditures			
1974-76	103,900,000	+27,994,830	+36.9
1976-78	133,200,000	+29,300,000	+28.2
1978-80	153,300,000	+20,100,000	+15.1

^{a/} Includes Richard Bland College, the only remaining two-year branch college in Virginia.

The full-time equivalent enrollment expected in fiscal year 1973-74 is 86,607 for senior institutions and 38,657 for community colleges. The

projected annual rates of increase of enrollment in four-year institutions and community colleges are as follows:

<u>Percent Change from Previous Year</u>		
<u>Fiscal Year</u>	<u>Four-Year Institutions</u>	<u>Community Colleges</u>
1974-75	+6.2	+10.2
1975-76	0.0	+11.4
1976-77	+3.7	++7.6
1977-78	+1.5	++5.1
1978-79	+2.8	+1.8
1979-80	+0.5	+0.2

Enrollment projections are based upon the latest preliminary information available from the State Council of Higher Education as of the time of this writing. These figures make the assumptions that after 1975 the rate of college attendance will rise, but at a decreasing rate; that tuition, fees, and financial aid to students will not undergo a marked change; and that Virginia's secondary schools will not reach national parity in holding power before early 1980's. If these restrictions are overcome, then enrollments will run slightly ahead of the projected figures. This would also be true if a greater than anticipated number of students should choose to attend public rather than private institutions.

Other Education and Cultural

TABLE 4.5--OTHER EDUCATION AND CULTURAL, ACTUAL
APPROPRIATIONS, 1962-64 TO 1972-74,
AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

THE PROPOSED APPROPRIATIONS, 1974-75 TO 1978-79			
<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$2,240,020	\$	...
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	5,652,590	+1,062,400	+23.1
1972-74	7,657,700	+2,005,110	+35.5
Projected expenditures			
1974-76	8,500,000	+842,300	+11.0
1976-78	9,700,000	+1,200,000	+14.1
1978-80	11,000,000	+1,300,000	+13.4

Programs or agencies in the functional category include the Virginia State Library, the Virginia Museum of Fine Arts, the Commission on Arts and Humanities, and the Science Museum of Virginia.

Mental Health

TABLE 4.6.--MENTAL HEALTH, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$46,721,835	\$ ...	...
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
1972-74	117,749,150	+6,900,220	+6.2
Projected expenditures			
1974-76	114,700,000	-3,049,150	-2.6
1976-78	110,600,000	-4,100,000	-3.6
1978-80	114,000,000	+3,400,000	+3.1

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, Lynchburg Training School and Hospital, the Northern Virginia Training Center for the Mentally Retarded, Catawba Hospital, and the Virginia Developmental Disabilities Planning and Advisory Council.

The declines in the 1974-76 and 1976-78 biennia and the small increase in the 1978-80 projections reflect efforts of the Department of Mental Hygiene and Hospitals to reduce the population level, thereby increasing the employee/patient ratio to a level which will earn the approval of the National Joint Commission on Accreditation of Hospitals. Therefore, the projected outlays do not represent a cutback in the program; instead they set the stage for a significant increase in scope and quality. For further clarification see the discussion of mental health in the scope and quality section.

The total population projected by the Department of Mental Hygiene and Hospitals for 1973-74 is approximately 12,000 and is estimated to decline through 1979-80 at approximately 4 percent per year.

Public Health

TABLE 4.7--PUBLIC HEALTH, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 to 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding</u>	<u>Biennium</u>
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$21,860,105	\$ ...	...
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
1972-74	59,973,640	+4,770,310	+8.6
Projected expenditures			
1974-76	68,000,000	+8,026,360	+13.4
1976-78	77,300,000	+9,300,000	+13.7
1978-80	87,800,000	+10,500,000	+13.6

Programs or agencies in the functional category include the Department of Health, the State Board of Health (except Medicaid), and the Blue Ridge 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,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ ...	\$ ...	...
1964-66	...	...	...
1966-68	...	...	...
1968-70	20,226,205	+20,226,205	...
1970-72	57,504,670	+37,278,465	+184.3
1972-74	110,890,685	+53,386,015	+92.8
Projected expenditures			
1974-76	155,300,000	+44,409,315	+40.0
1976-78	189,500,000	+34,200,000	+22.0
1978-80	227,400,000	+37,900,000	+20.0

Medicaid, a relatively new program, reflects high but rapidly decreasing historical and projected growth rates.

The over 65 caseload is expected to increase by approximately 8 percent per year from its 1973-74 estimate of 61,000 through fiscal year 1975-76. Thereafter it is projected to average 2.5 percent per year. The under 65 caseload, which is anticipated to be 279,100 in 1973-74, is expected to grow by 10 percent in 1974-75, and 8 percent the following year. For the balance of the decade the under 65 caseload should increase by approximately 5 percent per year. The total cost per recipient, including all funds, for 1973-74 is estimated at \$750 for the 65 and older group, and \$330 for recipients under 65 years of age.

Public Welfare

TABLE 4.9.--PUBLIC WELFARE, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 21,648,965	\$ ...	...
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	78,211,125	+29,846,365	+61.7
1972-74	142,016,990 ^{a/}	+63,805,865	+81.6
Projected expenditures			
1974-76	153,700,000	+11,683,010	+8.2
1976-78	166,500,000	+12,800,000	+8.3
1978-80	185,300,000	+18,800,000	+11.3

^{a/} These are the appropriations given in the Appropriations Act of April 10, 1972 as amended by the 1973 session of the General Assembly. They are not adjusted for changes used in making the projections (see Table 4.1, note ^{c/}).

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, Confederate pensions, the commodity distribution program under the Board of Agriculture and Commerce, the Home for Needy Confederate Women, and the Virginia Council for the Deaf.

Public welfare outlays, which have experienced extremely rapid growth since the 1968-70 biennium, are expected to grow at a relatively low rate during the remainder of the projection period. A portion of the immediate slowdown reflected in the 1974-76 biennium is the result of complete federal takeover on January 1, 1974, of three major programs and their administrative burden, old age assistance, aid to the permanently and totally disabled--both of which are administered by the Department of Welfare and Institutions--and aid to the blind, administered by the Virginia Commission for the Visually Handicapped. The number of recipients is projected to increase for each of the major nonfederalized programs as follows:

<u>Fiscal Year</u>	<u>Percent Change</u>			
	<u>General Relief</u>	<u>Foster Care</u>	<u>Aid to Families with Dependent Children^{a/}</u>	<u>Hosp. of the Indigent</u>
1974-75	+1.7	+1.5	+8.8	+1.8
1975-76	+1.7	+1.5	+1.0	+1.8
1976-77	+1.7	+1.5	0.0	+1.8
1977-78	+1.7	+1.5	+1.7	+1.8
1978-79	+1.7	+1.5	+3.4	+1.8
1979-80	+1.7	+1.5	+1.7	+1.8

a/ Partially federally funded.

By far the largest remaining public welfare program in terms of general fund expenditures is Aid to Families with Dependent Children. At a level of \$74,604,300 this program represents 52.5 percent of the entire 1972-74 public welfare outlay. The specific AFDC projection is presented in the following table:

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 1972-74	\$74,604,300	\$ ...	...
Projected expenditures			
1974-76	95,700,000	+21,095,700	+28.3
1976-78	102,100,000	+6,400,000	+6.7
1978-80	113,000,000	+10,900,000	+10.7

Vocational Rehabilitation

TABLE 4.10.--VOCATIONAL REHABILITATION, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 129,245	\$ ...	...
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
1972-74	6,872,380	+1,084,745	+18.7
Projected expenditures			
1974-76	8,000,000	+1,127,620	+16.4
1976-78	9,300,000	+1,300,000	+16.3
1978-80	10,900,000	+1,600,000	+17.2

Programs or agencies in the functional category include the Department of Vocational Rehabilitation, the Virginia Commission for the Visually Handicapped, and the Virginia Rehabilitation Center for the Blind. 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 for vocational

rehabilitation made by the Commission for Visually Handicapped came under this category prior to the 1966-68 biennium. Therefore, 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, 1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 36,545,785	\$	...
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	120,155,455	+29,611,780	+32.7
1972-74	157,052,450	+36,896,995	+30.7
Projected expenditures			
1974-76	178,200,000	+21,147,550	+13.5
1976-78	202,400,000	+24,200,000	+13.6
1978-80	229,900,000	+27,500,000	+13.6

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 Judicial Council and judicial conferences, the Department of Law (for the Attorney General, law enforcement administration, judicial retirement system, 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), the Division of Justice and Crime Prevention, and the Public Defender Commission.

Beginning in the 1966-68 biennium, the operating expenses of the Department of State Police were paid from the general fund rather than from special funds. This change represented an expansion of general fund activities.

Resource and Economic Development

TABLE 4.12.--RESOURCE AND ECONOMIC DEVELOPMENT, ACTUAL APPROPRIATIONS, 1962-64 to 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ ...	\$ ...	...
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	45,890,605	+7,423,395	+19.3
1972-74	57,659,095	+11,768,490	+25.6
Projected expenditures			
1974-76	66,200,000	+8,540,905	+14.8
1976-78	75,200,000	+9,000,000	+13.6
1978-80	85,400,000	+10,200,000	+13.6

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 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,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80**

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 18,723,525	\$ ...	...
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	49,157,080	+10,297,715	+26.5
1972-74	59,844,995	+10,687,915	+21.7
Projected expenditures			
1974-76	67,500,000	+7,655,005	+12.8
1976-78	76,700,000	+9,200,000	+13.6
1978-80	87,100,000	+10,400,000	+13.6

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 Depart-

ment of Purchases and Supply, Central Garage, the Governor's Council on Narcotics and Drug Abuse Control, Virginia Commission for Children and Youth, and the Commission on the Status of Women.

Legislative

TABLE 4.14.--LEGISLATIVE, ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$2,365,180	\$ ...	...
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
1972-74	7,142,220	+1,793,370	+33.5
Projected expenditures			
1974-76	8,300,000	+1,157,780	+16.2
1976-78	9,500,000	+1,200,000	+14.5
1978-80	10,700,000	+1,200,000	+12.6

Programs or agencies in the functional category include the General Assembly of Virginia, 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,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$2,821,940	\$	...
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
1972-74	8,578,770	+432,155	+5.3
Projected expenditures			
1974-76	9,500,000	+921,230	+10.7
1976-78	10,700,000	+1,200,000	+12.6
1978-80	12,200,000	+1,500,000	+14.0

Programs or agencies in the functional category include the Washington Metropolitan Area Transit Commission, the Virginia Airports Authority, the Virginia Port Authority, and the Northern Virginia Transportation Commission.

Employee Benefits (Unallocated by Function)

TABLE 4.16.--EMPLOYEE BENEFITS (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,
1962-64 to 1972-74 AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$11,588,835	\$	...
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
1972-74	62,211,655	+29,368,275	+89.4
Projected expenditures			
1974-76	73,900,000	+11,688,345	+18.8
1976-78	83,900,000	+10,000,000	+13.5
1978-80	95,300,000	+11,400,000	+13.6

This category includes the state share of payments for supplemental retirement, social security, group life insurance for state employees and local special employees, employee hospital-medical insurance, and unemployment compensation benefits.

The large increase in the 1972-74 biennium was due primarily to base and rate changes in social security, significantly increasing the level of the state share, and also provision of the Blue Cross-Blue Shield health plan for employees.

State Aid to Localities - Shared Revenues (Unallocated by Function)

TABLE 4.17.--STATE AID TO LOCALITIES - SHARED
REVENUES (UNALLOCATED BY FUNCTION), ACTUAL APPROPRIATIONS,
1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ ...	\$ ...	...
1964-66	...	...	...
1966-68	25,140,000	+25,140,000	...
1968-70	25,890,000	+750,000	+3.0
1970-72	28,476,000	+2,586,000	+10.0
1972-74	33,600,000	+5,124,000	+18.0
Projected expenditures			
1974-76	37,300,000	+3,700,000	+11.0
1976-78	40,500,000	+3,200,000	+8.6
1978-80	43,200,000	+2,700,000	+6.7

State aid to localities in the form of shared revenues comes from A.B.C. profits and the wine and spirits tax. Funds 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, and they are listed under the Department of Accounts in the Appropriations Act. The projected expenditures are the estimated distributions for each biennium.

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, 1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 to 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 1,730,000	\$ ...	...
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
1972-74	17,794,400	-922,200	-4.9
Projected expenditures			
1974-76	16,700,000	-1,094,400	-6.2
1976-78	15,600,000	-1,100,000	-6.6
1978-80	14,600,000	-1,000,000	-6.4

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, 1962-64 TO 1972-74, AND PROJECTED EXPENDITURES, 1974-76 TO 1978-80

<u>Biennium</u>	<u>Amount</u>	<u>Change from Preceding Biennium</u>	
		<u>Amount</u>	<u>Percent</u>
Actual appropriations			
1962-64	\$ 2,439,395	\$ ...	...
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
1972-74	33,218,415	+7,710,245	+30.2
Projected expenditures			
1974-76	56,700,000	+23,481,585	+70.7
1976-78	64,400,000	+7,700,000	+13.6
1978-80	73,200,000	+8,800,000	+13.7

The programs or agencies in the category include the Department of Military Affairs, the Civil Air Patrol, central appropriations to the Governor (for adjusting base rates of pay and participation in programs of Intergovernmental Personnel Act), local service charges and the Division of Consolidated Laboratory Services.

The large increase for the 1974-76 biennium is partially due to the addition of approximately \$15.5 million added to the original 1973-74 appropriations by the 1973 session of the General Assembly. Of this increase nearly \$14 million was for the adjustment of base rates of pay and overtime.

As witnessed by the percent change column in Table 4.19 the programs and agencies in this grouping are subject to widely varying appropriations from biennium to biennium. For this reason these particular projections should be considered less definitive than those of the other functional categories.

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, public welfare, and medicaid are expected to account for approximately three-fourths of the operating expenses.

For elementary-secondary education, enrollment is expected to decline slightly throughout the entire projection period. However, even though the number of students will decrease there will be a more than offsetting increase in cost due to the effect of inflation. For this reason total outlays may be expected to rise. 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 increase more gradually than they have in the immediate past. Caseloads are expected to maintain a low growth rate and the federal government will assume the program and administrative burden of old age assistance, aid to the permanently and totally disabled, and aid to the blind.

Declining caseload projections by the Department of Mental Hygiene and Hospitals are responsible for the decreased expenditure projections for the 1974-76 and 1976-78 bienniums and the small increase in 1978-80 for mental health. In order to achieve the low caseload figure community facilities or other non-hospital capacity must be developed to handle those patients who are now in mental hospitals but who do not actually require hospitalization. Consult the mental health passage under scope and quality for further comment.

The large increase in the 1974-76 "other" appropriations are chiefly due to the effect of the nearly \$14 million increase for the adjustment of base rates of pay and overtime as authorized by the 1973 General Assembly session.

TABLE 4.20.--GENERAL FUND OPERATING EXPENSES: ACTUAL APPROPRIATIONS AND PROJECTED EXPENDITURES, 1962-64 TO 1978-80

Operating Expenses	Actual Appropriations						Projected Expenditures		
	1962-64	1964-66	1966-68	1968-70	1970-72	1972-74	1974-76	1976-78	1978-80
EDUCATION									
Elementary-Secondary Education	\$280,645,293	\$327,200,480	\$519,817,355	\$686,913,870	\$825,392,410	\$1,004,448,335	\$1,163,100,000	\$1,285,600,000	\$1,423,900,000
Higher Education	69,749,766	80,395,135	131,337,775	202,894,180	279,746,730	384,396,580	474,500,000	560,700,000	642,700,000
Other Education and Cultural	2,240,020	2,372,890	3,333,370	4,590,190	5,652,590	7,657,700	8,500,000	9,700,000	11,000,000
HEALTH AND WELFARE									
Mental Health	46,721,835	50,674,850	66,116,860	84,729,935	110,848,930	117,749,150	114,700,000	110,600,000	114,000,000
Public Health	21,860,105	23,611,645	32,132,590	40,353,040	55,203,330	59,973,640	68,000,000	77,300,000	87,800,000
Medicaid	...	...	...	20,226,205	57,504,670	110,890,685	155,300,000	189,500,000	227,400,000
Public Welfare	21,648,965	27,400,060	33,013,545	48,364,760	78,211,125	142,016,990	153,700,000	166,500,000	185,300,000
Vocational Rehabilitation	129,245	207,405	2,752,160	4,097,525	5,787,635	6,872,380	8,000,000	9,300,000	10,900,000
ADMINISTRATION OF JUSTICE	36,545,785	39,225,935	67,879,485	90,543,675	120,155,455	157,052,450	178,200,000	202,400,000	229,900,000
RESOURCE AND ECONOMIC DEVELOPMENT	19,716,720	23,259,730	31,479,679	38,467,210	45,890,605	57,659,095	66,200,000	75,200,000	85,400,000
GENERAL ADMINISTRATION AND LEGISLATIVE									
General Administration	18,723,525	20,702,400	29,589,135	38,859,365	49,157,080	59,844,995	67,500,000	76,700,000	87,100,000
Legislative	2,365,180	2,432,835	2,984,955	3,702,010	5,348,850	7,142,220	8,300,000	9,500,000	10,700,000
TRANSPORTATION	2,821,940	2,863,510	4,156,010	4,244,620	8,146,615	8,578,770	9,500,000	10,700,000	12,200,000
UNALLOCATED BY FUNCTION									
Employee Benefits	11,588,835	12,701,385	23,443,890	28,002,255	32,843,380	62,211,655	73,900,000	83,900,000	95,300,000
State Aid to Localities--Shared Revenues	...	...	25,140,000	25,890,000	28,476,000	33,600,000	37,300,000	40,500,000	43,200,000
Debt Service	1,730,000	225,000	130,000	5,000	18,716,600	17,794,400	16,700,000	15,600,000	14,600,000
Other	2,439,395	8,962,500	4,554,885	15,948,320	25,508,170	33,218,415	56,700,000	64,400,000	73,200,000
TOTAL OPERATING EXPENSES	\$538,926,609	\$622,235,760	\$977,851,694	\$1,337,832,160	\$1,752,590,175	\$2,271,107,460	\$2,660,100,000	\$2,988,100,000	\$3,354,600,000

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.

With revenues expected to rise faster than expenditures, a positive gap or surplus is projected for baseline outlays in each of the next three bienniums. Two reasons for the anticipated surpluses on the revenue side are federal general revenue sharing and the recent increases in the individual and the corporate income tax rates. For example, in 1974-76 these changes are expected to result in about \$210 million in revenue.

On the expenditure side it is worth noting that total elementary-secondary enrollment is expected to peak in 1973-74 and thereafter to decline for each year of the entire projection period. Since this category accounts for nearly 45 percent of all 1972-74 general fund operating expenditures a declining rather than an increasing workload is highly significant.

Uncertainties in federal funding could have a significant impact on the actual gap outcome. Please consult qualification numbers five and six following Table 4.21 for clarification.

TABLE 4.21.--PROJECTIONS OF GENERAL FUND GAP, 1974-76 to 1978-80
(Millions of Dollars)

<u>Biennium</u>	<u>Revenues</u>	<u>Operating Expenditures</u>	<u>Gap (Revenues Minus Expenditures)</u>
1974-76	\$3,092.9	\$2,660.1	\$ +432.8
1976-78	3,716.7	2,988.1	+728.6
1978-80	4,580.2	3,354.6	+1,225.6

Sources: Tables 3.2 and 4.20, pp. 201, 02.

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 3 percent increase in projected 1974-76 expenditures and a 3 percent reduction in revenues would change the gap forecast to \$+260.2 million--a 40 percent reduction.
2. As a general rule, short-run forecasts are more accurate than long-term forecasts. For this reason, the results for 1974-76 are probably closer to the mark than those for 1978-80.
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. Realization of the reduced caseloads desired in Virginia mental hospitals will require the establishment of community facilities or other form of patient care capacity. If this capacity is not forthcoming then mental hospital caseloads may be expected to be larger than projected resulting in a higher baseline outlay.
5. Allowance has been made for two important changes in federal funding: revenue sharing and takeover of program and administrative costs for three major public welfare programs. These factors combine to produce an expansionary effect on the surplus. However, at the time of this writing no information is available as to the size and nature of federal cutbacks which appear to be in the making. When and if they do come, the extent to which the state wishes to assume the burden will have a direct dollar for dollar reducing effect on the projected surplus.
6. Federal revenue sharing is scheduled to expire December 31, 1976. Therefore, it has not been included in the revenue projections beyond that date. Should it be extended, revenues in the last two projected bienniums would be larger than stated.

Scope and Quality

Recent Changes in Scope and Quality

Table 4.22 presents quantitative estimates of changes in scope and quality for the period 1967-68 to 1971-72.^{1/} The formula used to make the estimates is:

$$\frac{1971-72 \text{ Appropriations}}{1967-68 \text{ Appropriations}} \times \frac{\text{Population-Workload Ratio}}{\text{Price Ratio}} = \text{Scope and Quality Ratio}^{2/}$$

Because annual outlays by functional category are not presently available, the 1967-68 and 1971-72 outlays for each category are estimated by splitting the biennial appropriations in half. The only exception is public welfare outlays. For this activity figures were taken from the relevant Appropriations Acts 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 1967-68 and 1971-72, total population grew by an estimated 6.6 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.8 are adjusted to a fiscal year basis. By dividing the 1971-72 appropriations by the 1967-68 appropriations times the baseline growth factor, a residual ratio, which is the estimated change in scope and quality, is found.

^{1/} Longer alternative base periods were considered, but were abandoned as they offered no detectable advantages in return for two important shortcomings. The vocational rehabilitation function did not attain its full organizational level until 1966-68 biennium when the Department of Vocational Rehabilitation was formed. Higher education underwent a fundamental change with the development in recent years of the community college system. Productivity increases under the new system were so great that longer base periods tended to yield negative scope and quality measures which lend themselves to misinterpretation.

^{2/} 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.

The scope and quality methodology is the best alternative which is adaptable to our purposes. However, its results will be misleading if three important reservations are not kept in mind.

First, since the methodology is only able to measure changes in monetary terms, non-monetary improvements such as changes in productivity are overlooked or may even be positively distorted. For example, if a specific program manages over time to serve a vastly larger number of people at a lower cost per recipient, the formula will reflect this change as a decrease in scope and quality.^{1/}

Second, measuring scope and quality changes with respect to general fund expenditures yields an insight into growth from the viewpoint of state government, but not necessarily from that of anyone else. For instance, in programs which are partially federally funded, shifting a portion of the federal burden to the state general fund will increase the scope and quality measure from the state's point of view although the recipient's total amount remains unchanged. Since it is the intent of this work to analyze only general fund expenditures, the measurement is valid but results should not be misapplied.

Third, the residual accounts for all change not due to population-workload and price growth. For example, new fields of study at colleges and universities mean more enrollment, but 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

^{1/} For a hypothetical example, refer to the formula and assume that the expenditures in year one are unchanged in year two and that prices remain constant. If the program has managed to serve more people in year two than it did in year one, then the denominator of the fraction will be larger than the numerator. This situation could prevail, for example, in education where given facilities and personnel might serve a larger (or for the opposite result a smaller) number of students with very little change in cost. This type of productivity change has a perverse impact on scope and quality ratios.

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.

The reservations cited above do not invalidate scope and quality judgments, but they do demonstrate the necessity for considering specific scope and quality ratios as "soft" approximations rather than as "hard" and precisely comparable figures.

For summary Table 4.22 below the estimate of total scope and quality is calculated by weighting each category estimate with the ratio of the appropriations in the category to total general fund appropriations. The total scope and quality change is equal to the sum of these weighted estimates. For the table, all ratio changes are converted to percentage changes.

TABLE 4.22--ESTIMATED INCREASE IN SCOPE AND QUALITY,
FISCAL YEARS 1967-68 TO 1971-72^{a/}

<u>Functional Category</u>	<u>Percentage Increase in Scope and Quality</u>	
	<u>Total</u>	<u>Average Annual Rate</u>
Elementary-Secondary Education	17.2	4.0
Higher Education	3.2	0.8
Other Education and Cultural	24.2	5.6
Mental Health	38.5	8.5
Public Health	26.7	6.1
Public Welfare	53.4	11.3
Vocational Rehabilitation	54.1	11.4
Administration of Justice	29.4	6.6
Resource and Economic Development	7.9	1.9
General Administration	21.7	5.0
Legislative	31.3	7.0
Transportation	43.6	9.5
Employee Benefits	2.6	0.7
Other	411.2	42.4
Total	10.25	2.5

^{a/} Three functional categories are excluded: (1) Medicaid, which did not begin until the 1968-70 biennium; (2) debt service and (3) state aid to localities, which do not fit into this conceptual framework.

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.

It is difficult to estimate the magnitude of scope and quality increases for any specific program other than to feel reasonably confident that growth will continue at rates consistent with the recent past. In Table 4.22 we noted the scope and quality changes which took place between 1967-68 and 1971-72 in each functional category. For the purposes of projection each category is assumed to continue growing at its previous rate. Where specific observations are in order, they will be found under the appropriate section.

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 were increased at a 4 percent annual rate beginning fiscal year 1974-75, the additional cost would be:

<u>Biennium</u>	<u>Additional Outlays</u> <u>• (Millions)</u>
1974-76	\$ +72.5
1976-78	+193.1
1978-80	+349.4

Higher Education

<u>Biennium</u>	<u>Additional Outlays (Millions)</u>
1974-76	\$ +18.2
1976-78	+51.0
1978-80	+93.9

The 1967-68 to 1971-72 annual average scope and quality increase of .8 percent for higher education is misleading because of the first and third methodological reservations discussed earlier. During its formative period a new program often may be expected to reflect a very large increase in productivity by serving a mushrooming population. The community college system increased its population workload from 6,121 in 1967-68 to 25,729 in 1971-72, an increase of 320 percent in the number of students served over a four-year period. On the other hand, general fund appropriations for the same period went from approximately \$9.2 million to \$22.8 million or an increase of some 148 percent. Referring to the original formula, the depressing effect on scope and quality of this disproportionate population increase becomes obvious.

It is believed that as the community college system approaches its designed capacity and the population workload growth rate tapers off scope and quality ratios for higher education will rise, probably dramatically. As there is no satisfactory method available for predicting the timing or magnitude of such an anticipated change the average general fund scope and quality increase rate of 2.5 percent is utilized for higher education.

Mental Health

Between 1967-68 and 1971-72 mental health experienced an average annual increase in scope and quality of 8.5 percent. Applied to the projected base-line growth, scope and quality estimates are as follows:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +14.9
1976-78	+36.7
1978-80	+64.8

As mentioned in the baseline discussion, the Department of Mental Hygiene and Hospitals is attempting to reduce the patient/employee ratio in an effort to earn official institutional accreditation. If the Department's expectations of a reduced hospital caseload are to be realized, some patients must be moved to other facilities which are not currently part of the program. However, the nature and costs of desirable alternative care facilities are uncertain. If a vigorous program is initiated to develop additional services rapidly then the projected scope and quality outlays will be too low. The scope and quality methodology does not allow for the development of what amounts to a major new program because there is no appropriate factor in the base period with which to project a trend line.

Medicaid

The Medicaid program has not been fully operational long enough to establish a historical scope and quality trend line. However, since it is too significant an expenditure to be omitted from this section, the average annual rate of scope and quality increase for all general fund functions has been applied. It is important to note that Medicaid is not predominantly operated from the general fund. These computations assume that the general fund share will remain reasonably stable at approximately 40 percent of total program cost. Keeping these reservations in mind, the scope and quality projections are:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +6.0
1976-78	+17.2
1978-80	+33.2

Public Health

During the 1967-68 to 1971-72 period the scope and quality equation reflects an average annual increase of 6.1 percent in public health. Continuation of this growth rate will require the following additional expenditures:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +6.4
1976-68	+18.0
1978-80	+34.0

Public Welfare

Applying the 11.3 percent rate of increase for public welfare scope and quality we project:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +40.8
1976-78	+94.3
1978-80	+174.2

It is important to remember that funds for public welfare programs come in large part from non-general fund sources. Consequently, an 11.3 percent annual scope and quality increase in the total program requires not only the above general fund outlays, but also a constant ratio of special to general funds and availability of special funds in sufficient quantity to maintain the ratio.

Vocational Rehabilitation

Vocational rehabilitation scope and quality projections based on an 11.4 percent annual rate of increase are as follows:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +1.4
1976-78	+4.1
1978-80	+8.5

Administration of Justice

During the 1967-68 to 1971-72 period this function registered a 6.6 percent annual increase in scope and quality. If continued, this trend will require the baseline outlay plus:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +18.2
1976-78	+51.1
1978-80	+97.4

Employee Benefits

During the 1967-68 to 1971-72 base period the scope and quality increase for employee benefits was .7 percent per year. At this rate projections are:

<u>Biennium</u>	<u>Additional Outlays</u> <u>(Millions)</u>
1974-76	\$ +.8
1976-78	+2.1
1978-80	+3.7

The projection must be considered conservative as it is based on a period during which growth in this function is probably not typical. For example, between 1960-61 and 1969-70 the scope and quality of employee benefits increased ^{1/} at an average annual rate of 5.2 percent.

^{1/} Knapp, John L., and Associates. Fiscal Prospects and Alternatives. The Division of State Planning and Community Affairs, Richmond, Va., April, 1971, p. 210.

Other

Scope and quality increases for this category are projected at 2.5 percent per year and are as follows:

<u>Biennium</u>	<u>Additional Outlays (Millions)</u>
1974-76	\$ +2.2
1976-78	+5.8
1978-80	+10.7

The historical scope and quality growth rate of 42.4 percent per year was not used because it appeared to be unreasonably high. Most of this abnormally high growth was due to the adjusting of base rates of pay and overtime. For this reason the average rate for all functions was employed.

Additional Categories

The following functional categories by virtue of their relatively modest size or growth rates do not require individual comment. Their estimated scope and quality requirements based on recent historical experience are reflected in the table below.

TABLE 4.23.-- ADDITIONAL SCOPE AND QUALITY OUTLAYS
(Millions of Dollars)

		<u>Bienniums</u>		
	<u>Annual Rate of Scope & Quality Increase (Percent)</u>	<u>1974-76</u>	<u>1976-78</u>	<u>1978-80</u>
Resource and Economic Development	1.9	\$ +1.9	\$ +5.1	\$ +9.3
General Administration	5.0	+5.2	+14.4	+26.9
Legislative	7.0	+ .9	+2.5	+4.9
Transportation	9.5	+1.4	+4.1	+7.9
Other Education and Cultural	5.6	+ .7	+2.0	+3.9

Summary

The categories discussed above account for approximately 98 percent of general fund outlays and include all functions except debt service and state aid to localities. The only category discussed for which a specific ratio was not obtainable is medicaid. If all programs were expended as projected, the additional scope and quality outlays would change the baseline gaps as follows:

<u>Biennium</u>	<u>Baseline Gap</u>	-	<u>Additional Outlays for Scope and Quality</u>	=	<u>Scope and Quality Gap</u>
	(Millions)		(Millions)		(Millions)
1974-76	\$ +432.8		\$+191.5		\$+241.3
1976-78	+728.6		+501.5		+227.1
1978-80	+1,225.6		+922.7		+302.9

It may be desired to reduce or even eliminate scope and quality expenditures for some functions while others may be increased significantly. The table only reflects the cumulative impact which may be expected if individual functions receive appropriations according to their scope and quality ratios.

Capital Outlays

Introduction

For the next three bienniums we show requests for capital outlays from the general fund, and we project amounts actually funded.^{1/} 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^{2/}, 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 65 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 1976-78 and 1978-80 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 and then rose in 1972-74 to 30 percent (\$126.8 million of \$422.9 million). Moreover, only a small percentage

^{1/} Projections were made prior to the 1973 budget tour.

^{2/} Article X, Section 9(c) of the Constitution permits the state to secure revenue bonds with its full faith and credit subject to certain limitations.

TABLE 4.24.--PROJECTED CAPITAL OUTLAY REQUESTS FROM THE GENERAL FUND,
1974-76 TO 1978-80 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>
1974-76	\$193.5	\$75.5	\$31.2	\$27.3	\$327.5
1976-78	183.9	31.2	18.9	38.6	272.6
<u>1978-80</u>	157.4	28.0	16.0	34.5	<u>235.9</u>
1974-1980 Total Requests					\$836.0

^{a/} Roughly 75 percent of the requests are for resource and economic development.

Note: Original projections, provided by the Division of Engineering and Buildings, were adjusted for inflation by using the implicit price deflator for government buildings, excluding the military (see appendix Table A.8). The initial figures were developed prior to the spring budget tour for capital outlay requests. Therefore, the requests used here for 1974-76 are lower than the \$369.6 million requested in spring, 1973.

of those requests not funded in previous years were dropped; in other words, agencies maintained the same set of priorities until they were satisfied. We therefore assume that the \$296.1 million left over from this biennium is included in the \$327.5 million requested for the 1974-76 biennium. Also included are new agency requests and an allowance for inflation. If 40 percent of the 1974-76 requests were funded, appropriations for the remaining \$196.5 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 (\$836 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 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 the 1966-68 and 1970-72 bienniums does the ratio differ significantly from the historical average of 6.9 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	2.5	43.2
1972-74	<u>5.6</u>	<u>126.8</u>
Simple Average	6.9	\$ 65.2

^{a/} This figure includes \$81 million in general obligation bonds which funded requests made to the general fund.

If we assume that the 6.9 percent ratio of capital to recurring outlays were to hold for the next three bienniums, the capital outlays required for baseline growth would be:

<u>Biennium</u>	<u>Baseline Capital Outlays (Millions)</u>
1974-76	\$183.5
1976-78	206.2
1978-80	231.5

Most of the capital outlay requests are expected to be for higher education, mental health, public health and administration of justice.

If outlays are realized as projected in the scope and quality summary, then scope and quality capital outlays may be estimated by applying the 6.9 percent ratio. The same methodology is used as for baseline capital outlays and yields the following result:

<u>Biennium</u>	<u>Additional Scope and Quality Capital Outlays (Millions)</u>
1974-76	\$13.3
1976-78	34.6
1978-80	63.6

These projected capital outlays would change the baseline and scope and quality gaps to:

<u>Biennium</u>	<u>Baseline Gap (Millions)</u>	<u>Scope and Quality Gap (Millions)</u>	<u>Baseline Gap with Capital Outlays (Millions)</u>	<u>Scope and Quality Gap with Capital Outlays (Millions)</u>
1974-76	\$ +432.8	\$+241.3	\$+249.3	\$+44.5
1976-78	+728.6	+227.1	+522.4	-13.7
1978-80	+1,225.6	+302.9	+994.1	+7.8

In summary, baseline growth and the expansion of scope and quality would require large capital outlays from the general fund. With the increase

projected for revenues during the next three bienniums, the state's fiscal prospects appear relatively bright. Unless the estimated scope and quality and capital outlay expenditures are exceeded, we may anticipate surplus balances in the 1974-76 and 1978-80 bienniums, with a deficit in 1976-78.

Three important reservations must be kept in mind when considering the projected gaps:

1. Of primary immediate concern are the anticipated federal cut-backs. If these reductions materialize and the state elects to continue affected programs via general fund expenditures, then the projected surpluses will be reduced or transformed to deficits and the 1976-78 projected deficit will be deepened (see qualification No. 5 under Table 4.21).
2. The long range fate of federal revenue sharing is unknown. If it is continued beyond the January 1, 1976 expiration date, the anticipated surplus for 1978-80 could be widened and the 1976-78 deficit reduced or transformed to a surplus.
3. Short term projections are usually more reliable than long term projections, so the accuracy of the 1974-76 figures is probably greater than that of the 1978-80 biennium.

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 that 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 provisions of this article authorizing the contracting of debts to redeem a previous debt obligation of the Commonwealth and for certain revenue-producing capital projects, less any amount 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 4.25 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 borrowings in the next three bienniums if the General Assembly and the voters wish to use the maximum authority. Only in the 1974-76 biennium, however, could the maximum debt that could be authorized (\$208.1 million) completely substitute for general fund revenues as a method of financing projected capital outlays (\$196.8 million with \$183.5 million in baseline capital outlays and \$13.3 million in scope and quality capital outlays). In the last two bienniums, maximum debt authorizations would cover only about 30 percent of projected capital outlays. Of course, 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.

^{1/} Constitution of Virginia, Article X, Section 9(b).

TABLE 4.25.--PROJECTED MAXIMUM GENERAL OBLIGATION BORROWING PERMISSIBLE
UNDER THE CONSTITUTION, FISCAL YEARS 1973-74 TO 1977-78
(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 ^{e/}	Net Debt	
1973-74	\$ 723.9 ^{g/}	\$208.1	\$ 208.1	\$ 289.1	\$ 23.0	\$ 266.1	\$ 832.5
1975-76	988.1	284.1	76.0	365.1	45.0	320.1	1,136.3
1977-78	1,271.7	365.6	81.5	446.6	81.2	365.4	1,462.5

a/ Assumes the bonds are approved in a referendum the fiscal year following authorization by the General Assembly. Thus, borrowing authorized by the 1974 General Assembly and approved in fiscal year 1974-75 would be available for spending in the 1974-76 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.

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) and (2) when the constitution refers to sales tax 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 calculations were based on the date of authorization rather than the date of approval (and our other assumptions were not changed), then the maximum debt that could be authorized would be \$208.1 million (1973-74); \$76 million (1975-76); and \$289.6 million (1977-78). If this were the case, debt service estimates would have to be revised.

e/ Assumes a 5 percent annual amortization rate with payments beginning in the fiscal year following approval and sale of the bonds. Retirement payments made on the \$81 million issue of May, 1969 are included. For simplicity we assume that debt repayment would be made to a sinking fund. Actually, they may go directly for retirement. In either case the effect on net debt is the same. Amortization of the debt and even interest payments could begin after the fiscal year following the referendum on the bonds if their sale were delayed too long after approval; however, our assumptions do appear to be reasonable.

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 1970-71 and 1971-72.

TABLE 4.26.--DEBT SERVICE ON PERMISSIBLE GENERAL OBLIGATION BORROWING,
1974-76 TO 1978-80 BIENNIUMS^{a/}
(Millions of Dollars)

<u>Biennium</u>	<u>Interest Payments^{b/}</u>	<u>Payments To Sinking Fund^{c/}</u>	<u>Total</u>
1974-76	\$ 9.9	\$ 10.4	\$ 20.3
1976-78	21.8	24.6	46.4
1978-80	26.6	32.5	59.1

^{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 with payments beginning in the fiscal year following approval and sale of the bonds. 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 amortization rate is assumed with payments beginning in the fiscal year following approval and sale of the bonds.

Summary

Surplus balances are projected for the 1974-76 and 1978-80 bienniums while a deficit is anticipated in 1976-78. To refresh the reader's memory, the baseline gap is the amount by which projected revenue exceeds anticipated expenditures if all programs remain unchanged and allowance is made only for expected population-workload variation and price change. The scope and quality gap reflects the general fund surplus anticipated if, in addition to workload and price changes, programs are improved at approximately the same rate as has prevailed in the recent past. Capital outlay projections assume a relatively stable relationship over time between general fund capital outlays and recurring expenditures. Historical evidence suggests this to be a reasonable assumption. The baseline gap with capital outlays provides the surplus anticipated if all conditions prevail as under the baseline gap and

with the addition of capital outlays as suggested by historical experience. The scope and quality gap with capital outlays reflects surplus balances for the 1974-76 and 1978-80 biennium, and a deficit for 1976-78. Under this projection each program is adjusted not only for population-workload changes and price changes but also for additional program improvements as described under the scope and quality section. To these expenditures are added the historically implied baseline and scope and quality capital outlay requirements. General obligation borrowing would be a more than adequate source for funding the anticipated deficit in the 1976-78 biennium.

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 because 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 develops revenue and expenditure projections for local governments in Virginia through fiscal year 1979-80. The second phase presents an analysis of local government tax structure with primary emphasis on property taxes. Before we entertain these topics, however, a word of caution must be given. Projections in this chapter encompass 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 with respect to central cities. At present, it is worth noting that central cities, urban counties, and rural communities can all have different fiscal outlooks.

Historical Summary

The first part of this chapter attempts to make revenue and expenditure projections for all local governments in Virginia. Before directing our attention to the future, however, it may be helpful to point out some recent trends that have taken place in local government finance over the past few years. For purposes of review, therefore, we develop the following two exhibits.

Table 5.1 shows a percentage breakdown of total local government revenue in Virginia by source for fiscal years 1965-66 to 1970-71. As illustrated here, local taxation (approximately 70 percent of which is property taxes) represents the greatest source of local revenue. On the other hand, it is clear that federal and state cash transfers are becoming increasingly important. In terms of total funds, intergovernmental transfers have risen relative to any other item over the last six years.

TABLE 5.1--PERCENTAGE DISTRIBUTION OF LOCAL GOVERNMENT REVENUES IN VIRGINIA,
FISCAL YEARS 1965-66 TO 1970-71^{a/}

<u>Revenue Source</u>	<u>Percent of Total</u>					
	<u>1965-66</u>	<u>1966-67</u>	<u>1967-68</u>	<u>1968-69</u>	<u>1969-70</u>	<u>1970-71</u>
Taxation	50.5	45.8	45.5	44.5	45.1	45.1
Property taxes	38.9	33.9	32.4	30.7	31.3	31.6
Other taxes	11.6	12.9	13.6	13.8	13.8	13.5
Charges & miscellaneous revenue	14.9	13.1	13.0	12.2	12.6	12.4
Intergovernmental transfers	34.7	40.1	41.0	43.3	42.3	42.6
Federal transfers	5.2	4.6	4.9	5.1	5.8	5.6
State transfers	29.5	35.5	36.1	38.2	36.5	37.0
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add to 100.0 percent due to rounding.

^{a/} See footnote a, Table 5.5

Source: Table 5.5.

Looking at the other side of the budget, Table 5.2 presents a breakdown of local government expenditures by purpose for fiscal years 1965-66 through 1970-71. As pointed out by this distribution, education is by far the largest single expense at the local level even though its importance relative to other functions has declined over the last six years (dropping from 53.5 percent of all local outlays in 1965-66 to 50.4 percent in 1970-71). Following educational costs, in order of rank, are debt service^{1/}, public welfare, and police and fire protection. In 1970-71, these three items accounted for roughly 24 percent of total spending by local jurisdictions.

TABLE 5.2--PERCENTAGE DISTRIBUTION OF LOCAL GOVERNMENT EXPENDITURES
IN VIRGINIA FISCAL YEARS 1965-66 TO 1970-71^{a/}

Function	Percent of Total					
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71
Education	53.5	54.5	52.6	51.8	51.6	50.4
Days	4.3	5.6	4.0	4.1	3.8	3.6
Public welfare	5.5	5.6	5.6	6.3	6.8	8.1
Mental health and hospitals	1.4	1.5	2.0	2.0	1.6	1.7
Police and fire protection	5.9	5.6	5.7	5.9	5.9	5.6
Sewerage and sanitation	5.0	5.3	5.0	5.4	4.1	4.0
Local parks and recreation	1.5	1.5	1.7	2.0	3.1	2.2
Financial administration & general control	3.2	3.0	3.2	3.3	3.2	3.3
Interest on general debt	4.3	4.2	4.5	4.0	4.0	4.0
All other general expenditures	7.5	7.1	9.8	9.8	10.1	11.3
Redemption of long term general debt	7.8	6.1	5.9	5.4	5.7	5.8
Total outlays	100.0	100.0	100.0	100.0	100.0	100.0

Note: Totals may not add to 100.0 percent due to rounding.

a/ See footnote a, Table 5.8.

Source: Table 5.8.

^{1/} The term "debt service" refers to interest on general debt and redemption of long-term general debt.

Revenue and Expenditure Projections

Projection Methodology

Although far from complete, the above analysis points out some of the more salient characteristics of local government finance in Virginia. In light of this information, we now devote our efforts to attempt a forecast of local revenues and expenditures. The methodology for making these projections is based on three underlying procedures. First, all assumptions about future prices and population caseloads are the same as those made in Chapter II and Chapters IV of this report. Second, the time period for analysis of historical data is limited to the 1960's.^{1/} Finally, any other assumptions with respect to the projections are specific, pertaining only to the revenue or expenditure item in question. These are discussed below in relation to each item.

Revenue Projections

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 \$1.06 per \$100 valuation

^{1/} The overall structure of local finance has changed over time especially with the adoption of the sales tax in 1966. Because of this, data before 1960 was thought to be of little value to the present analysis.

(the 1971 weighted average true tax rate on real estate for all cities and counties in Virginia^{1/}).

With the tax rate and assessment ratio taken as given, the key projection factor for real property tax collections becomes the market value of land. This is projected by applying a 10 percent annual rate of growth to the 1971 estimated true value of real estate. The 10 percent rate represents slightly higher growth than the 9.0 percent average annual increase in true values over the past ten years. It was chosen to reflect the recent upsurge in land values caused by inflation.

After future market values are obtained, tax collections are forecast by multiplying future land values by the weighted average true tax rate. The products of this calculation are then adjusted to fiscal year collections by taking 50 percent of the total projected receipts for the two years contained within the fiscal year. This adjustment is consistent with the relationship that existed between property tax collections in fiscal year 1970-71 and the total of property tax collections for calendar years 1970 and 1971. Results of the method are shown in appendix Table A.9.

Public Service Corporation Levies

Property taxes on public service corporations are projected to be consistent with the so-called "Bemiss Act."^{2/} This law, passed in 1966, 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

^{1/} Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities," May 1, 1973.

^{2/} Code of Virginia, Section 58-512.1.

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, 1972, 6/20 of the 1966 base value (\$2.6 billion) will be assessed at the same local ratio as other types of property. During the adjustment period, any net additions to public service property above the 1966 base are also to be assessed at the prevailing local ratio.

The method used to coordinate projections with this act establishes the assessed value of public service property through fiscal year 1979-80. This is done by first apportioning the amount of the 1966 base that will be assessed at the present local ratio (the average median local ratio in 1971 was 33 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 1971 full value of this property (\$4.2 billion) by 9.8 percent annually, the average annual growth rate in the full value of public service corporation property over the last five years. The difference between projected future values and the 1966 base represents the amount of net additions to be assessed at 33.0 percent.^{1/}

Once all three components of future assessed values are obtained, they are added to produce a total valuation of public service property (see Table 5.3). Assessed values are then multiplied by a nominal tax rate of \$3.41 per \$100 valuation to get projected property tax collections.^{2/} These revenues are adjusted to fiscal year collections by the same method used for real estate property taxes. For detailed projections of this approach, see appendix Table A.10.

^{1/} No change in the 1971 assessment ratio is made in future periods.

^{2/} The nominal rate of \$3.41 per \$100 valuation was derived by adjusting the 1971 average tax rate on public service corporations to reflect provisions in the law (Code of Virginia, Section 58-514.2) that local taxes on real estate and tangible personal property of these companies be taxed at the prevailing local rate by 1986. For future years, the \$3.41 rate is adjusted downward to \$3.30 achieve this end.

TABLE 5.3--PROJECTED ASSESSED VALUE OF PUBLIC SERVICE CORPORATIONS,
FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

Fiscal Year	1966 True Value of Public Service Corporation Property						Projected Assessed Value ^{b/}
	Amount	Value to be Assessed at Same Local Ratio As Other Types of Property		Value to be Assessed at 40%		Projected Net Additions to 1966 Base to be Assessed at Same Local Ratio as ^{a/} Other Types of Property	
		Proportion	Amount	Proportion	Amount		
1971-72	\$2,590.7	6/20	\$ 777.2	14/20	\$1,813.5	\$1,700.9	\$1,543.2
1972-73	2,590.7	7/20	906.7	13/20	1,684.0	2,121.7	1,673.0
1973-74	2,590.7	8/20	1,036.3	12/20	1,554.4	2,583.5	1,816.3
1974-75	2,590.7	9/20	1,165.8	11/20	1,424.9	3,090.5	1,974.6
1975-76	2,590.7	10/20	1,295.4	10/20	1,295.3	3,647.3	2,149.2
1976-77	2,590.7	11/20	1,424.9	9/20	1,165.8	4,258.6	2,341.9
1977-78	2,590.7	12/20	1,554.4	8/20	1,036.3	4,929.9	2,554.3
1978-79	2,590.7	13/20	1,684.0	7/20	906.7	5,666.9	2,788.5
1979/80	2,590.7	14/20	1,813.5	6/20	777.2	6,476.1	3,046.5

a/ Projected net additions were derived by applying 9.8 percent annual rate of growth to 1971 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 33 percent (the average median assessment ratio on real estate for Virginia cities and counties in 1971).

Sources: Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities", May 1, 1973; "Full Value of Public Service Corporations in 1966, 1968, 1970 and 1971, special tabulations by the State Corporation Commission; "Fiscal Assistance for Local Governments," a paper presented to the Revenue Resources and Economic Study Commission by Mr. Thomas C. Atkeson and Dr. John L. Kanpp, November 24, 1970.

Tangible Personal Property Taxes

The method used to project tangible personal property tax revenues is quite similar to the technique that will be used to project expenditures. By analyzing historical data, we found that changes in tangible personal property tax collections could be approximated by corresponding changes in personal income and population. Thus, 1972 was set up as the base year and the following baseline approach was used. For detailed projections of this methodology see appendix Table A.11.

$$\frac{\text{Tangible Personal Property Tax Revenues in Year 2}}{\text{Tangible Personal Property Tax Revenues in Year 1}} = k \left[\frac{\text{Personal Income}^{\text{a/}} \text{ in Year 2}}{\text{Personal Income in Year 1}} \times \frac{\text{Population in Year 2}}{\text{Population in Year 1}} \right]$$

where k is a constant equal to .982^{b/}

Property Taxes on Machinery and Tools

Property tax collections on machinery and tools are projected to grow by 7.2 percent annually. This figure represents the average annual increase in these revenues over the last five fiscal years (exclusive of changes in the tax rate). 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 1966 enactment of the local option sales tax. For detailed projections, see appendix Table A.12.

^{a/} The population and personal income projections used in these calculations are shown in Chapter II.

^{b/} In the equation, k is figured on a constant tax rate of \$4.01 per \$100 of assessed value (the 1972 weighted average tax rate on tangible personal property for all cities and counties in Virginia).

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. The methodology used for the forecast is based on a historical trend. For detailed projections, see appendix Table A.13.

Local Sales Tax

As of May 1, 1969, every county and city in Virginia 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 and by adjusting this amount upward to account for certain discounts in the state tax which are not allowed by the localities.^{1/} For detailed results of this approach, see appendix Table A.15.

Other Taxes

For the most part, past changes in collections of other local taxes (primarily business license taxes) have kept pace with growth in personal income. Thus, for future years, the forecast of other local taxes is based on the projected annual percentage change in personal income as shown in Chapter II. The detailed projections of this methodology appear in appendix Table A.16.

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 last ten years. The figure representing this amount is 8.6 percent. For individual projections, see appendix Table A.17.

^{1/} One-third of the state's 3 percent sales tax equals roughly 97 percent of the local option tax.

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 \$228.7 million (51.3 percent of total state cash transfers for education) in fiscal year 1971-72.^{1/} Other major categorical programs receiving state funds are vocational education, pupil transportation, special education, guidance counselors,^{2/} 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 1971-72, this payment amounted to \$85.8 million. 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 1971-72, Table 40, (Richmond: State Board of Education, December, 1972).

^{2/} Categorical grants for guidance counselors will be consolidated with the Basic School Aid Fund after 1971-72.

Projections of future state cash transfers for education are developed by two procedures. For the short term (fiscal years 1973-74 and 1974-75), we calculate total state payments by summing the individual appropriations which have already been budgeted by the state as categorical aids to local school divisions. Included in this account for 1973-74 is a supplemental appropriation of \$24.7 million which was passed in the 1973 session of the General Assembly to meet the constitutional requirements for funding the standards of quality. The effect of this legislation is expected to raise the degree of state participation in public education from its current level of 45.2 percent of total outlays incurred by local school systems to 47.6 percent of total local expenditures for education at the end of the two year forecast. After that time, we make no further allowance for change in the state's method of funding educational programs. As a result, we assume that state aid will maintain its projected 1973-74 relationship to local school outlays over the rest of the decade and project state cash transfers at 47.6 percent of anticipated local expenditures for education. In making this forecast, however, we must note that the Attorney General has ruled that the Basic School Aid Fund will not meet the constitutional requirements for financing the actual cost of the standards of quality and that a new formula should be instituted for 1974-75.^{1/} Such a formula which could contain substantial changes in both the method and level of state funding is now being studied by the Governor's Task Force on Financing the Standards of Quality.^{2/} Any recommendations from this committee, in turn, will have to be approved by the General Assembly before they become law.

^{1/} Letter from Attorney General Andrew P. Miller to Delegate W. Roy Smith dated February 7, 1973.

^{2/} For a detailed discussion of new developments in state aid for education, see Chapter VI.

As a result, we do not know what the exact outcome of this chain of events will be nor do we consider these efforts at this time in making our baseline revenue projections. For the future, however, it would be wise to keep close watch on these developments in trying to assess a more accurate course for local government finance.

State Cash Transfers for Highways

Future projections of state cash transfers for highways were supplied by the Virginia Department of Highways. These payments include funds sent to municipalities with 3,500 or more population for maintenance on 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.^{1/} 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.

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 either the state or the federal government. In 1971-72, nearly 87 percent of all local direct expenditures for this purpose were financed by funds received from the state.^{2/}

Future projections of state cash transfers for public welfare are made by calculating the federal, state, and local share of state-supported programs.

^{1/} After 1971-72, state aid for urban road maintenance is scheduled to increase from \$1,100 to \$1,500 per lane mile.

^{2/} 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).

These were adjusted in future years to take into account the effects of increased federal reimbursement for welfare administration and the complete federal take-over of aid to the blind, aid to the permanently and totally disabled, and old age assistance in January 1974. Once the adjusted shares were computed, the total local portion of each program was subtracted from the total projected cost of all welfare programs for the year in question. The difference so obtained represents that proportion of total expenditures financed by the state or by federal funds distributed through the state.

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; 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 1971-72, 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 1965-66 TO 1971-72
(Thousands of Dollars)

<u>Fiscal Year</u>	<u>Total State Cash Transfers for General Support</u>	<u>A.B.C. Profits and Wine and Spirits Tax Distributed To Localities</u>	<u>% of Total State Cash Transfers for General Support</u>
1965-66	\$14,040	\$12,342	90.0
1966-67	13,811	13,390	89.7
1967-68	13,942	12,425	89.1
1968-69	13,927	12,885	92.5
1969-70	14,551	13,545	93.1
1970-71	16,858	15,830	93.9
1971-72	17,785	16,436	92.4

Sources: U.S. Bureau of the Census, State Government Finances in 19--, selected editions (Washington: Government Printing Office); Report of the Comptroller, selected editions (Richmond: Department of Accounts).

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.

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 reduced federal aid resulting from federalization of certain welfare programs and increased state aid for funding the standards of quality. 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. To this total we then added roughly another \$12 million a year to account for new state aid beginning 1973-74 to help localities with mass transit problems.^{1/}

^{1/} Beginning 1973-74, approximately \$5.5 million will be distributed to those cities which have to purchase local bus systems and roughly \$6.0 million will be provided for those localities building fringe parking lots and bus shelters. This aid will be administered by the Department of Highways.

Federal Government Cash Transfers

Since a large portion of federal aid to local governments is accounted for under state cash transfers, only a total figure is shown for federal disbursements paid directly to localities. Most of this aid at present consist of federal impact funds sent to local school divisions under Public Laws 874 and 815. In the future, however, this category will also include general revenue sharing monies which are now being distributed by the Treasury Department.

To develop a forecast of direct federal payments to local governments in Virginia, we found it necessary to make two assumptions. First, we assume that no new transfers of this type will be initiated over the period covered by our projections. Second, we make no provision for any change in the present method of allotting these funds such as the enactment of special revenue sharing. Based on these assumptions, therefore, we project future federal transfers by adjusting current payments for inflation and growth in population. The methodology for achieving this is the same as that previously used to project state expenditure items (see Chapter IV). Next, we add to projected federal grants the expected local share of general revenue sharing funds which were developed in Chapter III. In doing this, we make no allowance for the continuation of revenue sharing after 1976 when the present legislation expires. As a result, federal transfers for fiscal years 1977-78 through 1979-80 drop off sharply from the amounts projected for earlier years. For detailed projections, see appendix Table A.20.

Summary of Revenue Projections

From fiscal years 1971-72 to 1979-80, total local government revenue is projected to grow at an average annual rate of 7.2 percent. During this time, intergovernmental transfers are expected to become a more important source of revenue, growing at a faster pace than any other source through fiscal

year 1973-74. Thus, the trend that characterized the last half of the 1960's is projected to continue in the first part of the 1970's. In more distant years, however, projections show this movement to be reversed. From fiscal year 1974-75 to fiscal year 1979-80 local sources begin to make up a continuously larger share of the total revenue pie. Most of this latter change is due to increased tax collections as property values rise with inflation. This outcome is also influenced by the fact that we make no provision for change in the scope of state and/or federal aids from their present structure.

TABLE 5.5.--TOTAL GENERAL REVENUES OF LOCAL GOVERNMENTS IN VIRGINIA
ACTUAL 1965-66 TO 1970-71; ESTIMATED 1971-72; PROJECTED 1972-73 TO 1979-80^{a/}
(Millions of Dollars)

Revenue Source	Actual						Estimated ^{a/}		Projections						
	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	1978-79	1979-80
LOCAL SOURCES															
TAXES:															
Property															
Real Estate	\$229.3	\$235.2	\$ 258.3	\$ 273.5	\$ 320.4	\$ 370.2	\$ 413.0	\$ 459.0	\$ 505.0	\$ 555.5	\$ 611.0	\$ 672.1	\$ 739.3	\$ 813.3	\$ 894.6
Public service corporations	38.2	37.1	39.3	40.0	44.5	48.6	51.0	54.7	59.1	63.9	69.2	75.1	81.5	88.6	96.4
Tangible personal property	49.2	44.3	47.4	49.4	57.0	67.6	85.2	95.2	104.7	114.2	124.0	134.6	146.1	158.6	172.2
Machinery and tools	7.8	7.9	8.8	9.2	10.8	13.0	14.1	15.1	16.2	17.4	18.7	20.0	21.4	22.9	24.5
Merchants capital	1.7	1.4	1.4	1.4	1.5	1.5	1.7	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.1
Total property taxes ^{c/}	326.2	325.9	355.2	373.5	434.2	500.9	565.0	625.8	686.8	752.9	824.8	903.7	990.3	1,085.4	1,189.8
Sales tax	...	35.6	55.9	65.0	72.0	78.6	89.0	98.7	107.7	120.3	130.8	142.4	154.9	168.5	183.4
Other taxes	96.9	88.0	93.7	102.0	119.7	135.0	147.7	165.4	182.4	199.4	217.0	236.1	256.9	279.6	304.3
Total taxes	423.1	449.5	504.8	540.5	625.9	714.5	801.7	889.9	976.9	1,072.6	1,172.6	1,282.2	1,402.1	1,533.5	1,677.5
CHARGES AND MISCELLANEOUS REVENUE	124.6	126.1	143.1	148.6	174.6	195.7	212.5	230.8	250.6	272.2	295.6	321.0	348.6	378.6	411.2
Total local sources	547.7	575.6	647.9	689.1	800.5	910.2	1,014.2	1,120.7	1,227.5	1,344.8	1,468.2	1,603.2	1,750.7	1,912.1	2,088.7
OTHER SOURCES															
STATE CASH TRANSFERS^{d/}															
Education	165.0	251.1	296.9	339.5	368.5	397.3	445.7	499.9	569.3	594.2	618.1	644.6	670.7	699.1	729.1
Highways	15.6	16.7	17.6	18.5	18.8	19.5	20.2	31.5	32.5	33.1	33.8	34.7	35.5	36.4	37.3
Public welfare	41.0	45.6	52.6	62.5	77.6	110.1	153.5	166.2	188.8	192.7	204.1	211.6	221.2	234.3	244.8
General support	14.1	13.8	13.9	13.9	14.6	16.9	17.8	19.3	19.1	19.8	20.5	21.3	22.0	22.8	23.5
All other functions	11.4	13.4	15.2	28.9	27.5	42.1	47.9	49.9	67.3	69.7	72.6	75.4	78.4	81.3	85.3
Total state transfers	247.1	340.6	396.2	463.3	507.0	585.9	685.1	766.8	877.0	909.5	949.1	987.6	1,027.8	1,073.9	1,120.0
FEDERAL CASH TRANSFERS	43.5	43.9	53.4	62.1	80.8	88.6	95.3	192.6	189.7	198.9	208.3	197.4	139.9	148.9	158.4
Total other sources	290.6	384.5	449.6	525.4	587.8	674.5	780.4	959.4	1,066.7	1,108.4	1,157.4	1,185.0	1,167.7	1,222.8	1,278.4
TOTAL REVENUE	\$838.3	\$960.1	\$1,097.5	\$1,214.5	\$1,388.3	\$1,584.7	\$1,794.6	\$2,080.1	\$2,294.2	\$2,453.2	\$2,625.6	\$2,788.2	\$2,918.4	\$3,134.9	\$3,367.1

^{a/} The proportion of revenues provided by each source may deviate somewhat from the information presented in Chapter 11, 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.

^{b/} Projections for 1971-72 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, and merchants' capital levies is estimated on the basis of data reported by the U.S. Department of Commerce, Bureau of the Census.

^{d/} 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 19--, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction, (Richmond: State Board of Education); 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, June 26, 1973; Commonwealth of Virginia, Department of Taxation, "Real Estate Assessment Ratios and Average Effective True Tax Rates in Virginia Counties and Cities", April 1, 1973; U.S. Bureau of the Census, State Government Finances in 19--, selected editions (Washington: Government Printing Office).

TABLE 5.6--PERCENTAGE DISTRIBUTION OF PROJECTED LOCAL GOVERNMENT REVENUES IN VIRGINIA
FISCAL YEARS 1971-72 TO 1979-80

Revenue Source	Percent of Total								
	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-
Taxation	44.7	42.8	42.6	43.7	44.7	46.0	48.0	48.9	49.
Property Taxes	31.5	30.1	29.9	30.7	31.4	32.4	33.9	34.6	35.
Other Taxes	13.2	12.7	12.7	13.0	13.3	13.6	14.1	14.3	14.
Charges & Miscellaneous Revenue	11.8	11.1	10.9	11.1	11.3	11.5	12.0	12.1	12.
Intergovernmental Transfers	43.5	46.1	46.5	45.2	44.0	42.5	40.0	39.0	38.1
State Transfers	38.2	36.9	38.2	37.1	36.1	35.4	35.2	34.3	33.1
Federal Transfers	5.3	9.2	8.3	8.1	7.9	7.1	4.8	4.7	4.1
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Table 5.5.

Expenditure Projections

The technique used to project local government expenditures generally follows the baseline approach developed for the state expenditure projections in Chapter IV. Essentially, this method predicts the change in an expenditure item on the basis of changes in the population-workload ratio and the price ratio which in turn are derived from select populations and price indexes that correlate closely with the item. When the technique is used, no account is taken of scope and quality changes, and no allowance is made for the effects of increased borrowing on debt service costs. An adjustment for these factors will be made separately. Where it is felt that more accurate projections can be obtained, deviations from the baseline approach do occur. Because of this, the actual method used to project any one expenditure item is set forth in a complete subsection dealing with that item.

Education

The forecast of local government expenditures for elementary and secondary education follows the general baseline methodology. Population-workloads are estimated from the changes in future school enrollment projected by the State Department of Education. Price ratio factors are derived from the anticipated annual changes in the implicit price deflator for state and local government purchases of goods and services shown in appendix Table A.7. These factors were then applied to 1973-74 budgeted local outlays as reported in a recent survey conducted by the Department of Education.^{1/} For periods earlier than 1973-74 (namely fiscal year 1972-73), we project local school expenditures by assuming that appropriated state cash transfers to local school divisions would constitute roughly 45.2 percent of total local outlays. This was the same

^{1/} School Budget Form I, a survey by the Department of Education, June, 1973.

relationship which existed between state funds and local spending in 1971-72. For detailed projections, see appendix Table A.21 .

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 adjustments did not produce realistic figures. One explanation for the above finding is that a large proportion of highway expenditures consist 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 30 percent of the total 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. In making these calculations, we adjust future transfers to take out increased highway aid beginning fiscal year 1972-73^{1/} For detailed projections see appendix Table A.22.

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

^{1/} After 1971-72, state aid for urban road maintenance increased from \$1,100 to \$1,500 per lane mile.

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 programs 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 non-matched assistance paid by the localities.

An analysis of public welfare projections, shows that we account for only a small change in total expenditures between fiscal years 1973-74 and 1974-75. The slow growth of outlays during this period corresponds to the federal take-over of certain welfare programs on January 1, 1974.^{1/} For detailed figures with respect to these projections, see appendix Table A.23 .

Health and Hospitals

Projections of local government expenditures for health and hospitals are derived from the application of the baseline projection methodology. Population-workloads are obtained from estimated changes in the total population of the state which is assumed to grow by 1.3 percent a year through the rest 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.7. The combination of these two factors are

^{1/} On January 1, 1974, the Social Security Administration will assume the program costs of aid to the blind, aid to permanently and totally disabled, and old age assistance.

then applied to base year expenditures in 1970-71. For detailed health and hospital expenditure projections, see appendix Table A.24.

Sewerage and Sanitation

Projections of local government expenditures for sewerage and sanitation follow the baseline methodology, however, we do treat capital outlay different from operational expenditures. For operational spending we calculate price factors from the projected percentage change in the implicit price deflator for state and local government purchases. This is then multiplied by the population caseload for sewerage and sanitation which is based on the anticipated change in total population of the state through 1980. For the capital outlay portion of this function, however, we use the same population workloads but base our price adjustments on the projected change in the implicit price deflator for all government purchases of buildings. The reason for this is that we feel the latter index correlates more closely with the capital outlay associated with sewer construction. For detailed projections of this technique, see appendix Table A.26.

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 of local government direct expenditures for police and fire protection, for local parks and recreation, for financial administration and general control; and for all other functions are derived by applying population workloads (based on the estimated change in total population throughout state) plus price factors (calculated from the projected change in the implicit price deflator for state and local purchases of goods and services) to 1970-71 base year expenditures. The detailed projections for each of these categories is shown in appendix Tables A.27 to 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 approximately 5 percent of 1970-71 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 1969-70 as shown below.

TABLE 5.7.--RESERVATION FOR REDEMPTION OF DEBT
BY CITIES AND COUNTIES IN VIRGINIA, FISCAL YEAR 1969-70
(Thousands of Dollars)

	Gross Debt Outstanding at End of Fiscal Year	Reservation for Redemption of Debt	% of Gross Debt Outstanding
Cities	\$ 771,424	\$40,149	5.2
Counties	672,926	33,902	5.0
Total	\$1,444,350	\$74,051	5.1

Source: Report of Auditor of Public Accounts on Comparative Cost of City Government, Year Ended June 30, 1970 (Richmond: Auditor of Public Accounts, 1972), pp. 23-24, Report of the Auditor of Public Accounts on Comparative Cost of County Government, Year Ended June 30, 1970, (Richmond: Auditor of Public Accounts, 1971), pp. 5-10.

Summary of Expenditure Projections

For fiscal years 1971-72 through 1979-80, total local government outlays (before borrowing) are projected to grow by an average annual rate of 5.1 percent. During this time, education, public welfare, police and fire protection, and sewerage and sanitation are expected to remain the major expenditure items. In fiscal year 1979-80, these four functions are projected to account for approximately 74 percent of total local budgets (see Table 5.9). This outcome, however, is predicated on the assumption that there will be no new borrowing. As a result, the actual share of these items will probably be somewhat less than 74 percent once new debt is floated.

Summary of Baseline Projections

Table 5.10 presents the net result of baseline revenue and expenditure projections through fiscal year 1979-80. Although the projections show increasing surpluses over the rest of the decade, the overall outlook for local governments might not be nearly so optimistic once allowance for other adjustments is made. In analyzing the financial pattern, therefore, three factors are seen as major contributors to future surpluses. While 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 future years.
2. The substantial increase in intergovernmental transfers resulting from the state's funding of the standards of quality for public education and the higher amount of federal aid transferred to localities under the new general revenue sharing act.

TABLE 5.8.--BASELINE PROJECTIONS OF TOTAL LOCAL GOVERNMENT DIRECT EXPENDITURE (INCLUDING CAPITAL OUTLAY) IN VIRGINIA
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71; ESTIMATED, 1971-72; AND PROJECTED, FISCAL YEARS 1972-73 TO 1979-80^{a/}
(Millions of Dollars)

Millions of Dollars															
Function ^{c/}	Actual						Estimated ^{b/} 1971-72	Projections							
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71		1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Education	\$518.6	\$575.2	\$635.6	\$681.3	\$777.1	\$873.4	\$985.0	\$1,105.9	\$1,195.5	\$1,248.3	\$1,298.6	\$1,354.2	\$1,409.0	\$1,468.6	\$1,531.9
Highways	41.7	59.6	48.5	54.4	57.8	63.0	67.0	72.3	74.3	75.7	77.3	79.3	81.3	83.3	85.3
Public welfare	53.8	58.6	68.3	82.7	101.6	140.3	177.2	184.2	209.3	214.9	227.3	234.6	245.3	259.7	271.4
Health & hospitals	13.6	16.2	24.5	26.7	23.4	29.7	31.8	33.8	36.2	38.6	41.1	43.7	46.5	49.5	52.7
Police & fire protection	57.0	58.9	68.9	76.9	89.1	96.5	102.9	109.8	117.6	125.6	133.6	142.1	151.2	160.8	171.0
Sewerage & sanitation	48.3	55.5	60.0	70.3	61.4	69.9	75.0	79.9	85.5	91.2	96.9	102.9	109.4	116.2	123.4
Local parks & recreation	14.8	16.0	20.0	26.4	46.7	37.8	40.7	43.4	46.5	49.6	52.8	56.2	59.8	63.6	67.7
Financial administration & general control	31.4	32.0	38.7	42.7	47.9	56.9	61.2	65.3	69.9	74.6	79.4	84.5	89.9	95.6	101.7
Interest on general debt	41.9	44.3	55.0	52.5	60.5	68.6	65.3	61.9	58.8	55.8	52.9	50.2	47.7	45.2	42.9
All other general expenditures	73.1	75.1	118.5	129.4	152.7	195.9	210.8	224.9	240.8	257.1	273.5	290.9	309.4	329.1	350.1
Total direct expenditures	894.2	991.4	1,138.1	1,243.3	1,418.2	1,632.0	1,816.9	1,981.4	2,134.4	2,231.4	2,333.4	2,438.6	2,549.5	2,671.6	2,798.1
Redemption of long term general debt ^{d/}	75.5	64.0	70.9	71.4	86.5	100.1	94.8	90.0	85.4	81.0	76.9	73.0	69.3	65.7	62.4
Total local outlays	\$969.7	\$1,055.4	\$1,209.0	\$1,314.7	\$1,504.7	\$1,732.1	\$1,911.7	\$2,071.4	\$2,219.8	\$2,312.4	\$2,410.3	\$2,511.6	\$2,618.8	\$2,737.3	\$2,860.5

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/ Historical figures represent "long-term debt retired" as reported by the U.S. Department of Commerce, Bureau of the Census, in Governmental Finances in 19--, (selected editions).

Sources: U.S. Bureau of the Census, Governmental Finances in 19--, 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 1971-72 TO 1979-80

Function	Percent of Total								
	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
Education	51.5	53.4	53.9	54.0	53.9	53.9	53.8	53.7	53.5
Highways	3.5	3.5	3.3	3.3	3.2	3.2	3.1	3.0	3.0
Public welfare	9.3	8.9	9.4	9.3	9.3	9.3	9.4	9.5	9.5
Health & hospitals	1.7	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8
Police & fire protection	5.4	5.3	5.3	5.4	5.6	5.7	5.8	5.9	6.0
Sewerage & sanitation	3.9	3.9	3.9	3.9	4.0	4.1	4.2	4.2	4.3
Local parks & recreation	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.4
Financial administration & general control	3.2	3.1	3.2	3.2	3.3	3.4	3.4	3.5	3.6
Interest on general debt	3.4	3.0	2.7	2.4	2.2	2.0	1.8	1.7	1.5
All other general expenditures	11.0	10.9	10.8	11.1	11.4	11.6	11.8	12.0	12.2
Redemption of long-term general debt	5.0	4.3	3.8	3.5	3.2	2.9	2.6	2.4	2.2
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 1965-66 TO 1970-71; ESTIMATED 1971-72; AND PROJECTED, FISCAL YEARS 1972-73 TO 1979-80^{a/}
(Millions of Dollars)

	Actual						Estimated	Projections							
	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	1978-79	1979-80
Revenue															
Tax revenue	423.1	449.5	504.8	540.5	625.9	714.5	801.7	889.9	976.9	1,072.6	1,172.6	1,282.2	1,402.1	1,533.5	1,677.5
Charges and miscellaneous revenue	124.6	126.1	143.1	148.6	174.6	195.7	212.5	230.8	250.6	272.2	295.6	321.0	348.6	378.6	411.2
Intergovernmental transfers	290.6	384.5	449.6	525.4	587.8	674.5	780.4	959.4	1,066.7	1,108.4	1,157.4	1,185.0	1,167.7	1,222.8	1,278.4
Total revenue	838.3	960.1	1,097.5	1,214.5	1,388.3	1,584.7	1,794.6	2,080.1	2,294.2	2,453.2	2,625.6	2,788.2	2,918.4	3,134.9	3,367.1
Expenditures															
Total direct expenditures	894.2	991.4	1,138.1	1,243.3	1,418.2	1,632.0	1,816.9	1,981.4	2,134.4	2,231.4	2,333.4	2,438.6	2,549.5	2,671.6	2,798.1
Redemption of long-term general debt	75.5	64.0	70.9	71.4	86.5	100.1	94.8	90.0	85.4	81.0	76.9	73.0	69.3	65.7	62.4
Total outlays	969.7	1,055.4	1,209.0	1,314.7	1,504.7	1,732.1	1,911.7	2,071.4	2,219.8	2,312.4	2,410.3	2,511.6	2,618.8	2,737.3	2,860.5
Surplus or deficit before borrowing	\$-131.4	\$ -95.3	\$ -111.5	\$ -100.2	\$ -116.4	\$ -147.4	\$ -117.1	\$ +8.7	\$ +74.4	\$ +140.8	\$ +215.3	\$ +276.6	\$ +299.6	\$ +397.6	\$ +506.6

^{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.

3. The absence of changes in scope and quality within the expenditure categories and the absence of increases in debt which tend to understate the most probable growth for expenditures.

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 6.7 percent a year (the average rate of growth in projected transfers) until 1970-71. 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 30 percent of total outlays. The proportion of actual highway expenditures in 1970-71 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 their percentage of the combined total of 1970-71 expenditures^{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 inter-governmental 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 FROM 1960-61 TO 1970-71

<u>Function</u> ^{a/}	<u>Average Annual Percentage Increase in Scope and Quality</u>
Education	5.0
Highways	0.7
Public welfare ^{b/}	2.3
Health and hospitals	4.4
Sewerage and sanitation	4.0
All other general expenditures	<u>7.4</u>
Total	5.2

^{a/} Debt service costs do not fit into the conceptual framework of this model.

^{b/} Based on projected to actual costs of Aid for Dependent Children, Foster Care, General Relief, Hospitalization of the Indigent, and Administration.

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 shown in Table 5.12. First, the surplus that was previously projected for fiscal year 1972-73 is wiped out by higher expenditures.

Second, the surpluses that were projected for fiscal years 1973-74 to 1979-80 become increasingly smaller as compared to their former level. Both of these results demonstrate the compounding effect characteristic of changes in scope and quality for this projection model. 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 1970-71 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures Including Scope and Quality Change</u>	<u>Surplus or Deficit</u>
Estimated			
1971-72	\$1,794.6	\$1,920.7 ^{a/}	\$-126.1
Projections			
1972-73	2,080.1	2,121.3	-41.2
1973-74	2,294.2	2,272.3	+21.9
1974-75	2,453.2	2,367.9	+85.3
1975-76	2,625.6	2,468.7	+156.9
1976-77	2,788.2	2,574.2	+214.0
1977-78	2,918.4	2,688.2	+230.2
1978-79	3,134.9	2,810.3	+324.6
1979-80	3,367.1	2,937.3	+429.8

^{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 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 1960, 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 \$1,124.2 million in funds for local governments.

^{1/} The methodology assumes that projected capital outlays will be large enough to warrant an 8 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 and surpluses. 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.--NET INFLOW OF FUNDS AVAILABLE TO FINANCE CAPITAL OUTLAYS WITH AN 8 PERCENT ANNUAL INCREASE IN DEBT, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Inflow Funds from Borrowing^{a/}</u>	<u>Additional Redemption Costs Associated With Borrowing</u>	<u>Additional Interest Costs Because of Borrowing</u>	<u>Net Inflow of Funds Available to Finance Capital Outlays^{b/}</u>
1971-72	\$ +148.7	\$... ^{c/}	\$ +5.5	\$ +143.2
1972-73	+160.6	+7.4	+14.7	+138.5
1973-74	+173.5	+15.4	+24.1	+134.0
1974-75	+187.3	+24.1	+33.9	+129.3
1975-76	+202.3	+33.5	+44.1	+124.7
1976-77	+218.5	+43.6	+54.6	+120.3
1977-78	+236.0	+54.5	+65.6	+115.9
1978-79	+254.9	+66.3	+77.2	+111.4
1979-80	+275.3	+79.0	+89.4	+106.9
Total	\$+1,857.1	\$+323.8	\$+409.1	\$+1,124.2

^{a/} The inflow of funds from borrowing represents the change in long-term general debt outstanding when an 8 percent annual growth is applied to the 1970-71 amount outstanding, \$1,859.0 million.

^{b/} Projected deficits or surpluses would be reduced or increased by the amounts listed here.

^{c/} Under the assumptions, no additional redemption cost will be incurred on the 1971-72 increase in debt. Redemption payments for this amount will begin in 1972-73.

Comparison of Revenues and Expenditures

The overall pattern for projected local government finances shows revenues exceeding expenditures throughout the rest of the decade. In analyzing this trend, it appears that the favorable outlook is primarily the result of four adjustments: 1) the rise in taxable property values due to inflation, 2) the enactment of general revenue sharing, 3) the projected slowdown in the rate of inflation as it affects public service costs, and 4) the projected decline in population growth. Whether these variables will actually bring about the surpluses we have projected, however, will depend to a great extent on how local governments expand the programs which they administer. With respect to this question, we believe that if changes in

scope and quality keep pace with those of the recent past, the financial picture for local governments should continue to improve through 1979-80. On the other hand, if program improvements are accelerated in light of surpluses, some pressure could begin to appear on local budgets in future years. Factors that would contribute to the latter trend are:

- 1) New measures for property tax relief that would lower the effective tax rate and reduce the growth of tax revenues especially for central cities and rural communities with high concentrations of low income and old aged persons.
- 2) Passage of a new state formula for financing public education in 1974-75 that most likely will require a higher local effort than certain localities are making at present.
- 3) Anti-pollution requirements that will increase the need for sewerage and sanitation construction primarily in urban areas whether this be small towns or central cities.
- 4) Mass transit problems which will most assuredly affect the finances of central cities and established suburban areas.

None of the above items are directly accounted for in our projections.

Measurements of Central City Finances

The previous analysis applied to all local governments, and trends for the entire group may not be applicable to each government. To underline this fact, in this section we develop 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 1970-71, the latest year available. Central city per capita revenues from own sources were 35 percent higher than the state average for all local governments, and total revenues were 30 percent higher. Total direct expenditures per capita, on the other hand, were 44 percent higher in central cities than for the state as a whole. In fact, the central cities spent more on a per capita basis 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 1970-71, central city per capita revenues from own sources rose 136 percent, approximately the same as the statewide average for all local government. Overall, including intergovernmental revenue, central city per capita revenues increased by 170 percent versus 167 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 while their per capita revenue from the state government increased at a faster pace than it did for all local governments.

With respect to per capita general direct expenditures, total outlays increased by 179 percent in the central cities compared to 132 percent for all local governments. Of the nine expenditure items listed, public welfare, highways, and health and hospitals grew faster in the central cities.

As already noted, per capita revenues from own sources grew about as fast in central cities as they did for all local governments. A related question, however, is what happened to local tax bases during the 1960's. To answer this, we analyzed two major components of local tax bases--taxable retail sales and the true value of taxable real estate. From 1967 to 1972, adjusted per capita retail sales increased by 37 percent in the central cities compared to 39 percent for all local governments. And from 1962 to 1971, per capita property values rose 64 percent in central cities versus 93 percent statewide.

In summary, during the previous decade, central cities fared rather poorly. Their per capita revenues grew about the same as for all local governments, but 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 1970-71

	Total Amounts (Millions of Dollars)		Central City Amounts as a Percent of Amounts for All Local Governments	Per Capita Amounts ^{a/}		Central City Per Capita Amounts as a Percent of Per Capita Amounts For All Local Governments
	All Local Government	Central Cities		All Local Governments	Central Cities	
<u>General Revenue</u>						
Taxes:						
Property	\$ 500.9	\$146.3	29.2	\$107.76	\$123.50	114.6
Sales and gross receipts	78.6	26.8	34.1	16.91	22.62	133.8
Other	135.0	72.2	53.5	29.04	60.95	209.9
Charges and miscellaneous revenue	195.7	68.6	35.1	42.10	57.91	137.6
Total general revenue from own sources	910.2	313.9	34.5	195.81	264.98	135.3
Intergovernmental revenue:						
From state and local governments	585.9 ^{b/}	166.4	28.4	126.04	140.47	111.4
From federal government	88.6	44.4	50.1	19.06	37.48	196.6
Total intergovernmental revenue	<u>674.5</u>	<u>210.8</u>	<u>31.3</u>	<u>145.10</u>	<u>177.95</u>	<u>122.6</u>
Total revenue	\$1,584.7	\$524.7	33.1	\$340.91	\$442.93	129.9
<u>General Direct Expenditures</u>						
Education	\$ 873.4	\$217.0	24.8	\$187.89	\$183.18	97.5
Highways	63.0	20.9	33.2	13.55	17.64	130.2
Public welfare	140.3	77.1	55.0	30.18	65.08	215.6
Health & hospitals	29.7	14.1	47.5	6.39	11.90	186.2
Police & fire protection	96.5	46.0	47.7	20.76	38.83	187.0
Sewerage & sanitation	69.9	26.7	38.2	15.04	22.54	149.9
Local parks & recreation	37.8	22.3	59.0	8.13	18.82	231.5
Financial administration & general control	56.9	18.5	32.5	12.24	15.62	127.6
Interest on general debt	68.6	26.9	39.2	14.76	22.71	153.9
All other general expenditures	<u>195.9</u>	<u>127.0</u>	<u>64.8</u>	<u>42.14</u>	<u>107.21</u>	<u>254.4</u>
Total direct expenditure	\$1,632.0	\$596.5	36.6	\$351.08	\$503.53	143.4
Exhibit: 1970 population						
All local governments	4,648,494					
Central cities	1,184,627					

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

a/ Based on 1970 population counts as reported by the Bureau of the Census.

b/ Intergovernmental revenues from local governments are netted out.

Sources: Tables 5.5 and 5.8; U.S. Bureau of the Census, City Government Finances in 1970-71, HF71, No. 4, (Washington: Government Printing Office, 1972), pp. 56-57; U.S. Bureau of the Census, Number of Inhabitants - 1970 Census of Population, PC(1)-A48 Virginia, (Washington: Government Printing Office, 1971) pp. 15-17.

TABLE 5.15--TRENDS IN FINANCES OF ALL LOCAL GOVERNMENTS AND CENTRAL CITIES IN VIRGINIA, FISCAL YEARS 1960-61 TO 1970-71

	Total Amounts (Millions of Dollars)				Percentage Change 1960-61 to 1970-71		Per Capita Amounts ^{a/}				Percentage Change 1960-61 to 1970-71	
	All Local Governments		Central Cities		All Local Governments	Central Cities	All Local Governments		Central Cities		All Local Governments	Central Cities
	1960-61	1970-71	1960-61	1970-71			1960-61	1970-71	1960-61	1970-71		
<u>General Revenue</u>												
Taxes:												
Property	\$192.9	\$ 500.9	\$ 65.0	\$146.3	+159.7	+125.1	\$ 48.63	\$107.76	\$ 59.88	\$123.50	+121.6	+106.2
Sales and gross receipts	...	78.6	...	26.8	...	...	...	16.91	...	22.62	...	...
Other	51.1	135.0	30.7	72.2	+164.2	+135.2	12.88	29.04	28.28	60.95	+125.5	+115.5
Charges and miscellaneous revenue	85.1	195.7	26.3	68.6	+130.0	+160.8	21.45	42.10	24.23	57.91	+96.3	+139.0
Total general revenue from own sources	329.1	910.2	122.0	319.9	+176.6	+162.2	82.96	195.81	112.40	264.98	+136.0	+135.7
Intergovernmental revenue:												
From state and local governments	157.8	585.9	41.0 ^{b/}	166.4	+271.3	+305.9	39.78	126.04	37.77	140.47	+216.8	+271.9
From federal government	20.3	88.6	14.8	44.4	+336.5	+200.0	5.12	19.06	13.63	37.48	+272.3	+175.0
Total intergovernmental revenue	178.1	674.5	55.8	210.8	+278.7	+277.8	44.90	145.10	51.41	177.95	+223.1	+246.1
Total revenue	\$507.2	\$1,584.7	\$177.8	\$524.7	+212.4	+195.1	\$127.86	\$340.91	\$163.80	\$442.93	+166.6	+170.4
<u>General Direct Expenditures</u>												
Education	\$293.5	\$ 873.4	\$ 78.7	\$217.0	+197.6	+175.7	\$ 73.99	\$187.89	\$ 72.50	\$183.18	+153.9	+152.7
Highways	88.6	63.0	12.4	20.9	-28.9	+68.5	22.33	13.55	11.42	17.64	-39.3	+54.5
Public welfare	41.1	140.3	18.1	77.1	+241.4	+326.0	10.36	30.18	16.68	65.08	+191.3	+290.1
Health & hospitals	11.4	29.7	3.9	14.1	+160.5	+261.5	2.87	6.39	3.59	11.90	+122.6	+231.5
Police & fire protection	35.4	96.5	20.0	46.0	+172.6	+130.0	8.92	20.76	18.43	38.83	+132.7	+110.7
Sewerage & sanitation	26.7	69.9	11.4	26.7	+161.8	+134.2	6.73	15.04	10.50	22.54	+123.5	+114.7
Local park & recreation	7.6	37.8	5.1	22.3	+397.4	+337.3	1.92	8.13	4.70	18.82	+323.4	+300.4
Financial administration & general control	20.3	56.9	7.2	18.5	+180.3	+156.9	5.12	12.24	6.63	15.62	+139.1	+135.6
Interest on general debt	19.7	68.6	8.3	26.9	+248.2	+224.1	4.97	14.76	7.65	22.71	+197.0	+196.9
All other general expenditures	56.8	195.9	30.8	127.0	+244.9	+312.3	14.32	42.14	28.38	107.21	+194.2	+227.8
Total direct expenditures	\$601.1	\$1,632.0	\$195.9	\$596.5	+171.5	+204.5	\$151.53	\$351.08	\$180.48	\$503.53	+131.7	+179.0
<u>Exhibit:</u>												
1960 population												
All local governments	3,966,949											
Central cities	1,085,443											
1970 population												
All local governments	4,648,494											
Central cities	1,184,627											

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

^{a/} Based on 1960 and 1970 population counts as reported by the Bureau of the Census.

^{b/} Breakdown of transfers from federal government and from other localities was not available for fiscal year 1960-61.

Sources: U.S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office); U.S. Bureau of the Census, City Government Finances in 19--, selected editions (Washington: Government Printing Office); U.S. Bureau of the Census, Number of Inhabitants - 1970 Census of Population, PC(1)-A48 Virginia (Washington: Government Printing Office, 1971) pp. 15-17.

TABLE 5.16.--COMPARISON OF SELECTED REVENUE BASES
FOR CENTRAL CITIES AND ALL LOCAL GOVERNMENTS

	<u>Taxable Retail Sales</u>			<u>Per Capita^{a/}</u>		
	<u>Total</u>		<u>Percent Change</u>	<u>Per Capita^{a/}</u>		<u>Percent Change</u>
	<u>1967</u>	<u>1972</u>		<u>1967</u>	<u>1972</u>	
entral Cities	\$1,942,231,531	\$2,912,245,351	49.9	\$1,789	\$2,458	37.4
(State) Total	\$5,410,625,893	\$8,802,683,126 ^{b/}	62.7	\$1,387	\$1,921	38.5

	<u>True Property Tax Base</u>			<u>Per Capita^{a/}</u>		
	<u>Total</u>		<u>Percent Change</u>	<u>Per Capita^{a/}</u>		<u>Percent Change</u>
	<u>1962^{c/}</u>	<u>1971^{d/}</u>		<u>1962</u>	<u>1971</u>	
Central Cities	\$ 4,632,273,700	\$ 8,284,613,000	78.8	\$4,268	\$6,993	63.8
(State) Total	\$18,117,483,000	\$40,871,508,000	125.6	\$4,567	\$8,792	92.5

^{a/} Per capita figures are based on 1960 and 1970 population counts.

^{b/} Total retail sales for the state in 1972 do not include figures for Cumberland and Pittsylvania counties since these localities did not have a local option sales tax in 1967.

^{c/} True property values for the state in 1962 were supplied by the Department of Taxation. For central cities, full values were calculated by dividing 1962 assessed values by the true assessment ratio.

^{d/} True property values for 1971 were supplied by the Department of Taxation.

Sources: Taxable Sales in Virginia Counties and Cities, selected editions (Richmond: Department of Taxation); U.S. Bureau of the Census, Number of Inhabitants - 1970 Census of Population, PC(1)-A48 Virginia (Washington: Government Printing Office, 1971) pp. 15-17; "1962 and 1971 Estimated True (Full) Value of Locally Taxed Property in Virginia Counties, Cities, and Towns Constituting Special School Districts," special tabulations by the Department of Taxation.

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 are brief sections 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 1971, the survey indicated that true tax

^{1/} The statewide figure was derived from Table 5.5. Information on counties came from the Report of the Department of Taxation, Fiscal Year Ending June 30, 1970 and from Comparative Cost of County Government, Year Ended June 30, 1970.

^{2/} The appraisal is not always 100 percent of market value. Some allowance may be made for costs involved in selling property.

rates varied from \$0.24 per \$100 of true value in Surry County to \$1.76 in Richmond City. The weighted average rate of \$1.06 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 \$0.67. 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 1971 survey data shows what happened during the last decade (see appendix Table A30). The state weighted average rose \$0.14 from \$0.92 to \$1.06.

For the 128 localities for which comparative data exist, 66 increased their true tax rate (49 of them by \$0.10 or more), 61 lowered it (17 by \$0.10 or more), and 1 left it 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 19 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.

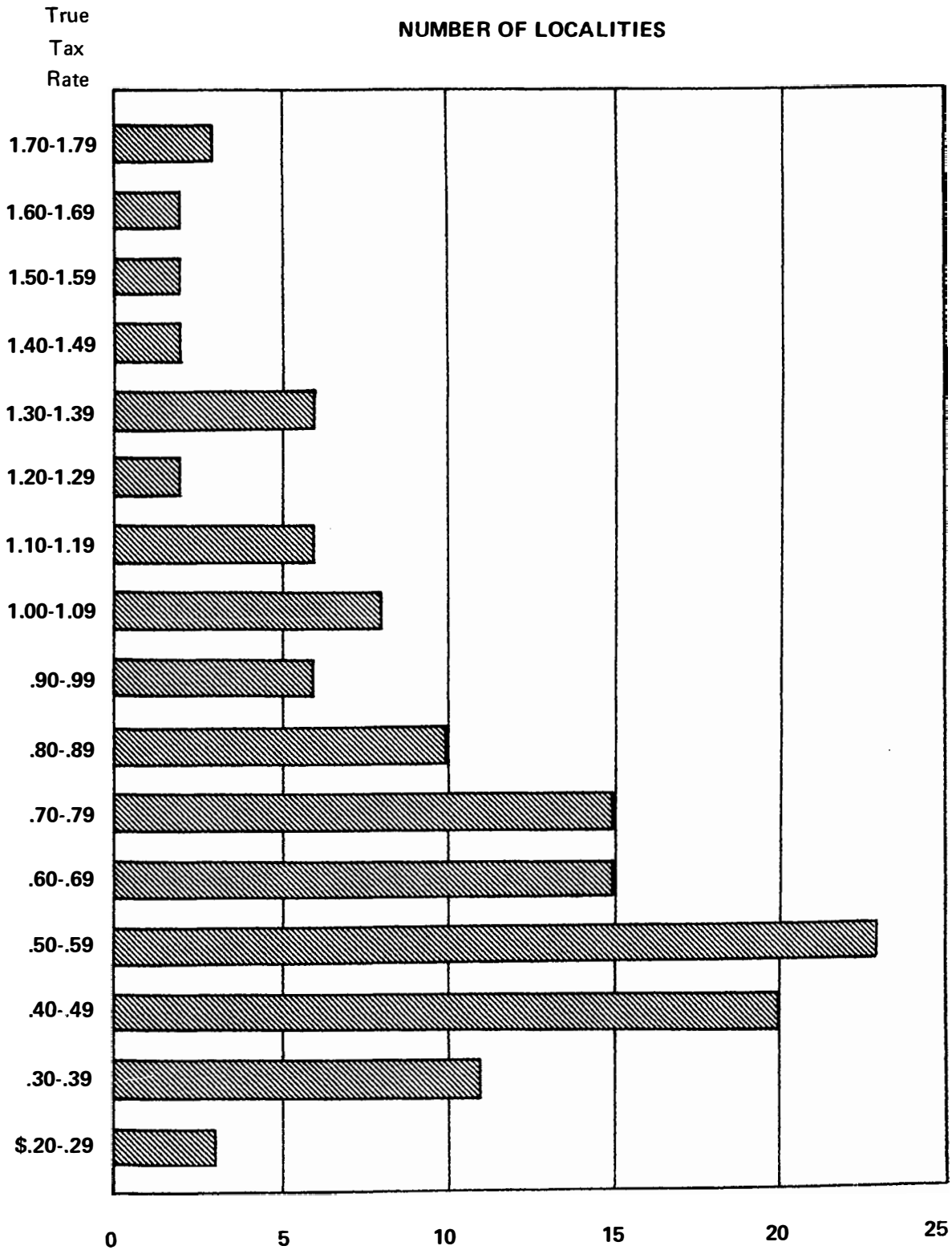
^{1/} U.S. Bureau of the Census, 1967 Census of Governments: Taxable Property Values, Vol. 2 (Washington: Government Printing Office, 1968), p. 15.

^{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, Covington, Danville, Fairfax, Hampton, Lynchburg, Newport News, Norfolk, Petersburg, Portsmouth, Richmond, Roanoke, Salem, Staunton, Virginia Beach, Waynesboro and Williamsburg. 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 1971



Source: Appendix, Table A.30

Assessment ratios vary from 6 percent of market value to 88 percent. The statewide weighted average is 33 percent. The practice of not assessing at full fair market value is nearly universal in the United States, and in recent years Virginia's assessment ratio has been close to the national.^{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.

This year the Department of Taxation has widened the scope of their assessment-sales ratio study to provide a breakdown of the ratios for residential, agricultural, and commercial classes of real estate as well as the aggregate

^{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.

(see Table A.31). Several problems were encountered in preparing these measures. For example, since many localities do not classify property for their land books, the ratios for the classes cannot be combined to arrive at a weighted aggregate for the locality. Therefore, the aggregate figure sometimes reflects the number of sales used for each type of property rather than the total amount of property of each class in a locality. Another problem is the scarcity of sales of various kinds of property. This can severely limit the size of the sample and make some of the resulting ratios of questionable quality.

In spite of these obstacles, the figures do demonstrate the wide variation of assessment levels by class of property both among different localities and within localities. Table 5.17 shows the range of assessment ratios in the counties and the cities. Not only is there a wide range among localities for any class of property, but also there is a disparity among the ratios for the different classes of property. This is more clearly seen in reviewing the data for the localities in Table A31. In one county, the assessment ratio for commercial property is 25 percentage points higher than that for agricultural property. In another area, residential property is assessed at a ratio about 10 percentage points higher than that for agricultural property and 5 percentage points higher than commercial property.

These assessment ratios are derived by comparing sales prices with assessments for a sample of sales for each class of property in each locality. The figure presented is the median value of all the ratios in the sample. Ideally, all the ratios in the sample should cluster closely around the median. However, often the values are widely dispersed, showing a lack of uniformity in assessments. The Department of Taxation has computed a measure of assessment variation by class of property for all counties and cities (see Table A.31). A reasonable standard of assessment quality would be a coefficient of dispersion of less

TABLE 5.1 7.--RANGE AND MEDIAN ASSESSMENT-SALES
RATIOS FOR VIRGINIA COUNTIES AND CITIES, TAX YEAR 1971

<u>Class of Property</u>	<u>Assessment - Sales Ratios</u>	
	<u>Counties</u>	<u>Cities</u>
Residential		
Range	7.1% - 34.8%	14.2% - 87.5%
Median	16.3%	40.0%
Agricultural		
Range	4.2% - 31.1%	... <u>a/</u>
Median	11.3%	... <u>a/</u>
Commercial		
Range	7.9% - 41.2%	16.5% - 90.6%
Median	18.8%	41.5%

a/ Only two cities, Chesapeake and Virginia Beach, had sufficient sales of agricultural land to prepare an assessment-sales ratio measure.

Source: Table A.31.

than 10 percent. However, the frequency distribution in Table 5.18, shows that only 15 localities met this criterion for residential property, none met it for agricultural property, and only 4 met it for commercial property. Overall 13 localities met this test for the aggregate, and they are probably the cream of the crop since all are metropolitan areas and only three lack full-time assessors.

Assessment Reform

Realizing that the lack of uniformity in assessments imposes an unfair burden on some taxpayers while giving others a windfall, on August 27, 1971, the Governor's Committee on State-Local Cooperation proposed eight measures to strengthen property tax administration. Subsequently, the Revenue Resources and Economic Study Commission recommended that the Governor and General Assembly give serious consideration to these measures which are listed below:

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

TABLE 5.18--FREQUENCY DISTRIBUTION FOR 1971 COEFFICIENTS OF DISPERSION OF ASSESSMENT RATIOS BY CLASS OF PROPERTY

Coefficient of Dispersion (Percent)	Residential			Agricultural			Commercial			Aggregate		
	Counties	Cities	Total	Counties	Cities	Total	Counties	Cities	Total	Counties	Cities	Total
5 to 9.9	4	11	15	...	...	...	1	3	4	4	9	13
10 to 14.9	5	22	27	1	...	1	2	2	4	3	21	24
15 to 19.9	12	1	13	5	...	5	3	6	9	7	4	11
20 to 24.9	11	...	11	7	...	7	4	3	7	10	...	10
25 to 29.9	23	3	26	15	1	16	7	3	10	16	4	20
30 to 34.9	13	1	14	24	...	24	2	5	7	26	...	26
35 to 39.9	7	...	7	19	...	19	6	4	10	8	...	8
40 to 44.9	9	...	9	8	...	8	4	2	6	10	...	10
45 to 49.9	3	...	3	2	...	2	7	...	7	4	...	4
50 to 54.9	5	...	5	5	1	6	3	...	3	5	...	5
55 to 59.9	2	...	2	2	...	2	2	1	3	...	...	...
60 to 64.9	1	...	1	1	...	1	1	2	3	2	...	2
65 to 69.9	...	...	...	...	...	...	...	...	...	...	...	...
70 to 74.9	...	...	...	1	...	1	...	...	...	1	...	1
75 and over	1	...	1	2	...	2	7	...	7	...	...	...
Total	96	38	134	92 ^{a/}	2 ^{a/}	94 ^{a/}	49 ^{a/}	31 ^{a/}	80 ^{a/}	96	38	134

^{a/} In some localities the size of the sample of sales data was too small to permit calculation of assessment ratios and coefficients of dispersions for some classes of property. In these cases the totals for the frequency distribution will be less than the total number of localities.

Source: Table A.31.

state funds fairly when the processes require a knowledge of the value of local real property.

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

Since that time, the Revenue Resources and Economic Study Commission has been continued and charged with further study of the property tax among other things; the Special Joint Committee on Public School Financing of the House of

Delegates and the Senate has been authorized to make a thorough study of the real property tax and its administration; and the Governor's Office has been budgeted funds to prepare an executive study of the property tax (this study has been placed under the direction of the Secretary of Finance).

Because an assessment-sales ratio study can provide many insights into the quality of assessment administration, and because it can effect state-local financing (it is used now in the basic school aid fund), it is important that the results of the study reflect local conditions as accurately as possible. Realizing this, the Secretary of Finance has contracted an independent consulting firm to evaluate the quality of the 1971 study and to provide recommendations for its improvement. Other consultants will study questions which require technical knowledge and impartiality. Such issues might include 1.) estimating the cost of setting up qualified full-time assessors' offices throughout the state, 2.) reviewing the methods of assessing public service corporation real property and its allocation to the various localities, or 3.) estimating the value of tax-exempt real property in the various localities.

One measure to aid in the improvement of assessment administration has been introduced as a bill in the last two sessions of the General Assembly but has met with little success - perhaps because of a lack of understanding of its purpose. This is the bill which requires a sworn statement of consideration to be filed with each deed transferred. At present a recordation tax is assessed for each transfer based on the selling price of the property. However, the persons having the deed recorded may understate or overstate the selling price for various reasons. This may cause an erroneous tax assessment of the property, since assessors often rely on recent sales data as an aid in their appraisals. It also can affect the assessment-sales ratio study, since the sales prices are derived from the amount of recordation tax paid. Sworn statements of consideration from both the buyer and the seller may eliminate much of this misstatement, for both parties would have to actively falsify a public record.

Property Tax Relief

There are three types of property tax relief currently available to the citizens of the Commonwealth:

- 1.) The General Assembly may grant tax exemptions to various benevolent, charitable, nonprofit, or historical organizations.
- 2.) Localities may grant property tax deferrals or exemptions to low income elderly property owners.
- 3.) Localities may assess agricultural, horticultural, forest, or open space property on the basis of its use value rather than its market value.

A brief discussion of each type of relief follows:

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 functions. The purpose of these exemptions is to subsidize and, therefore, encourage organizations that benefit the public welfare. However, a locality with a heavy incidence of tax exempt property may face a serious revenue loss.^{1/} In order to alleviate the tax burden on other property owners who must pay for the government services these tax exempt properties receive, the General Assembly has passed legislation which allows localities to impose a charge for services provided to tax exempt properties except that used for religious worship or for the residence of the minister of any church or religious body.

^{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 23 percent of its real property was exempt from taxation in 1972.

Since many elderly persons have fixed incomes which do not rise with the rapid changes in cost of living, they may find themselves unable to pay the taxes on their homes - especially in urbanizing areas. Beginning in tax year 1972, a local government may grant real property tax exemptions or deferrals on the dwellings of low income property owners 65 and over subject to the following conditions:

1. The combined income of the owners and their relatives living in the dwelling may not exceed \$7,500. The first \$1,500 of income of relatives, other than spouse of the owner, is not included in this total.
2. The net combined financial worth of the owner and spouse, excluding the dwelling and one acre of land, may not exceed \$20,000.
3. The owners must follow prescribed filing requirements and lose the exemption or deferral if their income or worth changes and exceeds the limits.

The localities may set lower net worth and/or income figures.

At present 13 cities and 5 counties have passed ordinances allowing tax relief for the elderly. They are Alexandria, Chesapeake, Colonial Heights, Falls Church, Fredericksburg, Hampton, Hopewell, Newport News, Richmond, Roanoke, Salem, Virginia Beach, Williamsburg, Arlington, Botetourt, Fairfax, Henrico, and Prince William. Their ordinances vary widely and each must be reviewed separately to arrive at the amount of tax relief granted in that area.

Finally, in many urbanizing areas, land once used for farming, forestry, or open space is being sold for more intensive uses. Aside from the lure of high land prices, some feel that increasingly higher taxes take such a large bite out of the farmer's or forester's profit margin that he must sell his land and move to a less metropolitan area. In order to preserve some of these land uses in urban areas, the locality may assess agricultural, horticultural, forest, and/or open space land at its use value rather than its market value. In this way,

these land owners in urban areas will receive lower assessments while their land continues in a permitted use. When they sell the land or change to a non-qualifying use, they must pay the difference between the taxes on the fair market value assessment and those they paid on the use value assessment for the previous five years plus 6 percent interest per year. To qualify for use value assessment, the land must meet standards set by the Commissioner of Agriculture and Commerce for agricultural and horticultural land, by the Director of the Department of Conservation and Economic Development for forest land, or the Director of the Commission on Outdoor Recreation for open space land.

While the intent of the bill is to aid bona fide farmers and foresters, there is some concern that it will benefit real estate speculators instead. The prescribed standards mentioned above have sought to prevent this. In addition, members of the State Land Evaluation Advisory Committee, which publishes the range of use value for each locality, is observing the effects of the law to note any loopholes that may develop.

Four localities - Fauquier, Loudoun, Prince William, and Virginia Beach currently have use value taxation ordinances in effect.

The Tangible Personal Property Tax

In fiscal year 1969-70, local tangible personal property tax collections comprised about 8 percent of local general revenue from own sources.^{1/} Types of property included under this classification are livestock, motor vehicles, animal drawn vehicles, bicycles, farm implements and mechanics' tools, felled timber and timber products, agricultural products in the hands of a purchaser (not a producer), household furnishings, musical and radio instruments and equipment, works of art, jewelry, ships and floating property not required to be assessed by the State Corporation Commission, aircraft, ponies and riding horses owned and used for pleasure, and other items of a similar nature not specifically enumerated by law. However, localities may exempt some or all classes of household goods and personal effects, and, as of a 1972 survey by the Department of Taxation, only 12 counties and 3 cities continue to tax them.

Nominal tax rates on tangible personal property vary from \$2.00 to \$9.00 per \$100 of assessed value, but since both the assessment ratios and the bases for assessment vary, these rates are rarely comparable. For instance, the 1972 edition of Tax Rates in Virginia Cities and Urban Counties lists 9 different bases for assessment used in the various localities surveyed, including original cost, blue book, red book, fair market value, depreciated cost, book value, etc. Apply to these bases, assessment ratios ranging from 8 to 100 percent, and a true hodgepodge of effective rates results.

In addition to the lack of comparability among localities, evasion constitutes another problem with the personal property tax. Motor vehicles

^{1/} Knapp, John L. Measuring Local Fiscal Capacity to Finance Public Education in Virginia, (Charlottesville: Tayloe-Murphy Institute, 1973) p. 39.

probably account for the bulk of revenue from this source since they are difficult to hide and easy to assess. Audit investigation on other types of property is most unlikely, making the tax widely evaded. In 1971, the assessed value per capita of tangible personal property for all counties and cities was only \$412 ^{1/} --an indication of widespread exclusion and evasion.

If greater comparability is desired, several measures could be initiated at the state level to reach this goal including:

- a) Exempting household effects statewide
- b) Making taxable only those items not easily evadable
- c) Prescribing uniform assessment standards (for example, denoting one set of values in the Blue Book as those to be used by all localities for assessing automobiles).

Tax on Machinery and Tools

The machinery and tools of manufacturing, mining, processing, reprocessing, radio and television broadcasting, and dairy firms constitute a separate classification for property taxation by localities. The tax rate may differ from that on tangible personal property but may not exceed it. In tax year 1969, local levies on machinery and tools amounted to \$10,186,578 or 1.4 percent of fiscal year 1969-70 local revenues from own sources.^{2/}

^{1/} Derived from Report of the Department of Taxation, Fiscal Year Ending June 30, 1972 (Richmond, 1972) p. 34, and the 1971 population according to the Bureau of Population and Economic Research of the University of Virginia.

^{2/} Derived from the Report of the Department of Taxation for the Fiscal Year Ending June 30, 1970 (Richmond: 1970); and Reports of the Auditor of Public Accounts on Comparative Costs of City Government and County Government for the fiscal years ending June 30, 1970.

Again, lack of comparability is a major problem with this tax. As reported by the Division of Industrial Development in the 1972 edition of Local Taxes on Manufacturers in Virginia, there are three main types of values on which assessments of machinery and tools are based: original cost, depreciated cost (book value), and fair market values. Assessment ratios may be one percentage for a locality or a schedule of percentages based on age. In addition, the assessment methods used for valuing machinery and tools are often imprecise and inequitable. Local 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 in the area.

If comparability of this tax among localities is generally desired, it could be achieved by having the legislature require the use of one type of valuation and one assessment ratio, or, less rigorously, a preferred method could be arrived at by professional assessors of this type of property and used as the state model. Localities could use it or not as they chose, but it would provide a serviceable guide to many local assessing officers.

The Tax on Mobile Homes

In 1970, the Census reported that 3.1 percent (46,514 units) of the total year round housing units in Virginia were mobile homes. This type of housing has shown substantial growth since 1960 when it accounted for 1.5 percent (17,257 units) of all the year round units. In terms of distribution, 82 percent of the mobile homes in 1970 were located in the counties. They comprised 4.3 percent of the counties' housing supply as compared to 1.4 percent of the supply in the cities.

Due to the growth in popularity of mobile homes the methods of taxing this type of unit have been subject to increasing inspection and criticism. Controversy exists between those who feel that mobile homeowners do not pay their own way and those who feel that they pay an excessive amount of taxes per \$100 of assessed value for their homes compared to what owners of conventional homes pay.

The first argument can be answered by the theory that a property tax is not meant to be, nor is it used elsewhere, as a service charge. It is, instead, a tax on accumulated wealth and bears little relation to benefits received. If it were decided that the mobile home is a unique form of housing to which the property tax cannot properly be applied, it might be possible with legislation, to fix a special fee instead. This might be what an equivalent modest, conventional home would pay or, alternatively, the actual value of services received by the average mobile home. Determination of either figure would be an interesting problem in itself.

As for the other side of the controversy--that mobile homeowners pay excessive taxes--we demonstrate below that tax rates on mobile homes may be substantially higher than those on regular homes in many Virginia localities. However, there is no requirement that the tax rates on different classes of property be the same.

Complicating this argument is the fact that confusion persists about how to properly classify mobile homes for property taxation: as real estate, as personal property, or as a separate classification. For example, a February 1970 ruling of the Attorney General held that a mobile home did not lose its identity as personal property and become real estate when its wheels were removed and it was placed on a permanent foundation. Later, an August 2, 1971 opinion of the Attorney General interprets the state law as defining mobile homes or trailers as a separate classification

which may be taxed at a rate different from but not higher than the rate on tangible personal property. However, the 1973 return of tangible personal property, machinery and tools, and merchants' capital (Department of Taxation Form 762), which is used by many localities, continues to carry mobile homes or offices as tangible personal property. A 1971 survey by the Virginia Municipal League^{1/} showed that several localities tax mobile homes as real estate when the wheels are removed and they are placed on permanent foundations. A sample survey conducted for this report shows that some localities continue to tax mobile homes on permanent foundations as real estate. Few localities tax mobile homes at a rate different from that on personal property.

Local governments also may levy regulatory and revenue license fees on mobile home owners or park owners. The revenue license may range from \$5 to \$50 a year per trailer and varies widely from locality to locality.

The difference in the property classification can result in a substantial difference in the tax bill charged to the mobile homeowner. For example, at the time of the Municipal League Survey, one city in Virginia had a real property rate of \$3.20 per \$100 of assessed value. The assessment ratio for this city was 37.1 percent. If a mobile home with a fair market value of \$10,000 were taxed as real property it would generate \$118.72 in taxes. However, in this city mobile homes were assessed at 50 percent of fair market value and taxed at the personal property rate of \$3.85 per \$100 of assessed value. Therefore, the unit in our example would yield \$192.50 in taxes--about 60 percent more than if taxed as real property. In addition, the city also charges the park owner a license fee of \$40 per space occupied as of January 1 each year. Since this charge

^{1/} Virginia Municipal League, Taxation, Regulation and Connection Fees for Mobile Homes. Report No. 519, (Richmond: Virginia Municipal League), June 1971.

is presumably passed on to the mobile homeowner, it is apparent that he pays almost twice as much as a real property owner with property of \$10,000 in fair market value.

If desired, this type of differentiation in the taxation of conventional versus mobile homes could be removed by a locality under present law through adjustment of the assessment ratio and/or tax rate on mobile homes to bring the tax yield in line with that from a similarly priced conventional home. Such a practice would insure that all homeowners were taxed on an equal basis.

In summary, the classification of mobile homes is confusing and is felt by many to be inequitable. Possible ways to clarify the situation include:

1. Changing the classification of mobile homes on permanent foundations to real property.
2. Levying a special charge rather than a property tax on mobile homes. Such fees might be based on what an equivalent modest, conventional home would pay or the actual value of services received by the average mobile home.

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.

Revenue Sharing

Individual and Fiduciaries Income Tax

If the individual income tax rates were increased, as discussed in Chapter III, consideration might be given to sharing part or all of the additional revenue with local governments. Such a step would be very similar to a local income tax if the basis for distribution were taxpayer residence, the principal difference being that the tax would be universal rather than optional. If the shared revenues were distributed on the basis of some other factor, such as population, employment, incidence of poverty, or tax effort, there would be an element of geographic distribution with the extent determined by the allocator used.

In fiscal 1971-72, several states shared their income tax revenues. In Illinois, one-twelfth of net state individual and corporate income tax receipts was shared with localities on the basis of population. New York also had a revenue sharing plan; 18 percent of individual income tax collections were distributed to localities on the basis of population with double weighting for cities. In Wisconsin, approximately 26 percent of individual income tax revenue and about 57 percent of corporate income tax revenue were shared with local governments on the basis of population, general property tax effort, and the value of public service corporation property.^{1/}

The Sales and Use Tax

Presently, all cities and counties in Virginia impose a 1 percent local option 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 from which it was collected.

Prior to and after its adoption, the distribution of the state sales and use tax has been a regular source of debate, primarily because of the difficulty in reaching a consensus on what constitutes an

^{1/} Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 73-112.

"equitable" distribution. Some 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 statement may be interpreted in two ways. In the first case, revenue would be distributed to each locality on an equal per capita basis. This would imply that the public needs of a locality are strictly determined by the number of people residing in that locality. A second approach would distribute revenue on the basis of the proportion of taxable sales made to residents of each jurisdiction. This distribution formula may be justified if the final incidence of the tax falls upon the ultimate purchaser. The main difficulty with this approach is measuring the taxable sales of residents, since most residents do not restrict their expenditures to one jurisdiction.
- (2) Revenues should be distributed to the locality that 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 by some index of a locality's tax effort. This approach would reward localities that have a high effort while penalizing those with a low effort. Thus, localities that make greater use of their available resources will receive a larger amount of state aid.
- (4) 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. Need can be legitimately measured in a number of ways, but the problem is that people will often measure need by the criteria which gives them the most aid. The problem therefore becomes one of agreement.

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 4 for the local share of the state tax by assuming that the proportion of school-age population is a reasonable 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 not altered, then the changes would involve the total proportion going to localities and/or the distribution among the localities. The present distribution could be changed to one based on place of sale or on a new index of need.

One new proposal would combine elements of criteria 2 and 4. This proposal would guarantee an amount for each locality equal to 1 percent of its taxable sales. However, if this amount were less than the amount received by the locality under the existing formula (school-age population), it would continue to receive the larger amount. In this way the existing formula can be changed so that no locality would receive a smaller dollar amount of revenue. It is conventional wisdom that a distribution plan based on the place of sale helps localities that have high per capita taxable sales either because of high per capita income, large shopping areas, 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. The reverse is true for localities with low per capita sales.

The end result of this proposed distribution formula is that the total amount distributed to localities would be larger. In fiscal year 1971-72, the local share of state sales tax revenues would have been \$107 million compared with \$86 million under the existing plan. The

\$21 million difference would have been financed from the state's general fund.

If the state sales and use tax were increased from 3 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. If the revenues were distributed by taxable sales, the result would be basically the same as an increase in the local option rate from 1 to 2 percent. A possible advantage of an increase in the local option would be that each locality would be given the freedom to make its own decision. Distribution by place of sale would be very advantageous for most central cities. If Alexandria, Charlottesville, Hampton, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, Roanoke, and Virginia Beach had received their 1971-72 local share of the state tax on the basis of place of sale rather than school-age population, they would have received an additional \$10 million. The 1 percentage point addition to the sales tax allocated by place of sale would have provided them with an extra \$32 million. Most smaller cities and suburban counties with well developed shopping areas would also have gained. Offsetting these gains would have been lower amounts for the remaining areas.

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 have increased the yield by 10 percent. Conversely, exemption of food products now taxed would have reduced the yield from the present base by 24 percent.

State Aid for Education

Total Spending

Before examining state aid for public elementary and secondary education, it will be helpful to look at all funding for education in 1971-72, the latest year for which comprehensive data are available. Local funds provided slightly over half (51.1 percent), state funds represented 37.9 percent, and the remaining 11 percent were federal (see Table 6.1). Most of the federal funds and virtually all of the state funds were used for net current expenditures. In contrast, slightly under two-thirds of the local funds were used for net current expenditures with the balance devoted to capital outlay and debt service.

The federal funds came in the form of numerous categorical aid programs, but most of the money was in compensatory aid, federal impact, and school lunch programs. There is now great uncertainty about the form and level of funding that these programs will assume in the 1974-76 biennium.

The remainder of this section is concerned with state funding, and since major changes were made for 1973-74 and are anticipated in the future, the focus will be on the new developments.

Existing System of State Aid

For 1973-74 the major types of state aid are the basic school aid fund, the local share of the state sales and use tax, and state paid fringe benefits. Together these programs account for \$9 out of every \$10 of state aid. The remainder of the aid is for transportation of pupils, special education, vocational education, teacher education and teaching scholarships, libraries, and other categorical programs (see Table 6.2).

TABLE 6.1.--SOURCES OF FUNDS FOR VIRGINIA PUBLIC SCHOOLS, 1971-72
(Millions of Dollars)

	Total		Source of Funds					
	Amount	Percent of Total	Federal		State ^{b/}		Local ^{b/}	
			Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Total expenditure ^{a/}	\$1,111.7	100.0	\$ 122.5	11.0	\$ 421.0	37.9	\$ 568.0	51.1
Less: capital outlay	125.6	100.0	8.1	6.4	0.3	c/	117.2	93.3
Current expenditure	986.1	100.0	114.3	11.6	420.8	42.7	450.8	45.7
Less: Debt service	87.9	100.0	...	...	...	...	87.9	100.0
Debt retirement	56.2	100.0	...	...	...	...	56.2	100.0
Interest	31.7	100.0	...	...	...	...	31.7	100.0
Net current expenditure	898.3	100.0	114.3	12.7	420.8	46.8	362.9	40.4

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

^{a/} Excludes administrative activities of the State Department of Education.

^{b/} The \$85.8 mil. state sales tax distribution was treated as state funds.

^{c/} Less than 0.1 percent but greater than zero.

Source: Superintendent of Public Instruction, Annual Report, 1971-72 (Richmond, 1973), pp. 190, 201, 206.

TABLE 6.2.--STATE SCHOOL AID, 1973-74

	1973-74 Appropriations	
	Millions of Dollars	Percent of Total
Basic school aid fund	\$288.1	54.7
Supplement to basic school aid fund	<u>24.7</u>	<u>4.7</u>
Subtotal	312.8	59.4
State sales and use tax--local share	104.5	19.8
Retirement, social security, and life insurance	58.2	11.0
Transportation of pupils	13.8	2.6
Special education	12.7	2.4
Vocational education	12.6	2.4
Other	<u>12.2</u>	<u>2.3</u>
Total from general fund	\$526.8	100.0

Note: Detail may not add to total due to rounding.

Source: Appropriations Acts approved April 16, 1972 and March 20, 1973

Basic School Aid Fund.--The basic school aid fund, which is the largest single component of state aid, is distributed on the basis of average daily membership (ADM) and fiscal capacity as determined by the true value of real estate. However, the distribution formula is constrained so that no locality receives less than 54 percent^{1/} of the cost of salaries based on the state minimum salary scale for state-aid support teaching positions. The end result is that roughly 70 percent of the 1973-74 basic school fund is essentially flat grant money, and the remainder represents equalization funds.

^{1/} The formula stipulates 60 percent but the 1973-74 estimated state share was reduced by 10 percent.

The 1973 General Assembly, armed with new federal general revenue sharing funds and under the spur of state constitutional requirements for funding educational standards of quality,^{1/} appropriated \$24.7 million to supplement the basic school aid fund. The entire amount represented equalization aid, and of the 135 school divisions, 30 received nothing. The supplemental appropriation represented a new approach to state aid. Although there are some special wrinkles in the formula the main elements are the establishment of \$628 per student in ADM as the necessary amount for school divisions to spend to assure provision of a quality education and the provision of state aid to meet this standard once a required level of local effort has been met. If the sum of three components--1) local spending at a rate equivalent to 80¢ per \$100 true value of real estate; 2) regular basic school aid funds; and 3) the local share of the state sales tax--does not equal or exceed \$628 per pupil, then the state provides the necessary supplement. An important feature of the new formula is that it requires a local expenditure effort equivalent to 80¢ per \$100 of true value. The majority of the county school divisions (53) and 1 city will have to increase spending from local sources in order to meet the new standard.

Sales and Use Tax.--The local share of the state sales and use tax is distributed on the basis of the number of children between the ages of 7 and 20. It is to be used "...for maintenance, operation, capital outlays, debt and interest payments, or other expenses incurred in the operation

^{1/} Constitution of Virginia, Article VIII, Section 2.

of the free public schools..."^{1/} In this discussion, and in the state's budget and other financial records, the funds are treated as state aid to localities. However, the statute requires that for purposes of determining local effort the sales tax distribution"... shall be considered as funds raised from local sources..."^{2/} This clause was inserted to help several localities comply with appropriation act language requiring each locality to provide from local resources not less than 30 percent of total expenditures (excluding capital outlay and debt service) for school operation.

The sales and use tax accounts for nearly one-fifth of state aid in 1973-74. Distribution favors those areas with a high percentage of school-age population and is unrelated to direct measures of fiscal capacity.

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.

Although this aid represents 11 percent of the total, it is frequently overlooked because it never appears in local accounts. A strong case can be made for merging fringe benefit aid with the basic school aid formula in whatever form it evolves. However, due to the present 100 percent state funding of fringe benefits, it is unlikely that localities would wish to risk putting this form of aid in a general formula requiring some

^{1/} Code of Virginia, 58-441.48 (d).

^{2/} Ibid.

degree of local effort. The present method of funding fringe benefits favors high fiscal capacity areas. Since they tend to pay high salaries and have low pupil-teacher ratios, they generally receive proportionately more state aid in fringe benefits than lower fiscal capacity areas.

New Developments.--The 1973 supplement to the basic school aid fund was a temporary measure for improving state aid to localities. For the 1974-76 biennium it will be necessary to develop a new formula, since the Attorney General has ruled that use of the basic school aid formula does not conform to state constitutional requirements for funding the actual cost of quality education.^{1/} The most likely course of action is to design an aid program that will incorporate the basic logic of the 1973 legislation and include other concepts recommended in the December, 1972 report of the Task Force on Financing the Standards of Quality.

Major concepts likely to be incorporated in proposed funding for 1974-76 are:

1.) A New Measure of Local Fiscal Capacity.--Consideration is being given to a measure of local capacity that will include local personal income and taxable sales in addition to the true value of real estate. This would raise the relative capacity of central cities and the majority of small urban areas and would lower the relative capacity of most rural areas and developing suburban areas. The result would be a stand-off for established suburban areas with a roughly 50-50 split between communities having more or less capacity by using the composite measure. The outcomes for the different types of areas reflect the concentration of personal income and retail sales in urban areas. Whatever measure of capacity is selected, a key decision will be the

^{1/} Letter from Attorney General Andrew P. Miller to Delegate W. Roy Smith dated February 7, 1973.

choice of a standardizing unit. The major alternatives are total population and ADM. Capacity per capita favors localities with a low ratio of public school children to total population--an outcome in areas with colleges, military installations, heavy proportions of working age or elderly residents, or large percentages of private school enrollment. Capacity per ADM represents the other side of the coin--it favors areas with a high ratio of public school enrollment to total population. In a crude way, capacity per capita allows for noneducation costs of local government unassociated with public school enrollment. In contrast, capacity per ADM emphasizes the role of education in local finance. Central cities, colleges, and military areas would be the primary beneficiaries by using a per capita measure while established suburban areas would benefit most by the use of an ADM measure.

2.) A New Formula,--The basic school aid formula is likely to be replaced with one that will incorporate a local fiscal capacity measure and a standards of quality (SOQ) cost per pupil in ADM. Such a formula could take the following form:^{1/}

$$\text{State aid} = \left[1 - \left(\frac{\text{Average district share}}{\text{District capacity index}} \times \frac{\text{SOQ per ADM}}{\text{Local share of state sales tax}} \right) \right] \times \frac{\text{SOQ per ADM}}{\text{ADM}}$$

"Average district share" is defined as the share of the SOQ cost per pupil to be borne by a district with the same relative capacity as the state average.

The mechanics of the formula can be illustrated by using some hypothetical numbers. Assume the SOQ is \$700 per pupil in ADM, the average district share is .50, and that we wish to know the state aid for a

^{1/} The formula would be constrained so that no area would get less than its local share of the state sales tax.

district with 10,000 ADM, a district capacity index of .80, and a \$995,000 state sales tax transfer.

$$\text{State aid} = [1 - (.50 \times .80)] \times \$700 \times 10,000 - \$990,000$$

$$\text{State aid} = \$3,210,000$$

$$\text{State aid per pupil} = \$3,210,000 \div 10,000 \text{ ADM} = \$321$$

Because areas with high capacity indexes might receive nothing under the formula except the local share of the sales tax, a guaranteed minimum state share might be considered. Such a step would increase the political acceptability of the formula and recognize that high capacity areas are likely to be major sources of general fund revenues.

3.) State Aid for Compensatory Education.--Presently the federal government provides \$36.1 million for the education of children from poverty backgrounds who are performing poorly in reading and other basic skills. Children receiving the aid are concentrated in central cities and rural areas. Although large amounts have been spent on compensatory education, measurable accomplishments appear sparse. What is probably required is more spending combined with 1) more careful use of the funds to direct them to the children who require help and 2) utilization of teaching methods that show measurable results. If the state plans a program, then in addition to the determination of the amount to be budgeted, decisions must also be made about where and how the funds are to be spent. The allocation of funds could follow the federal method which is to distribute them on the basis of local poverty measures. Another and more direct approach would be to distribute funds on the basis of test scores. Children scoring below prescribed levels would become the target population for special programs to improve their performance. Possible arguments against using this approach are that "it rewards failure" and that the test scores are unreliable. The first argument appears weak if the tests are used in the early years as a diagnostic

device to measure the skills with which the schools have to work. The second argument, if correct, makes a case for improved tests, rather than their abandonment.

4.) State Aid for Capital Outlay.--Not since the 1952-54 biennium has the state provided appropriations for capital outlay, yet in any comprehensive view of public education, expenditures for buildings and equipment must be considered integral costs. In 1971-72 localities spent \$125.6 million for capital outlays, a large portion of which was financed by selling bonds. The state does offer some assistance by making loans from the Literary Fund and by purchasing local school bonds through the Virginia Public School Authority. These measures, which reduce localities' school bond interest costs, are projected to cover about one-fourth of the school bond debt sold in 1972-73.

Many states offer direct state aid for capital outlay. If Virginia undertook such aid on a significant scale, it would be very costly. Furthermore, there are some major problems in designing a distribution formula. Formulas that are related to present debt service reward areas that have had a preference for borrowing instead of financing capital outlays on a "pay-as-you-go" basis, and they also favor areas with poor credit ratings and high interest costs. Formulas that are based on current capital outlays tend to favor growth areas but a question arises as to the desirability of subsidizing growth. Perhaps, the best type of formula is one that is based on the amount of capital required per student over the useful life of the capital asset. Then localities would be provided funds on the basis of ADM and there would be no requirement that the capital funds would be spent in the year received.

5.) Recognition of Differences in Local Costs.--Neither the present aid formulas nor those under discussion recognize differences in local

costs. Nonetheless, the notion of a single SOQ cost applicable to the entire state is naive. Because of other job opportunities and the effect of urban living costs on labor supply, urban areas must pay higher teacher salaries than rural areas. Land costs and construction costs are also likely to be higher in urban areas.^{1/} For these reasons, an effort should be made to build crude cost index factors to apply to different areas within the state.

^{1/} See "Equal Dollars, Unequal Help--States Should Make Allowances for School Cost Differentials," Search (The Urban Institute), Vol. 3, No. 1 (January-February, 1973), pp. 1-4.

State Aid for Welfare^{1/}

On January 1, 1972, the state assumed 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. However, all of these programs with the exception of aid to families with dependent children are scheduled to be taken over completely by the federal government on January 1, 1974. This change will leave localities responsible for their share of administration costs and public 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 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 1971-1972, the cost would have been \$8.2 million with a large proportion of the assistance provided to central cities with high welfare loads.^{2/} This alternative would continue to leave localities responsible for their share of all administration costs. In fiscal year 1971-72 their share would have been \$4.1 million if based on the 20 percent of administrative costs that they would have to pay beginning in fiscal year 1973-74 (and not the 21.6 percent actually paid.) Take-over of the local share of day care services and work incentive programs would have cost an additional \$421,000 in fiscal year 1971-72.

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

^{1/} For more information on this subject see Chapter IV, pp. 223-225.

^{2/} Recent changes in the Social Security Act, Titles 1, 4A, 4B, 10, 14 and 16 restricting federal reimbursing claims will become effective July 1, 1973. No impact analysis is yet available.

of administration by the state government. Such an approach would have cost the state about \$12.7 million in fiscal year 1971-72. This estimate assumes the circumstances which will prevail as of January 1, 1974, when the federal government becomes responsible for all administrative and program costs for old age assistance, aid to the permanently and totally disabled, and aid to the blind, and also assumes the present status in which there is no local share in aid to families with dependent children. The \$12.7 million figure is probably a low estimate since if the state were to take over full costs 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 local health departments 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 1971-72 would have required an additional \$10.4 million.^{1/}

^{1/} Expenditure data for fiscal year 1971-72 was supplied by Mr. A. E. Price, Fiscal Director of the Department of Health.

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 1970-71 these local governments spent \$69 million but received aid of \$20 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 \$2,500 per lane mile for urban extensions of primary routes and \$1,500 per lane mile for certain other streets could be increased and given a closer relationship to actual costs of maintenance. 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.^{2/}

^{1/} See Table 6.3. 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/} Beginning 1973-74, approximately \$5.5 will be distributed to those cities which have to purchase local bus systems and roughly \$6.0 million will be provided for those localities building fringe parking lots and bus shelters. This aid will be administered by the Department of Highways.

TABLE 6.3.--HIGHWAY FINANCES OF VIRGINIA LOCALITIES, FISCAL YEAR 1970-71

TABLE 575. HIGHWAY FINANCES OF VIRGINIA LOCALITIES, FISCAL YEAR 1976-77

Item	Localities Operating Their Own Systems					94 State Supported Counties	Total, All Localities		
	Municipalities		Arlington and Henrico Counties	Total					
	Under 5,000	5,000 to 49,999							
Receipts:									
Total receipts from local sources ^{a/}	\$1,803,507	\$ 9,886,772	\$14,542,121	\$4,840,686	\$31,073,086	\$6,858,061	\$37,931,147		
Total receipts from state government	931,075	4,935,860	9,810,819	4,219,253	19,897,007	115,445	20,012,452		
Total	<u>\$2,734,582</u>	<u>\$14,822,632</u>	<u>\$24,352,940</u>	<u>\$9,059,939</u>	<u>\$50,970,093</u>	<u>\$6,973,506</u>	<u>\$57,943,599</u>		
Disbursements:									
Total direct highway disbursements for capital outlay	\$ 755,586	\$ 2,978,592	\$ 3,281,899	\$1,845,063	\$ 8,861,140	\$ 14,544	\$ 8,875,684		
Total direct highway disbursements for maintenance ^{b/}	1,088,221	6,552,214	11,861,490	1,983,560	21,485,485	52,219	21,537,704		
Interest on debt ^{c/}	1,423	304,343	3,380,491	878,061	4,564,318	...	4,564,318		
Other ^{d/}	573,066	4,412,089	14,475,501	3,079,505	22,540,161	6,906,743	29,446,904		
Total direct highway disburse- ments ^{b/}	\$2,418,296	\$14,247,238	\$32,999,381	\$7,786,189	\$57,451,104	\$6,973,506	\$64,424,610		
Intergovernmental transfers ^{d/}	344,086	523,414	3,397,036	...	4,264,536	...	4,264,536		
Debt redemption	7,200	1,451,980	4,817,261	1,273,750	7,550,191	...	7,550,191		
Total disbursements	<u>\$2,769,582</u>	<u>\$16,222,632</u>	<u>\$41,213,678</u>	<u>\$9,059,939</u>	<u>\$69,265,831</u>	<u>\$6,973,506</u>	<u>\$76,239,337</u>		

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 \$29,446,904 total for all localities was composed of estimated costs for undistributed highway equipment, general administration and engineering, highway and traffic police, and miscellaneous disbursements.

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, 1971," (Charlottesville, University of Virginia, 1973).

The cost of expanded state participation would depend on the program selected, but to give some order or 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 \$20 million in fiscal year 1970-71. This amount would have been 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 1 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 58-151.04 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 3,800 local jurisdictions with the majority concentrated in Ohio (about 330 local jurisdictions) and Pennsylvania (about 3,400). Both of these states have recently adopted state individual income taxes as well. Seven other states have local income

^{1/} For more on the tax see Chapter III, pp. 166-183, and Chapter V, p. 265.

^{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.

^{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, 1972 Edition, M-74 (1972).

taxes in addition to state income taxes, and all 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 more than 3,700 of the taxing jurisdictions had less than 50,000 population, but there were 51 cities with populations greater than 50,000 that had such taxes, including New York, Philadelphia, Detroit, Baltimore, Cleveland, Pittsburgh, and St. Louis.

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 6.4 and 6.5.

1. Definition of Taxable Income.--Most local income taxes restrict the tax to salaries and wages, but a minority include other forms of income such as interest, dividends, rent, and capital gains. 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"

TABLE 6.4 --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 with-held 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	\$600 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	No	No	Yes	No	No	Yes
St. Louis, Mo.	Same	Yes	Yes	Yes	Yes	No	No	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	\$600 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, 1972 Edition, M-74 (Washington: Government Printing Office, 1972), p. 229.

TABLE 6.5.--LOCAL INCOME TAXES, RATES AND COLLECTIONS
(Dollar amounts in thousands)

State and local government	Rate December 31, 1971 (percent)	Municipal tax collections, 1969-70 (Cities with over 50,000 population in 1970)		
		Total tax collections	Income tax collections	
			Amount	As a percent of total collections
Alabama:				
Gadsden	2.0	\$ 4,961	\$ 2,850	57.4
Delaware:				
Wilmington	% of 1% or 1.5% ¹	15,580	1,998	12.8
Kentucky:				
Ashland	1.5	—	—	—
Benton	0.5	—	—	—
Berea	1.5	—	—	—
Bowling Green	1.5	—	—	—
Catlettsburg	1.0	—	—	—
Covington	2.5	3,996	1,997	50.0
Cynthiana	1.5	—	—	—
Danville	1.0	—	—	—
Dawson Springs	1.0	—	—	—
Elizabethtown	0.8	—	—	—
Flemingsburg	1.0	—	—	—
Frankfort	1.0	—	—	—
Fulton	1.0	—	—	—
Glasgow	1.0	—	—	—
Hazard	1.0	—	—	—
Hopkinsville	1.0	—	—	—
Leitchfield	1.0	—	—	—
Lexington	1.5	10,460	5,674	54.2
Louisville	1.25	34,435	18,887	54.8
Jefferson County ²	1.75	—	—	—
Ludlow	1.0	—	—	—
Marshall County	0.5	—	—	—
Mayfield	1.0	—	—	—
Maysville	1.5	—	—	—
Middlesboro	1.0	—	—	—
Newport	2.0	—	—	—
Owensboro	1.0	2,541	1,214	47.8
Paducah	1.25	—	—	—
Pikeville	1.0	—	—	—
Princeton	1.0	—	—	—
Richmond	1.0	—	—	—
Russellville	1.0	—	—	—
Versailles	1.0	—	—	—
Winchester ³	1.0	—	—	—
Maryland:	% of State tax			
Baltimore City	50%	200,884	33,851	16.9
19 Counties	50%	—	—	—
Wicomico County	45%	—	—	—
Queen Anne's County	40%	—	—	—
Talbot County	35%	—	—	—
Worcester County	20%	—	—	—
Michigan:				
Battle Creek	4	—	—	—
Big Rapids	4	—	—	—
Detroit	4.5	223,051	93,349	41.9
Flint	4	18,433	9,613	52.2
Grand Rapids	4	14,838	7,234	48.8

See footnotes at end of table.

TABLE 6.5.--LOCAL INCOME TAXES, RATES AND COLLECTIONS (Continued)
(Dollar amounts in thousands)

State and local government	Rate December 31, 1971 (percent)	Municipal tax collections, 1969-70 (Cities with over 50,000 population in 1970)		
		Total tax collections	Income tax collections	
			Amount	As a percent of total collections
Hamtramck	4	—	—	—
Highland Park	4	—	—	—
Hudson	4	—	—	—
Jackson	4	—	—	—
Lansing	4	\$11,876	\$ 5,474	46.1
Lapeer	4	—	—	—
Pontiac	4	9,486	5,058	53.3
Port Huron	4	—	—	—
Saginaw	4	7,468	3,654	48.9
Missouri:				
Kansas City	1.0	56,223	13,487	24.0
St. Louis	1.0	101,036	33,854	33.5
New York:				
New York City	0.7-3.5 ⁶	3,023,242	469,523	15.5
Ohio:				
Cities 50,000 population and over —				
Akron	1.4 (1.5 eff. 1/1/72)	21,206	12,505	59.0
Canton	1.5	8,792	7,119	81.0
Cincinnati	1.7	51,565	22,883	44.4
Cleveland	1.0	95,672	36,742	38.4
Cleveland Heights	1.0	4,309	1,158	26.9
Columbus	1.5	31,066	22,438	72.2
Dayton	1.0	28,014	16,682	59.5
Elyria	1.0	2,227	145	65.1
Euclid	1.0	6,750	3,083	45.7
Hamilton	1.5	3,916	2,543	64.9
Kettering	1.0	4,320	2,117	49.0
Lakewood	1.0	4,709	1,265	26.9
Lima	1.0	2,742	2,095	76.4
Lorain	1.0	5,622	3,577	63.6
Mansfield	1.0	3,731	2,673	71.6
Parma	1.0	5,684	2,225 est.	39.1
Springfield	1.5	4,193	3,001	71.6
Toledo	1.5	29,586	22,652	76.6
Warren	1.0	3,620	2,622	72.4
Youngstown	1.5	12,361	7,350 est.	59.5
308 cities and villages (with less than 50,000 population)	0.25 — 1.7	—	—	—
Pennsylvania: ⁷				
Cities, 50,000 population and over —				
Abington Township	1.0 ⁸	2,976	n.a.	n.a.
Allentown	1.0 ⁸	7,675	1,616	21.1
Altoona	1.0 ⁹	2,927	644	22.0
Bethlehem	1.0 ⁸	5,121	1,163	22.7
Chester	1.0 ¹⁰	3,779	1,929	51.0
Erie	1.0 ⁸	8,630	1,640	19.0
Harrisburg	1.0 ⁹	5,353	909	17.0
Lancaster	1.0 ⁸	2,896	620	21.4
Penn Hills Township	1.0 ⁸	2,454	858	35.0
Philadelphia	3.3125 ¹¹	357,041	212,064	59.4
Pittsburgh	1.0 ⁸	61,805	12,419	20.1

See footnotes at end of table.

TABLE 6.5 .--LOCAL INCOME TAXES, RATES AND COLLECTIONS (Continued)
(Dollar amounts in thousands)

State and local government	Rate December 31, 1971 (percent)	Municipal tax collections, 1969-70 (Cities with over 50,000 population in 1970)		
		Total tax collections	Income tax collections	
			Amount	As a percent of total collections
Reading	1.0 ¹⁰	5,646	1,056	18.7
Scranton	1.0 ^{8,12}	6,567	2,094	31.9
Wilkes Barre	0.5 ⁸	3,094	382	12.3
York	1.0 ⁸	3,562	408	11.5
Approx. 3,400 other local jurisdictions (including over 1,000 school systems)	0.20 - 1.0	—	—	—

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 91.) 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 Newark 1% payroll tax imposed on employees, profit and nonprofit, having a payroll over \$2,500 per calendar quarter; the San Francisco 1% payroll expense tax (eff. 10/1/70); 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); and the 3/10 of 1 percent payroll tax imposed on employers in the Lane County Oregon Mass Transit District.

— Signifies a county, or a city under 50,000 population.
n.a.—not available.

¹If 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 1.5%. 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.

²A 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.

³New tax effective April 1, 1971.

⁴Under 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.

⁵The rate for residents in Detroit was increased from 1 percent to 2 percent effective October 1, 1968.

⁶New York City residents' rate ranges from 0.7 percent on taxable income of less than \$1,000 to 3.5 percent on taxable income in excess of \$30,000. An earnings tax of 0.45 percent of wages or 65/100 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.

⁷Except 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.

⁸The school district rate is the same as the municipal rate.

⁹The school district rate is 0.5 percent.

¹⁰There is no school district income tax.

¹¹The Philadelphia school district imposes a 2% tax on investment income.

¹²Combined city and school district rate may not exceed 2.0 percent.

Source: ACIR staff compilation based on Commerce Clearing House, State Tax Reporter, and U. S. Bureau of the Census, Governments Division. Shown in Advisory Commission on Intergovernmental Relations, State-Local Finances and Suggested Legislation, 1972 Edition, M-74 (Washington: Government Printing Office, 1972), pp. 226-228.

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 most cases a state tax is also levied 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.

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 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

^{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.

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 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 the 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. Without District reciprocity and with a local income tax applicable to nonresident workers and residents, a Virginia resident working in the District would pay income taxes to the District, to the state of Virginia, and to his Virginia city or county of residence. To reduce his burden, a credit for the District taxes could be allowed against state individual income tax liability but this would be a costly option for the state to allow.

5. Administration.--The tax is generally administered by the taxing locality. However, in some instances a central collection agency for several

local governments has been formed. This is the procedure used in various Pennsylvania jurisdictions and in the Cleveland, Ohio area.^{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.

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^{3/} by a small corporation in any other locality is very unusual.^{3/}

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

^{2/} Ibid., p. 1316.

^{3/} Ibid., p. 1330.

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.

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 \$75 million in fiscal year 1971-72--assuming it were mandatory and applied to all cities and counties.

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 statewide levy. Table 6.6 shows estimated 1970-71 collections for our 17 area sample, assuming the tax generated the average per capita amount of states levying such a tax and assuming all localities exercised the option.

TABLE 6.6.--ESTIMATED REVENUE FROM A LOCAL OPTION CROWN TAX,
FISCAL YEAR 1970-71^{a/}

<u>Locality</u>	<u>Estimated Revenue</u>
Alexandria	\$ 225,000
Augusta	45,000
Buckingham	6,000
Chesapeake	117,000
Chesterfield	89,000
Fairfax County	795,000
Floyd	6,000
Lunenburg	10,000
Nansemond	32,000
Norfolk	547,000
Northumberland	9,000
Norton	8,000
Rappahannock	2,000
Richmond City	568,000
Roanoke City	213,000
Waynesboro	40,000
Wise	68,000
State	7,907,000

^{a/} State revenue estimated on the basis of \$1.70 per capita collections and using 1970 population figures. This figure was allocated to localities on the basis of taxable food sales in fiscal year 1970-71.

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. 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, 1972, a 7 cent per gallon rate applied in Virginia and all of its neighbors except North Carolina (9 cents) and West Virginia (8.5 cents).

Local Option Motor Vehicle Sales and Use Tax

The Motor Vehicle Sales and Use Tax is presently reserved as a state tax; localities are prohibited from using it.^{1/} If the taxation of automobile sales was 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 as now the tax would have provided \$34.3 million for local governments in the 1970-72 biennium.^{2/}

^{1/} See Code of Virginia, Section 58-685.25.

^{2/} Calculated by dividing actual state receipts in the 1970-72 biennium by one-half.

Public Utility Assessments

The so-called "Bemiss Act"^{1/} 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 1971 data, 96 counties and 17 cities assessed under 40 percent. For these areas, the adjustment brings about a revenue loss. For the 21 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.

A byproduct of the acceleration would be the stimulation of many localities to use higher assessment ratios with resulting improved tax administration and larger borrowing limit.

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 1973, 7/20 of this adjustment process will be complete. This could be accelerated to achieve equalization in a shorter period of time.

^{1/} Code of Virginia, Section 58-512.1

Rolling Stock Tax*

The purpose of this section is to research and evaluate the rolling stock tax (use concept) and the local property tax (base concept) on motor carriers in the Commonwealth of Virginia. Sections 58-618 to 58-626.1 of the Code of Virginia provide for a rolling stock tax of one dollar per hundred dollars of assessed value on intrastate common carriers in lieu of local personal property taxes. Proceeds from this State Corporation Commission administered tax are returned to the localities through which the carriers operate. The revenue is prorated to the localities based on the mileage traveled over regular routes by each subject carrier.^{1/}

In 1972, there were sixteen motor carriers operating under intrastate common carrier freight certificates; these carriers paid \$87,111 in rolling stock taxes.^{2/} The distribution of these revenues to the localities is shown in Table 6.7 .

The rolling stock tax, which is based on the habitual use concept of taxation, recently has come under criticism from several sources.

Truckers assert that it constitutes differential treatment for one class of motor carriers, the intrastate common carrier. Fueling the charge of differential treatment is the fact that most intrastate common carriers have more than one operating authority. For example, if a motor carrier operates under an intra-

*This section was prepared by Drs. George E. Hoffer and Charles J. Gallagher under contract to the Revenue Resources and Economic Study Commission.

^{1/} Data limitations prevent the inclusion of miles traveled over irregular routes.

^{2/} "A Statement of Rolling Stock and Taxes for the Year 1972 for Motor Vehicle Carriers," State Corporation Commission, Commonwealth of Virginia, 1972.

state common carrier certificate, then the entire fleet of that firm is exempt from local personal property taxes and subject to the rolling stock tax. This situation will exist even though only a very small portion of the carrier's total operation may be as an intrastate common carrier.

These critics argue that if the fleets of the intrastate common firms were subject to the local personal property taxes, the tax bill of these firms would be significantly higher; therefore, the intrastate common carriers are enjoying a competitive advantage. In investigating such claims, it is necessary to consider the efficiency with which the taxes are collected, the possibilities of tax avoidance, as well as the differences in tax rates and depreciation schedules among the localities. Criticism also comes from some commissioners of revenue. These commissioners feel that the rolling stock tax is preempting them from a major source of revenue and that repeal of this tax in favor of local property taxes would significantly increase local revenues. Finally, the State Corporation Commission views the tax with disfavor. Since the tax yielded less than \$90,000 in 1972, several parties within the Commission view it as a nuisance.^{1/}

Distribution of revenues in 1972 from the rolling stock tax to the localities is shown in Table 6.7 . The estimated total property tax liability of the same intrastate common carrier was calculated under varying assumptions. First, each locality's tax revenues were calculated by applying the State Corporation Commission's depreciation schedule and the local property tax rates. This method is used by the State of North Carolina. These estimates are viewed as potential maximums, since all localities involved use a more accelerated depreciation

^{1/} When the receipts from common carriers of passengers are added to the receipts from common carriers of freight, the tax generated over \$326,000 in revenues.

TABLE 6.7 --DISTRIBUTION OF REVENUES FROM THE ROLLING STOCK TAX
TO COUNTIES AND CITIES, 1972 *

Counties			
Accomack	\$ 142.67	King and Queen	\$ 351.67
Albemarle	2,129.60	King William	348.80
Alleghany	396.98	Lancaster	188.22
Amelia	363.91	Lee	613.68
Amherst	618.32	Loudoun	166.07
Appomattox	613.38	Louisa	924.69
Arlington	248.06	Lunenburg	457.20
Augusta	976.85	Madison	498.86
Bath	7.93	Mathews	33.22
Bedford	1,685.36	Mecklenburg	526.47
Bland	773.63	Middlesex	263.60
Botetourt	1,697.71	Montgomery	1,094.87
Brunswick	475.99	Nansemond	1,775.03
Buchanan	386.05	Nelson	827.03
Buckingham	923.46	New Kent	736.89
Campbell	1,822.19	Northampton	123.47
Caroline	643.56	Northumberland	127.88
Carroll	223.47	Nottoway	645.66
Charles City	314.00	Orange	145.11
Charlotte	318.69	Page	119.50
Chesterfield	3,677.03	Patrick	170.24
Clarke	61.90	Pittsylvania	1,086.22
Craig	29.06	Powhatan	555.03
Culpeper	585.24	Prince Edward	435.90
Cumberland	463.66	Prince George	1,076.91
Dickenson	55.21	Prince William	644.99
Dinwiddie	1,079.15	Pulaski	432.59
Essex	297.40	Rappahannock	21.35
Fairfax	913.62	Richmond	263.36
Fauquier	431.13	Roanoke	1,886.38
Floyd	214.27	Rockbridge	1,528.15
Fluvanna	353.51	Rockingham	385.21
Franklin	1,159.10	Russell	356.01
Frederick	241.45	Scott	590.18
Giles	483.36	Shenandoah	147.26
Gloucester	167.45	Smyth	649.38
Goochland	1,868.30	Southampton	976.04
Grayson	78.11	Spotsylvania	327.28
Greene	169.95	Stafford	582.06
Greensville	116.78	Surry	110.08
Halifax	616.94	Sussex	998.20
Hanover	1,224.28	Tazewell	41.19
Henrico	1,923.03	Warren	48.32
Henry	1,226.73	Washington	1,445.32
Highland	2.69	Westmoreland	47.34
Isle of Wight	820.41	Wise	598.32
James City	442.25	Wythe	882.37
King George	220.17	York	228.60
Total Counties		\$60,166.19	

TABLE 6.7 --DISTRIBUTION OF REVENUES FROM THE ROLLING STOCK TAX
TO COUNTIES AND CITIES, 1972 (Continued)

Cities	
Alexandria	\$ 190.58
Bedford	651.32
Bristol	64.71
Buena Vista	32.62
Charlottesville	637.34
Chesapeake	1,751.25
Clifton Forge	48.04
Colonial Heights	256.41
Covington	29.01
Danville	432.70
Emporia	20.01
Fairfax	107.34
Falls Church	83.06
Franklin	118.61
Fredericksburg	167.60
Galax	25.53
Hampton	846.88
Harrisonburg	335.26
Hopewell	386.50
Lexington	82.60
Lynchburg	531.43
Martinsville	390.59
Newport News	2,090.57
Norfolk	4,184.97
Norton	31.02
Petersburg	726.24
Portsmouth	483.93
Radford	12.70
Richmond	4,680.59
Roanoke	1,084.53
Salem	92.22
South Boston	24.31
Staunton	358.10
Suffolk	322.47
Virginia Beach	954.95
Waynesboro	1,407.48
Williamsburg	113.47
Winchester	223.17
Total Cities	\$23,980.11
Total Towns	\$ 2,964.70
Grand Total**	\$87,111.00

*This table was derived using unaudited data. Furthermore, in an effort to hold the matrix to a manageable size, the distributions to incorporated towns were not disaggregated.

**If the rolling stock tax rate was to be increased to \$2, \$3, or \$4 per \$100 of assessed value, the revenues collected would sum to \$174,222, \$261,333, and \$348,444 respectively. The distributions to localities would change proportionately.

schedule than the Commission. Secondly, each locality's tax revenues were estimated by applying the local depreciation schedules and the local property tax rates. The carriers' tax liability under this technique is lower than the estimate derived using the Commission's depreciation schedule. This second estimate, however, is viewed as a feasible maximum figure, since such an estimate depends on the assumption that there is 100 percent efficiency in the collection of the tax revenues by the local commissioners of revenue and no tax avoidance on the part of the motor carriers. Thirdly, the more probable figure is calculated using local depreciation schedules, local tax rates, and allowing for some avoidance of the property taxes. Table 6.8 shows the estimated property tax revenues to the localities under each method.

It is significant to note that of the 279 localities presently receiving benefits under the rolling stock tax, only 29 localities would receive property taxes from the intrastate common freight carriers. But of those 29 localities still receiving benefits, only one locality would be worse off under the property tax structure.

Total revenues under the present rolling stock tax amounted to \$87,111 in 1972. The system of property tax revenues would have amounted to \$369,162 at best and probably closer to \$300,000.

While a personal property tax in lieu of the rolling stock tax would have increased local receipts at least three-fold, these gains from repeal of the rolling stock tax do not clearly outweigh the problems of such a move. Applying the personal property tax to rolling stock has shortcomings. The first problem is that of establishing a situs for the rolling stock. The determination of situs for tax purposes borders on being arbitrary, since the rolling stock is highly mobile. Furthermore, there is the question of equity. Motor carriers impose social costs on all the communities through which they operate;

TABLE 6.8 --ESTIMATED 1972 TANGIBLE PERSONAL PROPERTY TAX RECEIPTS FROM THE
ROLLING STOCK OF INTRASTATE COMMON FREIGHT CARRIERS

<u>Counties</u>	C		
	A tax receipts using S.C.C. depreciation schedule	B tax receipts using local depreciation schedule	tax receipts using local depreciation schedules with an elasticity allowance
Albemarle	\$ 8,602	\$ 7,204	\$ 5,403
Augusta	18,076	12,427	9,320
Chesterfield	19,825	15,943	11,957
Fairfax	3,960	3,218	2,414
Henrico	16,589	13,479	13,710
Henry	6,358	3,077	9,999
Lancaster	4,431	2,751	2,063
Nottoway*	2,808	2,155	2,155
Pulaski	5,449	2,764	10,802
Rockingham	3,148	3,109	2,332
Smyth*	152	80	60
Stafford	<u>4,811</u>	<u>4,029</u>	<u>3,022</u>
Total Counties	\$94,209	\$70,236	\$73,237
<u>Cities</u>			
Alexandria	\$ 16,733	\$ 13,177	\$ 9,883
Buena Vista	410	323	242
Charlottesville	733	563	985
Chesapeake	32,787	20,901	15,676
Covington	1,482	993	745
Danville	18,426	14,818	11,113
Hampton	2,048	1,818	1,818
Harrisonburg	3,090	1,862	13,265
Lynchburg	17,214	13,556	10,167
Martinsville	2,673	1,522	1,142
Newport News	13,515	11,995	9,116
Norfolk	28,196	23,614	19,363
Richmond	93,527	83,005	62,420
Roanoke	41,612	33,464	25,098
Winchester	<u>2,488</u>	<u>2,457</u>	<u>7,983</u>
Total Cities	\$274,934	\$224,068	\$189,016
Total All Localities	\$369,143	\$294,304	\$262,253

*included Towns of Crewe and Marion

therefore, the practice of singling out one locality to receive a carrier's tax receipts is questionable, although such practice is quite common in local taxation.

In addition to the theoretical problems outlined above, some practical problems also exist. There is the problem of tax avoidance, which includes the incentives for carriers to base more of their equipment in localities with lower tax rates and faster depreciation schedules. The shifting of equipment may be done only on paper or it may be done in fact. There is also the inability of the local commissioners of revenue to police the carriers. Finally, there is the problem of additional bookkeeping and administrative costs imposed on the carriers resulting from the filing of separate returns for each locality in which they domicile rolling stock. It is, therefore, concluded that the tangible personal property tax is not the appropriate method of rolling stock taxation.

Notwithstanding the State Corporation Commission's opposition to the rolling stock tax, we propose that an examination be made into the feasibility of expanding rather than curtailing the rolling stock tax. Consideration should be given to extending the levy to all interstate and intrastate motor carriers operating under permits or certificates of convenience (approximately 6,000 firms). All carriers, with the exception of private and exempt carriers, would pay a rolling stock tax in lieu of personal property taxes. Accordingly, the rolling stock tax rate should be increased to approximate the personal property rates now imposed.

Presently, revenues collected under the rolling stock tax are returned to the localities in proportion to the total vehicle miles operated in each locality. If all carriers, including those operating over regular and irregular routes, were subject to a rolling stock tax, then the difficulty in ascertaining the exact mileage by locality probably would preclude distributing these receipts

on a pro-rated basis. However, proxies could be devised for distributing funds, such as primary-interstate road mileage (land-miles) within the locality or department of highway traffic courts. Since private carriers can be more readily associated with a specific domicile, the rolling stock of these firms could remain subject to personal property taxes.

If the expansion of the rolling stock tax is intended specifically to replace the personal property tax, then only Virginia registered vehicles would be made subject to the rolling stock tax. But if it is deemed desirable, on grounds of equity, that foreign registered vehicles should also contribute to the general fund revenues, then the rolling stock tax might be expanded to cover all non-private and non-exempt carriers, regardless of where the vehicles are registered.

Making all non-private carriers subject to an habitual use form of taxation would redress many of the shortcomings of the personal property tax. In addition to narrowing discrimination among carriers operating under different certificates and permits, the state administered rolling stock tax would tax any carrier currently escaping personal property taxation.

Should the present dual system be retained, however, minimum changes should be made to improve the system of tax collections. The Division of Motor Vehicles should be enjoined from issuing Virginia registrations without the applicant specifying a domicile for his vehicle. Such is presently required of all applicants with in-state addresses; no less should be expected of out-of-state applicants. By requiring the situs, Virginia localities will be able to levy more efficiently the personal property taxes.

Regional Cooperation and Regional Taxation

At present, the state is divided into twenty-two planning districts, and each one has an organized planning district commission. These commissions may only plan regional projects; for implementation they must contract with another unit of government or a private firm. In addition, the funds available to the commissions are limited. The state is authorized to provide \$5,000 per 25,000 population but never less than \$10,000 in total to each planning district. In 1971-72, state payments were about \$775,000 with local governments providing a roughly equivalent amount.

If there were a desire to have regional projects undertaken by a regional body, two possible alternatives to the present system would be the granting of implementation powers to the planning district or the formation of a service district. The first alternative failed to pass at the 1973 session of the General Assembly after being proposed by the Governor's Ad Hoc Committee to Review the Virginia Area Redevelopment Act. Adopted in 1968, this act set out the guidelines for establishing planning districts and the subsequent move to service districts. Basically, to create a service district requires majority approval in each of the governmental subdivisions in the proposed regional body. As part of the required plan for the service district there must be an assurance that the services initially provided by it are sufficient in number and importance to produce a "meaningful governmental unit." The plan must also provide the framework of government for the eventual performance by the service district of all functions and services appropriate for performance on a district-wide basis.^{1/}

^{1/} See Sections 15.1-1420 to 15.1-1449 of the Code of Virginia for the service district legislation. The Governor's Ad Hoc Committee also proposed changes for this legislation, but it too failed to pass at the 1973 session of the General Assembly.

Other alternatives for the provision of services on an area-wide basis are a federation of localities, special districts, intergovernmental agreements, and the transfer of certain functions to the state government.

Among the services that might be rendered on a regional level are police and fire protection, air pollution control, waste treatment, mass transit, and education. In making a selection, two fundamental questions must be answered:

1. What types of services, if any, could best be provided at the regional level on both political and economic grounds?
2. Would each function that could be performed regionally fit the exact geographic size of the proposed area?

To fund any relatively important service or set of services at a regional level would require substantial outlays. These monies could come from state or local block or categorical grants or from a regional tax. This tax could take the form of an additional 1 percent local option sales and use tax or a local "piggyback" income tax with the revenues earmarked for use by the regional body. If the state shared with regional units the extra revenues from a 1 percentage point increase in the sales and use tax or from a higher individual income tax, the impact would be very similar to that of a local option tax designated for regional use. The primary difference would be that monies would flow to all areas of the state and not just those electing to impose the tax. Of course, the state could distribute the additional revenues on the basis of need, tax effort, population, or some other factor. (See the previous sections of this chapter for a discussion of some of the issues involved in state revenue sharing, state participation in local expenditure burdens, and new local taxing powers.)

It must be realized that in discussing the potential for providing public goods and services at a regional level, people in Virginia and other states appear to prefer the existing decentralized political structure. They want variety in the choice of, among other variables, tax burdens and service levels, the proximity of government, and the maintenance of their local political power offered by the present system, despite any problems and costs that may result. Evidence of this is provided by surveying the more than one hundred attempts at regionalization in recent years and finding that only in a few cases have the electorates voted for it.^{1/}

^{1/} Stanley Baldinger, Planning and Governing the Metropolis, (New York: Praeger Publishers, Inc., 1971), p. 6.

APPENDIX TABLES

TABLE A.1.--CLASSIFICATION OF CITIES AND COUNTIES

URBAN AREAS

Central Cities--Alexandria, Hampton, Lynchburg, Newport News, Norfolk, Portsmouth, Richmond, and Roanoke.

Established Suburban Areas--the counties of Amherst, Arlington, Campbell, Chesterfield, Dinwiddie, Fairfax, Hanover, Henrico, Loudoun, Prince George, Prince William, Roanoke, and York, and the cities of Chesapeake, Fairfax, Falls Church, Salem, Colonial Heights, Hopewell, Petersburg, and Virginia Beach.

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

Small Urban Areas--the counties of Albemarle, Alleghany, Augusta, Carroll, Culpeper, Frederick, Grayson, Greensville, Halifax, Henry, Montgomery, Pittsylvania, Pulaski, Rockbridge, Rockingham, Smyth, Southampton, Spotsylvania, Stafford, Tazewell, Warren, Washington, Wise, and Wythe, and the cities of Bristol, Buena Vista, Charlottesville, Clifton Forge, Covington, Danville, Emporia, Franklin, Fredericksburg, Galax, Harrisonburg, Lexington, Martinsville, Norton, Radford, South Boston, Staunton, Waynesboro, and Winchester.

RURAL AREAS

The counties of Accomack, Amelia, Appomattox, Bath, Bland, Brunswick, Buchanan, Buckingham, Caroline, Charlotte, Clarke, Craig, Cumberland, Dickenson, Essex, Fauquier, Floyd, Fluvanna, Franklin, Giles, Gloucester, Greene, Highland, Isle of Wight, King and Queen, King George, King William, Lancaster, Lee, Louisa, Lunenburg, Madison, Mathews, Mecklenburg, Middlesex, Nelson, Northampton, Northumberland, Nottoway, Orange, Page, Patrick, Prince Edward, Rappahannock, Richmond, Russell, Scott, Shenandoah, Surry, Sussex, and Westmoreland.

TABLE A.2.--STATISTICS OF VIRGINIA INDIVIDUAL INCOME TAX RETURNS FOR TAX YEAR 1971
PRECONFORMITY AND CONFORMITY STRUCTURES

Adjusted Gross Income	Preconformity Structure				Present Conformity Structure With \$600 Exemptions				Proposed Conformity Schedule With \$750 Exemptions			
	Gross Income	Exemptions	Deductions	Income Subject to Tax	Gross Income	Exemptions	Deductions	Income Subject to Tax	Gross Income	Exemptions	Deductions	Income Subject to Tax
First \$999	\$ 57,649,571	\$ 145,217,634	\$ 13,773,106	\$ ---	\$ 57,649,571	\$ 95,978,994	\$ 134,858,839	\$ 1,042,970	\$ 57,649,571	\$ 119,973,742	\$ 134,858,839	\$ 400,926
\$1,000-1,999	231,569,082	200,567,874	21,404,931	43,768,293	231,569,082	137,683,833	159,495,119	23,134,932	231,569,082	172,104,792	159,495,119	17,347,237
2,000-2,999	364,858,056	204,048,299	38,608,319	137,367,271	364,858,056	146,788,455	144,065,418	105,839,924	364,858,056	183,485,569	144,065,418	88,117,131
3,000-3,999	574,524,368	236,339,245	60,952,970	284,375,149	574,524,368	177,685,152	158,164,757	252,700,816	574,524,368	222,106,440	158,164,757	223,633,155
4,000-4,999	758,489,010	251,561,719	80,487,905	429,820,696	758,489,010	195,714,906	167,556,156	401,300,942	758,489,010	244,643,633	167,556,156	361,026,958
5,000-5,999	850,198,557	244,090,035	93,598,719	513,969,341	850,198,557	198,095,865	167,196,381	487,544,954	850,198,557	247,619,832	167,196,381	442,717,333
6,000-6,999	925,127,350	232,696,732	106,408,455	586,921,810	925,127,350	194,044,012	168,877,130	563,395,291	925,127,350	242,555,016	168,877,130	517,055,976
7,000-7,999	970,553,861	219,105,476	118,249,287	633,847,238	970,553,861	187,092,133	167,573,890	616,606,809	970,553,861	233,865,166	167,573,890	570,854,046
8,000-8,999	963,802,100	200,076,875	123,876,753	640,344,729	963,802,100	174,053,320	160,398,591	629,827,211	963,802,100	217,566,651	160,398,591	586,703,379
9,000-9,999	918,258,788	177,543,249	123,684,730	617,594,776	918,258,788	156,861,603	153,064,666	608,879,111	918,258,788	196,077,003	153,064,666	569,835,757
10,000-10,999	830,757,208	149,398,269	114,451,861	567,186,162	830,757,208	133,103,254	138,516,991	559,396,989	830,757,208	166,379,067	138,516,991	526,204,839
11,000-11,999	705,656,829	119,816,745	98,614,331	487,479,055	705,656,829	107,562,645	118,381,617	479,947,956	705,656,829	134,453,306	118,381,617	453,106,820
12,000-12,999	595,070,231	95,452,030	83,400,691	416,639,900	595,070,231	86,080,147	99,662,790	409,739,531	595,070,231	107,600,184	99,662,790	388,259,999
13,000-13,999	506,631,390	76,129,504	70,831,791	359,816,744	506,631,390	68,728,660	83,926,238	354,114,555	506,631,390	85,910,825	83,926,238	336,957,186
14,000-14,999	422,920,232	60,688,737	59,234,346	303,068,558	422,920,232	55,171,726	68,543,329	299,267,094	422,920,232	68,964,658	68,543,329	285,489,213
15,000-19,999	1,499,563,022	187,329,653	209,508,821	1,103,148,482	1,499,563,022	171,330,378	231,299,818	1,097,329,639	1,499,563,022	214,162,973	231,299,818	1,054,536,242
20,000-24,999	916,353,290	92,486,548	125,214,222	699,030,726	916,353,290	85,773,321	131,522,658	699,425,619	916,353,290	107,216,651	131,522,658	677,997,566
25,000-29,999	584,180,134	48,855,233	75,565,983	460,037,120	584,180,134	45,276,012	77,834,601	461,344,605	584,180,134	56,595,015	77,834,601	450,037,553
30,000-34,999	340,141,641	24,160,021	42,361,647	273,681,968	340,141,641	22,206,981	43,318,313	274,675,057	340,141,641	27,758,726	43,318,313	269,126,496
35,000-39,999	216,450,522	13,519,954	26,259,379	176,773,244	216,450,522	12,471,070	26,728,393	177,353,513	216,450,522	15,588,838	26,728,393	174,238,896
40,000-44,999	137,253,826	7,565,973	16,766,170	113,154,708	137,253,826	7,055,656	16,974,291	113,453,594	137,253,826	8,819,570	16,974,291	111,693,730
45,000-49,999	102,064,427	5,009,731	12,187,641	84,997,716	102,064,427	4,698,880	12,319,432	85,176,575	102,064,427	5,873,601	12,319,432	84,004,555
50,000-74,999	302,739,195	11,791,516	34,579,996	256,422,579	302,739,195	11,143,344	34,846,137	256,802,710	302,739,195	13,929,180	34,846,137	254,018,524
75,000-99,999	127,278,053	3,411,679	15,314,638	108,854,057	127,278,053	3,230,802	15,370,810	108,978,262	127,278,053	4,038,503	15,370,810	108,175,811
100,000 and over	292,666,019	3,101,166	40,304,395	251,008,086	292,666,019	2,829,380	40,351,126	251,231,241	292,666,019	3,536,725	40,351,126	250,529,146
Total	\$14,194,756,762	\$3,009,963,897	\$1,805,641,087	\$9,549,308,408	\$14,194,756,762	\$2,480,660,529	\$2,720,847,491	\$9,318,509,900	\$14,194,756,762	\$3,100,825,666	\$2,720,847,491	\$8,802,068,474

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1971", 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 Finance Section, Division of State Planning and Community Affairs (September 24, 1970).

TABLE A.3.--DISTRIBUTION OF NET TAXABLE INCOME BY \$1,000 INCOME BRACKETS UNDER
CONFORMITY STRUCTURE, TAX YEAR 1971

Adjusted Gross Income	Net Taxable Income									
	\$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
First \$999	\$ 1,042,970	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...
\$1,000-1,999	22,165,407	969,525	...	...	...	...	...	...	...	...
2,000-2,999	81,154,408	23,768,328	917,187	...	...	...	...	...	...	...
3,000-3,999	133,508,585	90,004,220	28,200,534	987,474	...	...	...	...	...	...
4,000-4,999	157,463,419	131,457,210	86,863,926	24,755,537	760,848	...	...	...	...	...
5,000-5,999	152,061,195	138,783,131	111,450,925	67,906,809	16,806,561	536,332	...	...	...	...
6,000-6,999	143,257,589	137,015,309	122,719,359	94,948,948	53,683,762	11,450,522	319,800	...	...	...
7,000-7,999	131,844,565	128,673,644	121,830,245	106,783,641	79,144,053	40,670,985	7,473,643	186,030	...	...
8,000-8,999	116,073,783	114,445,721	111,255,153	104,362,262	88,747,984	61,301,957	28,864,551	4,672,950	102,846	...
9,000-9,999	99,294,772	98,248,519	96,508,232	93,274,328	85,993,880	69,777,497	44,484,972	18,407,215	2,826,588	63,102
10,000-10,999	81,412,093	80,785,436	79,816,116	78,206,181	75,106,451	67,745,437	51,998,074	31,049,123	11,437,312	1,800,367
11,000-11,999	63,299,362	62,868,125	62,264,407	61,341,608	59,897,474	56,935,703	49,829,436	35,975,061	19,864,321	6,590,951
12,000-12,999	49,223,960	48,929,668	48,529,942	47,963,965	47,207,230	45,914,111	43,141,619	36,660,277	24,783,848	12,672,283
13,000-13,999	38,983,020	38,700,527	38,379,665	37,983,411	37,509,420	36,823,628	35,661,853	33,098,707	27,312,104	17,807,105
14,000-14,999	30,414,225	30,226,007	29,992,434	29,685,886	29,352,510	28,901,395	28,282,386	27,198,823	24,826,197	19,830,867
15,000-19,999	91,529,780	90,966,092	90,416,561	89,735,204	88,910,013	87,951,312	86,814,960	85,409,459	83,235,628	79,145,278
20,000-24,999	43,385,586	43,117,582	42,907,690	42,689,152	42,458,358	42,184,737	41,880,689	41,548,578	41,143,036	40,669,413
25,000-29,999	22,603,997	22,474,190	22,357,887	22,262,025	22,166,761	22,090,721	21,980,283	21,878,203	21,752,355	21,613,416
30,000-34,999	11,212,532	11,147,625	11,083,319	11,021,297	10,981,573	10,937,024	10,897,054	10,850,915	10,804,504	10,751,277
35,000-39,999	6,199,757	6,154,077	6,125,061	6,097,906	6,077,062	6,050,745	6,025,619	6,008,500	5,984,625	5,965,414
40,000-44,999	3,501,786	3,468,510	3,451,185	3,424,720	3,408,877	3,390,931	3,370,744	3,354,362	3,345,448	3,329,189
45,000-49,999	2,312,290	2,298,910	2,286,877	2,278,417	2,271,066	2,262,284	2,251,736	2,235,388	2,228,589	2,223,450
50,000-74,999	5,455,720	5,400,795	5,366,558	5,348,252	5,327,431	5,302,125	5,279,321	5,264,518	5,249,730	5,231,409
75,000-99,999	1,667,796	1,644,277	1,628,182	1,617,787	1,610,702	1,599,007	1,585,772	1,570,297	1,562,590	1,560,261
100,000 and over	1,793,788	1,754,846	1,718,136	1,690,754	1,665,388	1,645,497	1,633,681	1,621,816	1,606,876	1,598,556
Total	\$1,490,862,385	\$1,313,302,274	\$1,126,069,581	\$934,365,564	\$759,087,404	\$603,471,950	\$471,776,193	\$366,990,222	\$288,066,597	\$230,852,338

TABLE A.3.--DISTRIBUTION OF NET TAXABLE INCOME BY \$1,000 INCOME BRACKETS UNDER
CONFORMITY STRUCTURE, TAX YEAR 1971 (Continued)

Adjusted Gross Income	Net Taxable Income									
	\$10,001-11,000	\$11,001-12,000	\$12,001-13,000	\$13,001-14,000	\$14,001-15,000	\$15,001-16,000	\$16,001-17,000	\$17,001-18,000	\$18,001-19,000	\$19,001-20,000
First \$999	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...
\$1,000-1,999	...	...	...	...	...	...	...	...	...	...
2,000-2,999	...	...	...	...	...	...	...	...	...	...
3,000-3,999	...	...	...	...	...	...	...	...	...	...
4,000-4,999	...	...	...	...	...	...	...	...	...	...
5,000-5,999	...	...	...	...	...	...	...	...	...	...
6,000-6,999	...	...	...	...	...	...	...	...	...	...
7,000-7,999	...	...	...	...	...	...	...	...	...	...
8,000-8,999	...	...	...	...	...	...	...	...	...	...
9,000-9,999	...	...	...	...	...	...	...	...	...	...
10,000-10,999	40,396	...	...	...	...	...	...	...	...	...
11,000-11,999	1,057,223	24,279	...	...	...	...	...	...	...	...
12,000-12,999	4,005,933	690,412	16,277	...	...	...	...	...	...	...
13,000-13,999	8,635,487	2,735,875	475,116	8,630	...	...	...	...	...	...
14,000-14,999	12,514,256	5,926,921	1,797,832	312,374	4,975	...	...	...	...	...
15,000-19,999	71,146,675	58,290,886	42,504,533	26,929,925	14,680,539	6,682,755	2,332,840	563,300	81,961	1,931
20,000-24,999	40,213,121	39,648,161	38,753,836	37,083,715	34,059,502	29,382,127	23,189,551	16,339,842	10,036,094	5,393,786
25,000-29,999	21,452,980	21,276,226	21,084,646	20,875,776	20,677,897	20,423,870	20,053,479	19,420,962	18,221,546	16,343,897
30,000-34,999	10,690,256	10,624,866	10,558,225	10,481,145	10,403,507	10,326,059	10,255,951	10,179,794	10,078,986	9,956,430
35,000-39,999	5,937,088	5,908,403	5,886,093	5,853,546	5,822,430	5,788,084	5,744,620	5,700,282	5,662,537	5,629,645
40,000-44,999	3,314,205	3,305,312	3,288,468	3,274,057	3,261,537	3,245,062	3,228,163	3,213,501	3,196,551	3,170,731
45,000-49,999	2,215,998	2,204,222	2,196,158	2,193,148	2,180,678	2,169,589	2,160,863	2,152,617	2,143,497	2,136,690
50,000-74,999	5,209,844	5,193,605	5,174,295	5,161,925	5,147,120	5,131,695	5,116,346	5,106,234	5,094,419	5,081,529
75,000-99,999	1,556,855	1,551,368	1,546,361	1,541,139	1,537,051	1,533,454	1,530,981	1,528,897	1,527,705	1,523,170
100,000 and over	<u>1,591,436</u>	<u>1,583,248</u>	<u>1,578,131</u>	<u>1,572,426</u>	<u>1,569,507</u>	<u>1,566,060</u>	<u>1,560,016</u>	<u>1,548,866</u>	<u>1,541,187</u>	<u>1,536,933</u>
Total	\$189,581,753	\$158,963,784	\$134,859,971	\$115,287,806	\$99,344,743	\$86,248,755	\$75,172,810	\$65,754,295	\$57,584,483	\$50,774,742

TABLE A.3.--DISTRIBUTION OF NET TAXABLE INCOME BY \$1,000 INCOME BRACKETS UNDER
CONFORMITY STRUCTURE, TAX YEAR 1971 (Continued)

Adjusted Gross Income	Net Taxable Income									
	\$20,001-21,000	\$21,001-22,000	\$22,001-23,000	\$23,001-24,000	\$24,001-25,000	\$25,001-30,000	\$30,001-35,000	\$35,001-40,000	\$40,001-45,000	\$45,001-50,000
First \$999	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...
\$1,000-1,999	...	...	...	...	...	...	...	...	...	...
2,000-2,999	...	...	...	...	...	...	...	...	...	...
3,000-3,999	...	...	...	...	...	...	...	...	...	...
4,000-4,999	...	...	...	...	...	...	...	...	...	...
5,000-5,999	...	...	...	...	...	...	...	...	...	...
6,000-6,999	...	...	...	...	...	...	...	...	...	...
7,000-7,999	...	...	...	...	...	...	...	...	...	...
8,000-8,999	...	...	...	...	...	...	...	...	...	...
9,000-9,999	...	...	...	...	...	...	...	...	...	...
10,000-10,999	...	...	...	...	...	...	...	...	...	...
11,000-11,999	...	...	...	...	...	...	...	...	...	...
12,000-12,999	...	...	...	...	...	...	...	...	...	...
13,000-13,999	...	...	...	...	...	...	...	...	...	...
14,000-14,999	...	...	...	...	...	...	...	...	...	...
15,000-19,999	...	...	...	...	...	...	...	...	...	...
20,000-24,999	2,362,845	769,595	180,951	26,974	687	...	...	...	...	...
25,000-29,999	13,800,455	10,688,061	7,395,721	4,512,645	2,439,471	1,497,122	...	...	...	...
30,000-34,999	9,768,687	9,495,782	9,048,517	8,337,722	7,359,197	16,752,167	670,633	...	...	...
35,000-39,999	5,587,367	5,545,312	5,494,289	5,433,885	5,337,596	22,873,506	8,194,398	265,655	...	...
40,000-44,999	3,149,314	3,133,578	3,117,501	3,100,379	3,075,352	14,856,852	11,979,563	4,320,887	176,814	...
45,000-49,999	2,123,434	2,110,540	2,099,802	2,088,175	2,080,068	10,211,775	9,675,135	7,535,498	2,716,584	133,084
50,000-74,999	5,067,206	5,048,393	5,026,009	5,006,657	4,986,983	24,714,016	24,194,137	23,335,378	20,988,109	15,736,748
75,000-99,999	1,516,528	1,511,572	1,507,096	1,499,525	1,493,076	7,423,841	7,312,845	7,209,088	7,134,691	7,039,359
100,000 and over	<u>1,531,578</u>	<u>1,525,034</u>	<u>1,526,161</u>	<u>1,520,596</u>	<u>1,515,964</u>	<u>7,506,078</u>	<u>7,401,659</u>	<u>7,331,355</u>	<u>7,245,026</u>	<u>7,194,195</u>
Total	\$44,907,414	\$39,827,867	\$35,393,047	\$31,526,558	\$28,288,394	\$105,835,357	\$69,428,370	\$49,997,861	\$38,261,224	\$30,103,386

TABLE A.3.--DISTRIBUTION OF NET TAXABLE INCOME BY \$1,000 INCOME BRACKETS UNDER
CONFORMITY STRUCTURE, TAX YEAR 1971 (Continued)

Adjusted Gross Income	Net Taxable Income											Total ^{a/}
	\$50,001- 55,000	\$55,001- 60,000	\$60,001- 65,000	\$65,001- 70,000	\$70,001- 75,000	\$75,001- 80,000	\$80,001- 85,000	\$85,001- 90,000	\$90,001- 95,000	\$95,001- 100,000	\$100,001 and over	
First \$999	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$...	\$ 1,042,970
\$1,000-1,999	23,134,932
2,000-2,999	105,839,923
3,000-3,999	252,700,813
4,000-4,999	401,300,940
5,000-5,999	487,544,953
6,000-6,999	563,395,289
7,000-7,999	616,606,806
8,000-8,999	629,827,207
9,000-9,999	608,879,105
10,000-10,999	559,396,986
11,000-11,999	479,947,950
12,000-12,999	409,739,525
13,000-13,999	354,114,548
14,000-14,999	299,267,088
15,000-19,999	1,097,329,632
20,000-24,999	699,425,608
25,000-29,999	461,344,592
30,000-34,999	274,675,044
35,000-39,999	177,353,502
40,000-44,999	113,453,579
45,000-49,999	85,176,562
50,000-74,999	9,844,379	5,396,367	2,300,143	503,086	12,210	...	...	...	...	...	...	256,802,692
75,000-99,999	6,925,200	6,739,235	6,297,564	5,420,844	3,940,732	2,533,677	1,373,381	572,282	100,877	3,177	...	108,978,242
100,000 and over	7,119,280	7,046,404	6,969,607	6,921,883	6,825,753	6,715,105	6,540,640	6,240,539	5,900,061	5,339,529	108,940,628	251,231,223
Total	\$23,888,859	\$19,182,006	\$15,567,314	\$12,845,813	\$10,778,695	\$9,248,782	\$7,914,021	\$6,812,821	\$6,000,938	\$5,342,706	\$108,940,628	\$9,318,509,711

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: February, 1973).

TABLE A.4.--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1971

AGI CLASSIFICATION	TOTAL NUMBER OF RETURNS	TOTAL NUMBER OF EXEMPTIONS AGE AND/OR BLINDNESS				NUMBER OF RETURNS CLASSIFIED BY NO. OF EXEMPTIONS OTHER THAN AGE OR BLINDNESS						
		\$1000	\$300	\$700	TOTAL	1	2	3	4	5	6/OVER	
\$0 - 299												
INDIVIDUAL RETURNS	61,650	61,650	3,730	1,636	875	68,097	60,790	110	636	200	69	45
JOINT RETURNS	14,612	29,224	5,740	10,628	1	45,793		9,627	1,990	1,416	835	744
SEPARATE RETURNS	23,606	23,606	981	2,430		27,017	22,289	674	367	161	69	46
TOTAL	120,068	134,680	10,451	14,694	380	160,907	3,079	10,411	2,993	1,777	973	835
\$1,000 - 1,999												
INDIVIDUAL RETURNS	86,222	86,222	10,426	6,111	3,546	106,307	62,080	343	2,665	754	242	138
JOINT RETURNS	21,250	42,500	13,434	12,019	3	68,006		15,228	2,910	1,572	790	750
SEPARATE RETURNS	47,751	47,751	2,752	6,150		57,253	43,784	2,310	989	355	159	114
TOTAL	155,223	176,473	26,602	24,880	3,551	231,566	25,864	17,881	6,564	2,721	1,191	1,002
\$2,000 - 2,999												
INDIVIDUAL RETURNS	62,114	62,114	8,561	10,298	6,116	87,089	55,448	333	4,133	1,401	519	280
JOINT RETURNS	20,927	53,854	13,347	21,340	2	68,543		16,287	5,126	2,768	1,389	1,357
SEPARATE RETURNS	59,416	59,416	2,369	10,628		72,413	53,197	3,635	1,514	624	258	188
TOTAL	142,457	175,384	24,277	42,266	6,118	248,045	8,645	20,255	10,773	4,753	2,166	1,825
\$3,000 - 3,999												
INDIVIDUAL RETURNS	50,651	50,651	5,601	15,977	8,614	86,443	46,482	454	5,336	2,280	956	543
JOINT RETURNS	34,339	68,678	12,314	35,201	1	110,194		17,600	7,446	4,515	2,407	2,367
SEPARATE RETURNS	76,019	76,019	1,946	20,319		98,284	64,044	6,939	2,984	1,250	505	293
TOTAL	160,409	200,748	19,861	71,497	8,615	200,921	10,526	24,993	15,766	8,045	3,872	3,203
\$4,000 - 4,999												
INDIVIDUAL RETURNS	48,913	48,913	3,853	15,822	8,830	77,416	35,445	365	5,478	2,121	501	603
JOINT RETURNS	30,122	60,244	9,525	45,495	2	139,390		17,735	9,339	5,903	3,536	3,669
SEPARATE RETURNS	63,121	63,121	1,822	30,514		115,457	65,303	10,146	4,580	1,875	763	454
TOTAL	172,156	212,358	15,204	95,831	8,832	332,265	4,748	28,246	15,397	9,899	5,200	4,726
\$5,000 - 5,999												
INDIVIDUAL RETURNS	36,420	36,420	2,897	13,694	7,447	62,058	30,454	304	4,552	1,641	795	474
JOINT RETURNS	43,553	87,106	7,029	62,028	1	157,564		16,640	10,565	7,429	4,255	4,864
SEPARATE RETURNS	75,950	75,950	1,938	35,587		117,075	53,856	11,732	6,044	2,514	1,159	645
TOTAL	155,923	202,276	12,864	114,909	7,448	336,697	84,310	28,676	21,161	11,764	6,209	5,983
\$6,000 - 6,999												
INDIVIDUAL RETURNS	32,202	32,202	2,033	10,917	6,203	51,355	25,538	264	3,931	1,477	609	383
JOINT RETURNS	45,647	91,294	6,009	68,630	1	164,734		15,279	10,952	8,619	4,519	5,278
SEPARATE RETURNS	60,691	60,691	1,332	44,465		114,506	44,291	12,500	6,808	2,908	1,300	784
TOTAL	142,540	190,907	9,374	124,030	6,204	330,595	69,829	28,143	21,691	13,004	6,828	6,445
\$7,000 - 7,999												
INDIVIDUAL RETURNS	26,144	26,144	1,077	9,180	3,156	42,737	21,156	247	3,251	1,293	474	323
JOINT RETURNS	45,165	90,330	4,550	72,900	1	167,061		15,353	10,952	9,659	5,431	5,370
SEPARATE RETURNS	61,333	61,333	1,057	47,054		109,500	35,598	12,610	7,366	3,143	1,405	825
TOTAL	132,642	178,306	7,684	129,134	3,157	319,304	57,154	26,810	21,509	14,135	7,314	6,522
\$8,000 - 8,999												
INDIVIDUAL RETURNS	20,403	20,403	1,334	7,557	4,230	33,984	15,940	167	2,653	1,047	442	215
JOINT RETURNS	44,410	88,820	3,974	73,717		160,203		12,194	10,515	10,446	5,814	5,077
SEPARATE RETURNS	21,686	21,686	687	45,523		53,276	27,615	11,540	7,446	3,185	1,321	755
TOTAL	116,715	161,221	5,995	126,797	4,230	247,463	43,555	23,896	21,014	14,682	7,577	6,051

TABLE A.4.--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1971 (Continued)

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	15,506	15,506	1,031	5,769	3,335	25,641	11,961	112	2,111	816	315	191
JOINT RETURNS	42,187	84,374	3,056	72,025	1	159,456		10,667	10,204	10,767	5,675	4,874
SEPARATE RETURNS	42,023	42,023	754	41,045		83,822	20,444	9,905	6,811	2,982	1,235	646
TOTAL	99,716	141,903	4,841	118,839	3,336	268,919	32,405	20,684	19,126	14,565	7,225	5,711
\$10,000 - 10,999												
INDIVIDUAL RETURNS	11,593	11,593	869	4,441	2,528	19,431	8,902	89	1,579	607	265	151
JOINT RETURNS	37,311	74,622	2,357	64,493		141,472		8,959	8,721	10,120	5,435	4,076
SEPARATE RETURNS	32,795	32,795	660	34,037		67,492	15,295	7,549	5,751	2,641	1,051	508
TOTAL	81,699	119,010	3,886	102,971	2,528	228,395	24,197	16,597	16,051	13,368	6,751	4,735
\$11,000 - 11,999												
INDIVIDUAL RETURNS	8,393	8,393	700	3,109	1,801	14,003	6,472	73	1,138	437	179	94
JOINT RETURNS	31,641	63,282	1,968	55,429		120,699		7,318	7,269	8,757	4,759	3,538
SEPARATE RETURNS	23,471	23,471	486	26,218		50,177	10,256	5,496	4,406	2,042	835	436
TOTAL	63,505	95,146	3,176	84,756	1,801	184,879	16,728	12,887	12,613	11,236	5,773	4,068
\$12,000 - 12,999												
INDIVIDUAL RETURNS	6,057	6,057	572	2,093	1,247	9,969	4,738	40	807	267	127	58
JOINT RETURNS	26,448	52,896	1,541	47,194		101,631		5,841	5,962	7,554	4,123	2,968
SEPARATE RETURNS	16,870	16,870	396	19,426		36,692	7,208	3,831	3,333	1,555	620	323
TOTAL	49,375	75,823	2,509	66,713	1,247	148,292	11,946	9,712	10,102	9,396	4,870	3,349
\$13,000 - 13,999												
INDIVIDUAL RETURNS	4,566	4,566	428	1,663	991	7,648	3,525	29	616	253	100	43
JOINT RETURNS	21,612	43,224	1,275	39,216		83,715		4,874	4,701	6,231	3,544	2,462
SEPARATE RETURNS	12,941	12,941	332	14,461		27,734	5,667	2,890	2,547	1,173	440	224
TOTAL	39,119	60,731	2,035	55,340	991	119,097	9,192	7,593	7,864	7,657	4,064	2,729
\$14,000 - 14,999												
INDIVIDUAL RETURNS	3,275	3,275	335	1,145	677	5,536	2,649	24	444	163	64	31
JOINT RETURNS	17,651	35,302	1,092	32,963		69,757		3,827	3,639	5,195	3,073	2,117
SEPARATE RETURNS	9,242	9,242	264	11,062		20,618	3,913	2,006	1,871	954	378	170
TOTAL	30,168	48,369	1,691	45,174	677	95,911	6,562	5,857	5,954	6,312	3,515	2,318
\$15,000 - 15,999												
INDIVIDUAL RETURNS	5,490	5,490	1,114	3,466	2,008	16,078	7,393	41	1,268	437	229	122
JOINT RETURNS	57,301	114,602	3,421	105,695		227,838		11,446	11,312	16,829	10,484	7,290
SEPARATE RETURNS	25,025	25,025	988	25,952		55,965	10,602	5,209	5,069	2,662	1,007	476
TOTAL	87,816	145,237	5,523	143,113	2,008	299,881	17,995	16,696	17,649	19,928	11,720	7,888
\$20,000 - 24,999												
INDIVIDUAL RETURNS	3,521	3,521	603	1,481	845	6,450	2,630	20	520	208	95	48
JOINT RETURNS	29,556	59,112	1,802	56,773		119,687		5,850	5,406	8,377	5,705	4,218
SEPARATE RETURNS	10,492	10,492	600	13,605		24,701	4,131	2,182	2,211	1,196	547	225
TOTAL	43,569	73,125	3,005	73,863	845	150,838	6,761	8,052	8,137	9,781	6,347	4,491
\$25,000 - 25,999												
INDIVIDUAL RETURNS	1,530	1,530	336	726	381	2,975	1,120	20	202	106	55	27
JOINT RETURNS	15,590	31,180	1,128	31,540		64,648		3,309	3,035	4,261	3,020	2,365
SEPARATE RETURNS	5,193	5,193	356	6,787		12,336	2,022	1,128	1,037	630	264	112
TOTAL	22,313	38,703	1,822	39,053	381	79,959	3,142	4,457	4,274	4,997	3,339	2,504

TABLE A.4.--NUMBER OF RETURNS AND NUMBER OF EXEMPTIONS BY AGI CLASSIFICATION FOR VIRGINIA INDIVIDUAL INCOME TAX RETURNS, TAX YEAR 1971 (Continued)

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
\$20,000 - 34,999												
INDIVIDUAL RETURNS	711	711	185	306	165	1,367	532	9	95	42	22	11
JOINT RETURNS	6,089	16,178	683	15,318		32,179		1,823	1,555	2,148	1,468	1,095
SEPARATE RETURNS	2,474	2,474	258	3,241		5,973	978	518	494	293	125	66
TOTAL	11,274	19,363	1,126	18,865	165	39,519	1,510	2,350	2,144	2,483	1,615	1,172
\$35,000 - 39,999												
INDIVIDUAL RETURNS	381	381	126	165	82	754	291	6	45	17	14	8
JOINT RETURNS	4,567	9,134	448	8,744		18,326		1,056	869	1,128	833	681
SEPARATE RETURNS	1,283	1,283	147	1,739		3,169	513	238	259	165	71	37
TOTAL	6,231	10,798	721	10,648	82	22,249	804	1,300	1,173	1,310	918	726
\$40,000 - 44,999												
INDIVIDUAL RETURNS	244	244	85	87	44	460	157	2	20	14	8	3
JOINT RETURNS	4,498	4,950	302	5,001		10,299		580	408	633	448	429
SEPARATE RETURNS	788	788	126	1,036		1,950	357	116	149	95	42	29
TOTAL	3,530	6,022	513	6,124	44	12,709	554	698	577	742	498	461
\$45,000 - 49,999												
INDIVIDUAL RETURNS	159	159	62	65	25	311	130	1	11	9	3	5
JOINT RETURNS	1,605	3,210	212	3,230		6,652		379	262	361	331	272
SEPARATE RETURNS	565	565	86	785		1,440	239	85	113	74	27	27
TOTAL	2,329	3,934	360	4,084	25	8,403	369	465	386	444	361	304
\$50,000 - 74,999												
INDIVIDUAL RETURNS	422	422	156	136	69	783	346	5	33	26	8	4
JOINT RETURNS	3,696	7,392	532	7,834		15,758		833	545	844	760	714
SEPARATE RETURNS	1,372	1,372	225	1,840		3,437	600	220	250	170	82	50
TOTAL	5,490	9,186	913	9,810	69	19,978	946	1,058	828	1,040	850	768
\$75,000 - 99,999												
INDIVIDUAL RETURNS	156	156	65	48	26	299	127	2	16	5	5	1
JOINT RETURNS	1,043	2,086	158	2,218		4,462		233	170	237	188	215
SEPARATE RETURNS	487	487	107	624		1,248	228	75	73	59	31	21
TOTAL	1,686	2,729	334	2,920	26	6,009	355	310	259	301	224	237
\$100,000 - OVER												
INDIVIDUAL RETURNS	220	220	96	90	37	443	179	2	18	10	6	5
JOINT RETURNS	931	1,862	232	1,706		3,802		300	144	170	171	146
SEPARATE RETURNS	668	668	169	730		1,567	354	162	87	71	41	13
TOTAL	1,819	2,750	497	2,526	37	5,812	533	404	249	251	218	164
TOTAL FOR ALL CLASSES												
INDIVIDUAL RETURNS	519,303	519,303	46,881	115,366	65,484	747,036	48,525	3,057	41,558	15,851	6,502	3,810
JOINT RETURNS	618,247	1,236,494	96,503	961,535	13	2,294,549		1,538	34,397	35,983	79,393	66,936
SEPARATE RETURNS	733,514	733,514	20,680	453,514		1,208,108	93,184	13,736	72,559	32,821	13,743	7,471
TOTAL	1,871,064	2,489,311	164,064	1,530,821	65,497	4,249,693	941,709	310,331	248,514	184,655	99,636	78,217

Source: Virginia Department of Taxation, "Statistics of Virginia Individual Income Tax Returns for Taxable Year 1971", Special Computer Printout, (Richmond: February, 1973).

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971

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 \$2,999	1	....	.....
	\$3,000-\$5,999	2.5		
	\$6,000-\$8,999	3.5		
	\$9,000-\$14,999	4.5		
	\$15,000-\$24,999	6		
	\$25,000 or over	7		
California ^{1*}	First \$2,000	1	....	The following rates apply to heads of households:
	\$2,001-\$3,500	2		First \$3,000 .....1%
	\$3,501-\$5,000	3		\$3,001-\$4,500 .....2
	\$5,001-\$6,500	4		\$4,501-\$6,000 .....3
	\$6,501-\$8,000	5		\$6,001-\$7,500 .....4
	\$8,001-\$9,500	6		\$7,501-\$9,000 .....5
	\$9,501-\$11,000	7		\$9,001-\$10,500 .....6
	\$11,001-\$12,500	8		\$10,501-\$12,000 .....7
	\$12,501-\$14,000	9		\$12,001-\$13,500 .....8
	Over \$14,000	10		\$13,501-\$15,000 .....9
				Over \$15,000 .....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. A property tax credit or refund is also provided for senior citizens. See table 96.
	\$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		
Connecticut	Capital gains (including dividends)	6	....	.....
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-\$20,000	8		
	\$20,001-\$25,000	8.5		
	\$25,001-\$30,000	9		
	\$30,001-\$40,000	11		
	\$40,001-\$50,000	12		
	\$50,001-\$75,000	14		
	\$75,001-\$100,000	15		
	Over \$100,000	18		

See footnotes at the end of table.

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Georgia	First \$1,000	1	Rates shown in table apply to married persons filing jointly and heads of households. The following rates apply to single persons: First \$750 1% \$751-\$2,250 2 \$2,251-\$3,750 3 \$3,751-\$5,250 4 \$5,251-\$7,000 5 Over \$7,000 6 For married persons filing separately, rates for married filing jointly apply to income classes half as large.
	\$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 96.
	\$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 96.
	\$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 96.
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	3		
	\$3,001-\$4,000	4		
	\$4,001-\$7,000	5		
	\$7,001-\$9,000	6		
	Over \$9,000	7		
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 96.
	\$2,001-\$3,000	3.5		
	\$3,001-\$5,000	4		
	\$5,001-\$7,000	5		
	Over \$7,000	6.5		

See footnotes at the end of table.

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
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	Earned income	5	.....	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 96.
	Interest and dividends, capital gains on intangibles	9		
Michigan	All taxable income	3.9	.....	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 + 10% of excess over \$100
			\$151-\$200	\$25 + 5% of excess over \$150
			Over \$200	\$27.50 + 5% of excess over \$250
				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.	
Minnesota	First \$500	1.55	x	After 1971, the rates range from 1.6% on the first \$500 to 15% on income over \$20,000. 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 96.
	\$501-\$1,000	2.1		
	\$1,001-\$2,000	3.25		
	\$2,001-\$3,000	5.4		
	\$3,001-\$4,000	6.65		
	\$4,001-\$5,000	7.9		
	\$5,001-\$7,000	9.1		
	\$7,001-\$9,000	10.25		
	\$9,001-\$12,500	11.4		
	\$12,501-\$20,000	12.5		
	Over \$20,000	13.5		
Mississippi	First \$5,000	3	.....	.....
	Over \$5,000	4		

See footnotes at the end of table.

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Missouri	First \$1,000	1.5	x	.....
	\$1,001-\$2,000	2		
	\$2,001-\$3,000	2.5		
	\$3,001-\$4,000	3		
	\$4,001-\$5,000	3.5		
	\$5,001-\$6,000	4		
	\$6,001-\$7,000	4.5		
	\$7,001-\$8,000	5		
	\$8,001-\$9,000	5.5		
	Over \$9,000	6		
Montana	First \$1,000	2	x ⁶	After computing the tax liability pursuant to these rates, there shall be added as a surcharge, 40% 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 1971 was 10% (1972-15%).			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 9C.
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		
	\$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		

See footnotes at the end of table.

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
New York	First \$1,000 \$1,000-\$3,000 \$3,001-\$5,000 \$5,001-\$7,000 \$7,001-\$9,000 \$9,001-\$11,000 \$11,001-\$13,000 \$13,001-\$15,000 \$15,001-\$17,000 \$17,001-\$19,000 \$19,001-\$21,000 \$21,001-\$23,000 Over \$23,000	2 3 4 5 6 7 8 9 10 11 12 13 14		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 (tax preference items) of individuals, estates, or trusts.
North Carolina	First \$2,000 \$2,001-\$4,000 \$4,001-\$6,000 \$6,001-\$10,000 Over \$10,000	3 4 5 6 7		
North Dakota	First \$3,000 \$3,001-\$4,000 \$4,001-\$5,000 \$5,001-\$6,000 \$6,001-\$8,000 \$8,001-\$15,000 Over \$15,000	1 2 3 5 7.5 10 11	x	An additional 1% tax is imposed on net incomes derived from a business, trade, or profession, other than as an employee. Effective for taxable years beginning on or after 1/1/72, a 2nd. additional tax of 1% of taxable income is imposed, with a minimum tax of \$2.50 and a maximum of \$12.50
Ohio (eff. 1/1/72)	First \$5,000 \$5,001-\$10,000 \$10,001-\$15,000 \$15,001-\$20,000 \$20,001-\$40,000 Over \$40,000	½ 1 2 2½ 3 3½		
Oklahoma ²	First \$1,000 \$1,001-\$2,500 \$2,501-\$3,750 \$3,751-\$5,000 \$5,001-\$6,250 \$6,251-\$7,500 Over \$7,500	1/2 1 2 3 4 5 6		The income classes reported are for individuals and married persons filing separately. For joint returns the rates shown apply to income classes twice as large. The rates for heads of households range from 1/2% on the 1st. \$1,500 to 6% on taxable income over \$11,500.
Oregon	First \$500 \$501-\$1,000 \$1,001-\$2,000 \$2,001-\$3,000 \$3,001-\$4,000 \$4,001-\$5,000 Over \$5,000	4 5 6 7 8 9 10	x	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 equal to 25 percent of the Federal retirement income tax credit to the extent that such credit is based on Oregon taxable income.
Pennsylvania	All taxable income	2.3		
Rhode Island	The tax is imposed on the taxpayer's modified Federal income tax liability. The rate for 1971 is 17.5%, for taxable years beginning on or after 1/1/72, 15%.			
South Carolina	First \$2,000 \$2,001-\$4,000 \$4,001-\$6,000 \$6,001-\$8,000 \$8,001-\$10,000 Over \$10,000	2 3 4 5 6 7	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.

See footnotes at the end of table.

TABLE A. 5 .--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
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 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 \$91. If a taxpayer's credits exceed his tax, a refund will be made. See table 98. 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 99.
Virginia	First \$3,000	2	.....	.....
	\$3,001-\$5,000	3		
	\$5,001-\$12,000	5		
	Over \$12,000	5.75		
West Virginia	First \$2,000	2.1	.....	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-\$4,000	2.3		
	\$4,001-\$6,000	2.8		
	\$6,001-\$8,000	3.2		
	\$8,001-\$10,000	3.5		
	\$10,001-\$12,000	4.0		
	\$12,001-\$14,000	4.6		
	\$14,001-\$16,000	4.9		
	\$16,001-\$18,000	5.3		
	\$18,001-\$20,000	5.4		
	\$20,001-\$22,000	6.0		
	\$22,001-\$26,000	6.1		
	\$26,001-\$32,000	6.5		
	\$32,001-\$38,000	6.8		
	\$38,001-\$44,000	7.2		
	\$44,001-\$50,000	7.5		
	\$50,001-\$59,000	7.9		
	\$60,001-\$70,000	8.2		
	\$70,001-\$80,000	8.6		
	\$80,001-\$90,000	8.8		
	\$90,001-\$100,000	9.1		
	\$100,001-\$150,000	9.3		
	\$150,001-\$200,000	9.5		
	Over \$200,000	9.6		

See footnotes at the end of table.

TABLE A.5.--STATE INDIVIDUAL INCOME TAXES:
RATES, DECEMBER 31, 1971 (Continued)

State	Net income after personal exemption	Rate (percent)	Federal tax deductible	Special rates or features
Wisconsin ²	First \$1,000	2.8	For 1972 and thereafter, the rates will range from 3.1% on the 1st \$1,000 to 11.4% on taxable income over \$14,000. A property tax credit is allowed for senior citizen homestead relief. Cash refund granted if property tax credit exceeds income tax due. See table 96.
	\$1,001-\$2,000	3.1		
	\$2,001-\$3,000	3.3		
	\$3,001-\$4,000	4.3		
	\$4,001-\$5,000	4.9		
	\$5,001-\$6,000	5.4		
	\$6,001-\$7,000	5.9		
	\$7,001-\$8,000	6.9		
	\$8,001-\$9,000	7.5		
	\$9,001-\$10,000	8.0		
	\$10,001-\$11,000	8.5		
	\$11,001-\$12,000	9.0		
	\$12,001-\$13,000	9.5		
Washington, D.C.	\$13,001-\$14,000	10.0	Income from unincorporated business is taxed at 6 percent, minimum tax, \$25. 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 96.
	Over \$14,000	10.4		
	First \$1,000	2		
	\$1,001-\$2,000	3		
	\$2,001-\$3,000	4		
	\$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		

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

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

³ Effective for taxable years beginning on or after July 1, 1969, taxpayers whose only activities in the State consist of making sales, who do not own or rent real estate in the State and whose annual gross sales in or into Colorado amount to not more than \$100,000, may elect to pay a tax of 1/2 of 1% of annual gross receipts derived from sales in or into Colorado in lieu of paying an income tax.

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

⁵ Limited to the lesser of (a) the Federal income tax actually paid or accrued for the taxable year, or (b) the Federal tax that would result from applying the Federal rates in effect on December 31, 1967 to Federal taxable income for the taxable year.

⁶ Limited to itemized returns.

⁷ Limited to \$500 per taxpayer.

⁸ The tax liability for any taxable year shall not in any case equal an amount such that the combined Vermont and Federal income tax liability of the taxpayer for the taxable year, less the Federal income tax liability (without consideration of the deduction for Vermont income taxes paid or accrued) exceeds 4% 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.

⁹ A 20% credit is allowed against taxes due for 1971, representing approximately one-half of the windfall to the State resulting from the enactment of withholding.

Source: Commerce Clearing House, State Tax Reporter, as shown in Advisory Commission on Intergovernmental Relations, State-- Local Finances and Suggested Legislation, 1972 Edition (Washington: Government Printing Office, 1972), pp. 201-207.

TABLE A.6 -- STATE TAXES: TYPES AND RATES, JANUARY 1, 1972
(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	....	Lease or rental of tangible property, 4% except, motor vehicles and trailers, 1½% and, linens and garments, 2%; 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	....	Repair services, including automobile, electrical and other repairs, printing, photography, and receipts from coin-operated devices, 3%. Use tax on personal property of carriers and utilities, including motor carriers, railroads (except fuel consumed in the operation of railroad rolling stock), public pipe line carriers, airlines, telephone and telegraph companies, gas companies, water companies and electric companies, 1% through 6/30/72; 1½%, 7/1/72-6/30/73; 2% 7/1/73-6/30/74; and 3% 7/1/74 and thereafter.
California	do	4	....	4	....	....	....	....	....	Renting, leasing, producing, fabrication, processing, printing or imprinting of tangible personal property, 4%.
Colorado	do	3	....	3	3	3	3 ⁶	....	....	Selling, leasing or delivering in Colorado of tangible personal property by a retail sale for use, storage, distribution or consumption within the State, 3%.

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (Cont'd)
(Percent)

State	Type of tax ¹	Rates on selected services subject to tax								Rates on other services and businesses subject to tax (including retail sales subject to special rates)
		Rate on tangible personal property at retail	Admissions	Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Connecticut ⁵	Retail sales	6%	..	6½ ⁷	6%	6½ ⁶	6½ ⁶	8½ ⁶	....	Storing for use or consumption of any article or item of tangible personal property, 6½%.
Florida	do	4	4	4	4	4	4 ⁶	....	....	Fishing, hunting, camping, swimming and diving equipment, 5% of wholesale price or 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, wired television service, coin operated vending machines, 4%.
Georgia	do	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).
Illinois	do	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

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (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 (cont'd)										occupancy tax of 5% of 95% of the gross receipts from the rental of rooms to transients.
Indiana	Retail sales	2	....	2	2	2 ⁶	2 ⁶	2 ⁶	....	Lease or rental of tangible personal property, sales at auction, cable television service, 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 ⁶	3 ⁶	3 ⁴	Drycleaning, pressing, dyeing and laundry service (other than through coin-operated devices); 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 (other than laundry services); and lease or rental of tangible personal property, 3%.
Kentucky	do	5	5 ⁸	5	5	5	5 ⁶	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%.
Maine	do	5	....	5	5	5	5	5	....	Renting, storing, fabricating or printing of tangible personal property, 5%.

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (Cont'd)
(Percent)

State	Type of tax ¹	Rate on tangible personal property at retail	Admissions	Rates on selected services subject to tax						Rates on other services and businesses subject to tax (including retail sales subject to special rates)
				Restaurant meals	Transient lodging	Telephone and telegraph	Gas and electricity	Water	Transportation of persons and property	
Maryland	Retail sales	4 ²	....	4 ⁷	4	....	4 ⁶	....	....	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	....	7	....	....	....	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 3%. Transient lodging is subject to a 5.7% (5% plus 14% surtax) room occupancy excise tax.
Michigan	do	4	....	4	4	4	4	....	....	Sales of property to persons engaged in constructing, altering, repairing or improving realty for others; and lease or rental of tangible personal property, 4%.
Minnesota	do	4 ²	4	4	4	4	4	4	....	Renting, leasing, processing, producing, fabricating or printing tangible personal property, 4%; coin-operated vending machines, 3%.
Mississippi ⁹	Multiple stage sales	5 ²	....	5	5	5	5 ⁶	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, 1%; electric power associations; renting or leasing manufacturing or processing machinery, and sales of manufacturing machinery and manufacturing machine parts over \$500, 1%.

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (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	
Missouri	Retail sales	3	3	3	3	3	3 ⁶	3	3 ⁴	Trailer camp rentals, and lease or rental of tangible personal property, 3%.
Nebraska (Next year's rate determined annually by the State Board of Equalization, by Nov. 15)	do	2½	2½	2½	2½	2½	2½	2½	....	Renting, leasing, producing, fabricating, processing, printing or imprinting of tangible personal property, 2½%.
Nevada (includes 1% mandatory county tax)	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	4	4 ¹⁰	4	4	4	4	....	....	Renting, leasing, producing, fabricating, processing, printing or imprinting, and installation or maintenance of tangible personal property, 4%.
North Carolina	do	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).

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (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 Dakota	Retail sales	4 [*]	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	6 ⁶	....	....	Lease or rental of tangible personal property, repairing, altering, or cleaning of tangible personal property (other than wearing apparel or shoes), printing or imprinting of tangible personal property for persons who furnish materials, cleaning, polishing, lubricating, and inspecting of motor vehicles, and rental income of coin-operated amusement machines, 6%.
Rhode Island	do	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 ⁶	....	....	Renting or leasing of tangible personal property, and laundry and drycleaning, 4%.
South Dakota	do	4 ¹	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%.

See footnotes at the end of table.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (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	
Tennessee	Retail sales	3½	....	3½	3½	3½	3½ ⁶	3½ ⁶	....	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 dry-cleaning, 3½%; machinery for "new and expanded" industry, air & water pollution control equipment used in fabricating or producing tangible personal property, & farm machinery and equipment, 1%.
Texas	do	4 ²	....	4	....	....	4 ⁶	....	....	Producing, processing, and lease or rental of tangible personal property, 4%.
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	11	11	....	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	4½	4½	4½	4½	....	....	....	....	Charges for certain specified services, 4½%; selected amusement and recreation activities, 4½% (unless subject to county or city admission taxes, in which case they remain taxable under the State 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%.

See footnotes on the following page.

TABLE A.6. -- STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (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	
Wisconsin	Retail sales	4	4 ¹⁰	4	4	4	4 ⁶	....	....	Laundry, drycleaning, photographic services, the repair, service, maintenance, lease or rental of all items of taxable tangible personal property, 4%
Wyoming	do	3	3	3	3	3	3 ⁶	....	3 ⁴	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 ⁶	4	....	Laundry, drycleaning and pressing services (except self-service coin operated services), textile rental (with exceptions), and non-prescription 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 1/2% on gross receipts of \$20,000 - \$100,000, and 1/4% 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 - 1/4 of 1% if gross receipts exceed \$5,000; Washington, 44/100% and West Virginia, 55/100%.

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, 1 1/2%; 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; Minnesota, 4% excise 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 125 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. Kansas exempts transportation of persons. Missouri exempts contract transportation of employees to and from work, and transportation of property. 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. In Arizona, bus, taxi cab, and trucking services registered as "common carriers" pay the carrier tax (2 1/2%) and are exempt from the sales tax.

⁵ Sales under 8¢ taxed at 3 1/2% if the vendor keeps adequate records.

⁶ Colorado exempts gas and electricity for use in construction and other industrial uses. Connecticut exempts telephone and telegraph, gas, electricity, and water services provided to consumers through mains, lines or pipes to the extent of \$20 per month. Gas and electricity used for domestic heating are exempt. 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

TABLE A.6. - STATE SALES TAXES: TYPES AND RATES, JANUARY 1, 1972 (Cont'd,
(Percent)

the total cost of production, excluding the cost of electrical energy so used. Pennsylvania exempts gas and electricity, and intrastate telephone or telegraph service when purchased by the user solely for his own residential use. 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.

⁷ Restaurant meals below a certain price are exempt: Connecticut, less than \$1; Maryland, \$1 or less, the Massachusetts retail sales tax exempts restaurant meals, which (\$1 or more) are taxed at 5%.

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. Admissions to horse race meetings are taxable at 10% under a separate admissions tax. 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, 1972 Edition, (Washington: Government Printing Office, 1971), pp. 182-190.

TABLE A.7--PROJECTED PRICE INDEXES (1972-73=100)

<u>Fiscal Year</u>	<u>Implicit Deflator</u>				<u>Consumer Price Index</u>	<u>Medical Care Consumer Price Index</u>
	<u>Gross National Product</u>	<u>State and Local Govt. Purchases of Goods and Services</u>	<u>All Govt. Pur- chases of Bldgs. Excl. Military</u>	<u>All Govt. Pur- chases of High- ways and Streets</u>		
1972-73	100.0	100.0	100.0	100.0	100.0	100.0
1973-74	103.4	105.7	105.3	103.5	103.0	105.7
1974-75	106.7	111.4	110.6	106.9	105.9	111.3
1975-76	109.9	117.0	115.8	110.2	108.7	116.9
1976-77	113.2	122.9	121.2	113.6	111.5	122.7
1977-78	116.6	129.0	126.9	117.1	114.4	128.8
1978-79	120.1	135.5	132.9	120.7	117.4	135.2
1979-80	123.7	142.3	139.1	124.4	120.5	142.0

TABLE A.8--SELECTED PRICE INDEXES, ACTUAL 1951 TO 1972

Year	Gross National Product	State and Local Govt. Purchases of Goods and Services	All Govt. Purchases of Bldgs. Excl. Military	All Govt. Purchases of Highways and Streets	Consumer Price Index (1957-59=100)	Medical Care Consumer Price Index (1957-59=100)
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	136.4	133.1	116.1	116.3	136.7
1968	122.3	144.8	140.6	142.6	121.2	145.0
1969	128.2	153.6	152.7	130.6	127.7	155.0
1970	135.2	165.0	163.0	148.0	135.2	164.8
1971	141.6 ^{a/}	175.7	181.0 ^{b/}	153.8 ^{b/}	141.0	175.5
1972	145.8 ^{a/}	184.5 ^{a/}	n.a. ^{b/}	n.a. ^{b/}	144.7 ^{a/}	184.1 ^{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; Survey of Current Business, Vol. 50, No. 7 (July, 1970), pp. 47, 49, S-8; Survey of Current Business, Vol. 51, No. 7 (July 1971), pp. 43, 45, S-8; Survey of Current Business, Vol. 51, No. 7 (July, 1972), pp. 47, 49, S-8. U. S. Department of Commerce, Business Statistics, 1967: The Biennial Supplement to the Survey of Current Business (Washington: Government Printing Office, September, 1967), pp. 38, 40.

LE A.9 --LOCAL GOVERNMENT REVENUES FROM REAL ESTATE TAXES, ACTUAL, FISCAL YEARS 1965 TO 1970-71 AND PROJECTED, FISCAL YEARS 1970-71 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
<u>Actual Revenues</u> ^{a/}			
1965-66	\$229.3	\$ ...	...
1966-67	235.2	+5.9	+2.6
1967-68	258.3	+23.1	+9.8
1968-69	273.5	+15.2	+5.9
1969-70	320.4	+46.9	+17.1
1970-71	370.2	+49.8	+15.5
<u>Projected Revenues</u>			
1971-72	413.0	+42.8	+11.6 ^{b/}
1972-73	459.0	+46.0	+11.1
1973-74	505.0	+46.0	+10.0
1974-75	555.5	+50.5	+10.0
1975-76	611.0	+55.5	+10.0
1976-77	672.1	+61.1	+10.0
1977-78	739.3	+67.2	+10.0
1978-79	813.3	+74.0	+10.0
1979-80	894.6	+81.3	+10.0

^{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, and merchants' capital levies 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 1971-72 is based on actual data which provides for changes in the tax rate from 1970-71. This explains the larger increase than what is forecast for future years.

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 19--, 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," May 1, 1973; U.S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

TABLE A.10--LOCAL GOVERNMENT REVENUES FROM PUBLIC SERVICE CORPORATION PROPERTY TAXES
ACTUAL FISCAL YEARS, 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
<u>Actual Revenues^{a/}</u>			
1965-66	\$38.2	\$ ...	...
1966-67	37.1 ^{b/}	-1.1	-2.9
1967-68	39.3	+2.2	+5.9
1968-69	40.0	+0.7	+1.8
1969-70	44.5	+4.5	+11.3
1970-71	48.6	+4.1	+9.2
 <u>Projected Revenues</u>			
1971-72	51.0	+2.4	+4.9
1972-73	54.7	+3.7	+7.3
1973-74	59.1	+4.4	+8.0
1974-75	63.9	+4.8	+8.1
1975-76	69.2	+5.3	+8.3
1976-77	75.1	+5.9	+8.5
1977-78	81.5	+6.4	+8.5
1978-79	88.6	+7.1	+8.7
1979-80	96.4	+7.8	+8.8

^{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, and merchants' capital levies 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, 19--, 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," May 1, 1973; U. S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

TABLE A 11.--LOCAL GOVERNMENT REVENUE FROM TANGIBLE PERSONAL PROPERTY TAXES
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Year</u>
<u>Actual Revenues</u> ^{a/}			
1965-66	\$ 49.2	\$ ...	...
1966-67	44.3 ^{b/}	-4.9	-10.0
1967-68	47.4	+3.1	+7.0
1968-69	49.4	+2.0	+4.2
1969-70	57.0	+7.6	+15.4
1970-71	67.6	+10.6	+18.6
 <u>Projected Revenues</u>			
1971-72	85.2	+17.6	+26.0
1972-73	95.2	+10.0	+11.7
1973-74	104.7	+9.5	+10.0
1974-75	114.2	+9.5	+9.1
1975-76	124.0	+9.8	+8.6
1976-77	134.6	+10.6	+8.5
1977-78	146.1	+11.5	+8.5
1978-79	158.6	+12.5	+8.6
1979-80	172.2	+13.6	+8.6

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, and merchant's capital levies 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, 19--, selected editions (Richmond, Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

TABLE A-12--LOCAL GOVERNMENT REVENUES FROM PROPERTY TAXES ON MACHINERY AND TOOLS
ACTUAL FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS 1971-72 TO 1979-80
(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/}				
1965-66	\$ 7.8	\$ ...	...
1966-67	7.9	+0.1		+1.3
1967-68	8.8	+0.9		+11.4
1968-69	9.2	+0.4		+4.5
1969-70	10.8	+1.6		+17.4
1970-71	13.0	+2.2		+20.4
Projected Revenues				
1971-72	14.1	+1.1		+8.5
1972-73	15.1	+1.0		+7.1
1973-74	16.2	+1.1		+7.3
1974-75	17.4	+1.2		+7.4
1975-76	18.7	+1.3		+7.4
1976-77	20.0	+1.3		+7.0
1977-78	21.4	+1.4		+7.0
1978-79	22.9	+1.5		+7.0
1979-80	24.5	+1.6		+7.0

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, and merchants' capital levies 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, 19, selected editions (Richmond: Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 19, selected editions (Washington: Government Printing Office).

TABLE A .13.--LOCAL GOVERNMENT REVENUE FROM PROPERTY TAXES ON MERCHANT'S CAPITAL
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u> <u>Amount</u>	<u>Year</u>
<u>Actual Revenues^{a/}</u>			
1965-66	\$ 1.7 ^{b/}	\$ ...	...
1966-67	1.4	-0.3	-17.6
1967-68	1.4	...	...
1968-69	1.4	...	...
1969-70	1.5	+0.1	+7.1
1970-71	1.5	...	...
 <u>Projected Revenues</u>			
1971-72	1.7	+0.2	+13.3
1972-73	1.8	+0.1	+5.9
1973-74	1.8	...	...
1974-75	1.9	+0.1	+5.6
1975-76	1.9	...	...
1976-77	1.9	...	...
1977-78	2.0	+0.1	+5.3
1978-79	2.0	...	...
1979-80	2.1	+0.1	+5.0

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, and merchant's capital levies 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, 19--, selected editions (Richmond, Department of Taxation); U.S. Bureau of the Census, Governmental Finances in 19--, selected editions (Washington: Government Printing Office).

TABLE A-14.--TOTAL LOCAL GOVERNMENT REVENUE FROM PROPERTY TAXES
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u> <u>Amount</u>	<u>Year</u>
Actual Revenues			
1965-66	\$ 326.2	\$ ...	...
1966-67	325.9	-0.3	-0.1
1967-68	355.2	+29.3	+9.0
1968-69	373.5	+18.3	+5.2
1969-70	434.2	+60.7	+16.3
1970-71	500.9	+66.7	+15.4
Projected Revenues			
1971-72	565.0	+64.1	+12.8
1972-73	625.8	+60.8	+10.8
1973-74	686.8	+61.0	+9.7
1974-75	752.9	+66.1	+9.6
1975-76	824.8	+71.9	+9.5
1976-77	903.7	+78.9	+9.6
1977-78	990.3	+86.6	+9.6
1978-79	1,085.4	+95.1	+9.6
1979-80	1,189.4	+104.0	+9.6

Sources: Report of the Department of Taxation, Fiscal Year Ending June 30, 19--,
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," May 1, 1973; U.S. Bureau of the Census,
Governmental Finances in 19--, selected editions (Washington: Government Printing
Office).

TABLE A .15.--LOCAL GOVERNMENT REVENUE FROM THE ONE PERCENT LOCAL RETAIL SALES AND USE TAX
ACTUAL, FISCAL YEARS 1965-66 TO 1971-72 AND PROJECTED, FISCAL YEARS 1972-73 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Revenues			
1965-66	\$... ^{a/}	\$ ...	...
1966-67	35.6	+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
1970-71	78.6	+6.6	+9.2
1971-72	89.0	+10.4	+13.2
Projected Revenues			
1972-73	98.7	+9.7	+10.9
1973-74	107.7	+9.0	+9.1
1974-75	120.3	+12.6	+11.7
1975-76	130.8	+10.5	+8.7
1976-77	142.4	+11.6	+8.9
1977-78	154.9	+12.5	+8.8
1978-79	168.5	+13.6	+8.8
1979-80	183.4	+14.9	+8.8

^{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, 1972,
(Richmond: November, 1972) pp. 17-18.

TABLE A .16.--LOCAL GOVERNMENT REVENUES FROM OTHER TAXES
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

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/}			
1965-66	\$ 96.9	\$ ...	...
1966-67	88.0	-8.9	-9.2
1967-68	93.7	+5.7	+6.5
1968-69	102.0	+8.3	+8.8
1969-70	119.7	+17.7	+17.4
1970-71	135.0	+15.3	+12.8
Projected Revenues			
1971-72	147.7	+12.7	+9.4
1972-73	165.4	+17.7	+12.0
1973-74	182.4	+17.0	+10.3
1974-75	199.4	+17.0	+9.3
1975-76	217.0	+17.6	+8.8
1976-77	236.1	+19.1	+8.8
1977-78	256.9	+20.8	+8.8
1978-79	279.6	+22.7	+8.8
1979-80	304.3	+24.7	+8.8

^{a/} Actual figures represent "other taxes" as reported by the U.S. Department of Commerce, Bureau of the Census, in Governmental Finances in 19--, selected editions, minus the sales and use tax collections.

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

TABLE A.17--LOCAL GOVERNMENT REVENUE FROM CHARGES AND MISCELLANEOUS SOURCES
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Revenues			
1965-66	\$124.6	\$ ...	...
1966-67	123.6	-1.0	-0.8
1967-68	143.1	+19.5	+13.4
1968-69	148.6	+5.5	+15.7
1969-70	174.6	+26.0	+17.5
1970-71	195.7	+21.1	+12.1
Projected Revenues			
1971-72	212.5	+16.8	+8.6
1972-73	230.8	+18.3	+8.6
1973-74	250.6	+19.8	+8.6
1974-75	272.2	+21.6	+8.6
1975-76	295.6	+23.4	+8.6
1976-77	321.0	+25.4	+8.6
1977-78	348.6	+27.6	+8.6
1978-79	378.6	+30.0	+8.6
1979-80	411.2	+32.6	+8.6

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

TABLE A.18.--TOTAL LOCAL GOVERNMENT REVENUE FROM OWN SOURCES
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, 1971-72 TO 1979-80
(Millions of Dollars)

(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	<u>Amount</u>	<u>Percent</u>
Actual Revenues				
1965-66	\$ 547.7	\$	...	...
1966-67	575.6		+27.9	+5.1
1967-68	647.9		+72.3	+12.6
1968-69	689.3		+41.4	+6.4
1969-70	800.5		+111.2	+16.1
1970-71	910.1		+109.6	+13.7
Projected Revenues				
1971-72	1,014.2		+104.1	+11.4
1972-73	1,120.7		+106.5	+10.5
1973-74	1,227.5		+106.8	+9.5
1974-75	1,344.8		+117.3	+9.6
1975-76	1,468.2		+123.4	+9.2
1976-77	1,603.2		+135.0	+9.2
1977-78	1,750.7		+147.5	+9.2
1978-79	1,912.1		+161.4	+9.2
1979-80	2,088.7		+176.6	+9.2

Source: Table 5.5.

TABLE A .19--LOCAL GOVERNMENT REVENUE FROM STATE CASH TRANSFERS
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Millions of Dollars</u>			
<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Revenues			
1965-66	\$ 247.1	\$ ...	...
1966-67	340.6	+93.5	+37.8
1967-68	396.2	+55.6	+16.3
1968-69	463.3	+67.1	+16.9
1969-70	507.0	+43.7	+9.4
1970-71	585.9	+78.9	+15.6
Projected Revenues			
1971-72	685.1	+99.2	+16.9
1972-73	766.8	+81.7	+11.9
1973-74	877.0	+110.2	+14.4
1974-75	909.5	+32.5	+3.7
1975-76	949.1	+39.6	+4.4
1976-77	987.6	+38.5	+4.1
1977-78	1,027.8	+40.2	+4.1
1978-79	1,073.9	+46.1	+4.5
1979-80	1,120.0	+46.1	+4.3

Source: U.S. Bureau of the Census, State Government Finances in 19--, selected editions (Washington: Government Printing Office); Annual Report of the Department of Welfare and Institutions, selected editions (Richmond: Department of Welfare and Institutions).

TABLE A.20.--LOCAL GOVERNMENT REVENUE FROM FEDERAL CASH TRANSFERS
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Revenues			
1965-66	\$ 43.5	\$ ...	...
1966-67	43.9	+0.4	+0.9
1967-68	53.4	+9.5	+21.6
1968-69	62.1	+8.7	+16.3
1969-70	80.8	+18.7	+30.1
1970-71	88.6	+7.8	+9.7
Projected Revenues			
1971-72	95.3	+6.7	+7.6
1972-73	192.6	+97.3	+102.1
1973-74	189.7	-2.9	-1.5
1974-75	198.9	+9.2	+4.8
1975-76	208.3	+9.4	+4.7
1976-77	197.4	-10.9	-5.2
1977-78	139.9	-57.5	-29.1
1978-79	148.9	+9.0	+6.4
1979-80	158.4	+9.5	+6.4

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

TABLE A.21 --LOCAL GOVERNMENT EXPENDITURES FOR EDUCATION ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

		<u>Change From Preceding Year</u>	
<u>Fiscal Year</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 518.6	\$ ...	...
1966-67	575.2	+56.6	+10.9
1967-68	635.6	+60.4	+10.5
1968-69	681.3	+45.7	+7.2
1969-70	777.1	+95.8	+14.1
1970-71	873.4	+96.3	+12.4
Projected Expenditures			
1971-72	985.0	+111.6	+12.8
1972-73	1,105.9	+120.9	+12.3
1973-74	1,195.5	+89.6	+8.1
1974-75	1,248.3	+52.8	+4.4
1975-76	1,298.6	+50.3	+4.0
1976-77	1,354.2	+55.6	+4.3
1977-78	1,409.0	+54.8	+4.0
1978-79	1,468.6	+59.6	+4.2
1979-80	1,531.9	+63.3	+4.3

Sources: U.S. Bureau of the Census, Governmental Finances in 19, selected editions (Washington: Government Printing Office); Annual Report of the Superintendent of Public Instruction, School Year 1971-72 (Richmond: State Board of Education, 1972).

TABLE A.22--LOCAL GOVERNMENT EXPENDITURES FOR HIGHWAYS
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$41.7	\$ ...	...
1966-67	59.6	+17.9	+42.9
1967-68	48.6	-11.0	-18.5
1968-69	54.4	+5.8	+11.9
1969-70	57.8	+3.4	+6.3
1970-71	63.0	+5.2	+9.0
Projected Expenditures			
1971-72	67.0	+4.0	+6.3
1972-73	72.3	+5.3	+7.9
1973-74	74.3	+2.0	+2.8
1974-75	75.7	+2.5	+3.4
1975-76	77.3	+1.6	+2.1
1976-77	79.3	+2.0	+2.6
1977-78	81.3	+2.0	+2.5
1978-79	83.3	+2.0	+2.5
1979-80	85.3	+2.0	+2.4

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

TABLE A -23.--LOCAL GOVERNMENT EXPENDITURES FOR PUBLIC WELFARE
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

MILLIONS OF DOLLARS			
<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 53.8	\$ ...	...
1966-67	58.6	+4.8	+8.9
1967-68	68.3	+9.7	+16.6
1968-69	82.7	+14.4	+21.1
1969-70	101.6	+18.9	+22.9
1970-71	140.3	+38.7	+38.1
Projected Expenditures			
1971-72	177.2	+36.9	+26.3
1972-73	184.2	+7.0	+4.0
1973-74	209.3	+25.1	+13.6
1974-75	214.9	+5.6	+2.7
1975-76	227.3	+12.4	+5.8
1976-77	234.6	+7.3	+3.2
1977-78	245.3	+10.7	+4.5
1978-79	259.7	+14.4	+5.9
1979-80	271.4	+11.7	+4.5

Source: Annual Report of the Department of Welfare and Institutions, selected editions (Richmond: Department of Welfare and Institutions).

TABLE A-24.--LOCAL GOVERNMENT EXPENDITURES FOR HEALTH AND HOSPITALS
ACTUAL, FISCAL YEAR 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Millions of Dollars</u>			
<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$13.6	\$ ...	...
1966-67	16.2	+2.6	+19.1
1967-68	24.5	+8.3	+51.2
1968-69	26.7	+2.2	+9.0
1969-70	23.4	-3.3	-12.4
1970-71	29.7	+6.3	+26.9
Projected Expenditures			
1971-72	31.8	+2.1	+7.1
1972-73	33.8	+2.0	+6.3
1973-74	36.2	+2.4	+7.1
1974-75	38.6	+2.4	+6.6
1975-76	41.1	+2.5	+6.5
1976-77	43.7	+2.6	+6.3
1977-78	46.5	+2.8	+6.4
1978-79	49.5	+3.0	+6.5
1979-80	52.7	+3.2	+6.5

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

TABLE A-25.--LOCAL GOVERNMENT EXPENDITURES FOR POLICE AND FIRE PROTECTION
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 57.0	\$ ...	...
1966-67	58.9	+1.9	+3.3
1967-68	68.9	+10.0	+17.0
1968-69	76.9	+8.0	+11.6
1969-70	89.1	+12.2	+15.9
1970-71	96.5	+7.4	+8.3
Projected Expenditures			
1971-72	102.9	+6.4	+6.6
1972-73	109.8	+6.9	+6.7
1973-74	117.6	+7.8	+7.1
1974-75	125.6	+8.0	+6.8
1975-76	133.6	+8.0	+6.4
1976-77	142.1	+8.5	+6.4
1977-78	151.6	+9.5	+6.7
1978-79	160.8	+9.2	+6.1
1979-80	171.0	+10.2	+6.3

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

TABLE A.26.--LOCAL GOVERNMENT EXPENDITURES FOR SEWERAGE AND SANITATION
CTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change from Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 48.3	\$ ...	...
1966-67	55.5	+7.2	+14.9
1967-68	60.0	+4.5	+8.1
1968-69	70.3	+10.3	+17.2
1969-70	61.4	-8.9	-12.7
1970-71	69.9	+8.5	+13.8
Actual Expenditures			
1971-72	75.0	+5.1	+7.3
1972-73	79.9	+4.9	+6.5
1973-74	85.5	+5.6	+7.0
1974-75	91.2	+5.7	+6.7
1975-76	96.9	+5.7	+6.3
1976-77	102.9	+6.0	+6.2
1977-78	109.4	+6.5	+6.3
1978-79	116.2	+6.8	+6.2
1979-80	123.4	+7.2	+6.2

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

TABLE A-27--LOCAL GOVERNMENT EXPENDITURES FOR LOCAL PARKS AND RECREATION
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS 1971-72 TO 1979-80
(Millions of Dollars)

ACTION 33-00000			
<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditure			
1965-66	\$14.8	\$...	...
1966-67	16.0	+1.2	+8.1
1967-68	20.0	+4.0	+25.0
1968-69	26.4	+6.4	+32.0
1969-70	46.7	+20.3	+76.9
1970-71	37.8	-8.9	-19.1
Projected Expenditures			
1971-72	40.7	+2.9	+7.7
1972-73	43.4	+2.7	+6.6
1973-74	46.5	+3.1	+7.1
1974-75	49.6	+3.1	+6.7
1975-76	52.8	+3.2	+6.5
1976-77	56.2	+3.4	+6.4
1977-78	59.8	+3.6	+6.4
1978-79	63.6	+3.8	+6.4
1979-80	67.7	+4.1	+6.4

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

TABLE A-28--LOCAL GOVERNMENT EXPENDITURES FOR FINANCIAL ADMINISTRATION AND GENERAL CONTROL
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED FISCAL YEARS, 1971-72 TO 1979-80
(Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 31.4	\$ ...	...
1966-67	32.0	+0.6	+1.9
1967-68	38.7	+6.7	+20.9
1968-69	42.7	+4.0	+10.3
1969-70	47.9	+9.2	+21.5
1970-71	56.9	+9.0	+18.8
Projected Expenditures			
1971-72	61.2	+4.3	+7.6
1972-73	65.3	+4.1	+6.7
1973-74	69.9	+4.6	+7.0
1974-75	74.6	+4.7	+6.7
1975-76	79.4	+4.8	+6.4
1976-77	84.5	+5.1	+6.4
1977-78	89.9	+5.4	+6.4
1978-79	95.6	+5.7	+6.3
1979-80	101.7	+6.1	+6.4

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

TABLE A-29--LOCAL GOVERNMENT EXPENDITURES FOR ALL OTHER FUNCTIONS
ACTUAL, FISCAL YEARS 1965-66 TO 1970-71 AND PROJECTED, FISCAL YEARS, 1971-72 TO 1979-80
(Millions of Dollars)

MILLIONS OF DOLLARS			
<u>Fiscal Year</u>	<u>Amount</u>	<u>Change From Preceding Year</u>	
		<u>Amount</u>	<u>Percent</u>
Actual Expenditures			
1965-66	\$ 73.1	\$ ...	...
1966-67	75.1	+2.0	+2.7
1967-68	118.5	+43.4	+57.8
1968-69	129.4	+10.9	+9.2
1969-70	152.7	+23.3	+18.0
1970-71	195.9	+43.2	+28.3
Projected Expenditures			
1971-72	210.8	+14.9	+7.6
1972-73	224.9	+14.1	+6.7
1973-74	240.8	+15.9	+7.1
1974-75	257.1	+16.3	+6.8
1975-76	273.5	+16.4	+6.4
1976-77	290.9	+17.4	+6.4
1977-78	309.4	+18.5	+6.4
1978-79	329.1	+19.7	+6.4
1979-80	350.1	+21.0	+6.4

Source: U.S. Bureau of the Census, Governmental Finances in 19--, 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 1971

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1971	Absolute Change ^{a/}	1962	1971	Absolute Change ^{a/}
Counties						
Accomack	.174	.188	+.014	\$0.65	\$0.55	\$-0.10
Albemarle	.120	.122	+.002	.46	.72	+ .26
Alleghany	.213	.167	-.046	.77	.79	+ .02
Amelia	.239	.107	-.132	.72	.32	- .40
Amherst	.127	.119	-.008	.47	.38	- .09
Appomattox	.206	.160	-.046	.57	.48	- .09
Arlington	.318	.344	+.026	1.23	1.32	+ .09
Augusta	.251	.256	+.005	.73	.67	- .06
Bath	.329	.223	-.106	.90	.70	- .20
Bedford	.164	.110	-.054	.60	.47	- .13
Bland	.125	.056	-.069	.64	.31	- .33
Botetourt	.167	.125	-.042	.67	.55	- .12
Brunswick	.178	.181	+.003	.53	.54	+ .01
Buchanan	.098	.094	-.004	.39	.52	+ .13
Buckingham	.294	.106	-.188	.62	.27	- .35
Campbell	.215	.151	-.064	.65	.51	- .14
Caroline	.179	.122	-.057	.54	.40	- .14
Carroll	.092	.111	+.019	.43	.72	+ .29
Charles City	.203	.119	-.084	.76	.51	- .25
Charlotte	.132	.109	-.023	.46	.43	- .03
Chesterfield	.313	.279	-.034	.81	.86	+ .05
Clarke	.143	.179	+.036	.38	.58	+ .20
Craig	.197	.152	-.045	.65	.61	- .04
Culpeper	.193	.167	-.026	.41	.50	+ .09
Cumberland	.188	.108	-.080	.68	.39	- .29
Dickenson	.099	.073	-.026	.69	.51	- .18
Dinwiddie	.196	.160	-.036	.49	.59	+ .10
Essex	.357	.234	-.123	.66	.43	- .23
Fairfax	.338	.326	-.012	1.14	1.41	+ .27
Fauquier	.162	.100	-.062	.43	.42	- .01
Floyd	.224	.126	-.098	.90	.50	- .40
Fluvanna	.215	.132	-.083	.43	.38	- .05
Franklin	.140	.098	-.042	.67	.47	- .20
Frederick	.153	.167	+.014	.43	.57	+ .14
Giles	.134	.117	-.017	.47	.52	+ .05

(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 1971 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1971	Absolute Change ^{a/}	1962	1971	Absolute Change ^{a/}
Gloucester	.236	.214	-.022	\$0.59	\$0.48	\$-0.11
Goochland	.223	.173	-.050	.56	.60	+ .04
Grayson	.077	.122	+.045	.46	.34	- .12
Greene	.159	.135	-.024	.48	.61	+ .13
Greensville	.164	.188	+.024	.45	.38	- .07
Halifax	.207	.154	-.053	.49	.44	- .05
Hanover	.201	.202	+.001	.62	.59	- .03
Henrico	.367	.337	-.030	.87	1.00	+ .13
Henry	.138	.131	-.007	.48	.56	+ .08
Highland	.196	.214	+.018	.64	.54	- .10
Isle of Wight	.202	.160	-.042	.64	.48	- .16
James City	.207	.233	+.026	.62	.98	+ .36
King George	.185	.211	+.026	.56	.71	+ .15
King & Queen	.319	.150	-.169	.75 ^{b/}	.53 ^{b/}	- .22
King William	.258	.180	-.078	.59 ^{b/}	.51 ^{b/}	- .08
Lancaster	.271	.232	-.039	.46	.42	- .04
Lee	.090	.070	-.020	.82	.73	- .09
Loudoun	.143	.276	+.133	.40	.73	+ .33
Louisa	.176	.138	-.038	.40	.43	+ .03
Lunenburg	.143	.150	+.007	.41	.60	+ .19
Madison	.223	.111	-.112	.65	.43	- .22
Mathews	.207	.233	+.026	.48	.58	+ .10
Mecklenburg	.196	.151	-.045	.56	.45	- .11
Middlesex	.213	.176	-.037	.69	.40	- .29
Montgomery	.178	.121	-.057	.63	.57	- .06
Nansemond	.156	.170	+.014	.49	.86	+ .37
Nelson	.168	.068	-.100	.52	.34	- .18
New Kent	.141	.144	+.003	.49	.61	+ .12
Northampton	.261	.145	-.116	.95 ^{c/}	.65 ^{c/}	- .30
Northumberland	.253	.246	-.007	.56	.54	- .02
Nottoway	.240	.191	-.049	.79	.69	- .10
Orange	.173	.157	-.016	.52	.70	+ .18
Page	.135	.077	-.058	.68	.45	- .23
Patrick	.201	.123	-.078	.60	.43	- .17
Pittsylvania	.209	.267	+.058	.50	.73	+ .23
Powhatan	.209	.226	+.017	.52 ^{d/}	.80 ^{d/}	+ .28
Prince Edward	.151	.117	-.034	.15 ^{d/}	.29 ^{d/}	+ .14
Prince George	.255	.240	-.015	.69	.70	+ .01
Prince William	.151	.295	+.144	.69	1.16	+ .47
Pulaski	.158	.106	-.052	.68	.56	- .12

(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 1971 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1971	Absolute Change ^{a/}	1962	1971	Absolute Change ^{a/}
Rappahannock	.114	.078	-.036	\$0.40	\$0.32	\$-0.08
Richmond	.275	.213	-.062	.61	.55	- .06
Roanoke	.330	.306	-.024	.74 ^{e/}	.90	+ .16
Rockbridge	.228	.154	-.074	.67 ^{e/}	.67	...
Rockingham	.225	.175	-.050	.61	.47	- .14
Russell	.165	.165	...	.39	.61	+ .22
Scott	.099	.100	+.001	.80	.82	+ .02
Shenandoah	.148	.167	+.019	.38	.37	- .01
Smyth	.086	.082	-.004	.45	.49	+ .04
Southampton	.153	.140	-.013	.48	.63	+ .15
Spotsylvania	.330	.232	-.098	.76	.77	+ .01
Stafford	.191	.290	+.099	.46	.87	+ .41
Surry	.191	.122	-.069	.44	.24	- .20
Sussex	.165	.120	-.045	.58	.48	- .10
Tazewell	.143	.150	+.007	.72	.71	- .01
Warren	.164	.099	-.065	.45	.39	- .06
Washington	.062	.077	+.015	.58	.68	+ .10
Westmoreland	.300	.240	-.060	.87	.82	- .05
Wise	.165	.205	+.040	.85	.87	+ .02
Wythe	.152	.134	-.018	.68 ^{f/}	.60 ^{f/}	- .08
York	.202	.172	-.030	.48 ^{f/}	.75 ^{f/}	+ .27
County Weighted average	.237	.239	+.002	\$0.77	\$0.90	\$+0.13
Cities						
Alexandria	.436	.428	-.008	\$1.37	\$1.73	\$+0.36
Bedford ^{g/}	n.a.	.533	n.a.	n.a.	.69	n.a.
Bristol	.361	.333	-.028	.87	1.33	+ .46
Buena Vista	.300	.322	+.022	1.11	1.16	+ .05
Charlottesville	.274	.223	-.051	.96	1.07	+ .11
Chesapeake ^{h/}	n.a.	.477	n.a.	n.a.	1.56	n.a.
Clifton Forge	.339	.374	+.035	1.10	1.27	+ .17
Colonial Heights	.846	.871	+.025	1.02	1.13	+ .11
Covington	.303	.254	-.049	1.09	1.05	- .04
Danville	.613	.513	-.100	.92	.90	- .02
Emporia ^{i/}	n.a.	.466	n.a.	n.a.	.75	n.a.
Fairfax	.339	.401	+.062	1.17	1.60	+ .43
Falls Church	.440	.463	+.023	1.43	1.32	- .11
Franklin	.168	.464	+.296	.71	1.07	+ .36
Fredericksburg	.426	.349	-.077	.85	1.12	+ .27

(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 1971 (Continued)

Locality	Assessment Ratio			Average Effective True Tax Rate		
	1962	1971	Absolute Change ^{a/}	1962	1971	Absolute Change ^{a/}
Galax	.116	.142	+.026	\$0.75	\$0.82	\$+ .07
Hampton	.333	.399	+.066	1.00	1.34	+ .34
Harrisonburg	.355	.341	-.014	.94	.85	- .09
Hopewell	.400	.347	-.053	.98	1.11	+ .13
Lexington ^{i/}	n.a.	.777	n.a.	n.a.	.93	n.a.
Lynchburg	.448	.416	-.032	1.28	1.25	- .03
Martinsville	.448	.521	+.073	.83	.99	+ .16
Newport News	.321	.443	+.122	.96	1.75	+ .79
Norfolk	.430	.507	+.077	1.29	1.37	+ .08
Norton	.188	.221	+.033	.85	.99	+ .14
Petersburg	.456	.855	+.399	1.35	1.62	+ .27
Portsmouth	.424	.623	+.199	1.06	1.40	+ .34
Radford	.322	.366	+.044	.87	1.02	+ .15
Richmond	.847	.877	+.030	1.59	1.76	+ .17
Roanoke	.346	.400	+.054	1.02	1.38	+ .36
Salem ^{k/}	n.a.	.347	n.a.	n.a.	1.13	n.a.
South Boston	.256	.220	-.036	.83	1.06	+ .23
Staunton	.340	.260	-.080	.95	.83	- .12
Suffolk	.399	.511	+.112	1.06	1.58	+ .52
Virginia Beach ^{1/}	n.a.	.418	n.a.	n.a.	.87	n.a.
Waynesboro	.234	.203	-.031	.82	1.02	+ .20
Williamsburg	.378	.287	-.091	.95	.75	- .20
Winchester	.454	.392	-.062	.82	1.06	+ .24
City weighted average	.471	.503	+.032	\$1.19	\$1.36	\$+0.17
State weighted average	.321	.330	+.009	\$0.92	\$1.06	\$+0.14

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 Greenville County.

TABLE A.30-- COMPARISON OF REAL ESTATE ASSESSMENT RATIOS AND EFFECTIVE
TRUE TAX RATES IN VIRGINIA COUNTIES AND CITIES, TAX YEARS 1962 AND 1971 (Continued)

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.

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; 1970 and 1971 issue: Richmond, May 1,
1973).

TABLE A.31 --STUDY OF THE RATIO OF 1971 ASSESSED VALUATIONS TO 1971 SELLING PRICES
OF REAL ESTATE IN THE COUNTIES AND CITIES OF VIRGINIA

COUNTY	RESIDENTIAL			AGRICULTURAL			COMMERCIAL			AGGREGATE		
	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}
Accomack	310	19.9%	27.6%	30	15.9%	39.7%	8	14.1%	35.5%	348	18.8%	30.5%
Albemarle	438	12.5	16.3	55	8.3	37.4	3	*	*	496	12.2	20.7
Alleghany	139	17.4	18.7	19	10.2	85.5	2	*	*	160	16.7	22.5
Amelia	20	11.2	26.4	20	10.1	24.0	1	*	*	41	10.7	25.0
Amherst	188	12.5	25.4	34	7.0	40.0	3	*	*	225	11.9	29.8
Appomattox	46	17.8	41.3	42	13.2	30.0	1	*	*	89	16.0	32.9
Arlington	284	34.8	8.4	0	*	*	151	33.5	10.3	435	34.4	8.8
Augusta	274	26.1	15.2	45	23.4	17.8	2	*	*	321	25.6	16.3
Bath	33	24.0	26.5	11	14.6	54.6	4	18.8	30.9	48	22.3	29.8
Bedford	277	12.2	35.3	91	8.2	34.9	0	*	*	368	11.0	38.4
Bland	12	12.3	47.7	28	4.9	30.0	3	*	*	43	5.6	60.5
Botetourt	143	13.2	20.3	64	10.4	45.9	7	14.2	39.9	214	12.5	27.9
Brunswick	68	18.8	28.9	23	15.8	32.5	7	16.0	55.4	98	18.1	30.1
Buchanan	127	9.2	75.8	21	12.0	53.5	2	*	*	150	9.4	73.2
Buckingham	28	15.2	53.3	44	10.3	37.9	3	*	*	75	10.6	54.1
Campbell	591	15.2	17.6	25	12.9	35.1	5	19.8	46.2	621	15.1	18.4
Caroline	372	12.2	41.5	52	11.7	52.1	2	*	*	426	12.2	42.2
Carroll	205	11.1	30.3	99	11.3	32.2	2	*	*	306	11.1	30.7
Charles City	21	12.5	45.5	16	10.9	40.7	0	*	*	37	11.9	44.7
Charlotte	42	11.7	31.3	29	9.6	31.2	2	*	*	73	10.9	30.6
Chesterfield	511	28.0	11.4	10	31.1	25.7	7	23.2	17.6	528	27.9	12.0
Clarke	151	18.1	21.7	21	15.6	27.0	2	*	*	174	17.9	23.3
Craig	48	16.3	54.5	17	12.0	19.1	3	*	*	68	15.2	44.7
Culpeper	204	16.8	18.2	36	13.2	24.4	8	26.3	13.6	248	16.7	20.6
Cumberland	50	12.1	43.9	33	8.3	30.8	1	*	*	84	10.8	41.2
Dickenson	54	7.4	37.2	23	6.6	36.6	0	*	*	77	7.3	37.0
Dinwiddie	152	16.8	23.6	21	11.6	29.5	0	*	*	173	15.0	26.2
Essex	101	24.0	28.3	28	20.7	35.8	6	41.2	37.1	135	23.4	32.7
Fairfax	590	32.6	8.1	0	*	*	9	33.0	26.8	599	32.6	8.2
Fauquier	161	10.6	25.3	114	8.8	30.2	5	7.9	175.4	280	10.0	28.6

^{a/} C/D - Coefficient of Dispersion

* Indicates sample too small for calculations

TABLE A.31--STUDY OF THE RATIO OF 1971 ASSESSED VALUATIONS TO 1971 SELLING PRICES
OF REAL ESTATE IN THE COUNTIES AND CITIES OF VIRGINIA (Continued)

COUNTY	RESIDENTIAL			AGRICULTURAL			COMMERCIAL			AGGREGATE		
	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}
Floyd	58	16.7%	43.7%	76	11.3%	28.5%	2	*	*	136	12.6%	42.9%
Fluvanna	147	14.7	24.3	32	8.6	26.4	4	18.1%	115.0%	183	13.2	31.9
Franklin	152	10.5	31.1	53	7.4	34.0	4	13.6	107.8	209	9.8	34.8
Frederick	466	17.5	27.9	66	11.3	27.6	3	*	*	535	16.7	30.2
Giles	161	11.7	34.4	12	11.2	26.7	0	*	*	173	11.7	32.9
Gloucester	314	21.9	30.7	18	13.4	32.1	7	20.1	60.4	339	21.4	32.3
Goochland	102	18.4	26.5	19	11.9	44.0	3	*	*	124	17.3	27.1
Grayson	123	12.6	51.3	37	10.8	62.8	1	*	*	161	12.2	51.8
Greene	79	15.9	27.9	16	6.6	34.4	0	*	*	95	13.5	45.2
Greensville	90	19.6	29.4	10	19.3	51.5	7	15.2	22.6	107	18.8	33.1
Halifax	156	16.0	35.4	49	13.8	33.3	9	11.9	50.4	214	15.4	33.0
Hanover	506	20.5	16.0	35	15.8	33.6	9	22.3	23.8	550	20.2	17.2
Henrico	519	33.8	8.6	1	*	*	7	33.2	18.6	527	33.7	8.6
Henry	352	13.4	27.9	14	7.6	42.3	4	15.3	40.7	370	13.1	29.8
Highland	44	26.8	37.5	34	16.6	25.9	2	*	*	80	21.4	42.6
Isle of Wight	167	16.2	21.0	11	10.0	20.0	6	18.8	47.1	184	16.0	25.0
James City	265	23.4	14.1	3	*	*	8	12.2	49.6	276	23.3	15.4
King George	58	21.6	23.0	23	18.3	31.7	0	*	*	81	21.1	24.3
King & Queen	31	16.5	52.8	20	13.4	39.0	1	*	*	52	15.0	38.8
King William	65	19.6	29.6	17	14.0	23.0	2	*	*	84	18.0	31.1
Lancaster	172	23.8	30.2	16	19.9	24.2	4	26.4	43.9	192	23.2	31.2
Lee	218	7.1	34.7	65	6.2	38.5	3	*	*	286	7.0	36.0
Loudoun	276	28.2	17.2	53	24.3	23.1	9	26.8	26.2	338	27.6	19.3
Louisa	176	14.9	28.7	57	10.9	30.8	0	*	*	233	13.8	35.2
Lunenburg	61	16.4	30.7	48	11.2	35.7	4	36.6	22.2	113	15.0	37.0
Madison	96	14.7	43.6	30	7.1	38.9	0	*	*	126	11.1	52.0
Mathews	139	24.0	32.2	11	11.2	37.2	1	*	*	151	23.3	34.0
Mecklenburg	220	16.3	24.1	34	11.6	27.2	16	17.6	43.4	270	15.1	27.4
Middlesex	149	18.2	31.3	16	11.8	35.4	3	*	*	168	17.6	32.4
Montgomery	274	12.5	18.4	83	10.4	41.0	7	17.9	42.5	364	12.1	24.1
Nansemond	403	17.3	19.8	14	9.8	29.6	6	18.8	35.3	423	17.0	21.3
Nelson	81	9.3	50.4	65	6.0	33.9	0	*	*	146	6.8	51.1

a/ C/D - Coefficient of Dispersion

* Indicates sample too small for calculations

TABLE A.31--STUDY OF THE RATIO OF 1971 ASSESSED VALUATIONS TO 1971 SELLING PRICES
OF REAL ESTATE IN THE COUNTIES AND CITIES OF VIRGINIA (Continued)

COUNTY	RESIDENTIAL			AGRICULTURAL			COMMERCIAL			AGGREGATE		
	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}
New Kent	102	15.0%	30.2%	11	7.0%	30.3%	1	*	*	114	14.4%	32.2%
Northampton	130	15.4	60.1	7	7.2	28.4	3	*	*	140	14.5	63.4
Northumberland	231	25.0	33.6	17	15.8	50.0	3	*	*	251	24.6	32.3
Nottoway	72	20.9	29.2	17	12.4	23.2	8	18.9%	45.4%	97	19.1	31.6
Orange	170	17.4	19.6	38	6.4	33.2	7	24.3	26.2	215	15.7	34.1
Page	177	8.0	39.4	17	4.7	92.9	1	*	*	195	7.7	43.0
Patrick	111	12.8	55.7	67	11.6	31.1	1	*	*	179	12.3	44.7
Pittsylvania	302	27.7	28.2	71	20.0	31.9	6	25.1	77.4	379	26.7	27.6
Powhatan	184	23.5	22.7	32	17.3	18.4	1	*	*	217	22.6	25.0
Prince Edward	109	12.5	40.4	38	9.1	35.5	6	18.2	33.8	153	11.7	46.1
Prince George	158	24.0	14.8	9	18.1	32.3	5	19.1	38.8	172	24.0	15.7
Prince William	560	29.5	5.8	18	28.0	17.7	24	25.1	28.1	602	29.5	6.1
Pulaski	296	10.6	29.2	18	8.0	35.9	8	14.6	29.1	322	10.6	29.7
Rappahannock	69	8.0	43.3	22	6.4	32.3	1	*	*	92	7.8	39.2
Richmond	44	24.5	22.2	24	14.2	45.8	4	17.0	93.0	72	21.3	34.1
Roanoke	570	30.7	11.1	10	21.7	34.4	8	24.8	46.0	588	30.6	11.7
Rockbridge	145	17.2	29.3	53	12.0	19.6	4	18.1	48.9	202	15.4	32.0
Rockingham	326	18.0	29.4	38	13.6	33.9	6	18.9	36.1	370	17.5	30.0
Russell	113	16.0	38.9	27	17.2	39.7	2	*	*	142	16.5	40.2
Scott	57	7.5	28.7	30	6.6	35.6	4	8.9	6.2	91	7.4	27.4
Shenandoah	263	16.8	20.7	50	13.8	41.9	4	13.1	56.8	317	16.7	23.9
Smvth	215	8.2	28.3	18	8.7	71.3	2	*	*	235	8.2	29.9
Southampton	117	14.3	19.4	9	8.0	26.6	4	12.3	131.2	130	14.0	23.2
Spotsylvania	213	24.0	27.2	29	10.1	35.3	2	*	*	244	23.2	32.7
Stafford	295	29.5	20.0	27	22.0	35.3	10	22.2	51.7	332	29.0	21.8
Surry	41	12.2	48.7	16	11.1	43.3	1	*	*	58	12.2	46.4
Sussex	39	12.0	43.9	9	9.0	29.9	8	16.6	27.9	56	12.0	40.4
Tazewell	327	15.3	31.6	33	12.8	44.5	4	10.2	19.5	364	15.1	30.9
Warren	557	10.0	44.2	18	4.2	36.9	9	15.9	46.4	584	9.9	46.0
Washington	247	7.4	26.5	42	9.7	27.9	5	10.5	135.4	294	7.7	28.3
Westmoreland	588	24.0	36.9	13	16.8	26.5	10	26.0	53.2	611	24.0	36.6
Wise	405	20.4	56.9	22	19.3	59.1	8	23.7	20.9	435	20.5	54.4
Wythe	196	13.5	14.6	43	13.1	14.6	2	*	*	241	13.4	14.1
York	509	17.3	17.9	6	14.0	55.3	6	10.4	29.7	521	17.2	18.4

a/ C/D - Coefficient of Dispersion

* Indicates sample too small for calculations

TABLE A. 31--STUDY OF THE RATIO OF 1971 ASSESSED VALUATIONS TO 1971 SELLING PRICES
OF REAL ESTATE IN THE COUNTIES AND CITIES OF VIRGINIA (Continued)

CITY	RESIDENTIAL			AGRICULTURAL			COMMERCIAL			AGGREGATE		
	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}
Alexandria	327	43.1%	7.9%	0	*	*	257	42.4%	9.7%	584	42.8%	8.6%
Bedford	81	52.9	13.6	0	*	*	8	59.7	10.5	89	53.3	13.1
Bristol	145	32.8	15.6	0	*	*	12	39.7	16.0	157	33.3	16.9
Buena Vista	88	32.0	13.5	0	*	*	3	*	*	91	32.2	14.0
Charlottesville	485	22.3	12.0	0	*	*	18	23.0	21.7	503	22.3	12.0
Chesapeake	592	47.7	5.6	12	29.6%	53.6%	25	53.0	19.4	629	47.7	6.1
Clifton Forge	49	36.9	30.1	0	*	*	5	41.4	19.8	54	37.4	29.4
Colonial Heights	302	87.5	8.4	0	*	*	17	70.4	30.7	319	87.1	8.6
Covington	84	25.4	28.6	1	*	*	1	*	*	86	25.4	29.4
Danville	751	51.3	12.8	0	*	*	25	50.9	64.0	776	51.3	13.7
Emporia	45	47.2	14.5	0	*	*	10	41.5	32.8	55	46.6	14.8
Fairfax	57	40.0	8.4	0	*	*	1	*	*	58	40.1	8.2
Falls Church	34	46.1	6.7	0	*	*	2	*	*	36	46.3	6.8
Franklin	64	46.4	12.9	0	*	*	2	*	*	66	46.4	13.7
Fredericksburg	187	35.0	12.6	2	*	*	17	34.8	28.8	206	34.9	13.7
Galax	66	14.2	13.6	0	*	*	7	18.7	33.2	73	14.2	14.4
Hampton	592	40.0	8.3	1	*	*	8	30.7	27.3	601	39.9	8.4
Harrisonburg	115	33.9	11.4	0	*	*	7	43.7	20.1	122	34.1	12.0
Hopewell	271	34.7	11.5	0	*	*	4	48.2	59.9	275	34.7	11.8
Lexington	68	77.8	10.6	0	*	*	6	62.5	40.7	74	77.7	11.2
Lynchburg	647	41.4	13.0	0	*	*	26	43.5	17.1	673	41.6	12.9
Martinsville	223	52.0	14.1	0	*	*	11	62.9	33.2	234	52.1	15.7
Newport News	614	44.3	5.7	0	*	*	6	44.9	15.1	620	44.3	5.7
Norfolk	580	50.9	9.8	0	*	*	38	47.4	31.0	618	50.7	10.5
Norton	62	22.6	25.9	0	*	*	8	16.5	37.0	70	22.1	25.8
Petersburg	415	85.5	12.3	0	*	*	28	90.1	23.9	443	85.5	13.3
Portsmouth	426	62.3	9.9	0	*	*	9	70.0	42.6	435	62.3	10.1
Radford	108	36.5	13.0	0	*	*	2	*	*	110	36.6	13.0
Richmond	586	87.5	5.8	0	*	*	43	90.6	7.5	629	87.7	5.9
Roanoke	405	39.8	6.5	0	*	*	50	41.5	9.7	455	40.0	6.9

a/ C/D - Coefficient of Dispersion

* Indicates sample too small for calculations

TABLE A.31--STUDY OF THE RATIO OF 1971 ASSESSED VALUATIONS TO 1971 SELLING PRICES
OF REAL ESTATE IN THE COUNTIES AND CITIES OF VIRGINIA (Continued)

CITY	RESIDENTIAL			AGRICULTURAL			COMMERCIAL			AGGREGATE		
	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}	No. of Sales	Median	C/D ^{a/}
Salem	328	34.8%	11.6%	0	*	*	19	32.7%	13.1%	347	34.7%	11.6%
South Boston	101	22.0	13.9	0	*	*	10	20.3	37.6	111	22.0	15.5
Staunton	298	25.8	13.3	0	*	*	14	33.4	25.3	312	26.0	13.2
Suffolk	69	51.4	25.0	0	*	*	13	33.8	63.0	82	51.1	25.6
Virginia Beach	409	41.1	13.3	8	16.0%	27.2%	14	22.6	35.8	431	41.1	13.9
Waynesboro	310	20.3	10.9	0	*	*	3	*	*	313	20.3	10.9
Williamsburg	52	30.5	13.7	0	*	*	10	18.6	36.6	62	28.7	16.3
Winchester	233	39.1	13.1	0	*	*	9	40.0	16.5	242	39.2	13.1

a/ C/D - Coefficient of Dispersion

* Indicates sample too small for calculations

Source: Research Division, State Department of Taxation

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