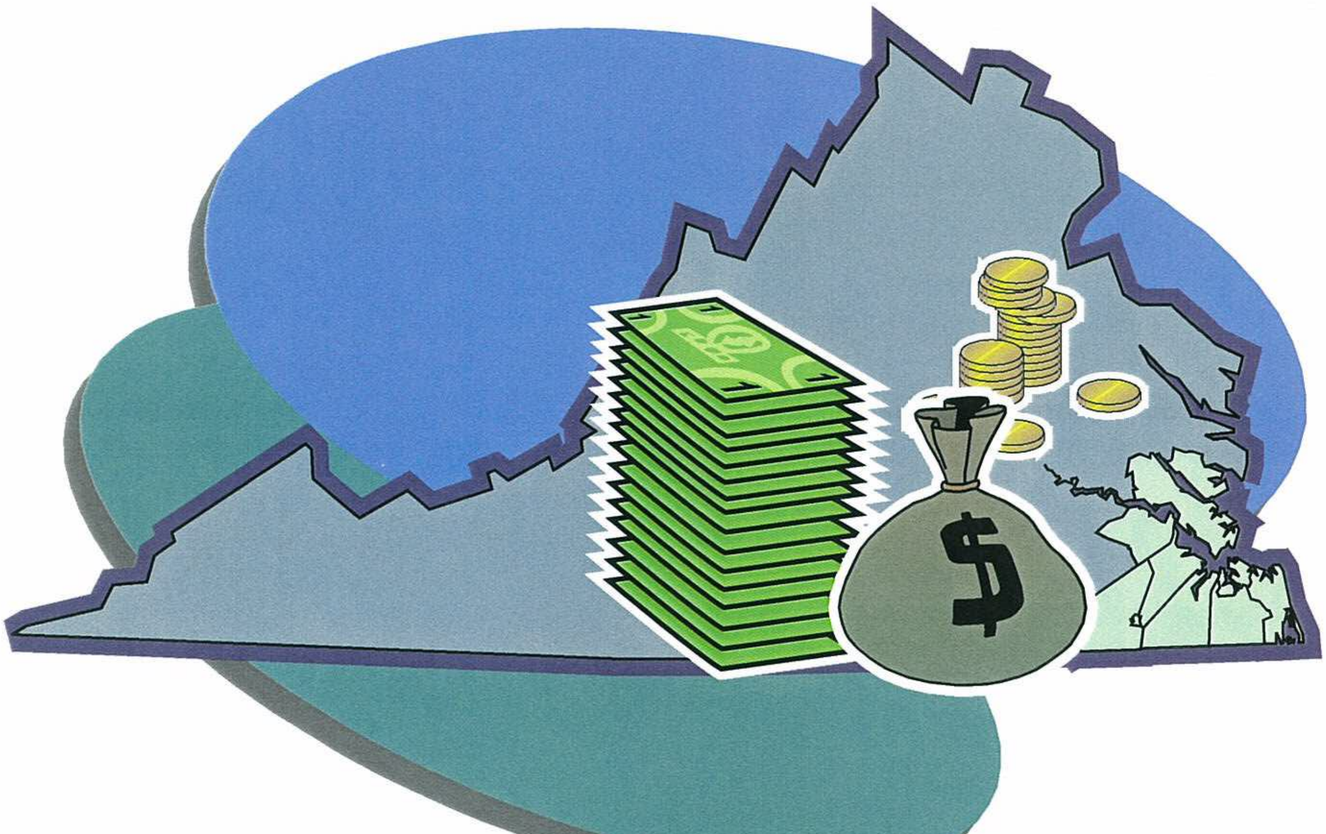
A FISCAL CRISIS IN OUR LOCAL GOVERNMENTS

Part 3



HAMPTON ROADS
PLANNING DISTRICT COMMISSION

July 2000

E00-01B

Virginia 's tax structure is antiquated. How we're taxed and how our tax money is distributed is critical to the financial health of our cities and counties. Our local governments consistently receive high bond ratings from independent agencies, which reflect sound financial management. Yet they are financially stressed and the state is operating with a surplus.

A recent study by an independent consultant found that cities and counties in Hampton Roads will not be able to keep up with growing expenses by the year 2005 - especially in public education -- unless we make changes in the current tax system.

The Hampton Roads Planning District Commission and an advisory group of financial staff from our local governments reviewed ways to relieve fiscal stress and protect our economic future. The group identified three potential solutions that change Virginia's tax structure and that do not increase taxes.

Potential Solutions to Relieve Fiscal Stress

1
Share Income Tax Revenue

2
Transfer Financial Responsibilities for Shared Services to the State

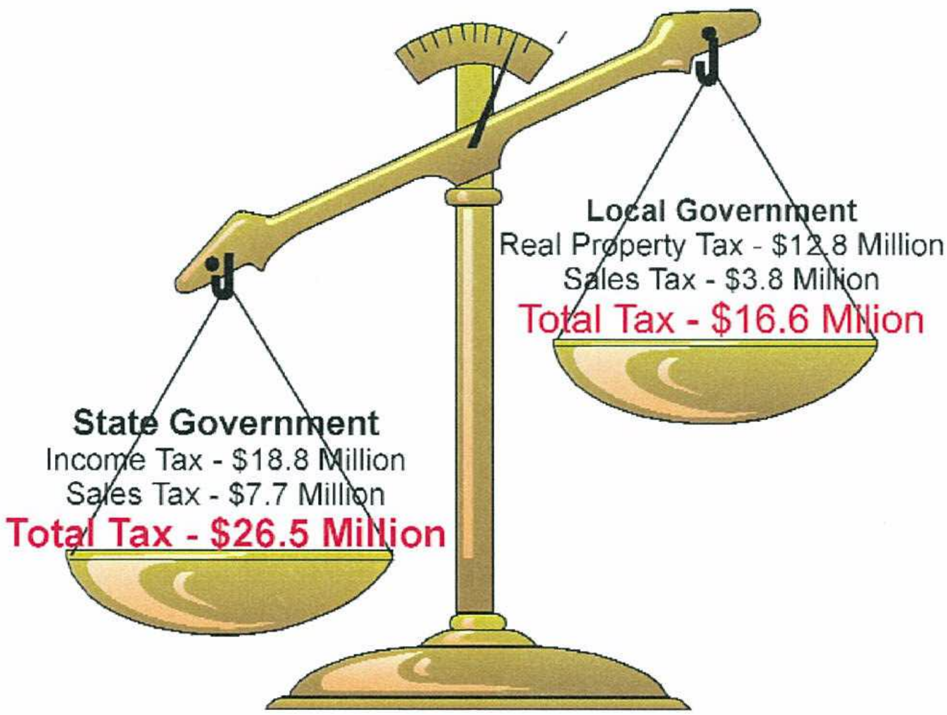
3
Use More State Funds in Construction and Upgrades of Public Buildings

First, the state might share income tax revenue with local governments, as many other states do. Or, second, the state could take over financial responsibilities for some services now paid for by cities and counties where cost increases are higher than local revenue growth. A third option -- the state could put more money into constructing and upgrading public buildings, especially schools.

1 Share Income Tax Revenue

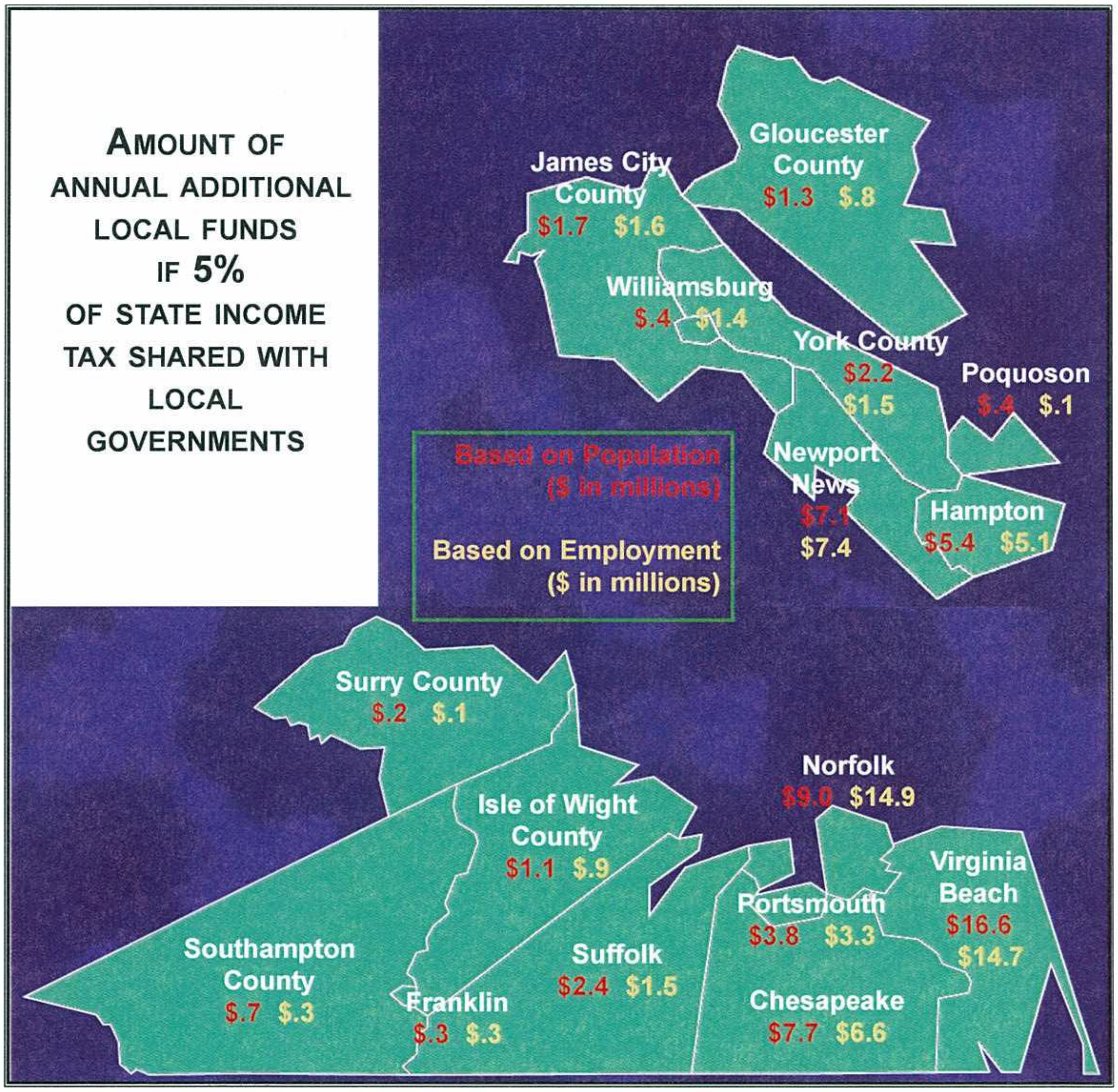
Virginia' s income tax revenue should be shared with local governments throughout the state. Our cities and counties bear costs for securing new economic development projects to help increase their revenues. Yet, the state collects more revenue from economic development through income taxes than our local governments collect through real property taxes.

Total Annual Revenue Impact of Forty-one Economic Development Projects in Hampton Roads



If the state shares only five percent of its income tax revenue with local governments, it will offset about two percent of the money our localities spend each year. How those funds will be distributed to local governments may affect the amount of financial help cities and counties get from the state.

Income tax revenues could be shared with local governments based on where people live or where they work. Because cities and counties vary in population, employment and financial stress, we must choose a way to distribute the money fairly to all localities in Virginia. A community with high population and low employment will benefit more from a distribution based on where people live. And a community with low population and a high number of jobs will gain more from a distribution based on where people work.



The difference could mean of millions of dollars for some of our localities. For example, based on population, Norfolk would receive an additional $9 million annually. Based on employment, the city would gain almost $15 million each year. Williamsburg would receive $485,000 per year based on population, and almost $1.5 million based on employment. Under both methods, a wide range of revenue would be brought to Hampton Roads localities. Whatever distribution method is chosen, the state must also continue to use special formulas that take into consideration the financial need and fiscal stress of every locality in Virginia.