Section XI.

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 2017, personal property taxes comprised 10% of local revenues and real property taxes fell to 48% 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 $1,725 per capita in 2017, down from $1,979 per capita in 2009 (inflation adjusted). Other major categories include public safety ($600 per capita), health & welfare ($326), and public works ($285).

Hampton Roads spends more than most other Virginia localities on public works (+48.7%), parks and recreation (+41.5%), and public safety (+7.5%) on a per capita basis. In 2016, the region spent 1.2% more per capita than the average Virginia locality.

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 100.5 in 2014, 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.

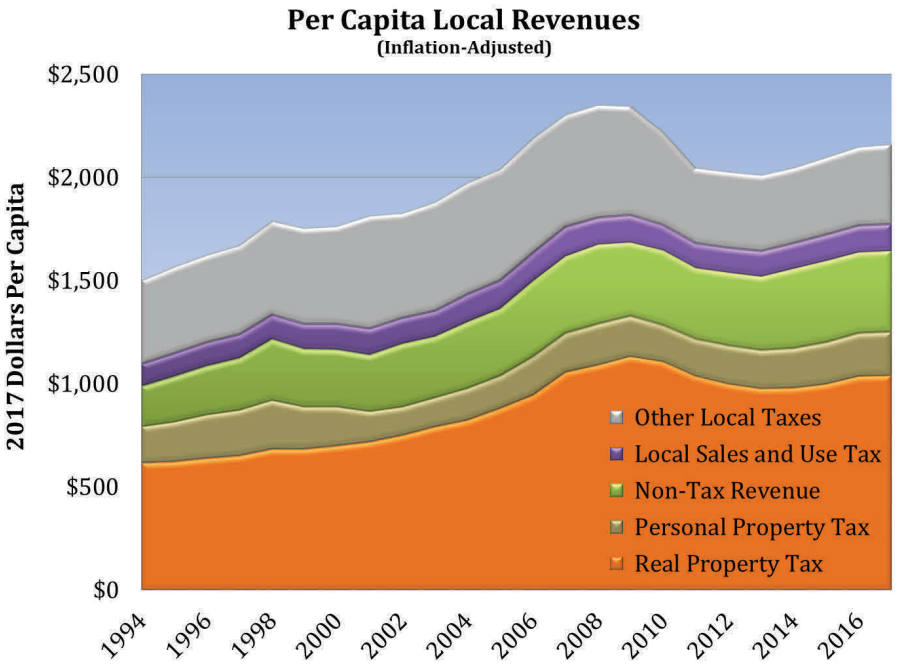
Figure 11.1 Hampton Roads Per Capita Local Revenues

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.

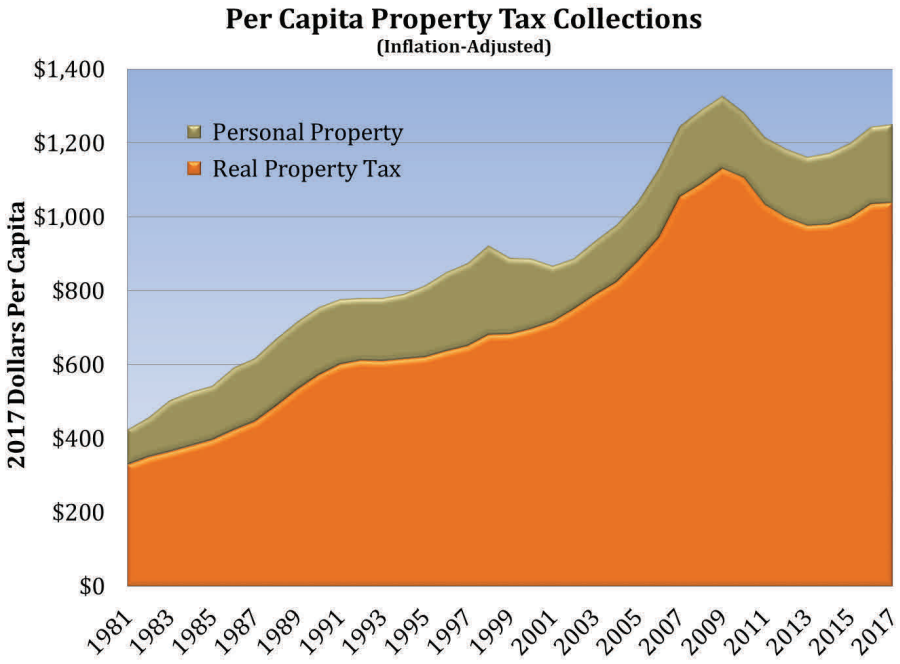
How are we doing?

Most local government revenues are generated from real and personal property taxes. Other taxes, such as the Business, Professional, and Occupational (BPOL) tax and the utility tax, contribute as well. Revenues experienced significant reductions during the recession but have recovered in the past few years.



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

Figure 11.2 Hampton Roads Per Capita Property Tax Collections



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

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 recession and remain at 5.7% below the 2009 levels. This decline was driven by falling home prices and the impact from lowering the property tax rate during the housing boom.

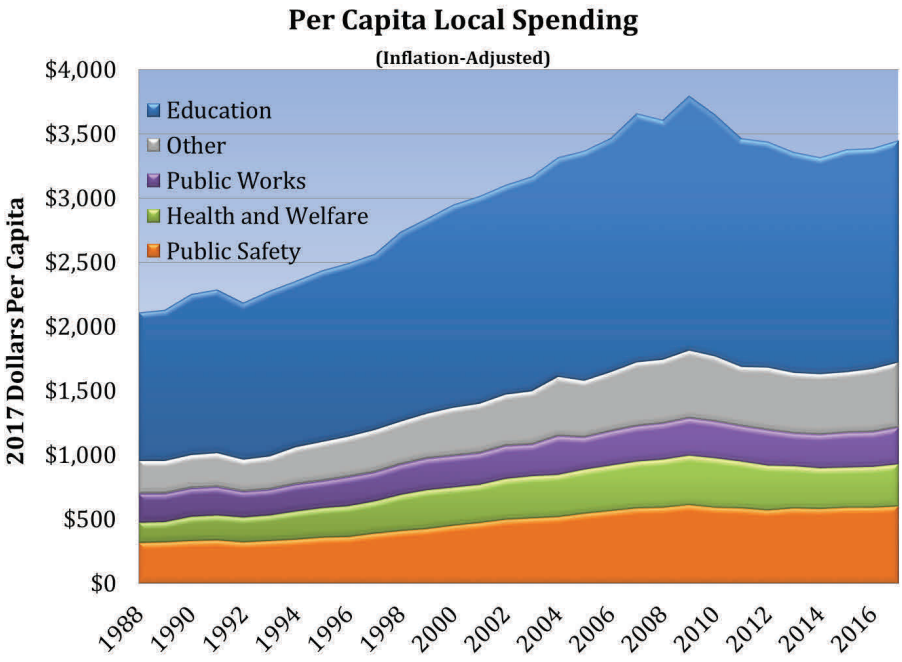
Figure 11.3 Hampton Roads Per Capita Local Spending by Category

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.

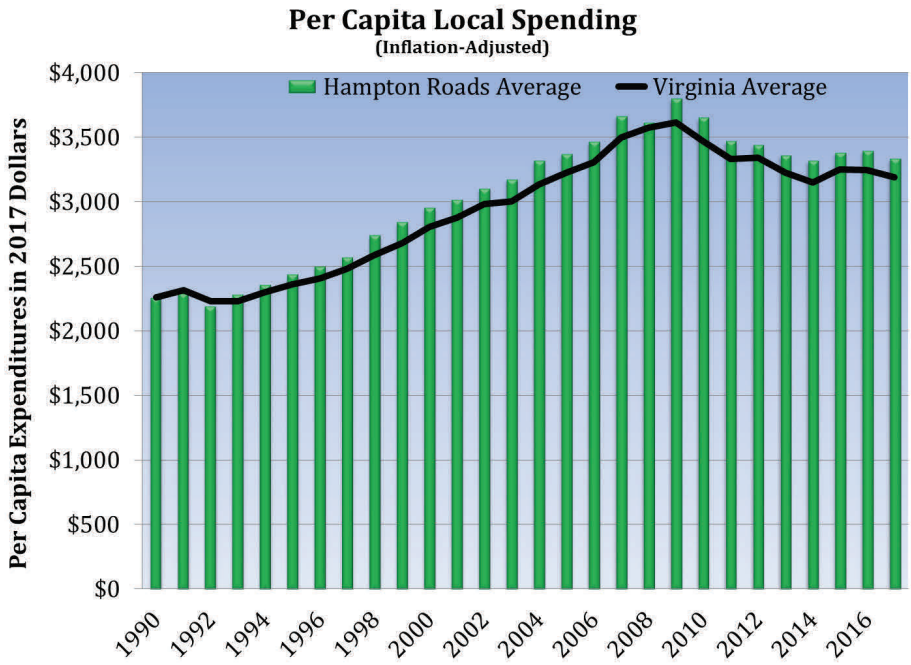
How are we doing?

More than half of all local government expenditures in Hampton Roads are spent on education. Recent decreases in revenues have reduced funding for public works and other projects.



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

Figure 11.4 Per Capita Spending in Hampton Roads and Virginia



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

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. Regional spending has exceeded that of the state every year since 1992.

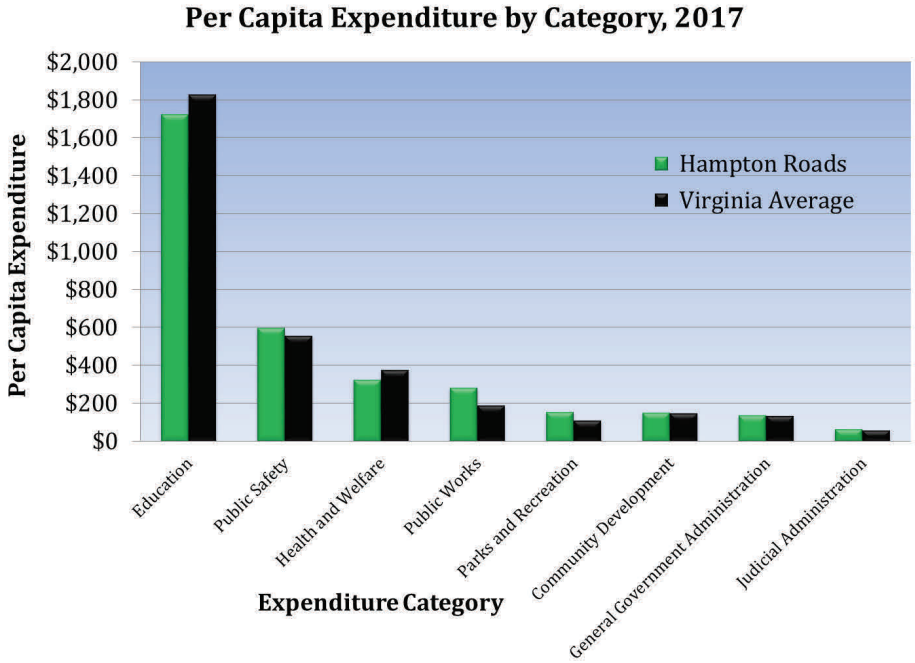
Figure 11.5 Per Capita Expenditure by Category in Hampton Roads and Virginia

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.

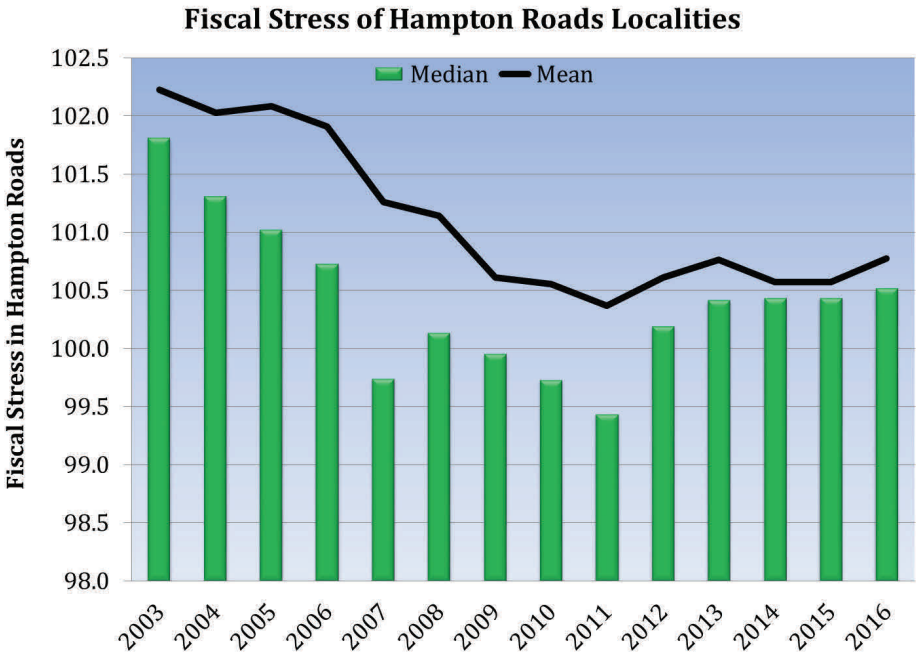
How are we doing?

Education sees the highest level of spending at the state and regional level, though the per capita level is slightly higher for the Commonwealth. All other categories track fairly closely, with public safety and public works realizing slightly higher levels of spending in the region.



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

Figure 11.6 Median and Average Fiscal Stress in Hampton Roads



Source: Commission on Local Government, HRPDC

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, driven by increasing median incomes and home price appreciation leading to higher revenue capacity in the region.

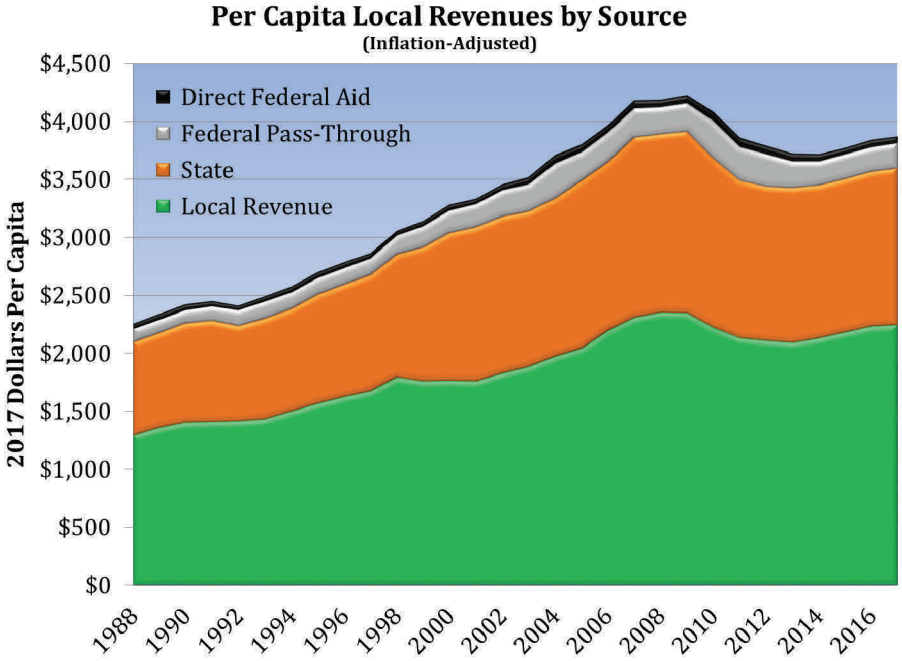
Figure 11.7 Hampton Roads Per Capita Local Revenues by Source

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.

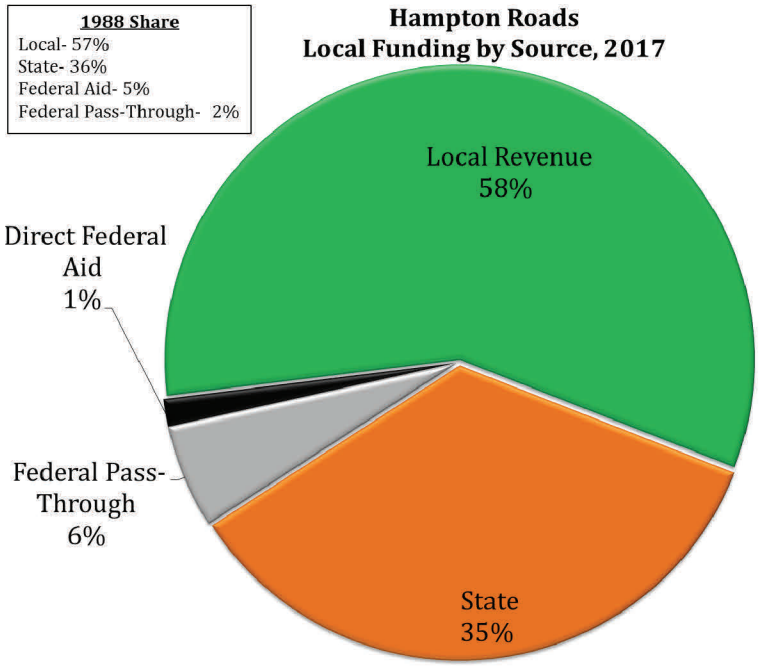
How are we doing?

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, this does not account for numerous unfunded mandates placed on local governments by the state.



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

Figure 11.8 Sources of Municipal Revenues in Hampton Roads



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

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?

Local revenues and taxes constitute 58% of all funds available to governments in Hampton Roads, remaining little changed since 1988. In total, the relative share of funding has remained constant over the past 26 years.