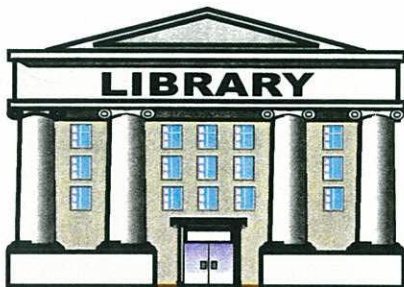


A FISCAL CRISIS IN OUR LOCAL GOVERNMENTS



PARKS

ROAD

SCHOOLS



CONSTRUCTION



LAW ENFORCEMENT



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A FISCAL CRISIS IN OUR LOCAL GOVERNMENTS

Our cities and counties are facing increasing fiscal pressure. Our communities continue to grow, but the local tax base that provides the revenue to support them is not keeping up. Our local governments are financially strained and becoming more and more challenged to meet the needs of their citizens.

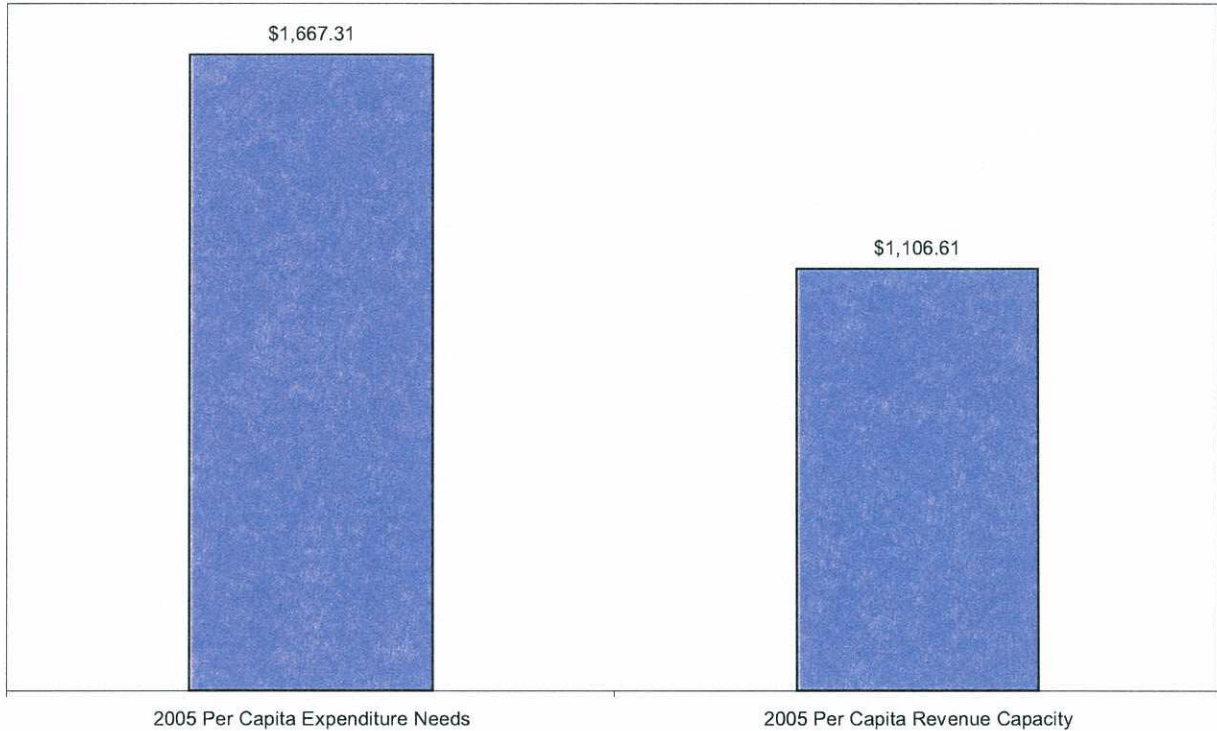
The Hampton Roads Planning District Commission has been exploring this problem of financial stress. According to a recent study, the current fiscal strain is only going to get worse. By the year 2005, our current tax system will not provide local governments with enough funds to meet basic community needs. Without proper funding, our schools will suffer and our overall economy will weaken. The economic health of our local governments affects our competitiveness. If we cannot afford to maintain good schools, safe neighborhoods, and high quality services, we will not be able to draw people and businesses to the area or—as important—keep people from moving out of the region.

Virginia's existing tax structure is causing serious economic challenges to our local governments. Yet the state government continues to operate with a surplus of revenue. Between 1987 and 1997, every city and county in Hampton Roads has had to raise their real estate property tax rates to try and meet the needs of their communities. However, during this same period, the state has not had to raise any tax rates and is even operating with a surplus of funds and cutting taxes. This imbalance is playing a critical part in the fiscal stress felt by our local governments.

The HRPDC has begun a process to provide community leaders and citizens of Hampton Roads with a comprehensive analysis of Virginia's tax structure and how it is impacting our local governments. Over the next several months, the HRPDC is producing a multi-media educational series addressing the current state and local tax system, fiscal stress in Hampton Roads, and possible solutions to relieve the financial strain facing our local governments.



Projected Hampton Roads Total Expenditure Needs and Revenue Raising Capacity in 2005



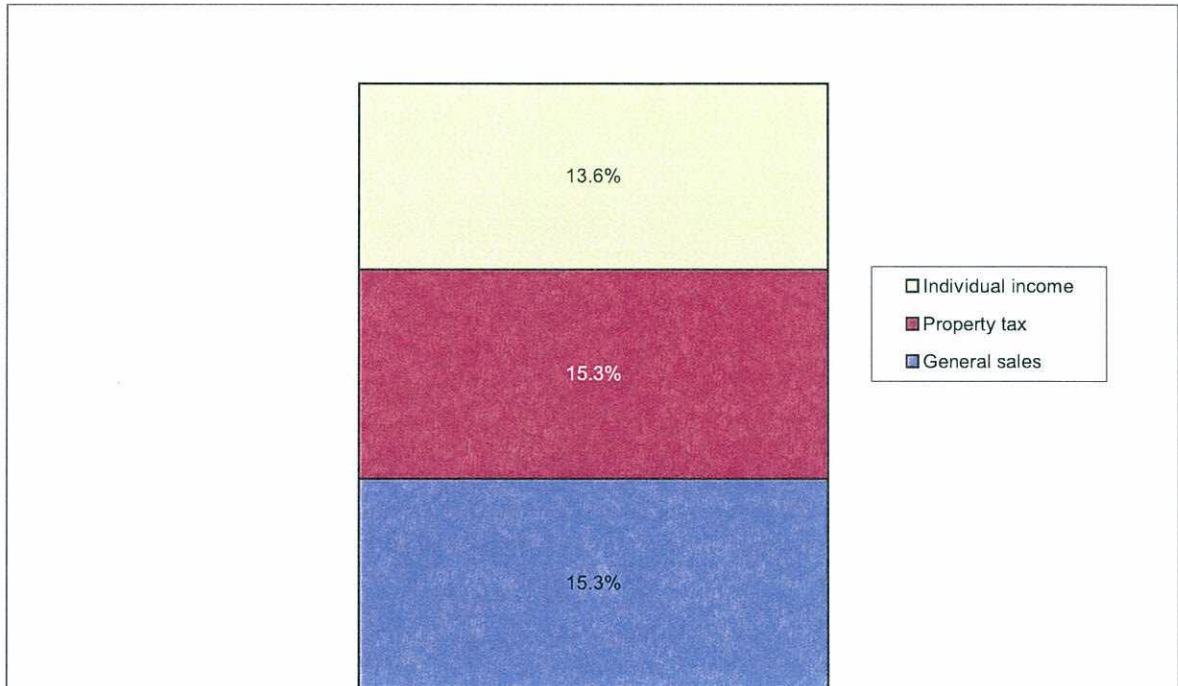
Source: Barents Group L.L.C.

A recent study by an international financial consulting firm, the Barents Group, found that by the year 2005, the current tax system wouldn't supply enough funds for our local governments to meet community requirements. Yet, the state government continues to operate with a surplus of revenue.

Revenue raised by Virginia's taxes is divided between our state and local governments. How that money is allocated is dictated by state law and can only be changed by our state government. Our state government also determines what types of taxes we have. Local governments have few options and little authority over how revenue is raised.

Selected State and Local Tax Revenue as a Percent of Total State and Local Revenue

Fiscal Year 1996



Source: U.S. Bureau of the Census, *Annual Survey of State & Local Government Finances*

Here in Virginia, our state and local governments get a large portion of their money from three major taxes - income tax, property tax and sales tax.

About 28% of state and local government tax revenues come from individual income taxes. Approximately 31% come from property tax, and the other 31% from sales taxes.

The total revenue from these three taxes makes up about 44% of all money coming into our state and local government.

The Governor and General Assembly alone decide how much we pay in income and sales taxes. That is – both the general sales tax, on the purchase of most items and the specialized taxes on items like motor fuels, tobacco, and alcoholic beverages.