

A FISCAL CRISIS IN OUR LOCAL GOVERNMENTS

PART 2

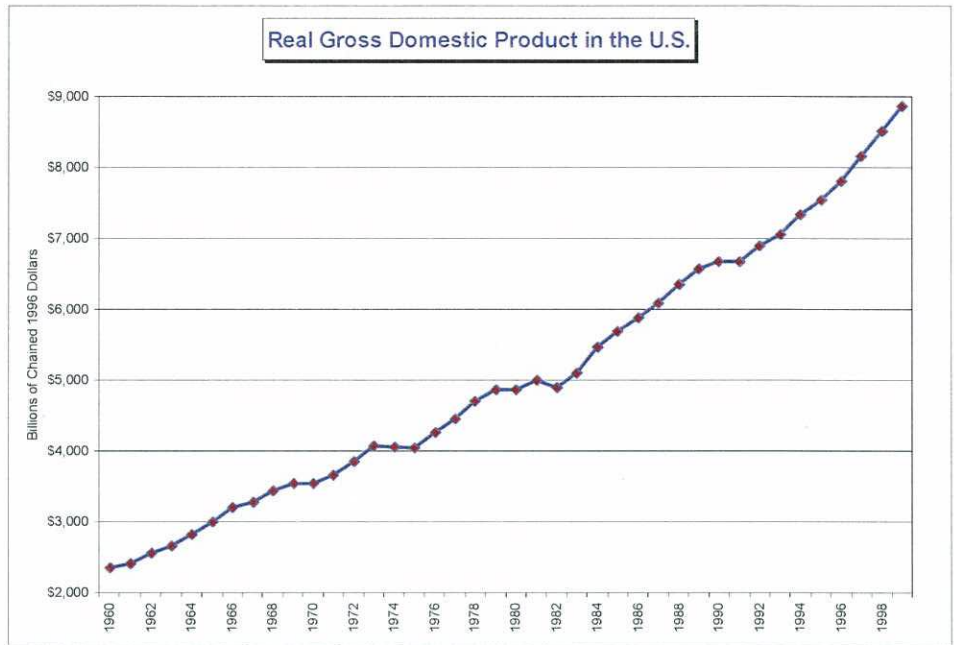


April 2000

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As a nation, we're enjoying the longest economic boom in a century. Salaries keep increasing, the stock market continues to rise, and businesses are growing.

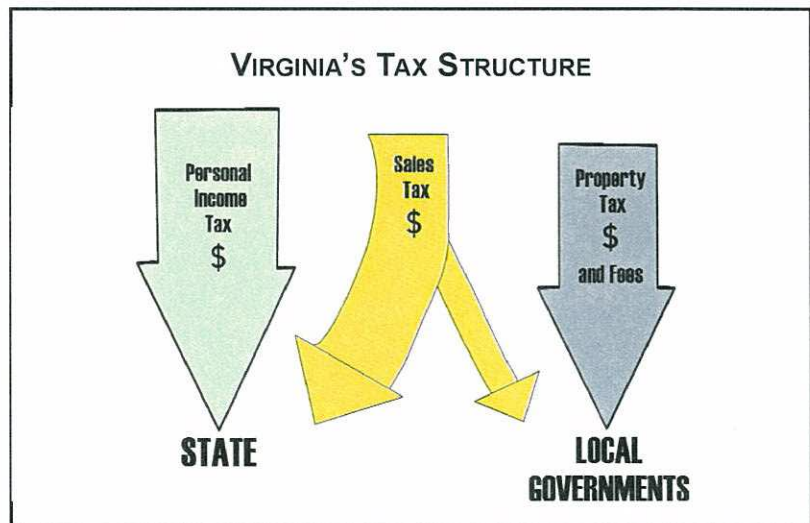
Yet local governments in Virginia are straining financially. The cities and counties of Hampton Roads are not receiving enough revenue to meet the needs of our communities. That's money needed to support our schools, protect the safety of our communities, and enhance the quality of life in Hampton Roads.



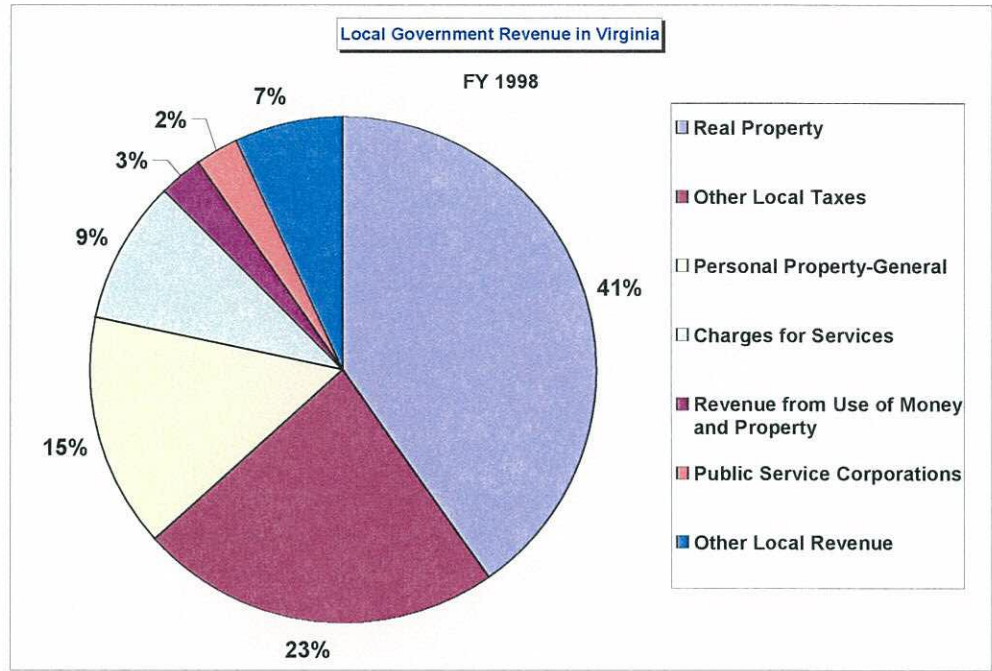
Source: Economic Report of the President

Virginia's current tax structure limits the ability of our cities and counties to raise revenue as the economy expands. All personal income tax money goes to the state. Cities and counties rely heavily on property taxes and fees and receive only a small portion of sales tax revenues.

Since personal incomes and retail sales are growing faster than taxable property values, the state government's revenue is increasing faster than local government revenues. Being dependent on slower growing property tax revenues is putting our cities and counties at a critical financial disadvantage.

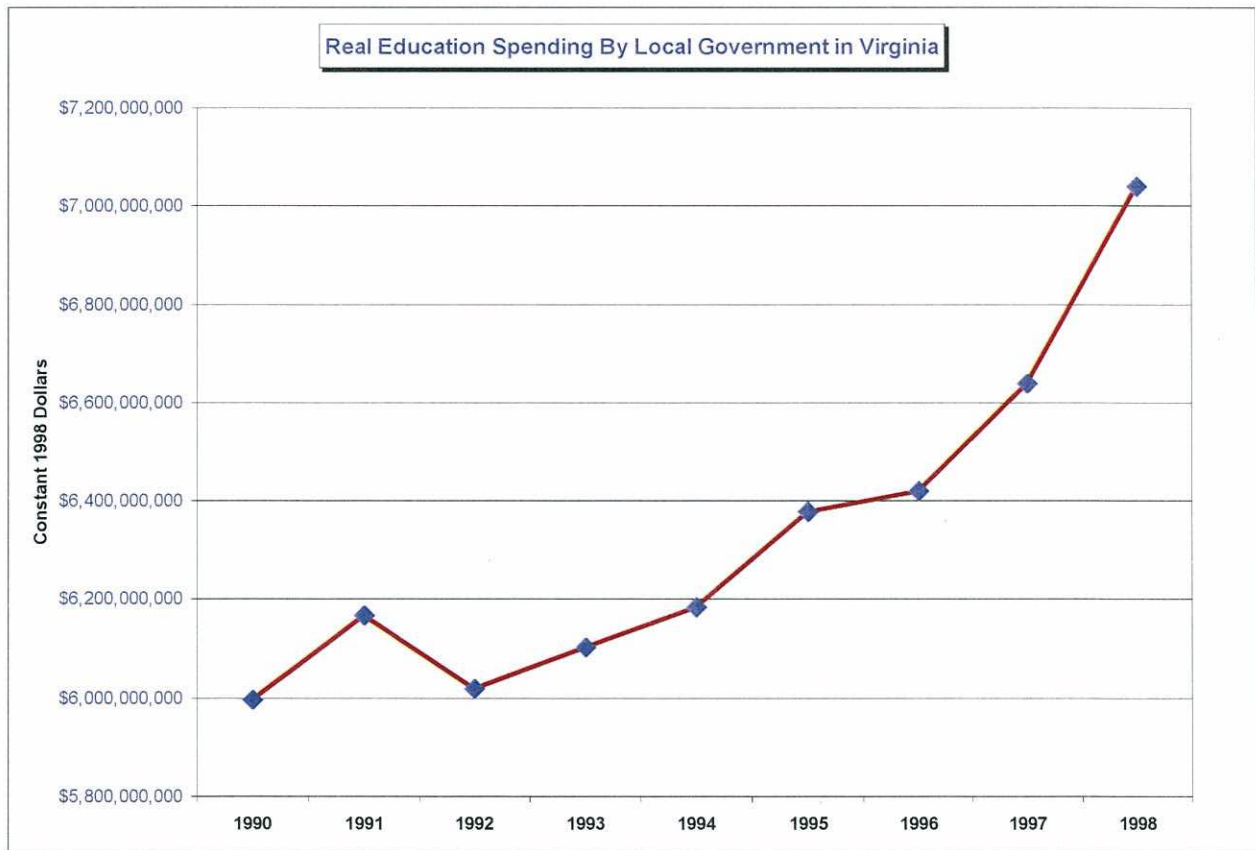


The value of real estate properties strongly affects local government revenues. In 1998, real estate property tax revenue was 41% of all revenue raised by local government in Virginia. The amount of real estate tax paid is based on the value of the property and the tax rate. In the past ten years, real estate values in Hampton Roads have risen slowly and have not kept up with inflation.



Source: Auditor of Public Accounts

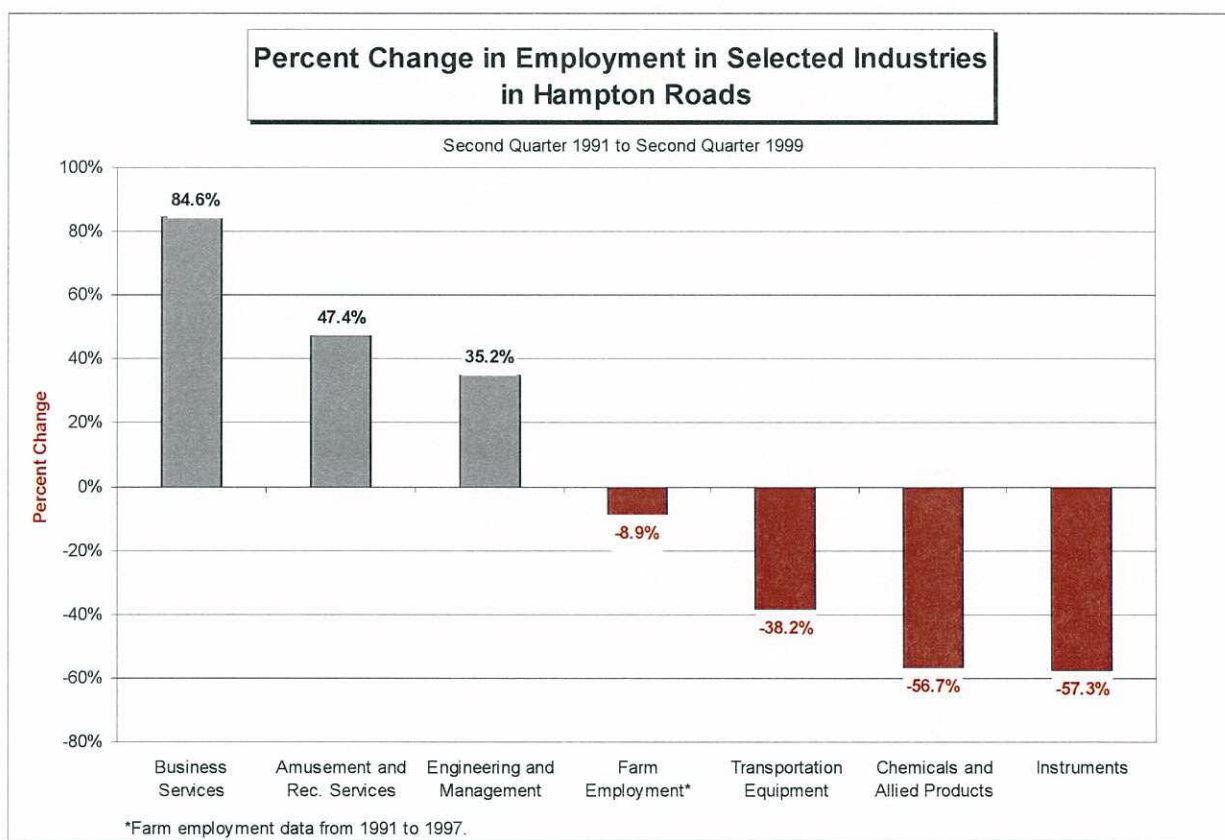
At the same time, costs for services are rising. Education spending by Virginia's local governments has increased 17.4% between 1990 and 1998 — when adjusted for inflation. Property tax revenues are not keeping up with the rising costs of community services.



Source: Auditor of Public Accounts

In addition to real estate, property taxes are also collected on business equipment and vehicles. A change in economic trends has led to slow growth of this tax base, which has contributed to the slow growth in local government revenues.

In the past, manufacturing and agriculture — which require owning a lot of taxable property, have been major industries in Hampton Roads. However, service and retail industries are replacing manufacturing and agriculture throughout the region. For example, employment in business services increased by over 84% between 1991 and 1999; amusement and recreational services were up 47%; and engineering and management services experienced a 35% gain. In contrast, employment in chemical manufacturing dropped 58% between 1991-1999; instrument manufacturing decreased by 57%; and transportation equipment manufacturing, including shipbuilding, is down 38%. From 1991 to 1997, agricultural employment dropped almost 9%. Over a 20-year span (1977 to 1997), agricultural employment dropped 45%.



Sources: VA Employment Commission & Bureau of Economic Analysis

Often businesses that provide services do not need as much taxable property as companies that manufacture goods. For example, a manufacturing company may own several buildings for production, distribution and storage. It uses machinery to build and package its products, as well as office equipment to manage the operation. All of this is taxable property. However, a company providing consulting services typically owns only basic business equipment that's taxable — such as computers, telephones, copiers and furniture.

Local governments receive comparatively little revenue from the property taxes of service businesses, while the state receives substantial income tax revenue.