

**REPORT OF THE
JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION ON**

Local Fiscal Stress and State Aid

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



House Document No. 4

**COMMONWEALTH OF VIRGINIA
RICHMOND
1986**

Members of the Joint Legislative Audit and Review Commission

Chairman

Delegate L. Cleaves Manning

Vice Chairman

Senator Edward E. Willey

Senator Hunter B. Andrews

Senator Peter K. Babalas

Delegate Richard M. Bagley

Delegate Robert B. Ball, Sr.

Senator John C. Buchanan

Delegate Vincent F. Callahan, Jr.

Delegate Theodore V. Morrison, Jr.

Delegate Lacey E. Putney

Delegate Ford C. Quillen

Mr. Walter J. Kucharski, Auditor of Public Accounts

Director

Ray D. Pethel

House Joint Resolution 12 Subcommittee

From the House Counties, Cities and Towns Committee:

Delegate Franklin P. Hall

Delegate Mary A. Marshall

Delegate Arthur R. Giesen, Jr.

From the House Finance Committee:

Delegate Frederick H. Creekmore

Delegate Lewis W. Parker, Jr.

Delegate Vivian E. Watts

From the Senate Local Government Committee:

Senator Peter K. Babalas

Senator Richard J. Holland

Senator Wiley F. Mitchell, Jr.

From the Senate Finance Committee:

Senator Hunter B. Andrews

Senator Dudley J. Emick, Jr.

PREFACE

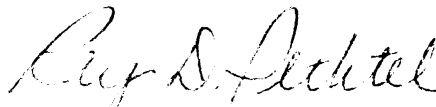
House Joint Resolution 105 of the 1982 Session of the General Assembly and House Joint Resolution 12 in 1983 directed the Joint Legislative Audit and Review Commission (JLARC) to study State mandates on local governments and the financial condition of local governments. JLARC's response to these resolutions was the 1984 report, State Mandates on Local Governments and Local Financial Resources, which offered recommendations for legislative and executive consideration.

Subsequent to the publication of the Mandates report, considerable interest was expressed in further information on local fiscal stress and State aid to localities. This report addresses these two issues. First, it expands the initial stress analysis to cover two additional years, FY 1982 and FY 1983. Some technical adjustments have also been made to the calculations. Second, it includes a summary of 1984 and 1985 legislative actions which may impact localities.

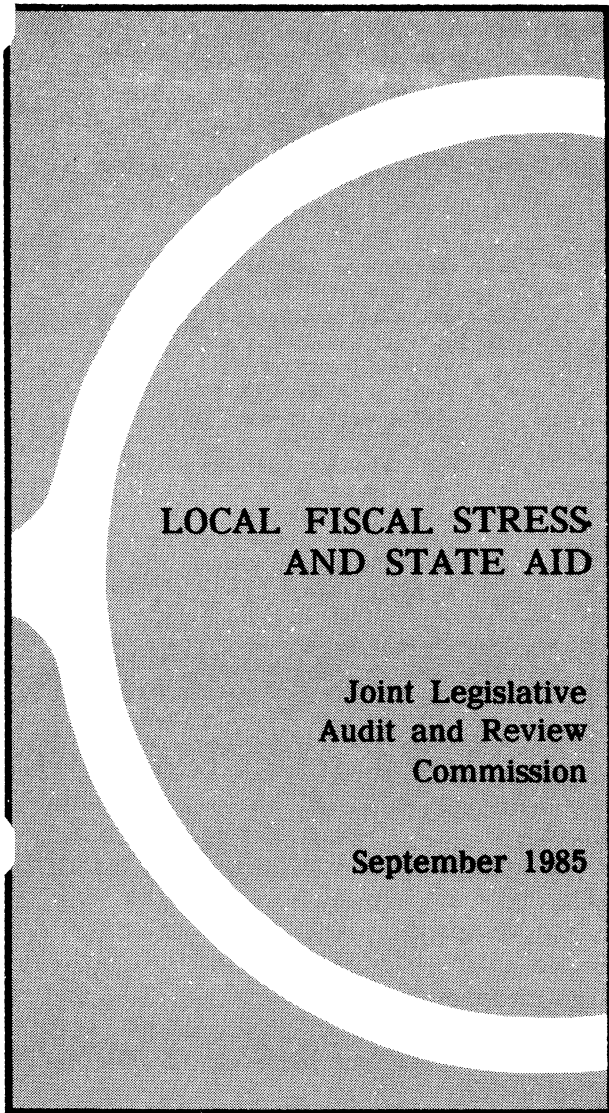
In the area of local fiscal stress, we found that overall stress did not change. However, a long-term trend of increasing local tax effort ended. Indeed, tax effort declined slightly in FY 1983. Many localities are still severely fiscally stressed, however, and State actions to address local fiscal stress are proposed in Chapter IV of this report.

In the area of aid to local governments, the State has taken a number of important steps. In particular, the long-term trend of a declining State share of public education funding was reversed, and current appropriations raise the State share of the educational Standards of Quality to an all-time high.

On behalf of the Commission staff, I wish to acknowledge the cooperation and assistance provided by the agencies and localities involved in this study.



Ray D. Pethtel
Director



This report is a follow-up to JLARC's 1984 report, State Mandates on Local Governments and Local Financial Resources. The 1984 Mandates report was directed by HJR 105 of the 1982 session and HJR 12 of the 1983 session. This follow-up effort addresses areas of interest raised by the special subcommittee working under these resolutions. The principal objectives of the report are to:

- (1) update the fiscal stress index and expand it to include FY 1982 and 1983 data;
- (2) assess the effects of State aid for FY 1982 and 1983 and the potential effect of 1983-86 appropriations; and
- (3) provide further consideration of policy options.

An overview of the study effort and findings is provided in Figure 1.

An additional JLARC report focusing exclusively on towns has also been prepared. Portions of this study and the town's report were completed with funding from the National Conference of State Legislatures (NCSL), which in June of 1984 awarded

A JLARC REPORT SUMMARY

JLARC \$10,000. Grant-related dissemination of report findings and methodologies has included an 11-state NCSL seminar in Richmond and a study presentation at NCSL's national conference in Seattle.

Two positive indicators of local fiscal condition are evident from this update of the Mandates report: State aid to localities is up, and local tax effort has moderated. State aid to localities increased as a percentage of total revenues from FY 1981 to FY 1983, and the State's share of education funding increased dramatically. Tax effort, after rising steadily from FY 1977 to FY 1981, decreased slightly in FY 1983.

LOCAL FISCAL CONDITION: AN UPDATE (pp. 11-32)

In assessing local fiscal stress, JLARC focused on three elements: local revenue capacity, local tax effort, and an index of these and other indicators. Analysis shows that fiscal stress in localities has not increased. Localities' levels of tax effort stabilized in FY 1982 and FY 1983. While revenue capacity increased from 1977 to 1983, the increases did not match the increased cost of government services.

Revenue Capacity

Revenue capacity is a measure of each locality's ability to raise revenues to support public services. More precisely, it is the potential revenue which would be generated if a locality used statewide average tax rates for each of the major tax instruments. This concept of revenue capacity was developed by the U.S. Advisory Commission on Inter-

Figure 1

ISSUE	1984 FINDING	1985 FINDING
(1) To what extent do State mandates impose a burden on localities?	(1) Overall, mandates were not regarded as a substantive problem in themselves. Funding was the problem.	(1) No further research done.
(2) Is the type and amount of State assistance to localities adequate?	(2) No. While the State spent much, it was proportionately less than in other states; it had declined as a percentage of State spending over time. Three specific programs were under-funded: (a) State share of the SOQ, (b) special education, (c) auxiliary grants.	(2) State assistance to localities is up in numerous areas. Of the three programs specifically cited as being underfunded: (a) The State share of the SOQ has increased dramatically from a low of 76.9% (1981) to 80.3% (1983) and is projected to go to 89.5% (1986) (b) Special education State share continued to fall (c) Auxiliary grant ceiling for State reimbursement raised to 80 per cent. State share increases from 62.5% to 70%
(3) Do local governments have sufficient financial resources to fund the public services they must provide?	(3) Some do; some don't. Cities and rural counties are particularly stressed. All localities experience some fiscal stress.	(3) Overall fiscal stress has not changed. Tax effort, however, has stabilized.

governmental Relations (ACIR), and is often referred to as the "representative tax system."

Local revenue capacity grew from an average rate of \$483.92 per capita in 1981 to \$523.98 per capita in 1983, approximately eight percent. During this same time frame, the cost of government services increased by 15 percent. A slowdown in the increase of the true value of real estate during this period accounts for some of the lag in revenue capacity. If this trend continues, localities may have to diversify their tax bases, decreasing their dependence on real property taxes.

Tax Effort

A key option available to local officials to increase revenues is to increase the local government's tax effort. Tax effort refers to the degree to which a local government taxes its available revenue capacity or tax base.

The measure used to assess tax effort in this study is also based on ACIR's procedure. A local government's tax effort is equal to its actual local tax revenues divided by its revenue capacity. As with revenue capacity,

this measure of tax effort provides a sound basis for examining each locality's tax levels, assessing how tax levels have changed over time, and comparing localities to each other.

Between FY 1977 and FY 1981, Virginia's local governments steadily increased their tax efforts from .68 to .76. In both FY 1982 and FY 1983, the level stabilized at .75 (Figure 2). The average change in local tax effort from FY 1981 to FY 1983 was a decline of approximately .01. The largest disparity in tax effort was between cities and counties. In FY 1983, counties had a tax effort averaging .60, while cities had a substantially higher effort at 1.11. All cities but one (Poquoson) had levels of effort higher than the statewide average, while only 17 counties (18%) had tax effort levels exceeding the statewide average.

Revenue capacity and tax effort are two dimensions of fiscal condition. The fiscal stress index developed by JLARC provides a broader and more concrete measure of local financial stress along five dimensions.

Levels of Fiscal Stress

There is significant variation in the levels of stress experienced by local govern-

ments. Some local governments have high levels of stress on most of the indicators of fiscal position, while others show relatively low levels of stress on the indicators. Overall, the majority of cities show a higher level of fiscal stress than counties.

Measures of revenue capacity, tax effort, and resident income provide reliable indicators of a local government's fiscal position. Using these measures, five key symptoms of fiscal stress may be identified:

- relatively low revenue or tax base,
- relatively low growth in tax base,
- relatively high tax effort,
- relatively high increase in tax effort, and
- relatively low resident income.

None of these measures viewed alone is an adequate indicator of fiscal position. However, a local government which shows a pattern of stress across all the indicators may be considered to have a poor fiscal condition.

Between FY 1981 and FY 1983 there was no significant change in the composite fiscal

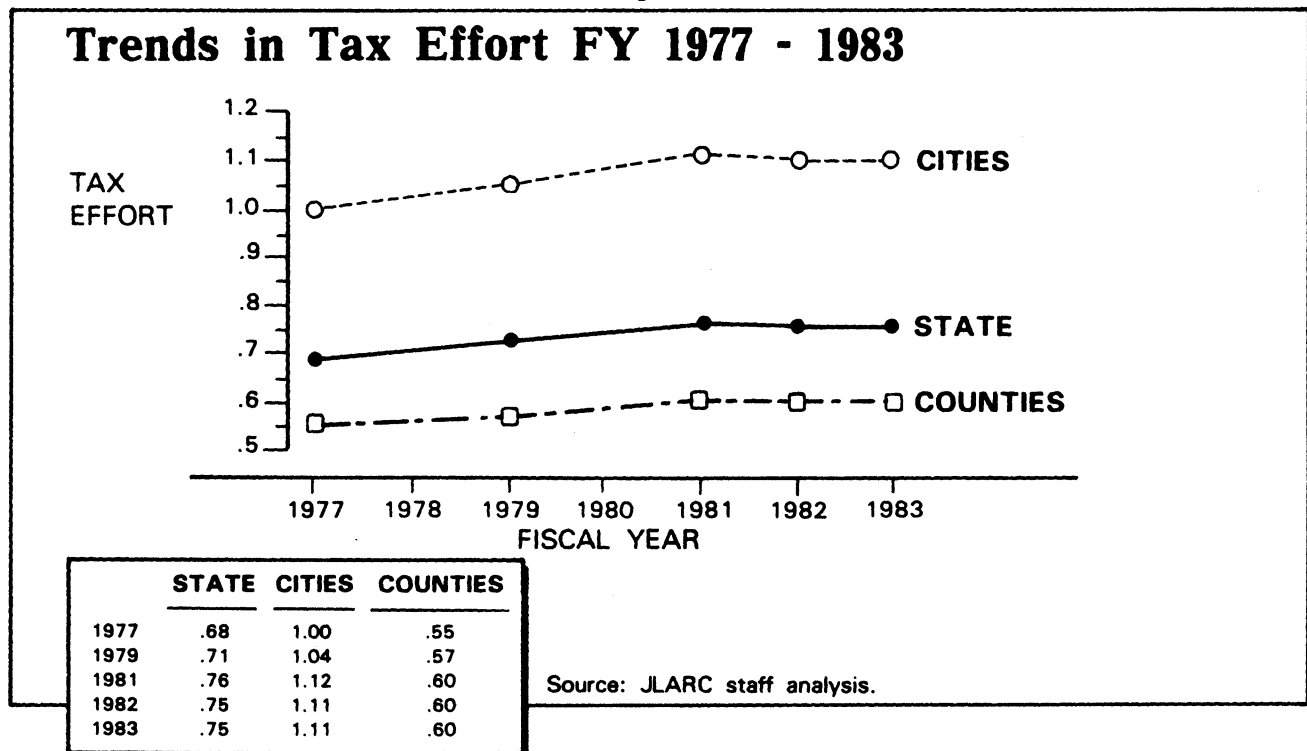
stress index for the 136 localities. In addition, the relative rankings of the localities based on the stress index changed little. Problems facing localities in the past continued to face them in FY 1983.

Most of the major findings of the original report have held constant. Cities still show more and greater levels of stress than counties; however, it also remains true that there are few local governments which are not stressed to some degree. The relative positions of the local governments have also stayed basically the same.

While all localities experience stress on at least one dimension, it would be unreasonable to suggest that all localities are severely fiscally stressed. Many localities appear to have the capacity to deal with their fiscal problems.

Several types, levels, or combinations of stress do require special attention. Especially important are the low revenue capacities in conjunction with low capacity growths or high tax efforts. These governments appear to have the least ability or latitude to generate more funds.

Figure 2



The State must be attentive to the range and diversity of all stresses in order to ensure local financial vitality and viability. State aid to localities plays a major role in their fiscal condition, and increased State aid in recent years should have a positive effect.

STATE AID TO LOCAL GOVERNMENTS (pp. 33-54)

In FY 1984, State funds to localities totalled \$1.63 billion. Overall, State financial assistance to localities comprises a stable proportion of local budgets. Indeed, FY 1984 shows the State share of total local funding sources increasing from 31 to 32 percent. Since 1978 the State share has increased from 28 percent, the low point of the period examined.

Driven by a significant increase in State spending for education, State aid to localities is growing. Funding of the State share of the educational Standards of Quality (SOQ) is at an all-time high. State funding of local health services has improved substantially in recent years. State funding of local welfare programs has also grown.

Generally, the State has kept its historical commitment to localities and is providing funds equal to its level of control. Initiatives in 1985 in the area of auxiliary grants to low-income and disabled persons should help to further stabilize local government expenditures, which grew rapidly from 1978 to 1982 before moderating in 1983 and 1984.

Of the areas examined, the State's share of funding declined only for special education and local health departments. While local funding of special education declined from 72.1 percent (FY 1983) to 71.7 percent (FY 1984) of total funding, this level still exceeds local levels of control. State funding of local health departments declined from 58.1 percent of total funding in FY 1978 to 54.7 percent in FY 1984.

Overall, FY 1983 and FY 1984 showed increasing State assistance for localities. Still, some localities remain severely fiscally stressed. State action to aid these localities should be considered.

ADDRESSING FISCAL STRESS (pp. 55-61)

While State aid to localities is increasing, there are problems with current methods of distribution. Shifts have occurred in local tax bases. Dependence on different sources of revenues varies among localities. Some formulas for distributing State aid have gone too long without review, and some have technical problems. Further, in the case of the composite index, a key component — personal income — suffers from errors and inconsistencies.

Perhaps reflecting these problems, many local officials reported to JLARC that they felt the key formulas were unfair. The health department formula was cited by 46 percent of local officials surveyed by JLARC for the 1984 Mandates report. Statewide 40 percent of local officials felt that the formula for education was unfair. In its recent reports on highway allocations, JLARC found significant inequities in the distribution of highway funds.

There is no single remedy for the problems associated with distributing State aid. Decisions to allocate funds represent judgments about need, ability to pay, program effectiveness, availability of funding, and a variety of other considerations including political interests.

Changing problem formulas will be difficult, because any revisions will necessarily create "winners and losers" among localities. As the existing funding is often scarce, it may be difficult to build consensus for revising formulas when the effect could be to reduce funding in localities which may already be experiencing fiscal stress.

Reviews of existing formulas should be periodically made in order to promote the most equitable distribution of State funds. Comprehensive measures of local fiscal condition, such as those used in this report, should be incorporated in these formulas.

Recommendation (1). State funding formulas should be periodically reassessed. Formulas resulting from such assessments should include measures of fiscal capacity, local fiscal stress, and where possible, need.

While modifications to formulas for distributing existing funds to localities are clearly needed, JLARC's review found that additional State funds are also needed to improve the fiscal position of some localities.

Two approaches for assisting localities are outlined. The first approach provides increased funding to localities specifically for programs mandated by the State. These funds could flow through already-existing programs, such as education, with modification of the funding formulas taken up at a later time. Through funding of these major programs the State would be able to restore its levels of historic commitment. The second approach would be to funnel new revenue sharing funds to localities through a formula which measures levels of fiscal stress. In addition, some localities, principally counties, would profit from additional taxing authority.

Funding State Programs

While localities would benefit from State "stress aid," first priority should go to funding local programs mandated by the State. This approach lessens local fiscal stress and fulfills State commitments.

Recommendation (2). Priority State funding should be provided to localities to fund several programs at levels more consistent with State control and the State's historical commitment. Specifically, funds should be provided to fund (1) up to 28 percent of the added costs of special education, and (2) 80 percent of the Auxiliary Grant program.

In its original report, JLARC staff identified several formulas which were inadequate or warranted review. Among these was an analysis of the health department funding formula. At the time of the review, a joint legislative subcommittee under the authorization of HJR 11 of 1982 was reviewing the Department of Health, including methods of distributing health funds.

Since that time, the health subcommittee has completed its report (House Document No. 43 of 1984). The subcommittee found the formula to be "inequitable and insufficient and in dire need of revision." At the same time, the subcommittee found alterna-

tives presented to it to be "not fundable." The subcommittee did note that the formula "must be upgraded or revised as soon as fiscally possible." JLARC staff provided further analysis of this formula, and also found it to be flawed, for reasons discussed earlier in this report and in the reports cited.

Recommendation (3). The State should abandon its current formula for funding local health departments. Two proposals for replacing the formula should be considered.

Proposal One : Replace the current formula with one measuring fiscal stress. Such a formula is consistent with the intent of the original formula by funneling greater amounts to localities with lower abilities to pay. It also recognizes that ability to pay is influenced by factors other than real estate values.

Proposal Two : Fund all local health departments at a rate more consistent with the level of State control by (a) funding 80 percent of State-mandated health programs, and (b) funding 20 percent of local-option health programs.

Stress Aid

While priority should be given to funding State program commitments, the General Assembly should consider taking additional sums and distributing them on the basis of fiscal stress. Such aid would particularly help high-stress, low-capacity localities which may not have sufficient resources to provide needed programs.

Recommendation (4). After existing State commitments are met, the General Assembly should consider appropriating new funds to localities on the basis of a stress formula consisting of three elements: revenue capacity, tax effort, and poverty.

A few localities in Virginia would benefit from the granting of additional taxing authority. Currently, Virginia counties and cities have substantially different taxing authority. At one time, these differences probably reflected clear distinctions between counties and cities. Today, with the exis-

tence of cities with extremely large geographical areas and with the urbanization of some counties, the differences are muted.

Recommendation (5). Taxing authority of Virginia counties and cities should be equalized.

Continued Measurement of Local Fiscal Condition

The measurement of local fiscal stress helps to focus attention on local fiscal condition and particularly on the most severely stressed localities. Ongoing preparation of such analyses would be of value to both the State and local governments. With such analyses, State decision-makers can focus on the distribution of State funds for many purposes. Local decision-makers can also use the analyses in the pursuit of intergovernmental aid and for other purposes, including

the careful examination of their fiscal capacity and tax effort.

The Commission on Local Government has expressed an interest in the ongoing generation of this analysis. The Commission currently uses the analyses in annexation proceedings and as a part of its local government functions. Consideration should be given to vesting responsibility for a continued assessment of local fiscal condition with the Commission on Local Government.

Recommendation (6). Comprehensive data and rigorous analysis of local fiscal capacity, tax effort, and fiscal stress should be generated and reported on a continuing basis. Responsibility for this activity should be vested in the Commission on Local Government. JLARC should play an advisory role in the future development and refinement of the data and analysis.

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
Study Background	1
Findings of the 1982 Mandates Report	3
Overview of Follow-Up	7
Report Organization	8
II. LOCAL FISCAL STRESS: AN UPDATE	11
Local Revenue Capacity	11
Tax Efforts of Local Governments	19
Levels of Stress Among Local Governments	22
Major Stresses Facing Different Types of Localities	27
III. STATE AID TO LOCAL GOVERNMENTS	33
Adequacy of Financial Assistance	34
Formula Funding	48
Other Effects of 1984 and 1985 Acts and Appropriations	49
Conclusion	52
IV. ADDRESSING FISCAL STRESS	55
Equalizing Taxing Authority	60
Conclusion	60
APPENDIXES	63

I. INTRODUCTION

This report is a follow-up to JLARC's 1984 report, State Mandates on Local Governments and Local Financial Resources. The 1984 Mandates report was directed by HJR 105 of the 1982 session and HJR 12 of the 1983 session. This follow-up effort addresses areas of interest raised by the special subcommittee working under these resolutions. The principal objectives of the report are:

- (1) to update the fiscal stress index and expand it to include FY 1982 and 1983 data;
- (2) to assess the effects of State aid for FY 1982 and 1983 and the potential effect of 1984-86 appropriations of the General Assembly; and
- (3) to provide further consideration of policy options.

Data collected by JLARC during the course of this study and used in the computation of fiscal stress indices have been cited widely and are also being prepared for publication under separate cover. An additional JLARC report focusing exclusively on towns has also been prepared.

Interest in the 1984 Mandates report and JLARC's measurement of local fiscal stress has also attracted attention outside the Commonwealth. The National Conference of State Legislatures in June of 1984 awarded JLARC \$10,000 for efforts in conjunction with the continuation of the study. Grant-oriented dissemination of report findings and methodologies has included an 11-state NSCL seminar in Richmond and a study presentation at NSCL's national conference.

STUDY BACKGROUND

Historically, the Virginia General Assembly has focused much of its attention and effort on maintaining an appropriate relationship between the State and its local governments. In 1982, the General Assembly began a re-examination of some aspects of State-local relations, through adoption of House Joint Resolution 105. The resolution directed the Joint Legislative Audit and Review Commission (JLARC) to study the responsibilities and financial resources of local governments. The study was continued during the 1983 General Assembly session with House Joint Resolution 12. (These resolutions are contained in Appendix A.)

The original study resolution charged JLARC to consider:

- responsibilities of local governments for providing public services, and the differences in the responsibilities of cities, counties, and towns;

- sources of revenue which are or could be allocated to local governments, and the adequacy of those sources; and
- the Commonwealth's responsibilities for providing public services, and procedures for aiding local governments.

To ensure coordination between JLARC and standing committees of the Legislature, the study resolution designated a 12-member subcommittee to cooperate in study activities. Members were appointed from the House Committee on Counties, Cities, and Towns; the House Finance Committee; the Senate Committee on Local Government; and the Senate Finance Committee.

Principal Issues and Research Efforts

At regional meetings held to solicit input from local officials and other interested persons, three concerns were most often voiced: (1) the burdensome impact of State mandates, (2) the need for additional State financial assistance, and (3) limits that have been placed on local taxing authority. The original study workplan was therefore oriented to examine three principal issues:

- (1) To what extent do State mandates impose a burden on local governments?
- (2) Is the amount and type of State assistance to localities adequate?
- (3) Do local governments have sufficient financial resources to fund the public services they must provide?

To address the study's central issues, research activities were designed to develop as broad an information base as possible. Four special research efforts were undertaken:

- (1) a survey of State agencies, to identify mandates which apply to local governments;
- (2) visits to selected case study localities, to explore how mandates affect local governments and to gather information about financial problems facing localities;
- (3) a survey of local officials, to systematically assess local opinions about State mandates, State aid to localities, and local financial conditions; and
- (4) an assessment of local fiscal conditions, to determine the degree to which localities are stressed by stagnant tax bases, high tax efforts, or other related factors.

These research efforts yielded study findings and conclusions which are the basis of the 1984 Mandates report.

FINDINGS OF THE 1984 MANDATES REPORT

Virginia's 325 local governments are closely tied to the State. They are dependent on the State Constitution and general laws for the authority to organize, conduct their affairs, and raise and spend revenues. Crucial to an understanding of Virginia's relations with its localities are the State's unique distinctions between cities, counties, and towns. Cities and counties are separate entities, with no overlapping jurisdictional boundaries. Although cities and counties are subject to some different treatment -- cities have broader taxing authority than counties, while counties receive a greater level of State services -- basically, they are considered equal levels of government. Towns have a role similar to that of cities in other states, because they are part of the surrounding county. Unlike Virginia cities, towns do not serve as agents of the State, but primarily exist to provide local services to more densely-populated pockets within counties.

Many local functions are carried out at least partially in response to mandates assigned by the State. In concert with these State requirements, a major portion of local government funding flows from the State through a variety of aid and general revenue-sharing programs, and through State direct services. There is a gap between State mandates and State aid, however, and local fiscal condition is at times not strong enough to bridge the gap.

State Mandates

Virginia's local governments are fundamentally affected by State constitutional, statutory, and administrative mandates. An inventory of State mandates showed that the State is extensively involved in specifying a minimum level of local services in many areas, with significant local impact.

Despite the extensiveness of State mandates, however, JLARC's survey of localities indicated that there was little consensus on the unreasonableness of specific mandates. Results showed that in only one area -- special education -- were mandates judged to be unreasonable by more than half of the responding localities. Indeed, few specific mandates were cited as unreasonable by more than five of the 266 local administrators surveyed by JLARC. Rather, localities repeatedly cited inadequate funding as the key problem with mandates.

State Assistance To Localities

In addition to mandating responsibilities, the Commonwealth has also assumed a significant role in providing funding to local governments for services. In some cases assistance is provided as recognition that local services provide benefits both for the locality and for the State as a whole. In other cases, service delivery is regarded as a shared State-local responsibility.

The adequacy of State assistance was a central study issue. To assess adequacy, research focused on two criteria: (1) whether State aid had kept pace with local program costs and historical State commitments, and (2) whether or not State aid was consistent with levels of State mandates.

Overall, State financial assistance to localities has comprised a stable proportion of local budgets and was consistent with levels of State mandates. However, in certain program areas, the level of State aid did not match levels of State mandates or the State's historical commitment. For example, in the area of Education, accounting for well over 50 percent of all local government spending, the State share of funding dropped from 46.3 percent of total spending in FY 1978 to 43.6 percent in FY 1982. A reversal of this trend was found in FY 1983 and FY 1984, as reported in Chapter III.

Local Financial Condition

The financial integrity of local governments is vital to the Commonwealth. Local governments provide services which are intended to meet residents' needs, spur and influence economic growth and development, and improve the quality of life for all the State's citizens. For localities to fund their own and State-mandated programs, their financial condition must be adequate.

Local governments experienced increasing financial stress during the five years examined in the original study (FY 77-81). Five principal causes of stress were well-documented. First, two economic recessions slowed the growth of tax receipts and increased unemployment. Second, the federal government reduced aid to localities, partly to address budget deficits and partly to return program control to states and localities. Third, local taxpayers became increasingly reluctant to support or accept tax increases. This reluctance grew out of the Proposition 13 era and focused in large part on property taxes. Fourth, high interest rates made local borrowing more difficult, and in many cases prohibitive. And fifth, many localities were faced with increasing needs to replace or expand high-cost capital facilities.

In response to these stresses, local governments took many of the actions available to them. Despite political hurdles, many increased existing taxes and fees, or adopted new ones. Local governments also took significant actions to control spending. Chief among these were deferral of maintenance and capital outlays, and reduction in personnel positions through attrition.

In order to accurately measure the level of fiscal stress faced by localities, JLARC adopted and modified the Representative Tax System, a nationally accepted procedure for measuring local fiscal capacity and tax effort. The methodology was developed by the Advisory Commission on Intergovernmental Affairs (ACIR). Among the most reliable indicators of a local government's fiscal position are revenue capacity, tax effort, and resident income. Using these measures, JLARC constructed a fiscal stress index using five key symptoms of relative fiscal stress:

- (1) low revenue capacity or tax base
- (2) low growth in tax base
- (3) high tax effort
- (4) high increase in tax effort, and
- (5) low resident income.

The composite stress index used in this study represents one credible and considered way to compute a single indicator of relative fiscal stress among local governments. Indices using other measures were also developed. JLARC staff found a high degree of convergence between the measure of relative fiscal position and other indicators of stress, such as local budgetary cutbacks and the expanded use of local taxing authority.

The analysis concluded that the levels of stress affecting local governments were not uniform. Some localities showed few signs of financial difficulty while others were stressed more seriously. On almost any dimension of comparison, however, cities were more stressed than counties. For many years, cities have provided services only now being offered by urbanizing counties. Most city populations also have the relatively high levels of poverty found in many rural counties. As a result of these factors, cities showed much higher tax efforts than counties, and their local tax efforts grew more significantly during the five years between 1977 and 1981. Cities had also taken a greater number of budgetary actions to control or reduce spending.

Rural counties were also stressed, principally by high levels of poverty among local residents, and by revenue capacities which are low and stagnant by statewide standards. Urbanizing counties, while having generally sound financial conditions, were found to be pressured by high growth and the need to build or expand schools, sewer and water systems, and other capital facilities. Given the different types of stress affecting localities, JLARC staff concluded it was unlikely that any single policy action would equally benefit all local governments.

Towns

JLARC's original report also addressed some issues dealing with Virginia's 189 towns. The total population of Virginia's towns in 1980 was 352,009, or 6.6 percent of the State's total population.

While about one-third of towns reviewed indicated some signs of fiscal stress, their overall fiscal condition could not be measured because of the unavailability of key data. To further explore towns and conditions affecting them, a separate JLARC report has been prepared on towns.

Policy Options

JLARC research revealed that State mandates were not a substantive problem. However, some mandated programs and services were not funded at levels consistent with the State's historical commitment. Further, many local governments were fiscally stressed, and staff recommended State action to relieve this stress and aid localities in their efforts to fund local programs.

In providing and funding services and programs, local governments are dependent on State aid. This reliance has become more important as the federal government has increasingly withdrawn from full funding of its program commitments. Disruptions or declines in levels or shares of State funding create fiscal stress by forcing localities to choose between service reduction and increased local funding. If State mandates prevent service reductions, then

localities have no choice but to pay. Part of the fiscal condition of localities is therefore determined by State decisions about levels of aid for specific programs. Although JLARC found that localities had not reached a crisis point, incremental action by the State to more adequately fund its mandates was warranted. JLARC proposed two principal policy options:

- (1) a State commitment to equitable, adequate, and stable funding;
and
- (2) assistance to stressed localities.

A State Commitment to Equitable, Adequate, and Stable Funding.

The report recommended that the state either establish as a goal full funding of its mandates or commit itself to equitable, adequate, and stable funding to localities. Neither of these goals were regarded as immediately achievable, however, because of a lack of (1) specific legislative commitments, (2) necessary information on costs, and (3) the availability of additional funding. Recommendations were proposed, however, to address these concerns:

1984 Recommendation (1a): The General Assembly should promote stable and predictable funding of State-local programs by establishing in statute its commitment to program funding. The commitment should specify the share of program costs to be funded by the State.

1984 Recommendation (1b): The General Assembly should promote adequate and equitable funding of State-local programs by directing an assessment and validation of the basis for sharing major program costs. In particular, JLARC should assess the method for estimating the cost of the State's Standards of Quality. Such costing mechanisms should include methodologically rigorous studies and systematic reviews of the fiscal impacts of mandated programs on local governments.

1984 Recommendation (1c): Additional aid should be provided to localities to fund programs at levels consistent with the State's traditional level of commitment. Specifically, funds should be provided to fund (1) the State's share of 82 percent of the estimated costs of meeting educational Standards of Quality; (2) up to 28 percent of the added costs of special education; and (3) 80 percent of the Auxiliary Grant program.

The amount of additional aid needed to meet the traditional level of commitment for the three programs listed in Recommendation (1c) was calculated. Actions of the 1984 and 1985 session addressed these areas, as discussed in Chapter III. Further, JLARC initiated in 1985 a study to assess the costs of the Standards of Quality.

Assistance to Stressed Localities. The 1984 report also recommended that the State take steps to assist stressed localities which lack the capacity to fund mandated services.

Because of the differing stresses that face localities, three independent approaches were prepared:

- (a) distributing additional aid through a formula measuring fiscal stress;

(b) balancing highway funding between cities and counties; and

(c) equalizing taxing authority.

1984 Recommendation (2a): The General Assembly should consider distributing additional aid to localities on the basis of a stress index or formula, as a means of balancing the fiscal stresses facing local governments.

Adoption of Recommendation (2a) would result in a substantial infusion of new aid, targeted to localities based on each locality's level of fiscal stress. Different strategies with different costs were discussed.

1984 Recommendation (2b): Specific figures on the amount of State aid necessary to balance the benefits of highway funding will be available in December. At that time, the General Assembly should consider those findings and prepare recommendations which would both narrow the benefit gap and aid in reducing the fiscal stresses facing cities.

JLARC's report on highway funding has been released and major recommendations were adopted by the 1985 session of the General Assembly. The impacts of changes in highway funding on local fiscal stress are discussed in Chapter III.

1984 Recommendation (2c): The General Assembly should consider equalizing taxing authority between counties and cities.

A few localities in Virginia would benefit from the grant of additional taxing authority. Currently, Virginia counties and cities have substantially different taxing authority. At one time, these differences probably reflected clear distinctions between counties and cities. Today, with the existence of cities of extremely large geographical areas and with the urbanization of some counties, those differences are muted. Many counties in the State are now called upon to offer services which were once considered principally urban.

OVERVIEW OF FOLLOW-UP OF STUDY ON STATE MANDATES AND LOCAL FINANCIAL RESOURCES

The special subcommittee working under the HJR 105 and HJR 12 subcommittee requested that JLARC prepare an update of the capacity, effort, and stress indices. Interest also included receiving information on the effects of 1984 and 1985 appropriations to localities and mandated programs. In addition, further work on Virginia towns was requested.

The findings on local fiscal condition from the 1984 Mandates report were used often and cited regularly during the 1984 and 1985 General Assembly sessions. Data on local fiscal capacity, effort, and stress were regarded by many to be foundation data on local governments. Updating these indices will provide the General Assembly with longer fiscal trends and more current information with which to consider policy options.

Study Approach

The follow-up study examines changes in the fiscal condition of Virginia's localities since the 1984 Mandates report. Local fiscal condition is

assessed by examining economic and demographic characteristics of the locality, sources of local revenue, and the amount of external revenue provided to the locality by the State. Three principal issues were examined:

- (1) updated revenue capacity, tax effort and overall financial positions of local governments,
- (2) the effects of 1984-86 appropriations on State aid to local governments, and
- (3) further consideration of policy options.

The research activities for this follow-up were conducted using methodologies similar to that used in the original study. The focus of the follow-up research efforts centers in two areas:

- extending the original report's analysis of State aid and local financial condition to include data from more current years, and
- refining and correcting methods used in the original report.

Update of Fiscal Stress Index. Capacity, effort, and fiscal stress measures computed for the five-year period from 1977 to 1981 were updated to include 1982 and 1983 data. Corrections were made to the index by substituting adjusted gross income for personal income in the computation of capacity. This change, discussed more fully in Chapter II, was made due to inconsistencies in personal income data over time. Data for 1982 and 1983 were analyzed for overall changes or trends in stress, revenue capacity, and effort. Localities were compared against their 1981 scores, as well as against other localities in 1983. Similarly, clusters were examined for changes in their fiscal position since 1981.

The original report published four separate indices of stress, which differed in the weights given to certain factors included in the formula, and/or the inclusion of poverty as a factor. Although certain localities exhibited significant differences in scores depending on the method used to compute the index, stress ratings overall were similar using all four methods.

Distribution of State Aid. The analysis of overall trends in local revenues and State aid was extended to 1984. Expenditures in 1984 in key programs -- education, health, welfare, mental health and mental retardation -- were obtained to extend the analysis of trends in State funding in these areas. In addition, substantive changes in State aid to localities, adopted during the 1984 and 1985 sessions of the General Assembly, were examined for their potential impact on local programs.

REPORT ORGANIZATION

The report has been organized into four parts. The first chapter provides an introduction and a brief recap of the issues and findings of the original report. In the second chapter, updated local revenue capacity, tax

effort, and relative fiscal stress are analyzed. State aid to local governments is examined in the third chapter, which also includes a discussion of the changes in aid to localities resulting from actions of the 1984 and 1985 sessions of the General Assembly. The final chapter discusses options proposed to address local fiscal stress.

II. LOCAL FISCAL STRESS: AN UPDATE

In its 1984 Mandates report JLARC reported that local governments had experienced increased fiscal stress during the period 1977 to 1981. As part of its follow-up study, JLARC was asked to examine local fiscal condition in 1982 and 1983. Identification of any changes or patterns of change is prudent, because financial condition is determined by a number of constantly changing economic conditions and governmental policies.

The measurement of fiscal condition focused on (1) revenue capacity, which measures each locality's ability to support public services; (2) tax effort, which measures the extent to which each locality is tapping its financial resources; and (3) income levels in the locality, including both measures of income and levels of poverty in each locality.

Analysis shows that fiscal stress in localities has not increased. While revenue capacity increased from 1977 to 1983, the increases did not match the increased cost of government services. At the same time, localities' levels of tax effort leveled off.

LOCAL REVENUE CAPACITY

One of the most important dimensions of a local government's fiscal position is its revenue capacity. Broadly defined, revenue capacity refers to the economic activity in a jurisdiction which may be taxed by the local government. A local government with a diverse and growing tax base has a strong capacity to finance its public services. A local government with a limited or declining revenue capacity may not be able to fully support needed services.

The fiscal position of a local government is particularly affected by the growth in its tax base over time. If the tax base does not grow at a rate consistent with the costs of providing services, then the local government has three basic options: (1) to increase taxes in order to maintain services at historical levels, (2) to reduce expenditures and service levels, or (3) to improve productivity. All three options may be exercised in varying degrees. If revenue capacity is expanding at a fast rate, however, it is easier for the local government to respond to changing local needs without increasing the tax burden on residents or cutting expenditures.

Measurement of Revenue Capacity

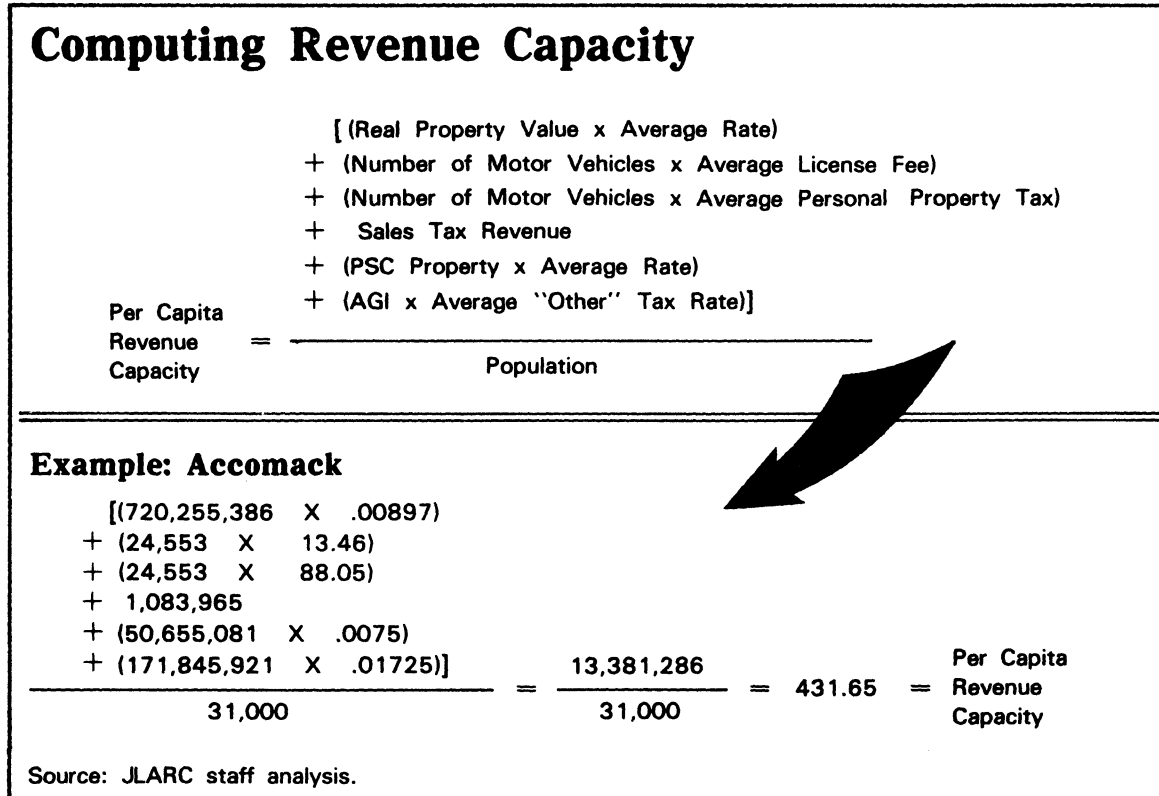
Revenue capacity is a measure of each locality's ability to raise revenues to support public services. More precisely, it is the potential revenue which would be generated if a locality used statewide average tax rates

for each of the major tax instruments. This concept of revenue capacity was developed by the U.S. Advisory Commission on Intergovernmental Relations, and is often referred to as the "representative tax system." It was refined for use in Virginia by John Knapp and Phillip Grossman at the Tayloe Murphy Institute and the Institute of Government at the University of Virginia.

To compute revenue capacity, each major component of a local government's tax base is multiplied by the statewide average tax rate. The result is the potential revenue the local government would produce if it used the average tax rate. In 1983, for example, Virginia's 136 cities and counties had a statewide true effective tax rate on real estate which averaged \$.90 per \$100 of assessed value. Multiplying the true value of real estate in a locality by .90 per \$100 produces the amount of revenue a local government would derive if it used the statewide average tax rate. If each of the major tax bases is analyzed in a similar manner, the result is a sound measure of a local government's revenue capacity.

For this study, fiscal capacity analyses were conducted using real property, tangible personal property, retail sales, and motor vehicle licenses. Adjusted gross income was used as a proxy for non-property and non-sales taxes such as consumer utility and merchant's capital. These taxes comprise about 16 percent of local "capacity" not accounted for by the other tax bases. Figure 1 illustrates how revenue capacity was calculated. As noted in the following section some revisions to the personal income component of the index were necessary.

Figure 1



Personal Income Revisions

One focus of this follow-up study is the update of the composite fiscal stress index. The update consists of two parts. First, revisions to the index were necessary due to inaccuracies in federal personal income data. Second, the index was updated with 1982 and 1983 data to extend the analysis of local fiscal condition over time.

Personal income initially was used in the computation of revenue capacity as a surrogate measure of the locality's ability to tap other sources of tax revenue not included in the formula. In 1983, the Bureau of Economic Analysis (BEA) identified inaccuracies in its method of estimating personal income. These inaccuracies arose from methodological problems with allocating personal income based on zip codes, place of residence, and military reserve and veterans' pay.

Using 1980 Census data, Tayloe-Murphy Institute (TMI) revised BEA estimates for the years 1979 through 1981. However, TMI will not use this data to revise estimates past 1981. Consequently, estimates for 1979 through 1981 are not consistent with estimates before or after those years. Comparisons with this period may not reflect accurate trends over time. Additionally, BEA has indicated that corrections to the method of allocating personal income will not be completed until 1987.

Presently, Virginia is the only state for which BEA calculates personal income estimates for individual cities and counties. If budget cutbacks require it, BEA has indicated that it may discontinue this practice and begin publishing combined city-county estimates, as it does for the other 49 states.

Concerned with the discontinuity of the available personal income data, JLARC staff sought another measure of income. The most widely used alternative to personal income is adjusted gross income (AGI). A correlation of the two measures of income for cities and counties shows an extremely high relationship (.99). AGI and personal income are not perfect substitutes for each other, however, as each measures different components of income.

Adjusted gross income figures are based on income reported by place of residence, whereas personal income is gathered by place of employment, and adjusted for residence. This adjustment process gives rise to some of the inaccuracies in the personal income estimates. Data on commuter patterns, for instance, must be available to reallocate wages and salaries according to employees' place of residence.

While the use of income figures based on place of residence is more in keeping with the purposes of the stress index, there are some problems associated with the use of AGI. Several income components included in personal income are excluded from AGI. These components include the following:

- transfer payments such as unemployment compensation and
- social security benefits;
- certain fringe benefits;

- wages and salaries paid "in-kind";
- dividends and interest income excluded from taxation;
- income from private trust, pension, health and welfare funds;
- income of persons not required to file a state tax return; and
- income of non-resident members of the armed forces.

On the other hand, AGI includes personal contributions for social security and short-term capital gains, both of which are excluded in measures of personal income. For 1983, AGI figures were about 73 percent of personal income figures, illustrating the broader coverage of the personal income measures.

Effects of AGI Substitution on Revenue Capacity. The exclusion of armed forces income has the greatest impact on localities with a large military population. The most heavily affected locality is Norfolk, which experiences a decline in capacity in 1977 of almost 12% when substituting adjusted gross income for personal income. The difference is not as severe in 1981; however, the substitution lowers Norfolk's 1981 capacity by six percent. Other localities strongly affected are Portsmouth and Hampton, with declines in 1977 capacity of five percent and six percent, respectively.

Other localities which may be heavily affected are localities where an above average share of residents' income comes from transfer payments, or where income is below State tax reporting requirements. This would include localities characterized by high poverty levels or large student populations. Although the exclusion of this income underestimates income in the locality, it is perhaps a better measure of residents' ability-to-pay and does not overestimate the locality's revenue sources.

Table 1

EFFECTS OF SUBSTITUTION OF ADJUSTED GROSS INCOME
FOR PERSONAL INCOME ON REVENUE CAPACITY

	<u>Per Capita Capacity, 1977</u>		<u>Per Capita Capacity, 1981</u>	
	<u>Using PI</u>	<u>Using AGI</u>	<u>Using PI</u>	<u>Using AGI</u>
State	333.87	338.99	432.75	431.94
Counties	330.18	339.91	436.87	435.60
Cities	342.43	336.85	423.20	422.12
Source:	JLARC analysis.			

The overall effects of AGI on revenue capacity are slight (Table 1). The average capacity per person was higher by two percent in 1977; there was virtually no change in average capacity in 1981. Counties' revenue capacity increased by three percent in 1977, while the decline in cities' capacity may be attributable to a high proportion of persons below the poverty level, college-age students, and military personnel. However, the gap between capacity using personal income and capacity using adjusted gross income seen in 1977 is not evident in 1981. This gap is more likely related to the problems with the methodology in estimating personal income noted before. Tayloe Murphy Institute adjustments were not made to 1977 data, and these estimates are not consistent with the estimates made in 1981.

Effects of AGI Substitution on Stress Index. Although overall revenue capacity and tax effort were not much affected by the substitution of adjusted gross income, individual localities were affected, depending on the ratio of local AGI to total state AGI. If the locality's proportion of AGI to total State AGI is less than its proportion of personal income to total State personal income, local capacity will decline using AGI. Depending on the magnitude of the decline in capacity, the locality's tax effort will increase. Both of these movements are indications of greater fiscal stress for the locality. Naturally, a higher proportion of total state AGI will indicate that a locality is less stressed.

Most localities moved up or down a few positions in the ranking of fiscal stress scores. The change in total stress for 28 localities resulted in a shift into a new quartile from the quartile position in the original report. Eighteen of these localities, however, were borderline in the original report. The remaining six counties and four cities showed significant changes in the severity of their fiscal stress. Half the counties moved into a less stressed quartile using AGI, while the other half moved into a higher stressed quartile. Three of the four cities showed an increase in stress; the remaining city, Bristol, appeared less stressed. All in all, however, most localities' stress ratings changed very little. Mean stress scores for clusters and for cities and counties show no significant change.

Revenue Capacity of Local Governments (1977-1983)

In FY 1977, the revenue capacity for a typical locality was \$338.99. That is, a typical local government had the capacity to generate through taxes an average of \$338.99 per person to support local services. By FY 1983, the average revenue capacity per capita had increased to \$523.98 per person. Average revenue capacities for the State, cities, and counties are presented in Table 2. There are large deviations from the averages, however. Counties which have major electricity-generating facilities have very high revenue capacities (average = \$1,228.96) due to the assessed value of public service land. The city of Falls Church also enjoys an exceptionally high revenue capacity (\$1,261.59 in FY 1983). Localities burdened with very low revenue capacities include the counties of Lee (\$285.21), Scott (\$285.54), Bland (\$287.49), and Prince George (\$306.46).

Using data computed with adjusted gross income as a component of capacity, local revenue capacity kept pace with the rising costs of government

Table 2

AVERAGE REVENUE CAPACITIES
1977-1983

<u>Year</u>	<u>State</u>	<u>Cities</u>	<u>Counties</u>
1977 (Base)	338.99	336.85	339.91
1981	483.92	485.88	483.07
1982	504.36	485.48	512.50
1983	523.98	512.98	528.72

Source: JLARC analysis.

services from FY 1977 to FY 1981. From 1981 to 1983, however, local tax bases did not rise as quickly. In those two years, local capacity increased by about eight percent, while the Government Services Inflation Index increased by 15 percent. The difference between the growth of revenue capacity and the Government Services Inflation Index indicates that, on average, the tax bases of Virginia's local governments grew at a slower pace than the costs of providing government services (Table 3A). In fact, 86 percent of all localities had increases lower than the increases in the cost of government services (Table 3B). For these local governments, the results have been a need either to

Table 3A

COMPARISONS OF INCREASES IN REVENUE CAPACITY
WITH INCREASES IN COST OF GOVERNMENT SERVICES
1977-1983

	<u>Increase in Revenue Capacity</u>		<u>Increase in Cost of Government</u>	
	<u>1977-1981</u>	<u>1981-1983</u>	<u>1977-1981</u>	<u>1981-1983</u>
State	43%	8%	40%	15%
Cities	44%	6%	40%	15%
Counties	42%	9%	40%	15%

Source: JLARC analysis of data published by Department of Taxation, Department of Motor Vehicles, Auditor of Public Accounts, Tayloe Murphy Institute, and Federal Bureau of Economic Analysis.

Table 3B

CAPACITY GROWTH VERSUS COST IN PROVIDING SERVICES¹
 FY 1977 - FY 1983

	<u>Number of Localities With Capacity Growth Above 61%</u>	<u>Number of Localities With Capacity Growth Below 61%</u>
State	19 (14%)	117 (86%)
Cities	4 (10%)	37 (90%)
Counties	15 (16%)	80 (84%)

¹Localities with capacity growth less than 61% have not had increases in revenue sources which were equal to increases in the cost of providing services. Conversely, those with capacity growth above 61% have realized this level of increase.

Source: JLARC analysis.

increase revenues through taxation, or to take budgetary action to control expenditures.

City/County Differences. Although city and county revenue capacity growth rates have not been parallel at all times, the cumulative growth since 1977 is about the same for both groups. Counties' average revenue capacity grew \$188.81, from \$339.91 per capita to \$528.72. During the same period, cities' average capacity increased by \$176.13, from \$336.85 to \$512.98.

The growth in revenue capacity fell short of the growth in the cost of government services in the majority of cities and counties. Ninety percent of the cities, and 84 percent of the counties failed to realize increases in their revenue bases equal to the increase in the government services inflation index.

Summary. Since 1981, local revenue capacity has increased at a rate lower than the increase in the cost of providing government services. Cities have lower capacities and lower increases in capacity than counties; however, the differences are slight.

Sources of Growth in Revenue Capacity

Summative measures of revenue capacity mask important differences in where the growth is occurring. Not all components of a locality's tax base can be tapped equally. For that reason, it is important to examine where the growth is occurring in each locality's revenue capacity.

Between FY 1977 and FY 1981, growth in real estate values accounted for much of the growth in the revenue capacities of cities and

counties. During this period, cities realized an average per capita growth in real estate values of 10 percent per year, while counties' true value grew about 12 percent per year. Between FY 1981 and FY 1983, however, growth in real estate values slowed considerably (Table 4). If real estate values continue to grow at this slower pace, localities may have to increase reliance on other sources of revenue. The slowdown in the growth of real estate has had a large impact on revenue capacity growth since 1981; while capacity appeared to keep pace with inflation from FY 1977 to FY 1981, FY 1982 and FY 1983 resulted in growth which was not consistent with inflation.

The parallel growth between real estate values and family income after 1981 shown in Table 4 is especially beneficial to localities. Taxpayers' income levels were rising during this period as fast as the value of their taxable real estate, and thus increases in their required payments were matched by an increased ability to pay. Capacity increases also occurred in the area of retail sales, where both counties (14%) and cities (17%) experienced rapid growth. Increases in retail sales and adjusted gross income, accompanied by a slowdown in the rate of growth of the value of real estate, could signal a trend towards greater diversification of local revenue capacity. Because the State composite index for aid to education weights the value of real estate at 50 percent, this trend should be watched carefully.

In order to fully understand the effects of revenue capacity on the localities, local tax efforts must also be analyzed. Localities' tax efforts and increases in tax effort measure the degree to which local governments are utilizing their capacity to generate revenue.

Table 4

SOURCES OF GROWTH IN LOCAL REVENUE CAPACITY

	Cities		Counties			
	<u>FY 77-</u> <u>FY 81</u>	<u>FY 81-</u> <u>FY 83</u>	<u>FY 77-</u> <u>FY 83</u>	<u>FY 77-</u> <u>FY 81</u>	<u>FY 81-</u> <u>FY 83</u>	<u>FY 77-</u> <u>FY 83</u>
True Value of Real Estate	44%	8%	56%	55%	4%	59%
Retail Sales	36%	17%	58%	33%	14%	52%
Median Family Income (AGI)	38%	11%	54%	40%	12%	56%
Tangible Personal Property	12%	8%	22%	20%	8%	29%

Source: JLARC analysis of data published by Department of Taxation, Department of Motor Vehicles and Tayloe-Murphy Institute.

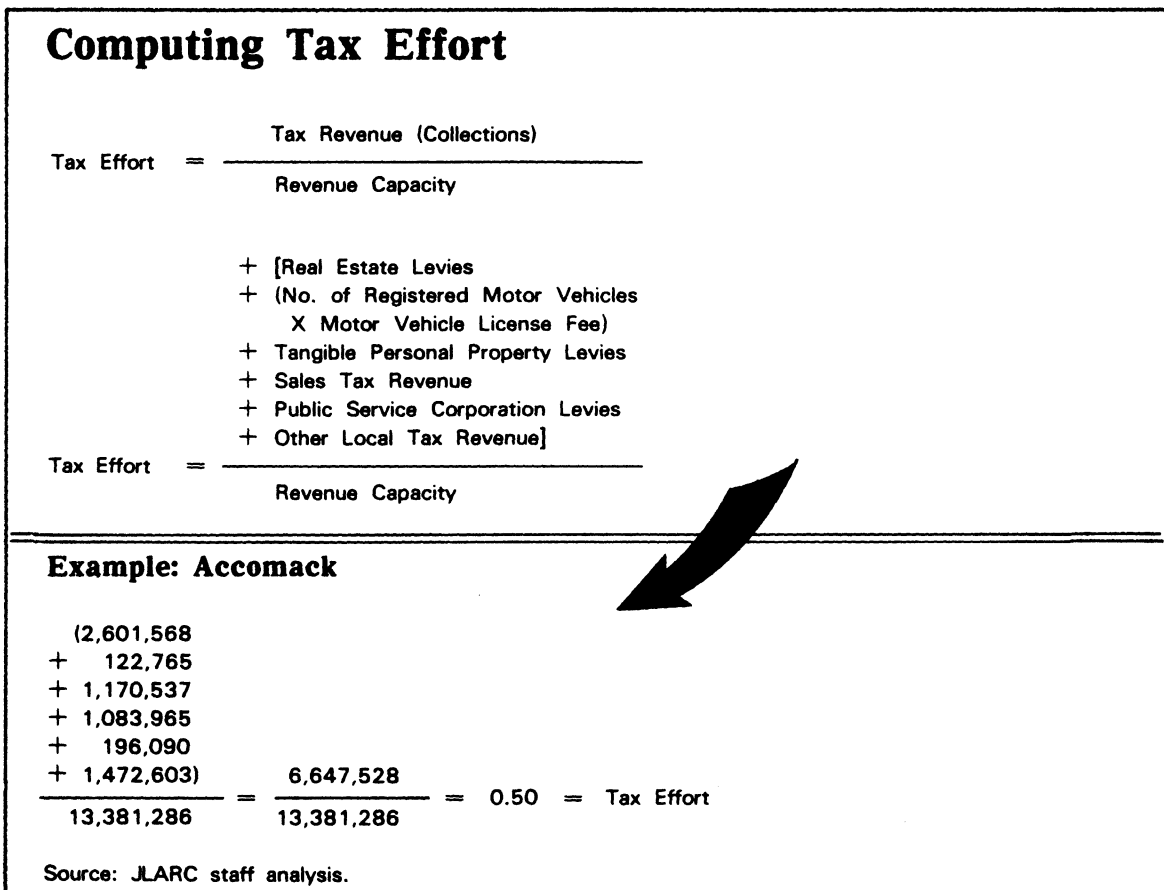
TAX EFFORTS OF LOCAL GOVERNMENTS

A key option available to local officials to increase revenues is to increase the local government's tax effort. Tax effort refers to the degree to which a local government taxes its available revenue capacity or tax base.

A local government's tax effort is an important indicator of fiscal condition. A very high tax effort indicates that a local government is utilizing a high degree of available revenue capacity to support local operations and services. This is a stressful condition for a local government because it indicates that a locality has less flexibility in utilizing additional tax bases as expenditure demands increase. A large increase in tax effort can itself be an indicator of fiscal stress. Localities which have increased their tax efforts dramatically may have absorbed much of their flexibility to increase local revenues.

The measure used to assess tax effort in this study was developed by the Advisory Commission on Intergovernmental Relations (ACIR). Their index provides an excellent estimation of how heavily a local government taxes its available revenue bases. Following ACIR's procedure, a local government's tax effort is equal to its actual local tax revenues divided by its revenue capacity. As with revenue capacity, this measure of tax effort provides a sound basis for examining each locality's tax levels, assessing how tax levels have changed over time, and comparing localities to each other. An example of how tax effort is computed is shown in Figure 2.

Figure 2

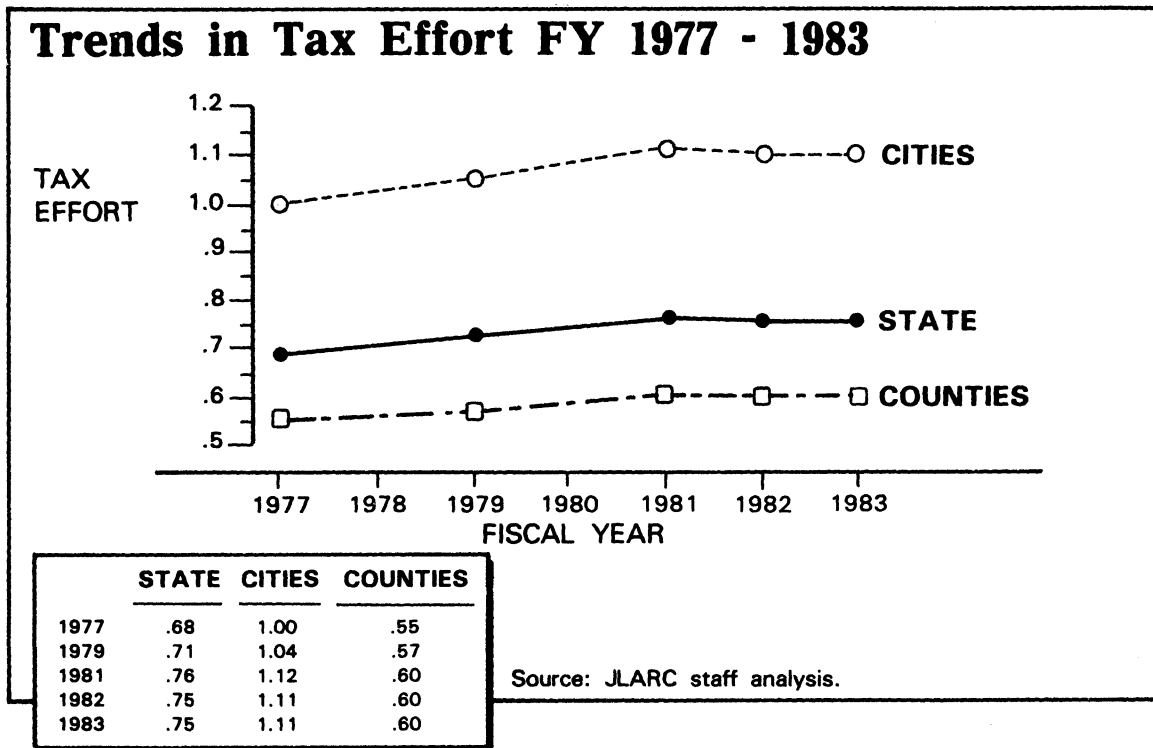


Trends in Tax Effort

Between FY 1977 and FY 1981, Virginia's local governments steadily increased their tax efforts from .67 to .76. In both FY 1982 and FY 1983, the level stabilized at .75 (Figure 3). The average change in local tax effort from FY 1981 to FY 1983 was a decline of less than .01. Some localities, however, had substantial increases. For example, Buchanan County's tax effort almost doubled from FY 1977 to FY 1983 (.49 to .90), Lunenburg County increased its effort by 246 percent (.13 to .45), and Williamsburg had an increase of 40 percent (.83 to 1.16). As illustrated by the case of Buchanan County, these changes in effort were often the result of reassessments of property.

Buchanan County assessed its real property at approximately \$.3 billion in FY 1977 and taxed on this basis. The Department of Taxation disagreed with this assessment and estimated the value of real property at \$1.7 billion (the 1981 capacity calculation was based on this figure). In 1982, the Department of Taxation itself assessed Buchanan County's real property and the actual assessment was \$.9 billion. Thus the county's capacity declined (\$1.7 billion to \$.9 billion), resulting in a corresponding increase in computed effort. These two factors dramatically alter the measured fiscal condition of the locality.

Figure 3



The stabilization of tax effort indicates that local governments are finding it necessary to tap their revenue bases at the same levels as in the past, especially since capacities have not increased as fast as the cost of providing services. The leveling of local tax effort does, however, at least indicate a pause in increasing fiscal stress and overall is a positive sign for local fiscal condition.

City/County Differences. Measurement of tax effort reveals a large disparity between cities and counties. In FY 1983, counties had a tax effort averaging .60, while cities had a substantially higher effort at 1.11. All cities but one (Poquoson) had levels of effort higher than the statewide average, while only 17 counties (18%) had tax effort levels exceeding the statewide average (Table 5).

Despite their higher growth in revenue capacity, cities are continuing to tap their resources at a rate higher than the state average. City tax effort has increased by .11 since 1977. Stress induced by high taxes has not been alleviated despite the rise in the city tax base. Likewise, counties have not lowered their tax burden in response to increases in their tax base, principally because government services expenditures have grown at an equal or higher rate. County tax effort has increased by .05 since 1977.

The slowing of capacity growth relative to inflation would seem to indicate a higher level of stress in a locality, which might be manifested in an increasing tax effort as local officials try to match tax revenue with expenditures. However, as tax effort has not risen, localities have apparently pursued other solutions to financial problems. Localities may be moving toward sources of income other than tax revenue, or may be managing local tax dollars more efficiently. Another alternative for the locality is to curtail or limit the expansion of services and programs. Whatever the solution, it is clear that localities are not relying on tax increases to fill in the gap created by relatively slow growth in revenue capacity.

Table 5
LOCAL TAX EFFORT
FY 1983

	<u>Average Tax Effort</u>	<u>Number with Effort Higher Than State Average</u>
State	.75	57 (42%)
Cities	1.11	40 (98%)
Counties	.60	17 (18%)

Source: JLARC analysis.

Effects of Revenue Capacity and Tax Effort

Revenue capacity and tax effort are two separate but related dimensions of a locality's fiscal condition. Revenue capacity indicates the ability of a locality to generate revenues. A locality with a low revenue capacity has a limited ability to support local services. Tax effort determines the degree to which the locality is tapping its revenue bases. A locality with a high tax effort has limited additional tax resources to tap as its needs for revenues increase.

While either measure can be fiscally stressful to a locality, the combination of low revenue capacity and high tax effort is especially detrimental. In this situation, a locality has a limited source of revenues, and is tapping the sources to a high degree. Any unforeseen or increased need for services can jar what may be a precarious balance.

Thirty-five localities in Virginia have above-average tax efforts in conjunction with below-average revenue capacities. All of these localities have higher-than-average scores on the JLARC fiscal stress index. The great majority of these localities are cities (29 of 35). In fact, three quarters of all cities are relatively stressed on both measures.

This overview of the localities with two dimensions of stress attempts to describe the fiscal conditions which cause overall financial stress. The fiscal stress index provides a broader and more concrete measure of local financial stress along five dimensions. Both analyses point out that fiscal stress is not a discrete or narrow condition. The financial stress experienced by many of Virginia's localities is the cumulative effect of problems on several dimensions.

LEVELS OF STRESS AMONG LOCAL GOVERNMENTS

There is significant variation in the levels of stress experienced by local governments. Some local governments have high levels of stress on most of the indicators of fiscal position, while others show relatively low levels of stress on the indicators. Overall, the majority of cities show a higher level of fiscal stress than counties.

Computation of Composite Stress Index

Measures of revenue capacity, tax effort and resident income provide reliable indicators of a local government's fiscal position. Using these measures, five key symptoms of fiscal stress may be identified:

- relatively low revenue capacity or tax base,
- relatively low growth in tax base,
- relatively high tax effort,

- relatively high increase in tax effort, and
- relatively low resident income.

None of these measures viewed alone is an adequate indicator of fiscal position. However, a local government which shows a pattern of stress across all the indicators may be considered to have a poor fiscal condition. A "composite stress index" can be computed to identify those local governments which have high levels of stress across each of the separate indicators.

In its original study, JLARC staff developed a fiscal stress indicator. The same methodology is used in this update. The computation involved two steps. First, each local government was assigned a "relative stress index" for each of the primary stress indicators -- level of revenue capacity, change in capacity (1977-81), level of tax effort, change in tax effort (1977-81), and resident income (a measure based on poverty, median family income, and change in income). In the second step, the five "relative stress indexes" were combined to compute a composite stress index for each local government.

In the first step, each local government was assigned a "relative stress index", ranging from 1 (very low stress) to 8 (very high stress) on each of the five indicators of fiscal position. The index assigned to a local government was dependent on the distance of its raw score (in standard deviations) from the statewide average for that indicator. For example, Charlottesville's tax effort in 1977 (1.17) was much greater than the State average of .67. Thus, Charlottesville received an '8' on the relative stress indicator for level of tax effort. In comparison, Floyd County's tax effort of .35 was far below the State average. Floyd County's relative stress indicator of '1' indicates a low level of stress on this specific measure.

Each local government had five separate relative stress indicators. These indicators together reflect the strengths and weaknesses in the fiscal position of each local government relative to others.

The second step involved combining the relative stress indicators to compute a "composite stress index." The "change in revenue capacity" and "level of tax effort" indicators were given added weight in the composite index because of their importance in assessing fiscal position. A local government with a low growth in its tax base faces the immediate stress of having to increase revenue through taxation or having to cut operations or service expenditures. The level of tax effort was weighted more heavily because a local government with high tax effort has little flexibility to increase revenues by raising taxes. An illustration of the computation of the stress index is provided in Figure 4.

The composite stress index used to update this study represents a reasonable way to compute a single indicator of relative fiscal stress among local governments. It is important to note, however, that there are other methods which may be used to compute an overall stress index. JLARC computed relative fiscal position using four separate methods. Each of these

Figure 4

Computation of Composite Stress Index

LOCAL INDICATORS

1977 revenue capacity
 1977 tax effort
 change in revenue capacity 1977-1983
 change in tax effort 1977-1983
 Poverty index

Each local indicator assigned a value from 1 to 8, depending on position compared to the mean. Value of 8 implies high stress. Value of 1 is low stress.

Each indicator value is weighted, then all are summed.

EXAMPLE: Accomack

			Value	Weight For Method One
1977 capacity	= \$302.47	2/3 standard deviation below mean	6	1
1977 effort	= 0.50	2/3 standard deviation below mean	3	2
Change in capacity	= 129.18	1/3 standard deviation below mean	5	2
Change in effort	= 0.00	2/3 standard deviation below mean	3	1
Poverty	= 21.1%	more than one standard deviation below mean	7.75	1
1983 stress index = 6 + (2x3) + (2x5) + 3 + 7.75 = 32.75 (above average stress)				

Source: JLARC staff analysis.

methods reflects different assumptions regarding the importance of an indicator to local fiscal stress. Findings for all methods are included in the appendices to this report. JLARC staff found a high degree of convergence between the method presented here and others examined in its analysis. Those local governments which were found to be highly stressed on the "composite stress index" depicted here were also generally identified as "stressed" using other indices.

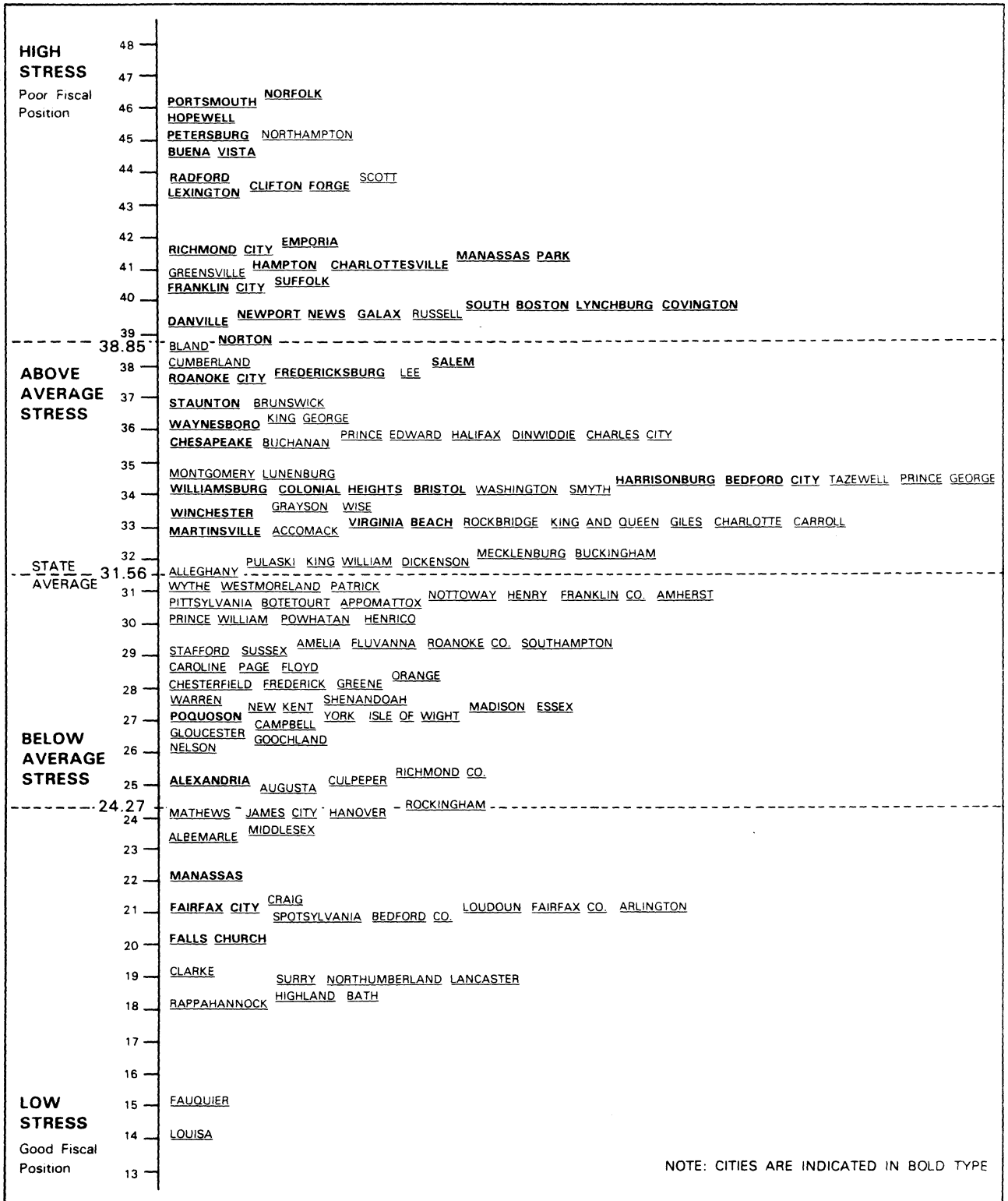
It is also important to emphasize that the composite stress index is a relative measure. It serves to identify those local governments which are experiencing a high level of fiscal stress compared to other local governments in Virginia. Thus, whether general fiscal conditions are "good" or "bad," roughly half of all localities will have an above average fiscal position and roughly half will have a below average fiscal position.

Figure 5 presents composite stress scores for all local governments. Local governments with a score over 38.85 (one standard deviation above the mean) are viewed as being in poor fiscal position. Conversely, those with a score under 24.27 are considered to have a relatively good financial position. Localities with a composite stress index near the State mean (31.56) have average fiscal positions compared to others in the State.

Figure 5

1983 Scores on the Composite Stress Index

City/County Differences



NOTE: CITIES ARE INDICATED IN BOLD TYPE

Source: JLARC staff analysis.

Changes in the Fiscal Stress Index From FY 1981 to FY 1983

Between FY 1981 and FY 1983 there was no significant change in the composite fiscal stress index for the 136 localities. In addition, the relative rankings of the localities based on the stress index changed little. Problems facing localities in the past continued to face them in FY 1983.

Most of the major findings of the original report hold for this update. Cities still show more and greater levels of stress than counties; however, it also remains true that there are few local governments which are not stressed to some degree.

The relative positions of the local governments have also stayed basically the same. Thirty-six localities (6 cities and 30 counties) changed position on the composite stress index. The average change in stress for these localities was 4.76 points. Nineteen localities found themselves in a less stressed quartile, while 17 showed signs of increased fiscal stress. Two of these counties -- Buchanan, and King and Queen -- moved two quartiles.

The most significant change from 1981 to 1983 was a slowdown in the growth of revenue capacity. From 1977 to 1981 revenue capacity increased at an average of nine percent per year, but increased only four percent per year from 1981 to 1983. This latter increase is lower than the average rate of inflation, and the average increase in the cost of government goods and services for the same period. The slowed growth has changed the long-term trends -- from 1977 to 1983 revenue capacity has increased at a slower rate than the increase in the cost of government services.

There is wide variation in the 1983 composite stress indices, just as there was in the 1981 scores. Scores range from a low of 14 (Louisa) to a high of 46.25 (Norfolk). This indicates that Louisa, which generates much of its revenue from a Virginia Power generating plant, has relatively low levels of stress. Norfolk, on the other hand, has high levels of stress on all the indicators.

City/County Differences. The most obvious and important conclusion of the relative stress measure is that cities, as a group, continue to show more and greater symptoms of fiscal stress than counties. Cities have an average score of 37.2, which indicates a significantly higher level of fiscal stress than the county average of 29.1. These 1983 averages match the 1981 averages, thus indicating the same disparity in fiscal position.

Many more cities than counties have a "poor" fiscal position. Of the 25 localities with "poor" positions, 21 are cities. Only five cities (Alexandria, Fairfax, Falls Church, Manassas, and Poquoson) may be considered to have average to good fiscal positions compared to other Virginia localities, while 62 counties (65%) fall into this category.

Overall, the fiscal stresses of counties must still be considered less extensive and less severe than those of cities. Of the 95 counties, only four (Northampton, Greensville, Russell, and Scott) have poor fiscal positions, while 21 have "good" positions.

Table 6

LOCALITIES WITH SEVERE FISCAL STRESS INDICATORS*

	<u>Have One or More Severe Fiscal Stress Indicators</u>	<u>Have Two or More Severe Fiscal Stress Indicators</u>
Cities	24 (59%)	3 (7%)
Counties	37 (39%)	9 (9%)

*A severe fiscal stress indicator is defined as a rating one standard deviation away from the statewide mean rating in one of the five areas measured: revenue base, growth in revenue base, tax effort, change in tax effort, or income level/poverty.

Source: JLARC analysis.

While about 39 percent of the counties have at least one indicator of severe fiscal stress (a problem with revenue base, tax effort, or poverty), 59 percent of the cities have at least one (Table 6). Over half of these stressed counties have high levels of poverty and/or extremely low resident incomes. Six are "urbanizing" counties with high tax effort.

The greatest single stress facing cities is high tax effort: 54 percent of the cities have a high tax effort. The average tax effort in cities (1.11) is substantially higher than the .60 effort in counties. From FY 1981 to FY 1983, about 39 percent of the cities had found it necessary to further increase their tax efforts.

As the 1984 Mandates report pointed out, localities with high tax efforts have limited flexibility to increase revenues. Even if the need for services rises, these localities may be unable to raise local tax levels to generate more funds. Ultimately they may have to turn to other sources for funding, as witnessed by requests for increased State aid.

MAJOR STRESSES FACING DIFFERENT TYPES OF LOCALITIES

Up to this point, the analysis of fiscal stress has focused on aggregate levels, and trends for cities and counties. The analysis showed significant differences between cities and counties; however, this level of detail still masks many important distinctions among counties and among cities.

In its original report, JLARC grouped all localities into clusters, to examine the characteristics of stress more closely. Clusters were formed on the basis of fundamental characteristics of localities, such as population, population density, and size of tax base. This analysis afforded an examination of the different stresses experienced by different types of localities.

As part of the follow-up study, analysis was performed to distinguish characteristics of the ten clusters; however, it was determined that broader groupings served to facilitate understanding of clusters. Three broad groupings are used:

Cities: Large Cities
Small Cities in Rural Areas
Small Cities in SMSA Areas

Moderate to High Capacity Counties:

Urbanizing Counties
Suburbanizing Counties
High Growth, Moderate Capacity, Rural Counties
Low Growth, Moderate Capacity Rural Counties
Counties with Major Power Facilities

Low Capacity Counties:

High Growth, Low Capacity Rural Counties
Low Growth, Low Capacity Rural Counties.

Because there is wide variation in both the levels and types of stresses facing local governments, each grouping consists of clusters which are more similar to each other than to other clusters. Many local governments suffer from combinations of problems, or multiple stresses, while some are relatively unstressed.

No cluster of localities has experienced a significant change in the level or type of stress found in the original report. There does not appear to have been any major change in the fiscal position of any group of localities. Although the position of many individual localities is changing in varying degrees, the original clusters still reflect the similarities of the differences between Virginia's localities. The narrative below and Table 7 detail the types of stresses faced by localities in FY 1983.

Fiscal Position of City Governments

Large cities and small cities in rural areas show high levels of stress on all dimensions. Difficulties stem from low revenue capacities, high tax efforts and high levels of poverty. Consequently, these two clusters have average composite stress indexes higher than any other group of localities.

Large cities, as a group, have the poorest fiscal position, with a composite stress index score of 40.16. Only one locality, Alexandria, had an above-average revenue capacity in 1983, giving it a below-average score on the stress index. In 1977, all the localities in this cluster but two had a tax effort

Table 7

KEY CHARACTERISTICS OF FISCAL STRESSES IN CLUSTERS IN 1983

<u>Cluster</u>	<u>1983 Revenue Capacity</u>	<u>Change in Capacity 1977 thru 1983</u>	<u>1983 Tax Effort</u>	<u>Change in Effort 1977 thru 1983</u>	<u>Poverty Level</u>	<u>Stress Index</u>
Large Cities	\$463.46	\$151.21	1.33	+.09	16.3%	40.16
Small Cities in Rural Areas	445.84	132.93	0.98	+.14	15.2	38.59
Small Cities in Metropolitan Areas	611.09	195.66	1.10	+.09	7.9	32.05
Urbanizing Counties	582.20	204.77	0.90	-.08	6.5	27.28
Suburbanizing Counties	497.01	168.91	0.58	+.02	9.9	26.11
High Growth, Moderate Capacity Rural Counties	554.33	162.67	0.58	+.10	14.4	26.60
High Growth, Low Capacity Rural Counties	383.97	107.59	0.56	+.09	14.7	34.13
Low Growth, Low Capacity Rural Counties	367.56	92.18	0.51	+.04	18	34.33
Low Growth, Moderate Capacity Rural Counties	521.22	173.51	0.55	+.09	16.4	27.43
Counties with Major Power Facilities	1228.96	512.84	0.49	+.12	16.1	17.0
State Average	\$498.35	\$159.36	0.75	+.07	13.7%	31.56

Source: JLARC analysis.

greater than 1.00. Tax effort has not declined among these localities; in 1983 all have an effort greater than 1.00.

Only Roanoke has had a declining tax effort; on the other hand, Danville's effort has increased by .29, well above the mean cluster change of .09 and State average change.

Rural cities are similar to large cities in their low revenue capacity and high level of poverty. They display an above-average tax effort of .98; however, this is below the level of tax effort exerted by other cities. This cluster has increased its tax effort twice as much as the state average; all but two localities have had a significant rise in their tax efforts since 1977.

Small cities in metropolitan areas have fared better than other urban localities, largely due to their relatively strong revenue capacities and poverty rates of one-half the State average. Nevertheless, since 1977 effort has increased by .09, above the state average increase of .07. This cluster is perhaps the most disparate group. It contains Hopewell, a highly stressed city with a tax effort of 1.35 and a less than \$100 per capita change in capacity since 1977. The cluster also contains four localities with very good fiscal position, with revenue capacities ranging from \$656 to \$1261. Two localities (Fairfax and Manassas) have had significant decreases in tax effort, while four other localities in this cluster have greatly increased their efforts to tap existing revenue sources.

Fiscal Position of Low Capacity Counties

The two county clusters with low revenue capacities are the only clusters of counties with above-average mean stress scores. These counties have the lowest average revenue capacities in the State. The high-growth, low-capacity cluster had an average capacity of \$114 per capita below the statewide average; the low-growth, low-capacity cluster had an average capacity of \$131 per capita below the State mean. The revenue capacity for every locality in this group is below average. These two clusters also have the lowest increases in capacity.

Although effort for this group is below average, tax effort is the major distinction between the two clusters. The high-growth, low-capacity cluster has a tax effort of .56 and has increased its effort .09 since 1977. One-half of the localities in this cluster have significantly increased their tax efforts. The low-growth, low-capacity cluster has a lower average tax effort of .51, and has had a small average increase in effort since 1977. Only eight of these 19 localities have significantly increased their tax efforts. This cluster also has an average poverty rate of 18 percent, the highest in the State.

The fact that these localities have relatively low tax effort serves to lower their fiscal stress ranking. Given the poverty and the very low capacity of these localities, however, it can be argued that it would be unrealistic for them to have a much higher tax effort. Since tax effort is weighted twice in "Method 1," low effort significantly reduces the stress index for these localities. Low capacity counties appear somewhat more stressed on "Method 2," which weights the various stress factors equally. (Four methods for calculating stress are included in the appendix.)

Fiscal Position of Moderate to High Capacity Counties

This grouping contains the localities with the lowest stress indexes, with all means below the statewide average. Urbanizing and suburbanizing counties have relatively strong fiscal positions, characterized by slightly greater-than-average revenue capacities and low levels of poverty. Urbanizing counties stand out among other counties with their high tax effort: .90 in 1983 versus the county mean of .59. However, half of these localities have decreased their tax efforts since 1977. Urbanizing counties also have the highest median family adjusted gross income. The combination of high income, above-average revenue capacity and a high, but declining, tax effort indicates below-average stress for these localities. In fact, no locality in this cluster has a stress index score greater than 30.0.

Revenue capacities of the moderate to high capacity rural counties are average and growing at moderate rates. Two-thirds of these localities have had above-average increases in tax effort since 1977. Despite this, all but four localities enjoy below-average tax efforts. Unlike urbanizing and suburbanizing counties, however, these rural counties have high levels of poverty. Nevertheless, only Buchanan and King George can be considered to have "poor" fiscal positions based on stress index scores of 35.5 and 36.2, respectively.

The three counties which house major Virginia Power plants enjoy revenue capacities which are three times the statewide average, as well as low (but increasing) tax efforts. Like all rural counties in the State, however, these counties have above-average levels of poverty. All three have "good" fiscal positions.

The suburbanizing counties have not experienced the levels of stress apparent in most other clusters. While some suburbanizing counties have moderately weak tax bases, this is offset by the fact that local governments have been able to maintain low tax efforts. If population and service demands of these localities continue to increase, however, it is likely that they will begin to experience some fiscal difficulties in the future in connection with increased demand for services or infrastructure. Between FY 1981 and FY 1983, the average stress index showed significant improvement, decreasing from 27.4 to 26.1

Due to its low growth in capacity, the low-growth, low-capacity cluster was the only group to experience a significant decline in its fiscal position. The stress measure increased from 32.6 to 34.3. Because tax effort is so low, stress index scores for these localities are about average. However, next to large cities and rural cities, low-capacity counties are potentially in the worst position of all local governments. In fact, in terms of revenue capacity and growth in capacity, these counties are the State's least able. The very low levels of capacity in conjunction with the high levels of poverty make increases in effort to generate revenue difficult.

Summary

Each cluster experiences stress on at least one dimension; however, it would be unreasonable to suggest that all localities are severely fiscally stressed. Many localities appear to have the capacity to deal with their own fiscal problems.

Several types, levels, or combinations of stress do require special attention. Especially important are the low revenue capacities in conjunction with low capacity growths or high tax efforts. These governments appear to have the least ability or latitude to generate more funds.

The State must be attentive to the range and diversity of all stresses, in order to ensure local financial vitality and viability. The disparate nature of the stresses makes it unlikely that any single policy action will benefit all needy localities. Chapter III addresses current State aid to local governments and Chapter IV examines a variety of proposals which attempt to address both the levels and types of fiscal stress.

III. STATE AID TO LOCAL GOVERNMENTS

Over time the Commonwealth has assumed a significant role in assisting local governments with services. In some cases assistance is provided as recognition that local services provide benefits both for the locality and for the State as a whole. In other cases, service delivery is regarded as a shared State-local responsibility.

The adequacy of State assistance was a central issue in the HJR 105 study. To assess adequacy, research was focused to determine whether the amounts of State aid have kept pace with local program costs and historical State commitments, and to identify areas where levels of State aid may not be consistent with levels of State mandates and control.

In FY 1984, State funds to localities totalled \$1.63 billion. Overall, State financial assistance to localities continues to comprise a stable proportion of local budgets.

Indeed, FY 1984 shows the State share of total local funding sources increasing from 31 to 32 percent, allowing the local share to remain stable in the face of federal fund decreases. Since 1978 the State share has increased from 28 percent, the low point of the period examined. Given recent initiatives in the education area it is likely that the State share will continue to increase.

The State can also affect local fiscal condition by allowing localities greater or lesser taxing authority. In the late 1970's the State capped local utility taxes and business professional and occupational license fees. These caps, and exemptions granted to the local shared tax base, lessen local taxing flexibility. On the other hand, the State has also taken a number of steps to increase local taxing authority or flexibility in recent years. Among the actions taken to increase local revenues are the following:

- In 1977, the local share of the bank stock tax was increased from 40 to 80 percent. The estimated value of this increase to localities is now worth about \$4.3 million annually.
- In 1984, the General Assembly replaced locally-levied two percent license taxes on rental vehicles with a State-collected tax. This facilitated collection of the taxes, which are returned to localities. In 1985 this amounted to approximately \$3 million in revenues.
- In 1985, HB 1130 gave local governments the authority to assess non-rolling stock railroad property. This provision should increase local collections.
- In 1985, transient occupancy taxing authority was extended to all counties at a rate not to exceed two percent. Were all localities not already imposing the tax to adopt it, they would accrue revenues in excess of \$5 million (statewide).

- In 1985, the General Assembly vacated the State rolling stock tax and scheduled revenues to go to localities in 1987. The estimated value of this new authority, when in effect, will be approximately \$4.6 million annually in new local revenues.

In addition to the above actions to increase local taxing authority, Senate Bill 69 in 1982 eliminated a large number of small State taxes collected at the local level. The elimination of these taxes reduced administrative costs. The General Assembly in recent years has also consistently strengthened the ability of localities to impose administrative sanctions for the failure to pay local taxes. In 1984, the provisions of the set-off debt collection act were extended to localities, enabling local governments to collect taxes owed to them from State tax refunds due to delinquent local taxpayers. Such actions, in addition to direct State aid to localities, can serve to improve overall local fiscal condition.

In our review of financial assistance, JLARC staff focused on State aid to localities in total, and specifically on four programs: Health, Mental Health and Mental Retardation, Welfare and Education. State funding to local governments in these four functional areas accounts for about 80% of total State funding for localities.

ADEQUACY OF FINANCIAL ASSISTANCE

The adequacy of State financial assistance to local governments is one of the central issues for this study. It is particularly important because the State has assumed a major role in specifying a minimum level of local services in education, social services, corrections, health, and other areas. The issue has become increasingly central in recent years, as the federal government has withdrawn from full funding of its program commitments. The level of State aid to localities is a continuing concern to most local officials.

In theory, the best test of the adequacy of State aid would be to isolate the added cost of implementing State mandates and then to compare these costs with the level of State aid provided. This comparison would allow an assessment of whether the State has fully funded its mandates. In practice, however, this approach is not feasible. The level of services each locality would provide in the absence of State mandates varies from locality to locality. Moreover, State aid is often not directly linked to specific mandates. And, State aid is intended to serve more purposes than reimbursement of mandated costs. For these reasons a different approach was adopted.

To assess the adequacy of State aid, trends in aid were examined to see if State aid overall and for specific programs has kept pace with local program costs and with the State's traditional share of these costs. This approach provides a measure of whether the State has funded its historical commitment to localities in recent years.

Overall Trends in State Aid to Localities

Even though State aid is channeled through many different programs, it can be viewed and measured as a single entity. In sum, State aid provides about 32 percent of the total revenues expended by localities. In determining the adequacy of State aid, the first test is to examine its growth in recent years.

Comparing State Aid to Local Revenues. If State aid has not kept pace with locally raised revenues, it is one indication of declining State support of local governments. To determine the nature of these trends, JLARC staff examined funding sources for cities and counties over the past 14 fiscal years. Actual dollar amounts are shown in Table 8. As the table also shows, the State percentage of local revenues has been stable, at around 31 percent of total local revenues. From the early-to-mid-seventies, the local share dropped from 58 percent (FY 1971) to 54 percent (FY 1976) as federal sources increased from 12 percent to 15 percent over the same period. Beginning in FY 1979, however, federal funds began a steady decline to 8 percent of the total (FY 1984). Consequently the local share increased to 60 percent, with the State share at 32 percent. Thus, localities are funding a somewhat larger share of their costs, principally because of a decline in federal funds.

Table 8

FUNDING SOURCES FOR CITIES AND COUNTIES (in Millions)

	<u>Local (%)</u>	<u>State (%)</u>	<u>Federal (%)</u>	<u>Total (100%*)</u>
FY 1971	859 (58)	458 (31)	177 (12)	1,493
FY 1972	971 (57)	522 (30)	220 (13)	1,713
FY 1973	1,109 (55)	591 (29)	333 (16)	2,033
FY 1974	1,247 (55)	748 (33)	267 (12)	2,262
FY 1975	1,363 (54)	826 (33)	332 (13)	2,521
FY 1976	1,495 (54)	871 (31)	403 (15)	2,769
FY 1977	1,700 (56)	914 (30)	442 (14)	3,055
FY 1978	1,841 (57)	912 (28)	477 (15)	3,230
FY 1979	2,021 (58)	1,026 (29)	465 (13)	3,512
FY 1980	2,240 (59)	1,096 (29)	488 (13)	3,824
FY 1981	2,288 (57)	1,293 (32)	444 (11)	4,024
FY 1982	2,556 (59)	1,356 (31)	441 (10)	4,353
FY 1983	2,828 (60)	1,480 (31)	397 (8)	4,705
FY 1984	3,110 (60)	1,629 (32)	412 (8)	5,153

*Percentages may not total 100 due to rounding.

Source: Auditor of Public Accounts Comparative Report of Local Government Revenues and Expenditures - FY 1971 to FY 1984.
Department of Education, figures on State funds for VSRS payments.

The absolute growth in State aid has closely mirrored the growth in locally generated revenues. Over the 13-year period from FY 1971 through FY 1984, State aid to localities grew about 256 percent and local sources of revenue grew about 262 percent.

Comparing State Aid to State Revenues. The levels of aid for most programs are determined by executive budgets and legislative appropriations, and are not driven by earmarked tax sources. In conjunction with other methods, comparing growth in State aid to growth in the State's general fund is another useful way of assessing the State's commitment to local governments.

Over the 13-year period examined, the State's general fund has outpaced increases in State aid for local governments. From FY 1971 through FY 1984, general fund revenues grew about 293 percent (Table 9). As previously indicated, State aid to localities grew about 256 percent over the same period. However, from FY 1979 to FY 1984, the increase in State aid to localities has exceeded with overall increases in the State general fund.

Conclusions About Overall Trends. Generally, State aid has remained a stable portion of local budgets. Major aid initiatives in 1980 ensured a stable level of support. Because these initiatives were new State commitments, however, the analysis suggests a decline in State support of some existing

Table 9

CUMULATIVE GROWTH IN STATE AID AND GENERAL FUND REVENUES
(Each Year Compared to FY 1971)

<u>Year</u>	<u>Increase in State Aid to Localities</u>	<u>Increase in State General Fund</u>
FY 1972	14%	14%
FY 1973	29	30
FY 1974	63	43
FY 1975	80	60
FY 1976	90	75
FY 1977	99	100
FY 1978	99	139
FY 1979	124	159
FY 1980	139	186
FY 1981	182	214
FY 1982	196	239
FY 1983	223	263
FY 1984	256	293

Source: JLARC adaptation of data from Appropriations Acts and Auditor of Public Accounts.

commitments. A separate assessment of aid for major programs is required to reach an overall conclusion. State aid for local health departments, community services boards, local welfare agencies, and local school divisions were also examined. Together, these four programs account for over 80 percent of the total aid disbursed to local governments.

State Funding of Local Health Departments

According to the *Code of Virginia*, all cities and counties are required to establish and maintain a local health department. Although these local health departments operate under State-local contract, the employees are State employees. For this reason, the State's funding of local health departments is considered a direct service rather than financial aid. Funding is shared by the State with the participating localities.

Local health department budgets are funded by a formula which requires both State and local financial participation. Localities provide between 18 and 45 percent of the State-approved budgets, and the State funds the balance. Optional programs, not approved by the State as part of the cooperative budget, are totally funded by the locality.

Since 1979, in its report on Outpatient Care in Virginia, JLARC has expressed concern with this formula. The outpatient study raised several issues which continue to be valid:

The use of estimated true value of real estate (ETV) as a measure of fiscal capacity contributes to financial disparities among health departments. When the formula was established in 1954, local real estate taxes were by far the single most important source of locally raised revenue for most Virginia localities. This was particularly true for counties because they derived up to 90 percent of their locally raised revenues from the property tax. Cities were not as dependent on property taxes, but real estate tax receipts were still their major local revenue source.

Today, however, both cities and counties depend on a more diversified local revenue base. As a result, property taxes now account for about one-half of locally raised revenue. The remainder is derived from taxes on sales, personal property, business, and utilities. These newer revenue sources are not reflected in the single criterion of ETV.

Another drawback to the formula is the use of "total" ETV as a measure of fiscal capacity. No adjustment is made to standardized ETV on a per capita basis. Consequently, the formula maximizes the local share paid by populous counties without regard to other service demands required by residents. The State Department of Health's use of the ETV concept has also

failed to accommodate inflationary pressures on local real estate values. Since 1964, any locality whose ETV exceeded \$392 million has been required to contribute the maximum 45 percent local share. Twelve localities had ETV's in excess of \$392 million when the ceiling was established. Today, however, inflation in real property values has pushed the ETV's of 40 localities beyond \$392 million and there continue to be extreme differences in ETV, even for localities whose ETV's surpass the ceiling.

The problems cited with the formula continue to hold true. Indeed, they have become worse over time. As shown in Table 10, local dependence on revenue sources continues to diversify, with localities becoming less and less dependent on real property as a source of local income.

Table 10

SHIFTS IN LOCAL DEPENDENCE ON REVENUE SOURCES
(Sources as Percentages of Local Revenues)

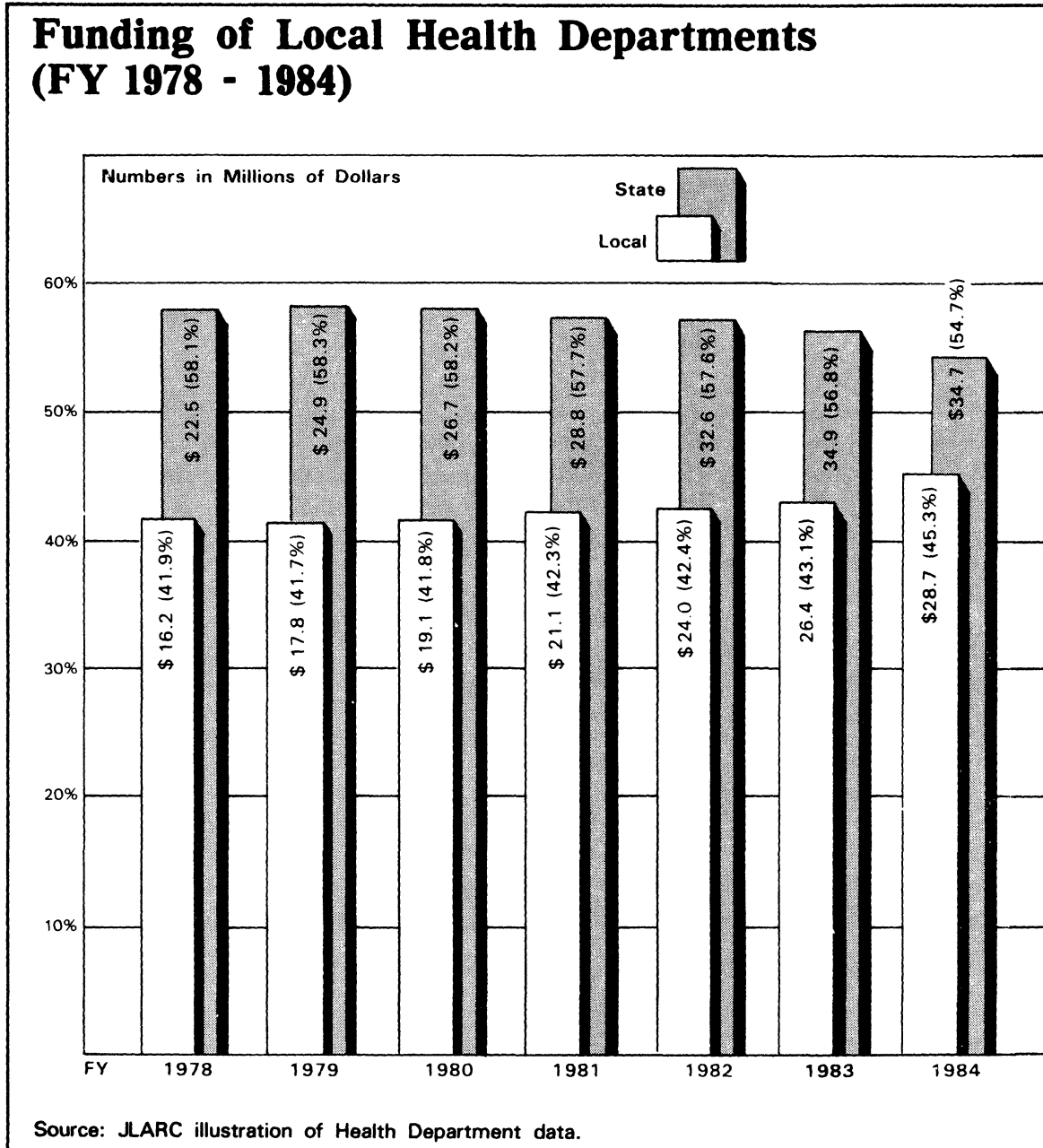
<u>Year</u>	<u>Property Tax Values</u>	<u>Other Local Revenues</u>	<u>Retail Sales Tax</u>
FY 1970	50%	40%	10%
FY 1983	47	44	9

Source: JLARC analysis of Department of Taxation Data.

The 1984 JLARC report found that the State's share of local health department budgets had remained stable, at about 58 percent, since 1978. While there was a modest decline, it was relatively insignificant (58.1 percent in 1978 to 57.6 percent in 1982). This decline intensified somewhat through 1983 and 1984, with the State's share dropping to 54.7 percent (Figure 6). JLARC noted that while State funding had matched historic commitments and kept pace with inflation and the cost of government services, the level of funding was not consistent with the degree of mandated control.

State funding increased 6.4% from FY 1982 to FY 1984, a rate below the increase in cost for providing government services (10.3%). The State share of the cooperative budget continued its very gradual decline for reasons inherent in the funding formula. First, budgets are targeted and approved by the State Department of Health (SDH). Second, as noted in the 1979 report, the formula uses effective true value of real estate as a measure of the locality's ability to pay. Localities whose real estate values exceed a fixed ceiling are required to fund the maximum 45 percent share. This ceiling of \$392.0 million has not been raised since 1964. As property values rise through normal

Figure 6



inflation, more localities will be required to contribute the maximum share. In order to counter this trend, SDH froze ETV values at 1979 levels. As a result, 66 localities contributed 45 percent in 1983, although 80 localities had real estate values in excess of the ceiling. This freeze, however, can only be viewed as a short-term, stop-gap measure, and not a solution to the problems with the formula.

State funding increased 53.7 percent from 1978 to 1984. This level of growth again exceeds the rate of increase in the cost of providing government services over this period, but is below the 64% increase in the cost of providing medical care.

Local funding, exclusive of 100 percent locally funded programs, has increased 76 percent since FY 1978. In fact, local government increases in health department funding from FY 1982 to FY 1983 exceeded State increases by \$.1 million, the first year since 1978 in which local dollar increases exceeded State dollar increases. In 1984, localities increased their contribution by \$2.2 million, while State funding fell \$0.3. Overall, State aid in this area is declining from previous levels of commitment.

State Funding of Community Services Boards

The Department of Mental Health and Mental Retardation (DMHMR) provides funds to local Community Services Boards for use in providing mental health, mental retardation, and substance abuse services. The Code required all cities and counties in the Commonwealth to have established or joined a Community Services Board (CSB) by July 1, 1983. Forty boards are now in operation, and receive State funds.

Mandates for mental health and related programs are not as stringent or as comprehensive as mandates in other health and welfare areas. Most of the mandates are administrative, and cover board organization, budgeting, and fiscal management. Many of the requirements which outline a core set of services include language specifying that these services are not mandated.

Between FY 1979 and FY 1984, the State funded an increasing portion of CSB budgets (Table 11). In FY 1984 the State provided 57.3 percent of total CSB funds. State increases in funding have consistently exceeded the rise in the cost of government services.

Table 11

FUNDING OF COMMUNITY SERVICE BOARDS
FY 1978 - FY 1984

<u>FY</u>	<u>Federal (%)</u>	<u>State (%)</u>	<u>Local (%)</u>
1978	-	\$22,436,734 (60)	\$14,885,200 (40)
1979	\$4,239,200 (9.7)	21,868,000 (50)	17,636,700 (40.3)
1980	4,226,100 (8.5)	26,306,600 (53.7)	18,451,700 (37.7)
1981	5,368,100 (9.3)	31,194,000 (54.2)	20,972,700 (36.5)
1982	4,941,600 (7.3)	38,750,800 (57)	24,251,000 (35.7)
1983	8,036,437 (9.7)	46,510,817 (55.8)	28,770,835 (34.5)
1984	8,813,663 (9.4)	53,858,005 (57.3)	31,293,141 (33.3)

Source: Department of Mental Health and Mental Retardation.

State support for community mental health and mental retardation services has improved substantially in recent years. The State funds CSBs at a level higher than its level of involvement, and its funding has increased since FY 1979 both in actual dollars and as a portion of total costs. The 1985 session provided an additional \$1 million to five CSBs, principally in urban areas, to provide support for some of the effects of deinstitutionalization. A JLARC study of deinstitutionalization is currently in progress and should provide more comprehensive information on services and funding in this program area.

State Funding of Local Welfare Programs

The Department of Social Services (DSS) accounts for the second largest distribution of aid to localities. In FY 1984, federal and State aid disbursed for welfare or social services totalled \$348 million. The funds were distributed to cover administrative and program costs for public assistance and social service programs provided by 124 local welfare agencies statewide, as well as direct payments to clients.

Mandates in the welfare area are specific and comprehensive. State mandates affect local staffing levels, employee compensation, services provided, casework procedures, administrative procedures, and levels of local financial participation. The State has a major substantive role in defining and prescribing the activities of local welfare agencies. Welfare and social services are also areas where there is substantial federal involvement. Many State mandates actually originate in federal statutes or regulations.

Because of the extent of federal involvement, it was necessary to modify the approach used to assess the adequacy of State aid. For this area, the assessment involved determining whether local financial participation is consistent with the narrow range of control afforded to local governments. If local financial participation is consistent with local control, State and federal funding should far exceed local contributions in support of welfare and social services.

For the period from FY 1978 to FY 1984, State and federal funding does exceed local funding. Moreover, the relative shares have remained fairly constant (Table 12). For the period examined, the State has kept its historical commitment to localities, and is providing a level of funds equal to its level of control.

The 1984 Appropriations Act required the State Board of Social Services to present a plan to reduce State mandates and regulatory requirements on local welfare agencies. The plan was required to be completed by January 1, 1985. In anticipation of reduced requirements, State aid for local welfare administration was reduced \$839,730 in the FY 1986 budget. This amount was restored during the 1985 session, as \$3.9 million was provided to fund local welfare agencies for 80% of their administrative costs.

Auxiliary Grants. As described in the 1984 Mandates report, the overall trend of limited local funding of welfare programs masks one program of particular concern to localities -- auxiliary grants. Auxiliary grants cover the room and board of residents of licensed homes for adults who receive

Table 12

FUNDING OF LOCAL WELFARE PROGRAMS
FY 1978 - FY 1984

<u>Fiscal Year</u>	<u>Federal (%)</u>	<u>State (%)</u>	<u>Local (%)</u>
1978	\$142.8 (54.2)	\$ 89.0 (33.8)	\$31.6 (12.0)
1979	152.4 (53.5)	96.2 (33.8)	36.1 (12.7)
1980	181.2 (55.1)	108.9 (33.1)	39.0 (11.8)
1981	184.1 (51.9)	124.4 (35.1)	46.1 (13.0)
1982	214.1 (55.5)	124.6 (32.3)	47.4 (12.1)
1983	209.6 (53.5)	131.8 (33.6)	50.6 (12.9)
1984	210.9 (53.6)	137.1 (34.8)	45.7 (11.6)

Source: JLARC analysis of Department of Social Services data.

federal Supplemental Security Income or are low-income aged, blind, or disabled persons. Through FY 1985, the State funded 62.5 percent and localities supported 37.5 percent of program costs. Auxiliary grants are financial assistance where local governments must share in the cost of payments to clients.

State mandates govern all aspects of the auxiliary grant program. The State Board of Social Services has full authority over eligibility criteria for clients served. Maximum reimbursement rates are set by the General Assembly, and rates for specific homes are set by DSS. As a result, localities have no flexibility either in the number of clients served, or the level of financial commitment.

This situation has been worsened by the dramatic increases in caseloads and required spending over time. Between FY 1978 and FY 1982 the increase was 352.2%. By FY 1983, the five-year increase was 407.1% (Table 13). However, the trend for increases in local spending seems to be moderating. Local government expenditures increased only 12 percent from FY 1982 to FY 1983, and declined three percent in FY 1984.

Even though the dollar impact of this program is relatively small, it falls unevenly across the State. The impact is greatest in areas with large elderly populations. It also falls disproportionately on localities with a large number of licensed homes for adults. This places a double burden on the affected localities, which cannot control or predict either the caseload or the funding level.

The auxiliary grant program is an example of an area where the level of State control has exceeded its level of financial support. Two changes during the 1985 legislative session enhanced State support of the auxiliary grant

Table 13

AUXILIARY GRANT PROGRAM:
INCREASES IN CASELOADS AND SPENDING
FY 1978 - FY 1984

<u>Fiscal Year</u>	<u>Average Monthly Caseload</u>	<u>Maximum Reimbursement Rate</u>	<u>Local Government Expenditures</u>
1978	989 cases	\$260	\$.70 million
1979	1,141	336	1.59 million
1980	1,353	372	2.21 million
1981	1,534	450	2.62 million
1982	1,692	475	3.17 million
1983	1,866	510	3.55 million
1984	2,028	510	3.46 million
Percent Increase	105%	96.2%	394.3%

Source: Department of Social Services Annual Reports.

program. HB 733 increased the statutory ceiling on State reimbursement to 80 percent. In addition, the 1985 Appropriations Act provided \$886,000 for FY 1986 to increase the State share from 62.5 percent to 70 percent. These actions move State participation to a level more consistent with the level of State program control. Provision of 80% funding by the State, as recommended in the 1984 Mandates report, would provide a level of funding fully consistent with the level of State control.

State Funding of Local School Divisions

Over 70 percent of all State financial assistance is earmarked for support of local school divisions. In FY 1984, State aid for education totalled over \$1.2 billion. Aid for education represents the largest commitment the State has made to help localities provide local services. Aid is funneled through assistance to meet educational Standards of Quality, a number of specific categorical programs, and special State revenue sharing funds. State aid also supports the employer share of retirement, social security, and group life insurance for school employees.

The State's involvement in education is greater than in any other area of local activity. State mandates in this area are specific, comprehensive, and for the most part, compulsory. Mandates affect staffing levels, employee qualifications, fringe benefits, administrative procedures, the level of local

financial participation, facilities, equipment, and services. Many of these requirements flow from 12 State Standards of Quality adopted by the General Assembly.

In order to examine funding trends for education, it was necessary to extract total operating costs for local school divisions from annual reports published by the Superintendent of Public Instruction. Expenditures and revenues were segregated into federal, State, and local totals. Staff from the Department of Education reviewed the methodology for accuracy. Figure 7 displays the results of the analysis.

Aggregate Funding Trends. Overall, localities have been picking up an increasing share of educational operating costs. Between 1978 and 1983, the local share grew from 43.1 percent to 48.6 percent, while State and federal shares declined. During that time, total State funding of education increased from \$729.1 million to \$1,197.5 million, an increase of 53.3 percent. Though this was a significant increase, it did not match inflation in government service costs, which grew at 59.0 percent. It was also well below the 79 percent increase in local funding of education for the period. Localities had to increase their percentage of funding, in part due to a steady decline in the percentage of funds provided by the federal government.

State support of local education declined from 46.3 percent in FY 1978 to 44.4 percent in FY 1983. However, between FY 1982 and FY 1984, State funds increased 24 percent to \$1.2 billion. This increase boosted the State share from 43.6 percent in FY 1982 to 45.9 percent in FY 1984. State funding of education appears to be on an upward trend, beginning with FY 1983.

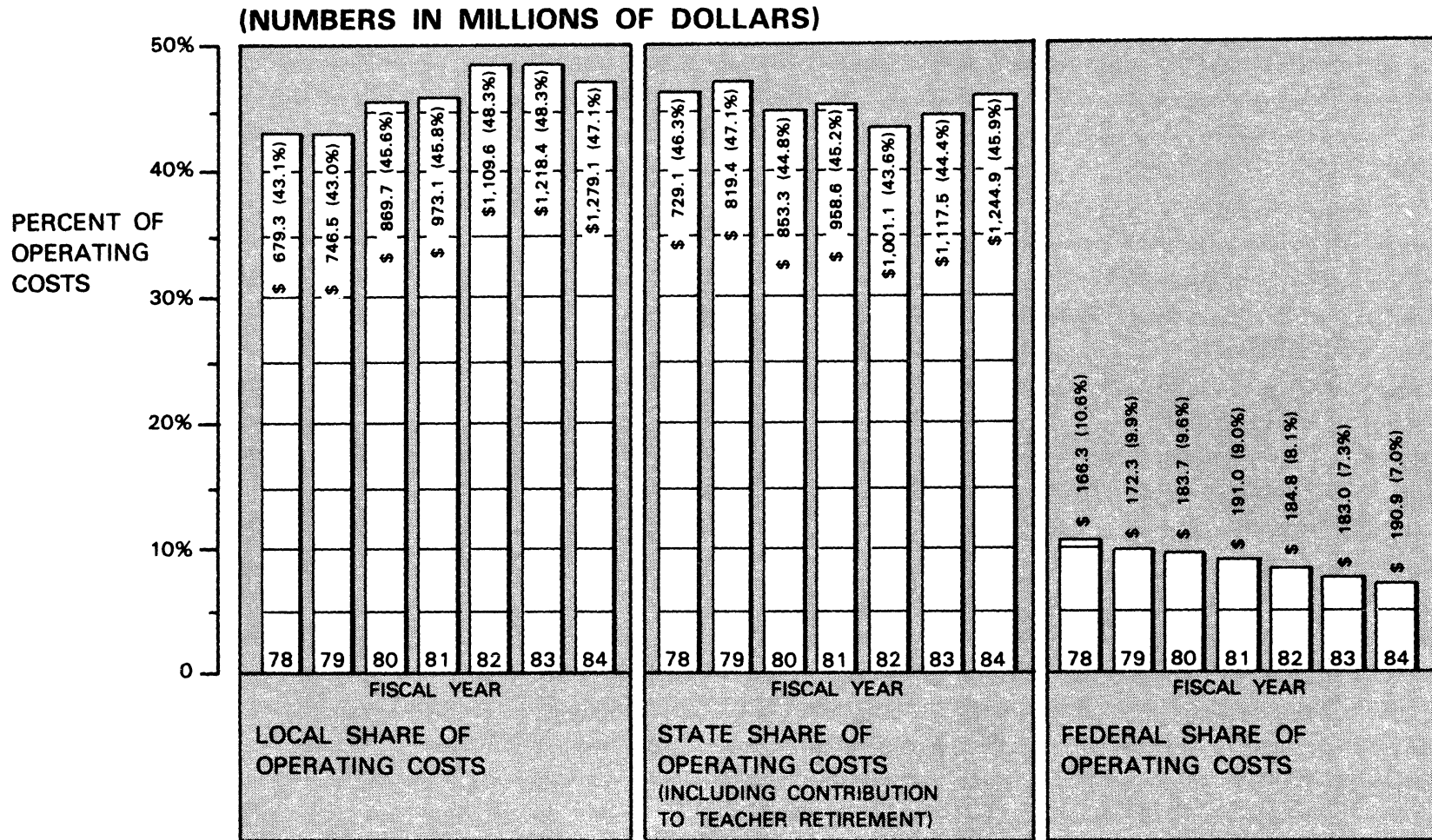
When introduced, the 1984 Budget Bill contained a substantial increase in appropriations for public education. The \$2,783 billion included in aid for public education in the 1984-86 biennial budget represented a 24.4 percent increase over the 1982-84 budget. Included in this total were funds to support the State share of a 10 percent salary increase each year for 54 instructional personnel per 1,000 students in average daily membership.

The 54 per 1,000 personnel standard has long been a source of concern to localities. In the 1982-83 school year, the average school division employed 64 instructional personnel per 1,000 students. In practice, this gap meant that localities have been funding the full cost, including fringe benefits, of all instructional personnel above the number funded by the State. The 54 per 1,000 funding standard for personnel was adopted in 1974, when the first full set of Standards of Quality were enacted by the General Assembly.

During the 1984 session, the General Assembly modified its funding level for personnel for the first time since the personnel standard was enacted. At a cost of about \$14.8 million, the legislature increased personnel standards to 55 instructional personnel per 1,000 students for the 1985-86 school year. During the 1985 session, the standard was further raised to 57 instructional personnel per 1,000 students. This change commits the State to support 57 instructional personnel per 1,000 students, as well as to fund the costs of fringe benefits as they increase in the future. The effect of the State's aid to education will be to significantly increase the percent of the State's funded share of the Standards of Quality (SOQ).

Figure 7

Summary of Expenditures for Education FY 1978-1984



Source: JLARC illustration of Department of Education data.

Each year the Department of Education estimates the per-pupil cost of meeting the SOQ. The cost is estimated by combining personnel costs with the administrative and support expenditures made by local school divisions. There is some disagreement over the validity of these cost figures. While its name implies that it is a level to be sought, many local officials view it as simply a "bare-bones" figure. Other critics of the cost figure, including some legislators, argue that the figure is difficult to validate and needs further review. A separate JLARC study of SOQ costs is in progress.

Table 14 compares the estimated per-pupil cost of meeting Standards of Quality with the amount established in the Appropriations Act. As the table shows, the State supported a declining share of the estimated costs of meeting the SOQ until 1981. Over the FY 1975-81 period, the State share of SOQ decreased from 82.5 percent to 76.9 percent. At the same time, the per-pupil funding gap increased from \$146 to \$322.

Since FY 1981, however, the State's percentage of its share of the SOQ has risen steadily, surpassing the 82 percent commitment level in FY 1984. DOE estimates the rate will continue to rise in FY 1985 and 1986. This would be as a result of substantial increases in educational funding made during the 1984 and 1985 sessions.

Table 14

STATE FUNDING OF SOQ COSTS

<u>Year</u>	<u>Cost Per Pupil</u>	<u>Established Cost Per Pupil</u>	<u>Funding Gap</u>	<u>Percentage</u>
1975	\$833	\$687	\$146	82.5%
1976	887	730	157	82.3
1977	961	790	171	82.2
1978	1,029	825	204	80.2
1979	1,116	901	215	80.7
1980	1,231	960	271	78.0
1981	1,397	1,075	322	76.9
1982	1,522	1,185	337	77.9
1983	1,644	1,320	324	80.3
1984	1,756	1,464	290	83.5
1985*	1,896	1,605	291	84.7
1986**	2,123	1,901	222	89.5

*Estimate

**Estimated at 57 per 1,000

Source: Virginia Department of Education; Appropriations Acts of General Assembly FY 1975-86.

The 1985 Appropriations Act increased the established cost per pupil for FY 1986 from \$1,776 to \$1,901. This reflects the 57 instructional personnel per 1,000 figure and was part of a total increase of \$76.8 million in aid for public education. Included in the total was an increase of \$12.0 million in contributions by the Literary Fund, to support teacher retirement payments. The Department of Education calculates that these actions will raise the funded percentage of the State share of the SOQ to 89.5 percent in FY 1986, an all-time high.

Special Education Funds. Between FY 1979 and FY 1984, local spending for special education increased 152%, far surpassing State (59%) and Federal (99%) increases. Local governments have paid the bulk of the costs, as well, and they have gradually paid a larger share. In FY 1979, the localities paid 63% of all special education costs, while in FY 1984 they paid 72%. Both federal and State shares dropped in FY 1983 (Table 15), then increased slightly in FY 1984.

Table 15

FUNDING FOR SPECIAL EDUCATION
FY 1979 - FY 1983

<u>Fiscal Year</u>	<u>Federal (%)</u>	<u>State (%)</u>	<u>Local (%)</u>
1979	\$11.6 (9.1)	\$35.9 (28.0)	\$80.5 (62.9)
1980	17.0 (11.0)	43.1 (27.3)	97.0 (61.7)
1981	18.9 (9.2)	47.4 (23.1)	139.1 (67.7)
1982	19.8 (8.6)	49.9 (21.6)	161.4 (69.8)
1983	20.8 (7.9)	52.8 (20.0)	190.5 (72.1)
1984	23.1 (8.2)	57.0 (20.1)	202.8 (71.7)

Source: JLARC analysis of Department of Education data.

Federal and State mandates in special education include identification of handicapped children, individualized education plans, maximum pupil-teacher ratios, teacher qualifications, specialized therapy, and specialized transportation. Although many of these mandates are federal requirements, many others were originally contained in State statutes and regulations. Special education is the only functional area where over half of the local officials surveyed in the 1983 JLARC survey of localities indicated that mandates were unreasonable.

The financial impact of meeting these mandates is high. In 1981, a nationwide study estimated that the per-pupil costs of educating handicapped students were about 2.2 times those for general education.

Several factors make this funding area one of great concern to local officials. First, the State and federal governments have extensive, compulsory, and expensive mandates in the area. Consequently, localities have little control over their level of expenditures. In addition, localities pay the bulk of the costs, and their share is increasing over time, while State and federal shares are decreasing. Special education continues to be an area where State aid has not been consistent with its historical commitment or level of involvement.

FORMULA FUNDING

Funding for two of the major programs examined in this analysis rely extensively on formulas driven by real estate values. The composite index for elementary and secondary education and the local health department cooperative budget both rely on the Estimated True Value of real property (ETV) as a measure of local property values and ability to pay. Since all localities do not reassess every year, the ETV reflects yearly changes in property values not otherwise reflected in local land books. A question arose during hearings about the validity of this measure. JLARC staff researched this issue and problems were found with the exclusive use of ETV.

Accuracy of ETV as a Measure of Local Real Property Values

The Department of Taxation (DOT) publishes ETV every March in its Assessment/Sales Ratio Study. In order to determine ETV, DOT takes a sample of the year's sales of property in each locality. The sample includes sales of residential, commercial and agricultural property. The selling price of each parcel is obtained from local recordation tax receipts. An assessment/sales ratio is computed for each parcel by dividing the assessed value of the parcel by the selling price. The median assessment/sales ratio is determined, and then used to inflate the fair market value of property on the locality's land books.

This method of computing a median assessment/sales ratio is commonly used in other states to equalize property values which are not assessed uniformly. The method is endorsed by the National Association of Tax Administrators, the U.S. Department of Commerce, and the International Association of Assessing Officers.

As a check on the validity of the method, DOT re-examines localities whose ratios lie far above or below the average. Current ratios are compared against previous year's ratios and localities with large deviations are re-examined. DOT sends a preliminary copy of the study to local Commissioners of Revenue, who assess the reasonableness of their locality's ratio. Any unreasonable ratio is re-examined by DOT.

In 1983, the local school boards in three localities requested a re-examination of local market sales. In two localities, large deviations from prior year's land values did exist, but these deviations were found to accurately reflect local market values. Errors were found during the re-examination of the third locality, and corrections were made to the ETV. On the whole, however, localities have not questioned the validity of the method of computing ETV. Local Commissioners of Revenue seem satisfied that the ETV is an accurate reflection of local property values.

Local Dependence on Revenue Sources

While ETV appears to be an accurate reflection of local property values, it should not be used exclusively as an indicator of local "ability to pay." As noted earlier, localities as a whole are becoming somewhat less reliant on revenue generated by taxation of real estate. Further, variation between localities is significant. The gap between the dependence of individual localities on revenue from real property is illustrated by the fact that counties derive 52 percent of their income from real property taxation, compared to only 40 percent in cities (Table 16). This type of discrepancy raises questions about the validity of distributing aid to localities using ETV as a sole measure of ability to pay. Consideration of a broader range of indicators, such as the stress indexes generated for this report, may be a more appropriate basis for distributing State aid.

Table 16

LOCAL REVENUE SOURCES BY CITY/COUNTY (FY 1983)

	<u>Real Property</u>	<u>Sales Tax</u>	<u>Other</u>
Cities	40%	10%	50%
Counties	<u>52</u>	<u>8</u>	<u>40</u>
State Total	47%	9%	44%

Source: Department of Taxation.

OTHER EFFECTS OF 1984 AND 1985 ACTS AND APPROPRIATIONS

During the 1984 and 1985 sessions, the General Assembly considered a number of substantive changes in State aid to localities. In addition to increasing significantly the level of aid appropriated, most notably for public education, the General Assembly took a number of other important actions. The legislature altered highway funding formulas, adopted a reorganization plan which broadened the aid responsibilities of the Compensation Board, redefined part of the basis for distributing ABC profits to localities, fully funded the formula by which State funds are distributed to regional and local libraries, and made several other modifications to existing programs affecting localities.

The Effect of Changes in Highway Funding

Among the policy options of the 1984 mandates report was Recommendation (2b) which urged the General Assembly to consider JLARC's

pending report on the equity of highway allocations in future distribution of highway funding. It specifically urged that proposals be prepared "which would both narrow the benefit gap (between counties and cities) and aid in reducing the fiscal stresses facing cities."

The enactment of HB 1269 by the 1985 General Assembly reconfigured highway funding on a more equitable basis. The bill was a comprehensive revision of the statutory formulas for distributing funds to Virginia localities. Among the key provisions of HB 1269 were (1) increased funding for urban street payments; (2) increased funding of secondary construction in Arlington and Henrico counties; and (3) a revision of the funding provided for construction of the State highway systems to increase the proportion of funding for the secondary and urban systems.

In addressing the inequities in highway allocations, the bill also helps to reduce local fiscal stress, especially in cities. The effect of the revised allocations is to reduce significantly the need for local expenditures for highway construction and maintenance.

Direct payments to local governments were increased in two areas. The first was urban street payments, which cities and towns use to maintain local streets. The JLARC staff analysis found that the payments were not providing a level of funding for highway maintenance comparable to that provided for counties. HB 1269 resulted in an increase in funding of more than \$17 million for FY 1986, and approximately \$108 million through FY 1990.

The increase in these payments will ensure that urban jurisdictions are funded equitably with counties, and will help reduce significantly the need for cities and towns to expend local funds for the maintenance of streets and highways. Cities have been shown to be the most fiscally stressed group of Virginia localities. The substantial increase in payments to this group should moderate their fiscal stress.

The second increase in direct payments was for funding of secondary roads in Arlington and Henrico Counties. These two counties build and maintain their own secondary road systems, and receive State assistance in the form of quarterly payments. The JLARC analysis found that the State assistance for these two counties was inadequate in comparison to the level of maintenance and construction provided for all other counties by the Department of Highways and Transportation. HB 1269 set out a new funding mechanism for Arlington and Henrico, resulting in an increase in funding for the two counties of about \$2.3 million in FY 1986.

The bill also provided for the revision of the formulas used to allocate funds to the localities for construction. While these allocations are not direct payments, they do result in construction of needed highways in the counties and cities. Recently, some urbanizing counties have expended local funds, or approved bonds to meet critical highway needs. The new formulas will direct additional funds to those localities with the greatest need, and may reduce the need for urbanizing counties to use local funds for construction of the State highway system.

Responsibilities of the Compensation Board

Prior to the 1984 session, the Compensation Board's substantive responsibilities were limited to funding personnel and related operating expenses of local constitutional officers. During the 1984 session, however, the General Assembly adopted a number of organizational changes which affected most agencies of State government.

The organizational changes broadened the state aid responsibilities of the Compensation Board substantially. Added to its functions were responsibility for disbursement of aid to localities with police departments (HB 599) and reimbursement for State prisoners held in local jails. With these changes in responsibility, the Compensation Board is charged with disbursing over \$290 million in direct State aid to localities during the 1984-86 biennium. This level of disbursements ranks the Compensation Board second only to the Department of Education in the dollar value of aid disbursed.

ABC Profits and Wine Tax

The 1984 General Assembly also made significant changes in the distribution of ABC profits and wine tax profits to localities. In sum, the effect of all changes will likely be to increase the level of aid provided to localities from these sources.

From FY 1981 until this year, the distribution of ABC profits was subject to a funding floor which specified a minimum distribution to localities. When profits fell below the floor specified, as they did in FY 1983, general funds were provided to meet the minimum disbursement. During the 1984 session, the funding floor provision was eliminated. Beginning in FY 1985, localities will no longer be guaranteed a minimum disbursement of ABC profits. Other changes related to ABC sales, however, will serve to increase State aid to localities. During the 1985 session, revenue estimates for ABC profits were increased. Local revenues were estimated to increase by \$733,000 in FY 1985 and by \$1,067,000 in FY 1986.

Under actions taken during the 1984 session, the local share of wine tax proceeds was increased from 22 to 44 percent, effective July 1, 1986. The language enacted also included towns in the distribution for the first time. According to current estimates, the impact of this change in wine tax proceeds could approach \$7 million for the 1986-88 biennium.

Library Funding

Library funding was another area where the General Assembly substantially increased its funding and funding commitments. A 1980 legislative subcommittee found the State was funding only about 34 percent of the implicit State commitment made under the terms of a 1970 statutory formula for library funding. The subcommittee recommended increasing State support of the library formula, and intended that the formula be fully funded within three bienniums. In the 1984-86 budget, the General Assembly met that target date by providing \$6.1 million in added aid for local and regional public

libraries. According to the State Library, funding for the 1984-86 biennium will cover 100 percent of eligible expenditures under the 1970 formula.

Other Changes

A number of other substantive or policy changes in aid or in services to localities were also made during the 1984 and 1985 sessions. They involved fees for State protection of local forests, emergency medical services, juvenile delinquency programs, and authority for all counties to levy a transient occupancy tax.

Protection Fees for Local Forests. Under the provisions of HB 674 in 1984, localities are required to pay a larger share of the cost of State fire protection services. The fee required was increased from 1 to 3 cents per acre in FY 1985 and will be increased from 3 to 5 cents per acre in FY 1987.

Emergency Medical Services. The "One for Life" program, under which automobile registration fees were increased to pay for emergency medical care, was broadened in 1984 to include panel and pickup trucks. The result will be an increase of \$1.3 million for local emergency medical service in the 1984-86 biennium.

Juvenile Delinquency Programs. The 1984 Appropriations Act was amended to notify localities that prior General Assembly approval would be required in order to commit State general funds to support juvenile delinquency programs begun after July 1, 1984, with federal funds. The effect of this language is to restrict the growth, without legislative endorsement, of federally-sponsored programs. Programs initiated prior to July 1, 1984, were excluded from this restriction.

Transient Occupancy Tax. Equalization of taxing authority was recommended in the 1984 report to give localities greater flexibility in addressing local fiscal stress. A number of measures were proposed. In 1985, SB 510 and HB 1145 extended to all counties the authority to levy a transient occupancy tax. The bill requires, however, that counties obtain permission from towns prior to levying the tax within the incorporated area of the town.

CONCLUSION

Driven by a significant increase in State spending for education, the State share of local revenues is beginning to grow. Funding of the State share of the SOQ is at an all-time high. State funding of community service boards has improved substantially in recent years. State funding of local welfare programs has also grown. For the period examined, the State generally kept its historical commitment to localities and provided funds equal to its level of control. 1985 initiatives in the area of auxiliary grants should help to further stabilize local government expenditures, which grew rapidly from 1978 to 1982 before moderating in 1983 and 1984. Of the areas examined, the State's share of funding has declined only for special education and local health departments. While local funding of special education declined from 72.1 percent (FY 1983) to 71.7 percent (FY 1984) of total funding, this level still

exceeds local levels of control. State funding of local health departments declined from 58.1 percent of total funding in FY 1978 to 54.7 percent in FY 1984.

Overall, FY 1983 and FY 1984 showed increasing State assistance for localities. Still, some localities remain severely fiscally stressed. Recommendations to address State assistance in specific program areas and local fiscal stress generally are discussed in Chapter IV of this report.

IV. ADDRESSING FISCAL STRESS

As this report and the 1984 Mandates report have shown, there are problems with current methods of distributing State aid. Shifts have occurred in local tax bases. Variations exist in the dependence of localities' on different sources of revenue. Some formulas have gone too long without review, and some have technical problems. In the case of the composite index, one key component, personal income, suffers from errors and inconsistencies.

Perhaps reflecting these problems, many local officials reported to JLARC that they felt that key formulas were unfair. The Health Department formula was cited as unfair by 46% of local officials surveyed by JLARC for the 1984 Mandates report. Statewide, 40% of local officials felt that the composite index for education was unfair. In its recent reports on highway allocations, JLARC found significant inequities in the distribution of highway funds.

There is no single remedy for the problems associated with the distribution of State aid. Decisions to allocate funds represent judgements on need, ability to pay, program effectiveness, availability of funding, and a variety of other considerations, including political interests. Changing problem formulas will be difficult because any revisions will necessarily create "winners and losers" among localities. As funding is often scarce to begin with, it may be difficult to build consensus for revising formulas when the effect could be to reduce funding in localities which may already experience fiscal stress.

Reviews have already been made of the highway allocations formula and the Health Department formulas. Significant changes to both were recommended. An in-depth assessment of the methods for estimating the cost of the State's Standards of Quality is being conducted by JLARC. These studies, in and of themselves, will not necessarily result in changes. They do, however, introduce into the policy-making arena an awareness of potential or existing flaws and inequities in current patterns of funding distribution. Consequently, JLARC reiterates its recommendation of the 1984 report that funding formulas be periodically re-examined.

In conducting such assessments, consideration should be given to including ability to pay in most major formulas. As shown by this report and the 1984 Mandates report, the fiscal capacity of localities varies dramatically. While some localities have the capacity to fully fund their mandated responsibilities, others do not. Formulas should also reward those localities which attempt to help themselves, as reflected by their tax effort. Several factors are presented which should be considered in any reassessment of a formula for distributing State aid: ability to pay, local effort, and, where possible, need.

The ability of a locality to fund mandated programs can be measured through a variety of approaches. Capacity and fiscal stress are preferred methods. The approach used in this report to measure local revenue capacity (the ACIR Representative Tax System) is a far more accurate measure of ability to pay than the use of a single indicator, such as real estate value or personal income. It has the advantages of providing a comparable and balanced picture of local fiscal capacity. It also adjusts for local variation in the relative importance of local tax bases.

An more refined way to measure ability to pay is to assess fiscal stress, as this report and the 1984 report have done. A principal benefit of this approach is that it incorporates a measure of local effort. By so doing, it encourages localities to "help themselves" in the fulfillment of their service responsibilities. A further advantage of JLARC's stress indexes is that they provide a surrogate for local need by the inclusion of poverty. This is helpful because the measurement of need is problematic and data often does not exist on which to base a measure of need accurate enough for a formula.

Recommendation (1). State funding formulas should be periodically reassessed. Formulas resulting from such assessments should include measures of fiscal capacity, local fiscal stress, and, where possible, need.

While modifications to formulas for distributing existing funds to localities are clearly needed, JLARC's review found that additional State funds are also needed to improve the fiscal position of some localities.

Over time, those localities with low revenue capacities or high tax efforts, or both, have been hard hit by inflation and faltering revenues. Many localities are currently "stretched" in terms of fiscal condition. The long-term debilitating effects of the last recession put localities in a financial trench. Short-term or incremental increases in local revenue capacity or State aid can help, but not solve, these long-term financial problems. Capacity increases in FY 1982 and FY 1983 helped localities and may represent a positive trend. By themselves, however, they are not great enough to offset the long-term effects of inflation and budgetary cutbacks. It appears that many local governments need additional help in improving their financial position.

The localities which show the most pressing financial stresses have remained the same from FY 1981 to FY 1983. Most cities suffer from low revenue capacity, high tax effort, and high levels of poverty. Of the counties, the most stressed appear to be those with low revenue capacity.

Stress originating from low revenue capacity appears to be the most cross-cutting stress. By definition, localities with low revenue-capacity have limited ability to generate revenues. As a result, they have limited local tax resources, rely heavily on outside sources of revenue (State or federal), or do without quality local services. JLARC found in its 1983 survey that most fiscally-stressed localities had taken cost-cutting steps in the recent past, such as cutting services, freezing salaries, or deferring capital projects. After cutting costs, localities are left with few options to address fiscal stress. Localities with low capacity seek help from the State. If help is not provided, the capacity of some localities to provide mandated services is questionable.

Two approaches for assisting localities are outlined. The first approach provides increased funding to localities specifically for programs mandated by the State. These funds could flow through already-existing programs, such as education, with modification of the funding formulas taken up at a later time. Through funding of these major programs the State would be able to restore its levels of historic commitment.

The second approach would be to funnel new revenue sharing funds to localities through a formula which measures levels of fiscal stress. This would allow localities to allocate funds to local priorities. In addition, at the end of this chapter, a recommendation from the 1984 report for equal taxing authority for cities and counties is reiterated. This change would give some counties new sources of revenue to address future fiscal troubles.

Option One - Funding State Commitments

While the State may not wish to commit itself to additional funding of some programs prior to validating estimates of program costs, JLARC research suggests that additional funding should be provided for key programs where the State's historical level of funding has dropped, or where the State exercises a very high level of control through mandates. The 1984 report identified these areas as the funding of the educational Standards of Quality, categorical aid for special education, and the State's share of auxiliary grant funding. In each case, State control is high and localities were shown to have strong concerns about funding levels.

In two of these three areas, major improvements have occurred. Appropriations increases in 1984 and 1985 for basic aid to education have pushed the State share of the SOQ beyond the 82 percent share identified in the 1984 report as the State's historical level of commitment. For auxiliary grants, the statutory ceiling on State reimbursement was raised to the proposed 80 percent level, and funding was provided to raise the State's share to 70 percent. While this was a substantial improvement, raising State funding to the 80 percent level would further improve local fiscal condition.

Only in the area of special education does a substantial gap remain between the State's historical commitment and current funding. Estimates of the State's historical commitment for special education are based on 28 percent of the added costs of educating handicapped students and have also been adjusted for inflation. In FY 1978, the State funded about 28 percent of these estimated costs. By 1983 the State's share had fallen to 20 percent. An estimated \$33.9 million in FY 1987 and \$50.0 million in FY 1988 beyond 1986 appropriations of \$69.4 million would be required to provide a 28 percent State share.

Recommendation (2). Priority state funding should be provided to localities to fund several programs at levels more consistent with State control and the State's historical commitment. Specifically, funds should be provided to fund (1) up to 28 percent of the added costs of special education; and (2) 80 percent of the Auxiliary Grant program.

In its original report, JLARC staff identified several formulas which were inadequate or warranted review. The formula to provide funding for pupil transportation was determined to be weak and in need of revision. The educational standards of quality funding methods were also noted to be in need of review. Lastly, an analysis was made of the Health Department Funding Formula. At the time of the review, a joint legislative subcommittee under the authorization of HJR 11 of 1982 was reviewing The Department of Health, including methods of distributing health funds.

Since that time, the health subcommittee has completed its report (House Document No. 43 of 1984). The subcommittee found the formula to be "inequitable and insufficient and in dire need of revision." At the same time, the subcommittee found alternatives presented to it to be "not fundable." The subcommittee did note that the formula "must be upgraded or revised as soon as fiscally possible." JLARC staff provided further analysis of this formula, and also found it to be flawed, for reasons discussed earlier in this report and in the reports cited.

Recommendation (3): The State should abandon its current formula for funding local health departments. Two proposals for replacing the formula should be considered:

Proposal One: Replace the current formula with one measuring fiscal stress. Such a formula is consistent with the intent of the original formula by funneling greater amounts to localities with lower abilities to pay. It also recognizes that ability to pay is influenced by factors other than real estate values.

Proposal Two: Fund all local health departments at a rate more consistent with the level of State control by:

- (a) funding 80 percent of state-mandated health programs, and
- (b) funding 20 percent of local-option health programs.

JLARC feels that this is an appropriate level of State involvement, considering the high level of State program control, the need for uniform services statewide, and fiscal stress in localities.

Using Health Department figures, JLARC estimated that an increase of \$13.4 million over 1986 appropriations for local Health Department programs would be required for the State to fund 80 percent of State-mandated programs in 1987. An additional \$2.8 million in 1987 would be needed for State funding of 20 percent of local option programs. An increase of \$37.1 million over 1986 appropriations is estimated to achieve this level of funding in the 1986-88 biennium (Table 18).

Summary. First priority should be given to meeting existing State commitments. Doing so targets money to important programs with a high level of State control and interest. Moreover, JLARC analysis in 1984 found that targeting money to mandated programs had virtually the same effect on lowering fiscal stress as direct grants.

Table 18

ESTIMATED AMOUNT NEEDED OVER FY 1986 APPROPRIATIONS
FOR PROPOSED LOCAL HEALTH DEPARTMENT FUNDING
(In Millions)

	<u>FY 1987</u>	<u>FY 1988</u>	<u>Totals</u>
Amount Appropriated FY 1986 -- \$41.9			
Additional Amount Needed to Fund 80% of State Mandated Programs	\$13.4	\$17.3	\$30.7
Additional Amount Needed to Fund 20% of Local Programs	<u>2.8</u>	<u>3.6</u>	<u>6.4</u>
Totals	\$16.2	\$20.9	\$37.1

Option Two -- Stress Aid

While priority should be given to funding State program commitments, the General Assembly should consider taking additional sums and distributing them on the basis of fiscal stress. Such aid would particularly help high-stress, low-capacity localities which may not have sufficient resources to provide needed programs.

Under such an approach, the State would provide financial assistance to localities based on their level of fiscal stress. Three factors could be used to evaluate funding levels: revenue capacity, tax effort, and level of poverty. Revenue capacity is the best measure of a locality's ability to generate funds. Tax effort measures the degree to which the locality is tapping its own resources. Finally, poverty (low resident income) measures one dimension of a locality's innate need for certain services. These three variables, weighted equally, offer a good, straightforward measure of fiscal stress.

Recommendation (4). After existing State commitments are met, the General Assembly should consider appropriating new funds to localities on the basis of a stress formula consisting of three elements: revenue capacity, tax effort, and poverty.

EQUALIZING TAXING AUTHORITY

A few localities in Virginia would benefit from the grant of additional taxing authority. Currently, Virginia counties and cities have substantially different taxing authority. At one time, these differences probably reflected clear distinctions between counties and cities. Today, with the existence of cities with extremely large geographical areas and with the urbanization of some counties, those differences are muted. Many counties in the State are now called upon to offer services which were once considered principally urban.

With a wide range of taxes, an individual locality can be responsive to its own particular resources and stresses. Some localities, particularly urbanizing or suburbanizing counties which have relatively strong and diverse tax bases could benefit from taxing authority similar to that afforded cities. Such authority could reduce the political stress encountered by localities which face strong taxpayer resistance to higher property taxes.

Recommendation (5). Taxing authority of Virginia counties and cities should be equalized.

CONCLUSION

The State mandates numerous programs to provide basic services to its citizens. While it provides substantial aid to fund these programs, the amounts are not always adequate, or consistent with the level of control that the State exercises through its mandates. To bridge the gap between mandates and State aid, localities must provide funds themselves. Unfortunately the fiscal capacity of localities varies, and some are severely stressed as they try to meet service demands and comply with mandates. The need exists for the State to provide more aid to fund its commitments and relieve local fiscal stress.

This report and the 1984 Mandates report propose policy options for addressing these problems. While State resources are always a constraint, it must be recognized that local resources can not draw from the broad base available to the State. Severely stressed localities are in poor fiscal condition and have few options open to them. Action by the State to relieve this condition would be extremely helpful.

The measurement of local fiscal stress helps to focus attention on local fiscal condition and particularly on the most severely stressed localities. Ongoing preparation of such analyses would be of value to both the State and local governments. With such analyses, State decision-makers could focus on the distribution of State funds for many purposes. Local decision-makers could also use the analyses in the pursuit of intergovernmental aid and for other purposes, including the careful examination of their fiscal capacity and tax effort.

The Commission on Local Government has expressed an interest in the ongoing generation of this analysis. The Commission currently uses the

analyses in annexation proceedings and as a part of its ongoing local government functions. Consideration should be given to vesting responsibility for an ongoing assessment of local fiscal condition with the Commission on Local Government.

Recommendation (6). Comprehensive data and rigorous analysis of local fiscal capacity, tax effort, and fiscal stress should be generated and reported on a continuing basis. Responsibility for this activity should be vested in the Commission on Local Government. JLARC should play an advisory role in the future development and refinement of the data and analysis.

APPENDIXES

	<u>Page</u>
Appendix A: Alternate Methods of Assessing Fiscal Stress	65
Appendix B: Technical Appendix	78
Appendix C: Responses to the Update	79
Appendix D: House Joint Resolution 12 (1983)	86

APPENDIX A:

ALTERNATE METHODS OF ASSESSING FISCAL STRESS

The composite stress index used to update this study represents a reasonable way to compute a single indicator of relative fiscal stress among local governments. It is important to note, however, that there are other methods which may be used to compute an overall stress index. JLARC computed relative fiscal position using four separate methods. Each of these methods reflects different assumptions regarding the importance of an indicator to local fiscal stress. Findings for all methods are included in this appendix.

JLARC staff found a high degree of convergence between the method presented in the report and others examined in its analysis. Those local governments which were found to be highly stressed on the "composite stress index" depicted in the report were also generally identified as "stressed" using the indices provided here.

It is also important to emphasize that the composite stress index is a relative measure. It serves to identify those local governments which are experiencing a high level of fiscal stress compared to other local governments in Virginia. Thus, whether general fiscal conditions are "good" or "bad", roughly half of all localities will have an above-average fiscal position and roughly half will have a below-average fiscal position.

Also included in this appendix are locality by locality data on the three major components of the stress index: revenue capacity, local tax effort, and a poverty composite. Review of these indicators will yield greater insight into the assessment of local fiscal stress.

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS USING DATA FOR THE PERIOD 1977 - 1983

Counties	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative	Statewide Rank	Relative	Statewide Rank	Relative	Statewide Rank	Relative	Statewide Rank
	Stress Index		Stress Index		Stress Index		Stress Index	
ACCOMACK	32.75	73.5	24.75	83.5	25	53.5	17	52.0
ALBEMARLE	23.25	19.0	16.25	18.0	22	30.0	15	27.5
ALLEGHANY	31.50	67.0	22.50	58.0	29	89.5	20	89.0
AMELIA	29.25	51.5	23.25	67.5	24	46.0	18	66.0
AMHERST	30.75	61.5	20.75	45.0	28	78.5	18	66.0
APPOMATTOX	30.50	58.0	21.50	50.0	27	67.5	18	66.0
ARLINGTON	21.00	14.5	12.00	3.5	20	18.5	11	10.5
AUGUSTA	24.75	25.0	17.75	23.0	22	30.0	15	27.5
BATH	18.25	4.5	15.25	16.0	13	4.5	10	6.0
BEDFORD	20.75	11.5	14.75	12.5	18	11.5	12	14.5
BLAND	38.50	110.0	29.50	123.5	33	106.0	24	122.5
BOTETOURT	30.50	58.0	21.50	50.0	28	78.5	19	78.0
BRUNSWICK	36.75	103.5	27.75	110.0	29	89.5	20	89.0
BUCHANAN	35.50	95.5	26.50	102.5	29	89.5	20	89.0
BUCKINGHAM	32.00	71.5	24.00	76.0	24	46.0	16	38.5
CAMPBELL	26.75	32.0	18.75	33.0	24	46.0	16	38.5
CAROLINE	28.50	46.0	20.50	44.0	23	37.5	15	27.5
CARROLL	33.00	77.5	25.00	88.5	26	59.5	18	66.0
CHARLES CITY	35.75	98.5	26.75	105.5	32	99.5	23	113.5
CHARLOTTE	33.00	77.5	25.00	88.5	25	53.5	17	52.0
CHESTERFIELD	28.00	42.0	17.00	20.5	27	67.5	16	38.5
CLARKE	19.00	9.0	14.00	8.5	16	9.0	11	10.5
CRAIG	21.25	17.0	17.25	22.0	18	11.5	14	21.5
CULPEPER	25.00	26.5	19.00	34.5	20	18.5	14	21.5
CUMBERLAND	38.00	108.5	28.00	112.5	30	95.5	20	89.0
DICKENSON	31.75	69.0	24.75	83.5	26	59.5	19	78.0
DINWIDDIE	35.75	98.5	26.75	105.5	32	99.5	23	113.5
ESSEX	27.25	37.0	20.25	43.0	21	24.0	14	21.5
FAIRFAX	21.00	14.5	12.00	3.5	20	18.5	11	10.5
FAUQUIER	15.00	2.0	11.00	1.0	14	7.5	10	6.0
FLOYD	28.50	46.0	22.50	58.0	22	30.0	16	38.5
FLUVANNA	29.25	51.5	22.25	54.5	23	37.5	16	38.5
FRANKLIN	30.75	61.5	22.75	61.0	27	67.5	19	78.0
FREDERICK	28.00	42.0	20.00	41.0	25	53.5	17	52.0
GILES	33.00	77.5	25.00	88.5	28	78.5	20	89.0
GLOUCESTER	26.50	31.0	19.50	38.5	23	37.5	16	38.5
GOOCHLAND	26.25	30.0	18.25	30.0	23	37.5	15	27.5
GRAYSON	33.50	82.5	25.50	95.5	27	67.5	19	78.0
GREENE	28.00	42.0	22.00	52.0	24	46.0	18	66.0
GREENSVILLE	40.75	121.0	29.75	126.5	33	106.0	22	105.0
HALIFAX	35.75	98.5	26.75	105.5	28	78.5	19	78.0
HANOVER	24.00	22.0	18.00	26.0	23	37.5	17	52.0
HENRICO	30.00	55.0	18.00	26.0	29	89.5	17	52.0
HENRY	30.75	61.5	23.75	71.5	27	67.5	20	89.0
HIGHLAND	18.25	4.5	14.25	10.0	13	4.5	9	2.5
ISLE OF WIGHT	27.00	34.0	20.00	41.0	23	37.5	16	38.5
JAMES CITY	24.00	22.0	17.00	20.5	22	30.0	15	27.5
KING AND QUEEN	33.00	77.5	25.00	88.5	26	59.5	18	66.0
KING GEORGE	36.25	102.0	25.25	92.5	33	106.0	22	105.0
KING WILLIAM	31.75	69.0	22.75	61.0	29	89.5	20	89.0
LANCASTER	18.75	7.0	14.75	12.5	13	4.5	9	2.5
LEE	37.75	106.5	28.75	118.0	30	95.5	21	99.0
LOUDOUN	21.00	14.5	14.00	8.5	20	18.5	13	18.0
LOUISA	14.00	1.0	12.00	3.5	8	1.0	6	1.0
LUNENBURG	34.50	93.5	25.50	95.5	27	67.5	18	66.0

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS USING DATA FOR THE PERIOD 1977 - 1983

Counties	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank
MADISON	27.25	37.0	22.25	54.5	21	24.0	16	38.5
MATHEWS	24.00	22.0	18.00	26.0	21	24.0	15	27.5
MECKLENBURG	32.00	71.5	25.00	88.5	24	46.0	17	52.0
MIDDLESEX	23.50	20.0	18.50	32.0	17	10.0	12	14.5
MONTGOMERY	34.50	93.5	25.50	95.5	28	78.5	19	78.0
NELSON	26.00	29.0	20.00	41.0	19	14.0	13	18.0
NEW KENT	27.25	37.0	19.25	36.5	26	59.5	18	66.0
NORTHAMPTON	45.00	132.5	34.00	136.0	37	125.5	26	132.0
NORTHUMBERLAND	18.75	7.0	14.75	12.5	14	7.5	10	6.0
NOTTOWAY	30.75	61.5	23.75	71.5	24	46.0	17	52.0
ORANGE	28.25	44.0	21.25	48.0	23	37.5	16	38.5
PAGE	28.50	46.0	22.50	58.0	22	30.0	16	38.5
PATRICK	31.00	65.0	24.00	76.0	25	53.5	18	66.0
PITTSYLVANIA	30.50	58.0	23.50	69.5	25	53.5	18	66.0
POWHATAN	30.00	55.0	21.00	46.5	27	67.5	18	66.0
PRINCE EDWARD	35.75	98.5	27.75	110.0	28	78.5	20	89.0
PRINCE GEORGE	34.25	90.5	22.25	54.5	33	106.0	21	99.0
PRINCE WILLIAM	30.00	55.0	18.00	26.0	29	89.5	17	52.0
PULASKI	31.75	69.0	24.75	83.5	27	67.5	20	89.0
RAPPAHANNOCK	18.00	3.0	15.00	15.0	13	4.5	10	6.0
RICHMOND	25.25	28.0	19.25	36.5	20	18.5	14	21.5
ROANOKE	29.25	51.5	18.25	30.0	28	78.5	17	52.0
ROCKBRIDGE	33.00	77.5	24.00	76.0	27	67.5	18	66.0
ROCKINGHAM	24.25	24.0	18.25	30.0	21	24.0	15	27.5
RUSSELL	39.50	114.0	29.50	123.5	34	113.5	24	122.5
SCOTT	43.75	129.5	29.75	126.5	37	125.5	23	113.5
SHENANDOAH	27.50	39.5	21.50	50.0	22	30.0	16	38.5
SMYTH	34.00	86.0	26.00	99.5	28	78.5	20	89.0
SOUTHAMPTON	29.25	51.5	22.25	54.5	23	37.5	16	38.5
SPOTSYLVANIA	20.75	11.5	14.75	12.5	19	14.0	13	18.0
STAFFORD	29.00	48.5	21.00	46.5	28	78.5	20	89.0
SURRY	18.75	7.0	16.75	19.0	12	2.0	10	6.0
SUSSEX	29.00	48.5	23.00	64.5	22	30.0	16	38.5
TAZEWELL	34.25	90.5	26.25	101.0	29	89.5	21	99.0
WARREN	27.50	39.5	19.50	38.5	24	46.0	16	38.5
WASHINGTON	34.00	86.0	25.00	88.5	28	78.5	19	78.0
WESTMORELAND	31.00	65.0	24.00	76.0	24	46.0	17	52.0
WISE	33.50	82.5	25.50	95.5	29	89.5	21	99.0
WYTHE	31.00	65.0	23.00	64.5	25	53.5	17	52.0
YORK	27.00	34.0	18.00	26.0	26	59.5	17	52.0

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS USING DATA FOR THE PERIOD 1977 - 1983

Cities	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank
ALEXANDRIA	25.00	26.5	16.00	17.0	24	46.0	15	27.5
BEDFORD	34.25	90.5	25.25	92.5	29	89.5	20	89.0
BRISTOL	34.00	86.0	24.00	76.0	27	67.5	17	52.0
BUENA VISTA	44.50	131.0	30.50	128.0	41	135.0	27	134.5
CHARLOTTESVILLE	41.00	122.5	29.00	120.0	35	118.5	23	113.5
CHESAPEAKE	35.50	95.5	23.50	69.5	33	106.0	21	99.0
CLIFTON FORGE	43.50	128.0	29.50	123.5	39	130.5	25	128.0
COLONIAL HEIGHTS	34.00	86.0	24.00	76.0	33	106.0	23	113.5
COVINGTON	39.75	117.0	27.75	110.0	35	118.5	23	113.5
DANVILLE	39.25	112.0	29.25	121.0	34	113.5	24	122.5
EMPORIA	41.75	126.0	30.75	129.0	35	118.5	24	122.5
FAIRFAX	21.00	14.5	12.00	3.5	20	18.5	11	10.5
FALLS CHURCH	20.00	10.0	13.00	6.5	19	14.0	12	14.5
FRANKLIN	40.25	119.0	28.25	114.0	34	113.5	22	105.0
FREDERICKSBURG	37.75	106.5	24.75	83.5	34	113.5	21	99.0
GALAX	39.50	114.0	28.50	115.5	33	106.0	22	105.0
HAMPTON	41.00	122.5	28.00	112.5	38	127.5	25	128.0
HARRISONBURG	34.25	90.5	24.25	80.0	29	89.5	19	78.0
HOPEWELL	45.50	134.0	31.50	133.0	42	136.0	28	136.0
LEXINGTON	43.25	127.0	31.25	132.0	38	127.5	26	132.0
LYNCHBURG	39.75	117.0	26.75	105.5	36	122.5	23	113.5
MANASSAS	22.00	18.0	13.00	6.5	21	24.0	12	14.5
MANASSAS PARK	41.25	124.0	27.25	108.0	39	130.5	25	128.0
MARTINSVILLE	32.75	73.5	22.75	61.0	28	78.5	18	66.0
NEWPORT NEWS	39.50	114.0	26.50	102.5	36	122.5	23	113.5
NORFOLK	46.25	136.0	32.25	135.0	40	133.5	26	132.0
NORTON	38.75	111.0	28.75	118.0	33	106.0	23	113.5
PETERSBURG	45.00	132.5	31.00	130.5	39	130.5	25	128.0
POQUOSON	27.00	34.0	19.00	34.5	26	59.5	18	66.0
PORTSMOUTH	46.00	135.0	31.00	130.5	40	133.5	25	128.0
RADFORD	43.75	129.5	31.75	134.0	39	130.5	27	134.5
RICHMOND	41.50	125.0	28.50	115.5	36	122.5	23	113.5
ROANOKE	37.50	105.0	24.50	81.0	32	99.5	19	78.0
SALEM	38.00	108.5	26.00	99.5	36	122.5	24	122.5
SOUTH BOSTON	39.75	117.0	28.75	118.0	34	113.5	23	113.5
STAUNTON	36.75	103.5	25.75	98.0	34	113.5	23	113.5
SUFFOLK	40.50	120.0	29.50	123.5	35	118.5	24	122.5
VIRGINIA BEACH	33.00	77.5	23.00	64.5	32	99.5	22	105.0
WAYNESBORO	36.00	101.0	24.00	76.0	33	106.0	21	99.0
WILLIAMSBURG	34.00	86.0	23.00	64.5	31	97.0	20	89.0
WINCHESTER	33.25	81.0	23.25	67.5	28	78.5	18	66.0

KEY

Relative Stress Index and Statewide Rank: Higher numbers indicate higher levels of relative stress as determined by the method applied. Although some localities shift in rank using different methods, overall stress ratings are very similar

Revenue, tax, and poverty factors were combined in different ways to calculate the relative stress index:

Method 1: Revenue capacity, change in capacity ;
(underlined factors Tax effort, change in tax effort;
weighted) Percent Poverty, median family income, change in income.

Method 2: Revenue capacity, change in capacity;
(unweighted) Tax effort, change in tax effort;
Percent poverty, median family income, change in income.

Method 3: Revenue capacity, change in capacity ;
(underlined factors Tax effort, change in tax effort.
weighted; poverty excluded)

Method 4: Revenue capacity, change in capacity;
(unweighted; poverty Tax effort, change in tax effort.
excluded)

**LEVEL OF
TAX EFFORT
1977 AND 1983**

**CHANGE IN
TAX EFFORT
1977 AND 1983**

Counties	1977	1977	RELATIVE	1983	1983	CHANGE	STATEWIDE	RELATIVE
	TAX EFFORT	STATEWIDE RANK	STRESS INDEX	TAX EFFORT	STATEWIDE RANK		IN EFFORT	RANK
ACCOMACK	0.50	53	3	0.50	34	0.00	31	3
ALBEMARLE	0.77	92	5	0.83	87	0.05	54	4
ALLEGHANY	0.66	84	4	0.73	77	0.07	66	4
AMELIA	0.41	23	2	0.58	58	0.17	107	7
AMHERST	0.59	76	4	0.50	33	-0.10	13	1
APPOMATTOX	0.49	49	3	0.47	25	-0.02	26	3
ARLINGTON	1.35	129	8	1.21	123	-0.14	9	1
AUGUSTA	0.51	58	3	0.53	43	0.02	35	3
BATH	0.44	34	2	0.60	61	0.16	105	6
BEDFORD	0.54	65	3	0.44	16	-0.10	12	1
BLAND	0.30	3	1	0.52	41	0.22	122	8
BOTETOURT	0.59	77	4	0.65	68	0.06	57	4
BRUNSWICK	0.56	69	3	0.61	63	0.05	55	4
BUCHANAN	0.49	48	3	0.92	97	0.44	136	8
BUCKINGHAM	0.45	37	2	0.45	18	-0.00	29	3
CAMPBELL	0.65	83	4	0.54	46	-0.11	11	1
CAROLINE	0.55	67	3	0.39	6	-0.16	6	1
CARROLL	0.47	41	2	0.40	7	-0.07	15	2
CHARLES CITY	0.55	66	3	0.82	86	0.27	128	8
CHARLOTTE	0.36	9	1	0.38	3	0.02	37	3
CHESTERFIELD	1.07	118	8	0.86	92	-0.21	5	1
CLARKE	0.43	31	2	0.50	35	0.07	65	4
CRAIG	0.40	21	2	0.47	24	0.06	63	4
CULPEPER	0.52	61	3	0.60	60	0.07	71	5
CUMBERLAND	0.36	10	2	0.39	4	0.03	43	4
DICKENSON	0.51	57	3	0.83	88	0.32	133	8
DINWIDDIE	0.58	72	4	0.76	80	0.18	108	7
ESSEX	0.47	44	3	0.53	44	0.06	59	4
FAIRFAX	1.45	134	8	1.30	128	-0.14	8	1
FAUQUIER	0.50	55	3	0.57	55	0.07	72	5
FLOYD	0.35	8	1	0.45	21	0.10	89	5
FLUVANNA	0.43	28	2	0.58	56	0.15	104	6
FRANKLIN	0.43	26	2	0.46	22	0.03	44	4
FREDERICK	0.54	64	3	0.65	69	0.11	90	5
GILES	0.50	54	3	0.63	66	0.13	100	6
GLOUCESTER	0.51	56	3	0.61	65	0.10	88	5
GOOCHLAND	0.49	52	3	0.58	57	0.09	82	5
GRAYSON	0.41	22	2	0.43	15	0.02	38	3
GREENE	0.42	24	2	0.54	48	0.12	93	6
GREENSVILLE	0.59	74	4	0.61	62	0.02	40	4
HALIFAX	0.48	47	3	0.48	26	-0.00	30	3
HANOVER	0.49	50	3	0.67	72	0.18	109	7
HENRICO	1.02	114	8	0.98	102	-0.04	16	2
HENRY	0.47	40	2	0.66	70	0.19	113	7
HIGHLAND	0.44	32	2	0.42	14	-0.02	24	3
ISLE OF WIGHT	0.55	68	3	0.63	67	0.08	74	5
JAMES CITY	0.83	98	6	0.88	93	0.04	50	4
KING AND QUEEN	0.43	27	2	0.56	52	0.13	99	6
KING GEORGE	0.63	80	4	0.76	81	0.13	96	6
KING WILLIAM	0.49	51	3	0.71	76	0.22	121	8
LANCASTER	0.39	14	2	0.39	5	0.00	32	3
LEE	0.44	35	2	0.51	36	0.06	61	4
LOUDOUN	0.85	104	6	0.92	96	0.08	73	5

KEY:

LEVEL OF TAX EFFORT

STATEWIDE RANK: 1 = LOWEST EFFORT
136 = HIGHEST EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (LOW EFFORT)
8 = MOST STRESS (HIGH EFFORT)

CHANGE IN EFFORT, 1977-1983

STATEWIDE RANK: 1 = SMALLEST CHANGE IN EFFORT
136 = GREATEST CHANGE IN EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (SMALL CHANGE)
8 = MOST STRESS (LARGE CHANGE)

**LEVEL OF
TAX EFFORT
1977 AND 1983.**

**CHANGE IN
TAX EFFORT
1977 AND 1983**

Counties	1977	1977	RELATIVE	1983	1983	CHANGE	STATEWIDE	RELATIVE
	TAX	STATEWIDE	STRESS	TAX	STATEWIDE			
	EFFORT	RANK	INDEX	EFFORT	RANK	IN EFFORT	RANK	STRESS INDEX
LOUISA	0.35	6	7	0.36	2	0.02	36	3
LUNENBURG	0.13	1	1	0.45	20	0.32	134	8
MADISON	0.43	29	2	0.55	50	0.12	94	6
MATHEWS	0.38	12	2	0.47	23	0.08	79	5
MECKLENBURG	0.35	7	1	0.42	12	0.07	67	4
MIDDLESEX	0.39	16	2	0.49	29	0.09	83	5
MONTGOMERY	0.59	75	4	0.56	51	-0.03	19	2
NELSON	0.60	78	4	0.56	53	-0.03	17	2
NEW KENT	0.56	70	3	0.70	74	0.14	103	6
NORTHAMPTON	0.58	71	4	0.80	83	0.22	123	8
NORTHUMBERLAND	0.43	30	2	0.42	13	-0.02	25	3
NOTTOWAY	0.46	38	2	0.45	19	-0.01	28	3
ORANGE	0.47	46	3	0.57	54	0.10	85	5
PAGE	0.40	20	2	0.45	17	0.04	51	4
PATRICK	0.39	15	2	0.41	10	0.03	42	4
PITTSYLVANIA	0.38	11	2	0.36	1	-0.02	21	3
POWHATAN	0.47	42	3	0.49	31	0.02	41	4
PRINCE EDWARD	0.43	25	2	0.52	39	0.09	80	5
PRINCE GEORGE	0.82	95	6	0.74	78	-0.08	14	1
PRINCE WILLIAM	1.56	135	8	1.15	119	-0.41	2	1
PULASKI	0.39	17	2	0.52	42	0.13	98	6
RAPPAHANNOCK	0.30	2	1	0.40	8	0.10	86	5
RICHMOND	0.44	33	2	0.49	30	0.05	52	4
ROANOKE	1.16	121	8	0.85	91	-0.31	3	1
ROCKBRIDGE	0.58	73	4	0.61	64	0.03	45	4
ROCKINGHAM	0.45	36	2	0.49	32	0.04	49	4
RUSSELL	0.52	59	3	0.75	79	0.24	125	8
SCOTT	1.28	127	8	0.54	47	-0.74	1	1
SHENANDOAH	0.34	5	1	0.48	28	0.14	101	6
SMYTH	0.38	13	2	0.42	11	0.03	47	4
SOUTHAMPTON	0.54	62	3	0.51	37	-0.03	18	2
SPOTSYLVANIA	0.61	79	4	0.59	59	-0.02	23	3
STAFFORD	0.64	82	4	0.85	90	0.20	115	7
SURRY	0.33	4	1	0.51	38	0.19	111	7
SUSSEX	0.40	18	2	0.48	27	0.08	77	5
TAZEWELL	0.47	39	2	0.67	71	0.21	118	7
WARREN	0.47	45	3	0.53	45	0.06	60	4
WASHINGTON	0.54	63	3	0.52	40	-0.02	22	3
WESTMORELAND	0.47	43	3	0.55	49	0.08	78	5
WISE	0.52	60	3	0.78	82	0.26	126	8
WYTHE	0.40	19	2	0.41	9	0.01	34	3
YORK	0.69	86	5	0.71	75	0.02	39	4

KEY:

LEVEL OF TAX EFFORT

STATEWIDE RANK: 1 = LOWEST EFFORT
136 = HIGHEST EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (LOW EFFORT)
8 = MOST STRESS (HIGH EFFORT)

CHANGE IN EFFORT, 1977-1983

STATEWIDE RANK: 1 = SMALLEST CHANGE IN EFFORT
136 = GREATEST CHANGE IN EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (SMALL CHANGE)
8 = MOST STRESS (LARGE CHANGE)

**LEVEL OF
TAX EFFORT
1977 AND 1983**

**CHANGE IN
TAX EFFORT
1977 AND 1983**

Cities	1977	1977	RELATIVE	1983	1983	CHANGE IN EFFORT	STATEWIDE RANK	RELATIVE STRESS INDEX
	TAX EFFORT	STATEWIDE RANK	STRESS INDEX	TAX EFFORT	STATEWIDE RANK			
ALEXANDRIA	1.21	123	8	1.32	131	0.11	91	5
BEDFORD	0.68	85	4	0.80	84	0.12	95	6
BRISTOL	0.75	90	5	0.81	85	0.06	56	4
BUENA VISTA	0.93	109	7	1.05	111	0.12	92	6
CHARLOTTESVILLE	1.17	122	8	1.31	129	0.14	102	6
CHESAPEAKE	1.03	115	8	1.04	107	0.01	33	3
CLIFTON FORGE	1.05	117	8	1.10	116	0.06	58	4
COLONIAL HEIGHTS	0.77	91	5	1.06	115	0.29	130	8
COVINGTON	0.83	99	6	1.02	105	0.19	110	7
DANVILLE	0.72	88	5	1.01	104	0.29	131	8
EMPORIA	0.84	103	6	1.11	117	0.27	129	8
FAIRFAX	1.40	130	8	1.15	121	-0.24	4	1
FALLS CHURCH	0.85	106	6	0.88	94	0.03	46	4
FRANKLIN	0.91	108	7	0.96	98	0.05	53	4
FREDERICKSBURG	0.96	112	7	1.05	114	0.10	84	5
GALAX	0.84	101	6	1.05	113	0.21	120	7
HAMPTON	1.12	119	8	1.25	125	0.13	97	6
HARRISONBURG	0.88	107	6	0.92	95	0.04	48	4
HOPEWELL	1.04	116	8	1.35	133	0.31	132	8
LEXINGTON	0.84	102	6	1.04	108	0.20	114	7
LYNCHBURG	1.14	120	8	1.21	124	0.07	69	5
MANASSAS	1.31	128	8	1.15	120	-0.16	7	1
MANASSAS PARK	1.44	131	8	1.41	134	-0.03	20	3
MARTINSVILLE	0.85	105	6	0.84	89	-0.01	27	3
NEWPORT NEWS	1.21	124	8	1.28	126	0.07	64	4
NORFOLK	1.44	133	8	1.53	135	0.09	81	5
NORTON	0.73	89	5	0.96	100	0.23	124	8
PETERSBURG	1.26	126	8	1.33	132	0.08	75	5
POQUOSON	0.63	81	4	0.70	73	0.06	62	4
PORTSMOUTH	1.23	125	8	1.30	127	0.07	68	4
RADFORD	0.70	87	5	0.96	99	0.26	127	8
RICHMOND	1.65	136	8	1.73	136	0.08	76	5
ROANOKE	1.44	132	8	1.32	130	-0.12	10	1
SALEM	0.94	110	7	1.13	118	0.19	112	7
SOUTH BOSTON	0.80	94	6	0.96	101	0.16	106	6
STAUNTON	0.78	93	5	0.99	103	0.21	117	7
SUFFOLK	0.82	96	6	1.03	106	0.21	116	7
VIRGINIA BEACH	0.84	100	6	1.05	110	0.21	119	7
WAYNESBORO	0.98	113	7	1.05	109	0.07	70	5
WILLIAMSBURG	0.83	97	6	1.16	122	0.33	135	8
WINCHESTER	0.94	111	7	1.05	112	0.10	87	5

KEY:

LEVEL OF TAX EFFORT

STATEWIDE RANK: 1 = LOWEST EFFORT
136 = HIGHEST EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (LOW EFFORT)
8 = MOST STRESS (HIGH EFFORT)

CHANGE IN EFFORT, 1977-1983

STATEWIDE RANK: 1 = SMALLEST CHANGE IN EFFORT
136 = GREATEST CHANGE IN EFFORT

RELATIVE

STRESS INDEX: 1 = LEAST STRESS (SMALL CHANGE)
8 = MOST STRESS (LARGE CHANGE)

**LEVEL OF
REVENUE CAPACITY
1977 AND 1983**

**CHANGE IN
REVENUE CAPACITY
1977 AND 1983**

Counties	1977	1977	RELATIVE	1983	1983	CHANGE IN CAPACITY(\$)	STATEWIDE RANK	RELATIVE STRESS INDEX
	PER CAPITA CAPACITY(\$)	STATEWIDE RANK	STRESS INDEX	PER CAPITA CAPACITY(\$)	STATEWIDE RANK			
ACCOMACK	302.47	82	6	431.65	85	129.18	90	5
ALBEMARLE	373.02	35	4	614.91	19	241.89	14	2
ALLEGHANY	255.48	114	7	395.65	99	140.17	71	5
AMELIA	315.26	73	5	482.30	62	167.04	44	4
AMHERST	237.48	122	7	358.36	117	120.88	98	6
APPOMATTOX	277.37	96	6	377.28	110	99.91	120	6
ARLINGTON	516.00	5	1	860.19	6	344.20	6	1
AUGUSTA	332.87	59	5	488.21	61	155.34	55	4
BATH	505.39	9	1	1030.41	4	525.02	1	1
BEDFORD	306.62	79	5	518.65	45	212.03	21	3
BLAND	240.78	121	7	287.49	134	46.71	134	8
BOTETOURT	300.88	83	6	454.72	75	153.84	57	5
BRUNSWICK	246.81	120	7	367.48	113	120.68	99	6
BUCHANAN	382.99	29	3	504.24	52	121.25	97	6
BUCKINGHAM	318.52	68	5	427.22	87	108.70	114	6
CAMPBELL	261.49	110	7	421.72	90	160.23	51	4
CAROLINE	300.72	84	6	433.26	83	132.53	85	5
CARROLL	208.74	133	8	325.99	128	117.25	103	6
CHARLES CITY	284.49	93	6	384.53	107	100.04	119	6
CHARLOTTE	271.84	103	6	361.71	114	89.87	127	7
CHESTERFIELD	374.52	33	4	562.84	27	188.32	28	3
CLARKE	419.41	19	2	607.86	20	188.45	27	3
CRAIG	300.72	85	6	532.17	39	231.45	18	2
CULPEPER	384.52	27	3	593.42	22	208.90	22	3
CUMBERLAND	276.60	98	6	313.93	132	37.33	135	8
DICKENSON	359.93	45	4	521.94	43	162.01	48	4
DINWIDDIE	251.06	117	7	384.69	106	133.63	80	5
ESSEX	390.65	24	3	565.07	25	174.41	40	4
FAIRFAX	470.88	12	1	742.75	10	271.87	10	1
FAUQUIER	511.89	8	1	781.34	8	269.45	11	1
FLOYD	326.26	62	5	451.16	76	124.90	94	5
FLUVANNA	407.92	21	3	537.54	36	129.62	89	5
FRANKLIN	261.17	111	7	368.28	112	107.11	117	6
FREDERICK	380.40	30	4	532.55	38	152.15	62	5
GILES	294.90	88	6	420.37	91	125.47	93	5
GLOUCESTER	367.47	38	4	523.57	42	156.10	54	4
GOOCHLAND	427.13	16	2	557.42	29	130.30	88	5
GRAYSON	217.08	131	8	339.17	124	122.09	96	6
GREENE	304.36	80	6	469.28	68	164.92	45	4
GREENSVILLE	250.61	118	7	337.49	126	86.87	130	7
HALIFAX	232.78	125	7	347.05	121	114.27	109	6
HANOVER	376.59	32	4	580.79	23	204.19	24	3
HENRICO	391.17	23	3	563.28	26	172.11	42	4
HENRY	271.09	104	6	404.31	96	133.21	83	5
HIGHLAND	446.15	14	2	679.32	13	233.17	17	2
ISLE OF WIGHT	347.84	49	4	529.39	41	181.55	34	4
JAMES CITY	361.30	44	4	661.40	14	300.09	8	1
KING AND QUEEN	359.18	46	4	456.89	73	97.70	121	6
KING GEORGE	334.43	58	5	414.09	93	79.66	131	7
KING WILLIAM	413.25	20	3	529.66	40	116.40	104	6
LANCASTER	423.10	17	2	647.93	16	224.82	20	2
LEE	192.76	134	8	285.21	136	92.45	125	7
LOUDOUN	515.74	6	1	769.18	9	253.44	12	1

KEY:

LEVEL OF REVENUE CAPACITY

STATEWIDE RANK: 1 = HIGHEST CAPACITY
136 = LOWEST CAPACITY

RELATIVE

STRESS INDEX: 1 = LOWEST STRESS (HIGH CAPACITY)
8 = HIGHEST STRESS (LOW CAPACITY)

CHANGE IN CAPACITY, 1977-1983

STATEWIDE RANK: 1 = HIGHEST GROWTH IN CAPACITY
136 = LOWEST GROWTH IN CAPACITY

RELATIVE

STRESS INDEX: 1 = LOWEST STRESS (HIGH GROWTH)
8 = HIGHEST STRESS (LOW GROWTH)

**LEVEL OF
REVENUE CAPACITY
1977 AND 1983**

**CHANGE IN
REVENUE CAPACITY
1977 AND 1983**

Counties	1977	1977	RELATIVE	1983	1983	CHANGE IN CAPACITY(\$)	STATEWIDE RANK	RELATIVE STRESS INDEX
	PER CAPITA CAPACITY(\$)	STATEWIDE RANK	STRESS INDEX	PER CAPITA CAPACITY(\$)	STATEWIDE RANK			
LOUISA	603.38	4	1	1123.57	3	520.19	2	1
LUNENBURG	770.38	3	1	381.82	108	-388.56	136	8
MADISON	327.20	61	5	532.61	37	205.41	23	3
MATHEWS	379.70	31	4	559.61	28	179.91	37	4
MECKLENBURG	274.06	100	6	392.56	103	118.50	101	6
MIDDLESEX	419.42	18	2	623.26	18	203.84	25	3
MONTGOMERY	228.78	128	8	380.70	109	151.92	63	5
NELSON	310.68	75	5	538.70	34	228.02	19	2
NEW KENT	373.67	34	4	514.62	47	140.95	70	5
NORTHAMPTON	254.19	115	7	317.46	131	63.27	133	7
NORTHUMBERLAND	384.53	26	3	627.48	17	242.95	13	2
NOTTOWAY	256.73	112	7	393.00	102	136.27	75	5
ORANGE	358.77	47	4	543.53	30	184.76	30	4
PAGE	276.13	99	6	439.61	80	163.48	47	4
PATRICK	262.51	108	7	395.49	100	132.99	84	5
PITTSYLVANIA	226.63	129	8	352.59	119	125.96	92	5
POWHATAN	317.09	70	5	440.42	79	123.32	95	6
PRINCE EDWARD	247.21	119	7	357.64	118	110.42	112	6
PRINCE GEORGE	191.68	135	8	306.46	133	114.78	107	6
PRINCE WILLIAM	362.71	43	4	541.33	32	178.62	38	4
PULASKI	264.98	107	7	398.42	97	133.44	81	5
RAPPAHANNOCK	451.54	13	2	689.44	12	237.90	15	2
RICHMOND	368.05	36	4	540.92	33	172.87	41	4
ROANOKE	322.21	65	5	511.06	49	188.85	26	3
ROCKBRIDGE	307.37	77	5	455.00	74	147.63	65	5
ROCKINGHAM	307.34	78	5	469.32	67	161.97	49	4
RUSSELL	289.50	91	6	360.11	116	70.61	132	7
SCOTT	170.80	136	8	285.54	135	114.74	108	6
SHENANDOAH	367.47	37	4	521.86	44	154.39	56	5
SMYTH	225.67	130	8	337.72	125	112.05	111	6
SOUTHAMPTON	262.17	109	7	426.19	88	164.03	46	4
SPOTSYLVANIA	365.53	41	4	599.94	21	234.41	16	2
STAFFORD	324.34	63	5	505.72	50	181.38	35	4
SURRY	1039.59	1	1	1532.90	1	493.32	3	1
SUSSEX	318.43	69	5	498.92	54	180.49	36	4
TAZEWELL	279.06	95	6	386.84	105	107.78	115	6
WARREN	358.13	48	4	493.03	59	134.90	78	5
WASHINGTON	256.09	113	7	372.00	111	115.90	105	6
WESTMORELAND	340.62	51	5	502.34	53	161.72	50	4
WISE	313.28	74	5	460.38	72	147.10	67	5
WYTHE	284.65	92	6	396.78	98	112.13	110	6
YORK	367.39	39	4	542.76	31	175.37	39	4

KEY:

LEVEL OF REVENUE CAPACITY

STATEWIDE RANK: 1 = HIGHEST CAPACITY
136 = LOWEST CAPACITY

RELATIVE
STRESS INDEX: 1 = LOWEST STRESS (HIGH CAPACITY)
8 = HIGHEST STRESS (LOW CAPACITY)

CHANGE IN CAPACITY, 1977-1983

STATEWIDE RANK: 1 = HIGHEST GROWTH IN CAPACITY
136 = LOWEST GROWTH IN CAPACITY

RELATIVE
STRESS INDEX: 1 = LOWEST STRESS (HIGH GROWTH)
8 = HIGHEST STRESS (LOW GROWTH)

**LEVEL OF
REVENUE CAPACITY
1977 AND 1983**

**CHANGE IN
REVENUE CAPACITY
1977 AND 1983**

Cities	1977	1977	RELATIVE	1983	1983	CHANGE IN CAPACITY(\$)	STATEWIDE RANK	RELATIV. STRESS INDEX
	PER CAPITA CAPACITY(\$)	STATEWIDE RANK	STRESS INDEX	PER CAPITA CAPACITY(\$)	STATEWIDE RANK			
ALEXANDRIA	514.63	7	1	868.68	5	354.05	5	1
BEDFORD	308.12	76	5	443.11	78	134.99	77	5
BRISTOL	384.27	28	3	537.57	35	153.30	59	5
BUENA VISTA	234.77	124	7	323.20	129	88.43	129	7
CHARLOTTESVILLE	336.17	54	5	493.23	58	157.07	53	4
CHESAPEAKE	280.32	94	6	462.21	70	181.89	33	4
CLIFTON FORGE	253.91	116	7	349.85	120	95.94	123	6
COLONIAL HEIGHTS	335.76	55	5	464.31	69	128.56	91	5
COVINGTON	343.23	50	4	437.59	81	94.36	124	6
DANVILLE	290.13	90	6	427.45	86	137.33	74	5
EMPORIA	320.72	66	5	472.54	65	151.83	64	5
FAIRFAX	494.71	11	1	812.50	7	317.79	7	1
FALLS CHURCH	844.62	2	1	1261.59	2	416.97	4	1
FRANKLIN	300.63	86	6	432.17	84	131.54	87	5
FREDERICKSBURG	396.25	22	3	498.47	56	102.21	118	6
GALAX	366.81	40	4	504.51	51	137.70	72	5
HAMPTON	268.73	106	6	415.87	92	147.14	66	5
HARRISONBURG	316.26	72	5	498.61	55	182.35	32	4
HOPEWELL	298.61	87	6	395.43	101	96.82	122	6
LEXINGTON	236.59	123	7	344.15	122	107.57	116	6
LYNCHBURG	323.01	64	5	460.67	71	137.67	73	5
MANASSAS	427.39	15	2	726.98	11	299.59	9	1
MANASSAS PARK	212.91	132	8	333.38	127	120.47	100	6
MARTINSVILLE	334.98	56	5	493.25	57	158.27	52	4
NEWPORT NEWS	277.04	97	6	410.46	94	133.42	82	5
NORFOLK	231.16	127	7	340.88	123	109.72	113	6
NORTON	340.12	52	5	481.85	63	141.73	69	5
PETERSBURG	273.61	102	6	391.53	104	117.92	102	6
POQUOSON	303.88	81	6	471.69	66	167.81	43	4
PORTSMOUTH	269.05	105	6	361.32	115	92.27	126	7
RADFORD	232.05	126	7	320.86	130	88.81	128	7
RICHMOND	334.86	57	5	479.13	64	144.27	68	5
ROANOKE	316.31	71	5	448.81	77	132.50	86	5
SALEM	337.04	53	5	490.37	60	153.33	58	5
SOUTH BOSTON	274.01	101	6	410.12	95	136.11	76	5
STAUNTON	320.10	67	5	435.66	82	115.56	106	6
SUFFOLK	291.84	89	6	425.90	89	134.06	79	5
VIRGINIA BEACH	330.31	60	5	512.85	48	182.54	31	4
WAYNESBORO	363.61	42	4	516.79	46	153.18	60	5
WILLIAMSBURG	503.13	10	1	656.15	15	153.01	61	5
WINCHESTER	389.38	25	3	577.47	24	188.09	29	3

KEY:

LEVEL OF REVENUE CAPACITY

STATEWIDE RANK: 1 = HIGHEST CAPACITY
136 = LOWEST CAPACITY

RELATIVE

STRESS INDEX: 1 = LOWEST STRESS (HIGH CAPACITY)
8 = HIGHEST STRESS (LOW CAPACITY)

CHANGE IN CAPACITY, 1977-1983

STATEWIDE RANK: 1 = HIGHEST GROWTH IN CAPACITY
136 = LOWEST GROWTH IN CAPACITY

RELATIVE

STRESS INDEX: 1 = LOWEST STRESS (HIGH GROWTH)
8 = HIGHEST STRESS (LOW GROWTH)

INDICATORS OF POVERTY

Counties	1980 % PERSONS BELOW POVERTY	STATEWIDE RANK	1983 MEDIAN ADJUSTED GROSS INCOME (AGI)*	1977-83 CHANGE IN MEDIAN AGI*	RELATIVE STRESS INDEX
ACCOMACK	21	125.0	18,217	6,441	7.75
ALBEMARLE	10	28.0	28,260	11,234	1.25
ALLEGHANY	10	35.0	23,806	8,878	2.50
AMELIA	12	51.5	19,663	7,281	5.25
AMHERST	10	35.0	23,376	8,103	2.75
APPOMATTOX	10	37.0	21,572	7,446	3.50
ARLINGTON	7	13.0	38,334	14,309	1.00
AUGUSTA	10	35.0	23,200	8,462	2.75
BATH	13	58.0	18,846	7,254	5.25
BEDFORD	9	24.5	22,600	8,747	2.75
BLAND	13	57.0	19,082	6,937	5.50
BOTETOURT	8	15.0	24,103	8,713	2.50
BRUNSWICK	24	132.0	17,245	6,525	7.75
BUCHANAN	19	112.0	22,123	6,586	6.50
BUCKINGHAM	20	119.0	16,090	5,003	8.00
CAMPBELL	9	26.0	23,708	8,328	2.75
CAROLINE	17	100.0	21,796	7,979	5.50
CARROLL	16	95.5	16,963	5,663	7.00
CHARLES CITY	13	59.0	23,364	9,231	3.75
CHARLOTTE	25	134.0	15,398	5,183	8.00
CHESTERFIELD	5	4.0	33,895	12,854	1.00
CLARKE	10	30.0	23,054	7,963	3.00
CRAIG	10	38.0	20,403	8,254	3.25
CULPEPER	15	89.0	22,115	7,867	5.00
CUMBERLAND	25	133.0	17,378	5,578	8.00
DICKENSON	18	105.0	22,683	8,516	5.75
DINWIDDIE	14	65.5	24,895	9,727	3.75
ESSEX	16	93.0	20,039	6,819	6.25
FAIRFAX	4	1.0	42,677	14,630	1.00
FAUQUIER	11	40.0	28,670	11,596	1.00
FLOYD	15	89.0	18,171	6,017	6.50
FLUVANNA	19	114.0	22,257	8,571	6.25
FRANKLIN	10	39.0	20,241	6,697	3.75
FREDERICK	10	30.0	22,626	7,877	3.00
GILES	13	55.5	20,288	7,302	5.00
GLOUCESTER	12	47.5	24,049	8,870	3.50
GOOCHLAND	14	67.5	25,721	9,999	3.25
GRAYSON	14	73.5	16,108	6,080	6.50
GREENE	12	51.5	23,022	9,147	4.00
GREENSVILLE	23	130.0	18,258	6,428	7.75
HALIFAX	19	115.5	17,740	6,417	7.75
HANOVER	8	17.0	30,322	11,337	1.00
HENRICO	6	9.0	30,725	11,346	1.00
HENRY	10	30.0	21,236	6,912	3.75
HIGHLAND	15	84.0	19,490	8,672	5.25
ISLE OF WIGHT	14	76.5	25,437	9,817	4.00
JAMES CITY	11	46.0	29,167	11,360	2.00
KING AND QUEEN	18	106.0	19,915	6,831	7.00
KING GEORGE	14	67.5	26,828	9,554	3.25
KING WILLIAM	13	62.5	27,209	11,176	2.75
LANCASTER	16	95.5	20,670	8,196	5.75

KEY: INDICATORS OF POVERTY

STATEWIDE RANK: 1 = LOWEST POVERTY
 136 = HIGHEST POVERTY

RELATIVE STRESS INDEX: 1 = LEAST STRESS
 8 = MOST STRESS

*Estimated. The AGI is based on family returns.

NOTE: The Relative Stress Index is a composite of similar indices for poverty, adjusted gross income, and change in adjusted gross income. Poverty is weighted 1/2; the other two measures are weighted 1/4 each.

INDICATORS OF POVERTY

	1980 % PERSONS BELOW POVERTY	STATEWIDE RANK	1983 MEDIAN ADJUSTED GROSS INCOME (AGI)*	1977-83 CHANGE IN MEDIAN AGI*	RELATIVE STRESS INDEX
Counties					
LEE	26	135.0	16,946	6,389	7.75
LOUDOUN	7	11.0	35,038	13,167	1.00
LOUISA	16	95.5	21,001	7,143	6.00
LUNENBURG	19	109.5	15,908	5,099	7.50
MADISON	17	102.5	19,219	7,402	6.25
MATHEWS	9	21.0	22,125	8,257	3.00
MECKLENBURG	21	122.5	17,624	6,271	8.00
MIDDLESEX	17	101.0	19,056	6,708	6.50
MONTGOMERY	20	118.0	22,554	8,127	6.50
NELSON	19	109.5	19,129	6,972	7.00
NEW KENT	9	24.5	27,912	11,609	1.25
NORTHAMPTON	27	136.0	16,870	6,165	8.00
NORTHUMBERLAND	12	47.5	18,971	7,100	4.75
NOTTOWAY	18	107.0	20,107	6,916	6.75
ORANGE	15	84.0	21,837	7,704	5.25
PAGE	15	81.5	17,845	5,331	6.50
PATRICK	13	60.5	17,798	5,899	6.00
PITTSYLVANIA	15	79.5	20,035	7,219	5.50
POWHATAN	11	43.0	26,459	9,687	3.00
PRINCE EDWARD	22	126.0	18,301	6,284	7.75
PRINCE GEORGE	10	27.0	28,199	10,913	1.25
PRINCE WILLIAM	5	5.5	36,027	13,782	1.00
PULASKI	11	44.0	20,064	6,463	4.75
RAPPAHANNOCK	14	70.0	20,285	7,616	5.00
RICHMOND	15	89.0	20,696	7,795	5.25
ROANOKE	6	8.0	28,820	10,501	1.25
ROCKBRIDGE	15	78.0	19,239	6,913	6.00
ROCKINGHAM	11	41.5	20,984	7,824	3.25
RUSSELL	15	79.5	21,465	7,542	5.50
SCOTT	22	128.0	20,227	7,859	6.75
SHENANDOAH	12	53.0	19,318	6,820	5.50
SMYTH	14	70.0	17,410	6,169	6.00
SOUTHAMPTON	23	131.0	23,348	8,868	6.25
SPOTSYLVANIA	10	32.5	26,613	9,959	1.75
STAFFORD	7	11.0	30,266	11,619	1.00
SURRY	23	129.0	21,537	8,417	6.75
SUSSEX	20	120.0	20,691	7,379	7.00
TAZEWELL	14	75.0	22,455	7,308	5.25
WARREN	11	41.5	21,174	7,063	3.50
WASHINGTON	15	84.0	18,846	6,766	6.00
WESTMORELAND	19	112.0	19,328	7,007	7.00
WISE	15	89.0	23,630	9,022	4.50
WYTHE	14	72.0	17,924	5,452	6.00
YORK	7	11.0	31,216	11,860	1.00

KEY: INDICATORS OF POVERTY

STATEWIDE RANK: 1 = LOWEST POVERTY
 136 = HIGHEST POVERTY

RELATIVE STRESS INDEX: 1 = LEAST STRESS
 8 = MOST STRESS

*Estimated. The AGI is based on family returns.

NOTE: The Relative Stress Index is a composite of similar indices for poverty, adjusted gross income, and change in adjusted gross income. Poverty is weighted 1/2; the other two measures are weighted 1/4 each.

INDICATORS OF POVERTY

	1980 % PERSONS BELOW POVERTY	STATEWIDE RANK	1983 MEDIAN ADJUSTED GROSS INCOME (AGI)*	1977-83 CHANGE IN MEDIAN AGI*	RELATIVE STRESS INDEX
Cities					
ALEXANDRIA	9	21.0	35,986	13,758	1.00
BEDFORD	15	86.0	22,014	7,713	5.25
BRISTOL	16	95.5	17,722	5,773	7.00
BUENA VISTA	9	21.0	20,482	7,416	3.50
CHARLOTTESVILLE	21	124.0	24,819	8,916	6.00
CHESAPEAKE	11	45.0	27,557	10,322	2.50
CLIFTON FORGE	16	92.0	24,451	8,883	4.50
COLONIAL HEIGHTS	4	3.0	30,259	11,043	1.00
COVINGTON	12	54.0	21,775	7,303	4.75
DANVILLE	14	70.0	21,392	7,035	5.25
EMPORIA	17	102.5	19,665	6,186	6.75
FAIRFAX	5	5.5	39,320	14,129	1.00
FALLS CHURCH	4	2.0	33,600	10,954	1.00
FRANKLIN	22	127.0	24,533	8,274	6.25
FREDERICKSBURG	12	50.0	24,740	8,085	3.75
GALAX	15	89.0	16,987	6,162	6.50
HAMPTON	12	49.0	26,187	9,190	3.00
HARRISONBURG	16	99.0	23,859	7,929	5.25
HOPEWELL	13	55.5	26,731	9,235	3.50
LEXINGTON	19	108.0	24,718	9,248	5.25
LYNCHBURG	13	60.5	25,171	8,543	3.75
MANASSAS	8	15.0	34,019	13,272	1.00
MANASSAS PARK	8	18.0	26,067	8,769	2.25
MARTINSVILLE	13	64.0	22,927	7,692	4.75
NEWPORT NEWS	14	65.5	26,503	9,335	3.50
NORFOLK	21	122.5	23,305	8,525	6.25
NORTON	19	112.0	23,536	8,175	5.75
PETERSBURG	20	121.0	24,838	8,479	6.00
POQUOSON	5	7.0	30,293	11,807	1.00
PORTSMOUTH	19	115.5	24,661	9,045	6.00
RADFORD	14	73.5	24,336	8,261	4.75
RICHMOND	19	117.0	25,633	9,401	5.50
ROANOKE	16	98.0	22,766	8,158	5.50
SALEM	8	15.0	25,316	9,313	2.00
SOUTH BOSTON	14	76.5	21,129	6,711	5.75
STAUNTON	10	32.5	23,990	7,916	2.75
SUFFOLK	17	104.0	24,030	8,810	5.50
VIRGINIA BEACH	9	19.0	29,224	10,609	1.00
WAYNESBORO	9	23.0	24,326	7,734	3.00
WILLIAMSBURG	13	62.5	27,204	10,102	3.00
WINCHESTER	15	81.5	23,253	7,564	5.25

KEY: INDICATORS OF POVERTY

STATEWIDE RANK: 1 = LOWEST POVERTY
 136 = HIGHEST POVERTY

RELATIVE STRESS INDEX: 1 = LEAST STRESS
 8 = MOST STRESS

*Estimated. The AGI is based on family returns.

NOTE: The Relative Stress Index is a composite of similar indices for poverty, adjusted gross income, and change in adjusted gross income. Poverty is weighted 1/2; the other two measures are weighted 1/4 each.

APPENDIX B:
TECHNICAL APPENDIX

JLARC policy and sound research practice require a technical explanation of research methodology. The full technical appendix for this report is available on request from JLARC, Suite 1100, General Assembly Building, Capitol Square, Richmond, Virginia 23219.

APPENDIX C:
RESPONSES TO THE UPDATE

JLARC's update on local fiscal stress and State aid was briefed to the Commission on July 8, 1985. Although public response was not solicited, the Virginia Municipal League responded on July 19. The league's response is provided in this appendix for public information.

JLARC requested from the Secretary of Finance, Stuart W. Connock, information on taxing authority vacated by the Commonwealth. Secretary Connock's response is also included in this appendix.

JUL 22 1985

Virginia Municipal League

1011 E. Main St., P.O. Box 753, Richmond, Virginia 23206, 804/649-8471. Magazine: VIRGINIA TOWN & CITY

July 19, 1985

Ray D. Pethtel
Director
Joint Legislative Audit
& Review Commission
910 Capitol Street
Suite 1100
Richmond, VA 23219

Dear Mr. Pethtel:

Since HJR 105 was passed by the 1982 General Assembly, the Virginia Municipal League has closely followed the Joint Legislative Audit & Review Commission's activities on the study of State Mandates on Local Governments and Local Financial Resources.

We commend the Commission, you and your staff on your commitment to this effort which produced the July 8, 1985, JLARC Staff Briefing (Final Report). We do, however, have some concerns regarding the final report which we would like to pass along to the Commission.

In our review of the July 8, 1985 document we noted that a table comparable to the table entitled, "Amounts of Assistance Needed to Address Stress", found on page VII of House Document No. 15 from the 1984 Session has not been included in the final report. In our opinion, the calculations of the components found in this table was one of the major findings of the earlier version of this study; we question the rationale for producing a final report which deletes this data. It would appear that if the methodology for producing this table was valid in 1984 then it should continue to remain valid until completion of the final report.

In addition to this area of major concern, we would like to pass along our comments on the following issues included in the July 8, 1985, JLARC Staff Briefing (Final Report).

- On page 5, the table entitled, "Education: State Share of SOQ is Up" indicates that in 1986 the State is providing funds to support 89.5 percent of its share of the estimated per pupil costs. We would point out that this calculation is based on an instructor/pupil ratio of 57 per 1,000 -- well below the actual statewide average. Should the current JLARC educational cost validation study demonstrate the need to increase funding up to the actual instructor/pupil ratio, this would add in excess of \$200 million to the \$547 million figure noted on page 5, which is needed in 1986-88 in order to fund the state's share at 100 percent.

OFFICERS: Fredericksburg Mayor Lawrence A. Davies, President; Emporia Councilman Samuel W. Adams, III, First Vice President; Newport News City Manager Robert T. Williams, Second Vice President; Fairfax County Board Vice Chairman Martha V. Pennino, Third Vice President; Roanoke Mayor Dr. Noel C. Taylor, Fourth Vice President. EXECUTIVE DIRECTOR: R. Michael Amyx

Mr. Ray Pethtel

Page 2

July 19, 1985

- On page 8, four areas are listed under the heading of "Other Legislative Actions Which May Positively Affect Local Fiscal Conditions". It would seem that a study which is as rigorously statistically based as this would not include a laundry list of legislative actions and imply that these actions may positively affect local fiscal conditions without further analysis. A number of variables would determine whether these legislative actions do in fact positively affect local fiscal conditions. We believe that the two areas noted by Delegate Morrison during the July 8, JLARC meeting should also be placed under this relatively elusive heading. These two areas include: 1) the passage of SB 615 which transfers an annually decreasing State Rolling Stock Tax revenue source to localities beginning in 1987 (two years hence) and 2) the effects of HB 1130 which permits localities to tax non operating (non-carrier) railroad property in the same manner as similarly situated real property (the impact of which has yet to be calculated).
- Our final comments concern the "Update Recommendations" which begin on page 22 and run through page 24. We believe that Recommendation (1) should specifically include the amount of additional funding necessary in order for the state to reach 100 percent of its share of the cost of the educational standards of quality. The figure provided by the Department of Education should be used until JLARC's Validation Study is completed.

Finally, we feel that Recommendation (6) should maintain the authority for updating local fiscal capacity tax effort and fiscal stress with JLARC or transfer this authority to the House and Senate Finance Committees and their staff. It is our belief that it is important to keep these findings immediately before the legislature.

We appreciate this opportunity for comment and again commend you on your commitment to this study.

Sincerely,



R. Michael Amyx
Executive Director

CC: Delegate Cleaves Manning - Chairman
Delegate Richard Bagley - Subcommittee Member
Delegate Theodore Morrison - Subcommittee Member



COMMONWEALTH of VIRGINIA

Office of the Governor

Richmond 23219

Stuart W. Connock
Secretary of Finance

September 3, 1985

Mr. Ray D. Pethtel, Director
Joint Legislative Audit and
Review Commission
Suite 1100, General Assembly Building
Richmond, Virginia 23219

Dear Ray:

In your July 16 letter, you raised several questions pertaining to the value of taxing authority vacated by the Commonwealth and given to localities. Discussed below are the answers to these questions.

1. What will be the estimated value (statewide) of the rolling stock tax to localities when implemented?

The actual collections in fiscal year 1985 were \$4.6 million. The Department of Taxation (hereafter TAX) does not expect much change in revenues from this tax. Therefore, the estimated revenues for FY 87 equal the \$4.6 million in 1985 collections. Localities are expected to receive these revenues either during June, July, or August of 1987 depending solely on the mechanics of collecting and distributing these funds. However, it is likely that the actual distribution to localities will be in fiscal year 1988 rather than fiscal year 1987.

2. What will be the estimated value (statewide) in FY 86 of the provisions of HB 1130 allowing localities to assess railroad noncarrier properties on a basis comparable to surrounding property?

In 1985, such property was assessed for \$138 million. In making its assessments of such property, TAX compared it to surrounding property. Therefore, there should not be much change in the assessments of this property. However, with as many as 117 localities assessing such property there may be some change.

3. What would be the estimated value (statewide) of the transient occupancy tax in FY 86 were all localities to levy it?

When the bill was being considered, the fiscal impact for FY 86 was estimated at \$5.2 million. No additional work has been done on the fiscal impact of this legislation.

4. What is the FY 85 value (statewide) of the one cent local option sales tax to localities?

During FY 85, the state comptroller returned \$317.2 million to localities as a result of the local option sales and use tax. Of considerable indirect value to localities is the fact that the entire administrative cost of collecting, distributing, and auditing this tax is borne by the state.

In response to your general request for any other information, the following may be of interest. In 1966, when the state and local sales tax was enacted, the state repealed its \$0.20 per \$100 statewide license tax. The repeal of the state tax provided localities more flexibility to impose their own business, professional, and occupational license taxes. In the last full year before repeal (fiscal year 1966), this tax yielded \$13.9 million. This same law did not, however, preclude charter cities the power to impose taxes on tobacco, lodging, and meals.

Under the original sales tax legislation, the state use tax was enacted but a local use tax was not. In 1968, the sales tax law was amended to allow localities to impose a local use tax. In fiscal year 1985, this local use tax (including penalty and interest) yielded \$23.8 million for localities.

Since 1970, Virginia has imposed a tax on grantors of property. This tax was imposed when a similar federal tax was repealed. This tax is divided evenly between the state and the locality where such property is located. In fiscal year 1985, this tax yielded \$6.7 million to local governments.

Mr. Ray D. Pethtel
Page Three
September 3, 1985

In 1972 and 1973, the state conducted a property tax reform study which made several reform recommendations that were subsequently enacted. A recommendation that was implemented required that all property be assessed at 100 percent of fair market value starting with reassessments in 1977. This improved localities' property tax administration by better defining their tax base. However, it did not automatically yield additional revenues because the tax rate had to be reduced so that total revenues before and after the reassessment would be the same. Of course, after a public hearing the local governing body could raise the tax rate.

The State Business and Professional License taxes were repealed effective January 1, 1983. However, only the regulatory provisions of this tax were transferred to localities. Of course, if a locality had not reached its rate ceiling, then it could raise the rate. The rationale for this action was that the taxpayer received a rate reduction at the state level that would increase his or her ability to pay a higher local tax. I am not aware of any actions localities may have taken in this situation.

I would also mention that, although not a tax, the implementation of House Bills 599 and 603 of the 1979 Acts of Assembly, provided significant revenues to localities. I am sure you are familiar with the details of this program which began July 1, 1980. Historical appropriations are presented below.

<u>Fiscal Year</u>	<u>Millions of Dollars</u>
1980-81	\$ 72.0
1981-82	74.2
1982-83	85.7
1983-84	87.5
1984-85	95.8
1985-86	102.0

Mr. Ray D. Pethtel
Page Four
September 3, 1985

I hope this provides you with the information you needed on these issues. If you have further questions, please contact me.

Sincerely,



Stuart W. Connock

SWC:dlb

cc: Mr. W. H. Forst

APPENDIX D:

HOUSE JOINT RESOLUTION NO. 12

Offered January 13, 1983

To continue the Joint Legislative Audit and Review Commission study of the responsibilities and financial resources of local governments.

Patrons—Hall, Ball, Bagley, R. M., Morrison, and Manning

Referred to the Committee on Rules

WHEREAS, House Joint Resolution No. 105 of the 1982 Session of the General Assembly requested the Joint Legislative Audit and Review Commission, with the assistance of a twelve member legislative subcommittee, to study the responsibilities and financial resources of local governments; and

WHEREAS, increased service costs, slowed revenue growth, and reduced federal aid have created financial stress for many localities; and

WHEREAS, during its two meetings and six regional workshops the Commission has begun studying the many complex issues concerning state-local relations, state mandates, and state financial assistance to cities, counties and towns; and

WHEREAS, the Commission has prepared an interim report for the 1983 General Assembly which outlines special research efforts planned for 1983 to complete its study of local mandates and financial conditions; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission should continue its study of the: (1) responsibilities of local governments for providing public services; (2) differences in the responsibilities of cities, counties, and towns; (3) sources of revenue available to localities and their adequacy; (4) additional revenue sources that could be used to provide public services; and (5) Commonwealth's responsibilities for providing public services and procedures for aiding local governments.

The Commission shall complete its study and submit its report with recommendations to the General Assembly and Governor by September 1, 1983.

JLARC STAFF

RESEARCH STAFF

Director

Ray D. Pethtel

Deputy Director

Philip A. Leone

Division Chiefs

Glen S. Tittermary, Division I

● Kirk Jonas, Division II

Section Managers

Gary T. Henry, Research Methods
& Data Processing

John W. Long, Publications & Graphics

Project Team Leaders

Stephen W. Harms

Clarence L. Jackson

Barbara A. Newlin

Robert B. Rotz

Shepherd Zeldin

Project Team Staff

William A. Butcher

Nolani Courtney

Lynn L. Grebenstein

Thomas J. Kusiak

Susan E. Massart

Cynthia Robinson

Carl W. Schmidt

E. Kim Snead

● Geraldine A. Turner

ADMINISTRATIVE STAFF

Section Manager

Joan M. Irby, Business Management
& Office Services

Administrative Services

Maryann Craven

Secretarial Services

Bonnie A. Blick

Rosemary B. Creekmur

Betsy M. Jackson

Shelly L. Oakes

SUPPORT STAFF

Technical Services

R. Jay Landis, Computers

David W. Porter, Graphics

Debra J. Rog, Associate Methodologist

Interns

Stephen P. Fox

Julie A. Pagotto

Silvia Terziotti

Karen Widener

● *Indicates staff with primary assignment to this project.*

RECENT REPORTS ISSUED BY THE JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

Management and Use of Consultants by State Agencies, May 1980
The General Relief Program in Virginia, September 1980
Federal Funds in Virginia, October 1980
Federal Funds: A Summary, January 1981
Methodology for a Vehicle Cost Responsibility Study: An Interim Report, January 1981
*Organization and Administration of the Department of Highways and Transportation:
An Interim Report, January 1981*
Title XX in Virginia, January 1981
Organization and Administration of Social Services in Virginia, April 1981
1981 Report to the General Assembly
Highway and Transportation Programs in Virginia: A Summary Report, November 1981
Organization and Administration of the Department of Highways and Transportation, November 1981
Highway Construction, Maintenance, and Transit Needs in Virginia, November 1981
Vehicle Cost Responsibility in Virginia, November 1981
Highway Financing in Virginia, November 1981
Publications and Public Relations of State Agencies in Virginia, January 1982
Occupational and Professional Regulatory Boards in Virginia, January 1982
The CETA Program Administered by Virginia's Balance-of-State Prime Sponsor, May 1982
Working Capital Funds in Virginia, June 1982
The Occupational and Professional Regulatory System in Virginia, December 1982
*Interim Report: Equity of Current Provisions for Allocating Highway Construction Funds
in Virginia, December 1982*
Consolidation of Office Space in the Roanoke Area, December 1982
Staffing and Manpower Planning in the Department of Highways and Transportation, January 1983
Consolidation of Office Space in Northern Virginia, January 1983
Interim Report: Local Mandates and Financial Resources, January 1983
Interim Report: Organization of the Executive Branch, January 1983
The Economic Potential and Management of Virginia's Seafood Industry, January 1983
Follow-Up Report on the Virginia Department of Highways and Transportation, January 1983
1983 Report to the General Assembly, October 1983
The Virginia Division for Children, December 1983
The Virginia Division of Volunteerism, December 1983
State Mandates on Local Governments and Local Financial Resources, December 1983
An Assessment of Structural Targets in the Executive Branch of Virginia, January 1984
An Assessment of the Secretarial System in the Commonwealth of Virginia, January 1984
*An Assessment of the Roles of Boards and Commissions in the Commonwealth of Virginia,
January 1984*
Organization of the Executive Branch in Virginia: A Summary Report, January 1984
1984 Follow-up Report on the Virginia Department of Highways and Transportation, January 1984
Interim Report: Central and Regional Staffing in the Department of Corrections, May 1984
Equity of Current Provisions for Allocating Highway and Transportation Funds in Virginia, June 1984
Special Education in Virginia's Training Centers for the Mentally Retarded, November 1984
Special Education in Virginia's Mental Health Facilities, November 1984
Special Report: ADP Contracting at the State Corporation Commission, November 1984
Special Report: The Virginia State Library's Contract With The Computer Company, November 1984
Special Report: The Virginia Tech Library System, November 1984
Interim Progress Report: Review of the Virginia Housing Development Authority, February 1985
Special Report: Patent and Copyright Issues in Virginia State Government, March 1985
Virginia's Correctional System: Population Forecasting and Capacity, April 1985
*The Community Diversion Incentive Program of the Virginia
Department of Corrections, April 1985*
Security Staffing and Procedures in Virginia's Prisons, July 1985
Towns in Virginia, July 1985
Local Fiscal Stress and State Aid: A Follow-Up, September 1985
1985 Report to the General Assembly, September 1985