FINAL REPORT OF THE
COMMISSION ON

STATE AND LOCAL GOVERNMENT RESPONSIBILITY AND TAXING AUTHORITY

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

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Mr. David G. Speck
Mr. Todd Stottlemyer

* Resigned from the Commission in June, 1997

STAFF

DIVISION OF LEGISLATIVE SERVICES

Joan E. Putney, Senior Attorney
Stephanie L. Hamlett, Staff Attorney
Rhonda Dyer, Operations Staff Assistant

HOUSE COMMITTEE OPERATIONS

Brandon L. Merchant, Committee Operations Staff

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EXECUTIVE SUMMARY

The Commission on State and Local Government Responsibility and Taxing Authority met a total of ten times in various locations throughout the Commonwealth during 1996 and 1997 to receive testimony and to examine the issues with which it was charged to investigate. Its members heard testimony from interested citizens, state and local officials, legislative staff members and economic experts.

The focus of the commission during its first year, 1995, was on the business, professional, and occupational license (BPOL) tax that is assessed by the localities. The commission made recommendations to reform the BPOL tax administration and endorsed legislation which provided a model BPOL ordinance for use by the localities which was adopted by the General Assembly in 1996.

Also to facilitate its work, the commission was divided into two task forces in 1995. The Services Task Force examined the nature of services provided to Virginians, while the Revenues Task Force explored the manner in which tax revenues are collected at both the state and local levels.

In 1996, the commission continued the work of its two task forces which focused on issues surrounding four main areas: (i) educational standards of quality funding; (ii) state-mandated social services; (iii) state-mandated health services; and (iv) the transfer of the administration of the BPOL tax from the localities to the state.

In 1997, the commission as a whole examined six topics: (i) the personal property tax on automobiles, trucks, and motorcycles, (ii) a state earned income tax credit, (iii) local taxing authority, (iv) local assessment practices, (v) the funding obligations of the Commonwealth, and (vi) the need for a permanent tax commission.

The commission concluded its three years of work with findings and recommendations regarding these topics which are discussed in detail at the end of this report.

I. INTRODUCTION

House Joint Resolutions 108 (1996) and 532 (1997) continued the Commission on State and Local Government Responsibility and Taxing Authority in order for it to complete the work it began under House Joint Resolution 487 (1995). (See Appendices A and B for HJR 108 and HJR 532, respectively.) The commission was assigned the task of examining both state and local services and the revenues needed to provide such services. Following this examination, the next step was to determine whether any changes should be made concerning how services are delivered and which level of government levies and collects the necessary taxes.

For its first two years, the commission consisted of the following members: Speaker Thomas W. Moss, Jr., House Majority Leader C. Richard Cranwell, House Minority Leader S. Vance Wilkins, Jr., Delegate David G. Brickley , Lieutenant Governor Donald S. Beyer, Jr., President Pro Tempore Stanley C. Walker, Senators Richard L. Saslaw and Joseph B. Benedetti, Attorney General James C. Gilmore, III, Mr. Joseph A. Leafe, Ms. Eva Tieg, Mr. L. Cleaves Manning, Mr. David G. Speck, Mr. Scott Martin Harwood, Dr. Ann Parker Maust, Mr. John L. Rulison, Mr. Frank Armstrong, III, Mr. H. Randolph Laird, Mr. William L.S. Rowe, Mr. Todd Stottlemyer, Mr. Ross A. Mugler, Mr. Robert J. O'Neill, Honorable Trenton Crewe, Ms. Katherine K. Hanley, and Mr. William G. O'Brien.

In 1996, Delegate Robert D. Hull joined the commission. In 1997, Lieutenant Governor Beyer, Attorney General Gilmore and Mr. O'Brien resigned from the commission. Attorney General Gilmore and Mr. O'Brien were replaced by Attorney General Richard Cullen and Dr. Charles W. Curry, respectively.

During 1995, the commission focused primarily on the BPOL tax. As a result of their work, legislation was passed during the 1996 session which provided a model BPOL ordinance to be used by localities in order to create more uniformity in the administration of the tax. In addition, an appeals process which includes the Department of Taxation was established.

Also, to facilitate its work, the commission was divided into two task forces in 1995. The Services Task Force examined the nature of services provided to Virginians, while the Revenues Task Force explored the manner in which tax revenues are collected at the state and local levels.

In 1996, the work of the commission's task forces continued. Based upon their work, a special drafting subcommittee was appointed to compile recommendations regarding changes to the services provided and revenues collected at the state and local levels. In general, the special subcommittee suggested that the state fund a greater percentage of the standards of quality, state-mandated social services and state-mandated health services and in turn the localities would turn over the administration and collection of the BPOL tax to the state. No final action was taken by the commission on these proposals.

In 1997, the commission examined a variety of subjects including the personal property tax, real property tax, county taxing authority, a state earned income tax credit and the effect of changes in the federal tax law on the

Commonwealth's tax revenues. It met at locations throughout the Commonwealth and heard from local government officials, business leaders, private citizens and representatives of agricultural and other interest groups. A final public hearing was held in Richmond in December. The commission completed it work with a number of recommendations.

II. BACKGROUND

The commission evolved from several other legislative studies beginning as early as 1991 when HJR 361 directed a joint subcommittee to take a limited look at the BPOL tax. [1]The group examined the imposition of the BPOL tax on nonprofit hospitals, colleges and universities. As a result of that study, such organizations were exempt from the tax until July 1, 1993, which date was later extended by the General Assembly until July 1, 1997. See *Va. Code* § 58.1-3703 B. 15. [2]

The next examination of the BPOL tax began with HJR 526 (1993) and was continued with HJR 110 (1994) in order for the joint subcommittee to complete its work. [3]Most of the ground work for the uniform BPOL ordinance was actually completed by this subcommittee; however, the legislation containing the ordinance also proposed eliminating the BPOL tax entirely over a five-year period, without a guaranteed revenue replacement. Local governments were opposed to this and the legislation failed in the 1995 General Assembly Session.

In addition to HJR 110, the General Assembly passed HJR 160 in 1994, which began an examination of local taxes and fees and reviewed their equity and efficiency of collection. The recommendations of the HJR 160 subcommittee are contained in House Document 69 (1995).

The HJR 160 subcommittee's report stated that local tax revenues have increased substantially over the course of the last decade as the Virginia economy expanded, particularly with regard to real property and tangible personal property taxes, and that as Virginia shifts to a more service-based economy, the revenue resources and service responsibilities of local government must be re-examined.

The subcommittee's report suggested that, as the study of local revenues continues, Adam Smith's description of the features of a "good" tax be kept in mind:

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[1] The final report for HJR 361 is contained in House Document 17 (1991).
[2] In the 1996 BPOL legislation (House Bill 293, Senate Bill 587), a new exemption was added to cover charitable nonprofit organizations. See *Va. Code* § 58.1-3703 B. 18. The effect of this new exemption is to replace and broaden the one limited to nonprofit hospitals, colleges and universities which will expire July 1, 1997.
[3] The full reports for these studies may be found in House Document 78 (1993) and House Document 59 (1994), respectively.

the tax will raise the desired amount of revenue; the tax is considered fair and equitable; the costs of administering and complying with the tax are not excessive; and the tax must not create economic inefficiencies by causing market distortions.

All of these studies lead to the creation of the Commission on State and Local Government Responsibility and Taxing Authority in HJR 487 (1995). [4]

III. ACTIVITIES OF THE COMMISSION

In 1996, the work of the commission's tasks forces continued. A special drafting subcommittee was appointed to make proposals, based on the work of the task forces, regarding changes to the services provided and revenues collected at the state and local levels. The following proposals were made:

- The state shall increase its share of funding of the educational standards of quality from 55 percent statewide to 60 percent statewide beginning July 1, 1999, with fiscal year 1999-2000. Cost is approximately $193 million in the first year.

- The state shall fund its own current share of the costs of providing state-mandated social services beginning July 1, 1999, with fiscal year 1999-2000. Cost is approximately $90 million in the first year.

- The state shall fund 100 percent of its state-mandated program of health services beginning July 1, 1999, with fiscal year 1999-2000. This shall not preclude any locality's discretion to expand services to its residents at local cost, nor shall it have any effect on local ability to assume responsibility for local operating of health services, at the option of the local government. Cost is approximately $45 million the first year.

- The state shall assume authority for the business license (BPOL) tax and remove it from local control simultaneous to the state's assumption of the service costs outlined above. Value of the BPOL tax is about $327 million per year.

A public hearing was held on the proposals in December, 1996. Local government representatives overwhelming opposed the proposals and requested more details about their fiscal impact. The business community supported the last proposal and reiterated its goal of repealing the BPOL tax but did not suggest a revenue replacement source. Seeing the need for further study, no action was taken on the proposals by the commission. The final action of the commission in 1996 was to recommend its continuation for one additional year in order to complete its work.

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[4] House Document 62 (1996) contains the full report on the work of the commission during its first year.

June '97 Meeting

The first meeting in 1997 of the Commission on State and Local Government Responsibility and Taxing Authority was held in June in Richmond. In addition to HJR 532 (Appendix A), SJR 385 (1997) requested the commission to study the advisability of reducing or eliminating the tangible personal property tax and authorizing alternative methods of generating revenue. A bill (SB 750) was also introduced during the 1997 session which would have increased the state portion of the sales and use tax from 3.5 percent to 5 percent with the revenue generated by the increase being distributed back to the localities in order for them to reduce their reliance on the tangible personal property tax. Each locality would be required to lower the amount of tangible personal property tax revenue it could collect by the amount of its share of the increased sales tax revenues.

The commission next heard about gubernatorial candidate Jim Gilmore's personal property tax proposal to exempt the first $20,000 of assessed value of all personally owned vehicles from the tax. Local governments would continue to assess all vehicles and would bill the Commonwealth for the portion exempt from the tax. The state would then reimburse, from revenue growth, the local government dollar-for-dollar of the foregone amount. In the event the state could not meet its funding obligations, the localities could collect the tax themselves. Local government would continue to levy the tax on business property and non-vehicles, as well as on assessed values above the exempt amount. The plan would be phased in over a five-year period with the exemption amount starting at $1,500, going to $3,000 in year two, $5,000 in year three, $12,000 in year four and $20,000 in year five.

Representatives of the Virginia Municipal League (VML) and the Virginia Association of Counties (VACo) discussed the importance of the personal property tax to localities' budgets. The tax has served as a healthy revenue source which has often offset sluggish growth in the real estate tax or sales tax. The average annual growth in personal property tax revenue during the last ten years has been 9 percent. In addition, about 75 percent of the personal property tax revenue is attributable to vehicles with the remainder coming from business personal property, boats, airplanes, etc. Of that amount, 85 percent of the vehicles are personally-owned and would benefit from the exemption.

According to VML and VACo, the estimated annual cost to the state of a $20,000 exemption on personal vehicles would be more than $1.3 billion in 2003 when the plan is fully implemented. The total in state payments to localities for the first five years is estimated to be $2.9 billion. Both VML and VACo expressed concerns about the state being able to fund such amounts consistently.

Finally, the commission was briefed on the major general fund budget pressures for the 1998-2000 biennium. Local aid and aid to individuals make up about two-thirds of the general fund budget. Ninety percent of the general fund is spent for public education, sheriffs and jails, police departments and mental health/mental retardation community services boards. In the category of aid to individuals, Medicaid is by far the main recipient, accounting for over three-fourths of all such aid. The major areas that will require additional funding are public education, public safety, Medicaid, debt, state employees' salaries and fringe benefits. The estimated increase in necessary funds for these areas is between $1,009.7 million and $1,044.7 million for the 1998-2000 biennium.

July '97 Meeting

The tangible personal property tax, the personal income growth outlook for citizens of the Commonwealth and budget pressures were the main topics of discussion during the commission's July meeting in Richmond. The topics covered the Lieutenant Governor's personal property/income tax credit plan, three economists' outlooks for personal income growth in the Commonwealth over the next five years, Virginia Department of Transportation's (VDOT) mandatory expenditures, priorities and funding for the next two bienniums and an update on the Commonwealth's budget pressures, particularly in the area of public education.

Under the Lieutenant Governor's plan, single taxpayers with annual adjusted gross income up to $40,000 would receive an income tax credit of up to $150 for personal property tax paid on one motor vehicle. Married couples with annual adjusted gross income up to $75,000 would receive a tax credit up to $250. Individuals who do not pay income tax would not receive the credit. Like the Gilmore plan, the credit allowed would only apply to personal property tax paid on privately-owned vehicles. The cost of the Beyer plan was estimated to be $202 million annually or $808 million over the next four years.

Drs. Stephen Fuller with George Mason University, John Knapp with the Weldon Cooper Center for Public Service at the University of Virginia and Roy Pearson with the College of William & Mary offered their best estimates regarding the outlook for personal income growth among Virginians. Dr. Fuller focused on those residents in the Northern Virginia area as that is his area of expertise. Drs. Knapp and Pearson took a statewide approach.

Dr. Fuller noted that while a strong economic performance in Northern Virginia does not necessarily mean the state's economy will also prosper, it is difficult for the state to maintain expansion without continued growth in Northern Virginia's economy. Northern Virginia's share of Virginia's total personal income was 35 percent in 1996. Strong job growth during the last five years has resulted in low unemployment with the highest unemployment rate in May being 3.7 percent in Warren County while the state rate was 4.2 percent. Because Northern Virginia's economy is expected to continue a strong expansion pattern for the next three years at a minimum, the state's economic expansion is also expected to continue for the same period.

There are some unknowns, however, which could affect the state's economic performance. They are federal spending, the labor market, interest rates and inflation, the national economy's performance and global stability. Any negative change in these factors would most likely reduce expected growth.

Dr. Knapp predicted an average statewide personal income growth rate of 5.6 percent over the next six to eight years, which includes a risk of recession during that time. Dr. Pearson's forecast called for a 5.2 percent growth rate. Both predictions included inflation as a factor. Both took into account historical rates of growth and examined forecasts by the WEFA Group and NPA Data Services.

It was also brought to the attention of the commission that even if personal income growth does continue for the next few years, the localities do not directly benefit from such growth. It is logical to assume that along with personal income growth comes an increase in state revenues due to an increase in the amount of income taxes paid. There are, however, no local income taxes. Will taxpayers consume more thereby causing an increase in sales tax collections, a portion of which is returned to the localities? Will taxpayers spend their money on more real and personal property thereby increasing real and personal property tax collections? There is no way to be sure. So what is good for the Commonwealth, may or may not be as good for the localities.

VDOT is responsible for maintaining and constructing the third largest state maintained system in the nation with over 65,000 miles of highways (interstate, primary, secondary, frontage and urban). It is financed from federal, state, local, tolls and other revenues. Ninety-five percent of state sources are produced by the motor fuels tax, motor vehicle sales and use tax, motor vehicle license fees and state general sales and use tax.

The Commonwealth Transportation Funds have grown an average of 3.1 percent annually for the last ten years. They are expected to increase at an average annual rate of 2.5 percent over the next six years from $1.6 billion in FY1998 to $1.83 in FY2003. Total federal transportation funding for distribution nationally, depending on currently pending federal legislation, is expected to be between $19 billion and $21.5 billion in 1998. For Virginia, current revenue estimates assumes an average of $500 million per year for FY1999-2003.

According to a recently completely needs assessment, VDOT identified total highway needs of $46.7 billion. This assessment is an update of the 1994 Moderate Needs Inventory which identified $34.7 billion of highway needs.

Little change in the bottom line occurred since the last meeting of the commission. Required cost increases for the 1998-2000 biennium are still expected to total approximately $1.0 billion. This does not include salary increase and capital outlay, which would raise that amount to over $1.5 billion.

Regarding the area of public education, the Department of Education's preliminary request is for $299.6 million for the biennium. This is actually about $110 million less than the 1996-98 biennium. School enrollment is still growing but the rate of increase is slowing down as is the increase in special education students. Also, the per-pupil cost actually declined for textbooks, health insurance and instructional support. However, these preliminary numbers do not include some areas in which costs may increase such as the K-3 reduced class size program, preschool for at-risk four-year-olds, truancy/safe schools, English as a second language program, reading instruction and remediation, homebound programs and hospitals, clinics and detention homes instruction.

August '97 Meeting

The Local Government Official's Conference in Charlottesville was the site of the August meeting of the commission. The commission members were briefed by representatives from four localities regarding the current economic condition in each locality. Assessment practices and procedures around the Commonwealth were explained by the commissioners of the revenue representative and a treasurers' representative discussed the tax collection process.

The four localities represented during the meeting were the City of Staunton, the Town of Pulaski and the Counties of Henrico and Rockingham. Common themes among the localities included a plea to the commission not to diminish the current taxing authority the localities have, but instead to give them as much flexibility as possible. Also, it was suggested that the state take more financial responsibility for the standards of quality requirements that it promulgates.

The populations of the four localities ranged in size from 10,000 in the Town of Pulaski to 245,000 in Henrico County with general fund budgets of $5.7 million and $439 million, respectively. The City of Staunton and the Town of Pulaski are having more difficulty financially than the two counties are. Staunton has even been pursuing reversion to town status because of future financial obligations, particularly in the education and social service areas. Henrico County, on the other hand, is doing well. Three of the four mentioned the fact that their debt service has increased over the past few years which takes away funds from other needs.

Overall, localities throughout the Commonwealth are concerned about the future. They see a need for more means to raise revenues, not less, and greater contribution from the state in areas which the localities have little control or input.

The representative of the Commissioners of the Revenue Association explained the assessment methods for personal property tax and machinery and tools tax. The bottom line regarding assessment methods is that there are varying values, pricing guides and assessment ratios utilized throughout the Commonwealth. Uniformity is lacking as it was with the BPOL tax prior to its reform. The Commissioners of the Revenue Association will work on recommendations regarding uniformity in this area for presentation to the commission by December.

The collection process is somewhat more uniform in that most localities collect the taxes once a year in December. Only 21 out of 121 localities collect the personal property tax more often than annually. Legislation was passed during the 1997 Session which permits localities to offer taxpayers the option of paying the tax monthly, bimonthly, quarterly, semiannually or in a lump sum, provided the tax is paid in full by the final due date. The law took effect July 1 so it is too soon to know how many localities will allow the divided payments.

September '97 Meeting

The commission held its fourth meeting for 1997 in Emporia where its members heard about real property tax issues and county taxing authority. Representatives from the Virginia Farm Bureau Federation and the Virginia Association of Counties (VACo), as well as Delegate Mitch Van Yahres and the real estate assessor from the City of Chesapeake, addressed the commission.

The Senior Assistant Director for Public Affairs presented an overview of the Farm Bureau's presentation and briefly summarized what other states have been doing recently regarding real property tax reform. In 1997, 14 states examined property tax reform with proposals ranging from capping property taxes or assessments, to reducing property taxes or assessments, to implementing homestead exemptions, to creating alternative methods for funding education. Not all were clear on how property tax cuts would be paid for although some suggested replacing lost revenues with increases in income and sales taxes or with increased revenue projections.

It was suggested that all taxes need to be re-examined because over the years the United States has changed from an agrarian society to an industrial and now to a more service-oriented society. The trend has moved to producing and consuming more services rather than manufactured goods. Therefore, tax structures need to be revisited in order to ensure an equitable tax system.

Farmers are especially concerned about real property taxes and local government's reliance on the tax to fund education and other services. They also believe that the tax burden is not equally divided among taxpayers; that farmers pay a disproportionately large share of the taxes for the amount of services they require. While recognizing that land use assessment is available to farmers in 87 localities, it is not available to all farmers. Some of the localities which currently have the program are considering eliminating land use assessment in order to raise additional needed revenues. The fear is that unless other alternatives and a more equitable tax structure at the local level are considered and implemented, farmers as well as homeowners will be taxed off their land.

The two options mentioned for changing the reliance on real property taxes were (1) allowing localities to impose a local income tax and (2) levying the sales tax on more services.

The real property assessor for the City of Chesapeake explained how the assessment process works in Chesapeake. Basically, the same methods used by private assessors and appraisers are used by public assessors and appraisers. There is one exception involving appraisals. In the public sector, mass appraisals are performed instead of single appraisals. It was emphasized, however, that assessors do not determine value but instead buyers and sellers do. When determining fair market value, they look at a range of numbers and come up with an average.

If a taxpayer is not satisfied with an assessment, he may proceed with an informal or formal appeals process. The informal process requires talking with the assessor within fifteen days after receiving the assessment. Often, this process clears up any questions.

The formal process involves an appeal to the Board of Equalization. This level of appeals normally is reached only when a resolution cannot be attained with the assessor. In Chesapeake, less than ten percent of appeals go to the Board. Whether the taxpayer appears before the Board varies from locality to locality. Also varying among localities is whether an appraisal of the property is required before the Board will hear an appeal (Chesapeake does not require an appraisal).

A third option for an appeal is to go straight to the circuit court or after going through the informal and formal processes described above. In such an appeal, the judge decides what the correct assessment should be. In Chesapeake, a third party appraiser is often employed by the court to examine the locality's assessment and the property owner's assessment. He may adopt either of these assessments or develop his own assessment.

Delegate Mitch Van Yahres next spoke to the commission members about a bill he introduced during the 1997 Session, HB1651, which offered another revenue raising option to localities. The legislation allowed any county or city to levy a local income tax at the rate of one percent in addition to the applicable state income tax rate. Any county or city opting for the tax would be required to reduce the real property tax rate or the tangible personal property tax rate to offset the amount of local income tax revenues collected. The income tax is considered to be a more progressive tax and therefore more equitable than some of the other taxes such as the sales tax and real estate tax.

Finally, VACo representatives presented HB2399 which had been referred to the commission from another subcommittee. The bill, also introduced in the 1997 session, would give counties the same taxing authority as cities and towns currently enjoy. That authority is obviously broader than that of the counties which many view as inequitable.

Concern was expressed about giving the counties that much authority especially in the case of meals taxes in which a local referendum is required before the tax may be levied. That requirement would no longer exist if counties had the same taxing authority as cities and towns.

November '97 Meeting

The commission met at the Dulles Hilton in Herndon, Virginia to hear about the earned income tax credit (EITC) and how the federal tax law changes are expected to impact the Commonwealth. Several speakers in favor of the EITC addressed the commission and Virginia's Tax Commissioner explained the federal tax law changes.

Earned income tax credit legislation has been introduced each year since 1991. Advocates of the credit argue that with the changes occurring as a result of welfare reform, those individuals coming into the workforce for the first time or after an extended absence will need the credit as that extra incentive to successfully transition into the working world.

The federal earned income tax credit (EITC) is a tax credit for low-income workers and is targeted to those workers who live with and support their children. Individuals must work in order to get the credit, which has been in the federal tax code since 1975 with expansions in1986, 1990 and 1993. The intent of the expansions was to make work pay enough to lift a family, with a full-time worker, out of poverty.

The federal EITC is administered through the federal tax system with the amount of the credit being based on family earnings and the number of qualifying children. It is a refundable credit with families who qualify actually receiving a check from the federal government.

A state EITC would pick up where the federal credit stops. The state credit would apply the same eligibility rules used by the federal government and would piggyback on the federal EITC using a percentage of that credit. The credit would rise to a maximum amount and gradually phase out.

Such a credit would not be inexpensive especially if it is refundable, which supporters insist is a necessary component to help those who need it the most. It seems likely that EITC legislation, along with other tax relief legislation, will be on the General Assembly's plate during the upcoming session.

Virginia is a conformity state when it comes to income taxes. This means that in determining taxable income for state income tax purposes the taxpayer begins the calculation with his federal adjusted gross income. Therefore, most changes in the federal tax law will impact Virginia revenues.

According to the Tax Commissioner, the Taxpayer Relief Act of 1997 which was signed by the President on August 5, 1997, is very detailed and contains 282 provisions. The major components of the act include a child tax credit, post-secondary education tax incentives, broad-based relief from capital gains taxes, expansion of individual retirement accounts, significant reductions in death taxes, repeal of certain corporate tax benefits and changes in the rates and bases of various federal excise taxes.

At the federal level, the act is supposed to provide net tax reductions of $85 billion over the next five years and $250 billion over the next 10 years. At the state level, the Tax Department's preliminary estimates show a positive impact on state revenues as a result of these changes. In fiscal year 1998, the projection is an increase in tax receipts of $136.5 million; in fiscal year 1999, $68.6 million; and fiscal year 2000, $41.3 million.

The greatest impact seems to be a result of the reduction in the capital gains rate from 28% to 20% (10% for gains otherwise at 15%). For property more than five years with the holding period beginning after 12/31/2000, the maximum capital gains rates will fall to 18% and 8%. It is thought this will encourage the buying and selling of stock more often, which in turn produces more revenues.

December '97 Meeting

Beginning in the afternoon, taking a dinner break and continuing in the evening, the commission heard from the public during its final meeting for 1997. Approximately twenty-seven individuals spoke to the commission on a variety of topics including the earned income tax credit (EITC), Governor-elect Gilmore's car tax proposal, valuation and assessment of real property, taxation of farm land, and regional cooperation and revenue sharing.

The most popular topics were the governor-elect's car tax proposal and the EITC. Individual taxpayers and local government representatives all spoke in favor of the car tax proposal. Most of the individuals talked about the burden of the tax and how unfair it is. Local government representatives emphasized the importance of a dollar-for-dollar reimbursement from the state to the localities for the car tax revenues it they would no longer collect from their taxpayers. They also requested that there be a revenue growth mechanism in the formula and that there be a dedicated source of funds.

The earned income tax credit was praised as a means to help the working poor and to assist individuals in successfully moving off of the welfare roles. The refundable credit was also described as an essential compliment to the proposed car tax cut and an investment in low-income workers and their families. All of the EITC speakers urged the commission to support the credit.

January '98 Meeting

The commission's final meeting was held in Richmond one day before the 1998 General Assembly convened. The chairman distributed a draft of the proposed commission findings and recommendations. Members of the commission discussed and amended the draft proposal and voted on final findings and recommendations.

IV. ISSUE

1. What can be done to improve the delivery of services and the collection of revenues at the state and local levels of government?

V. FINDINGS AND RECOMMENDATIONS

After three years of study, the Commission on State and Local Government Responsibility and Taxing Authority makes the following findings and recommendations:

1. ***Personal property tax on automobiles, trucks and motorcycles—***
We understand that the personal property tax is an extremely unpopular tax. Many believe it is inequitable. Therefore, we support its reduction through an exemption on automobiles, trucks and motorcycles of a certain value provided the fiscal impact to the localities will be revenue neutral each year and the means for reimbursing the localities for the foregone revenues will be the responsibility of the state and that responsibility will be perpetual. We suggest that after careful, additional analytical study the state consider paying for this plan (i) from general fund revenue growth, (ii) by funding local SOQ costs equivalent to the foregone personal property tax revenues, with appropriate provisions for towns, or (iii) by returning a dedicated portion of the state income tax revenues. Whatever funding mechanism is chosen, the exemption from the tax should be accomplished within five years, if at all possible. However, if the costs for accomplishing this are so

great that other state programs suffer, the time should be extended but for no longer than is absolutely necessary.

2. *Earned Income Tax Credit—*

We understand that the federal earned income tax credit helps many low-income working individuals with families continue to work and support themselves and their families, but it is still not enough in some instances. Therefore, we support a state earned income tax credit in the amount of five percent of the federal earned income tax credit with a goal of increasing that amount to ten percent in two years and consider raising the threshold for paying state income taxes.

3. *Local taxing authority—*

We understand that the current local systems for taxation and debt approval are inconsistent between counties, cities and towns. We recommend a modification to local government financing so that counties, cities and towns have the same taxing and bonding systems. Further, cities and counties should be treated by the Commonwealth as identical units of government with all the attendant rights and responsibilities.

4. *Local assessment practices—*

We understand that property assessment procedures vary from locality to locality throughout the Commonwealth. Therefore, we support the adoption of more uniform statewide assessment procedures for personal and real property that is based on a uniform fair market valuation methodology and including better training for local assessors and a simpler, more user-friendly process for taxpayers who appeal assessments.

5. *Funding obligations—*

We understand that in the past the state has not always fully funded its share of programs for which localities must then pay the full costs. We urge the General Assembly in the future to fully fund annually all obligations to the localities.

6. *Permanent commission—*

Having worked on revenues and services issues for the past three years, we understand that we have only begun to scratch the surface. Due to the complexity, depth and ongoing evolution we support the creation of a permanent commission to be made up of state and local government officials as well as individuals from the private sector. This commission would continue this work by conducting an in-depth examination of state and local taxes, including (i) the taxation of farm land, (ii) local government's dependence on the real estate tax, (iii) the appeals process for all local taxes, and (iv) the expansion of the retail sales and use tax in the areas of services and Internet sales.

It has been an interesting and challenging three years and the joint subcommittee extends its gratitude to the many individuals who assisted in its work.

Respectfully submitted,

Ms. Eva Teig, Chairperson
The Honorable Trenton Crewe, Vice Chairperson
Speaker Thomas W. Moss, Jr.
Delegate C. Richard Cranwell
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Dr. Charles W. Curry
Ms. Katherine K. Hanley
Mr. Scott Martin Harwood
Mr. H. Randolph Laird
Mr. Joseph A. Leafe
Mr. L.Cleaves Manning
Ms. Ann Parker Maust
Mr. Ross A. Mugler
Mr. Robert J. O'Neill
Mr. William L. S. Rowe
Mr. John L. Rulison
Mr. David G. Speck
Mr. Todd L. Stottlemyer

* Delegate Wilkins disagreed with 1997 Recommendations No. 2 and 3.

Appendix A

HOUSE JOINT RESOLUTION NO. 108

Continuing the Commission on State and Local Government Responsibility and Taxing Authority.

Agreed to by the House of Delegates, March 4, 1996
Agreed to by the Senate, February 29, 1996

WHEREAS, House Joint Resolution No. 160 (1994) established the Local Revenue Resources Subcommittee to begin to examine all local taxes and fees and review their equity and efficiency, and House Document 69 reported the findings of the Commission; and

WHEREAS, House Joint Resolution No. 487 (1995) broadened the focus of the HJR No. 160 study by establishing the Commission on State and Local Government Responsibility and Taxing Authority to examine the services and means of raising revenues both at the state and local levels; and

WHEREAS, the Commission had three public hearings during 1995 as part of their examination of such services and revenues; and

WHEREAS, the members of the Commission were appointed to either a Services Task Force or a Revenues Task Force in order to focus on these two areas; and

WHEREAS, the Revenues Task Force adopted the business, professional and occupational license (BPOL) uniform ordinance 1995 legislation and recommended it be introduced during the 1996 General Assembly Session; and

WHEREAS, the Revenues Task Force suggested that further examination of the revenues aspect of the study is required; and

WHEREAS, the Services Task Force examined the provision of services in the areas of education, health, mental health, social services, corrections and transportation; and

WHEREAS, suggestions were made regarding what services could be transferred to the state from the localities; and

WHEREAS, the major suggestion was to transfer the local share of the funding ($1.4 billion) for the standards of quality in education to the state because the localities have no control over or input into creating those standards; and

WHEREAS, in order to assist with this funding it was also suggested that one or more local taxes could be assumed by the state, such as the BPOL tax, personal property tax and local options sales tax; and

WHEREAS, it was suggested by the business community that further consideration should be given to setting a date certain for repealing the BPOL tax and replacing it with some other revenue source; and

WHEREAS, the agriculture community and others have suggested that the real estate tax, tangible personal property tax, and all other local taxes be examined further for consideration of possible alternatives of replacement or consolidation; and

WHEREAS, the Commission has determined that further study is needed; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Commission on State and Local Government Responsibility and Taxing Authority be continued in order to complete its task of examining the state and local services and the revenues raised to provide those services and determining if changes should be made in such arrangements. The Speaker of the House of Delegates may appoint an additional House member who has experience in finance and local government.

The direct costs of this study shall not exceed $50,000.

The Weldon Cooper Center for Public Service at the University of Virginia and the Division of Legislative Services shall provide staff support for the study. Technical assistance shall be provided by the Department of Taxation and the State Corporation Commission. All agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The Commission shall be continued for one year only and shall complete its work in time to submit its findings and recommendations to the Governor and the 1997 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

Appendix B

HOUSE JOINT RESOLUTION NO. 532

Continuing the Commission on State and Local Government Responsibility and Taxing Authority.

Agreed to by the House of Delegates, January 30, 1997
Agreed to by the Senate, February 19, 1997

WHEREAS, House Joint Resolution No. 160 (1994) established the Local Revenue Resources Subcommittee to begin to examine all local taxes and fees and review their equity and efficiency, and House Document No. 69 reported the findings of the Commission; and

WHEREAS, House Joint Resolution No. 487 (1995) broadened the focus of the HJR No. 160 (1994) study by establishing the Commission on State and Local Government Responsibility and Taxing Authority to examine the services and means of raising revenues both at the state and local levels, and House Document No. 62 (1996) contains the findings of the Commission; and

WHEREAS, the Commission adopted the business, professional and occupational license uniform ordinance legislation and recommended it be introduced during the 1996 Session of the General Assembly; and

WHEREAS, suggestions were made regarding what services and revenues could be transferred to the state from the localities; and

WHEREAS, the major suggestion was to transfer the local share of the funding for the standards of quality in education to the state because the localities have no control over or input into creating those standards; and

WHEREAS, in order to assist with this funding it was also suggested that one or more local taxes could be assumed by the state, such as the BPOL tax; and

WHEREAS, the Commission has determined that further study is needed in order to fully understand the economic impact of such actions; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Commission on State and Local Government Responsibility and Taxing Authority be continued in order to complete its task of examining the state and local services and the revenues raised to provide those services and determining if changes should be made in such arrangements.

The direct costs of this study shall not exceed $50,000.

The Weldon Cooper Center for Public Service at the University of Virginia and the Division of Legislative Services shall provide staff support for the study. Technical assistance shall be provided by the Department of Taxation and the State Corporation Commission. All agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The Commission shall be continued for one year only and shall complete its work in time to submit its findings and recommendations to the Governor and the 1998 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

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