Government Finances

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Government Finances in Hampton Roads

Although significant attention has been given to federal and state issues, local governments provide for public schools, public safety, water and sewage, local roads, and a host of other services critical to communities.

Most local revenues come from taxes on real property and personal property. In 2010, 50% of local revenues were generated from the real property tax. While personal property tax provided a greater share of revenue in the 1990s, they declined as a result of former Governor Jim Gilmore’s push to decrease personal property taxes imposed on vehicles. By 2020, personal property taxes comprised 10% of local revenues and real property taxes fell slightly to 49% of local revenues.

Another important measure of local finances derives from per capita spending on services. As with the state as a whole, the majority of local spending is devoted to education, averaging $1,833 per capita in 2020, down from $2,073 per capita in 2009 (inflation adjusted). Other major categories include public safety ($652 per capita), health & welfare ($343), and public works ($298).

In 2020 Hampton Roads spent more than most other Virginia localities on public works (+24.3%), parks and recreation (+24.8%), and public safety (+3%) on a per capita basis. However, these spending gaps are declining over time, as the numbers show the commonwealth catching up with Hampton Roads. In 2020, the region spent 2.1% less per capita than Virginia overall.

While local revenues indicate how much money is raised locally, it does not indicate the ability to raise taxes or the tax burden on local residents. The Commission on Local Government issues an annual fiscal stress report to measure the revenue capacity, revenue effort, and relative median income of each locality. An area whose revenue effort exceeds its revenue capacity, i.e. whose tax revenues are higher than the incomes from average tax rates, would be considered fiscally stressed and may be overburdening their community if they attempted to increase revenues.

The median fiscal stress of the 16 Hampton Roads localities was 100.2 in 2018, indicating that its localities were slightly more stressed than average Virginia localities. The unweighted mean was slightly higher at 100.8. Many of the more stressed communities are in cities, which is common as they provide higher levels of service than the state as a whole, and thus collect higher levels of taxes. The majority of the indicators included in this section have data from 2020, which includes the impact of the COVID-19, but the fiscal stress indicator lags with the most recent available data from 2018.
**Figure 11.1 Hampton Roads Per Capita Local Revenues**

**Why is it important?**
Local governments generate revenues from a host of different sources. Virginia state law limits taxation options available to local governments, requiring localities to concentrate their revenue efforts in a limited number of areas.

**How are we doing?**
Most local government revenues are generated from real and personal property taxes. Other taxes, such as the Business, Professional, and Occupational and the utility tax, contribute as well. Revenues experienced significant reductions during the Great Recession, but has been recovering slowly. Year-over-year impacts from COVID were minor, mostly in other taxes.

**Figure 11.2 Hampton Roads Per Capita Property Tax Collections**

**Why is it important?**
The majority of local government revenues are generated from real and personal property tax collections. As a result, local government expenditures are sensitive to variability in either category.

**How are we doing?**
Inflation-adjusted per capita property tax collections increased by 49% between 2000 and 2009, but declined during the Great Recession and remain at 0.7% below the 2009 levels. This decline was driven by falling home prices and lower property tax rate during the housing boom, but the past 10 years have seen steady upward growth.

Source: Auditor of Public Accounts, Weldon Cooper Center, Bureau of Labor Statistics, HRPDC
Why is it important?
Local governments provide a variety of services to their residents. The provision of services is based on federal and state mandates and the demands from residents and businesses. Services are constrained by limited government revenues.

How are we doing?
Roughly half of all local government expenditures in Hampton Roads are spent on education. In 2020, ratios of per capita local spending stayed consistent across categories, with slight year over year declines in education and health & welfare spending (inflation-adjusted), and increases in public safety and public works.

Why is it important?
Per capita expenditures by local government and Virginia give a benchmark for local spending in the context of state averages.

How are we doing?
Generally, local expenditures for the Commonwealth and the region have followed the same pattern. For the third year in a row, state spending exceeded regional spending in Hampton Roads in 2020, with the gap increasing between the two for each consecutive year.
**Figure 11.5 Per Capita Expenditure by Category in Hampton Roads and Virginia**

**Why is it important?**
Reviewing localities per capita spending by category for the state and the region allows for analysis of relative priorities and costs of various functions within the region.

**How are we doing?**
Education sees the highest level of spending at the state and regional level, though the per capita level is roughly 7% higher for the Commonwealth. All other categories generally track closely, with public safety, public works, general government administration, and parks and recreation realizing slightly higher levels of spending in the region.

**Figure 11.6 Median and Average Fiscal Stress in Hampton Roads**

**Why is it important?**
The Commission on Local Government reports on the fiscal condition of Virginia’s localities on an annual basis. This Report includes a fiscal stress index that measures the comparative revenue capacity, revenue effort, and median incomes of all Virginia localities. A score of 100 indicates an average level of stress.

**How are we doing?**
The composite level of fiscal stress in the region declined between 2003 and 2011, steadying during recovery from the Great Recession. Regional fiscal stress has been declining from 2016-2018; this data does not include COVID impacts.
**Figure 11.7 Hampton Roads Per Capita Local Revenues by Source**

**Why is it important?**
Funding available for local expenditures comes not only through local tax revenue, but also through taxes paid to the state and federal government which are then allocated to local governments.

**How are we doing?**
State and local monies are the most important source of funds for regional localities. Over time, the share of the contributions have remained relatively unchanged; however, 2020 saw a significantly increased amount of direct federal aid as well as a reduction in local revenue as a result of the COVID-19 pandemic.

Source: Auditor of Public Accounts, Weldon Cooper Center, Bureau of Labor Statistics, HRPDC

**Figure 11.8 Sources of Municipal Revenues in Hampton Roads**

**Why is it important?**
A static view of sources of revenue gives a clearer understanding of the current sources of funds for local governments in Hampton Roads.

**How are we doing?**
In 2020, local revenues and taxes constituted 57% of all funds available to governments in Hampton Roads, with 3% coming from direct federal aid. Overall, the relative share of funding has remained constant over the past 26 years, but as federal dollars from the CARES Act and American Rescue Plan continue to come into the region in 2020 and 2021, the ratios have slightly adjusted.

Source: Auditor of Public Accounts, Weldon Cooper Center, Bureau of Labor Statistics, HRPDC