

**The 2016-18 State GF Budget**  
**Where Does Local Government Go From Here?**

Fiscal Analytics, Ltd.

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# What are General Fund Prospects?

- The good news: GF revenues are improving, and budget *policy* changes to close the budget gap did not target local government - other than salary changes.
- 3.0% FY17 and 3.2% FY18 introduced budget GF revenue growth forecast.
  - New forecast - about \$600 mil. - incl. transfers - above the August interim forecast, but still \$667 mil. below last year's adopted budget.
  - Partially relies on policy changes, including tax amnesty, AST renewal, sales tax nexus, and limiting historic rehab and land preservation credits.
- Use of Rainy Day funds, tax amnesty, and nongeneral fund transfers for operating expenses leaves a hole to fund 2018-20 biennium needs.

# GF Revenue Growth is Historically Low

| <u>Fiscal Years</u>  | <u>Avg. Annual GF Growth*</u> |
|----------------------|-------------------------------|
| 1990-1999            | 5.9%                          |
| 2000-2008            | 5.7%                          |
| 2009-2010            | -5.0%                         |
| 2011-2016            | 4.1%                          |
| <i>2017 Forecast</i> | <i>3.0%</i>                   |
| <i>2018 Forecast</i> | <i>3.2%</i>                   |

\* Does not include GF transfers

# Will Lower Paying Job Mix Continue?

|   | <u>2nd Q 2016</u> | <u>5-Yr Change</u> | <u>Avg Weekly Wage</u> |
|---|-------------------|--------------------|------------------------|
| Total, All Industries                   | 3,808,034         | 5.9%               | \$1,011                |
| Management of Companies                 | 72,785            | -0.5%              | \$2,017                |
| Professional, Scientific, and Technical | 414,770           | 4.5%               | \$1,846                |
| Information                             | 73,091            | -8.0%              | \$1,673                |
| Finance and Insurance                   | 134,995           | 9.7%               | \$1,569                |
| Utilities                               | 18,561            | -0.2%              | \$1,510                |
| Wholesale Trade                         | 110,457           | -1.5%              | \$1,404                |
| Public Administration                   | 248,037           | 3.1%               | \$1,366                |
| Mining, Quarrying, and Oil and Gas      | 5,622             | -37.3%             | \$1,263                |
| Manufacturing                           | 241,367           | 1.1%               | \$1,074                |
| Construction                            | 198,049           | 5.1%               | \$978                  |
| Transportation and Warehousing          | 136,164           | 13.0%              | \$951                  |
| Real Estate and Rental and Leasing      | 53,217            | 3.6%               | \$950                  |
| Health Care and Social Assistance       | 483,298           | 10.7%              | \$917                  |
| Educational Services                    | 366,291           | -0.2%              | \$821                  |
| Other Services                          | 140,132           | 6.7%               | \$784                  |
| Administrative and Support              | 233,796           | 12.8%              | \$748                  |
| Retail Trade                            | 422,743           | 4.0%               | \$542                  |
| Arts, Entertainment, and Recreation     | 75,956            | 8.2%               | \$466                  |
| Accommodation and Food Services         | 348,863           | 13.3%              | \$353                  |

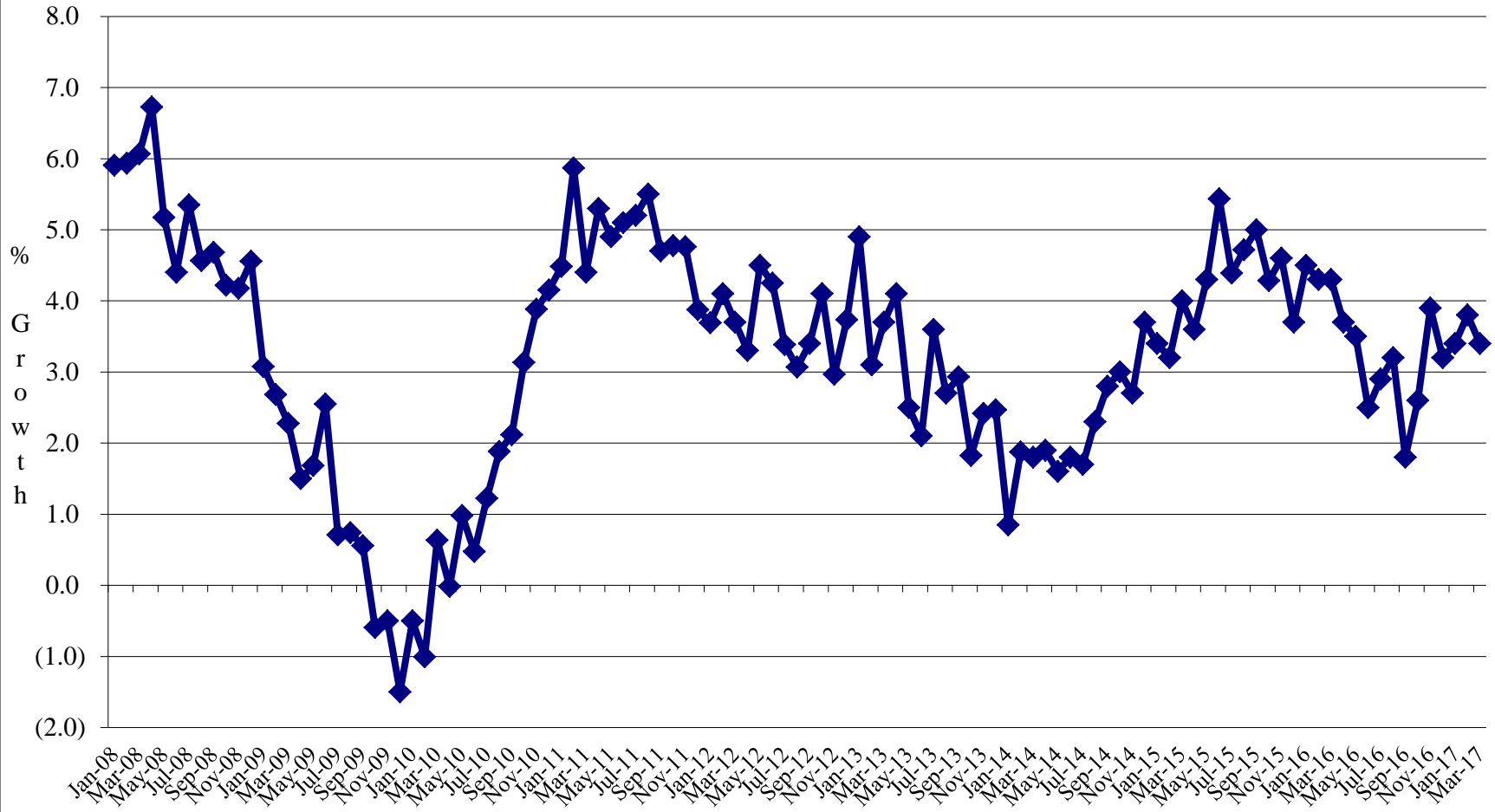
# 9 Months GF Revenue Collections Better Than Forecast

## *Adopted Budget Reserves Half of Any Unobligated Year-End Surplus to RDF*

| <u>GF Revenue Sources</u>                                | <u>9 Mo. Collections</u> | <u>FY 2017 Forecast</u> |
|--|--------------------------|-------------------------|
| Individual Income Tax (70% of GF)                        | 5.6%                     | 2.9%                    |
| <i>Withholding</i>                                       | 5.3%                     | 3.6%                    |
| <i>Non-Withholding</i>                                   | 2.9%                     | -0.7%                   |
| <i>Refunds</i>   | -0.4%                    | 1.5%                    |
| Sales Tax (18% of GF)*                                   | 1.5%                     | 2.7%                    |
| Corporate Income Tax (4% of GF)                          | 2.5%                     | 3.8%                    |
| <b>Total GF</b>  | <b>4.6%</b>              | <b>2.9%</b>             |
| * Adjusted for the accelerated sales tax program in June |                          |                         |

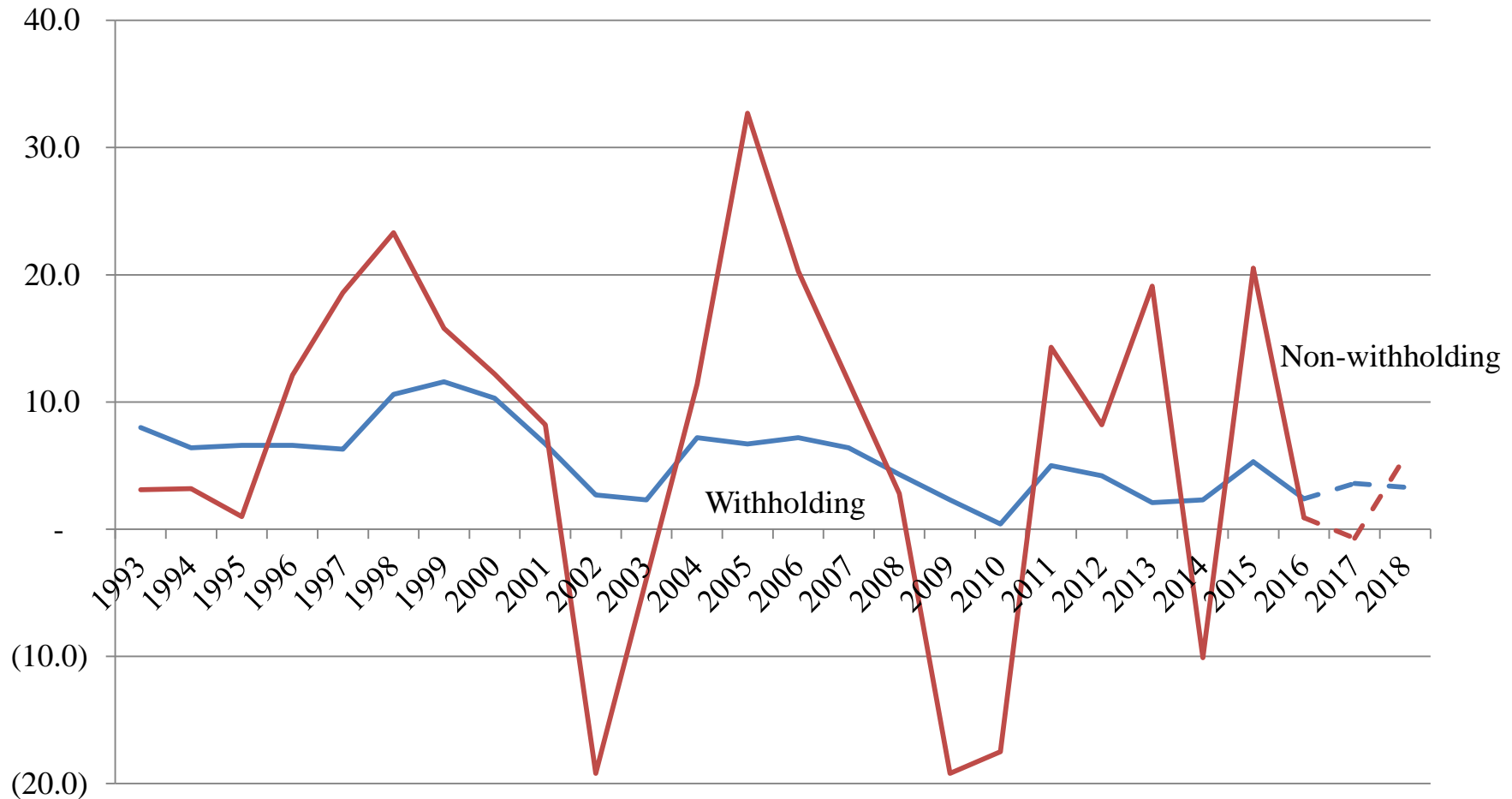
# Income Tax Withholding Growth Is the Driver of GF Revenues

## 12 Mo. Moving Avg (% Growth)



# Income Tax Non-Withholding Revenues Are More Volatile, Amplifying Economic Changes and Making Revenue Forecasting Difficult

## Annual % Growth in Income Tax Withholding and Non-Withholding Collections



*Note: Non-W % of total GF revenues: 15.4% in FY 14; 17.1% in FY 15, 17.0% in FY 16  
Non-W 16.1% forecast “collar” reduces 2016-18 revenues by \$379 mil.*

# Policy Adjustments Raise Revenues

|   | <u>Biennium Mil. \$</u> |
|---|-------------------------|
| <b>Major Revenue Policy Adjustment Proposals</b>          |                         |
| Tax Amnesty (Senate budget increased amount by \$31 mil.) | \$89.5                  |
| Accelerated Sales Tax Renewal                             | \$47.9                  |
| Tighten Sales Tax Nexus                                   | \$11.1                  |
| \$5 mil. per Return Historic Rehab Tax Credit             | \$9.9                   |
| Retain \$20,000 Limit on LPTC for FY 17                   | \$6.1                   |
| <b>Total GF Revenue Policy Adjustments</b>                |                         |



# How Did the Adopted Budget Balance the \$1.5 Bil. GF Budget Shortfall?

## **Major Revenue Changes and Spending Reductions:**

- \$567.2 mil. Rainy Day Funds
- About \$400 mil. in increased revenues (incl. policy changes) and \$150 mil. in transfers
- \$150 mil. unspent agency appropriations
- \$128 mil. in captured capital balances
- \$146 mil. in additional lottery (\$52.4m), Literary (\$50m), and Virginia Health Care (\$44.5m) funds to offset GF.
- \$347.2 mil. eliminated contingent salary increases (\$134m for teachers)
- Targeted reductions including: higher education (\$56m), “technical” reductions in K-12 aid from lower sales tax (\$40m) and ADM (\$35m), reductions in economic development incentives (\$53m), and delayed women’s prison open (\$21m).

## **Major Increases :**

- \$247 mil. in Medicaid cost increases
- \$161 mil. in FY 2018 compensation adjustments (\$32m for teachers)
- \$86 mil. in Children Services Act sum sufficient funding
- \$32 mil. in new mental health funding

|                               | <b>GF Budget Accounting</b> |                     |             |                     |             |               |
|-------------------------------|-----------------------------|---------------------|-------------|---------------------|-------------|---------------|
|                               |                             | <u>2016 Session</u> |             | <u>2017 Session</u> |             | Biennial      |
|                               | <u>FY 16</u>                | <u>2017</u>         | <u>2018</u> | <u>2017</u>         | <u>2018</u> | <u>Change</u> |
| Legislative and Executive     | 107.7                       | 115.5               | 115.5       | 115.7               | 119.4       | 4.1           |
| Judicial Dept.                | 456.0                       | 484.5               | 485.2       | 482.9               | 485.6       | (1.2)         |
| Administration/Comp Board     | 691.7                       | 711.8               | 718.7       | 705.2               | 715.4       | (9.9)         |
| Treasury Board Debt Service   | 675.0                       | 734.9               | 766.3       | 722.1               | 763.7       | (15.4)        |
| Other Finance/Technology      | 181.6                       | 191.6               | 188.6       | 189.1               | 186.0       | (5.1)         |
| Rainy Day Fund                | -                           | 605.6               | -           | 605.6               | -           | -             |
| Car Tax Reimbursement         | 950.0                       | 950.0               | 950.0       | 950.0               | 950.0       | -             |
| Commerce and Trade            | 197.0                       | 203.8               | 217.3       | 188.3               | 205.6       | (27.2)        |
| Agriculture / Nat. Resources  | 174.7                       | 237.7               | 172.2       | 234.2               | 163.7       | (12.1)        |
| K-12 Education/Central Office | 5,576.0                     | 5,900.0             | 6,190.6     | 5,735.6             | 6,088.5     | (266.5)       |
| Higher & Other Education      | 1,865.5                     | 2,046.6             | 2,081.1     | 2,040.0             | 2,015.2     | (72.5)        |
| DMAS Medicaid                 | 4,159.5                     | 4,293.9             | 4,421.0     | 4,332.8             | 4,605.7     | 223.6         |
| Other Health & Human Services | 1,682.6                     | 1,759.3             | 1,764.8     | 1,799.9             | 1,831.6     | 107.4         |
| Public Safety & Veterans/HS   | 1,837.5                     | 1,921.8             | 1,949.4     | 1,907.1             | 1,932.9     | (31.2)        |
| Transportation                | 69.1                        | 41.0                | 41.0        | 41.0                | 41.0        | -             |
| Central Appropriations        | 334.8                       | 139.5               | 223.0       | 63.5                | 214.9       | (84.0)        |
| Cash Reserve                  | -                           | -                   | -           | -                   | 35.0        | 35.0          |
| Independent Agencies/Capital  | 143.2                       | 12.0                | 0.3         | 2.2                 | 0.3         | (9.8)         |
| Total GF Appropriations       | 19,102.0                    | 20,349.5            | 20,285.0    | 20,115.2            | 20,354.6    | (164.7)       |
| GF Revenues/Transfers         | 19,119.3                    | 19,481.2            | 20,230.3    | 19,210.6            | 19,835.4    | (665.5)       |
| Rainy Day Fund Withdrawal     |                             |                     |             | 294.7               | 272.5       | 567.2         |
| Balances                      | 932.1                       | 946.2               | (0.5)       | 736.3               | 128.2       | (81.2)        |
| Unreserved Balance            | 265.3                       | 77.9                | 22.6        | 126.4               | 7.9         |               |

# Medicaid Spending Forecast Increasing by \$255 Mil. in 2016-18

| <u>Fiscal Years</u>  | <u>Avg. Annual Growth</u> |      |
|----------------------|---------------------------|------|
| 2000-2009            | 8.8%                      |      |
| 2010-2015            | 6.2%                      |      |
| 2016                 | 9.3%                      |      |
| <i>2017 Forecast</i> | <del>3.8%</del>           | 7.4% |
| <i>2018 Forecast</i> | <del>2.9%</del>           | 4.1% |

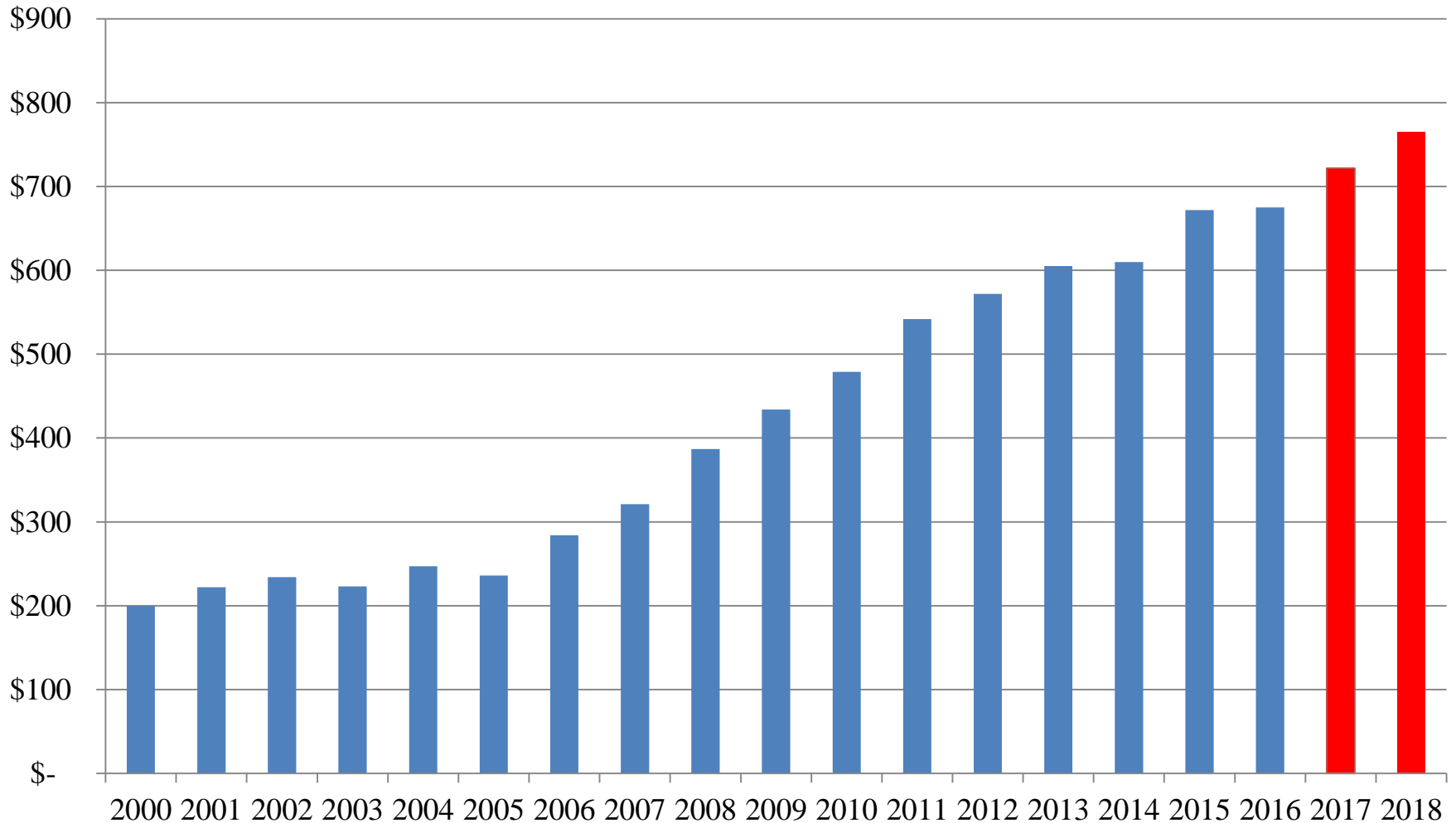
Major forecast spending changes were in:

- 1) Behavioral adult rehabilitation services and intensive in-home services for children
- 2) Medicare Part A, B and Part D premium increases
- 3) Medicaid fee-for-service expenditures

# Will Steadily Rising Elderly Population Spur Continued Growth in Medicaid?

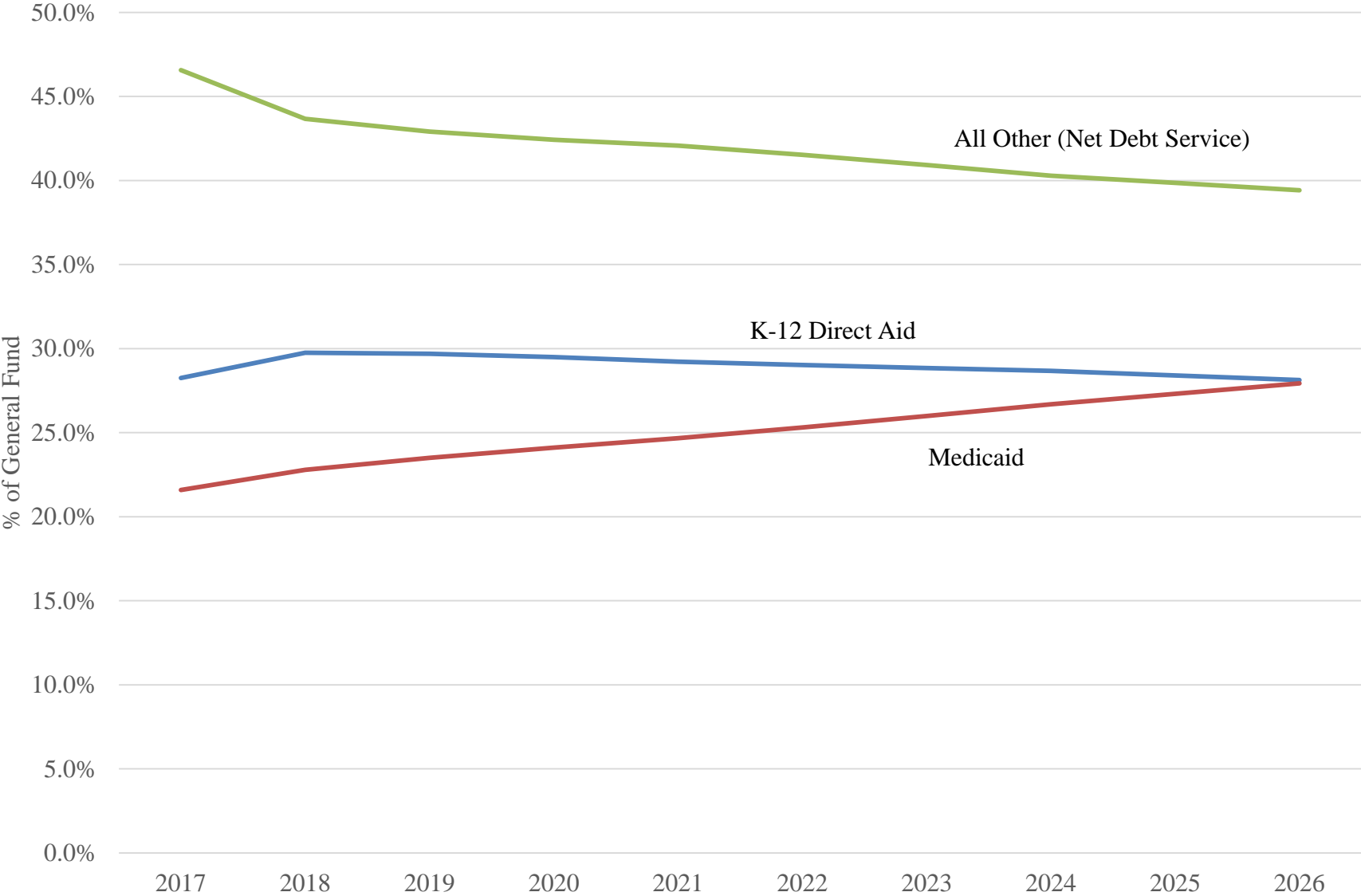
|      | Total Projected VA Population | Pop. 65 years and over | % of Total Pop. Age 65 and Over | Pop. 85 years and over | % of Total Pop. Age 85 and Over |
|------|-------------------------------|------------------------|---------------------------------|------------------------|---------------------------------|
| 2010 | 8,001,024                     | 976,937                | 12.2%                           | 122,403                | 1.5%                            |
| 2020 | 8,744,273                     | 1,392,849              | 15.9%                           | 149,399                | 1.7%                            |
| 2030 | 9,546,958                     | 1,803,403              | 18.9%                           | 194,658                | 2.0%                            |
| 2040 | 10,201,530                    | 1,925,149              | 18.9%                           | 283,507                | 2.8%                            |

# Continued Growth in GF Debt Service (\$ Mil.)



*Note: Over \$3 bil. in new GF tax supported debt (VPBA, VCBA) already planned from 2017-2022*

# Ominous Trajectories for GF Spending



# How Did Localities Fare in the Revised 2016-18 Budget Proposal?

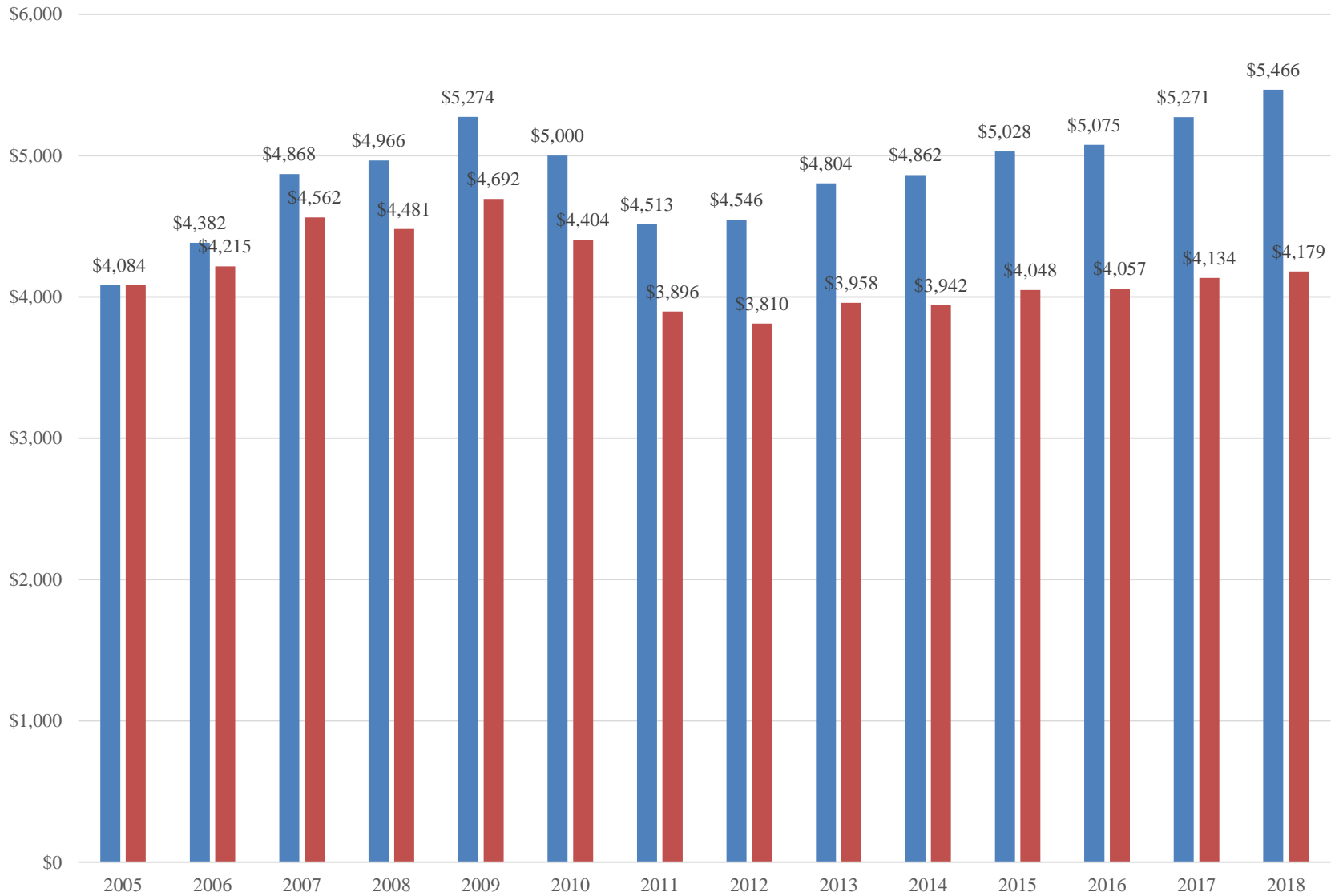
- Net \$167 mil. biennial reduction in K-12 direct aid after Lottery and Literary fund offsets, primarily from lost salary contingency funding (net of \$55 mil. 1.5% bonus plan) and reduced ADM projections and lower sales tax revenue forecasts.
  - Only small changes to overall K-12 funding in GA budget, primarily re-working Gov. bonus funding into salary and lottery funding changes.
- Economic development funding reductions. General Assembly restored: half of the Governor's "GO Virginia" reduction to \$7.5 million; \$1.0 mil. to the \$1.8 mil. reduction to the Virginia Enterprise Zone Program; and most of the reduction in the Brownfields Rehabilitation program.
- Child Services Act sum sufficient est. funding increased by \$86 mil. GF due to higher caseloads. Localities required to provide an approximately one-third match.
- \$28 mil. in new mental health funding provides for additional "same-day-access" intake and evaluation staff at 25 CSBs; supportive housing; community supports to aid in discharging and diverting individuals into community settings; and increased access to opioid addiction treatment.
- Localities receive \$32 mil. based on teachers receiving a 2.0% salary increase effective 2/15/18. State-supported locals receive a 2.0% salary increase effective Aug. 1, 2017 (\$15.6 mil.). Career development funding for all qualified Constitutional Officers, and targeted pay incentives for district court clerks and deputy sheriffs.

## GF State Aid to Localities (\$ Mil.)

|  | <u>FY 2009</u>    | <u>FY 2014</u>    | <u>FY 2016</u>    | <u>FY 2017</u>    | <u>FY 2018</u>    |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Direct Aid to K-12</b>                | <b>\$5,607.6</b>  | <b>\$5,240.3</b>  | <b>\$5,520.9</b>  | <b>\$5,675.3</b>  | <b>\$6,030.0</b>  |
| <b>K-12 % of Total GF Appropriations</b> | <b>35.2%</b>      | <b>29.6%</b>      | <b>28.9%</b>      | <b>28.2%</b>      | <b>29.6%</b>      |
| <b>Health and Human Services</b>         | <b>888.4</b>      | <b>791.7</b>      | <b>867.5</b>      | <b>926.0</b>      | <b>951.5</b>      |
| <i>CSA</i>                               | 299.7             | 217.2             | 237.2             | 278.9             | 279.5             |
| <i>Community MH/MR Services</i>          | 249.4             | 269.3             | 318.0             | 330.8             | 351.6             |
| <i>Local Social Services Staff</i>       | 117.4             | 115.3             | 114.4             | 117.5             | 122.1             |
| <i>Community Health Programs</i>         | 117.6             | 107.2             | 115.1             | 117.7             | 117.6             |
| <i>Welfare Services and Programs</i>     | 104.3             | 82.7              | 82.8              | 81.1              | 80.7              |
| <b>Public Safety</b>                     | <b>734.3</b>      | <b>687.9</b>      | <b>715.5</b>      | <b>732.1</b>      | <b>743.4</b>      |
| <i>Local Sheriffs Offices</i>            | 406.1             | 411.3             | 436.0             | 447.2             | 457.0             |
| <i>Local Police Depts HB 599</i>         | 197.3             | 172.4             | 172.4             | 178.0             | 178.0             |
| <i>Local Jail Per diem</i>               | 80.1              | 59.4              | 61.4              | 60.6              | 61.3              |
| <i>Assistance for Juvenile Justice</i>   | 50.8              | 44.8              | 45.7              | 46.3              | 47.1              |
| <b>Constitutional Officers</b>           | <b>155.3</b>      | <b>145.8</b>      | <b>152.5</b>      | <b>156.7</b>      | <b>158.0</b>      |
| <b>Dept. of Accounts Transfers</b>       | <b>49.3</b>       | <b>49.3</b>       | <b>49.5</b>       | <b>49.6</b>       | <b>49.6</b>       |
| <b>Car Tax</b>                           | <b>950.0</b>      | <b>950.0</b>      | <b>950.0</b>      | <b>950.0</b>      | <b>950.0</b>      |
| <b>Aid-to-Locality Reduction</b>         | <b>(50.0)</b>     | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>-</b>          |
| <b>Total Local GF Aid</b>                | <b>\$8,334.9</b>  | <b>\$7,865.0</b>  | <b>\$8,255.9</b>  | <b>\$8,489.7</b>  | <b>\$8,882.5</b>  |
| <b>Total GF Appropriations</b>           | <b>\$15,943.0</b> | <b>\$17,705.2</b> | <b>\$19,102.0</b> | <b>\$20,115.2</b> | <b>\$20,354.6</b> |
| <b>Local Aid % of Total GF</b>           | <b>52.0%</b>      | <b>44.1%</b>      | <b>43.2%</b>      | <b>42.2%</b>      | <b>43.6%</b>      |



# 2017 Session State Per Pupil K-12 Direct Aid Funding Nominal and Inflation-Adjusted (CPI \$2005)



# Virginia Board of Education Recommends \$600 Million in Standards of Quality Upgrades

- First BOE recommended SOQ funding changes since the early 2000's. Examined where local practices exceed state recognized staffing practices.
  - **Statewide about 136,000 out of 200,000 K-12 positions are funded by the SOQ.**
- The Board of Education recommends the following changes to the SOQ:
  - Restoring the funding of support positions using prevailing practices rather than the 2009 enacted support position cap (1 support per 4.17 SOQ funded teachers).
  - A staffing ratio of 1 to 400 students for assistant principals.
  - One full-time principal in each elementary school. 12 percent of schools have under 299 students and are only provided funding for a part-time principal.
  - Staffing ratios for school counselors (1 to 250); school psychologists (1 to 1,000); school nurses (1 to 1,000); and school social workers (1 to 1,000).

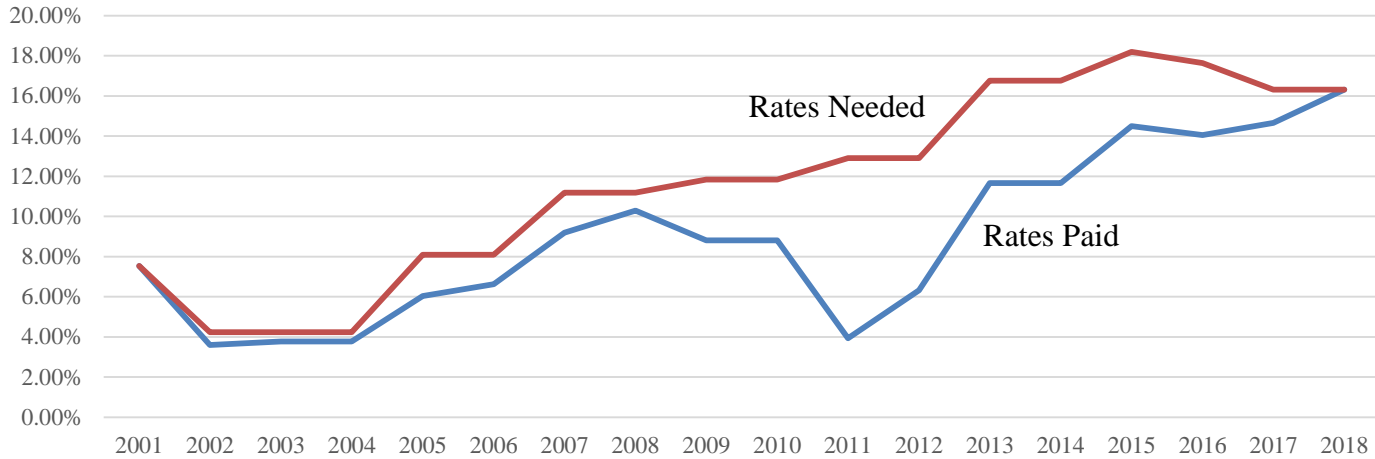
# State Standards of Quality Do Not Reflect True Costs for Local K-12 Divisions

- Only 68 percent of K-12 positions employed by local school divisions are recognized by the SOQ, including many support positions; other support costs de-funded after 2009; the “linear weighted average” methodology underfunds 85% of teacher’s salaries (in 2/3 of school divisions); real-time costs not reflected in re-benchmarking.
  - Just raising teacher salaries to the national average and funding prevailing support costs requires an additional \$750 million GF/year.
- Localities on average spend about double, or \$3.6 bil. beyond state requirements to meet SOL and SOA requirements. All 134 local school divisions exceeded Required Local Effort (RLE) in FY 15.

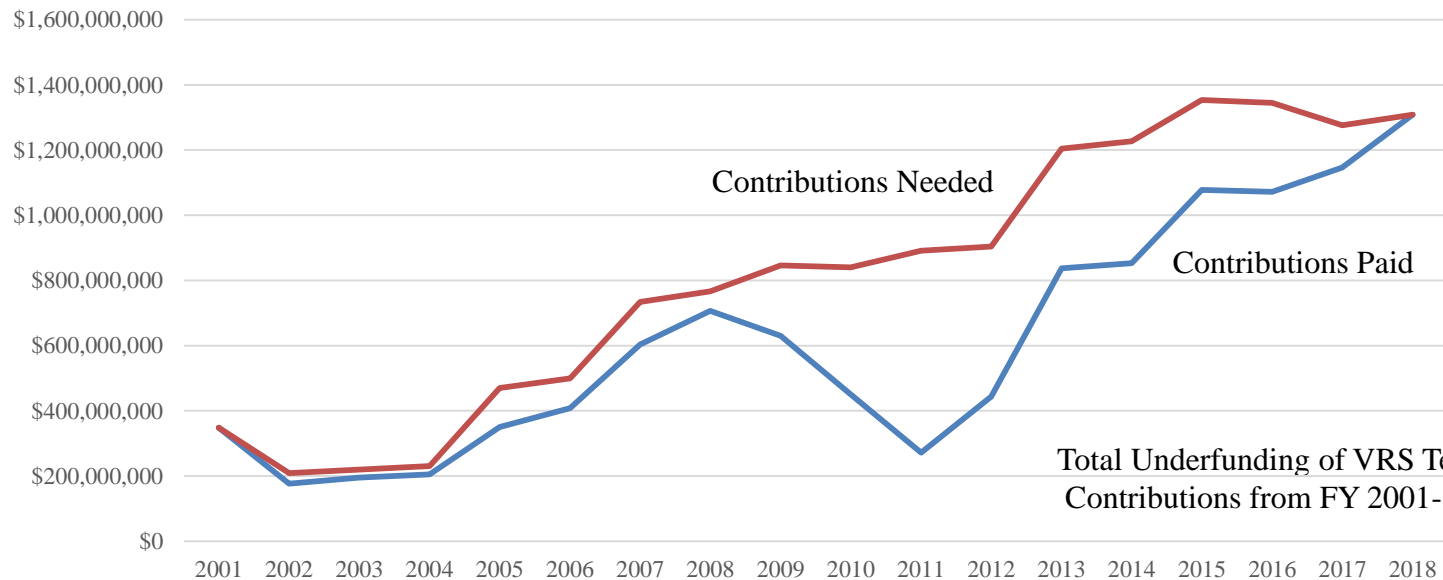
|                                 |    |
|---------------------------------|----|
| Divisions up to 25% Above RLE   | 16 |
| Divisions Exceeding 25% to 75%  | 50 |
| Divisions Exceeding 76% to 100% | 31 |
| Divisions Exceeding 100% RLE    | 37 |

# FY 2018 Is the First Time in Many Years VRS Rates Will Be Fully Funded

## VRS Teacher Rates Needed Vs. Paid



## VRS Teacher Contributions Needed Vs. Paid (\$ Mil.)

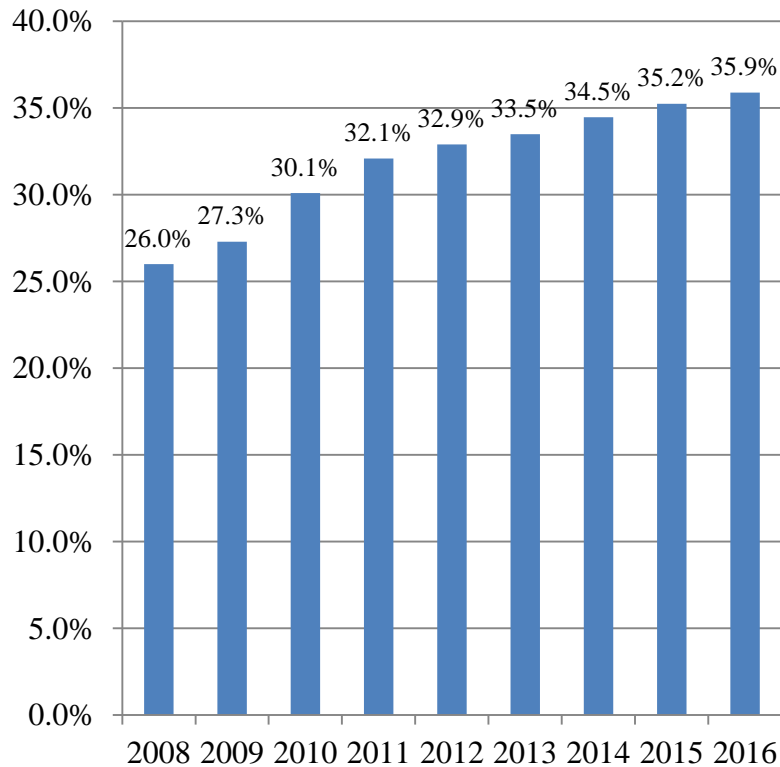


# More Difficult and Diverse Student Population to Educate

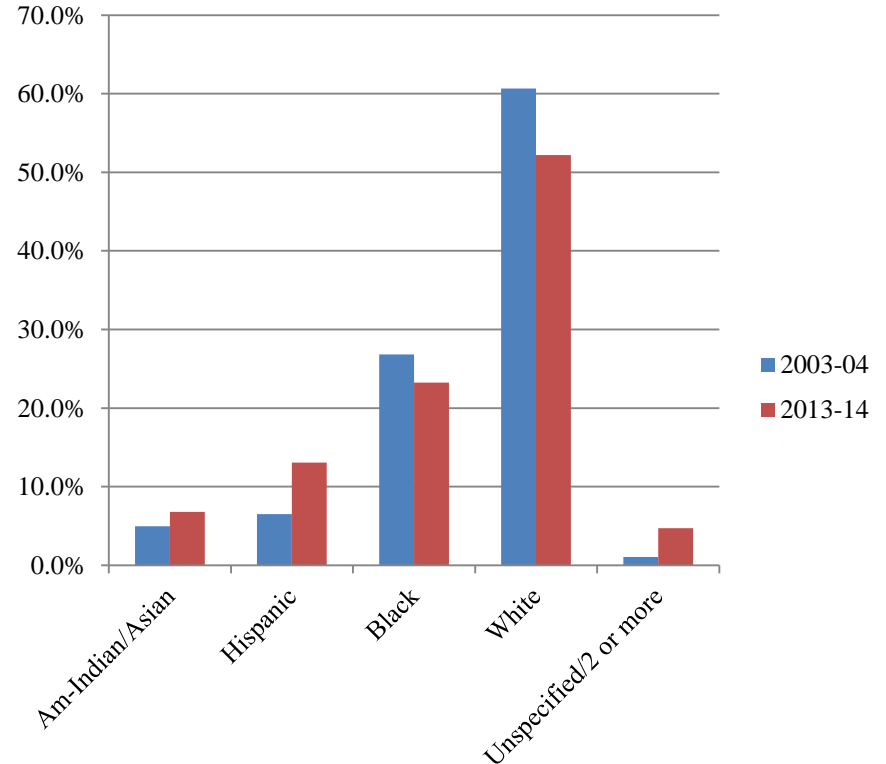
- 163,000 Special Ed Students (13% )

- Changing Demographics – ESL increased 63% over last 10 years

**% Free Lunch Students Growing**



**VA Public K-12 Student Population by Race**



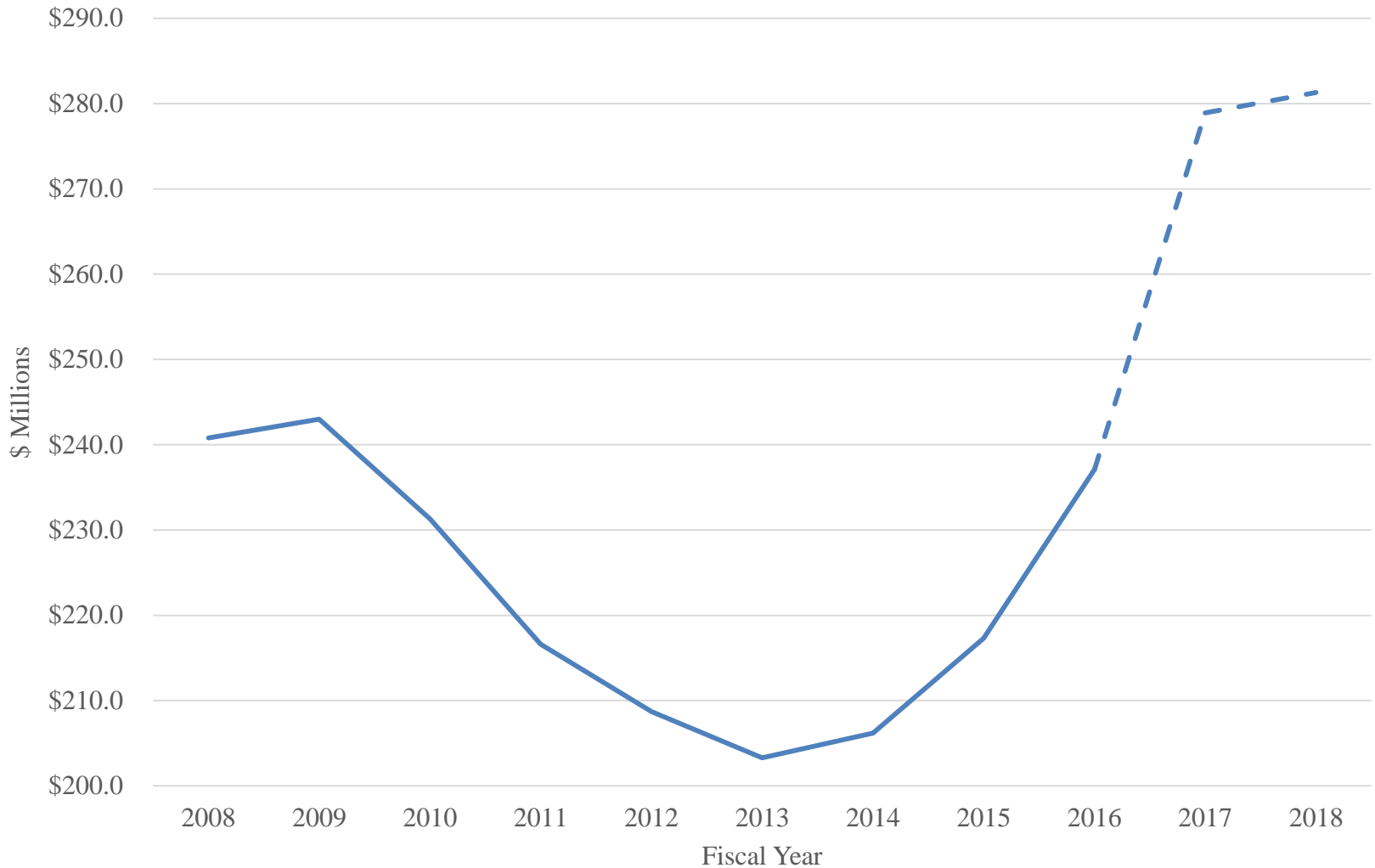
# The Achievement Gap Persists

## Over 20 Percent of All Schools Not Fully Accredited (2015-16)

|                                  |      |
|----------------------------------|------|
| Fully Accredited                 | 1414 |
| Conditionally Accredited (New)   | 9    |
| Partially Accredited - Improving | 123  |
| Partially Accredited - Warned    | 215  |
| Accreditation Denied             | 13   |
| To Be Determined                 | 49   |

| <b>SOL Pass Rates (2015-16)</b> |                |             |  |
|---------------------------------|----------------|-------------|--|
|                                 | <u>English</u> | <u>Math</u> |  |
| Asian                           | 91             | 93          |  |
| White                           | 86             | 86          |  |
| Hispanic                        | 71             | 72          |  |
| Black                           | 66             | 67          |  |
| Economically Disadvantaged      | 66             | 69          |  |
| Limited English Proficiency     | 61             | 66          |  |

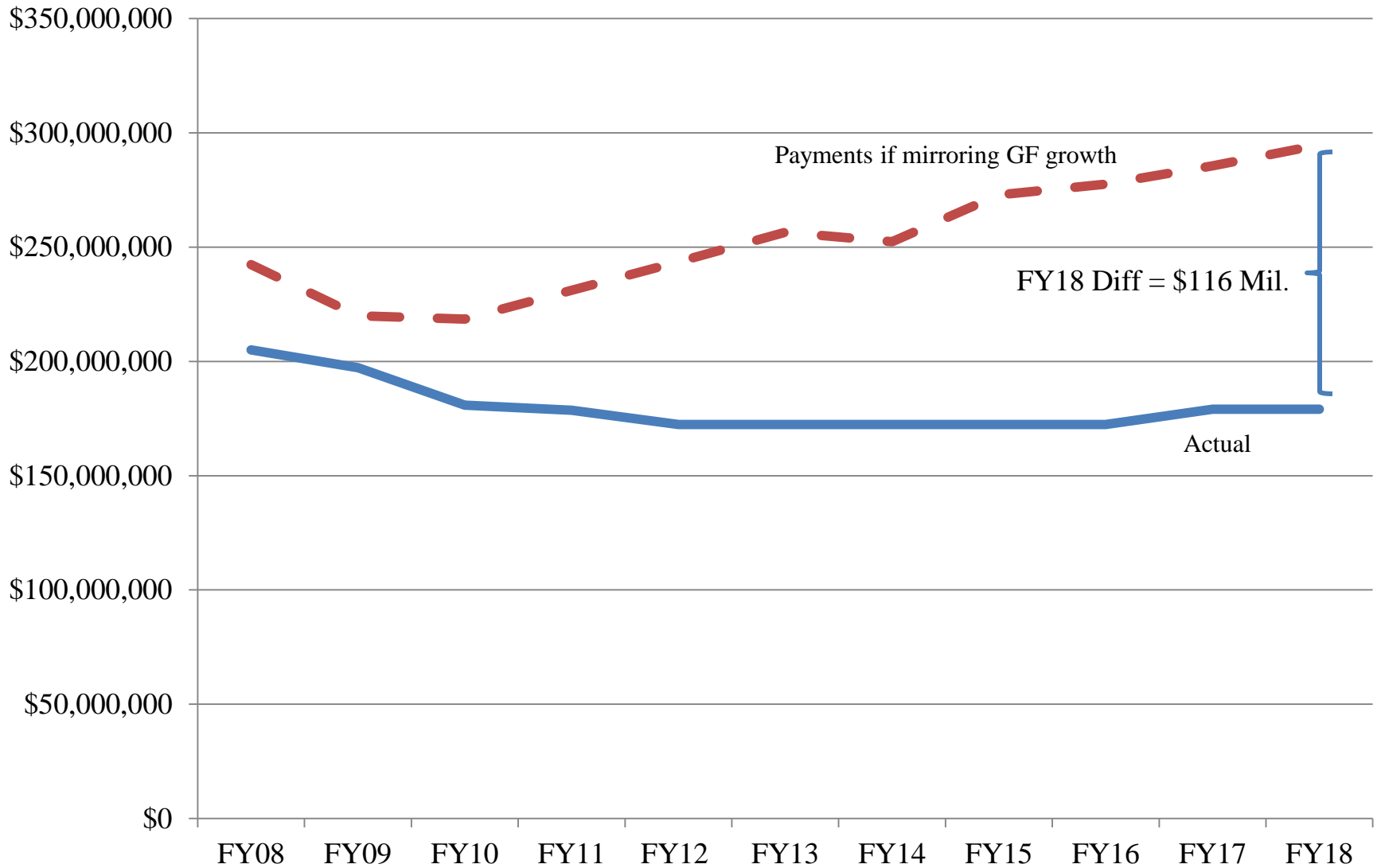
# State CSA GF Expenditures Rising Again



Note: From FY 2014-16, out of \$46 mil. increase in total CSA expenditures, \$28 mil. has been for SPED private day placements. 220 percent increase in autism diagnosis over last 10 years.

# HB 599 Aid to Police

## Actual vs Growth in GF Revenues Since FY 2000 (Statute)





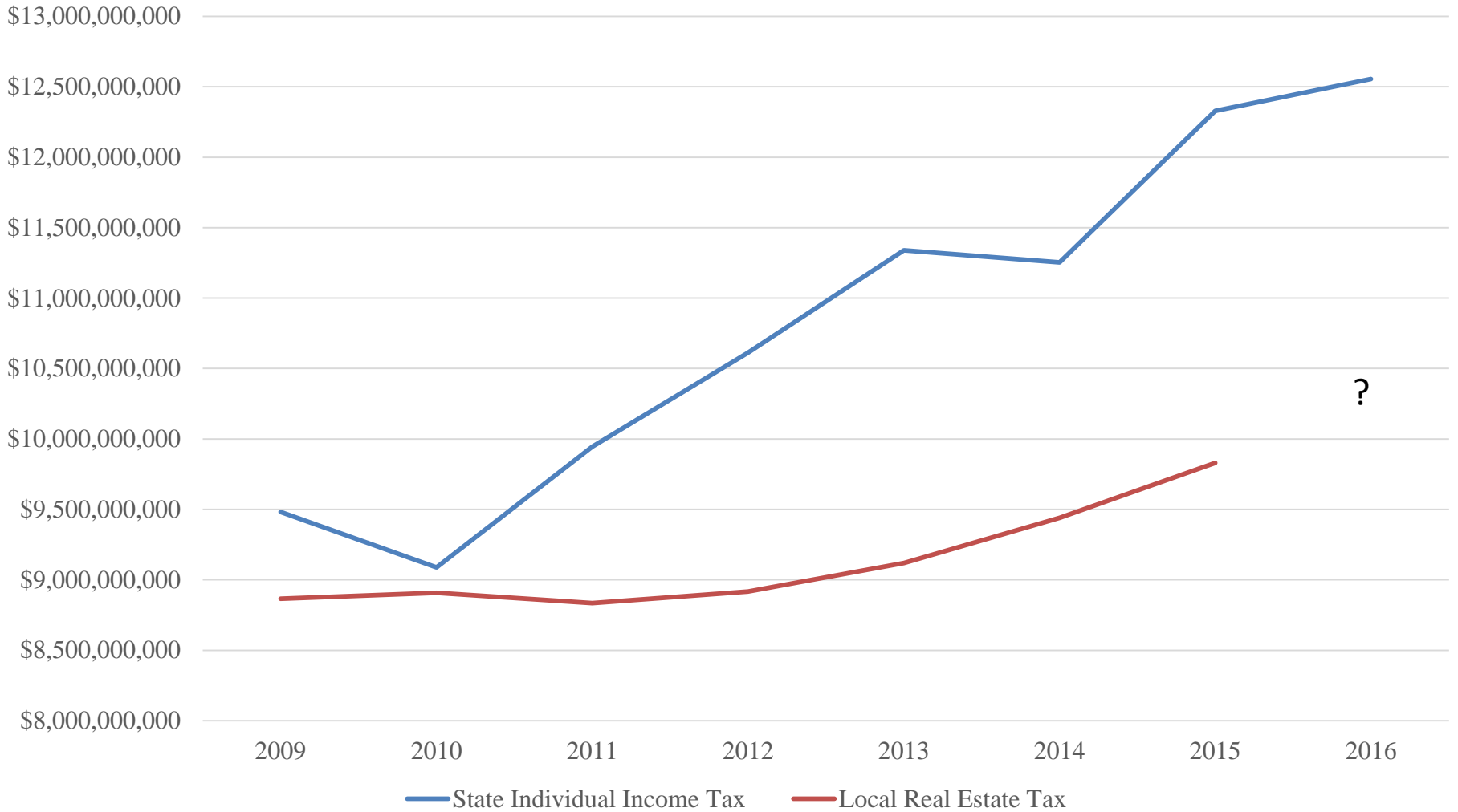
# Since Recession, Locality Resources Have Not Kept Pace with Inflation/Population Growth

|             | FY 2009 - FY 2015 Growth Comparison |                       |             |            |                          |
|-------------|-------------------------------------|-----------------------|-------------|------------|--------------------------|
|             | Locally-Generated Revenue           | State/Federal Revenue | All Revenue | Population | Population/<br>Inflation |
| VA Cities   | 7.7%                                | 0.6%                  | 4.6%        | 4.5%       | 15.1%                    |
| VA Counties | 14.3%                               | 9.5%                  | 12.5%       | 6.1%       | 16.7%                    |

Note: Consumer Price Index from fiscal years 2009-15 = 10.6%

Sources: Virginia Auditor of Public Accounts Comparative Revenue and Expenditure Reports,  
U.S. Bureau of Labor Statistics

## Slow State Income Tax Growth Has Still Significantly Exceeded Local Real Estate Tax Growth Since Recession



# Even Slow Real Property Revenue Growth Has Required Sharply Rising Rates

## Median Real Estate Tax Rates in Virginia Localities\*

|                 | <u>CY 2009</u> | <u>CY 2016</u> | <u>Change</u> |
|-----------------|----------------|----------------|---------------|
| <b>Cities</b>   | <b>0.90</b>    | <b>1.07</b>    | <b>0.17</b>   |
| <b>Counties</b> | <b>0.55</b>    | <b>0.66</b>    | <b>0.11</b>   |
| <b>Towns</b>    | <b>0.18</b>    | <b>0.18</b>    | <b>-</b>      |

\* Nominal rates per \$100 of assessed value. Source: Weldon Cooper Center, "Virginia Local Tax Rates"

# Conclusion

- The state is significantly underfunding state-mandated locally-administered programs, particularly the largest -- K-12 education. The K-12 budget for FY 2017 is no higher in nominal dollars than 2009 and is almost \$600 per pupil less in inflation-adjusted terms.
  - Most other locally-mandated programs for health, welfare, public safety, etc., have been level funded or reduced since FY2009.
  - The state continues to shift funding responsibilities to locals.
- Low growth in GF revenues and continued higher growth in Medicaid and debt service mean a continued degradation in state support for locally-administered mandated programs. **The state cannot adequately shoulder its responsibilities due to a systematic reduction in the general fund tax base.**
- Local revenues -- already straining to provide the state's critical services -- are under continual threat from redefinition, exemption, and elimination.
- The state should either shoulder more funding responsibility or provide localities with much greater revenue generating capacity.

# Previous Tax Changes Annually Reduce GF Revenues by \$2 Bil.

|   | <u>Enacted/Amended</u> | <u>FY 2016</u>   |
|---|------------------------|------------------|
| Car Tax Reimbursement   | 1997, 2003             | \$950            |
| Impose lower 2.5% Sales Tax on Food                                 | 2004                   | \$556            |
| Age Subtraction (net of 2004 means testing)                         | 1994 and 2004          | \$292            |
| Low Income Tax Relief, increase filing thresholds, exemptions, etc. | 2000, 2004, and 2007   | \$203            |
| 1/3 Insurance Premiums to Transportation                            | 2007                   | \$150            |
| Estate Tax Repeal   | 2009                   | \$140            |
| 0.1% sales tax diversion to transportation                          | 2013                   | \$101            |
| Land Preservation Tax Credit  | 2003                   | \$100            |
| Historic Rehab Tax Credit   | 1999                   | \$76             |
| Corp. double weighting sales and single sales factor                | 1999, 2009             | \$74             |
| Sales tax exemption for data centers                                | 2010/2011              | \$51             |
| Sales tax exemption for non-prescription drugs                      | 1990                   | \$39             |
| Subtraction for military wages and unemployment benefits            | 1999                   | \$37             |
| Coalfield Employment Tax Credits                                    | 2000                   | \$34             |
| All Other Tax Reductions Since 1999                                 | 1990-2014              | <u>\$121</u>     |
| <b>State GF Tax Reductions since 1994</b>                           |                        | <b>(\$2,924)</b> |
| Add 1/2 percent sales tax on non-food items                         | 2004                   | \$500            |
| Recordation Tax Increase (net of 3 cents to transp.)                | 2004/2007              | \$150            |
| Tobacco Tax Increase (Va Health Care Fund)                          | 2004                   | \$146            |
| Close 2 Corp. Tax Loopholes/Eliminate ST Exem for Pub. Svc. Co.     | 2004                   | \$143            |
| Sales Tax Presence in Virginia Amazon                               | 2012                   | \$22             |
| Sales tax on satellite TV equipment                                 | 2014                   | <u>\$10</u>      |
| <b>State Tax Increases since 1994</b>                               |                        | <b>\$971</b>     |
| <b>Net State Tax Change Since 1994</b>                              |                        | <b>(\$1,953)</b> |

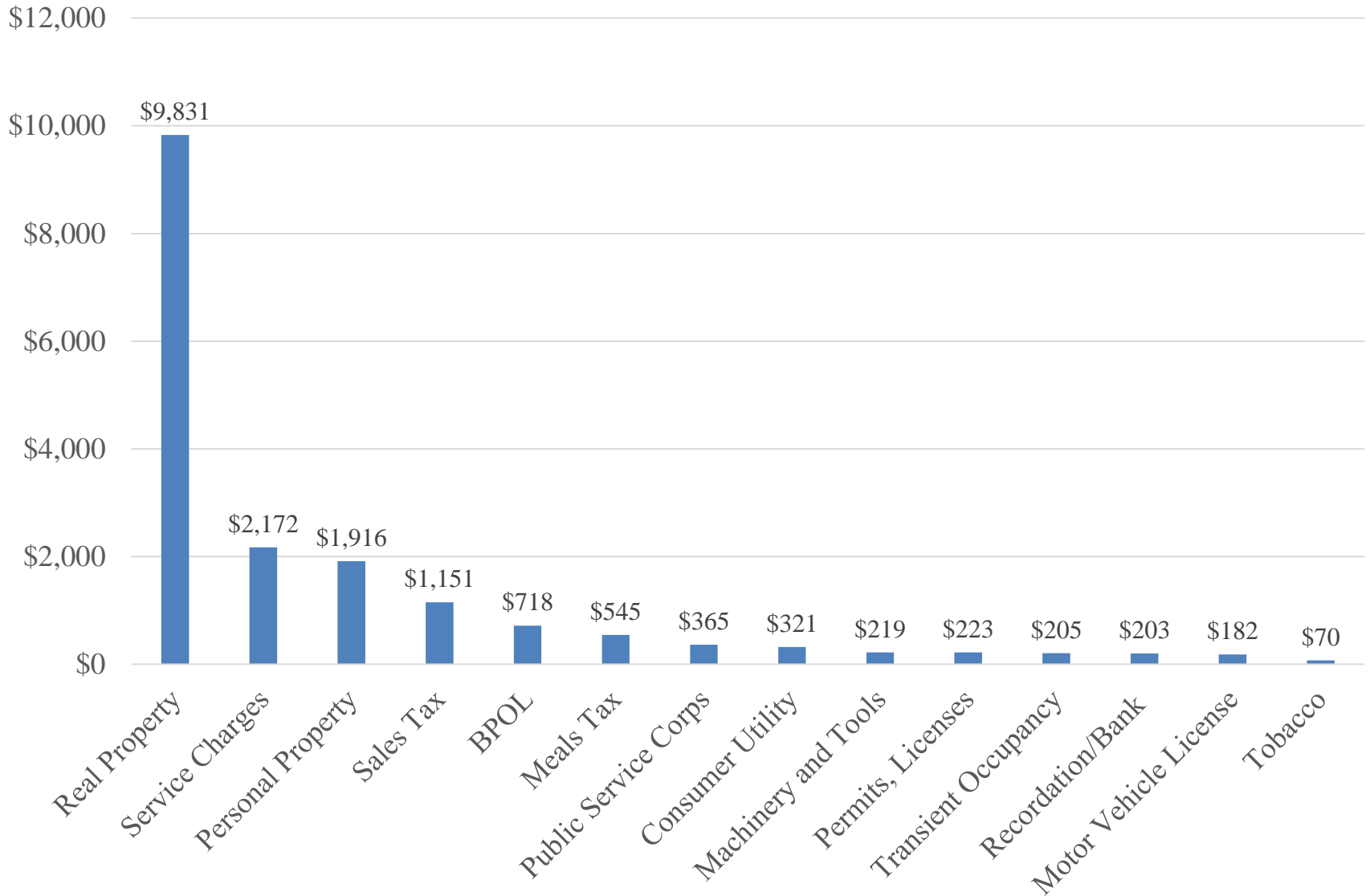
Source: Senate Finance Committee Retreat, Revenue Outlook, Nov. 19, 2015

# Options for Strengthening/Diversifying the State/Local Tax Base

- Structural individual/corporate income tax reform, including reform of tax credits/subtractions (e.g., grandfather reduced age subtraction)
- Apply sales taxes to selected personal and repair services (auto) and reduce exemptions (e.g., data center replacement equipment, nonprofit hospitals).
- Return to GF insurance premium, recordation tax, and sales tax diversion to transportation. Expand the 0.7 percent regional sales tax for transportation to the rest of the state.
- Require internet sellers not collecting sales tax to inform the purchaser and Tax Department for use tax payment purposes.
- Increase tobacco taxes for the Virginia Health Care Fund.
- Broaden the local communications sales tax for audio and video streaming services and prepaid calling services and raise rate to 5.3%.
- Allow counties the same taxing authority *by ordinance* as cities for meals and transient occupancy taxes.
- Put a price floor under the regional gas taxes. Expand the differential commercial/industrial property tax rate currently used in Northern Virginia (and available in Hampton Roads).
- Phase down or eliminate the car tax reimbursement over several biennia.

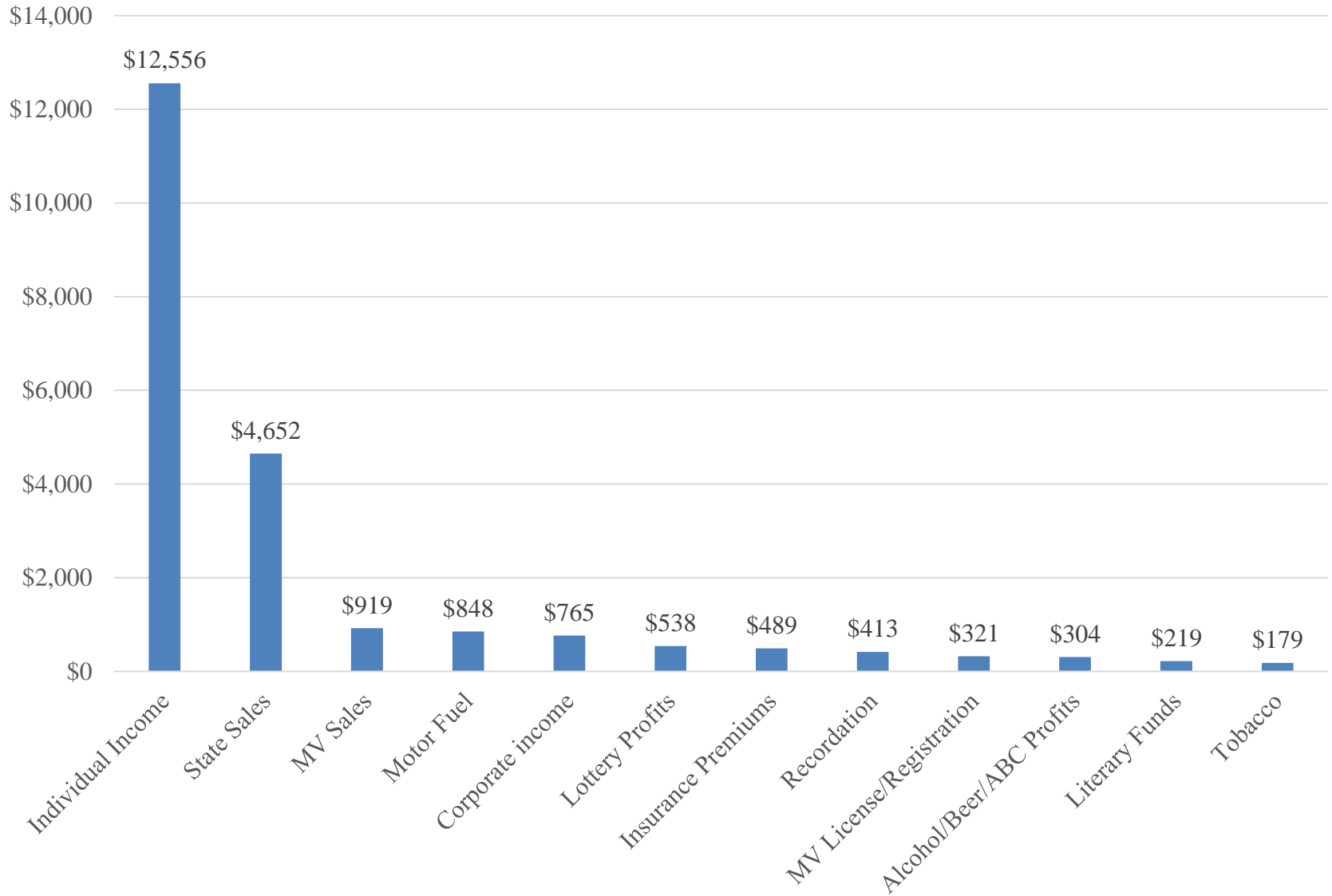
# Appendices

# FY 2015 Major Local Revenue Sources (\$ Mil.)





# FY 2016 Major State Revenue Sources (\$ Mil.)



# Sales Tax Rates In Surrounding States

|                 | <u>State</u> | <u>Lowest Local</u> | <u>Highest Local</u> | <u>Highest Combined</u> |
|-----------------|--------------|---------------------|----------------------|-------------------------|
| Washington D.C. | 5.75         |                     |                      | 5.75                    |
| <b>Virginia</b> | <b>4.30</b>  | <b>1.00</b>         | <b>1.70</b>          | <b>6.00</b>             |
| Kentucky        | 6.00         | No Local            | No Local             | 6.00                    |
| Maryland        | 6.00         | No Local            | No Local             | 6.00                    |
| North Carolina  | 4.75         | 2.00                | 2.75                 | 7.50                    |
| Tennessee       | 7.00         | 1.50                | 2.75                 | 9.75                    |

# Individual Income Taxes in Surrounding States

|                 | <u>State Rates</u>                     | <u>Local Rates</u> | <u>Single-Filer Brackets</u> | <u>Standard Deduction</u> | <u>Personal Exemption</u> |
|-----------------|--|--------------------|------------------------------|---------------------------|---------------------------|
| Virginia        | 2.00                                   | N/A                | \$0                          | \$3,000                   | \$930                     |
|                 | 3.00                                   |                    | \$3,000                      |                           |                           |
|                 | 5.00                                   |                    | \$5,000                      |                           |                           |
|                 | 5.75                                   |                    | \$17,000                     |                           |                           |
| Kentucky        | 2.00                                   | 0-2.25%            | \$0                          |                           |                           |
|                 | 3.00                                   |                    | \$3,000                      |                           |                           |
|                 | 4.00                                   |                    | \$4,000                      |                           |                           |
|                 | 5.00                                   |                    | \$5,000                      |                           |                           |
|                 | 5.80                                   |                    | \$8,000                      |                           |                           |
|                 | 6.00                                   |                    | \$75,000                     |                           |                           |
| Maryland        | 2.00%                                  | 1.25-3.20%         | \$0                          | \$2,000                   | \$3,200                   |
|                 | 3.00                                   |                    | \$1,000                      |                           |                           |
|                 | 4.00                                   |                    | \$2,000                      |                           |                           |
|                 | 4.75                                   |                    | \$3,000                      |                           |                           |
|                 | 5.00                                   |                    | \$100,000                    |                           |                           |
|                 | 5.25                                   |                    | \$125,000                    |                           |                           |
|                 | 5.50                                   |                    | \$150,000                    |                           |                           |
|                 | 5.75                                   |                    | \$250,000                    |                           |                           |
| North Carolina  | 5.75                                   | N/A                | \$0                          | \$7,500                   | N/A                       |
| Tennessee       | 6.00% on Interest/Dividend Income Only |                    |                              |                           | \$1,250                   |
| Washington D.C. | 4.00                                   | N/A                | \$0                          | \$2,000                   | \$1,675                   |
|                 | 6.00                                   |                    | \$10,000                     |                           |                           |
|                 | 8.50                                   |                    | \$40,000                     |                           |                           |
|                 | 8.95                                   |                    | \$350,000                    |                           |                           |