REPORT OF THE JOINT SUBCOMMITTEE STUDYING TAX AND EXPENDITURE LIMITATIONS

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

SENATE DOCUMENT NO. 28

COMMONWEALTH OF VIRGINIA
Richmond
1980

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Report of the
Joint Subcommittee Studying
Tax and Expenditure Limitations
Richmond, Virginia
January, 1980

To: Honorable John N. Dalton, Governor of Virginia
and
The General Assembly of Virginia

I. INTRODUCTION

Senate Joint Resolution No. 160 and House Joint Resolution No. 297 established a Joint Subcommittee of members from the House Finance and Appropriations Committees, the Senate Finance Committee, and at-large members of the House of Delegates and the Senate of Virginia to study the necessity for imposing, either by statute or by Constitutional amendment, tax limitations or expenditure restrictions at either the State level, local level or both. The resolution reads as follows:

SENATE JOINT RESOLUTION NO. 160

WHEREAS, a general proclamation has been sounded by voters throughout this country for lower taxes and reduced government spending; and

WHEREAS, evidence of this mood can be readily seen by the fact that at the November 7, 1978 general election the voters of seven states approved measures imposing various limitations on taxes, with spending limits being approved in three other states; and

WHEREAS, Virginia is categorized as a relatively low property tax jurisdiction, and State and local expenditures as a percentage of total personal income have increased by approximately ten percent during the decade; and

WHEREAS, the passage of tax and expenditure limitations in those states having enacted such measures previously has resulted in serious problems for local and state governments in providing vital services for the citizenry; and

WHEREAS, such limitations have not been maturely considered nor studied previously by this body, nor does sufficient time permit proper considerations for matters of such prime importance during this "short" session; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That a joint subcommittee of the Senate and House of Delegates be appointed to study the necessity for imposing, either by statute or by Constitutional amendment, tax limitations and expenditure restrictions at either the State level, local level or both.

The joint subcommittee shall be composed of fourteen members who shall be appointed in the following manner: three members of the House Finance Committee, three members of the House Appropriations Committee, and two members of the House at-large, all to be appointed by the Speaker of the House of Delegates; five members of the Senate Finance Committee and one member of the Senate at-large, all to be appointed by the Senate Committee on Privileges and Elections.

The members of the joint subcommittee shall receive such compensation as is authorized by law for members of the General Assembly and be reimbursed for their expenses incurred for the work of the joint subcommittee. The Division of Legislative Services shall serve as staff to the joint subcommittee. The officials and employees of all State agencies shall cooperate fully with the joint subcommittee.

The joint subcommittee shall make a report of its findings and recommendations to the Governor and the General Assembly not later than November one, nineteen hundred seventy-nine.

Pursuant to this directive, the following were appointed to serve on the joint subcommittee: Senator Edward E. Willey, Chairman; Delegate Owen B. Pickett, Vice-Chairman; Senator Hunter B. Andrews; Delegate Gerald L. Baliles; Delegate Orby L. Cantrell; Delegate Ray L. Garland; Senator William B. Hopkins; Senator J. Harry Michael, Jr.; Delegate Thomas J. Michie, Jr.; Senator Willard J. Moody; Delegate Theodore V. Morrison, Jr.; Senator Elliot S. Schewel; Delegate Warren G. Stambaugh; Delegate S. Vance Wilkins, Jr.

The Joint Subcommittee was assisted in its study by the Division of Legislative Services. Specific staff assigned were John A. Garka, Economist, and E. M. Miller, Jr., Senior Attorney.

II. BACKGROUND

The issue of general limits on State and local governments came into sharp focus on June 6, 1978, when the voters of California adopted by a surprisingly large margin a tax limitation package known as "Proposition 13". Although California's "Proposition 13" was not the first broad-based tax limitation measure enacted, it did serve to focus the attention of citizens to the general area of limiting the growth of governmental units at all levels. The general limitation approach is a relatively new concept for State government, although the limits on State and local fiscal activities have existed in various forms for years (e.g., balanced budget requirements for states and property tax rate limits for localities). The first general statutory ceiling on the growth in State government spending was enacted by the New Jersey legislature in 1976. The first constitutional state spending limit was adopted by referendum in Tennessee in March, 1978.

The resulting attention to tax limitations continued after California, and was a prominent topic in legislatures across the country, including Virginia. A multitude of different approaches to State and/or local tax, revenue, and expenditure limitations were introduced and debated. Because of the multitude of bills, the variety of approaches, and the complexity and significant ramifications of the proposals, the Joint Subcommittee was established pursuant to Senate Joint Resolution No. 160 (Senator Andrews) and House Joint Resolution No. 297 (Delegate Michie) to "...study the necessity for imposing, either by statute or by Constitutional amendment, tax limitations and expenditure restrictions at either the State level, local level or both."

This report contains a summary of the data and material that has been compiled and scrutinized by the joint subcommittee during the course of its deliberations. The Joint Subcommittee has examined the following: purposes of tax limitations; historical data on Virginia revenues, expenditures and personal income; revenue and expenditure data for a number of other states, as well as local governments in those states; and the actions of other states in this area. In addition, the Joint Subcommittee has considered all the tax/expenditure limitation bills that were before the General Assembly last Session and the advantages and disadvantages of certain types of limitations.

III. THE PURPOSE OF TAX/EXPENDITURE LIMITATIONS

The limitation measures that have been enacted or have been proposed appear to cover a wide variety of purposes. They are designed to achieve at least one of the following purposes:

–reduce taxes

–make government and spending more accountable

–ensure that state (or local) spending has some limit (insurance policy for the future)

–limit reliance on a specific revenue source (or group of sources)

–limit total taxes

–limit General Fund revenues

–limit total revenues

–limit spending on specific areas

–limit total spending or appropriations

Although not a complete listing of possible purposes it does present a listing of some of the reasons advanced by proponents of limitation measures. This listing also serves to remind us that any limitation legislation must be measured against its purpose. In other words, does it achieve its goal? The range of purposes shows that the limitation action of one state may not yield the desired result in another.

The primary purpose of many types of tax/expenditure limitation proposals is to place some type of restraint on the amount or rate of growth of a particular source or sources of revenue or of some level of government spending. This restraint may be in the form of an actual reduction in spending, reduction (limit) on the rate of growth in spending, or simply be an "insurance policy" that spending increases will have some sort of ceiling in the future.

The limitation may be specific or comprehensive. It may attempt to limit the reliance on one specific tax (for example, part of California's Proposition 13 limited the rate of property tax increases as well as its importance in the local revenue structure) or it may be a limitation on the total amount of appropriations. Obviously, the impact of each of these approaches would be different. The limitation on a single source of tax revenue would have less impact on restraining total governmental expenditures because it is intended, at least primarily, to impose a limitation on a specific tax whereas a more general tax limitation would be seen as an attempt to limit the expenditures of a particular level of government.

IV. HISTORICAL REVIEW OF VIRGINIA REVENUE, EXPENDITURE AND PERSONAL INCOME DATA

The study of tax and/or expenditure limitations will certainly focus on a myriad of revenue, expenditure and personal income data.

The Joint Subcommittee has examined historical data for Virginia for the last twenty years. The examination of total State expenditures, total general fund revenues, and total tax revenues (as defined by the Comptroller) for Virginia, shows significant annual increases in each of these categories (see Table 1). For example, in twenty years total State expenditures have increased by approximately 570%. Total tax revenues have increased by 872% in the same time period. Table 2 presents the annual percentage changes in these categories. The unadjusted data reflect not only the effects of increasing costs on the State (including the impact of inflation), but also increases in the population of Virginia, the costs associated with increasing urbanization, expanded and new programs which have been requested by Virginians (e.g., increased educational facilities), increasing amounts of local aid, and costs associated with programs and services mandated by the federal government.

TABLE 1 -- TOTAL STATE EXPENDITURES, TOTAL GENERAL FUND REVENUES, TOTAL TAX REVENUES, FISCAL YEAR 1977-78 - 1958-59.

Fiscal Year	Total State Expenditures	Total General Fund Revenues	Total Tax Revenues
1977-78	$ 4,336,716,588	$ 2,047,263,155	$ 2,313,484,897
1976-77	3,864,633,453	1,714,329,111	1,995,191,170
1975-76	3,512,065,088	1,502,098,062	1,734,106,433
1974-75	3,339,574,102	1,376,135,941	1,563,869,776
1973-74	2,853,325,827	1,168,562,871	1,430,212,376
1972-73	2,447,320,537	1,054,469,443	1,322,268,616
1971-72	2,151,031,657	922,653,686	1,106,906,865
1970-71	1,965,214,661	807,954,651	970,258,638
1969-70	1,986,079,782	764,745,178	889,489,484
1968-69	1,695,905,491	724,865,142	862,616,616
1967-68	1,545,425,322	540,210,631	678,918,192
1966-67	1,375,483,623	458,708,994	582,837,546
1965-66	1,209,962,318	372,359,659	468,724,289
1964-65	1,063,949,611	329,690,937	424,670,533
1963-64	962,610,667	304,200,649	397,607,245
1962-63	884,483,609	292,230,417	386,654,869
1961-62	801,735,170	247,908,423	335,629,104
1960-61	731,187,934	237,372,083	318,321,728
1959-60	656,400,427	199,877,231	271,248,143
1958-59	648,036,492	181,469,955	237,958,869

Source: Report of the Comptroller, various issues.

TABLE 2 -- ANNUAL PERCENTAGE CHANGE IN TOTAL STATE EXPENDITURES, TOTAL GENERAL FUND REVENUES, AND TOTAL TAX REVENUES, FISCAL YEAR 1977-78 - 1958-59.

Fiscal Year	Total State Expenditures	Total General Fund Revenues	Total Tax Revenues
1977-78	+ 12.2%	+ 19.4%	+ 16.0%
1976-77	+ 10.0	+ 14.1	+ 15.0
1975-76	+ 5.1	+ 9.2	+ 10.9
1974-75	+ 17.0	+ 17.8	+ 9.3
1973-74	+ 16.6	+ 10.8	+ 8.2
1972-73	+ 13.8	+ 14.3	+ 19.4
1971-72	+ 9.4	+ 14.2	+ 14.1
1970-71	- 1.1	+ 5.6	+ 9.1
1969-70	+ 17.1	+ 5.5	+ 3.1
1968-69	+ 9.7	+ 34.2	+ 27.1
1967-68	+ 12.3	+ 17.8	+ 16.5
1966-67	+ 13.7	+ 23.2	+ 23.3
1965-66	+ 13.7	+ 12.9	+ 10.4
1964-65	+ 10.5	+ 8.4	+ 6.8
1963-64	+ 8.8	+ 4.1	+ 2.8
1962-63	+ 10.3	+ 17.9	+ 15.2
1961-62	+ 9.6	+ 4.4	+ 5.4
1960-61	+ 11.4	+ 18.7	+ 17.4
1959-60	+ 1.3	+ 10.1	+ 14.0
1958-59			

SOURCE: Report to the Comptroller, various issues. Prepared by the Division of Legislative Services.

The examination of this data clearly shows the large growth of Virginia taxes and Virginia expenditures over the past twenty years. However, to simply look at this data is misleading. One needs to examine also the change in prices, incomes, and the changes in government goods and services that have been provided over the past twenty years to keep these statistics in perspective.

If one adjusts total Virginia expenditures, general fund revenues and tax revenue data by population alone (see Table 3), one begins to see a more complete picture of the relative growth in State spending and taxation. For example, the twenty year growth of State expenditures per capita decreases to 406% and tax revenues to 635%.

To further place total Virginia expenditures, general fund revenues, and tax revenue data in proper perspective the Joint Subcommittee examined this data adjusted for inflation. The Joint Subcommittee adjusted this data for inflation utilizing the Consumer Price Index. All data is stated in 1967 dollars, thus the only increases are real increases. Table 4 presents the actual adjusted data while Table 5 presents the annual increases.

A comparison of these tables with Tables 1 and 2 shows the impact of inflation on State finances. The impact on the State has been similar to the impact on consumers, that is, a rapidly increasing number of dollars are necessary to simply finance a stable level of real expenditures. To be sure, the level of real State expenditures, real General Fund revenues, and real tax revenues have increased but at rates which are significantly less than what the unadjusted data show. For example, total tax revenues have increased by 872% over the twenty year period, when adjusted by inflation alone, however, this increase decreases to 334%.

TABLE 3 -- TOTAL STATE EXPENDITURES, TOTAL GENERAL FUND REVENUES, AND TOTAL TAX REVENUES, PER CAPITA AND PERCENTAGE CHANGE, FISCAL YEAR 1977-78 - 1958-59.

	Total State Expenditures Per Capita		Total General Fund Revenues Per Capita		Total Tax Revenues Per Capita	
	Amount	Percentage Change	Amount	Percentage Change	Amount	Percentage Change
1977-78	$ 842.40	+ 11.1%	$ 397.68	+ 18.2%	$ 449.39	+ 14.7%
1976-77	758.51	+ 9.1	336.47	+ 13.2	391.60	+ 14.1
1975-76	695.18	+ 3.7	297.33	+ 7.6	343.25	+ 9.3
1974-75	670.46	+ 15.3	276.27	+ 16.1	313.97	+ 7.8
1973-74	581.24	+ 15.0	238.04	+ 9.3	291.34	+ 6.7
1972-73	505.23	+ 11.9	217.68	+ 12.4	272.97	+ 17.5
1971-72	451.42	+ 8.4	193.63	+ 13.1	232.30	+ 13.0
1970-71	416.36	2.5	171.18	+ 4.1	205.56	+ 7.5
1969-70	427.00	+ 16.2	164.41	+ 4.6	191.23	+ 2.3
1968-69	367.56	+ 8.4	157.10	+ 32.5	186.96	+ 25.5
1967-68	339.06	+ 11.1	118.52	+ 16.5	148.95	+ 15.2
1966-67	305.12	+ 12.4	101.75	+ 21.8	129.29	+ 23.0
1965-66	271.53	+ 12.6	83.56	+ 11.8	105.19	+ 9.3
1964-65	241.20	+ 9.2	74.74	+ 7.0	96.27	+ 5.5
1963-64	220.93	+ 6.8	69.82	+ 2.1	91.26	+ 0.9
1962-63	206.85	+ 7.8	68.34	+ 15.2	90.42	+ 12.6
1961-62	191.80	+ 7.4	59.31	+ 2.3	80.29	+ 3.3
1960-61	178.56	+ 7.6	57.97	+ 14.7	77.73	+ 13.3
1959-60	165.99	0.2	50.54	+ 8.5	68.60	+ 12.3
1958-59	166.29		46.56		61.06	

SOURCE: Prepared by the Division of Legislative Services from various issues of the Report of the Comptroller and reports from Tayloe Murphy Institute of the University of Virginia.

TABLE 4 -- TOTAL STATE EXPENDITURES, TOTAL GENERAL FUND REVENUES, AND TOTAL TAX REVENUES, ALL IN CONSTANT 1967 DOLLARS
FISCAL YEARS 1977-78 - 1958-59

Fiscal Year	Total State Expenditures	Total General Fund Revenues	Total Tax Revenues
1977-78	$2,217,135,270	$1,046,658,054	$1,182,763,239
1976-77	2,116,447,674	938,843,981	1,092,656,719
1975-76	2,052,638,859	877,906,523	1,013,504,636
1974-75	2,057,655,022	847,896,451	963,567,329
1973-74	1,927,922,856	789,569,507	966,359,713
1972-73	1,844,250,593	794,626,558	996,434,525
1971-72	1,713,969,447	735,182,219	881,997,501
1970-71	1,613,476,733	663,345,362	796,599,866
1969-70	1,701,867,850	655,308,635	762,201,785
1968-69	1,538,934,202	657,772,361	782,773,698
1967-68	1,478,875,906	516,947,972	649,682,480
1966-67	1,375,483,623	458,708,994	582,837,546
1965-66	1,244,817,199	383,086,068	482,226,634
1964-65	1,125,872,604	348,879,298	449,386,807
1963-64	1,041,786,436	329,221,481	430,310,871
1962-63	964,540,467	318,680,934	421,651,983
1961-62	884,917,406	273,629,605	370,451,549
1960-61	816,057,962	264,924,199	355,269,785
1959-60	740,023,029	225,340,733	305,803,994
1958-59	742,309,842	207,869,364	272,576,024

Source: Report of the Comptroller, various issues. Constant dollar adjustment by CPI, all items as reported by U. S. Bureau of Labor Statistics. Prepared by the Division of Legislative Services.

TABLE 5 -- ANNUAL PERCENTAGE CHANGE IN TOTAL STATE EXPENDITURES IN CONSTANT 1967 DOLLARS, TOTAL GENERAL FUND REVENUES IN CONSTANT 1967 DOLLARS, AND TOTAL TAX REVENUES, IN CONSTANT 1967 DOLLARS, FISCAL YEARS 1977-78 - 1958-59

Fiscal Year	Total State Expenditures	Total General Fund Revenues	Total Tax Revenues
1977-78	+ 4.7%	+ 11.5%	+ 8.2%
1976-77	+ 3.1	+ 6.9	+ 7.8
1975-76	- 0.2	+ 3.5	+ 5.2
1974-75	+ 6.7	+ 7.4	- 0.3
1973-74	+ 4.5	0.6	3.0
1972-73	+ 7.6	+ 8.1	+ 13.0
1971-72	+ 6.2	+ 10.8	+ 10.7
1970-71	5.2	+ 1.2	+ 4.5
1969-70	+ 10.6	0.4	- 2.6
1968-69	+ 4.1	+ 27.2	+ 20.5
1967-68	+ 7.5	+ 12.7	+ 11.5
1966-67	+ 10.5	+ 19.7	+ 20.9
1965-66	+ 10.6	+ 9.8	+ 7.3
1964-65	+ 8.1	+ 6.0	+ 4.4
1963-64	+ 8.0	+ 3.3	+ 2.0
1962-63	+ 9.0	+ 16.5	+ 13.8
1961-62	+ 8.4	+ 3.3	+ 4.3
1960-61	+ 10.3	+ 17.6	+ 16.2
1959-60	0.3	+ 8.4	+ 12.2
1958-59			

SOURCE: Based on amounts in Table 1A. Prepared by the Division of Legislative Services.

To obtain a more accurate picture of the growth of government spending, one must also compare the growth of government spending to the real growth of Virginia's economy and its ability to finance the provision of public goods and services which the State provides. The growth of an economy's capacity to support the provision of public goods is a combination of real growth, population, and inflation. This can be measured in a number of ways. Probably the best way to measure this growth or capacity, although certainly not the only way, is to examine the growth of personal income in Virginia (see Table 6). As is clearly evident, the growth of Virginia personal income has been almost as large as the increases in State expenditures. Total Virginia personal income has increased by 441% over the last twenty years.

Table 7 compares the historical trend of total Virginia expenditures, total General Fund revenues, and total tax revenues as a percentage of Virginia personal income over the last twenty years. In fiscal year 1977-78, total Virginia State expenditures equaled 11.1% of total Virginia personal income in the previous calendar year (calendar year 1977). Although there has been an increase in this percentage over the last twenty years, the trend over the last decade has been relatively stable.

The historical data shows fluctuations occur from year to year. This results primarily from fluctuations in expenditures rather than personal income because personal income has grown at a relatively steady rate of approximately 10-12% per annum largely reflecting the rate of inflation, population growth, and real growth.

An examination of the percentages for total general fund revenues as a percentage of personal income as well as total tax revenues as a percentage of personal income, however, do not show the same stability. For example, total tax revenues have increased from 3.3% of total Virginia personal income in fiscal year 1958-59 to 5.9% in fiscal year 1977-78 while General Fund revenue has increased from 2.5% of total personal income in fiscal year 1958-59 to 5.2% in fiscal year 1977-78. This divergence suggests that total tax revenues are becoming a more important component of financing Virginia expenditures, although certainly not the only component.

The Joint Subcommittee wishes to note that State expenditures are financed from a number of sources. As the data indicates, slightly greater than 50% of State expenditures are financed by tax revenues. Other sources of revenue include direct user charges such as tuitions at institutions of higher learning, ABC profits, and sales of property and commodities. However, the largest source of non-tax revenue is the federal government. In Virginia, intergovernmental revenue from the federal government comprises about one-quarter of total revenue of the State government. Table 8 presents the data for the last ten years for Virginia and a few selected states.

The Joint Subcommittee in its examinations has attempted to not only examine Virginia but also the actions and directions of other states. For the intergovernmental comparison, as well as for other comparisons, the Joint Subcommittee has selected the neighboring states of Georgia, Maryland, North Carolina, and Tennessee. In addition, Indiana was selected because of its similar population and income. Arizona, California, and Colorada were selected to represent Western states. Finally, an average of all states was included.

TABLE 6 TOTAL AND PER CAPITA VIRGINIA PERSONAL INCOME, CALENDAR YEARS 1978-1959

Year	Total Virginia Personal Income (in millions of dollars)	Percentage Change	Per Capita Va. Personal Income	Percentage Change
1978	$ 39,247	+ 11.7%	$ 7,624	+ 10.6%
1977	35,126	+ 10.1	6,894	+ 9.2
1976	31,904	+ 11.1	6,315	+ 9.5
1975	28,720	+ 9.6	5,766	+ 8.0
1974	26,205	+ 11.4	5,338	+ 9.9
1973	23,531	+ 12.4	4,858	+ 10.5
1972	20,941	+ 11.8	4,395	+ 10.7
1971	18,737	+ 9.4	3,969	+ 7.8
1970	17,125	+ 9.1	3,682	+ 8.3
1969	15,689	+ 10.5	3,400	+ 9.1
1968	14,199	+ 10.0	3,115	+ 8.8
1967	12,902	+ 9.1	2,862	+ 7.9
1966	11,822	+ 8.5	2,653	+ 7.4
1965	10,897	+ 8.2	2,470	+ 6.9
1964	10,070	+ 10.0	2,311	+ 8.0
1963	9,152	+ 6.9	2,140	+ 4.5
1962	8,561	+ 7.7	2,048	+ 5.5
1961	7,950	+ 5.9	1,941	+ 2.2
1960	7,509	+ 3.5	1,899	+ 2.0
1959	7,254		1,861	

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Prepared by the Division of Legislative Services.

TABLE 7 -- TOTAL VIRGI IA EXPENDITURES, TOTAL GENERAL FUND REVENUES, AND TOTAL TAX REVENUES AS A PERCENTAGE OF CALENDAR YEAR PERSONAL INCOME, FISCAL YEAR 1977-78 - 1958-59.

Fiscal Year	Total Virginia Expenditures	Total General Fund Revenues	Total Tax Revenues
1977-78	11.1%	5.2%	5.9%
1976-77	11.0	4.9	5.7
1975-76	11.0	4.7	5.4
1974-75	11.6	4.8	5.4
1973-74	10.8	4.5	5.4
1972-73	10.4	4.5	5.6
1971-72	10.3	4.4	5.3
1970-71	10.5	4.3	5.2
1969-70	11.6	4.5	5.2
1968-69	10.8	4.6	5.5
1967-68	10.9	3.8	4.8
1966-67	10.7	3.5	4.5
1965-66	10.2	3.1	4.0
1964-65	9.8	3.0	3.9
1963-64	9.6	3.0	3.9
1962-63	9.7	3.2	4.2
1961-62	9.4	2.9	3.9
1960-61	9.2	3.0	4.0
1959-60	8.7	2.7	3.6
1958-59	8.9	2.5	3.3

TABLE 8 - INTERGOVERNMENTAL REVENUE FROM THE FEDERAL GOVERNMENT TO STATES AS A PERCENTAGE OF TOTAL GENERAL REVENUE FISCAL YEARS 1967-68 - 1976-77 SELECTED STATES AND U.S. AVERAGE

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	US Average
1976-77	25.9 %	21.0 %	27.8 %	30.3 %	30.8 %	22.1 %	23.1%	30.1 %	31.1%	27.0 %
1975-76	25.9	22.6	27.2	30.6	33.0	23.3	23.8	26.7	33.5	27.6
1974-75	25.5	21.3	26.1	28.7	32.8	19.6	22.7	30.2	31.1	26.8
1973-74	23.9	22.4	29.2	28.1	30.4	18.8	21.5	24.0	28.1	25.8
1972-73	24.6	22.8	31.2	32.0	32.5	22.3	23.0	26.2	30.2	27.7
1971-72										
1970-71	24.7	23.7	32.3	30.5	31.5	21.9	21.3	25.0	32.8	26.7
1969-70	21.4	24.6	31.6	28.6	27.1	19.8	18.3	21.1	30.3	24.8
1968-69	20.9	23.9	27.6	29.7	28.3	22.0	18.7	21.1	28.7	25.1
1967-68	23.0	29.2	28.8	30.1	29.6	21.2	20.8	22.0	30.1	25.7

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U.S. Department of Labor, Bureau of the Census.

TABLE 9 – INTERGOVERNMENTAL REVENUE FROM THE FEDERAL GOVERNMENT TO LOCAL GOVERNMENTS AS A PERCENTAGE OF TOTAL GENERAL REVENUE, FISCAL YEARS 1967-68 – 1976-77, SELECTED STATES AND U.S. AVERAGE

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	US Average
1976-77	11.6 %	8.5 %	6.6 %	6.9 %	12.0 %	7.1 %	10.9 %	10.5 %	11.7 %	9.3 %
1975-76	10.0	8.2	6.2	7.5	9.8	6.1	9.3	9.5	11.1	8.3
1974-75	9.7	8.1	5.5	7.2	9.8	5.5	8.2	8.6	10.0	7.4
1973-74	8.9	8.1	5.5	8.0	9.5	6.6	7.6	8.6	11.7	7.7
1972-73	9.0	8.5	6.0	5.8	6.6	4.2	8.9	7.7	11.5	6.7
1971-72										
1970-71	5.9	4.8	2.5	3.6	3.6	1.7	.1	3.7	7.9	3.7
1969-70	6.1	4.1	2.2	3.6	3.5	1.4	4.1	3.1	5.5	3.2
1968-69	5.4	5.1	2.6	2.4	3.5	2.1	3.3	2.8	4.6	3.1
1967-68	5.1	4.1	2.4	2.3	3.0	1.4	3.0	3.0	4.6	3.1

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census.

An examination of federal revenue shows at least two common points. The first is that for all states, the federal government is a major source of revenue and second, that the reliance has over the past ten years increased slightly for the vast majority of all states.

The implication of this reliance is obvious. If a limit is placed on tax revenue and should federal intergovernmental revenue decrease, the state would not be able to pick up the federal share without exceeding the limitation. This data also underscores the dependence and the growth of the dependence that the local governments have on the state and federal governments and the interdependence of the state on the federal (see also Table 9).

V. HISTORICAL REVIEW OF THE TAXES AND EXPENDITURES OF VIRGINIA AND OTHER STATES

The Joint Subcommittee has closely studied the financial data for Virginia. The Joint Subcommittee has also kept a sense of perspective and examined a number of other states. How do our taxes and/or expenditures compare with other states? With low tax states? With high tax states? All of these questions have to be addressed to study the necessity for imposing either tax or expenditure limitations in Virginia.

This review consisted of comparing Virginia with the selected states that were previously examined. In addition the staff has selected a number of higher tax states and lower tax states for a basis of comparison as well. The high and low tax states were those states that ranked consistently in the top or bottom quartile (quarter) of all states in terms of the following measures: state taxes per $1,000 of personal income, state general expenditures per $1,000 of personal income; and state taxes per capita. The source of the data was the U. S. Department of Commerce. In using this Commerce Department data all states could be compared since the definition and components of taxes and expenditures were comparable.

Table 10 contains data on total state taxes as a percentage of personal income for selected states over the past twenty years. In Virginia, state taxes as a percentage of personal income have increased over the past twenty years from 3.7% in fiscal year 1957-58 to 5.8% in fiscal year 1976-77. This pattern is followed in all 25 states that were examined. This data for Virginia can be divided into two phases. The first phase (1957-58 to 1968-69) is a period of rapid increase due to the addition of the sales tax, etc. The second phase is from 1968-69 through 1976-77, the last year in which comparable data is available for all states. During this phase the percentage has been level. It may be significant to note that no other state that the Joint Subcommittee examined can make this claim. At the same time it is important to realize that many factors affect state taxes/personal income. These factors include the following: amount of state revenue that is distributed to localities, intergovernmental federal aid, tax and expenditure philosophy, and the wealth of the state as measured by personal income to name only a few factors.

A comparison of Virginia and the U. S. average shows that Virginia taxes are less than the U. S. average. In fact the gap is expanding. In 1957-58, Virginia was 0.4% below the U. S. average. By 1976-77 this gap had widened to 0.8%.

A similar conclusion appears regarding Virginia State taxes when compared to the neighboring states of Georgia, Maryland, North Carolina, and Tennessee. That is, in fiscal year 1976-77 Virginia was lower than these surrounding states. Of particular interest is North Carolina, which is generally regarded as a low tax state. In fiscal year 1976-77, it was 1.4% above Virginia. Also of interst is the comparison with Indiana—a generally recognized low tax state. Virginia and Indiana have the same percentage of state taxes to personal income.

Table 11 presents similar data for higher tax states. These states have state tax/personal income ratios that are substantially above Virginia's. In fiscal year 1976-77, all these states were significantly above Virginia. Delaware and Minnesota were the highest—3.1% above Virginia. Table 12 presents this data for the lower tax states. Clearly, Virginia has a ratio above these states, however, Virginia's is equal to Kansas and Nebraska, almost equal to Florida and only marginally greater than Texas.

Are Virginia's State taxes growing more rapidly than other states? The Joint Subcommittee has examined the percentage increases in the ratios and finds that the increases for the past twenty years for the higher tax states have been greater than Virginia's.

The Joint Subcommittee encourages the reader to examine the data to draw their own conclusions but the following caveats should be kept in mind. The data shows state taxes as a percentage of personal income, thus the result depends on both factors. The state tax data is dependent on the role of the state and the localities in financing the provision of public goods and services. All other things equal, a state that levies state taxes and distributes these funds to localities in lieu of localities imposing local taxes will have a higher state tax ratio. However, if one combines state taxes and local taxes there would be no difference. In essence, the Joint Subcommittee is suggesting that this data as well as the rest of the data in this report is part of the financial picture of state taxes and state expenditures. A complete analysis should include an examination of a wide variety of data.

TABLE 10 TOTAL STATE TAXES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tennessee	US Avg.
1976-77	5.8%	7.7%	7.2%	5.7%	6.2%	5.8%	6.7%	7.2%	6.1%	6.6%
1975-76	5.7	7.6	6.9	5.7	6.1	5.7	6.7	6.8	5.6	6.5
1974-75	5.7	7.8	6.8	5.6	6.2	6.2	6.5	7.0	5.7	6.4
1973-74	5.7	6.7	6.3	5.7	6.5	6.0	6.4	7.2	5.8	6.4
1972-73	5.9	6.9	6.5	5.3	6.4	4.8	6.5	7.3	5.9	6.5
1971-72	5.6	6.9	6.5	5.5	6.3	5.2	6.3	7.3	5.9	6.4
1970-71	5.5	7.0	6.0	5.3	5.9	5.0	6.3	7.3	5.5	6.0
1969-70										
1968-69	5.8	7.1	6.3	5.3	5.8	4.7	5.5	6.7	5.7	5.6
1967-68	5.1	6.2	6.1	5.2	5.8	4.8	5.3	6.7	5.5	5.3
1966-67	4.9	6.7	5.0	5.4	5.8	4.9	5.0	6.8	5.4	5.1
1965-66	4.5	6.7	5.2	5.6	5.8	4.8	5.0	6.8	5.5	5.0
1964-65	4.3	6.4	5.2	5.0	5.8	4.7	4.9	6.8	5.4	4.9
1963-64	4.3	5.3	5.2	4.9	5.7	4.5	4.9	6.7	5.6	4.9
1962-63	4.4	6.4	4.9	4.9	5.6	3.8	4.8	6.8	5.2	4.8
1961-62	4.1	6.0	4.8	5.2	5.5	3.8	4.8	6.6	5.2	4.7
1960-61	4.3	6.1	4.9	5.1	5.8	3.8	4.6	6.3	5.2	4.6
1959-60	3.8	6.2	4.9	4.8	5.6	3.9	4.7	6.4	5.4	4.5
1958-59	3.6	5.3	4.4	4.9	5.4	3.9	4.5	5.8	5.1	4.1
1957-58	3.7	5.1	4.4	4.7	5.4	4.1	4.8	5.9	5.2	4.1

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

TABLE 11 - TOTAL STATE TAXES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77

HIGHER TAX STATES

Fiscal Year	Delaware	Kentucky	Mass.	Michigan	Minnesota	New Mexico	New York	Wisconsin
1976-77	8.7	7.5	6.9	6.9	8.7	8.5	7.9	8.5
1975-76	8.6	7.5	7.1	6.1	9.0	9.2	7.8	8.5
1974-75	8.8	7.7	6.2	6.3	8.9	9.3	7.5	8.3
1973-74	8.7	7.2	6.7	7.1	8.7	9.0	7.7	8.5
1972-73	8.2	7.6	6.8	7.2	8.2	8.9	8.0	8.6
1971-72	8.8	7.2	6.4	7.0	7.8	9.2	7.3	8.4
1970-71	8.3	7.0	5.8	6.4	7.1	9.2	6.9	8.0
1969-70								
1968-69	6.8	7.1	5.4	6.4	6.8	8.3	6.8	7.1
1967-68	6.8	6.0	4.9	5.8	6.7	8.3	6.0	7.0
1966-67	7.2	6.1	4.9	5.2	5.9	8.5	6.0	7.0
1965-66	7.1	6.1	4.3	5.2	5.9	8.6	5.4	6.6
1964-65	7.0	6.0	4.1	5.2	5.4	8.6	4.8	6.4
1963-64	6.5	5.9	4.1	5.3	5.5	8.3	4.9	6.8
1962-63	6.8	5.9	4.0	5.5	5.3	7.6	4.8	6.1
1961-62	6.6	5.7	3.9	5.1	5.1	7.2	4.6	4.9
1960-61	6.1	5.9	3.9	5.3	5.1	6.8	4.3	4.9
1959-60	5.7	4.7	3.9	5.0	4.9	7.1	4.3	4.9
1958-59	5.7	4.5	3.9	4.6	4.7	6.7	3.6	4.5
1957-58	4.7	4.7	3.6	4.8	4.9	6.7	3.6	4.8

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

TABLE 12 - TOTAL STATE TAXES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77

LOWER TAX STATES

Fiscal Year	Florida	Kansas	Missouri	Nebraska	New Hampshire	Ohio	South Dakota	Texas
1976-77	5.7%	5.8%	4.9%	5.8%	3.5%	4.7%	4.8%	5.4%
1975-76	5.7	5.7	5.0	5.2	3.7	4.8	5.5	5.4
1974-75	5.9	5.6	4.9	4.6	3.9	4.9	5.0	5.3
1973-74	6.4	5.6	5.4	5.0	4.0	4.7	5.1	5.4
1972-73	6.4	5.2	5.4	4.7	4.2	5.0	4.4	5.2
1971-72	6.0	5.2	5.2	4.8	4.2	4.5	5.1	5.4
1970-71	5.6	5.1	4.6	5.0	4.0	3.9	5.3	5.2
1969-70								
1968-69	5.5	4.9	4.4	4.2	3.2	3.8	4.7	4.7
1967-68	4.8	4.9	4.4	4.2	3.2	3.7	4.8	4.3
1966-67	4.9	5.3	4.5	3.2	3.1	3.4	4.9	4.5
1965-66	5.1	5.5	4.5	3.2	3.1	3.5	4.7	4.7
1964-65	5.3	4.5	4.3	3.0	3.0	3.5	4.2	4.8
1963-64	5.4	4.6	4.2	3.3	3.0	3.7	4.8	4.9
1962-63	4.9	4.6	4.0	3.0	3.1	3.6	4.8	4.9
1961-62	5.0	4.5	4.0	2.9	3.1	3.6	4.1	4.9
1960-61	5.1	4.5	3.6	3.2	3.1	3.8	4.6	4.2
1959-60	5.3	4.5	3.4	3.1	3.1	3.8	4.4	4.3
1958-59	5.0	4.5	3.2	3.1	3.0	3.3	5.1	3.9
1957-58	5.1	3.8	3.3	3.1	3.0	3.4	4.2	3.9

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

As previously noted, state taxes may not be directly correlated to state expenditures because state taxes are the major but not the only source of revenue to finance expenditures. To place Virginia's expenditures in perspective, the Joint Subcommittee has examined state expenditures in relation to personal income for Virginia for the last twenty years. This comparison is also provided for the selected states, higher tax states, and lower tax states. The Virginia and selected states comparison is contained in Table 13.

The definition of state expenditures is a U. S. Department of Commerce one which uses a common definition so that all states are treated similarly. For example, since some states operate liquor stores and some not, liquor store receipts are excluded.

The increase in total State expenditures in relation to personal income is clear. In the twenty year period Virginia has increased from 8.4% to 11.2%. This growth confirms the data previously presented that has shown Virginia's expenditures increase. The comparison to personal income, however, places this in perspective.

A comparison of this percentage among the selected states show that only one state is lower—Indiana at 9.4%. In fiscal year 1957-58, of these selected states four were lower. In addition, in 1957-58 Virginia's percentage was greater than the U. S. average. Virginia's state expenditure position appears to have improved.

TABLE 13 - TOTAL STATE EXPENDITURES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tennessee	US Avg
1976-77	11.2%	12.5%	12.9%	11.5%	11.4%	9.4%	12.5%	13.3%	11.4%	12.6%
1975-76	11.1	13.8	13.2	11.8	12.1	10.6	13.4	13.9	12.5	13.2
1974-75	11.7	13.4	12.7	11.4	12.2	10.1	12.9	13.3	12.0	12.5
1973-74	10.9	11.2	12.4	10.2	11.3	8.2	11.5	10.9	10.2	11.5
1972-73	10.4	11.0	11.6	9.8	11.1	8.0	11.5	10.9	9.8	11.4
1971-72	10.1	12.2	12.3	11.0	10.8	8.9	11.2	11.5	10.1	11.7
1970-71	10.2	12.1	13.0	11.1	11.2	9.0	10.7	12.0	10.9	11.6
1969-70	9.8	12.0	12.2	10.4	10.4	8.3	9.2	11.2	10.5	10.7
1968-69	9.5	12.1	11.6	9.9	9.9	8.2	8.3	10.3	9.9	10.0
1967-68	9.4	12.0	11.3	10.1	10.3	8.5	8.6	10.6	9.6	9.8
1966-67	9.3	13.3	11.2	10.4	10.0	7.8	7.7	10.4	10.2	9.5
1965-66	8.7	12.6	10.5	10.3	9.2	7.4	7.6	10.0	9.6	8.8
1964-65	8.5	11.9	10.2	9.9	8.7	7.8	7.5	9.3	8.9	8.6
1963-64	8.3	11.1	9.9	9.7	8.9	7.4	7.5	9.4	9.2	8.7
1962-63	8.2	11.2	9.5	9.6	9.7	6.9	7.7	9.5	8.8	8.6
1961-62	8.2	11.0	9.2	8.8	9.4	6.8	7.6	9.7	8.9	8.3
1960-61	7.7	10.2	9.3	8.7	9.1	7.4	7.1	9.1	8.8	8.4
1959-60	7.6	9.9	9.8	8.4	8.7	6.6	6.8	8.9	8.8	8.0
1958-59	7.9	9.5	8.4	8.8	9.1	6.6	7.3	9.1	8.7	8.2
1957-58	8.4	9.5	8.3	8.9	8.8	6.5	7.1	9.4	8.3	7.9

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

The Joint Subcommittee stresses the many variables that may affect this percentage—level of personal income, philosophy of government, level of State aid to local government, federal revenues among others. The Joint Subcommittee also underlines the annual fluctuations in the data, for example, examine Virginia from 1957-58 to 1964-65, or from 1970-71 to 1976-77.

To be sure, the data shows that Virginia's expenditures have grown absolutely as well as relative to income. What has happened in other states? Virginia has increased by 2.8% over twenty years. The U. S. average has increased by 4.7%. The majority of the other selected states have increased faster than Virginia. The Joint Subcommittee has heard the argument that although Virginia is a low tax state, it is growing faster than the other states. An examination of other selected states and the U. S. average has not verified this statement. Clearly all states have increased, but Virginia's growth has not been faster than the average.

Table 14 presents the same information for higher tax states. For 1976-77 the ratio in New Mexico was 16.3%, in New York 15.8%, and in Delaware 15.5%. The high tax states are growing faster than Virginia. The only neighboring higher tax state is Kentucky. Kentucky has a 13.7% ratio, clearly larger than the Virginia percentage.

Table 15 presents the same data for the lower tax states. Of these eight states, all are below Virginia except New Hampshire and South Dakota. These two states may rank higher than Virginia because of demographic characteristics and lower levels of income rather than greater expenditures. This reflects, as the Joint Subcommittee has noted, difficulties with drawing conclusions from this data.

The Joint Subcommittee again reminds the reader that in examining the data, the reader should remember the caveats previously discussed.

TABLE 14 TOTAL STATE EXPENDITURES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77

HIGHER TAX STATES

Fiscal Year	Delaware	Kentucky	Mass.	Michigan	Minnesota	New Mexico	New York	Wisconsin
1976-77	15.5	13.7	13.1	13.1	14.7	16.3	15.8	14.0
1975-76	16.9	14.2	14.4	14.1	15.5	17.2	16.8	14.8
1974-75	14.9	13.5	13.9	14.0	13.8	16.4	14.7	14.3
1973-74	14.1	11.9	12.8	12.4	13.1	16.4	14.0	13.6
1972-73	15.2	13.3	12.8	12.0	13.0	16.5	14.2	12.9
1971-72	14.6	13.9	11.8	11.8	13.5	17.2	14.2	13.0
1970-71	14.4	13.9	11.3	11.7	13.1	17.7	12.7	12.9
1969-70								
1968-69	12.2	13.1	9.0	10.2	10.8	16.7	11.5	11.5
1967-68	12.1	13.0	8.5	9.7	11.1	17.4	10.3	11.5
1966-67	12.8	12.4	8.[illegible]	9.9	9.8	18.[illegible]	9.6	10.8
1965-66	11.4	11.2	7.3	8.7	9.5	17.7	8.6	9.7
1964-65	11.1	10.7	7.7	8.0	9.3	16.1	7.8	9.2
1963-64	11.4	11.6	8.0	8.6	9.3	15.4	8.0	9.5
1962-63	11.2	12.2	7.4	9.1	8.4	15.3	7.9	9.7
1961-62	9.3	12.6	7.0	9.5	8.8	13.7	7.4	8.0
1960-61	9.5	10.6	7.3	10.2	9.2	13.4	7.5	8.0
1959-60	9.7	9.1	7.2	9.0	8.9	12.7	7.2	7.4
1958-59	11.8	9.4	7.5	9.8	9.7	12.8	7.5	7.5
1957-58	11.1	8.2	7.4	10.1	8.3	13.0	6.6	7.1

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

TABLE 5 – TOTAL STATE EXPENDITURES AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1957-58 - 1976-77
LOWER TAX STATES

F scal Year	Florida	Kansas	Missouri	Nebraska	New Hampshire	Ohio	South Dakota	Texas
1976-77	9.5%	10.3%	8.7%	10.0%	12.1%	10.8%	12.9%	8.9%
1975-76	10.1	10.5	10.0	10.5	12.7	11.3	14.2	9.5
1974-75	10.5	9.7	9.4	9.5	12.7	11.0	12.3	8.9
1973-74	9.4	8.9	8.6	8.7	11.1	9.6	11.2	8.3
1972-73	8.9	8.4	8.3	7.8	11.5	9.3	10.3	8.3
1971-72	8.7	9.2	9.0	8.7	12.2	9.0	11.7	9.2
1970-71	9.0	9.8	8.8	9.1	12.0	8.6	12.8	9.3
1969-70								
1968-69	8.1	8.6	8.2	7.7	9.3	7.9	11.7	7.9
1967-68	7.5	8.5	7.5	7.6	9.4	7.9	11.8	8.0
1966-67	7.8	8.5	7.4	7.5	9.1	7.5	11.3	7.9
1965-66	7.6	8.6	7.3	6.8	8.9	7.2	11.0	7.7
1964-65	8.0	7.8	6.9	6.3	8.7	6.9	11.5	7.3
1963-64	8.5	8.0	7.2	7.1	9.2	6.7	12.1	7.7
1962-63	7.8	7.7	7.0	6.9	9.0	7.6	10.1	7.5
1961-62	7.2	7.6	6.8	6.2	8.7	7.5	9.9	7.3
960-61	7.6	7.7	6.7	6.7	9.3	8.2	10.7	6.9
1959-60	7.8	7.4	6.2	6.2	9.3	7.5	9.8	7.2
1958-59	7.5	8.2	6.5	6.3	9.5	7.8	11.1	7.2
1957-58	7.1	6.8	6.3	5.7	9.4	8.0	9.0	6.7

SOURCE: Calculated from U. S. Department of Commerce data. Total state expenditures as defined by the U. S. Department of Commerce

Finally, the Joint Subcommittee has for the selected states examined some local expenditure data as well as own source general revenue to ensure that local expenditures did not hide the true character of state taxes or expenditures.

Table 16 provides data on all local expenditures regardless of the source. This includes state and federal funds that are spent by the local governments. Again, U. S. Department of Commerce data is used so all governments can be examined on the same basis. (For example, expenditures do not include liquor store expenditures for states or the expenditures that may be included with a local utility, if any.)

The following observations are made on this local expenditure data. First, Virginia is again low for the selected states and the lowest when compared to neighboring states. Second, the data tells us where we are relative to other states. It does not tell us that Virginia is "right" or "wrong". The question of whether we need a limit, or whether Virginia has exceeded its limit is not addressed. Third, the Joint Subcommittee notes the percentage of California local governments. That state has consistently been the highest.

Table 17 presents data on state and local direct general expenditures. This includes all expenditures by state and local governments regardless of source but excludes double counting of intergovernmental transfers of one level of government that become the expenditures of another. This table eliminates the problem of certain functions being local expenditures in one state and state functions in another. Again, this comparison also shows Virginia ranking near the bottom and well below the U. S. average. Also, note the low ranking when comparing to other neighboring states.

The final three tables examine not simply taxes but general revenue from own sources. Although state and local governments do not have complete control over taxes they do have complete control over revenues from own sources. Table 18 presents this data for the selected states. In fiscal year 1976-77 for Virginia, 7.4% of personal income was collected by the state as general revenue from own sources. This was lower than the U. S. average but above the percentages for the neighboring states of Georgia and Tennessee. Another observation about Virginia is that it has increased in this area very slowly in the last nine years—to be exact, by 0.3%. Again the data show a great deal but it will still never answer the question of what is the proper percentage. The final observation concerns the rapid increase for Indiana. In nine years it went from the lowest of the group to almost the highest. As data from the next table will show Indiana has shifted responsibility for a number of areas from the local government to the state. This, of course, results in a shift in percentages but not in the total.

Table 19 presents the same data for local governments in those selected states. The following observations are noted. Again Virginia is low but local source revenue in Virginia is growing faster than the U. S. average. The Joint Subcommittee notes the relatively low amounts in Indiana and North Carolina. These two states are examples of a government funding philosophy which provide relatively greater state assistance to localities. Here again the trend is up.

Table 20 is the final table and combines state and local revenue from own sources as a percentage of personal income.

A great deal of data has been examined and Virginia has appeared to be a relatively low state tax and low state expenditure state. It is also obvious that even though Virginia is low the ratio of state taxes to personal income or state expenditures to personal income has increased over the past twenty years. Although a wide variety of data was examined, the Joint Subcommittee realizes that a large number of factors influence the results. There are also a large number of factors affecting the results which cannot be accurately measured. For example, the extent of services that government provides as determined by that state's philosophy. Consider the situation where citizens of a particular state have chosen to have government provide certain services or levels of service that another state does not. Presumably this will affect taxes and expenditures. Does this mean that one state is overtaxed? If the citizens of a state want certain services above those provided by another state does that mean they are overtaxed? The answer is not clear.

TABLE 16 - TOTAL LOCAL DIRECT GENERAL EXPENDITURES AS A PERCENTAGE OF PERSONAL INCOME
SELECTED STATES, FISCAL YEARS 1968-69 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	U.S. Avg.
1976-77	9.2%	12.6%	13.0%	12.0%	9.7%	8.8%	12.4%	10.0%	9.8%	11.4%
1975-76	9.4	12.8	14.0	12.7	10.2	8.9	12.5	10.0	9.7	11.6
1974-75	9.6	12.4	13.5	12.0	10.5	9.3	12.4	10.1	10.2	11.5
1973-74	8.6	11.1	13.2	11.1	9.5	8.8	11.4	9.0	9.5	10.9
1972-73	8.4	10.6	13.4	10.3	9.4	9.0	11.0	8.5	9.0	10.9
1971-72										
1970-71	8.7	10.8	13.7	10.4	9.8	9.4	11.3	8.7	9.8	11.0
1969-70	8.3	10.3	13.1	10.0	9.6	9.2	10.5	8.4	9.2	10.4
1968-69	7.9	10.2	12.3	10.0	9.2	8.3	10.3	7.7	8.8	10.0

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census. Personal Income data from the U. S. Department of Commerce.

TABLE 17 - TOTAL STATE AND LOCAL DIRECT GENERAL EXPENDITURES AS A PERCENTAGE OF PERSONAL INCOME
SELECTED STATES, FISCAL YEARS 1968-69 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	U.S. Avg.
1976-77	16.1%	19.1%	18.8%	18.8%	16.8%	13.8%	19.2%	16.6%	17.1%	18.0%
1975-76	16.1	19.6	19.8	19.4	17.6	14.5	19.3	17.0	17.6	16.8
1974-75	16.8	19.3	19.2	18.6	18.4	14.7	19.3	16.7	17.9	18.4
1973-74	15.4	17.4	18.6	17.2	16.7	13.7	17.7	14.8	16.2	17.3
1972-73	14.6	17.1	18.8	16.5	16.9	13.8	17.2	14.4	15.5	17.3
1971-72										
1970-71	14.9	17.6	19.7	17.5	17.3	14.7	17.2	15.3	17.1	17.7
1969-70	14.2	17.2	19.0	16.6	16.5	13.9	15.7	14.5	16.1	16.6
1968-69	13.6	17.0	18.2	16.6	15.7	13.3	15.0	13.5	15.4	15.8

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census. Personal Income data from the U. S. Department of Commerce.

TABLE 18 - TOTAL STATE GENERAL REVENUE FROM OWN SOURCES, AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1968-69 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	U. S. Avg.
1976-77	7.4%	9.2%	8.3%	7.4%	7.3%	8.5%	8.5%	8.5%	7.2%	8.0%
1975-76	7.3	9.1	7.9	7.7	7.1	7.2	8.2	8.2	6.8	7.8
1974-75	7.4	9.3	7.9	7.7	7.3	7.8	8.0	8.4	6.9	7.8
1973-74	7.3	8.1	7.4	7.5	7.5	7.4	7.9	8.5	7.0	7.8
1972-73	7.3	8.2	7.5	7.0	7.4	6.1	7.9	8.5	7.0	7.7
1971-72										
1970-71	6.9	8.5	6.9	7.1	6.9	6.5	7.5	8.6	6.5	7 [illegible]
1969-70	6.9	8.8	7.1	7.1	7.1	6.6	7.4	8.5	6.7	7.2
1968-69	7.1	8.6	7.2	6.9	6.7	6.0	6.5	7.9	6.5	6.7

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census. Personal Income data from the U. S. Department of Commerce.

TABLE 19 - TOTAL LOCAL GENERAL REVENUE FROM OWN SOURCES, AS A PERCENTAGE OF PERSONAL INCOME
SELECTED STATES, FISCAL YEARS 1968-69 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	U. S. Avg.
1976-77	5.1%	6.7%	8.4%	7.9%	6.6%	5.0%	6.6%	4.1%	5.6%	6.7%
1975-76	5.1	6.7	8.5	7.5	6.7	5.2	6.5	4.2	5.7	6.8
1974-75	5.2	6.3	8.4	6.8	6.7	5.9	6.3	4.2	5.9	6.8
1973-74	5.0	6.2	8.4	6.7	6.2	6.1	6.4	4.0	5.6	6.7
1972-73	5.0	6.3	8.9	7.0	5.9	6.[illegible]	6.5	3.8	5.7	6.7
1971-72										
1970-71	4.9	6.1	9.0	6.9	5.9	6.6	6.2	3.7	5.5	6.7
1969-70	4.7	5.9	8.5	6.9	5.6	5.8	6.2	3.7	5.2	6.5
1968-69	4.4	5.8	8.3	6.9	5.2	5.7	5.7	3.5	4.9	6.2

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census. Personal Income data from the U. S. Department of Commerce.

TABLE 20 - TOTAL STATE AND LOCAL REVENUE FROM OWN SOURCES, AS A PERCENTAGE OF PERSONAL INCOME, SELECTED STATES, FISCAL YEARS 1968-69 - 1976-77

Fiscal Year	Virginia	Arizona	California	Colorado	Georgia	Indiana	Maryland	N.C.	Tenn.	U.S. Avg.
1976-77	12.6%	15.9%	16.7%	15.3%	13.9%	12.3%	15.1%	12.6%	12.8%	14.7%
1975-76	12.4	15.8	16.4	15.2	13.8	12.4	14.7	12.4	12.5	14.6
1974-75	12.6	15.6	16.3	14.5	14.0	13.7	14.3	12.6	12.8	14.6
1973-74	12.3	14.3	15.8	14.2	13.7	13.5	14.3	12.5	12.6	14.5
1972-73	12.3	14.5	16.4	14.0	13.4	12.3	14.4	12.3	12.7	14.4
1971-72										
1970-71	11.8	14.6	15.9	14.0	12.8	13.1	13.7	12.3	12.0	13.9
1969-70	11.6	14.7	15.6	14.0	12.7	12.4	13.6	12.2	11.9	13.7
1968-69	11.5	14.4	15.3	13.8	11.9	11.7	12.2	11.4	11.4	12.9

SOURCE: Prepared by the Division of Legislative Services from various issues of Governmental Finances, published by the U. S. Department of Labor, Bureau of the Census. Personal Income data from the U. S. Department of Commerce.

For these reasons, the numbers that have been provided give valuable insight into Virginia's tax and expenditure position and where we stand relative to other states but they do not tell us what a proper limit is or whether Virginia needs one or not.

Regardless of the results of the data or the relative standing among other states the question that must be addressed still remains, "Would the Commonwealth and its citizens benefit from a statutory or Constitutional limitation on some part or total tax revenues or State and/or local expenditures? And if so, on what expenditure or tax component and at what level should the limitation be imposed?

VI. BROAD-BASED LIMITATION ACTIONS IN OTHER STATES

To date, twelve states have adopted some type of broad-based limitation on taxes or expenditures at the state level. Table 21 provides a listing of these states and a brief summary of the limitation provisions. The Joint Subcommittee has also found, however, that a large number of states have opted for tax reductions which may be in lieu of adopting a specific tax or expenditure limitation. These states have apparently decided that a better approach, is to reduce a tax or taxes rather than limit them in the future. In 1979, four states have taken action to eliminate or reduce the sales tax on food while fifteen states have either reduced their income tax rates, increased their standard deduction or personal exemption, indexed their tax rate structure or granted a tax credit. In summary, if one of the intents of a limitation is to reduce taxes a large number of states have taken the direct route of reducing a specific tax.

TABLE 21 -- STATES WITH SPENDING AND REVENUE LIMITS: GENERAL PROVISIONS, AS OF DECEMBER, 1979.

State	(C) Const. (S) Statutory	Limit Applies to	Basis of Limit	Date Approved
Arizona	(C)	Expenditure of state tax revenues	7% of total personal income	Nov., 1978
California	(C)	State appropriations	Population and price changes	Nov., 1979
Colorado	(S)	State general fund spending	7% increase over previous year	July, 1977
Hawaii	(C)	State general fund appropriations	Estimated growth of state's economy	Nov., 1978
Michigan	(C)	"Total amount of taxes"	Annual personal income growth	Nov., 1978
Nevada	(S)	State budget submitted by Governor	Estimated population and price changes	May, 1979
New Jersey	(S)	"Expenditures of the state"	Per capita personal income growth	Aug., 1976
Oregon	(S)	General Fund appropriations	Growth in personal income	
Tennessee	(C)	Appropriations from state tax revenues	Estimated rate of growth of state's economy	March, 1978
Texas	(C)	Appropriations from state tax revenues	Estimated rate of growth of state's economy	Nov., 1978
Utah	(S)	Total state appropriations	Annual personal income growth	April, 1979
Washington	(C)	State tax revenue	Personal income growth (3 year average)	Nov., 1979

SOURCES: National Conference of State Legislatures and State Tax Review, Commerce Clearing House. Compiled by the Virginia Division of Legislative Services.

The following is a brief summary of the limitation actions taken by the twelve states.

New Jersey was the first state to adopt a limitation (August, 1976), which became effective for all fiscal years beginning with 1977-78. New Jersey's statutory limitation applies to all expenditures of the state (except state aid to localities, money received by the state from the federal government, and interest and repayments of any general obligation bond issue approved by the voters) and provides that state expenditures in a particular fiscal year can increase no faster than the increase in per capita personal income in the latest four quarters for which personal income data is available. There are provisions to adjust base year expenditures if there are transfers of functions or services by the state.

Colorado was the next state to adopt a statutory limitation. Colorado's limitation applies only for fiscal years 1978-79 through 1982-83. The Colorado statute provides that state expenditures from Colorado's general fund may not increase by more than 7% over the previous fiscal year's expenditures. Any amount of general fund revenues in excess of the 7% growth and the 4% revenue fund is placed in a special fund which must be utilized for property tax relief. Colorado has used this decreased rate of growth in state expenditures to finance the indexation of the individual as well as the corporate income taxes (credit based on federal investment credit and for new business facilities). In addition, Colorado has eliminated the sales tax on food products effective January 1, 1980.

In 1978, five states adopted spending and/or expenditure limitations. Tennessee was the first state to adopt a constitutional limitation. Tennessee's voters amended the Tennessee constitution on March 8, 1978 to provide that, "In no year shall the rate of growth of appropriations from state tax revenues exceed the estimated rate of growth of the state's economy as determined by law." The limit became effective with the 1978-79 fiscal year and the rate of growth of the state's economy was defined as a projection of Tennessee's personal income.

Arizona voters amended their constitution on November 7, 1978, to provide that expenditures from state tax revenue cannot exceed 7% of total personal income in the state of Arizona. The constitution provides for an Economic Estimates Commission which must publish by April 1 of each year a final estimate of the personal income for the following fiscal year. This figure is then used to calculate the limitation. The constitution also specifies that if there are transfers of governmental functions between the federal and state governments and between the state government and its political subdivisions, the legislature shall provide for adjustment of the 7% limit by the Economic Estimates Commission. For example, the constitution reads, "If the costs of a program are transferred from the state to the federal government, the appropriation percentage limitation shall be commensurately decreased."

"State tax revenue" is defined by general law in Arizona as "...the revenue of the state for its own use from licenses, fees and permits, and from state taxes on property, income, transaction privilege and use, excise, fuel, luxury privilege, insurance premiums, estates, gifts, motor carriers, pari-mutuel, compensation insurance, watercraft licenses, bingo receipts, boxing and wrestling receipts and all of the state taxes levied and collected for its use. State tax revenue does not include federal, private or other grants, gifts, aids and contributions, nor revenues from sales and services nor trust agency funds, intrastate service funds, bond funds, endowment earnings, nor revenues from sales and services, dividends, interest, nor taxes collected by the state for distribution to counties and incorporated cities or towns."

Hawaii's voters amended Hawaii's constitution on November 7, to limit state general fund appropriations (excluding federal funds received by the general fund) to the estimated rate of growth of the state's economy. The estimated growth of the state's economy is defined by law. It also provides that the state will "share in the cost" of new or expanded mandated programs.

The state of Michigan also amended its constitution in November, 1978 to provide that taxes in each year, plus other revenues of the state, excluding federal aid, can increase no faster than the growth of personal income. The revenue limitation does not apply to taxes imposed for the payment of principal and interest on bonds approved by the voters and loans to school districts. It also provides that the state cannot shift the tax burden to localities.

The last state to enact a tax or expenditure limitation in 1978 was the state of Texas . The Texas constitution was amended to provide that appropriations from state tax revenue in a biennium cannot exceed the estimated rate of growth of the state's economy. The constitution provides that the legislature shall provide by general law, procedures to implement this constitutional provision.

In 1979, five more states adopted some type of limitation measures. Utah has established that, beginning with the 1981-82 fiscal year, state appropriations increases cannot exceed 85% of the personal income growth in the state. Thus, over time, appropriations as a percentage of Utah personal income will decrease since Utah cannot increase appropriations as fast as personal income increase. For example, if personal income increased at 10%, appropriations could increase no greater than 8.5%.

The Nevada legislature enacted a package of tax related measures which included a statutory limitation on the state budget, elimination of the sales tax on food, and local property tax relief. The statutory limitation provides that the Governor's Executive Budget which is submitted for approval to future legislatures shall not exceed the growth of state population and inflation. The limitation applies to the general fund and excludes expenditures for construction. The population estimates are from the U. S. Department of Commerce and the inflation figure is the CPI as published by the U. S. Department of Labor. The Governor may exceed the limit to the extent necessary to meet situations in which there is a threat to life or property.

The 1979 Session of the Oregon legislature enacted a statutory limitation on state General Fund appropriations. The limitation must be approved in a statewide referendum in 1980 before it is adopted. The limitation does not apply to debt service. The limitation provides that General Fund appropriations for the biennium cannot increase faster than the rate of growth in Oregon's personal income in the two previous calendar years.

In November, 1979 the voters in California and Washington approved taxing and expenditure limitations in their statewide referendums.

California voters approved a constitutional limit on government appropriations. The limit provides that the total annual appropriations of the state and each local government may not exceed its appropriations limit for the prior year adjusted for changes in the cost of living and population. The state limits do not apply to debt service and appropriations required for compliance with mandates of the courts or the federal government. The electorate may change the limit for a period of four years.

In Washington , voters established a state tax revenue limit for any fiscal year equal to the previous fiscal year's state tax revenue limit multiplied by the average state personal income ratio for the three calendar years immediately preceding the beginning of the fiscal year for which the limit is being computed. The state tax revenue limit is effective starting with fiscal year 1980-81. The limit may be exceeded by a two-thirds vote of each house.

The limitation actions of the twelve states have many distinctive features. However, they also seem to share a number of common provisions. For example, although the Joint Subcommittee has examined both tax and expenditure limitations the obvious preference has been for expenditure limitations. It appears that expenditure limitations cause fewer administrative problems than trying to restrict revenues. Each of the constitutional limitations have emergency override provisions, generally by a two-thirds vote of the legislature.

In a majority of states, federal funds are generally excluded from the limitation, although there are mechanisms which allow for the limitation to be changed if a function is transferred from the state government to the federal government, for example. Finally, most states utilize the personal income data published by the U. S. Department of Commerce (or an estimate of that number) to measure a state's economic activity.

VII. DISCUSSION OF DIFFERENT TYPES OF LIMITATIONS

Although the Joint Subcommittee has seen the multitude of approaches to the tax and expenditure limitation concepts adopted by other states, they appear to fall into several different types of approaches each with their own particular advantages and disadvantages. To be sure, there are a number of variations of each but they also share a number of common features.

The Joint Subcommittee has also examined all of the legislation pending before the 1979 Session of the General Assembly which concerned tax or expenditure limitations. (Appendix A contains a listing of these bills and resolutions along with a brief summary of their impact.) In addition, the patrons were invited to appear before the Joint Subcommittee to explain their proposals.

Constitutional or Statutory

The limitation proposals that have been examined are either statutory or constitutional. A statutory limitation can be more easily enacted than a Constitutional limitation but, at the same time, it can also be overriden more easily. For example, the Joint Subcommittee's legal counsel is of the opinion that if the budget bill is enacted after the statutory limitation, a budget bill which exceeds the limitation will simply override the statutory limitation because when two pieces of legislation are in conflict the last one enacted prevails. Thus, a statutory limitation may be circumvented even in the year it is enacted.

The statutory limitation does have some advantages. As noted, it can be enacted in a short period of time while a Constitutional amendment must be passed by two Sessions of the General Assembly separated by a general election and then adopted in a general election. A statutory limitation does provide a limitation similar to all other laws in the Code of Virginia. Testimony of individuals before the Joint Subcommittee has shown that in other states that have adopted this type of limitation it has been observed. Testimony has shown that representatives and voters feel a statutory limitation is a law like any other law which must be observed.

The other advantage of a statutory limit is that should conditions or requirements change it can be modified to accomodate these changes.

As the Joint Subcommittee has stated, the advantage of a Constitutional amendment is that it cannot be exceeded or changed so easily. However, it is clear that even a Constitutional amendment can be overriden. The Budget Bill typically passes the General Assembly with almost complete unanimity. Thus, the typical two-thirds or three-quarters which is a part of the Constitutional amendments to handle "emergencies" may not be difficult to achieve. In other words, the intent of the legislation may be overriden almost so easily as a statutory limitation.

The disadvantages of a Constitutional amendment limitation include the long period of time necessary for enactment, the lack of flexibility should conditions merit a different limitation.

Types of Limitations

The following is a grouping of the types of limitations that were examined. Also included is a brief listing of the advantages and disadvantages. Of course, each of these limitations could be either statutory or Constitutional with the corresponding advantages and disadvantages.

The first major type of limitation is one which limits the annual increases of state expenditures (or some portion of expenditures) to a fixed percentage. One example of this type of limitation was Senate Bill No. 549 which limited state general fund appropriations to an annual growth of no more than 7%. Under this type of limitation a number of provisions could vary, for example, the annual growth limit and the portion of expenditures which is subject to the limit.

This basic type of approach is straight forward and easy to understand. It can be quickly enacted and does not require personal income data, etc., in order to be administered.

The limitation of this type of approach is that one single arbitrary number is used to determine the maximum spending that is allowed. The flat percentage is not based on any of the myriad of factors which determine how much the state needs or should spend. Some of the major components that affect both expenditure requirements and the ability to finance state expenditures include price changes, personal income, population changes, adequacy and level of present expenditures, level of aid from the federal government, size of mandated programs just to name a few. The Joint Subcommittee has witnessed the multitude of factors affecting expenditure decisions. The use of one arbitrary number may be too simplistic an approach.

A second type of approach would limit expenditures (or some portion of expenditures) to changes in the Consumer Price Index and population changes. In other words, whatever the base of the limitation in a particular base year, it could only grow with the growth of population and the CPI. The intent of this type of limitation appears to be to freeze the real level of a particular component of expenditures and allow expenditures to increase only to keep pace with prices and population. This type of limitation implies a declining share of personal income for the expenditure components under the limitation since the limitation does not provide for growth because of real growth in the state's economy.

The advantage to this type of limitation is that instead of a limitation based on one fixed number it keys the limitation to variables that influence state expenditures. Variables that change as conditions change. Although population growth and inflation are two key variables in determining state expenditures they are certainly not the only ones otherwise states with the same population size and income levels would have similar expenditures.

The disadvantage includes the fact that the many variables that reflect the proper level of state expenditures are not included. This approach implies that growth should be limited to the growth of these two variables and that expenditures in relation to personal income should decline. Is this the proper way to limit growth?

The third type of approach is to limit state expenditures (or some portion thereof), to a certain level of personal income in the state. Spending could increase from some base year but only in proportion to the growth of personal income. This type of limitation would implicitly take into account not only population growth and inflation but also the real growth of the economy. State expenditures could increase only as fast as personal income.

The advantage to this approach is that it would tend to limit the size of state government spending to its present percentage of personal income. Proponents also argue that this type of limitation is the least restrictive since real growth can occur in spending. This means that even if present programs are not cut new spending programs can be adopted without exceeding the limitation. Finally, proponents argue that its an insurance policy to ensure that state expenditures as a percentage of personal income do not continue to escalate.

The disadvantage to this type of approach includes the inability to anticipate future expenditure requirements. This approach argues that it is tied to the growth of personal income.

After a decision is made to adopt some type of limitation and after one of the three approaches is selected and after a decision is made whether it should be Constitutional or statutory additional questions still remain. There remain two basic questions that need to be addressed–the base of the limitation and the degree of the limitation.

In terms of the base of the limit, what would it apply to

–total state expenditures (most exclude money received from the federal government and interest and repayments of general obligation bonds)

–state expenditures from state tax revenues

–state expenditures from general fund revenues

–or should the limitation apply to revenues.

The states that have enacted limitations have shown a distinct preference for limiting expenditures rather than revenues, presumably because of the greater difficulty of limiting revenues. Although there is no clear cut favorite, the basis of the limit seems to be expenditures from tax revenues or General Fund revenues.

The Joint Subcommittee wishes to reemphasize that a limitation on a base other than total expenditures or total appropriations is not a complete and comprehensive limitation. Some argue the merits of a limitation but then propose a limitation on a smaller base. The imposition of a limit on a portion of expenditures may not achieve the original goals of the proposal. In addition, if the limitation proposal is sound, why is it necessray to impose a limit on only a portion of state expenditures? Why are certain items exempted from the limitation?

After the base of the limitation is decided, the question becomes what should the limit be? As we have seen most of the states utilize state personal income to serve as the basis of the limit. Most of the states provide that the portion of state expenditures that are limited may increase no faster than the growth of that state's personal income. In other words, the percentage of personal income which the state spends cannot increase over a certain percentage. Some states which provide a more stringent limitation provide that expenditures may increase no faster than a portion of personal income growth or personal income growth per capita.

Additional Considerations

As has been noted, the states with general tax or expenditure limitations have a variety of objectives and attempt to achieve those objectives in a variety of ways. Each approach as well as the general concept presents a number of apparent questions that should be considered. Some are obviously more important than others but all of the questions need to be considered.

Any tax or expenditure limitation must, by definition, establish some type of lmit which of necessity is set at an arbitrary level. Some argue that this limitation may be too high or too low or that needs may change in the future and, thus, a limitation that may be appropriate today may not be appropriate twenty years or more into the future.

A limitation, if set "too low", would lead to inflexibility for the governmental unit(s) imposing the limitation. For example, what would occur if the role for state government was determined to be greater than the limitation provided? It would appear that the role of state government, for example, is not fixed and, therefore, there is some question as to whether the expenditures for the state government (or another level of government) should be fixed or limited.

Our federal system has three separate levels of government–each of which is, at least to some extent, interdependent on the other two. Placing a limitation on one could place its independence at a disadvantage with the other two levels.

A reduction in the federal budget could result in a change in the amount of funds that are distributed by the federal government and could drastically alter the role of the state or local goverment. If the states and localities were unable to increase spending to fund these programs and/or services, the citizens of the Commonwealth or its localities would lose.

Uncertain impact of the future. The data shows that state expenditures as a percentage of personal income have gradually increased over the past twenty years. This has occurred, at least to some extent, because the currently perceived functions of government are not fixed.

The federal government or the Commonwealth could, without any impact on its own provision of goods or services, cut spending by decreasing aid to other levels of government, but this would simply require another level of government to pick up the funding. This would entail a change in the funding source for a program but not an actual reduction in total spending.

A limitation that is incomplete (i.e., one on a particular revenue source or a group of revenue sources, such as general fund revenue) could be circumvented by increasing the reliance on other sources of revenue. Reports show this is occurring, at least to some extent, in the Proposition 13 type states like California.

A limitation reduces a government's control over its actions. The present appropriations process allows elected representatives to decide a level a spending, taxes, and the distribution of appropriations. A limitation will reduce the control that the elected representatives exercise over the appropriations process.

Does a limitation solve the situation that it was intended to solve? Or does it stem from a frustration with certain taxes or certain governmental actions or spending programs? For example, some argue that limitations at the state or local level will help put pressure on the federal government to adopt some type of taxation or expenditure limit. If this is really the desired result, it may prove to be counter-productive since limitations at the state and local level will make these levels of government more dependent on th federal government.

Many argue that state and local government is more responsive than the federal, and, thus, a limit on the more responsive level with no limit on the federal would appear to offer more incentive for the federal government to grow.

The tax or expenditure limitation movements in other states are apparently supported by citizens who want to make sure that every dollar is efficiently spent, and the money is spent only on essential government services and goods. A limitation would not in and of itself insure that every dollar is efficiently spent.

There may be some administrative problems involved with the timely use of the personal income data. State personal income data are commonly and universally utilized for many purposes and viewed as quite accurate by the academic and business community. The source of all GNP and national and personal income data is the U. S. Department of Commerce. There are, however, a number of factors that should be kept in mind. First, there is a time lag in the reporting of the personal income figures. For example, the personal income data for the calendar year 1979 will be published in April, 1980. It should be noted that the Department of Commerce also publishes annual personal income data on a quarterly basis, approximately three months after the last month of the quarter. (Annual personal income data for the January-March quarter becomes available in July.) Thus, if current expenditures are tied to personal income--they will of necessity be tied to a previous level of economic activity. Many states have chosen this approach while others have felt it more appropriate to base the limitation on an estimate of personal income. Another point that should be noted is that the personal income data is revised as more complete data becomes available. It appears that these revisions are minor (less than 0.5%) but they are made on a regular basis and thus the question remains how should these revisions be handled?

VIII. RECOMMENDATION

The Joint Subcommittee has spent a considerable amount of time examining the voluminous amount of data and information prepared by its staff. The areas of examination included the following:

–The purpose of tax/expenditure limitations;

–A historical review of Virginia's revenues;

–Expenditures and personal income;

–Historical review and comparison of the taxes and expenditures of Virginia and other states;

–The limitation actions of other states;

–The advantages and disadvantages of the different types of limitations.

A summary of this material is contained in this report. The Joint Subcommittee has also heard from the patrons of the limitation related legislation considered by the 1979 Session of the General Assembly, as well as other proponents and opponents of limitation measures.

After careful and considerable review of Virginia's tax and expenditure position and the concept and ramifications of a tax or expenditure limitation, a majority of the Joint Subcommittee believes that Virginia does not need, nor would it benefit from, a limitation, whether it be constitutional or statutory. The Joint Subcommittee, therefore, recommends that Virginia not adopt any type of broad based constitutional or statutory limitation.

The goal of the limitation measures has been achieved in Virginia--that is, a relatively low tax state with a watchful and accountable General Assembly to ensure that the governmental goods which Virginians demand and expect are provided at the least cost.

Virginia's Constitution already requires that the Commonwealth operate in a balanced budget. That principle has served the Commonwealth well. It is interesting to note that the Continental Bank of Chicago, in a study of the financial condition of all the states, has given the Commonwealth of Virginia the highest credit rating of any state in the United States.

In conclusion, the Joint Subcommittee recommends that the General Assembly not adopt any tax or expenditure limitation becaue it would not be in the best interest of the Commonwealth in the long run.

Respectfully submitted,

Edward E. Willey, Chairman*
Owen B. Pickett, Vice-Chairman
Hunter B. Andrews
Gerald L. Baliles*
Orby L. Cantrell
Ray L. Garland
William B. Hopkins
J. Harry Michael, Jr.
Thomas J. Michie, Jr.
Willard J. Moody
Theodore V. Morrison*
Elliot S. Schewel*
Warren G. Stambaugh
S. Vance Wilkins, Jr.*

*Voted with the minority in supporting, in principle, a limitation measure.

APPENDIX A

SUMMARY OF LIMITATION BILLS PENDING BEFORE THE 1979 SESSION

House Bill No. 832 (Delegate Morrison)

Provides for a local option income tax surtax on Virginia individual income tax but also provides that a credit must be allowed on any real estate tax payments in excess of the effective rate of $1.25/$100 of value.

House Bill No. 1441 (Delegate Perper)

Provides that before any locality can increase its local levy on real property it must be approved in a local referendum.

House Bill No. 1443 (Delegate Perper)

Provides that if an annual assessment or general reassessment of real property in any county, city or town would result in greater revenues than the preceding year such locality must reduce the rate of tax to produce the same revenue as the preceding year. (New or other improvements are not included.)

Allows a locality to increase real property tax rate to allow real property tax revenue to increase no faster than the change in the Consumer Price Index.

House Bill No. 1460 (Delegate Moss)
and Senate Bill No. 549 (Senator Emick)

Restricts state general fund appropriations in fiscal years 1980-81 - 1983-84 to a growth rate of no more than 7% over the previous fiscal year.

Surplus must be distributed to the localities on the basis of population to reduce property taxes.

Senate Bill No. 808 (Senator Babalas)

Places statutory limitation on total State tax revenue in any one fiscal year at 6.5% of Virginia personal income. (Personal income is defined to include data available for the immediately preceding three fiscal years.)

Places statutory limitation on a locality's tax revenue for each fiscal year equal to 6.5% of local personal income for the same period as defined above. Also, limits true effective real property tax rate of $1.15/$100 of fair market value.

House Joint Resolution No. 255 (Delegate Callahan)

Amend Constitution to provide that total State expenditures from State tax revenue in any fiscal year cannot exceed 6.0% of Virginia personal income in the previous year.

Would also limit increases in per capita expenditures from locally raised tax revenues to the rate of inflation. Limit can be exceeded by local referendum.

House Joint Resolution No. 286 (Delegate Wilkins)

Amend Constitution to limit total State expenditures from State tax revenues in any fiscal year to no more than 6.0% of personal income in the preceding fiscal year.

House Joint Resolution No. 288 (Delegate Emroch)

Amend Constitution to allow localities, by general law, to limit the increase in each taxpayer's real property tax bill to no more than the annual rate of inflation.

House Joint Resolution No. 333 (Delegate Harris)

Amend Constitution to limit total revenues appropriated in each fiscal year to no more than 8% annual growth.

Senate Joint Resolution No. 175 (Senator Schewel)

Amend Constitution to limit total appropriations from State tax revenues to the ratio of average personal income for the three previous fiscal years at the level of fiscal year 1977-78 plus 0.25%.

Senate Joint Resolution No. 109 (Senator DuVal)

Amend Constitution to provide that total revenues appropriated by the State cannot exceed the percentage change in the Consumer Price Index.