REPORT OF THE
JOINT LEGISLATIVE
AUDIT AND REVIEW COMMISSION ON

STATE MANDATES ON LOCAL GOVERNMENTS and LOCAL FINANCIAL RESOURCES

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

House Document No. 15

COMMONWEALTH OF VIRGINIA
RICHMOND
1984

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PREFACE

House Joint Resolution 105 of the 1982 Session of the General Assembly and House Joint Resolution 12 in 1983 directed the Joint Legislative Audit and Review Commission (JLARC) to study State mandates on local governments and the financial condition of local governments. This report responds to that mandate and offers recommendations for legislative and executive consideration.

Although many localities express concern with State mandates overall, there is little consensus on the unreasonableness of specific mandates. Indeed, few specific mandates were cited as unreasonable by more than four or five of the 266 local administrators surveyed by JLARC. Rather, localities repeatedly cited funding as the key problem with mandates.

State funding of its mandates is substantial, however. And, for most major programs, State funding has kept pace with historical commitments. Conversely, the State's share of education funding has declined from 46.3 percent in FY 1978 to 43.6 percent in FY 1982. Because education comprises more than half of most local budgets, this decline has profound impacts on local fiscal condition.

Localities have experienced many financial stresses in recent years. And, despite efforts to control expenditures and increase income, many local governments have an eroding financial condition. Cities in particular show multiple signs of fiscal stress. Although localities are not at a crisis point, State action to address local fiscal condition appears to be warranted.

To address mandates and state aid, we have proposed a package of recommendations, including statutory State aid commitments, rigorous assessments of program costs, and additional aid of $233.3 million, principally for education. To address weaknesses in local financial condition, we recommend using a stress formula to allocate additional aid, balancing highway funding, and equalizing taxing authority.

On behalf of the Commission staff, I wish to acknowledge the cooperation and assistance provided by the agencies and localities involved in this study.

Ray D. Pethtel

Ray D. Pethtel
Director

December 12, 1983

STATE MANDATES ON LOCAL GOVERNMENTS and LOCAL FINANCIAL RESOURCES

December 1983

Joint Legislative Audit and Review Commission

The State plays a major substantive role in the operations of local governments. Major elements of this role include:

- defining the forms and powers of counties, cities, towns, and other political subdivisions;
- granting localities the right to levy specified taxes, and for most taxes prescribing maximum allowable rates;
- requiring local governments to provide a minimum level of services in many areas, and to conform to extensive administrative procedures in other areas; and
- supporting a significant portion of local government activities through a variety of aid programs and direct services.

The long-term financial viability of local governments is dependent to a large degree on State action.

For their part, local governments must function within the legal, service, and financial framework crafted by the State. Local officials must raise revenues, appropriate funds, and set service priorities in an attempt to meet the service needs of local citizens. This task has been made more difficult in recent years by national economic conditions, declining federal aid to localities, and increased taxpayer resistance to local levies. A contributing factor has been the failure of the State to fully fund some aid commitments. The result of these conditions has been widespread fiscal stress for many local governments. The levels and types of stress in the localities warrant action by the General Assembly.

A JLARC REPORT SUMMARY

STUDY FRAMEWORK

The General Assembly has focused much of its attention and effort on developing an appropriate relationship between the State and its local governments. In the past 12 years, 29 legislative studies have been conducted to explore ways of improving and coordinating State and local responsibilities.

During the 1982 session, the General Assembly began another re-examination of some aspects of State-local relations, through adoption of House Joint Resolution 105. The resolution directed the Joint Legislative Audit and Review Commission (JLARC) to study the responsibilities and financial resources of local governments. The General Assembly continued the study in 1983 by adopting House Joint Resolution 12.

The original study resolution charged JLARC to consider:

- responsibilities of local governments for providing public services, and the differences in the responsibilities of cities, counties, and towns;
- sources of revenue which are or could be allocated to local governments, and

the adequacy of those sources; and

- the Commonwealth's responsibilities for providing public services, and procedures for aiding local governments.

The resolution also directed that the study "identify to the extent feasible all local government mandates and related financial sources contained in each functional area of State government."

To ensure coordination between JLARC and standing committees of the Legislature, the study resolution designated a 12-member subcommittee to cooperate in study activities. Members were appointed from the House Committee on Counties, Cities, and Towns; the House Finance Committee; the Senate Committee on Local Government; and the Senate Finance Committee.

Principal Issues. At regional meetings held to solicit input from local officials and other interested persons, three concerns were most often voiced: (1) the burdensome impact of State mandates, (2) the need for additional State financial assistance, and (3) limits that have been placed on local taxing authority. The study workplan was therefore oriented to examine three principal issues:

(1) To what extent do State mandates impose a burden on local governments?

(2) Is the amount and type of State assistance to localities adequate?

(3) Do local governments have sufficient financial resources to fund the public services they must provide?

Special Research Efforts. To address the study's central issues, research activities were designed to develop as broad an information base as possible. Four special research efforts were undertaken:

(1) a survey of State agencies, to identify mandates which apply to local governments;

(2) visits to selected case study localities, to explore how mandates affect local governments and to gather information about financial problems facing localities;

(3) a survey of local officials, to systematically assess local opinions about State mandates, State aid to localities, and local financial conditions; and

(4) an assessment of local fiscal conditions, to determine the degree which localities are stressed by stagnant revenue capacity, high tax efforts, and other factors.

STATE MANDATES

Virginia's local governments are fundamentally affected by State constitutional, statutory, and administrative mandates. State requirements affect the organization, staffing levels, services provided, administrative procedures, budgets, and spending of all local governments. In some cases, mandates require that local governments redirect their resources to meet statewide rather than local objectives. The impact of State mandates is therefore a continuing concern to local officials. The most frequent local complaint about mandates, however, is that they are rarely funded at adequate levels.

An inventory of State mandates showed that the State is extensively involved in specifying a minimum level of local services in many areas. This involvement is particularly great in education, welfare and social services, and corrections. Mandates affecting public works are also widespread, but focus on regulating services which localities are not required to provide. Mandates in other areas of local activity are less extensive.

The volume of State mandates does have a significant impact on local governments. There are several thousand State regulatory provisions affecting localities. It is a major task for local officials to absorb and comply with the large volume of detailed State regulations that are in effect. Nevertheless, most local officials do not judge most mandates to be unreasonable.

JLARC's survey of localities asked officials to assess the reasonableness of mandates in 19 areas of local government. The survey also asked officials to comment on specific mandates they found inappropriate or unreasonable. Results showed that in only one area — special education — were mandates judged to be unreasonable by more than half of the responding localities. In 13 of the 19 areas, only one-fifth or fewer of the officials responding judged mandates to be unreasonable.

Very little consensus was found among local officials on the unreasonableness of specific mandates. Few specific mandates were cited as unreasonable by more than four or five local administrators. Moreover, no consistent pattern appeared to exist in the type of locality complaining about specific mandates. The comments received most often cited new mandates or mandates which have been recently changed. Mandates appear to be more a lightning rod of discontent for local officials than a significant substantive problem.

The JLARC staff's research was designed to examine concerns about State aid separately from concerns about the reasonableness of mandates. Nevertheless, local officials frequently linked dissatisfaction with mandates to levels of State funding. Local sensitivity to State mandates appears to be largely a concern with levels of State aid.

STATE ASSISTANCE TO LOCALITIES

Over time the Commonwealth has assumed a significant role in assisting local governments with services. Responsibility for providing assistance flows from constitutional provisions, statutory decisions, and historical tradition. In some cases, assistance is provided as recognition that local services provide benefits both for the locality and for the State as a whole. In some cases, assistance is provided because service delivery is regarded as a shared State-local responsibility.

The Comptroller estimated that in FY 1982, State assistance from all sources totaled $2.5 billion. Assistance to localities comes in the form of direct services provided to localities or clients by State agencies, financial assistance funneled through local treasurers, and technical advice or training provided to local officials.

The adequacy of State assistance was a central issue for this study. To assess adequacy, research was focused to determine whether the amounts of State aid have kept pace with local program costs and historical State commitments, and to identify areas where levels of State aid are not consistent with levels of State involvement.

Overall, State financial assistance to localities has comprised a stable proportion of local budgets. Without recent State initiatives providing aid to localities with police departments and assuming a greater share of the costs of some constitutional offices, however, State aid would have decreased as a share of local budgets.

For most major programs, State aid has at least kept pace with historical State commitments. State funding of local health departments has been stable at about 58 percent of approved budgets. State and federal funding of local welfare agencies has also been stable, at about 88 percent of total expenditures. And, State funding of Community Service Boards has increased considerably – from 50 percent of expenditures in FY 1979 to about 57 percent in FY 1982. In these areas, State funding has been at least consistent with historical commitments.

State aid for education, particularly important because it comprises over 70 percent of State financial aid to localities, has not kept pace with its historical commitment. Education accounts for well over 50 percent of all local government spending. Despite the State's extensive involvement in education, the State share of education declined from 46.3 percent of total operating expenditures in FY 1978 to 43.6 percent in FY 1982. A concurrent decline in federal aid for education has meant that localities have had to assume an increasing share of education costs.

This declining share of State funding of education is also reflected in a declining relationship between established funding of estimates of the cost of meeting State Standards of Quality. According to the Department of Education, the established SOQ costs have fallen from 82.4 percent of the estimated SOQ costs in FY 1975 to 78.0 percent in FY 1982.

There are two programs – categorical aid for special education and auxiliary grants – where levels of State aid are not consistent with levels of control. In special education, the State has funded a decreasing share of the added costs of educating handicapped children. This has occurred despite extensive State and federal involvement in requiring specific and widespread services. In auxiliary grants, the State funds only 62.5 percent of a program in which localities have no flexibility in the number of clients served or benefit levels. Costs for these programs have grown dramatically in recent years, and have heavily impacted some localities.

LOCAL FINANCIAL CONDITIONS

The financial integrity of local governments is vital to the Commonwealth. Local governments provide services which meet residents' needs, spur and influence economic growth and development, and improve the quality of life for all the State's citizens.

Local governments have experienced increasing financial stress over the past five years. Five principal causes of stress have been well-documented. First, the two recent economic recessions slowed the growth of tax receipts and increased unemployment. Second, the federal government has reduced aid to localities, partly to reduce budget deficits and partly to return program control to states and localities. Third, local taxpayers have become increasingly reluctant to support or accept tax increases. This reluctance has focused in large part on property taxes. Fourth, high interest rates have made local borrowing more difficult, or in many cases prohibitive. And fifth, many localities are faced with increasing needs to replace or expand high-cost capital facilities.

In response to these stresses, local governments have taken many of the actions available to them. Despite political hurdles, many have increased existing taxes and fees, or adopted new ones. Local govenments have also taken significant actions to control spending. Chief among these have been deferral of maintenance and capital outlays, and reduction in personnel positions through attrition. The levels and types of stress faced by local governments are sufficient to require action by the General Assembly.

The levels of stress affecting local governments are not uniform. Some localities show few signs of financial difficulty while others are stressed more seriously. On almost any dimension of comparison, cities of all types are more stressed than counties. Most city populations have the relatively high levels of poverty found in many rural counties. Cities have also faced for many years the high service demands now being experienced by urbanizing counties. And, cities have been fundamentally affected by the higher per-capita benefit in State aid which has gone to counties. As a result of these factors, cities show much higher tax efforts than counties, and their local tax efforts have also grown more significantly over the past five years. And, cities have taken a greater number of actions to control or reduce spending.

The types of stress experienced by local governments vary greatly. The sources of stress experienced by rural and urbanizing counties, for example, are distinctly different. Rural counties are stressed by high levels of poverty among local residents, and by revenue capacities which are low and stagnant by statewide standards. Urbanizing counties, on the other hand, are pressured by high growth and by the need to build or expand schools, sewer and water systems, and other capital facilities. It is unlikely that any single policy action will equally benefit or address the disparate types of stress facing local governments.

TOWNS

Only limited information is available on towns. JLARC research and analysis relied on a survey mailed to the 130 towns with populations over 500. Eighty-five towns (65%) responded to the survey, and provided information about financial conditions, revenues and expenditures, and State mandates and aid. The responses provide a reasonable but limited basis for describing towns in Virginia.

For the most part, towns generally provide the higher levels of service demanded by urban areas within counties. Sevices provided by towns characteristically include sewer and water systems, public safety, and street maintenance.

State involvement in town activities is much lower than in city and county operations. Both State mandates and State aid are generally viewed as reasonable. Principal concerns are the appropriateness of State mandates for small towns, and requirements and lack of funding for sewer and water systems. As with cities and counties, however, the level of complaints is low, and there is no consensus about which mandates are particularly burdensome.

About one-third of towns responding do show some signs of fiscal stress. Some towns have taken actions to control spending and have increased taxes over time. Still, the levels of stress shown by these symptoms are much lower than those of cities and counties.

POLICY OPTIONS

JLARC research revealed that State mandates are not a substantive problem. Nevertheless, many mandated programs and services are not funded at levels consistent with the State's historical commitment. Further, many local governments are fiscally stressed, and State action is warranted to relieve this stress and aid localities in their efforts to fund service responsibilities.

In providing and funding required services and activities, local governments are dependent on State aid. This reliance has become more important as the federal government has increasingly withdrawn from full funding of its program commitments. Disruptions or declines in levels or shares of State funding create fiscal stress by forcing localities to choose between service reductions and increased local funding. If State mandates prevent service reductions, then localities have no choice but to pay. Part of the fiscal condition of localities is therefore determined by State decisions about levels of aid for specific programs. Although localities have not reached a crisis point, incremental action by the State to more adequately fund its mandates is warranted.

Recommendation (1): The State should either establish as a goal full funding of its mandated programs and services or commit itself to equitable, adequate, and stable funding of its aid to localities. Further, the General Assembly should consider establishing mechanisms for determining costs of its mandated programs.

Adoption of this recommendation would address principal local concerns regarding mandates and related State aid. While full funding, from the localities' point of view, would be most desirable, adequate State resources may not be available. Moreover, full funding would not reflect the partship relationship that is desirable for some programs. In the absence of full State funding, the commitment to equitable, adequate, and stable funding would address many local concerns.

Neither of these goals, however, is immediately achievable because of a lack of (1) specific legislative commitments, (2) necessary information on costs, and (3) the availability of additional financial aid. Mechanisms can be established, however, to lay the groundwork for the achievement of either of these goals.

Specific Legislative Commitments. While the State has traditionally funded a share of most mandated programs, the level of State aid for most programs has been determined more by available revenue and legislative appropriations than by specific State commitments. As a result, the State and local shares of many mandated programs have fluctuated over time. For example, the State's established Standards of Quality (SOQ) cost per pupil declined from 82.4 percent of estimated costs in FY 1975 to 78.0 percent in FY 1982. The establishment of a statutory funding commitment would contribute to a stable and predictable State share of such costs.

Recommendation (1a): The General Assembly should promote stable and predictable funding of State-local programs by establishing in statute its commitment to program funding. The commitment should specify the share of program costs to be funded by the State.

Necessary Information on Costs. The stability and predictability of funding could be promoted by statutory commitments to specified funding levels. However, the adequacy and equity of the funding would depend on the level of funding committed and the accuracy of the basis on which the costs of programs were calculated.

If the State committed itself to funding a specific percentage of the estimated cost per pupil of Standards of Quality, for example, it would be essential that the methodology for computing the cost be technically correct and that costs be reasonable. Systematic evaluations of the cost of major mandated programs would promote the adequacy and equity of the State funding.

Steps have already been taken in some areas to conduct such assessments. JLARC's study of the allocation of highway funds, which was mandated by the General Assembly in 1982 and 1983, is reviewing the equity of highway allocation formulas and the adequacy of maintenance spending, urban assistance payments, and aid for mass transit. JLARC could perform a similar assessment of the estimated per-pupil cost of the educational Standards of Quality as part of a scheduled study of the functional areas of elementary and secondary education. In addition, follow-up assessments should be made of the accuracy of fiscal impact statements for new mandates. Such assessments could provide a basis for reconsideration of a mandate if its fiscal impact had been underestimated.

Recommendation (1b): The General Assembly should promote adequate and equitable funding of State-local programs by directing an assessment and validation of the basis for sharing major program costs. In particular, JLARC should assess the method for estimating the cost of State's Standards of Quality. Such costing mechanisms should include methodologically rigorous studies and systematic reviews of the fiscal impacts of mandated programs on local governments.

Finally, better information on the effects of mandates would be available if local government organizations, such as the Local Government Advisory Council and other groups, would act as forums for identifying widespread problems with mandates and financial aid. While consensus on substantive problems with mandates does not currently exist, such organizations could serve as valuable conduits for identifying problems in the future.

Availability of Additional Financial Aid. As demonstrated in this report, the State share of several important programs has fallen in recent years. While the State may not wish to commit itself to additional funding of some programs prior to validating estimates of program costs, JLARC research suggests that additional funding should be provided in several key areas. Specifically, these are the funding of the educational Standards of Quality, categorical aid for special education, and the State's share of auxilary grant funding. In each case, State control is high and localities were shown to have strong concerns about funding levels. For SOQ and special education funding, the traditional State share of costs has declined. Based on existing data, it is possible to estimate the amount of aid which would be necessary to meet existing State commitments.

The amount of additional aid needed is substantial. About $233.3 million in increased aid for these programs would be required for the FY 1984-86 biennium.

Recommendation (1c): Additional aid should be provided to localities to fund programs at levels consistent with the State's traditional level of commitment. Specifically, funds should be provided to fund (1) the State's share of 82 percent of the estimated costs of meeting educational Standards of Quality; (2) up to 28 percent of the added costs of special education; and (3) 80 percent of the Auxiliary Grant program.

Taken together, Recommendations 1, 1a, 1b, and 1c will help to address long-term and short-term problems associated with mandates and their funding. The recommendations do not, however, provide immediate full funding of mandates or fully address the underlying fiscal stresses which affect a locality's ability to fund its service responsibilities. Additional action is warranted to address the fiscal stresses shown in many Virginia localities.

ADDRESSING FISCAL STRESS

While the State is taking incremental steps to both define and meet its commitments (Recommendations 1-1c), many localities are experiencing fiscal stresses that may be largely independent of State mandates. An index which combines revenue capacity, tax effort, and level of poverty shows that Virginia's cities experience greater fiscal stress than the State's counties.

Another group of stressed localities are poor rural counties. These localities suffer principally from low capacity and high poverty.

While cities and poor, rural counties suffer clear fiscal stress as measured by the index, almost all localities show one or more specific symptoms of stress. Localities such as urbanizing counties, which appear to have a good fiscal balance sheet, still face high demands for services and are becoming increasingly dependent on the property tax. Most localities manifest some symptoms of stress and need some form of State assistance to meet their service responsibilities.

Recommendation (2): The State should take steps to assist stressed localities in their efforts to meet service responsibilities.

Because of the differing stresses that face localities, three independent approaches have been prepared:

a) distributing additional aid through a formula measuring fiscal stress;
b) balancing highway funding between cities and counties; and
c) equalizing taxing authority.

Distribution of Additional Aid Through a Stress Formula. Under this approach, the State would provide additional financial assistance to localities based on each locality's level of fiscal stress. The results of study research do not point to precise amounts of additional aid which would be necessary to balance fiscal stress among local governments. It is possible, however, to use the key measures of stress – revenue capacity and tax effort – to develop a range of amounts which would meet general policy objectives.

As the table indicates, a substantial infusion of new aid would be necessary to balance the major causes of local fiscal stress. For example, $341.0 million in added State aid for the FY 1984-86 biennium would be necessary to bring localities with high overall stress levels down to moderately high levels. Policy objectives other than those listed could be used to develop different ranges. The total amounts would be offset substantially if $233.3 million in funds were provided, as recommended, to meet traditional levels of State aid to education, special education, and auxiliary grants.

Recommendation (2a): The General Assembly should consider distributing additional aid to localities on the basis of a stress index or formula, as a means of balancing the fiscal stresses facing local governments.

Balancing Highway Funding. Highway funding accounts for most of the advantage that counties enjoy over cities in the area of State aid and direct services. This differential is currently under intense review in JLARC's study of highway allocations, and a final report is due in December 1983. Because Virginia's cities as a class are the most highly stressed localities in the State, balancing differences in highway funding would contribute substantially to relieving fiscal stress.

AMOUNTS OF ASSISTANCE NEEDED TO ADDRESS STRESS

(dollars in millions)

Objective	Amount Needed (FY 1984-86)	Less $233.3 To Meet State Commitments
1. Amount sufficient to bring localities with high overall stress levels down to moderately high stress levels.	$341.0	$107.7
2. Amount sufficient to bring localities with at least moderately high stress down to moderate stress levels.	385.2	151.9
3. Amount sufficient to bring localities with high overall stress down to average stress levels.	481.9	247.8
4. Amount sufficient to bring localities with above average stress down to average levels.	552.3	319.0

Source: JLARC

Recommendation (2b): Specific figures on the amount of State aid necessary to balance the benefits of highway funding will be available in December. At that time, the General Assembly should consider those findings and prepare recommendations which would both narrow the benefit gap and aid in reducing the fiscal stresses facing cities.

Equalizing Taxing Authority. A few localities in Virginia would benefit from the grant of additional taxing authority. Currently, Virginia counties and cities have substantially different taxing authority. At one time, these differences probably reflected clear distinctions between counties and cities. Today, with the existence of cities of extremely large geographical areas and with the urbanization of some counties, those differences are muted. Many counties in the State are now called upon to offer services which were once considered principally urban.

Some localities, particularly urbanizing or suburbanizing counties with relatively strong and diverse tax bases, could benefit from taxing authority similar to that afforded cities. Such authority could reduce the political stress encountered by localities which face strong taxpayer resistance to higher property taxes.

It must be noted, however, that equalizing taxing authority would do nothing to alleviate the problems of the most stressed communities. Cities already have the full taxing authority permitted by law, and show very high tax efforts. The benefits of added taxing authority would also be limited for poor, rural localities. These localities do not have sufficient revenue capacity or the local economic activity necessary to produce significant revenue through additional taxes. Still, equalized taxing authority would benefit some localities and, if offered generally, could provide counties with additional flexibility to meet their service responsibilities in the future. As a part of a package of legislative actions, additional taxing authority could meet the needs of some localities.

Recommendation (2c): The General Assembly should consider equalizing taxing authority between counties and cities.

TABLE OF CONTENTS

I. INTRODUCTION

Virginia's 325 local governments are closely tied to the State. They are dependent on the State Constitution and general laws for the authority to organize, conduct their affairs, and raise and spend revenues. Many of their functions are carried out at least partially in response to responsibilities assigned by the State. Many other local government activities are defined, prescribed, or regulated by State statutes or administrative regulations. And, a major portion of local government funding flows from the State through a variety of aid programs and direct State services.

The General Assembly has focused much of its attention and effort on developing an appropriate relationship between the State and its local governments. In the past 12 years, 29 legislative studies have been conducted to explore ways of improving and coordinating State and local responsibilities. Many of these studies have resulted in significant statutory changes for local governments, including grants of additional local authority to operate in some areas, increased State financial assistance, and changes in the ways local governments deal with each other.

During the 1982 session, the General Assembly began another re-examination of some aspects of State-local relations, through adoption of House Joint Resolution 105. The resolution directed the Joint Legislative Audit and Review Commission (JLARC) to study the responsibilities and financial resources of local governments. The General Assembly continued the study in 1983 by adopting House Joint Resolution 12. This final report contains findings, recommendations, and policy options which resulted from the study research.

Study Resolution

The original study resolution charged JLARC to study:

- responsibilities of local governments for providing public services, and the differences in the responsibilities of counties, cities, and towns;
- sources of revenue which are or could be allocated to local governments and the adequacy of those sources; and
- the Commonwealth's responsibilities for providing public services and procedures for aiding local governments.

One key focus of the study resolution has been mandates placed on local governments by the State. The resolution directed that the study "identify to the extent feasible all local government mandates and related financial sources contained in each functional area of State government."

Legislative Involvement. To ensure coordination of the study between JLARC and standing committees, the study resolution designated a 12-member subcommittee to cooperate in study activities. Members were appointed from the House Committee on Counties, Cities, and Towns, from the House Finance Committee, from the Senate Committee on Local Government, and from the Senate Finance Committee.

The first joint meeting of the full legislative committee was held in September 1982. At that time, JLARC staff presented background information and a tentative workplan for the study. A subsequent meeting was held in November to solicit comments from local government officials and other interested parties. Additional meetings were held in June, July, and September of 1983, to review results of ongoing research by JLARC staff.

VIRGINIA'S LOCAL GOVERNMENTS

Local governments in Virginia are creatures of the State. They may exercise only those powers that are expressly delegated to them through the State Constitution or legislative acts. This limit to the powers of local governments, informally known as Dillon's Rule, has defined State-local relationships in Virginia for almost 100 years.

Virginia's 1971 Constitution grants the General Assembly very wide latitude to define the powers and responsibilities of local governments. Article VIII of the Constitution states that:

- The General Assembly shall provide by general law for the organization, government, powers, change of boundaries, consolidation and dissolution of counties, cities, towns, and regional governments....

- The General Assembly may also provide by special act for the organization, government, and powers of any county, city, town, or regional government....

Authority exercised through general laws applies equally to all local governments; authority exercised through special acts applies only to specified localities.

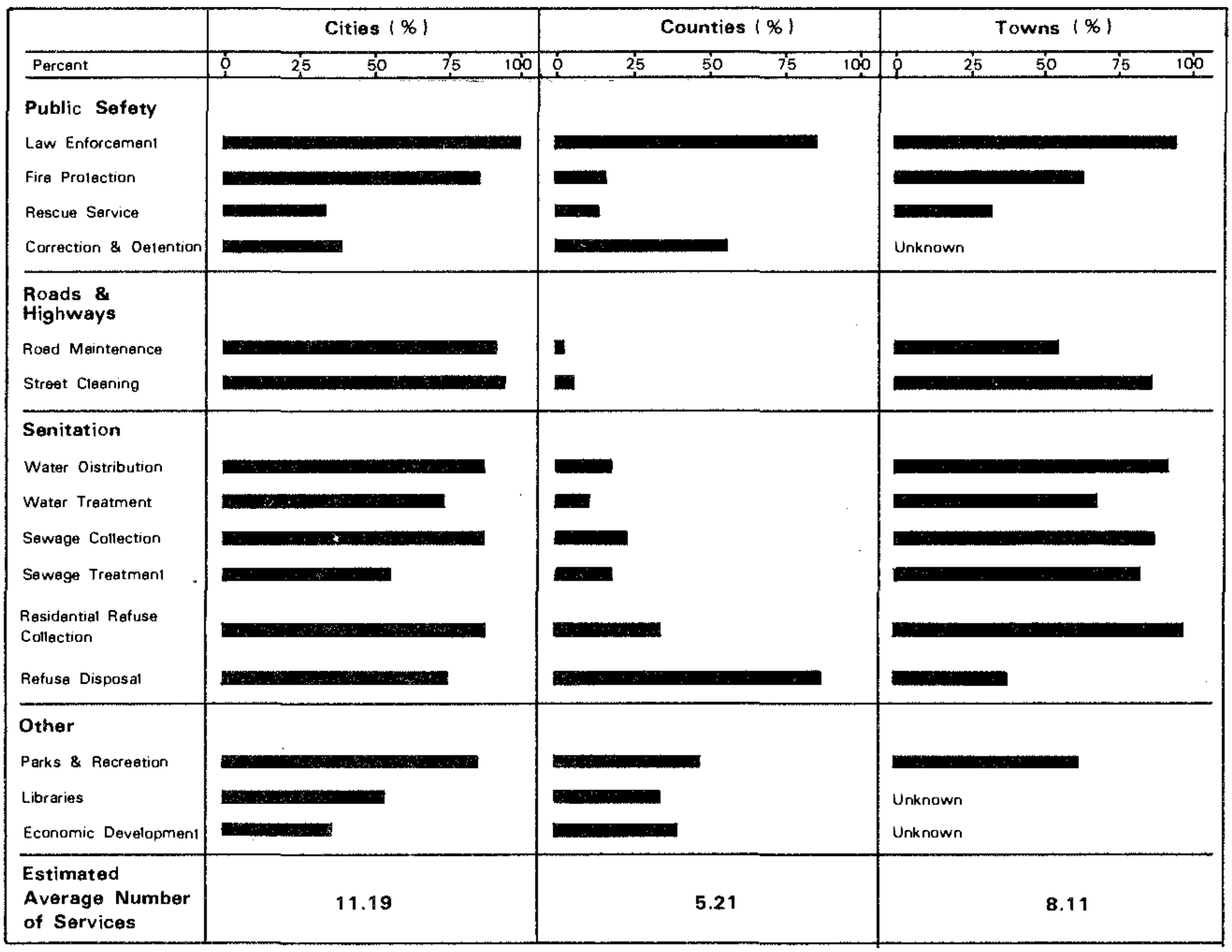
Counties, Cities and Towns

By national standards, the organization and structure of Virginia's local governments is relatively simple. Virginia's total of 325 local governments places it 43rd nationally in the number of local governments in each state. And the number of basic forms of local government in Virginia--counties, cities, and towns--is far fewer than in most other states. General characteristics of Virginia's counties, cities, and towns, are illustrated on the facing page.

Characteristics of Virginia Localities

	Cities	Counties	Towns
Role	1. units of local governments 2. administrative "arms of the State"	1. units of local government 2. administrative "arms of the State"	1. unit of local government 2. not administrative "arms of the State"
Legal Status	independent municipal corporation	general law or special act authority	municipal corporation (not independent of surrounding counties)
Numbers	41 cities	95 counties	189 towns
Population	5,000 to 267,000	3,000 to 600,000	100 - 31,000
Major Sources of Revenue	Local - 59% State - 29% Federal - 12%	Local - 58% State - 33% Federal - 9%	Local - 70% State - 20% Federal - 10%
Major Sources of Local Revenue FY 1982	Real Property Tax - 47% Sales & Use Tax - 12% Tangible Personal Property Tax - 11% B.P.O.L. Tax - 11% Consumer Utility Tax - 10%	Real Property Tax - 61% Tangible Personal Property Tax - 14% Sales and Use Tax - 9% Consumer Utility Tax - 4% B.P.O.L. Tax - 4%	Unknown
Major Expenditures	Education - 49% Public Safety - 16% Public Works - 11% Health & Welfare - 9%	Education - 63% Public Safety - 10% Capital Outlay & Debt Service - 7% Health & Welfare - 6%	Unknown

Services Provided by Localities



Based on survey responses of 36 cities (88%), 71 counties (75%), and 85 towns (65% of those towns with populations over 500).

The figures represent the percentage of local government organizations providing their own services (does not include regional or public service authorities).

Counties, cities, and towns are the only constitutionally recognized forms of local government in Virginia. Their governmental powers and structures are specified in the *Code of Virginia*. Additional powers enjoyed by cities and towns are included in municipal charters, which are special acts of the General Assembly.

Counties. Virginia's 95 counties differ widely on almost any dimension of comparison. They range in population from almost 600,000 to slightly less than 3,000. They range in size from over 1,000 square miles to only about 24 square miles. And they vary widely in the types of services they provide and in the characteristics of their populations.

In practice, counties fill two principal roles. First, they fill a historical role as administrative "arms of the State." In this role, counties are required to carry out a number of State functions. Counties are required to administer elections, support local constitutional officers, collect State income taxes, and provide court facilities. They must also participate in other activities which are partly State functions, including operation of local welfare departments and public school systems.

Counties have a second role as units of local government. In this role, counties tax local businesses and citizens, appropriate and spend revenues, and provide a variety of local services. These local services may include sewerage and water, solid waste collection and disposal, police and fire protection, recreation, and others.

As some counties have grown and become more urban, the number of distinctions between Virginia's counties and cities has lessened. Some counties have begun to provide services typical of cities and some towns. In recognition of these changes, the General Assembly has given counties almost all the powers granted to cities under general law. Counties, however, still do not possess the broad grants of authority given to municipalities under municipal charters. Counties must therefore continue to rely on general law or special acts for authority to carry out their activities and functions.

Cities. Virginia's cities are also diverse. They range in population from about 267,000 to less than 5,000. They range in area from over 400 square miles to under two square miles. And they also differ greatly in the characteristics of their residents.

The Constitution of 1971 defines cities as "independent municipal corporations." Cities in Virginia are therefore politically and territorially independent of the counties which surround them. Although there are isolated examples of independent cities across the nation, Virginia is the only State whose cities all enjoy independent status.

Like counties, Virginia's 41 cities also serve dual functions as administrative "arms of the State" and as separate units of local government. Cities support local constitutional officers, collect

State income taxes, and provide court, jail, welfare, and school facilities and services. As units of local government, they also tax, appropriate revenue, and provide a variety of local services required by their residents. Virginia's cities do, however, differ from counties in one key respect--the ability to govern through municipal charters.

Municipal charters are special acts of the General Assembly which set forth the governmental structure, functions, and powers of each municipality. Charters grant municipalities broad authority over the operations of their own local governments. Within limits specified by general law, charters are also tailored to allow substantial flexibility in meeting local needs. In some cases, charter provisions allow municipalities to carry out some functions and to levy some taxes not granted to counties under general law.

Towns. Virginia's 189 towns range in population from almost 31,000 to less than 100. Fourteen towns have populations greater than the smallest city. Most towns, however, have few residents. Only 26 of the State's towns have populations which exceed 3,500.

Like cities, towns are legally defined as municipal corporations. Towns therefore have the right to frame and request legislative enactment of municipal charters. Charter authority gives towns broad discretion in organizing and conducting their affairs.

Unlike cities, however, towns are not territorially independent of their surrounding counties. Towns therefore do not operate as administrative agents of the State. Town residents receive some services from adjacent counties and must pay some county taxes to support them. Most often, these services include public education and welfare services. Town residents also pay taxes to the town to support town activities.

Local Financial Resources

Local governments use the revenues they generate and receive in order to meet local service demands, as well as to comply with State and federal mandates. Although service requirements vary substantially among localities, they can and typically do include demands for a water supply, sewer facilities, a road system, schools, law enforcement, fire protection, health and welfare services, parks and recreation facilities, and other services. While revenues to meet these responsibilities come partially from State and federal aid, most of the revenue used by local governments must be generated by the localities themselves.

Local Taxing Authority. Almost 60 percent of all revenues used by local governments are raised at the local level. Locally produced revenues come from local taxes, permits and licenses, court fines, service charges, investment interest, property rental and sale, and a number of miscellaneous sources.

The power to tax is granted by the General Assembly to all local governments. Taxing authority is directed through (1) general laws which apply equally to all local governments and (2) through special authority granted to individual localities by special legislative acts.

Cities and towns possess broader taxing powers than are granted to counties. For example, the Uniform Charter Powers Act grants cities and towns the power to "raise annually by taxes and assessments on property... and other subjects of taxation" the funds needed to finance the government. Cities and towns may therefore levy taxes not prohibited by general law, if the levy is consistent with their own charter. The principal taxes available to cities and towns under charter authority are levies on the sale of cigarettes, rental of hotel and motel rooms, sale of restaurant meals, and admission to specific amusements. Because counties lack charters, they must rely on special acts of the General Assembly to levy taxes not granted under general law.

Towns possess one other unusual power--the power to preempt certain county taxes. Several general laws provide that if a town levies certain taxes, the county may not levy the same taxes within the town. Most of these laws are intended to allow towns a stable and predictable source of revenue, without permitting excessive double taxation of residents and businesses. The right of preemption exists for several key taxes, although it does not exist for real and personal property taxes, the two most significant sources of local tax revenue.

Over the past ten years, several legislative studies have examined individual local taxes. A consistent theme of these studies has been the need to ensure that rates for individual taxes do not become excessive. Most of these studies resulted in the placement of caps on the maximum tax rates which can be charged by localities. Statutory maximum rates are now in place for most major local taxes. Real and personal property taxes are the key exceptions.

Although there is substantial variation from locality to locality, both cities and counties rely on the same major taxes (Table 1). Cities and counties derive the bulk of local tax revenues from real property taxes, personal property taxes, local sales and use taxes, consumer utility taxes, and business and occupational license taxes. These five taxes accounted for 89 percent of city tax revenues and 90 percent of county tax revenues for FY 1982. All five are granted under general law. A more complete description of the key features of each tax was included in the Interim Report for this study (House Document 40 for the 1983 session). A summary of specific taxes levied by each city and county is included in the appendix to this report.

State Financial Assistance. State financial assistance is the second most important source of local government funds. State aid to localities comes in the form of revenue sharing grants, aid for specific categorical programs, and State service payments in lieu of

Table 1

PRINCIPAL LOCAL TAXES
(FY 1982)

Tax	Number of Cities and Counties Levying	Proportion of Local City Revenue	Proportion of Local County Revenue
Real Property Tax	136	47%	61%
Tangible Personal Property Tax*	136	11	14
Local Sales and Use Tax	136	12	9
Consumer Utility Tax	88	10	4
Business, Professional, and Occupational License Taxes (BPOL)**	64	11	4
Merchants' Capital Tax**	64	0	1
Motor Vehicle Licenses**	128	2	3
Other Taxes	--	7	4
TOTAL		100%	100%

*Includes Machinery and Tools tax.

**Estimated percentages, based on FY 1981 data.

Source: *Code of Virginia*; Auditor of Public Accounts Comparative Reports on Local Governments, FY 1982; Virginia Municipal League Survey of Tax Rates, 1982.

local property taxes on State-owned property. In FY 1982, about $1.4 billion in State financial assistance was funneled to local governments. This amount comprised about 30 percent of revenues received by local governments in FY 1982. A full description of State aid to local governments is presented in Chapter III of this report.

In addition to financial assistance to localities, State agencies provide a number of key direct services to local clients or governments. These expenditures on behalf of local governments benefit localities directly, although they are rarely included in discussions of State financial assistance. Primary examples include State construction and maintenance of most county roads, State funding of local health departments, and State Police patrolling and accident investigation on interstate, primary, and secondary roads in counties. Chapter III also includes a more complete discussion of direct services provided to localities by the State.

Federal Aid. Federal aid is the third principal source of local revenue. Federal aid from general grants, categorical aid, and payments in lieu of taxes represents about 10 percent of local revenues. Local dependence on federal aid has declined to this level from its mid-1970s peak. Nevertheless, the dollar magnitude of federal aid remains significant. The Auditor of Public Accounts (APA) indicates that Virginia's cities and counties received $400.6 million in federal aid in FY 1982. Federal aid comes both from federal funds passed through State agencies to local governments, and from federal funds disbursed directly by the federal government to localities.

Cuts in federal aid continue to occur as a result of the federal government's attempts to reduce federal deficits and return more program responsibility to the states. For many local governments, the choice has been either to supplement declining federal funds with local tax revenues, or to reduce services funded with federal aid. Reductions in federal aid have also influenced an increasing number of localities to look to the State for additional financial assistance.

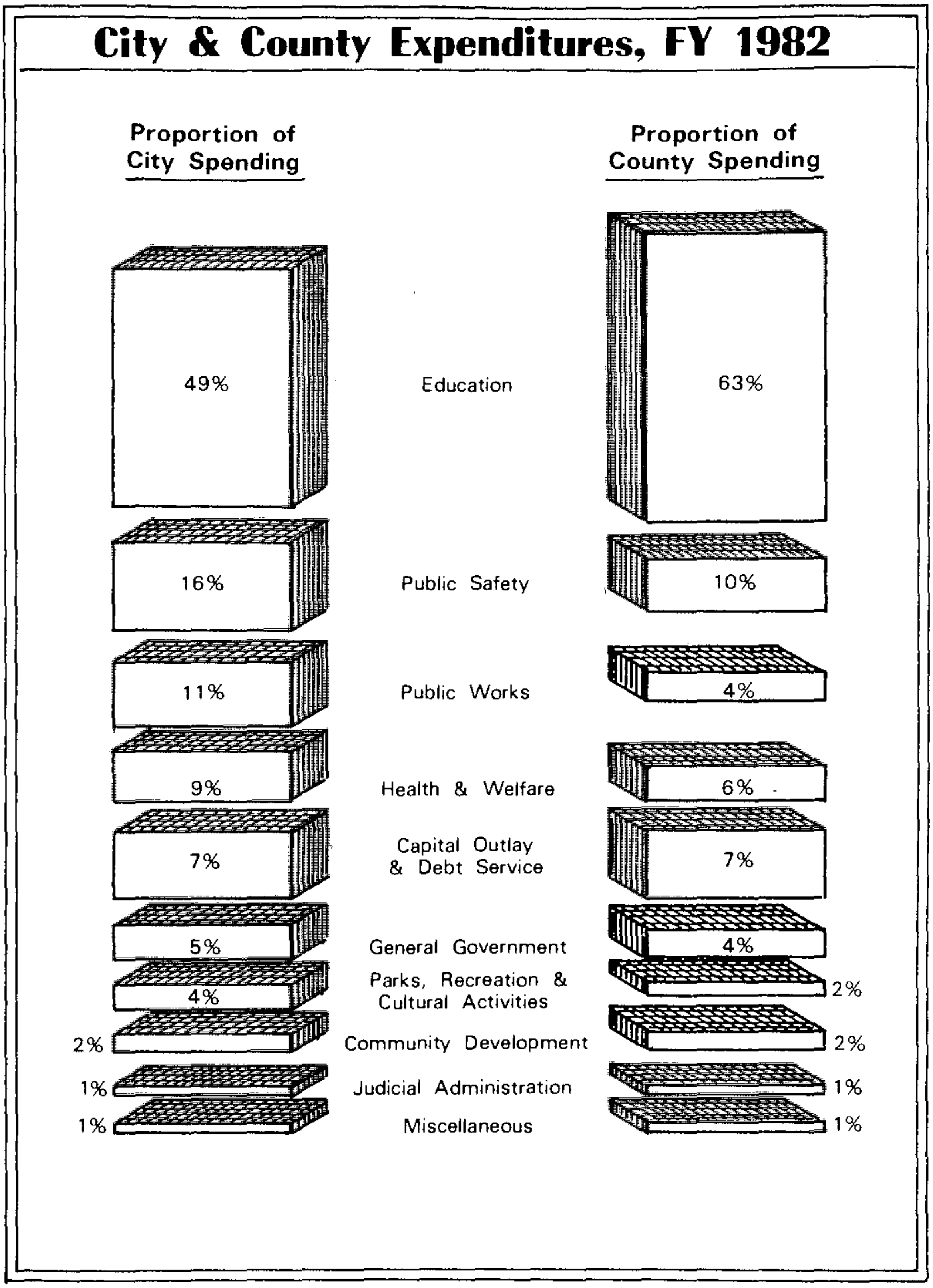
Local Government Expenditures

Although most local governments provide a wide array of services and facilities, the budgets of cities and counties are dominated by five functions: education, public safety, public works, capital outlay and debt service, and health and welfare. These functions together accounted for 89 percent of city and county spending in FY 1982. Moreover, the proportion of local spending for each function has remained stable in recent years.

There are more similarities than differences in the spending patterns of Virginia's counties and cities (Figure 1). Education dwarfs all other local functions, and is followed in importance by public safety. Moreover, the proportions of total city and county expenditures represented by key local functions are generally close.

There are a few important differences in local spending patterns, however. Counties spend somewhat more per capita for education than cities do, and county budgets show a significantly higher proportion of total spending for education. This may be due to the fact that, for many counties, education is the principal public service demanded. Counties may therefore be able to more fully channel their efforts and spending into education.

Figure 1



Source: Comparative Cost Reports of the Auditor of Public Accounts, FY 1982.

For their part, cities spend substantially higher per capita amounts for public safety, public works, and health and welfare services. City budgets reflect these higher expenditures by showing larger proportions of total spending in these categories. Many of these differences can be attributed to the service demands of urban populations. Demands for urban services include additional law enforcement protection, a more extensive road network, and sewer and water services. Some city officials also argue that the migration of middle- and upper-income families to suburban counties has left cities with a more dependent population, requiring a higher level of city health and welfare services.

The diversity which exists among Virginia's cities and counties makes it difficult to draw generalizations about local governments. Some recent legislative studies have concluded that urban counties bear greater resemblance to cities than to most other counties. Chapter V of this report probes in more detail the differences between Virginia's localities.

STUDY APPROACH

A major portion of the interim report phase was focused on soliciting input from local government officials about issues which warranted review and on a study workplan. Excerpts of comments received from local officials during a series of public meetings were included in the *Interim Report*.

Principal Issues

In five workshops held around the State and at a statewide public hearing held in Richmond, the concerns of local officials most often centered on three areas: (1) the burdensome impact of State mandates on local government activities; (2) the need for additional State financial assistance; and (3) the legal and practical limits that have been placed on local taxing authority. The study workplan was oriented to examine these concerns.

Three principal issues have been examined:

1. To what extent do State mandates impose a burden on local governments?

2. Is the amount and type of State assistance to localities adequate?

3. Do local governments have sufficient financial resources to fund the public services they must provide?

The research activities for the study were structured to answer these central questions.

Special Research Efforts

Research activities were designed to combine both quantitative and qualitative research approaches, and to develop as broad an information base as possible in addressing the study's central issues. Four special research efforts were undertaken: (1) a survey of State agencies, (2) visits to selected localities, (3) a survey of local government officials, and (4) an assessment of the financial condition of cities and counties.

Survey of State Agencies. A survey instrument was mailed to all State agencies which administer mandates or provide funds to local governments. Agencies were asked to identify State mandates which they administer, and to list the types of State assistance they provide to local governments.

Follow-up interviews were conducted with administrators in agencies which have significant contacts with local governments. Interviews were used to understand the nature and origin of mandates, determine purposes of State aid and the methods of its distribution, and to assess the process for adopting new mandates and adapting existing mandates to different localities.

Visits to Selected Localities. A cross-section of counties and cities were visited during the course of the study. Visits were made to gather information on how mandates impact localities and on how State aid, federal grants, and local revenues are used to meet local needs. Another objective was to explore the financial condition and problems which exist in each locality. Visits involved broad-ranging interviews with key administrative officials in each locality. A list of localities visited is included in the technical appendix of this report.

Survey of Local Government Officials. A Statewide survey of cities and counties was used as the primary means of contacting local officials across the State. Local officials were surveyed in order to systematically assess their opinions and judgments about State mandates, State assistance to localities, and the adequacy of local financial resources. The survey was also used to obtain more specific information about difficult mandates, and specific actions localities may have taken to deal with fiscal stress. Responses were received from 121 of the 136 cities and counties.

A similar, shorter survey was mailed to the 130 towns whose populations exceed 500. Eighty-five responses were received.

Assessment of Local Financial Conditions. One of the central study issues is the adequacy of local financial resources. An important part of this inquiry was to assess the degree to which localities are having difficulties maintaining existing services or adapting services to meet changing conditions. To answer this question, two research approaches were adopted.

The first approach relied on the judgments and opinions of local officials about financial conditions and problems in their own localities. This information was gathered from the survey of local officials and through visits to selected localities.

The second approach used quantitative measures of local financial conditions to guide judgments about which localities are experiencing the greatest financial stress. Indicators which measure the capacity of local governments to produce revenues and the proportion of revenue capacity tapped to generate tax revenues were used. These indicators were examined for a five-year period, to determine how financial conditions have changed over time. Another important aspect of this approach was to compare localities to other localities which have similar economic, social, and size characteristics.

Report Organization

The first chapter of this report has provided background information on Virginia's local governments and has reviewed the study framework. Chapter II considers State mandates on local governments and the degree of State involvement in local activities. Chapter III provides additional detail on State aid to localities, and assesses its adequacy. Chapters IV and V examine current financial conditions in cities and counties, and review the level and nature of fiscal stress faced by local governments. Chapter VI discusses characteristics of Virginia towns. Chapter VII concludes the report with policy options which may be considered by the General Assembly in addressing the study's central issues.

II. STATE MANDATES ON LOCAL GOVERNMENTS

Virginia's local governments are fundamentally affected by widespread mandates imposed by the State. State requirements affect the organization, staffing levels, services provided, administrative procedures, budgets, and spending of all local governments. In some cases, mandates require that local governments redirect their resources to meet statewide rather than local objectives. The impact of State mandates is therefore a concern to local officials. Some local officials argue that State mandates limit local flexibility, absorb local financial resources, and impose an undue local burden.

One of the central issues of this study has been to assess the extent to which State mandates impose a burden on local governments. The original study resolution also specified that JLARC staff "identify to the extent feasible all local government mandates in each functional area of government." To accomplish these objectives, JLARC staff surveyed the 85 State agencies which have a role in administering State mandates. Surveys focused on the origin, nature, and application of mandates. Detailed follow-up interviews were conducted with those State agencies whose functions most directly affect local governments. And, a survey of local officials was used to identify mandates seen by localities as unreasonable or burdensome.

The analysis showed that State mandates on local governments are extensive, and impact most areas of local government activities. Nevertheless, most mandates are not seen as unreasonable by most local administrators, and there is no consensus among local officials about which specific mandates are burdensome. Moreover, mandates do not appear to be a fundamental cause of financial problems affecting local governments. The central local concern about State mandates is that they are rarely funded at adequate levels.

STATE INVOLVEMENT IN LOCAL ACTIVITIES

As political subdivisions, localities derive their authority to function from the State. The State therefore has considerable power to impose mandates on local governments as well as a continuing obligation to oversee the functions and activities of local governments. State mandates on local governments are extensive and reflect State concerns for the operation of local governments and the services they provide to citizens.

State Mandates

Mandates are generally defined as constitutional, statutory, or administrative actions that place requirements on local governments. Individual mandates may have multiple origins. A single mandate may be constitutional, statutory, and administrative at the same time. The mandate that school systems meet Standards of Quality is a good example. The basic requirement for complying with State-issued Standards of Quality is set out in the State Constitution. Specific standards are set legislatively in the Acts of Assembly. And many of the Standards of Quality are further specified administratively through regulations adopted by the Board of Education.

Frequently, the impetus for State mandates is the federal government. Many State mandates are adopted to mirror federal statutes or regulations. Mandates affecting local welfare agencies, for example, are heavily impacted by federal requirements about programs, eligibility criteria, and benefit levels.

Types of Mandates. There are three principal types of mandates:

- compulsory orders
- conditions of State financial aid; and
- State regulation of optional activities

Compulsory orders are requirements with which localities must comply. An example is the requirement that localities employing more than 15 persons must establish a uniform classification plan and pay plan for employees. The requirement is compulsory for all localities having more than 15 employees.

The second type of requirement arises as a condition of State financial aid to localities. An example is the general relief program funded through the Department of Social Services. If a city or county elects to participate, it must share 37.5 percent of program costs and file an approved plan of benefits. These requirements exist as conditions of State financial aid. If they are met, the State then reimburses 62.5 percent of the local general relief costs.

The last type of mandate involves activities which are not mandated but are subject to State regulations. These mandates are requirements placed on optional local activities. Examples include public water supplies and sewage treatment facilities. If a locality elects to provide these types of services, the services are affected by numerous State regulations. Regulations in these areas are most often directed at protecting the health and welfare of the public. Even though these activities are not mandated, localities may have little choice about conducting them. The decision to provide sewers and water, for example, is probably driven more by population density than by local choice.

States most often cite one of three inter-related reasons as the rationale for placing mandates on local governments:

1. to ensure statewide uniformity;
2. to ensure a minimum level of services statewide; and
3. to promote a statewide economic or social goal.

Statewide uniformity is the most basic and straightforward objective of State mandates. Uniformity may be mandated by the State to set a standard where the selection would otherwise be arbitrary. One example is the requirement that localities assess real property at one hundred percent of fair market value. Formerly, localities could choose a lower assessment level, and this made valid comparison of tax rates and assessment practices among localities impossible. Statewide uniformity may be also needed to develop a basis for comparing localities. An example is the Uniform Financial Reporting System for Counties and Municipalities developed by the State Auditor of Public Accounts. The information reported by localities is used to generate a report comparing the revenues and expenditures of localities across the State.

The second principal reason for mandates is to ensure that a minimum level of services exists statewide. The State has assumed a significant interest in seeing that at least a minimum level of services is available to all citizens statewide. Of particular concern are services in education, health and welfare, and corrections. In education, the State has specified extensive Standards Of Quality for elementary and secondary education. In health and welfare, the State has mandated a number of health, public assistance, and social services programs. And in corrections, the State has promulgated extensive standards for construction, renovation, and operation of jails. Specifying a minimum level of services is probably the key reason for the State's involvement in local activities.

Third, mandates may be used to promote a statewide economic or social goal. An example of a statewide goal is the reduction of unemployment. In March of this year, the State implemented an employment services program for recipients of public assistance. The program ensures that recipients seek employment and, where necessary, receive training to develop basic employment skills. In this way, the statewide goal of reduced unemployment is fostered.

Inventory of State Mandates

The study resolution requested that JLARC staff "identify to the extent feasible all local government mandates in each functional area of government." Because the study resolution asked specifically for "service" mandates, those mandates which define the structure and operating procedures for localities were generally excluded. In order to limit the inventory to a useful and manageable size, detailed requirements were often grouped into "fundamental mandates." A total of 164 fundamental mandates were identified. A complete listing of identified mandates is included in the appendix to this report.

To develop the inventory, surveys were sent to 85 state agencies. In order to gain more in-depth information about the origin and application of mandates, follow-up interviews were conducted with personnel in agencies which had central roles dealing with local governments. In addition, some mandates were added through reviews of the *Code of Virginia* and agency publications.

Functional Areas. As specified in the study resolution, the mandates were placed into functional groups. Eight functional groupings were chosen, corresponding closely with those developed by the State Auditor of Public Accounts for the Uniform Financial Reporting System for Counties and Municipalities. The functions are:

1. Administration;
2. Education;
3. Public Safety;
4. Public Works;
5. Health and Welfare;
6. Judicial System;
7. Parks, Recreation, and Libraries; and
8. Community Development.

The principal mandates found in each functional area are summarized in the following sections.

Administration of Government. Mandates in administration of government fall into three areas: fiscal and purchasing, personnel and retirement, and general government. Not included in the inventory are requirements that set out the basic forms and operation of local governments.

Under fiscal and purchasing, the principal mandates include requirements for annual audits, use of competitive procurement procedures, and submission of uniform financial reports to the State auditor. These requirements apply to all counties and cities. In most cases, towns with populations of less than 3,500 are excluded.

Personnel and retirement mandates primarily affect retirement benefits, employee grievance procedures, employee classification plans, and uniform pay plans. For example, localities with a population of at least 5,000 must provide retirement benefits which equal or exceed two-thirds of the benefit level provided under the Virginia Supplemental Retirement System (VSRS). They may do this either by joining VSRS or by developing their own retirement system. The remaining three mandates -- grievance procedure, classification plans, and uniform pay plans -- apply to any local government having more than 15 employees.

The general government category includes requirements regarding elections, such as an electoral board and general registrar, and management of public records to ensure proper retention, storage and disposition.

Education. The State's involvement in public education is greater than in any other area of local activity. This is consistent with the constitutional provision which charges the General Assembly to define standards of quality under which local schools must operate.

Elementary and secondary education requirements are dominated by State Standards of Quality (SOQ). They address basic skills, testing and measurement, career preparation, programs for gifted and talented children, alternative education, responsible student conduct, staffing and qualifications, staff development programs, public involvement, school accreditation, and special education.

Each of the standards is specified in detail in administrative regulations adopted by the Board of Education. For example, special education includes requirements to provide free and appropriate education to all handicapped students between the ages of 2 and 21 years. Additional regulations specify the preparation of individual education plans, specialized occupational and physical therapy, free transportation, placement of students in other public or private facilities when local programs are inadequate, student-teacher ratios, and six-year plans. Many of these requirements are also specified in federal statutes.

Under finance and administration, the principal requirement is that localities must appropriate sufficient funds to meet the Standards Of Quality. This requirement is found both in the State Constitution and statutes. Other principal mandates include the standard for a comprehensive policy manual, performance of a triennial student census, and a number of annual administrative reports.

Public Safety. Mandates in public safety have been divided into the categories of law enforcement and traffic control, correction and detention of prisoners, and civil defense and emergency services.

Under law enforcement and traffic control, principal requirements consist of law enforcement training standards and submission of uniform crime reports to the State Police. Currently, local law enforcement officers must receive 220 hours of training within their first year of employment and 40 hours of continuing education every other year thereafter.

State involvement in local correction and detention of prisoners is more extensive. Specific standards have been issued by the Department of Corrections for all phases of jail operations, including staffing, inmate hygiene, food services, medical attention, recreation areas, cell size, records concerning inmate history and jail activities, security of guns and weapons, and segregation of juveniles from adult offenders. Design standards exist for jail construction and renovation work. Individual sets of standards have also been issued for juvenile programs, such as secure detention facilities and family-oriented group homes.

The principal requirement under civil defense and emergency services is that localities prepare a comprehensive plan for handling local emergencies. The plan must set forth a chain of command and designate responsibility for services during an emergency.

Public Works. Most mandates under public works involve State regulation of optional local activities. Mandates are specified in this area mainly to protect general health and safety rather than to require a local service or activity. Public works mandates have been organized into those concerning utilities and waste disposal and those affecting roads and other facilities.

For the area of utilities and waste disposal, the principal mandates involve sewage treatment plant regulations, sanitary landfill standards, public water supply standards, and the requirement that localities adopt either a regional or local solid waste management plan.

Under roads and other facilities, mandates place road maintenance standards on cities and towns, require local financial participation in urban highway construction projects (five percent), set reporting requirements for mass transit assistance, and compel local enforcement of the Uniform Statewide Building Code.

Health and Welfare. The State's involvement in health and welfare is second only to the education function. The principal mandates have been grouped into the areas of public health, mental health and mental retardation, public assistance administration, financial assistance to the needy, and social services for the needy.

In the area of public health, the State has promulgated septic tank and drain field standards which local sanitarians must follow. Also, cities and counties must establish local health departments to carry out mandated programs for general medical services, environmental health, and maternal and child health services. In practice, all cities and counties contract with the State Department of Health to operate local health departments. However, all localities must contribute a share of funding for local departments.

Mandates in mental health and mental retardation are less stringent. A principal requirement is that all cities and counties must have established or joined an existing Community Services Board (CSB) by July 1, 1983. Also, prescription teams are required to be formed for the purpose of cooperating in screening and planning for prospective admissions and discharges to and from State mental health and mental retardation facilities. Local financial participation in boards is a condition for receipt of State funds for community programs. Finally, boards are required to follow numerous administrative procedures for budgeting, services, and fiscal management, as a condition of accepting State funds.

The remaining three areas encompass mandates carried out by local welfare agencies. Requirements in these areas are specific and comprehensive. Many program or reporting requirements in this area are influenced or prescribed by federal regulations.

Under public assistance administration, the principal requirements address staffing levels, compensation of employees, office space standards, records management, and local financial participation in the cost of administration. Most of these requirements are imposed by the State Board of Social Services in exercising supervision over the statewide welfare system.

In the area of financial assistance to the needy, localities must provide eight public assistance programs. The programs are: aid to dependent children, aid to dependent children in foster care, aid to dependent children for emergency assistance, food stamps, medicaid, fuel assistance, State/local foster care, and auxiliary grants for residents of homes for adults. Localities participate financially in the program cost of only two programs -- State/local foster care and auxiliary grants. There are also extensive requirements for caseload and expenditure reports.

The last area is social services for the needy. There are seven mandated social service programs: family planning, employment services, protective services for foster children, foster care, day care, adoption services, and early, periodic screening, diagnosis and treatment of children. In addition, localities must offer three services from an approved list to recipients of federal Supplemental Security Income. As with financial assistance programs, localities must fund a share of social service programs and file extensive caseload and expenditure reports. Localities must also develop a social services plan.

Judicial System. Mandates which relate to the judicial system deal mainly with support services that are provided by local governments. Cities and counties must provide facilities and equipment for Commonwealth's attorneys, magistrates, district courts, circuit courts, and court service units. Another principal mandate is that localities must pay legal fees for indigents charged with local offenses.

Parks, Recreation, and Libraries. Few mandates exist for parks and recreation. Mandates affecting libraries include conditions attached to State aid. These conditions cover referencing procedures, library hours, and purchase of new materials and books. In addition, all public libraries serving a population greater than 5,000 must employ State-licensed librarians.

Community Development. The principal requirements concerning community development are that counties and cities must adopt comprehensive plans for land use regulation and enact subdivision ordinances to control land development.

Matrix of State Involvement

It is clear that simply listing or counting State mandates does not provide an adequate or accurate picture of the extent of State involvement in local activities. For that reason, JLARC staff developed a matrix of State involvement in local functions. In this way, it is possible to see comparative levels of State involvement among functions, as well as to assess the nature of "cross-cutting" types of requirements that can affect many functions.

The matrix of State involvement is shown in Figure 2. The vertical axis lists the eight functional areas of local government: administration; education; public works; health and welfare; judicial system; parks, recreation and libraries; and community development. The horizontal axis lists the cross-cutting requirements used for classifying mandates. These classifications are: personnel requirements, administrative requirements, and financial participation. Under financial participation, the matrix provides additional information on the amount of State aid received by cities and counties for each function in FY 1982, and the percentage that this aid represents of total local expenditures for each function.

Each time a fundamental mandate imposed a requirement, a dot was placed in the cell which corresponds to the requirement. For example, the State mandates which set ranges of compensation for local welfare agency employers are noted in each area under "Compensation and Benefits." Dots are keyed as compulsory orders (solid dots), conditions of aid (bisected dots), and requirements for participating in optional local activities (hollow dots). The number of dots within a single cell across a functional area provides a rough measure of the level of State involvement. The types of requirements imposed by the State can be assessed in the same way, by comparing the number of mandates within each class of requirement.

Extent of Involvement. Looking horizontally along the matrix, it is clear that the level and extent of State mandates is highest in the education function. Education mandates address staffing levels, training requirements, detailed services, numerous administrative requirements, and local financial participation. The next highest area of State involvement is found in the group of welfare activities. Welfare mandates encompass staffing levels, pay scales, required social services, financial assistance programs, many reporting requirements, and required local financial participation.

Following welfare, the third greatest area of State involvement is public safety, with law enforcement and correction and detention activities dominating. The State's involvement in administration of government, public works, parks and recreation, and community development is more limited.

The matrix can also be used to assess whether the level of State aid is basically consistent with its level of involvement. In looking across the matrix to the amount of State financial aid provided, it appears that the level of State aid does correspond with level of involvement. The highest level of funding is for education, which is the area of greatest State involvement in local activities. State funding for education totalled about one billion dollars in FY 1982. Health and welfare, the area of next greatest involvement, received $196.0 million in FY 1982. Public safety followed closely with $112.0 million. Although this picture is not conclusive, it does indicate that State priorities for financial aid do reflect the extent of State mandating.

Figure 2

Matrix of State Involvement In Local Functions

● Compulsory Order
⊖ Condition Of State Aid
○ Requirement For Participating In Optional Activities

Areas Of Local Government Activity	Personnel Requirements: Staffing Levels	Personnel Requirements: Qualifications/ Training	Personnel Requirements: Compensation & Benefits	Personnel Requirements: Other	Program Requirements: Services	Program Requirements: Facilities	Program Requirements: Equipment	Administrative Requirements: Reports/Records Management	Administrative Requirements: Audits	Administrative Requirements: Planning Requirements	Financial Participation: Local Participation Required	Financial Participation: State's Share Of Expenditures For FY 1982	Financial Participation: Total State Aid For FY 1982
A. Administration												10.6%	$20.2
Fiscal & Purchasing					●●			●●● ⊖⊖⊖	●				
Personnel & Retirement			●●●● ○○	●									
General Government	●		●	●	●●●	●	●	●					
B. Education												43.6%	$1,001.1
Elementary & Secondary Education	●●●	●●	●		●●●●● ●●●●● ●● ⊖	●	●●	●●●● ●●●●●		●●			
Special Education	●	●●●			●●● ●●		●●	●		●	●		
Finance & Administration		● ⊖	●	●	●● ⊖		⊖	●●●● ●●● ⊖	●●		●		
C. Public Safety												21.8%	$112.0
Law Enforcement & Traffic Control	○	● ⊖					○	●●● ⊖ ○					
Correction & Detention of Prisoners	● ○	● ○	○○○		● ⊖⊖ ○○○○	●●	●●	⊖⊖ ○○○					
Civil Defense Or Emergency Services	●	⊖			● ⊖		⊖			●	⊖		
D. Public Works												21.1%	$63.3
Utilities & Refuse Disposal	○	○			● ○○○○	○○○	○○	○○○○○○		●			
Roads & Other Facilities					●● ○	● ⊖⊖ ○	●	●			⊖⊖		
E. Health & Welfare													
Public Health					●●● ●● ⊖			●				57.6%	$32.6
Mental Health & Mental Retardation				●	●● ⊖			⊖		⊖	⊖	57.0%	$38.6
Public Assistance Administration	●	●	●		●●	●		●●●●			●		
Financial Assistance To Needy	●	●	●		●●●●● ●●●●● ⊖⊖			●●●		⊖	● ⊖	32.3%	$124.6
Social Services To Needy	●	●	●		●●●●● ●●●●			●●● ●●		●●●	⊖ ○		
F. Judicial System					●	●	●	●				41.5%	$23.0
G. Parks, Recreation, & Libraries		●			⊖⊖		⊖	⊖ ○○			⊖	3.2%	$4.5
H. Community Development					●● ○○ ○○			○		● ○		4.4%	$3.7

Source: JLARC Staff Graphic

Cross-cutting Requirements. By looking down the matrix, observations can be made about the types of mandates that the State imposes. As the matrix indicates, there are extensive entries in three areas: program requirements, administrative requirements, and personnel requirements.

Over half of the requirements are program-related. As the matrix shows, the State has imposed compulsory service requirements in seven of eight functional areas. Service requirements in education and health and welfare are particularly extensive. These concentrations of service mandates reflect the interest which the State has taken in setting a minimum level of services statewide.

Again looking down the matrix, the second highest level of State involvement is in administrative requirements. There are numerous reporting and planning mandates placed on local governments. Six of eight functional areas contain compulsory reporting requirements. Many of these are related to the State's interest in seeing that standards mandated for services are met and in accounting for State funds provided to localities.

In contrast, personnel requirements seem to be an area of lesser State involvement. Relatively few mandates specify staffing levels or compensation, particularly outside of education and welfare. This is important to note because studies in other states have shown personnel mandates to be the most sensitive area of State involvement in local activities.

Conclusion

State involvement in local government functions is extensive. State mandates specify programs and services to be provided, administrative procedures, personnel requirements, and minimum levels of local funding for programs. Mandates are most comprehensive for education, welfare, and public safety.

The high level of State involvement gives the State an active, ongoing, and integral role in the operation of local governments. The nature of that role places an obligation on the State to aid in funding required services and activities. In addition, it implies at least partial State responsibility for the continued viability of local governments.

LOCAL PERCEPTIONS OF STATE MANDATES

Local officials are sensitive about State actions which place requirements on local governments. Many officials feel that the impact of State mandates is never fully noted, and that mandates require local governments to redirect their resources to meet statewide rather than local priorities.

To assess local perceptions of State mandates and problems which may be caused by mandates, questionnaires were mailed to all cities and counties. The questionnaires systematically asked for local opinions about the reasonableness of mandates affecting specified functional areas of local government. The questionnaire also asked local officials to identify specific mandates that were particularly burdensome. Based on the responses received from this systematic inquiry, localities were selected for follow-up telephone interviews which gathered additional details on local concerns about mandates.

On the whole, local administrators seem to support the policies and principles embodied in mandates. They also appear to recognize the need for much of the State involvement that occurs in local government functions. Opposition to mandates comes when they are perceived to reduce local autonomy and flexibility and when mandates require local spending without adequate State aid.

Local Assessment of Reasonableness of Mandates

Through the mailed questionnaire, local officials were asked to judge the reasonableness of mandates in 19 different functional areas of local government. Local officials were asked to base their answers on the requirements they felt were inappropriate, unduly rigid, or burdensome. The results are shown in Table 2. Officials were asked to address problems concerning the levels of State aid in another section of the survey.

Most local administrators did not judge mandates to be unreasonable. Only one area, special education, was cited as unreasonable by over half (53 percent) of those surveyed. And there was only one other area where half of either cities or counties felt mandates were unreasonable. That area was correction and detention, for which 55 percent of counties expressed dissatisfaction.

After these two areas, judgments of unreasonableness fell quickly to about one-third of all respondents. Mandates in financial assistance, social services, and refuse disposal were judged unreasonable by about a third of local officials surveyed. Health services were cited as unreasonable by 28 percent of responding localities. Mandates in the area of sewage collection and treatment were judged unreasonable by 24 percent of respondents. And water treatment and distribution, and mental health programs were judged as unreasonable by 20 percent of localities. Relatively few local administrators viewed mandates in the remaining areas as unreasonable.

The level of State involvement did not appear to be a major factor in local perceptions of reasonableness of requirements. As noted earlier, the State's involvement in elementary and secondary education is greater than in any other area. Nevertheless, only about 17 percent of local administrators judged mandates in education to be unreasonable. Similarly, despite the State's extensive involvement in welfare, only about a third of local administrators judged these mandates to be unreasonable.

Table 2

PERCENTAGE OF CITIES AND COUNTIES
CITING MANDATES AS UNREASONABLE
(by governmental activity)

Governmental Activity	Statewide	Cities	Counties
Special Education	53%	45%	57%
Correction and Detention	45	26	55
Welfare - Financial Aid for Clients	34	31	35
Welfare - Social Services	31	23	36
Refuse Disposal	31	33	30
Health Services	28	15	35
Sewage Collection or Treatment	24	29	22
Water Treatment or Distribution	20	31	14
Mental Health, Mental Retardation, and Substance Abuse	20	12	23
Emergency Rescue Services	18	17	19
Elementary and Secondary Education	17	15	19
Planning and Zoning	15	6	19
School Pupil Transportation	13	15	12
Library	13	8	15
Law Enforcement	11	9	13
Fire Protection	8	11	6
Maintenance of Roads and Bridges	6	11	3
Refuse Collection	5	3	6
Parks and Recreation	2	3	2

Source: JLARC Survey of Counties and Cities.

Specific Problem Mandates

In addition to judging the reasonableness of mandates, localities were asked in the questionnaire to identify specific problem mandates. City and county officials were asked to comment on specific mandates which they felt were unreasonable, unduly rigid, or inappropriate.

About two-thirds of all localities listed some mandate as unreasonable, with the average locality listing over two mandates. Table 3 shows the number of localities submitting comments related to major activities of local government.

Table 3

NUMBER OF CITIES AND COUNTIES SUBMITTING
COMMENTS CONCERNING PROBLEM MANDATES

Local Government Activity	Number of Localities Citing Problems
Special Education	25
Elementary and Secondary Education	25
Social Services	31
Health Services	22
Correction and Detention of Prisoners	16
Refuse Disposal	6
Other Areas	31

Source: JLARC Survey of Cities and Counties.

Many mandates cited were new or were existing mandates which have been recently changed. Often the comments lacked sufficient detail to determine the basis of the complaint. For example, responses sometimes stated only that a mandate was "unreasonable" or "unnecessary" without providing an explanation of the comment.

Very little consensus was found among local governments concerning which specific mandates are unreasonable. Few specific mandates were cited as unreasonable by more than four or five local administrators. Moreover, no consistent pattern appeared to exist in the type of locality complaining about specific mandates. The comments received concerning problem mandates are summarized in the following sections.

Education. Problems cited in the education area dealt primarily with special education. Seven localities complained that non-education and support services required for handicapped students are unreasonable. These services include transportation, occupational and physical therapy, and counseling. Some of the localities commented that providing these services should not be the responsibility of local schools. In addition, four localities stated that the Individual Education Plans (IEPs) that must be prepared for each handicapped student create an unreasonable workload and delay work with the student. Another four localities complained about the requirement that local school systems must provide funds for placements of handicapped children in private or out-of-locality schools by courts and welfare agencies.

In the area of general education, four localities commented that pupil-teacher ratios set by the Standards Of Quality are too strict. And fourteen localities felt strongly enough to complain that funding is inadequate, even though they were requested to exclude funding concerns from their responses on problem mandates.

Health and Welfare. Eleven localities stated that drain field and septic tank regulations issued in November 1982 by the State Department of Health are time-consuming and too strict. Local officials indicated that local sanitarians are unable to complete their work in a timely manner as a result of the new requirements. The new regulations require more systematic and extensive soil evaluation and documentation.

In the area of welfare, the most frequent complaint concerned employment programs. Seven localities listed problems with the employment services program, which was initiated in March 1983. Three other localities commented that work registration requirements for food stamp recipients are ineffective.

Six localities stated that the Early, Periodic Screening, Diagnosis and Treatment (EPSDT) program is cumbersome and does not need to be handled by local welfare departments. Instead, several recommended that the health department, which is responsible for the actual screening and treatment, assume full responsibility for this program.

Finally, the general relief program received criticism from six local governments. Four pointed out that general relief payments should have a maximum time length, and two localities simply said the program is too inflexible.

Administration of Government. Comments concerning administration of government focused on recent changes in auditing specifications and procurement requirements. Seven localities complained that the new audit and reporting requirements issued by the State auditor are costly to comply with and of little benefit to localities.

Seven localities commented that the new procurement laws placed on localities by the General Assembly are unreasonable. Of particular concern were the requirements for competitive selection in securing professional services. Localities felt this unnecessarily restricted their ability to purchase professional services from firms they could be sure would perform adequately.

Correction and Detention. Eight localities noted problems with jail standards. A variety of reasons were given for dissatisfaction with the standards, including unreasonable recreation standards, education programs, and square footage requirements.

Other Areas. Thirty-one localities listed a particular mandate in other areas as unreasonable. The most common mandate cited was regulations for animal shelters. Seven local governments cited dog pound regulations, issued in 1981 by the Department of Agriculture and Consumer Services, as costly and unnecessary. The regulations specify a potable water supply, sanitation, facility heating, construction of cages, separation of animals by sex and temperament, and regular operating hours. All of the complaining localities were rural counties that felt their areas did not have animal control problems sufficient to warrant the facilities required. According to local comments, some rural localities have expended well over $10,000 to provide such facilities.

Five localities objected to landfill regulations. Of particular concern was the requirement for daily covering of refuse with six inches of soil. The localities cited cover as an expensive item for landfill operations.

The results of the JLARC survey of local officials indicated strongly there is no consensus about problem mandates. Follow-up telephone interviews with 24 local administrators also failed to uncover any significant "horror stories" about arbitrary mandates, rigid application which produced local hardships, or unwarranted State intrusion into local affairs. Complaints about mandates appear to relate more to general discontent about State supervision of local affairs and to dissatisfaction with levels of State financial aid than to substantive problems with mandates.

Flexibility

When localities do cite problems with mandates, they generally speak about the lack of flexibility. A primary concern is that the State allow adequate flexibility for localities to comply with mandates in ways that best serve local needs. A significant part of the research into mandates examined whether localities are granted sufficient flexibility in implementing State mandates. During interviews with State personnel, questions focused on the degree of flexibility granted to localities and the nature of existing mechanisms for granting it.

In examining the flexibility allowed local governments, JLARC staff found that most State agencies are aware of the need for local flexibility and have mechanisms in place to provide it. Mechanisms used include:

- waiver processes;
- periodic review of agency regulations;
- substantial compliance or phasing-in of regulations;
- minimum thresholds for application of mandates; and
- general rather than specific requirements.

Use of these mechanisms may account for the low level of substantive dissatisfaction with mandates on the part of local officials.

A number of State agencies have either formal or informal waiver processes currently in place. For example, the Department of Health allows its regional offices to waive drinking water standards where naturally-occurring fluorides and trihalomethanes exceed prescribed limits. To remove these substances would often require expensive additions to treatment plants. The Board of Education also issues waivers for up to one year to school divisions that cannot comply with specific Standards Of Quality provisions.

Several agencies have undertaken periodic review of their regulations. The Department of Corrections is currently conducting a wholesale review of its regulations. The department anticipates reducing the number of jail operating standards from several hundred to 59. The Department of Social Services has conducted similar reviews in selected areas. One effort involved a cost reduction analysis in 1981 that streamlined local reporting requirements.

Substantial compliance or phasing-in of regulations is another method of providing flexibility. The Department of Corrections' present jail standards specify three levels of requirements -- mandatory, essential, and important. All mandatory requirements must be complied with, but only a portion of essential and important mandates have to be followed. The proportion of essential and important mandates that localities must meet increases each year, so that most are phased-in over time. The State Water Control Board recognizes that wastewater treatment plants encounter routine operating problems and does not require continuous, 100 percent compliance with effluent limitations. Instead, effluent permits are issued for a reasonable level of compliance -- generally 95 percent.

Minimum thresholds for application of mandates are sometimes found in mandates written in the *Code of Virginia*. The requirements for an employee grievance procedure and uniform classification and pay plans only apply to localities with more than 15 employees (*Virginia Code* §15.1-7.1). Another example is the requirement that public libraries employ State-licensed librarians if the library serves a population of more than 5,000 persons (*Virginia Code* §54-271).

General rather than specific requirements are still another way of providing flexibility to localities. One mandate in this category is the requirement that cities and counties prepare an emergency operations plan (*Virginia Code* §44-146.13 et. seq.). The content of the plan is not specified other than that it must set out a chain of command and responsibilities of local agencies during an emergency.

Overall, State agencies were found to be using a variety of methods that allow flexibility to localities in complying with mandates. Still, it is important that localities continue to be granted flexibility consistent with the intent in promulgating agency regulations. For this reason, agencies should review issued regulations on a periodic basis. State agencies should attempt to ensure that mandates they issue are not unduly rigid. Agencies should consider possible methods of providing local flexibility for complying with mandates and should periodically reassess the feasibility of increasing local flexibility. The General Assembly might wish to consider a statutory requirement that State agencies review their regulations every three to five years for the purpose of determining the continued need for the level of requirements placed on localities.

Local Participation in Rulemaking

Some local resistance to State mandates can be minimized by meaningful local participation in rulemaking. Meaningful participation consists of early, continuous, and substantive involvement by a representative group of local officials. In this way, potential problems in implementation are identified early and more opportunities are provided to build in flexibility.

Part of the research on mandates also involved examination of agency methods for involving localities in development of regulations. During interviews with State personnel, questions were asked about the existence of permanent or ad hoc committees with local representatives. Inquiries were also made about the method of selecting local representatives, representativeness of groups, and frequency and purpose of meetings.

JLARC staff found that State agencies do generally seek local involvement in developing new or modified State regulations. A variety of permanent and ad hoc mechanisms are used by agencies, in addition to the requirements of the State Administrative Process Act. These mechanisms include:

- permanent and ad hoc advisory task forces;
- surveys of local officials; and
- circulation of draft regulations.

The use of a permanent advisory task force having local representation ensures that reviews of mandates are made by persons with continuing exposure to agency programs and issues. The permanence of the task force also allows for the establishment of routine procedures to manage reviews effectively. The Department of Social Services has several "policy advisory task forces" which serve as sounding boards for prospective regulations. Their membership includes local case workers and supervisory personnel, as well as State regional and central office staff.

Use of temporary or ad hoc task forces is also an important method for obtaining local input. In response to an inquiry from JLARC staff, the Department of Education noted over 50 permanent and temporary advisory task forces which are currently active. These task forces also include local representatives.

Surveys of localities have sometimes been used by State agencies to gain local input. For example, when federal funding for social services was reduced in FY 1981, the Department of Social Services solicited systematic local involvement about how to proceed with service cutbacks. The State Library had a consultant survey local governments in 1982 about management of public records. One of the purposes of the survey was to determine what types of requirements might be needed to ensure the proper retention, storage, and disposal of records.

Finally, some agencies have circulated early drafts of regulations to selected localities before proceeding with the formal exposure steps required by the Administrative Process Act. The State Water Control Board has sought input for some of its regulations in this manner. State agencies should routinely seek meaningful input from localities when developing new or modified regulations. Meaningful input generally includes methods that provide early, continuous, and substantive participation by a representative group of local officials.

CONCLUSION

State mandates on local governments are extensive. State requirements affect the organization, staffing levels, services provided, administrative procedures, budgets and spending of all local governments. The number of State mandates gives the State a major role in defining and prescribing the services and activities of localities. The level of mandates also gives the State a substantial obligation to ensure the viability and integrity of local governments.

The volume of State mandates does have a significant impact on local governments. The number of State regulatory provisions affecting localities exceeds several thousand. Consequently, it is a major task for local officials to absorb and comply with the large volume of detailed State regulations that are in effect.

Despite this impact, however, and local sensitivity to the practice of mandating, few specific mandates are judged to be unreasonable by most local officials. In general, local administrators do not disagree with the objectives or thrust of individual mandates. Virtually no consensus of opinion regarding specific troublesome mandates was found either in JLARC's surveys of all 95 counties, 41 cities, and 130 towns of over 500 or in JLARC's series of statewide workshops, at which 102 localities were represented. Further, the systematic follow-up effort attempting to identify specific cases of local hardship or arbitrary state action yielded few firm examples in the 24 localities contacted. This strong convergence of research findings leads to the conclusion that there is not, at the current time, widespread dissatisfaction with the substance of State mandates. Mandates appear to be a lightning rod of discontent for local officials over funding of mandates or other issues.

JLARC research methods were designed to have localities consider and comment on concern about State aid separately from their responses on the reasonableness of mandates. Nevertheless, local officials in many instances linked dissatisfaction with mandates to levels of State funding. Local sensitivity to State mandates therefore appears more a concern with levels of State aid provided than with the substance of State mandates. The adequacy of State aid to localities is the subject of the next chapter.

III. STATE ASSISTANCE TO LOCAL GOVERNMENTS

Over time, the Commonwealth has committed itself to provide substantial financial assistance to local governments. Responsibility for providing financial assistance flows from constitutional provisions, statutory decisions, and historical tradition. In some cases, assistance is provided as recognition that local services benefit both the locality and the Commonwealth. In other cases, assistance is provided because service delivery is regarded as a shared State-local responsibility.

Virginia's local governments are dependent on the State for funding of its aid commitments. Disruptions or declines in levels or shares of State aid produce financial pressures by forcing localities to choose between service reductions and increased local funding. The adequacy of State aid is therefore a central issue for this study.

To assess the adequacy of State assistance to localities, JLARC staff completed an inventory of aid funneled to local governments. For major programs and for aid totals overall, research focused on determining whether aid has kept pace with local program costs, whether aid has been consistent with historical commitments, and whether aid has been consistent with levels of State control and involvement.

Although State financial assistance has remained a stable portion of local budgets overall, State aid has not kept pace with some of its historical commitments. The State has funded a declining share of public education in recent years, and there are programs where the levels of State aid are not consistent with historical commitment or control. Without recent initiatives in State aid to localities, the overall share of State aid disbursed to localities would have declined significantly. Additional State financial assistance should be an integral part of any actions to address the financial problems of local governments.

TYPES OF STATE ASSISTANCE

The State spends a major portion of its budget providing aid to localities. The Comptroller of the Commonwealth estimated that in FY 1982 aid to localities from all sources totalled over $2.5 billion. Almost all of this amount was spent to provide direct services, technical assistance, and financial aid to localities.

Direct Services

Direct services are services provided to local clients or local governments by State agencies. They are sometimes described as expenditures on behalf of local governments, since they do not involve the transfer of funds to local treasuries. Although direct services are only rarely included in discussions of aid to localities, they do constitute a major benefit to local governments. Direct services free local financial resources which would otherwise be absorbed in these activities.

The State has never conducted a full accounting of the total value of direct services to localities. Available data are sketchy. Nevertheless, the major direct services can be inventoried. In FY 1982, major direct services to localities totalled $631.1 million (Table 4).

Table 4

MAJOR DIRECT SERVICES TO LOCALITIES
(dollars in millions)

Service	Estimated Value (FY 1982)
1. Construction of Non-Interstate Roads	$150.9
2. Maintenance of Non-Interstate Roads	182.7
3. State Police Patrolling and Accident Investigation on Secondary Roads	25.3
4. State Administration of ADC and Fuel Assistance Payments to Local Clients	235.4
5. State Funding of Local Health Departments	32.6
6. Low Interest Literary Fund Loans for Schools (average annual benefits)	4.2
Estimated Total	$631.1

Source: JLARC Compilation from Department of Highways and Transportation, Department of Social Services, Health Department, and Department of Education.

Two agencies account for almost all listed expenditures: the Department of Highways and Transportation (DHT), and the Department of Social Services (DSS). In FY 1982, these two agencies expended $569.0 million in providing direct services to localities, and accounted for about 90 percent of the total estimate.

About $333.6 in direct service expenditures were made by the Department of Highways and Transportation. This amount includes virtually all DHT spending to construct and maintain the Commonwealth's non-interstate roads, streets, and bridges.

The Department of Social Services' (DSS) principal direct service to localities is direct payment of financial assistance benefits to local recipients of Aid to Dependent Children (ADC). DSS spent $235.4 million in federal and State funds for ADC and fuel assistance payments in FY 1982. This amount does not include any administrative overhead associated with preparing the checks and mailing them to local clients. DSS assumed this responsibility from local welfare agencies in 1978, in an attempt to increase efficiency and reduce total costs.

The State Department of Health (SDH) is the third major provider of direct services to localities. SDH provides the majority of total funding for, and administers the operations of, 134 local health departments statewide. State spending to support local health departments totalled $32.6 million in FY 1982. Although all local health departments are operated under contractual agreements between the State and the participating localities, all staff are employed by the State.

The Department of Education provides a direct service to localities through the Literary Fund loan program. Through this program, localities may borrow up to $2 million per project for school construction, at 3 percent interest. The interest subsidy provided by below-market interest rates totals about $4 million annually.

Patrolling and investigating on county primary and secondary roads by the State Police is a key direct service. This service cost an estimated $25.3 million in FY 1982.

Even though aid through direct services does not represent the primary thrust of State assistance to local governments, direct services are still an important benefit to localities. Providing direct services ensures that State priorities will be met, yet leaves local funds free for other local priorities.

Technical Assistance

Technical information, advice, or training provided to local governments by State agencies is another form of State assistance. Almost all State agencies provide or make available technical assistance to local governments. Many agencies offer regularly scheduled training opportunities to local government employees. On an informal level, all State agencies provide information to local officials, and most have a formal procedure for both information-sharing and advice-giving. State technical assistance is particularly valuable to smaller localities, which often lack large or specialized staffs. State employees are also available to supplement local staff in providing information or advice on difficult problems.

While it is impossible to assign a dollar value to technical assistance provided by the State, its worth should not be underestimated. The value of information and training can be a major benefit to local officials.

Financial Assistance

State revenues disbursed to local treasuries comprise the bulk of State assistance to local governments. In FY 1982, over $1.3 billion in State funds was sent to local governments. Another $256.4 million in federal "pass-through" funds was channeled by the State to localities. Most State financial aid can be described either as shared revenue, for which no program purpose is specified, or categorical aid, which is earmarked for specific programs.

Revenue Sharing. In FY 1982, about $73.2 million in State revenue sharing funds was distributed to local governments. All but a fraction of this amount came from two sources--grants to localities with police departments, and the local share of profits from Alcoholic Beverage Control taxes. Together these sources accounted for about 90 percent of revenue sharing funds (Table 5). Other sources of revenue sharing funds include the excess fees of court clerks, the rolling stock tax, shared admissions taxes for boxing and wrestling events, and proceeds from a tax on the rental of passenger cars.

Table 5

PRINCIPAL SOURCES OF STATE REVENUE SHARING
FY 1982
(dollars in millions)

Title	Description	FY 1982 Total Disbursed
Grants for localities with police departments	General Fund appropriation	$46.8
ABC tax profits	Two-thirds of net profits over $750,000	$18.9
Wine and spirits taxes	22 percent of taxes on wine	$ 3.0
Mobile home tax	3 percent of sales price	$ 3.1
Rental tax	2 percent of proceeds from passenger car rental	$ 1.4

Source: Commonwealth Accounting Reports System.

Categorical Aid. Most State financial assistance is earmarked for specific programs or purposes (Table 6). This includes over $1.3 billion in State funds and all federal funds distributed by State agencies. Assistance for categorical programs varies widely in size and scope, from very broad, complex and ongoing funding to narrow and limited individual grants.

Table 6

STATE FINANCIAL ASSISTANCE TO LOCALITIES
FY 1982
(dollars in millions)

Agency	State Funds	Federal Funds	Total
Department of Education	$ 990.6	$161.8	$1,152.4
Department of Social Services	72.6	77.1	149.7
State Compensation Board	96.4	--	96.4
Department of Highways and Transportation	70.6	5.6	76.2
Department of Mental Health and Mental Retardation	40.9	4.9	45.8
Department of Corrections	34.5	.5	35.0
Department of Aviation	.4	5.4	5.8
Virginia State Library	4.3	.7	5.0
20 Other State Agencies	2.8	.4	3.2
TOTAL	$1,313.1	$256.4	$1,569.5

Source: Commonwealth Accounting and Reporting System.

The distribution of categorical aid is concentrated in five agencies--the Department of Education, the Department of Social Services, the State Compensation Board, the Department of Highways and Transportation, and the Department of Mental Health and Mental Retardation. These agencies together accounted for over 92 percent of the categorical aid disbursed to localities in FY 1982.

Over 70 percent of all State financial assistance goes to support public education. About $1 billion in State funds aid was distributed by the Department of Education. About half of this was intended to cover the State's share of the costs of meeting Standards

Of Quality set by the General Assembly. Another one-fourth of State aid is in the form of special shared revenue from one cent of the State's retail sales tax. The final portion of educational aid is for several categorical programs, such as pupil transportation, special education, vocational education, and employees' fringe benefits.

The second largest total of State funds goes for State support of local constitutional officers--sheriffs, Commonwealth's attorneys, treasurers, and commissioners of revenue. Aid for this purpose totalled $96.4 million in FY 1982. These funds are distributed as the State's share of the administrative and personnel costs of local constitutional offices.

The third largest sum of categorical aid comes from the Department of Social Services (DSS), which distributed $72.6 million to the State's 124 local welfare agencies in FY 1982. DSS distributed an additional $77.1 million in federal aid during the year. These funds cover the State and federal share of most financial assistance programs, social services expenditures, and local administrative costs.

The fourth largest provider of financial aid to localities is the Department of Highways and Transportation, which disbursed about $76.2 million in State and federal funds in FY 1982. About $58.0 million of this amount went to cities and towns as assistance in maintaining municipal roads. An additional $5.6 million was used as aid for mass transit systems. The remaining $12.6 million in aid was disbursed to two counties which maintain their own highway systems.

The Department of Mental Health and Mental Retardation disbursed $45.8 million in FY 1982 to 40 Community Services Boards. This funding supports a portion of administrative and program costs for local mental health, mental retardation, and substance abuse services.

While these five agencies provide the vast majority of all categorical aid, numerous other programs exist. The State also provides funding in such diverse areas as jail construction, library operation, electoral board costs, airport costs, and litter control. Most of these programs represent long-standing commitments by the State to share in the cost of specified local programs.

Recent State Aid Initiatives. In FY 1981, the General Assembly funded a major new initiative in aid to localities. The initiative was one of several actions designed to address and minimize annexation disputes between cities and counties. This new funding represented a new and increased commitment by the State to aid localities in providing services.

The FY 1981 initiatives had several components. First, the State assumed 100 percent of the approved costs of sheriffs and Commonwealth's attorneys across the State. The State also assumed the cost of salaries of circuit court judges. In prior years, the State had borne only a portion of these costs.

Next, the State began a major revenue sharing program in the form of aid to localities with police departments. This program was intended to balance State funding of sheriffs departments and also to recognize the higher level of law enforcement required in cities and some counties. To further balance municipal service costs, the State also increased the per lane-mile highway payments made to municipalities, and indexed these payments to future increases in highway maintenance costs. And finally, the State increased its share of funding for State-local hospitalization for the indigent to 75 percent of costs.

The total value of these initiatives in FY 1982 was about $90.9 million. This total represents the difference between what would have been funded by the State under previous program provisions and the new aid levels. This package of actions comprised a major new infusion of financial assistance to localities, and added to the State's continuing obligation to fund existing aid programs.

ADEQUACY OF FINANCIAL ASSISTANCE

The adequacy of State financial assistance to local governments is one of the three central issues for this study. It is particularly important because the State has assumed a major role in specifying a minimum level of local services in education, social services, corrections, health, and other areas. And the issue has become increasingly central in recent years, as the federal government has withdrawn from full funding of its program commitments. The level of State aid to localities is a continuing concern to most local officials.

In theory, the best test of the adequacy of State aid would be to isolate the added cost of implementing State mandates and then to compare these costs with the level of State aid provided. This comparison would allow an assessment of whether the State has fully funded its mandates. In practice, however, this approach is not feasible. The level of services each locality would provide in the absence of State mandates varies from locality to locality. Moreover, State aid is often not directly linked to specific mandates. And, State aid is intended to serve more purposes than reimbursement of mandated costs. For these reasons, a different approach was adopted.

In assessing the adequacy of State aid, three separate tests were applied. First, trends in aid were examined to see if State aid overall and for specific programs has kept pace with local program costs. This approach provides a measure of whether the State has funded its historical commitment to localities in recent years. Second, levels of aid were compared with the State's level of involvement in specific programs areas, to see if the two were consistent. And third, a survey of local officials was used to highlight areas of local sensitivity about State aid.

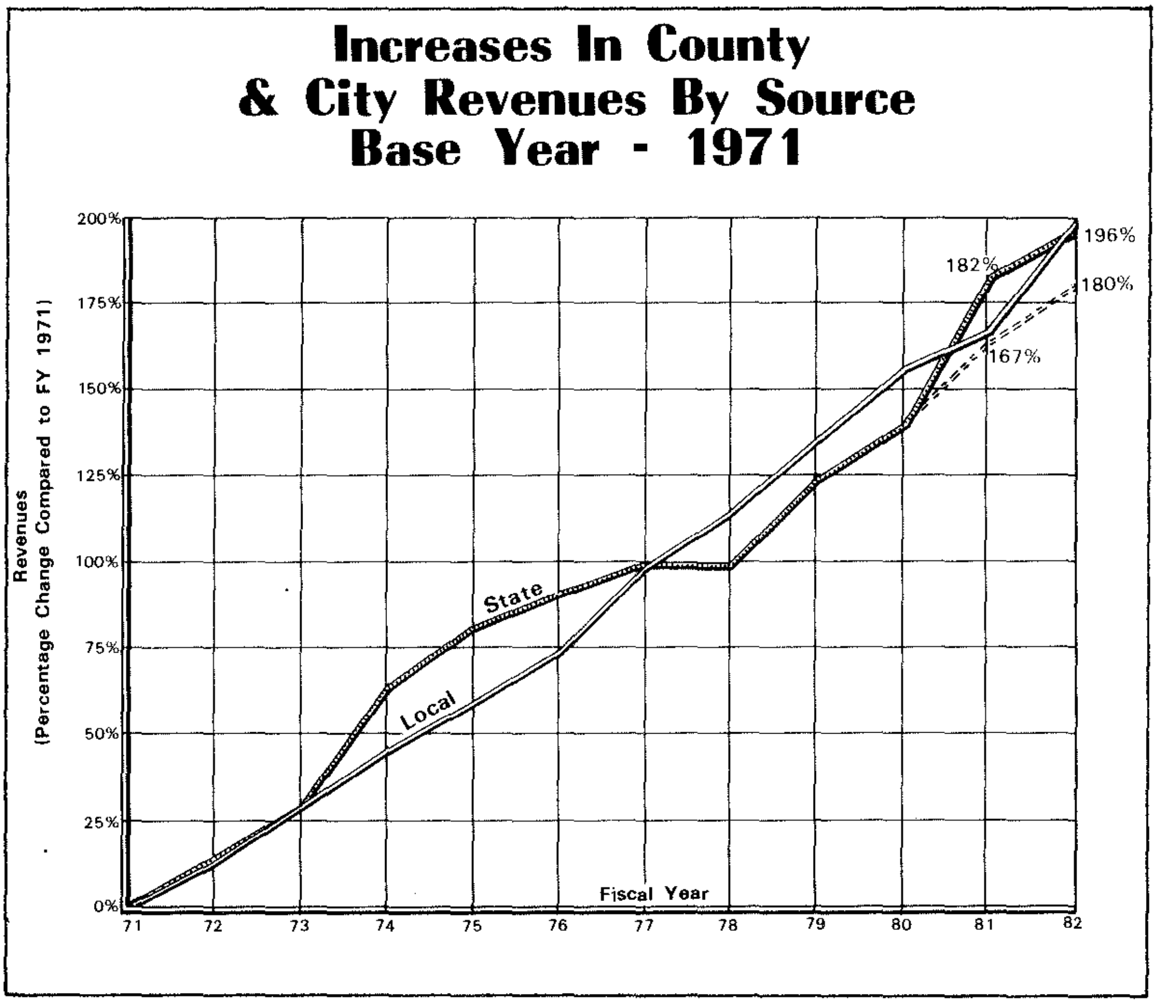
Overall Trends in State Aid to Localities

Even though State aid is channeled through many different programs, it can be viewed and measured as a single entity. In sum, State aid provides about 30 percent of the total revenues expended by localities. In determining the adequacy of State aid, the first test is to examine its growth in recent years.

Comparing State Aid to Local Revenues. If State aid has not kept pace with locally raised revenues, it is one indication of declining State support of local governments. To determine the nature of these trends, JLARC staff examined local revenues and State aid disbursements over the past 12 fiscal years.

As Figure 3 indicates, the growth in State aid has closely mirrored the growth in locally generated revenues. Over the 12-year period from FY 1971 through FY 1982, both sources of revenue grew about 196 percent. Even though there have been ebbs and flows over this period, the State's support of local governments has been stable.

Figure 3



Source: JLARC Analysis of Comparative Cost and Revenue Reports of the Auditor of Public Accounts.

One feature of the trend should be noted, however. If it were not for the initiatives in State aid which were funded in FY 1981, State aid overall would not have kept pace with local revenues. The trend line for State aid clearly shows the significant jump in aid between FY 1980 and FY 1981. Because these initiatives represented new commitments made by the State, the overall stable trend masks a decline in the State's commitment to existing aid programs. The dotted line included in Figure 3 illustrates what the trend line would have been without these FY 1981 initiatives.

Comparing State Aid to State Revenues. The levels of aid for most programs are determined by executive budgets and legislative appropriations, and are not driven by earmarked tax sources. In conjunction with other methods, comparing growth in State aid to growth in the State's general fund is another useful way of assessing the State's commitment to local governments.

Over the 12-year period examined, the State's general fund has outpaced increases in aid for local governments. From FY 1971 through FY 1982, general fund revenues grew about 239 percent (Table 7). As previously indicated, State aid to localities grew about 196 percent over the period. As a result, a consistently declining share of the State's budget has been appropriated as aid for local governments. By this measure, the State's level of commitment to localities has not been consistent over time.

Table 7

CUMULATIVE GROWTH IN STATE AID AND GENERAL FUND REVENUES
(Each year compared to FY 1971)

Year	Increase in State Aid to Localities	Increase in State General Fund
FY 1972	14%	14%
FY 1973	29	30
FY 1974	63	43
FY 1975	80	60
FY 1976	90	75
FY 1977	99	100
FY 1978	99	139
FY 1979	124	159
FY 1980	139	186
FY 1981	182	214
FY 1982	196	239

Source: JLARC Adaptation of data from the Appropriations Act and Auditor of Public Accounts.

Comparing Virginia to Other States. Cross-state comparisons of financing features are difficult to make reliably. Aid to localities is a function of State and local tax levels, as well as State and local service responsibilities. Nevertheless, comparing Virginia to other states in the region does provide useful perspective in assessing overall levels of State aid.

Table 8 summarizes the proportion of local revenue supplied by each of the surrounding states in the region. It also compares state and local tax levels in terms of tax revenue per $1000 of personal income in each state.

Virginia ranks tenth among states in the region in the share of local revenue provided. The State's 32.2 percent level of support for 1981 was well below the regional average of 36.6 percent and national average of 34.6 percent. Part of the explanation for this level appears to be Virginia's low level of State taxes.

In 1981, only Tennessee had a lower level of State taxes than Virginia's $60 per $1000 of personal income. One other state, Florida, levied taxes at Virginia's $60 level. As with aid, this level of State

Table 8

STATE FINANCIAL ASSISTANCE:
VIRGINIA COMPARED TO OTHER STATES
(1981)

	State Taxes Per $1000 Of Income	Local Taxes Per $1000 Of Income	State Aid As Pct. of Local Revenue
VIRGINIA	$60	$40	32.2%
Alabama	74	25	36.4
Arkansas	71	22	40.5
Florida	60	33	32.5
Georgia	68	37	26.5
Kentucky	81	22	45.7
Louisiana	79	37	35.7
Maryland	67	46	31.9
Mississippi	84	24	46.3
North Carolina	75	28	42.2
South Carolina	80	26	37.6
Tennessee	55	40	26.6
West Virginia	83	21	41.2
Regional Average	$72	$31	36.6%
National Average	$69	$44	34.6%

Source: JLARC Compilation of State Tax Digests.

taxes is substantially below the regional and national averages. Of the ten states with higher state tax levels, eight provided a higher level of support for local governments. In this region at least, higher state taxes appear to have resulted in higher levels of aid to localities.

In contrast, Virginia's localities have a comparatively high level of local taxes for the region. The State's $40 local tax level is well above the regional average of $31 per $1000 of personal income, although it is below the national average.

Two possible interpretations of these data are possible. First, it could be argued that the State has forced localities to raise local taxes in order to compensate for low levels of State aid provided. This may have occurred while the State was keeping its own taxes low. Another reasonable interpretation is that the State has kept its taxes low as a basic policy, in order to allow local governments to determine local citizens' preferences about service and tax levels.

Conclusions About Overall Trends. Overall funding trends suggest that the level of aid has not been adequate over time. Although State aid has remained a stable portion of local budgets, major aid initiatives were required to ensure a stable level of support. Because these initiatives were new State commitments, the analysis suggests a decline in State support of some existing commitments. Moreover, State aid has not grown at a pace consistent with increases in State general fund revenues. And, State aid to localities is low by regional and national standards.

By itself, however, this evidence is not compelling. A separate assessment of aid for major programs is required to reach an overall conclusion. State aid for local health departments, community services boards, local welfare agencies, and local school divisions were also examined. Together, these four programs account for over 80 percent of the aid disbursed to local governments.

State Funding of Local Health Departments

According to the *Code of Virginia*, all cities and counties are required to establish and maintain a local health department. Although these local health departments operate under State-local contract, the employees are State employees. For this reason, the State's funding of local Health departments is considered a direct service rather than financial aid. Funding is shared by the State with all participating localities.

The State's involvement in local health departments is extensive. State mandates affect almost all aspects of operations. Local departments must provide a variety of community health, maternal and child health, and environmental health services. The State Health Department also determines the budget for each local department, as well as the portion to be paid by each local jurisdiction.

Figure 4 summarizes funding trends for local health departments from FY 1978 through FY 1982. The figure shows both the total amounts expended by the State and local governments, and the share of total funding borne by each. Funds expended for optional programs have been excluded, in order to provide a better picture of the State's funding of its historical commitment.

Over the FY 1978-82 period, the State share of funding for local health departments remained very close to the 58 percent level. State funding of local health departments grew about 44 percent over the period, from $22.5 million in FY 1978 to $32.6 million in FY 1982. This level of growth exceeded inflation in government service costs over the same period. Thus, the State has maintained its historical share of support for health departments.

The State requires local financial participation in the budgets of local health departments, and it sets each local department's budget level. Localities must provide between 18 and 45 percent of the amount set. Although this amount appears reasonable, in practice the local share averages about 42 percent. Moreover, about half of all localities must provide the maximum 45 percent share specified in statute. Because local control over health department budgets is limited, this local share of health department funding may not be consistent with the degree of local control. The General Assembly may wish to consider increasing the State's share of health department funding to a level more commensurate with State control.

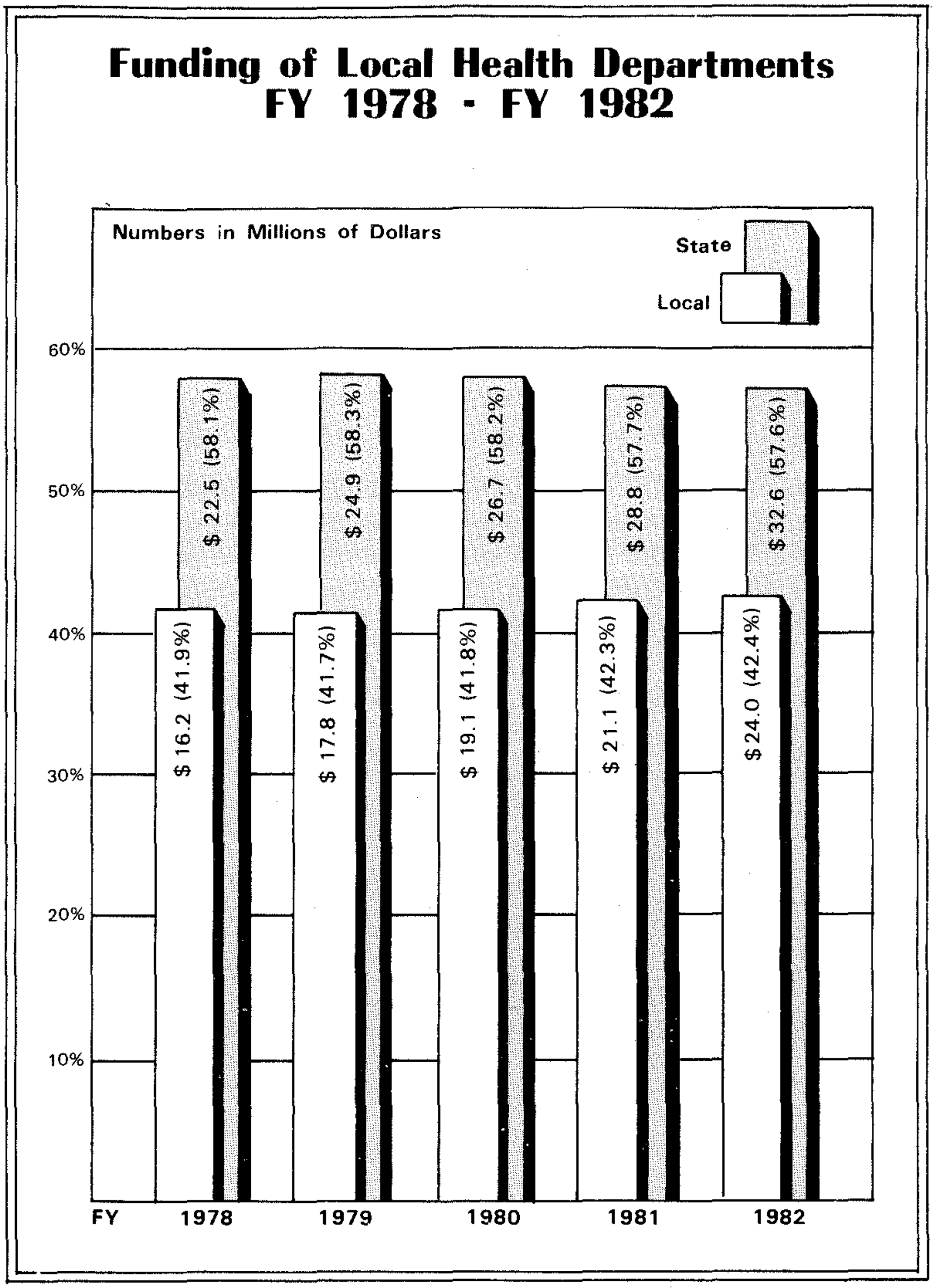
The final check on the adequacy of State aid for health is local opinion. Fifty percent of local officials surveyed felt that State aid for local health departments is inadequate. Fifty-seven percent felt that aid has become less adequate over time. Even though half the respondents had negative opinions about aid in this area, health funding was not one of the major problem areas identified. Local officials felt much more strongly about twelve other areas of State aid.

The analysis produced a mixed review of State funding of local health departments. While the level of State funding may not be consistent with its level of control, State funding has matched its historical commitment over the past five years, and has kept pace both with inflation in government service costs and with local funding increases. And, the adequacy of Health Department funding is viewed in a kinder light by local officials than almost all other areas of State aid. On balance, therefore, State funding of local health departments must be viewed as adequate.

State Funding of Community Services Boards

The Department of Mental Health and Mental Retardation (DMHMR) provides funds to local Community Services Boards for use in

Figure 4



Source: JLARC Illustration of Health Department Data.

providing mental health, mental retardation, and substance abuse services. The *Code* requires that all cities and counties in the Commonwealth must have established or joined a Community Services Board by July 1, 1983. Forty boards are now in operation, and receive State funds.

Mandates for mental health and related programs are not as stringent or as comprehensive as mandates in other health and welfare areas. Most of the mandates are administrative, and cover board organization, budgeting, and fiscal management. Many of the requirements focus on procedures, rather than programs. Legislative resolutions which outline a core set of services include language specifying that these services are not mandated.

Over the past five years, the State has funded an increasing portion of CSB budgets (Figure 5). In FY 1982, the State provided 57 percent of the CSB's total funds. From FY 1979 to FY 1982, State funding increased 77 percent -- much faster than the 55 percent increase in total program spending. Increases in CSB funding also exceeded the 44 percent increase in the State's general fund revenues. The growth in State funding of Community Services Boards indicates a major increase in the State's commitment to community mental health and mental retardation services.

Survey responses, contacts with local officials, and discussions with DMHMR officials indicate that Community Services Boards are one area where the level of State funding is much higher than the level of State control. The Department's stated role has been to ensure that the framework exists for effective programs. Its mechanisms are the establishment of Community Services Boards, and proper administrative and organizational guidelines. Decisions involving programs to be offered or program content are left to local discretion, even though DMHMR provides continuing guidance and technical assistance.

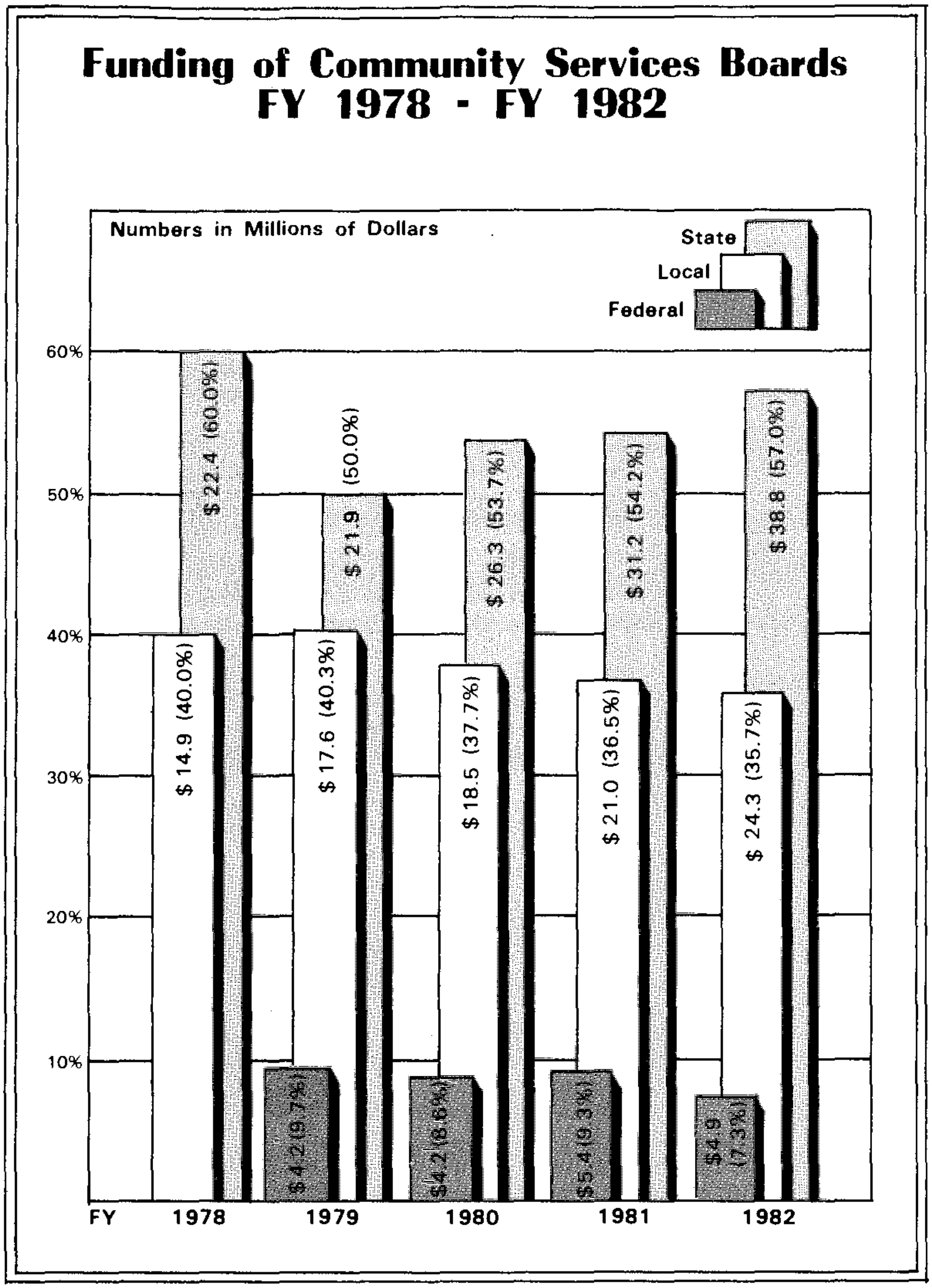
The opinions of local officials confirmed the data analysis. Over half of the local officials surveyed felt that funding for CSBs was not a problem area. Sixty-five percent felt that the level of aid had either been stable or had improved over time.

State support for community mental health and mental retardation services has improved substantially in recent years. The State funds CSBs at a level higher than its level of involvement, and its funding has increased greatly both in actual dollars and as a portion of total costs. Local officials feel more positively about CSB funding than about aid in almost any other functional area.

State Funding of Local Welfare Programs

The Department of Social Services (DSS) accounts for the second largest distribution of aid to localities. In FY 1982, federal and State aid disbursed by DSS directly totalled $149.7 million. An additional $235.4 million was disbursed by DSS directly to local

Figure 5



Source: JLARC Illustration of DMHMR Data clients. The funds were distributed to cover administrative and program costs for public assistance and social service programs provided by 124 local welfare agencies statewide.

Mandates in the welfare area are specific and comprehensive. State mandates affect local staffing levels, employee compensation, services provided, casework procedures, administrative procedures, and levels of local financial participation. The State has a major substantive role in defining and prescribing the activities of local welfare agencies. Welfare and social services are also areas where there is substantial federal involvement. Many State mandates originated in federal statutes or regulations.

Because of the extent of federal involvement, it was necessary to modify the approach used to assess the adequacy of State aid. For this area, the assessment involved determining whether local financial participation is consistent with the narrow range of control afforded to local governments. If local financial participation is consistent with local control, State and federal funding should dwarf local contributions in support of welfare and social services.

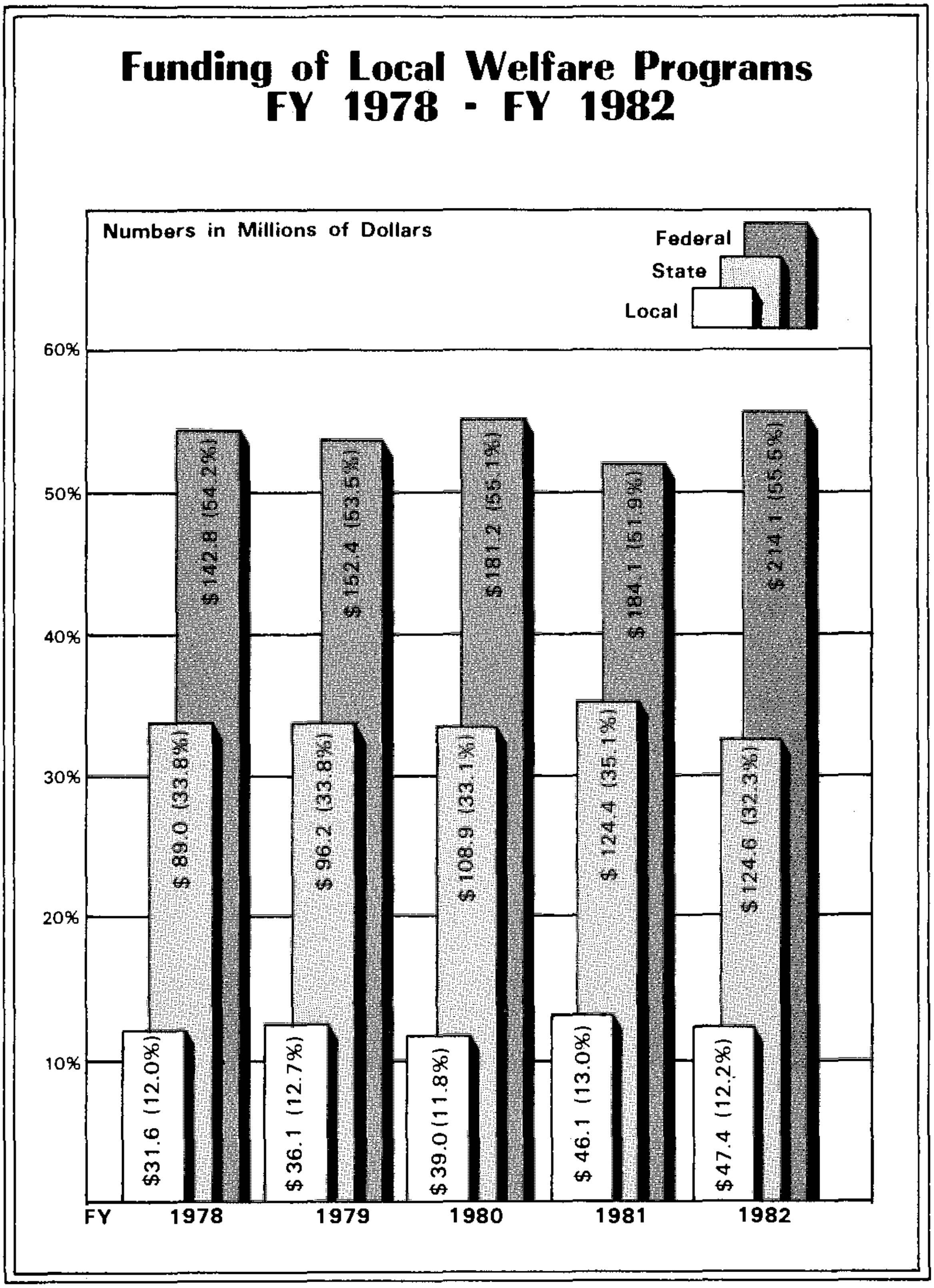
Over the past five years localities have provided only about 12 percent of the funding for local welfare agencies (Figure 6). Local governments contributed about $47.4 million in FY 1982, compared to $124.6 million in State revenues and $214.1 million in federal funds. Although this proportion has fluctuated somewhat, it has remained at about 12 percent of total funding. Local financial support is therefore consistent with limited local control.

There are two caveats which should be noted. First, the totals listed in Figure 6 include the $235.4 million in direct services payments made directly to local clients by DSS. These funds have been included to present a clearer picture of State support of the costs of the entire welfare system.

Second, even though the local share of funding is limited, local contributions have grown faster than State funding over the past five years. Local funding of local welfare agencies has grown 50 percent over the period, while State funding has increased 40 percent. If this trend continues, it will result in a long-term shift in the share of local welfare costs borne by local governments. For the period examined, however, the State has kept its historical commitment to fund local welfare agencies.

Auxiliary Grants. The overall trend of limited local funding of welfare programs masks one program of particular concern to localities -- auxiliary grants. Auxiliary grants cover the room and board of residents of licensed homes for adults who receive federal Supplemental Security Income (SSI) or are low-income aged, blind, or disabled persons. The State funds 62.5 percent and localities support 37.5 percent of program costs. Auxiliary grants are one of two financial assistance programs where local governments must share in the cost of payments to clients.

Figure 6



Source: JLARC Illustration of Department of Social Services Data.

State mandates govern all aspects of the auxiliary grant program. The State Board of Social Services has full authority over eligibility criteria for clients served. Maximum reimbursement rates are set by the General Assembly, and rates for specific homes are set by DSS. As a result, localities have no flexibility either in clients served or in their level of financial commitment.

Over the past five years, there have been dramatic increases in local caseloads and spending for the auxiliary grant program (Table 9). This has been partly due to the natural aging of local populations and partly due to recent requirements to screen all prospective residents of nursing homes. Homes for adults serve as the primary housing alternative for individuals whose conditions do not warrant nursing care.

Table 9

AUXILIARY GRANT PROGRAM:
INCREASES IN CASELOADS AND SPENDING
FY 1978 - FY 1982

Fiscal Year	Average Monthly Caseload	Maximum Reimbursement Rate	Local Government Expenditures
1978	989 cases	$260	$ .70 million
1979	1,141	336	1.59 million
1980	1,353	372	2.21 million
1981	1,534	450	2.62 million
1982	1,692	475	3.17 million
Percent Increase	71.1%	82.7%	352.2%

Sources: Department of Social Services Annual Reports.

Between FY 1978 and FY 1982, auxiliary grant caseloads increased 71.1 percent. At the same time, maximum reimbursement rates jumped 82.7 percent, or about 1.75 times the increase in the Consumer Price Index. The combined effect of these two increases served to increase local spending for auxiliary grants by over 350 percent.

Even though the dollar impact of this program is small, it falls unevenly across the State. The impact is greatest in areas with large elderly populations. It also falls disproportionately on localities with a large number of licensed homes for adults.

For example, in Shenandoah, local contributions for auxiliary grants for the aged rose 616% between FY 1978 and FY 1982. An increase of this magnitude represents a substantial increase in eligible population as well as the mandated increases in reimbursement rates. This places a double burden on the local government, which can neither control nor predict the funding level.

The auxiliary grant program is a clear example of an area where the level of State control exceeds its level of financial support. The General Assembly should consider increasing the State share of the auxiliary grant program to a level more consistent with its control.

State Funding of Local School Divisions

Over seventy percent of all State financial assistance is earmarked for support of local school divisions. In FY 1982, State aid for education totalled about $1.0 billion. Aid for education represents the largest commitment the State has made to help localities provide local services. Aid is funneled through assistance to meet educational Standards of Quality, a number of specific categorical programs, and special State revenue sharing funds. State aid also supports the employer's share of retirement, social security, and group life insurance for school employees.

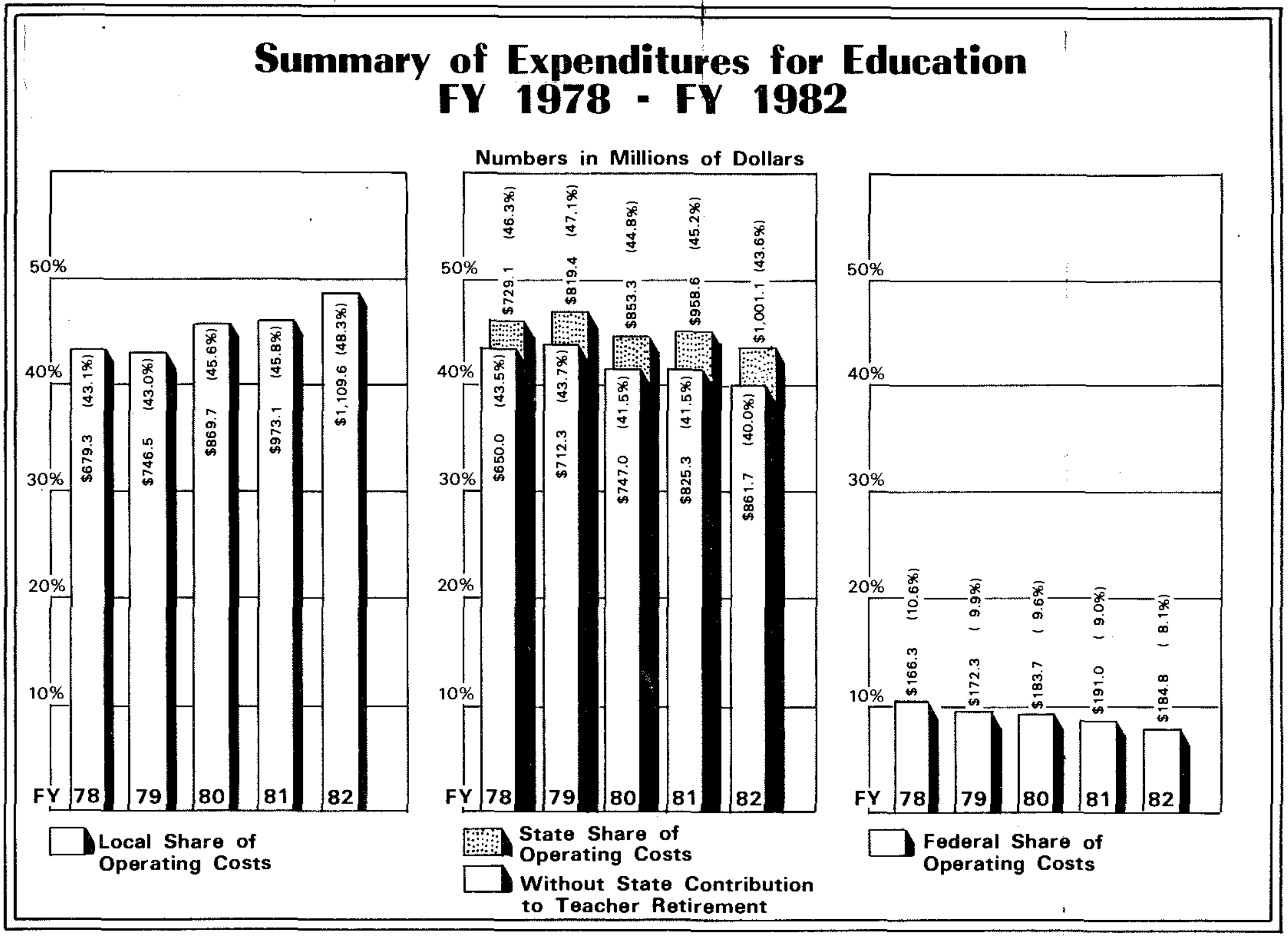
The State's involvement in education is greater than in any other area of local activity. State mandates in this area are specific, comprehensive, and for the most part, compulsory. Mandates affect staffing levels, employee qualifications, fringe benefits, administrative procedures, the level of local financial participation, facilities, equipment, and services. Many of these requirements flow from 12 State Standards of Quality adopted by the General Assembly.

In order to examine funding trends for education, it was necessary to extract total operating costs for local school divisions from annual reports published by the Superintendent of Public Instruction. Expenditures and revenues were segregated into federal, State, and local totals. Staff from the Department of Education reviewed the compilation for accuracy. Figure 7 displays the results of the analysis.

Aggregate Funding Trends. Between FY 1978 and FY 1982, total State funding of education increased from $729.1 million to $1,001.1 million, an increase of 37 percent. Though this was a significant increase, it did not match inflation in government service costs, which grew at 40 percent. It was also well below the 63 percent increase in local funding of education for the period. As a result, State support of local education declined from 46.3 percent in FY 1978 to 43.6 percent in FY 1982. This represents a significant decline in the State's funding commitment to education.

State funding of education is the area most sensitive to local officials. Eight-six percent of the local officials surveyed felt that aid for education is inadequate. Eighty percent felt that State support has become less adequate over time. These negative opinions are somewhat confirmed by the aggregate funding trend over the past five years.

Figure 7



Source: JLARC Illustration of Department of Education Data.

During the 1982 session, the Governor and General Assembly increased the State's funding of education by providing sufficient funds to support the State's share of a 10 percent salary increase for teachers for FY 1983. State support for a 9.7 percent salary increase was included for FY 1984. The magnitude of this increase may result in shifting the overall funding trend. At this time, however, data are not available to make the comparison.

The overall funding trend does not separate the cost of meeting State Standards of Quality from the costs of optional local programs, which are often described as "local aspiration." Aggregate funding trends are not by themselves conclusive. For that reason, it is important to examine estimates of the cost of meeting State Standards of Quality.

Standards of Quality. Each year the Department of Education estimates the per-pupil cost of meeting the State's Standards of Quality (SOQ). This cost is estimated by combining personnel costs, at 48 teachers per 1000 students, with the administrative and support expenditures made by local school divisions. There is some disagreement over the validity of these cost figures. While its name implies that it is a level to be sought, many local officials view it as simply a "bare-bones" figure. Other critics of the cost figure, including some legislators, argue that the figure is difficult to validate and needs further review.

Table 10 compares the estimated per-pupil cost of meeting Standards of Quality with the amount established in the Appropriations Act. As the table shows, the funding for the SOQ mirrors the aggregate funding trend for education. The State has supported a declining share of the estimated costs of meeting the SOQ. Over the FY 1975-82 period,

Table 10

STANDARDS OF QUALITY:
COMPARISON OF COST PER PUPIL TO APPROPRIATED AMOUNTS
FY 1975 - FY 1982

Year	Estimated Cost Per Pupil	Established Cost Per Pupil	Funding Gap	Percentage
1975	$ 833	$ 687	$146	82.5%
1976	887	730	157	82.3
1977	961	790	171	82.2
1978	1,029	825	204	80.2
1979	1,116	901	215	80.7
1980	1,231	960	271	78.0
1981	1,361	1,075	286	79.0
1982	1,519	1,185	334	78.0

Source: Virginia Department of Education; Appropriations Acts of the General Assembly FY 1974-82.

the State share of SOQ decreased from 82.5 percent to 78.0 percent. At the same time, the funding gap per-pupil increased from $146 per pupil to $334 per pupil. A substantial additional infusion of State funds would be necessary to reach full State funding of its Standards of Quality.

State support of education has not matched either its historical commitment to localities or its level of involvement. Given the magnitude of dollars involved, this represents a key area where State aid has been inadequate.

Special Education. Within education, there is probably no program that has caused more local concern than special education. Education of handicapped children between 2 and 21 years of age is one of the 12 Standards of Quality adopted by the General Assembly.

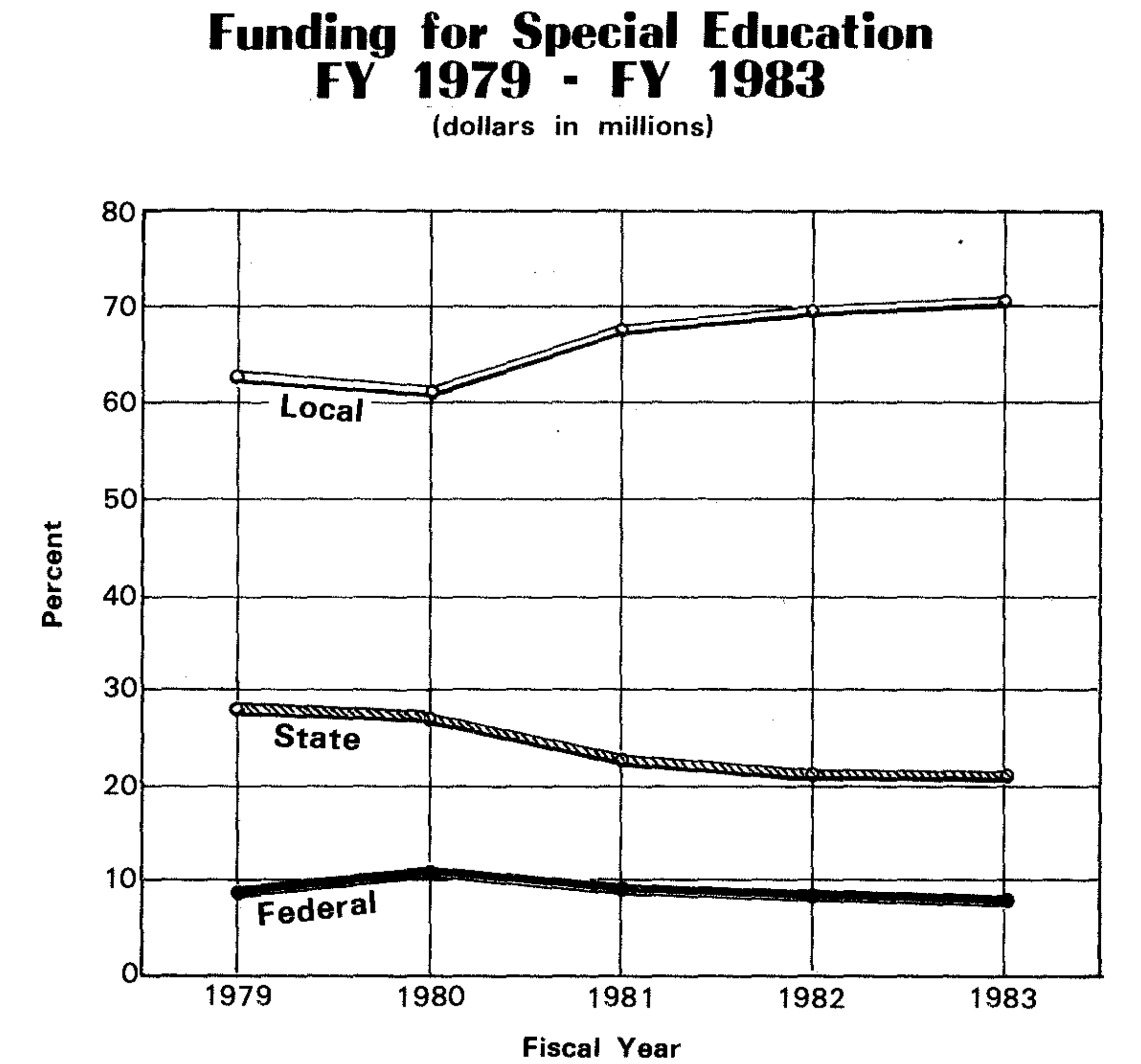
Federal and State mandates in special education are specific, compulsory, and comprehensive. They include identification of handicapped children, individualized education plans, maximum pupil-teacher ratios, teacher qualifications, specialized therapy, and specialized transportation. Although many of these mandates are federal requirements, many others were originally contained in State statutes and regulations. Special education is the only functional area where over half of the local officials surveyed indicated that mandates are unreasonable.

The financial impact of meeting these mandates is high. In 1981, a nationwide study estimated that the per-pupil costs of educating handicapped students were about 2.2 times those for general education.

A precise accounting of the total cost of meeting these mandates is not possible. Nevertheless, it is possible to compare the added special education costs reported by local school divisions to State and federal funding for special education. As with costs for SOQ, the validity of data reported by local school divisions cannot be determined. The costs reported by local school divisions, however, come very close to the per-pupil differential reported in the 1981 nationwide study.

Figure 8 shows federal, State, and local support of the reported costs of educating handicapped children in Virginia. Over the FY 1979-83 period, reported costs increased 105 percent. During the same period, federal and State funding lagged well behind this figure. Federal and State funding increased 80 and 53 percent, respectively. As a result, localities have had to bear an increasing share of the added costs of providing special education. And, the State's share of support has declined from 28.7 percent to 21.4 percent. Special education is an additional area where State aid has not been consistent with its historical commitment or level of involvement.

Figure 8



Fiscal Year	Federal	(%)	State	(%)	Local	(%)
1979	$11.6	(9.1)	$35.9	(28.0)	$ 80.5	(62.9)
1980	17.0	(11.0)	43.1	(27.3)	97.0	(61.7)
1981	18.9	(9.2)	47.4	(23.1)	139.1	(67.7)
1982	19.8	(8.6)	49.9	(21.6)	161.4	(69.8)
1983 (Est.)	20.9	(8.1)	55.0	(21.4)	181.1	(70.5)

Source: JLARC Analysis of Department of Education Data.

Conclusion

The State has an ongoing obligation to fund existing programs at levels consistent with historical commitments or with levels of State involvement. Failure to do so creates financial pressures on local governments to either reduce service levels or increase local funding.

Over the past 12 years, the State has funded a stable share of local budgets. Within that aggregate trend, however, the State has funded some new commitments to localities at the expense of some existing commitments. Assumption of costs of some constitutional officers and aid to localities with police departments has been offset by a declining share of State support for education. State funding of education falls substantially short of the cost of meeting State-imposed Standards of Quality. Moreover, there are at least two programs, auxiliary grants and special education, where levels of aid are not consistent with State control.

Based on an examination of major funding trends, it appears that increased State aid to localities is warranted. On balance, the State has not funded required services at levels consistent with its historical commitment or level of involvement in local activities.

DISTRIBUTION OF STATE AID

The amount of State aid received by any locality is a function of State appropriations, assigned service responsibilities, and specific methods of distribution. The distribution of State aid is therefore an important issue which is related to its adequacy. Fundamental differences in the way one type of locality is treated by the State can lead to greater fiscal stresses in one segment of local governments. By the same token, arbitrary or subjective methods of distributing State aid can also lead to imbalances in local revenues which can make local problems more severe.

In order to assess the distribution of aid, JLARC staff calculated the total amount of State aid received by each locality for FY 1981. These totals included both financial assistance and direct service expenditures for the year. Per capita totals were compared to find any program areas where imbalances in aid distribution might lead to local problems.

To assess specific methods of distribution, a different focus was adopted. Major methods of distributing aid were examined to determine their reasonableness. Reasonableness entailed the use of objective and verifiable measures, use of the most recent and accurate data available, and recent or periodic re-examination of the methods used. The effort concentrated on multi-factor formulas, which account for well over half of the financial assistance distributed. The examination did not attempt to determine whether each formula examined was equitable.

Aid Benefits to Cities and Counties

Both cities and counties derive a substantial benefit from State financial assistance. In FY 1982, State financial assistance accounted for about 29 percent of city budgets and about 32 percent of county budgets. This share of State aid has undergone some fluctuation over the past 12 years but has remained fairly stable (Figure 9). In most years, the share of State aid for counties exceeded the share for cities.

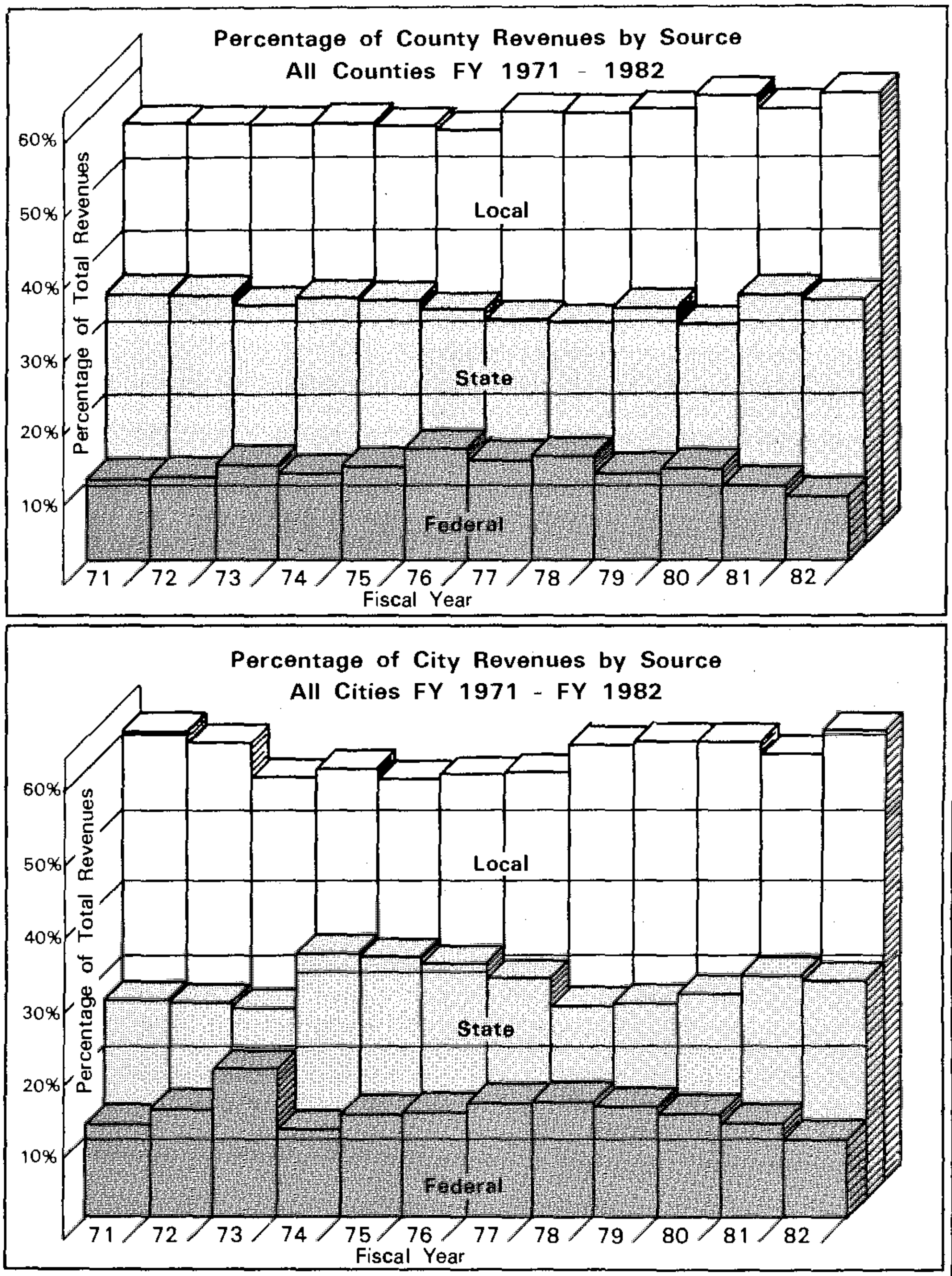
The comparison presented in Figure 9 used comparative cost and revenue reports compiled by the State's Auditor of Public Accounts (APA). This comparison is not conclusive, however, because it fails to account for major direct services provided to localities. Moreover, it does not control for some differences in the way localities are treated by the State. For example, urban highway payments to municipalities are included in the APA's aid totals, while State expenditures for construction of non-interstate highways and maintenance on primary and secondary roads in counties are not. Totals included in the APA reports are therefore not an adequate base for comparison.

To improve this comparison, JLARC staff supplemented the APA reports with some major direct service expenditures made by the State in each locality. The principal direct service expenditures included State spending for local health departments and funding of State-operated court service units. Where aid is distributed to multi-locality agencies, such as Community Services Boards, funds were allocated to each locality based on population or caseload. Although State construction and maintenance of county roads are clearly benefits to counties, the issue of their equity is dealt with in JLARC's report on highway allocations, released in December 1983. The result is a more complete picture of the distribution of aid to cities and counties. A listing of the total aid distributed to each city and county is included in the appendix to this report.

As Table 11 shows, counties derive a substantially higher per capita benefit from the State than cities. In FY 1981, counties received $251 per person from the State in financial assistance and direct services. Cities received about $221 per person. In FY 1981, counties received $30 more per capita than cities in financial assistance and direct services (for areas other than highways). This difference is the net result of many different methods of distributing State aid. The level of this difference may also be the cause of some financial problems for cities. The use of reasonable methods for distributing aid minimizes the likelihood that differences in aid distribution will be inequitable.

Figure 9

Federal, State, & Local Shares of Local Government Revenue FY 1971 - 1982



Source: JLARC Illustation of Data from Auditor of Public Accounts' Comparative Cost and Revenue Reports.

Table 11

VALUE OF FINANCIAL AID AND DIRECT SERVICES
TO CITIES AND COUNTIES
FY 1981
(dollars per capita)

	Counties	Cities
Financial Assistance (excluding highway funds)	$237	$205
Other Services and Assistance*		
Direct State Funding of Health Departments	6	6
State Aid to Community Services Boards	6	6
State-Operated Court Service Units	2	4
TOTAL	$251	$221

*Excludes ADC and fuel assistance payments to clients.

Source: JLARC Analysis of APA and State Agency Data.

Methods of Distribution

Over 70 different methods of distribution are used to distribute State aid to local governments. Most can be grouped into four categories: (1) "per-unit" funding, (2) grants, (3) shared expenses, and (4) formula funding.

Funding on a "per-unit" basis provides a fixed dollar amount for each eligible unit. For example, urban assistance payments for highways are based on a per lane-mile payment for each approved road. Other examples include per prisoner-day payments for State prisoners held in local jails, and per-pupil payments for handicapped children in special education programs. Per unit funding does not involve competition between localities for funds. As long as criteria for eligibility are met, the per-unit payments are made.

In contrast, grants are distributed to qualifying localities based on competitive applications. Criteria for awarding grants may be either specific and quantitative, or more judgmental. For example, the Department of Housing and Community Development uses a point system in assessing the needs of localities for federal Community Development Block Grants. The Department of Mental Health and Mental Retardation provides local grants based largely on the amounts distributed in prior years. Grants account for only a small portion of State aid allocations. The main distributor of grants is the Department of Mental

Health and Mental Retardation, which funded almost $40 million to Community Services Boards in FY 1982 through grant applications.

Shared expenses split approved program costs into fixed State and local proportions. For example, the General Relief program is shared on a 62.5/37.5 percent basis by the State and localities. Some of the costs of local constitutional offices are split in the same manner. As with per-unit funding, localities do not compete for available funds. Approved costs are shared at the proportions specified.

Formula funding uses single or multiple factors to measure underlying characteristics of localities, such as need for services, ability to pay, or size. Formula funding is often controversial and involves the relative distribution of funds among competing localities. Over 65 percent of the financial aid provided to localities in FY 1982 was distributed by single or multi-factor formulas. Because of their importance, the review of methods of distribution focused in this area.

Formula Funding. There are eleven major single factor or multi-factor formulas currently in use. Together they accounted for about $895 million of the State aid distributed in FY 1982. They range in magnitude from almost $500 million to only about $3.0 million. Figure 10 summarizes the origin, amount distributed, factors used, and date of latest review for nine of the eleven major formulas. Two others -- the formulas for allocating construction funds for primary and secondary highways -- have been the subject of another JLARC review and have not been listed.

Major formulas vary significantly in their basic approach to distributing funds. Eight of the nine formulas attempt to measure need for services or need for revenues. One of the nine formulas, the formula used to determine State and local shares of local health department costs, uses only ability to pay. And only one formula, the composite index for distributing basic aid for education, attempts to measure both need and ability to pay. None of the major formulas includes local effort as a factor.

The length of time since each formula was last reviewed also varies. In most cases, formulas have been either recently adopted or have been re-examined within the past five years. Two formulas -- revenue sharing funds for education and school pupil transportation -- have not been reviewed in recent years.

JLARC's survey of cities and counties asked local officials to rate the fairness of several major funding formulas. It also asked officials to note reasons why they felt particular formulas were unfair or unreasonable. The results showed that, on balance, formulas are not a major source of difficulty for local officials (Table 12). Less than half of the officials surveyed found any single formula to be unfair.

The formula used to determine the local share of health department costs was judged most harshly. About 46 percent of city and

Figure 10

Profile of State Funding Formulas

Program	Origin	FY 1982 Distribution ($ in millions)	Formula Factors		Latest Review
			Need	Ability to Pay	
Basic Aid for Education	Legislative Study (1971)	$492.3	Established Per Pupil Cost Average Daily Membership	True Value of Real Property (50%) Personal Income (40%) Taxable Retail Sales (10%)	1978
Special Revenue Sharing Funds For Education	Legislative Action (1966)	$222.2	School Age Population		None
Pupil Transportation	Legislative Study (1940)	$27.4	Pupils Transported (40%) Miles Traveled (40%) Buses (20%)		None
Support to Local Health Departments	Administrative Study (1954); Revised in 1984	$32.6		True Value of Real Property	1983 HJR 11
Assistance to Localities with Police Departments	Legislative Study (1979)	$48.8	Population Actual/Potential Crime Rates Welfare Caseload		None
Title XX Social Service Programs	Agency Study (1981)	$47.3	Population (1/3) ADC, SSI, Medicaid Caseload (1/3) Foster Care, Adoption, Prot. Serv. Cases (1/3)		1982
Local Libraries	State Library Board (1968)	$4.4	Population Service Area Number of Cities and Counties Served		1978
ABC Tax Profits	Legislative Study (1934)	$18.9	Decennial Population		1980
Wine Tax Profits	Legislative Study (1980)	$3.0	Decennial Population		None

Source: JLARC Compilation of State Agency Documents

county officials judged it to be unfair. The next most controversial method was the composite index, which was judged unfair by 40 percent of local officials overall and by 57 percent of city officials. Of the remaining three formulas, only the social services formula produced major negative comments.

Problem Formulas

The JLARC staff's review of major funding formulas found that in most cases, data used are objective, accurate, and current. Moreover, State agencies have been diligent in reviewing formulas on a timely basis. Nevertheless, there are three formulas which warrant review, revision, or ongoing monitoring.

Table 12

LOCAL OPINIONS OF FUNDING FORMULAS
(Percent Judging Formula as Unfair)

	Cities	Counties	Statewide
Composite Index	57%	31%	40%
Aid to Localities with Police Departments (Adjusted Crime Index)	22	25	23
Social Services (Title XX)	47	23	32
Health	46	46	46
ABC Profits	29	20	23

Source: JLARC Survey of Cities and Counties.

Health Department Formula. The formula used by the Department of Health determines the local share of local health department budgets. State statutes set the minimum local share at 18 percent and a maximum local share at 45 percent. The formula uses a single factor, true value of real estate, to measure local ability to support health services. The formula attempts to make each locality's share proportional to its measure of ability to pay (Figure 11).

Figure 11

Formula for Local Health Departments

$$\text{Percent Local Share} = 27\left[\frac{\text{Real Property Value - Lowest Value Statewide}}{\text{\$392.0 million - Lowest Property Value Statewide}}\right] + 18$$

Source: JLARC Illustration of State Department of Health Data.

The formula has two flaws which should be noted. First, the formula uses real property values as its single measure of local ability to pay. By itself, property value is not an adequate measure of the local ability to support health services. In FY 1982, revenue from real property taxes represented only 47 percent of locally raised revenues. Real property taxes accounted for 52 percent of county-raised revenues, but only 41 percent of city-raised revenues. Other factors, such as taxable retail sales, value of personal property, or personal income, should be included to account for other major local revenues.

Second, the formula compares each locality's property values to a theoretical maximum level, which has not been revised since 1964. That theoretical maximum, $392.0 million, does not reflect the unprecedented growth in property values which has occurred in the past two decades. In FY 1982, 74 localities had property values higher than the maximum contained in the formula. Without revision of this maximum level, all localities but one will ultimately reach the 45 percent local share.

A legislative subcommittee is currently examining revisions to the health department formula. The flaws apparent in this method support a conclusion that revision is warranted.

School Pupil Transportation. The second formula which warrants revision is used to distribute school pupil transportation funds. The Department of Education does not require local school districts to provide pupil transportation, but will participate in funding if the locality opts to provide the service. The State distributed about $27.5 million in FY 1982 to help support school pupil transportation.

The formula used to distribute pupil transportation funds uses three factors to measure local service need -- the number of pupils transported (40 percent), the number of miles travelled (40 percent), and the number of buses (20 percent). The formula was developed around 1940 and has not been revised or formally reviewed since that time.

The lengthy period of time since its development is a problem. It is unlikely that conditions driving the need for pupil transportation funds mirror those which existed in 1940. Myriad changes in transportation systems, boundaries of local jurisdictions, and the purposes for busing students have occurred in the 40 years since the formula was initially developed.

In developing a formula, different factors are used in order to measure separate aspects of need. Each factor is selected to bring new or independent information to the overall calculation. The three variables used in the pupil transportation formula are very closely related, however. On a statistical basis, each factor can be used to predict each of the others, with between 83 and 95 percent accuracy. As a result, much of the benefit of multiple factors is negated.

Finally, including the number of buses in the formula may reward inefficiency. The more buses a locality uses, the greater the amount of funds it receives, regardless of the number of pupils per bus. Across the State, the average number of pupils per bus ranges from 7 to 223. Although there may be reasons why wide variations occur in the number of pupils per bus, further review and analysis would be beneficial. The formula for distributing school pupil transportation funds warrants review.

Composite Index (Basic Aid). The third formula which requires review or monitoring is the composite index. This formula was used to distribute $492.3 million in FY 1982, and determines each locality's distribution of basic aid for education. It is the only one of the nine formulas which attempts to measure both need and ability to pay (Figure 12).

Figure 12

Composite Index for Distributing Basic Aid

Real Property Value (50%) Personal Income (40%) Taxable Sales (10%)	Weighted By	Average Daily Membership (67%) Population (33%)

Source: JLARC Illustration.

The heart of this formula is the computation which measures ability to pay. In this calculation, the true value of real property is weighted 50 percent, the level of personal income is weighted 40 percent, and taxable retail sales are weighted 10 percent. The weights were originally based on the proportion of revenue derived from each major tax source. Personal income was used as a surrogate for a number of local taxes for which data were not available.

Overall, the factors used are reasonable components of local ability to pay. Moreover, the data used are the most current available. However, the 50/40/10 weights have not been revised to reflect changing local revenue bases.

As Table 13 shows, the 50/40/10 weighting did accurately reflect local dependence on the three sources of revenue in FY 1970. Over time, however, local dependence has shifted somewhat. Property taxes have declined to 47 percent of local revenues. Dependence on sales tax revenue has also declined slightly. And, revenues from other local taxes have increased in importance. If these shifts continue to occur, the accuracy of the composite index will suffer. The weightings of the composite index should be monitored over time, and should be reviewed periodically by the legislature.

Table 13

SHIFTS IN LOCAL DEPENDENCE ON REVENUE SOURCES
(sources as percentages of local revenues)

Year	Real Property Tax Values	Other Local Revenue	Retail Sales Tax
FY 1970	50%	40%	10%
FY 1982	47	44	9

Source: Comparative Cost and Revenue Reports of the Auditor of Public Accounts.

Conclusion. In general, most major formulas used to distribute aid are reasonable. They use objective measures and current and accurate data. The majority have been re-examined or revised in recent years. And, the processes used to develop and examine the methods were adequate and allowed for local involvement. Nevertheless, the formula for determining local shares of health department budgets and the method for distributing school transportation funds warrant review and revision. In addition, the weightings of the composite index should be monitored over time.

CONCLUSION

The State has a continuing obligation to aid localities in providing services. This obligation is consistent with the major role the State has assumed in prescribing and defining local government activities. State aid to localities accounts for a sizable portion of the State budget and comprises a significant share of local budgets.

Over time, the Commonwealth has funded a relatively stable share of local government budgets. State aid for most major programs has also been consistent with historical State commitments. Nevertheless, that overall trend masks some areas where State aid has fallen short of its traditional commitments, and areas where State aid has not been consistent with State control. For example, the State has not fully funded its traditional commitment to education and special education, and the State's share of auxiliary grants is not consistent with its control. Moreover, there is an imbalance between cities and counties in the distribution of benefits to localities.

Without adequate levels of aid, localities will be faced with financial pressures to reduce services or increase revenues. State decisions about levels of aid therefore have a major impact on the fiscal health of local governments. Consequently, the State should clearly define the level of financial effort required to meet a given mandate, and then define the levels of commitment that are State and local responsibilities. In education, for example, the General Assembly may wish to consider validating the cost of meeting the SOQ, and then commiting itself in statute to the funding of a specific portion of the cost. Thus, whether the statutory commitment is the traditional 82 percent or, more desirably, full funding, localities should receive stable, equitable, and predictable levels of funding.

IV. FISCAL POSITION OF LOCAL GOVERNMENTS

The financial integrity of local governments is vitally important to the Commonwealth. Local governments provide services which meet residents' needs, spur and influence economic development, and improve the quality of life for all the State's citizens. In addition, many of the services provided by local governments are carried out to meet State objectives. It is thus essential that Virginia's local governments maintain a stable fiscal position.

One of the three central issues for the study is to determine whether local governments have sufficient resources to fund an adequate level of public services. This assessment was performed by analyzing a broad range of important fiscal indicators which identify strengths and weaknesses in the overall fiscal condition of local governments.

The analysis focused on (1) revenue capacity, which measures each locality's ability to support public services; (2) tax effort, which measures the extent to which each locality is tapping its financial resources; and (3) actions to control expenditures, which assesses the degree to which localities have taken steps to curb or reduce spending. The assessment of fiscal condition examined these factors over a five-year period, and also relied heavily on the judgements of local officials about fiscal stresses in their own localities.

The analysis identified widespread signs of fiscal weaknesses, or "stresses", existing in the fiscal position of Virginia's local governments. In many localities, there has been slow growth in the tax base and in resident income. In addition, most local governments have increased their tax effort in recent years -- many from levels which were already very high. Finally, there has been a steady increase in the number of local governments which have found it necessary to take extensive budgetary actions to control expenditure growth.

Levels of fiscal stress vary among local governments. Some show a relatively good fiscal position on most of the indicators, while other local governments have a high number of fiscal stresses. Specifically, most cities show signs of severe stress. It is concluded that the level of fiscal stress experienced by local governments does warrant action by the General Assembly.

Recent Causes of Fiscal Stress

Over the past five years, local governments in Virginia have faced difficult times. Many of these difficulties have been produced or heavily influenced by national economic trends. Four factors have contributed to the fiscal stress of Virginia's local governments.

National Recessions. In recent years, the national and regional economies have been hit by two major recessions. These recessions diminished economic activity and led to substantial increases in unemployment. As a result, the growth in local tax receipts slowed measurably. The second recession was particularly difficult because it was accompanied by a drop in inflation. While this diminished the rapid increase in government costs, it also reduced growth in inflation-sensitive areas of local tax bases such as property values and retail sales.

Decreased Federal Aid. Additional stresses have been caused by shrinking federal aid to local governments. According to the Auditor of Public Accounts, local governments received $80.3 million less in federal aid in FY 1982 than they did in FY 1980. Between FY 1976 and FY 1982, federal aid declined from 16 percent of local revenues to 10 percent. Many local governments have been forced to respond by increasing their tax effort.

Stagnant Growth in Family Income. The relatively stagnant income growth of the population has seriously affected local governments by diminishing the citizens' willingness or ability to accept tax increases. From 1977 to 1982, the median income of families rose 39 percent, compared to the cost-of-living increase of 47.8 percent. Moreover, 13.8 percent of Virginia's families have incomes below the poverty level (compared to the national level of 11.6 percent). Thus, local governments have had to increase local revenues at a time when resident income in many localities has been decreasing in spending power. This has resulted in a high degree of "political stress" for local governments.

High Interest Rates. Local governments have also been adversely affected by high interest rates, which have made their borrowing more difficult. Though interest rates have come down in recent months, they remain high by historical standards, and are still four to five percent above the inflation rate. One outcome is that local governments have had difficulty in securing funds to replace or expand capital facilities. These capital expenditures, however, cannot be deferred indefinitely and will become increasingly expensive in subsequent years.

LOCAL REVENUE CAPACITY

One of the most important dimensions of a local government's fiscal position is its revenue capacity. Broadly defined, revenue capacity refers to the economic activity in a jurisdiction which may be taxed by the local government. A local government with a diverse and growing tax base has a strong capacity to finance its public services. A local government with a limited revenue capacity has a distinct fiscal disadvantage in its ability to support services.

The fiscal position of a local government is particularly affected by the growth in its tax base over time. If the tax base does not grow at a rate consistent with the costs of providing services, then the local government is forced to increase taxes in order to maintain services at historical levels. The alternative is to reduce expenditures and service levels. If the revenue capacity is expanding at a fast rate, however, it is easier for the local government to respond to changing local needs without making drastic attempts to increase the tax burden on residents or cut expenditures.

Measurement of Revenue Capacity

Revenue capacity is a measure of each locality's ability to support public services. More precisely, it is the potential revenue which would be generated if a locality used statewide average tax rates for each of the major tax instruments. This concept of revenue capacity was developed by the U.S. Advisory Commission on Intergovernmental Relations, and is often referred to as the "average financing system." It was refined for use in Virginia by John Knapp and Phillip Grossman at the Tayloe Murphy Institute and the Institute of Government at the University of Virginia.

To compute revenue capacity, each major component of a local government's tax base is multiplied by the statewide average tax rate. The result is the potential revenue the local government would produce if it used the average tax rate. In 1981, for example, Virginia's 136 cities and counties had a true effective tax rate on real estate which averaged \$.61 per \$100 of assessed value. Multiplying the true value of real estate in a locality by .61 per \$100 produces the amount of revenue a local government would derive if it used the statewide average tax rate. If each of the major tax bases is analyzed in a similar manner, the result is a sound measure of a local government's revenue capacity. For this study, analyses were conducted of real property, tangible personal property, retail sales, and motor vehicle licenses. Personal income was used as a proxy for non-property and non-sales taxes such as consumer utility and merchant's capital, which comprise about 16 percent of local "capacity" not accounted for by the other tax bases.

The sum of all the components are expressed in a dollar amount per capita. A high number on the index indicates that a local government has a strong tax base; a low number shows that the capacity is weak. Low or stagnant revenue capacity is a key symptom of fiscal stress.

Advantages of Approach. The "average-financing-system" approach has two major advantages. First, it provides a straightforward way of adding together each local government's tax bases on a comparable basis. This measure is very appropriate for estimating the tax bases of Virginia's local governments because it gives a balanced picture of local fiscal capacity. It also adjusts for local variation in the relative importance of the various tax bases.

The second advantage is that a local government's revenue capacity is computed relative to others in the State. This allows comparisons to be made concerning the strength of the revenue capacities of all Virginia's local governments.

Revenue Capacity of Local Governments

Average revenue capacities for the State, cities, and counties are presented in Table 14. In FY 1977, the revenue capacity for a a typical locality was $333.87. That is, a typical local government had the capacity to generate through taxes an average of $333.87 per person to support local services. Excluding counties which have major electrical-generating facilities (and thus have very high capacities due to the assessed value of the public service land), Falls Church ($726.11) had the highest revenue capacity in the State and Scott County ($179.53) had the lowest. A listing of revenue capacity for each city and county government is provided in the appendix.

Table 14

AVERAGE REVENUE CAPACITIES OF LOCAL GOVERNMENTS

	Capacity FY 1977	Adjusted Capacity FY 1981	Actual Increase	Percent Increase
State	$333.87	$483.91	$150.04	45%
Cities	342.43	485.88	143.45	42
Counties	330.18	483.86	153.68	47

Source: JLARC analysis of data published by Department of Taxation, Department of Motor Vehicles, Auditor of Public Accounts, Tayloe Murphy Institute, and Federal Bureau of Economic Analysis.

From FY 1977 to FY 1981, the tax base of Virginia's local governments increased 45 percent to a level of $483.91. This growth rate exceeded the increase in the Government Services Inflation Index, which increased 39.9 percent over the same period of time. The difference between the growth rate and the Government Services Inflation Index indicates that, on average, the tax bases of Virginia's local governments are growing at a rate quicker than the cost of providing government services.

While the high growth in capacity is one indicator of a strong fiscal position, about 40 percent of all local governments were not so fortunate. About half of all cities and a third of all counties had growth which was less than inflation in service costs (Table 15). For these local governments, the result has been an immediate need either to increase revenues through taxation, or to take budgetary action to control expenditures.

Table 15

CAPACITY GROWTH VERSUS COST IN PROVIDING SERVICES
FY 1977 - FY 1981

	Number of Localities With Capacity Growth Above 39.9%	Number of Localities With Capacity Growth Below 39.9%
State	84 (60%)	52 (40%)
Cities	22 (54%)	19 (46%)
Counties	62 (65%)	31 (35%)

Source: JLARC analysis.

City/County Differences. Overall, the tax bases of the counties have been growing at a rate higher than the cities. The capacities of counties have grown about $153.00 per person, compared to the cities' growth of $143.00 per person. Moreover, a greater number of cities have experienced fiscal stress caused by relatively stagnant growth in their tax base. As Table 15 demonstrates, 46 percent of the cities have been faced with the immediate problem of their tax base growth not keeping pace with the cost of providing services. In comparison, 35 percent of the counties have experienced this type of fiscal stress.

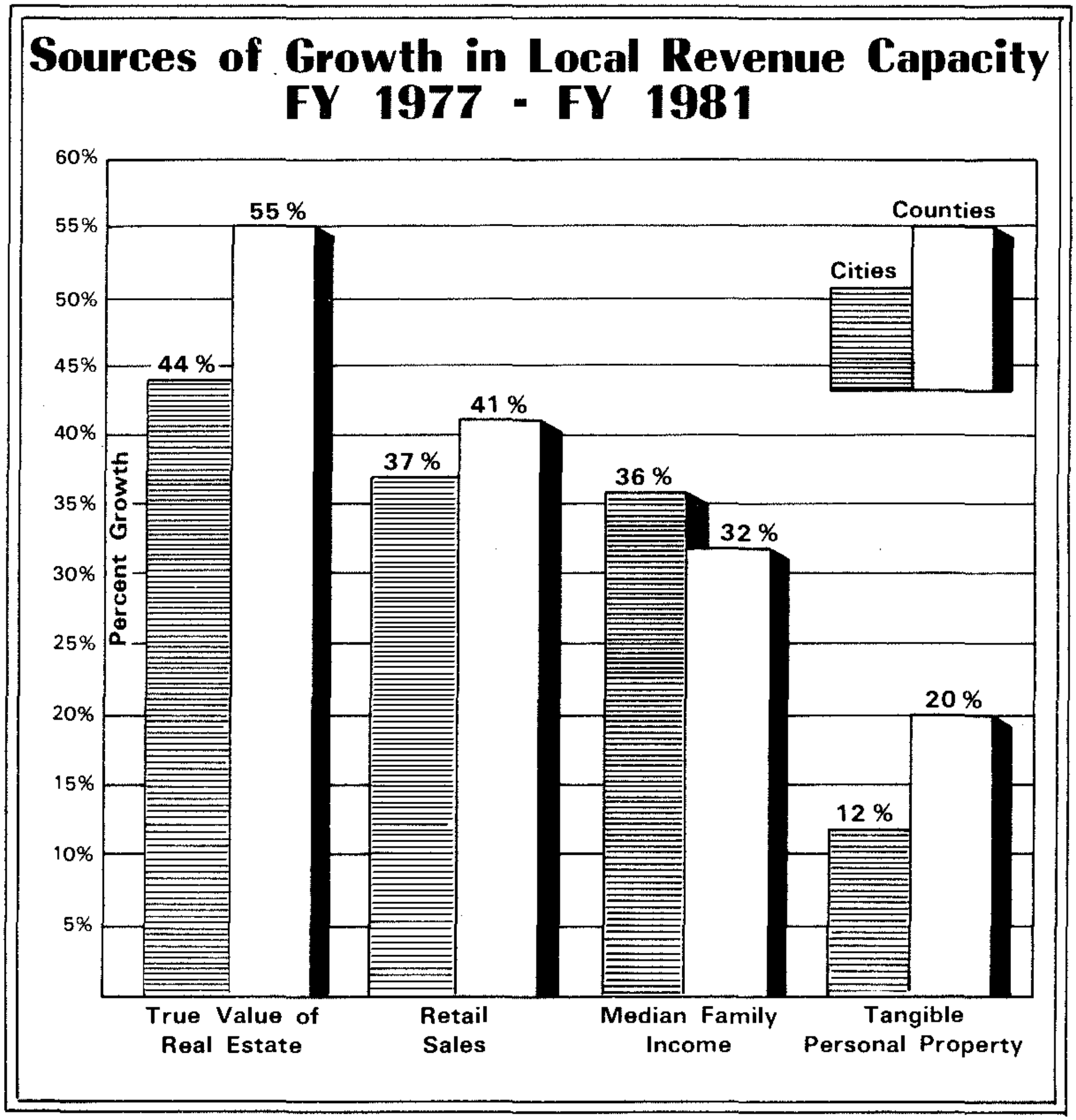
Sources of Growth in Revenue Capacity

Summative measures of revenue capacity mask important differences in where the growth is occurring. Not all components of a locality's tax base can be tapped equally. For that reason, it is important to examine where the growth is occurring in each locality's revenue capacity.

For both cities and counties, growth in real estate values has accounted for much of the growth in the revenue capacity of cities and counties. As Figure 13 shows, the true value of real estate has increased much faster than retail sales, number of motor vehicles (a proxy for value of tangible personal property) and family income.

The disproportionate growth between real estate values and the other components of the tax base presents serious problems for local governments. Property owners' heightened resistence to tax rate increases has made it difficult for local governments to continue to fully tap increases in property values in order to produce revenue increases. In addition, some local officials have been reluctant to

Figure 13



Source: JLARC Analysis of Data Published by Department of Taxation, Division of Motor Vehicles, and Tayloe-Murphy Institute.

fully tap real estate values over the past five years because of the slow growth in family income as well as the increase in unemployment levels.

Many local governments, especially cities, have experienced fiscal stress because their tax bases have not grown significantly over the past five years. Many county governments face a different problem in that much of the growth in their tax base is real estate -- a resource that has become increasingly difficult to tax. Given these problems, local officials have been faced with two primary options: they may act to generate revenues above those which would result from the natural increase in the tax base, or they may act to control or reduce expenditures. The JLARC staff's analysis of fiscal stress was designed to measure the extent to which local governments have taken each option.

TAX EFFORTS OF LOCAL GOVERNMENTS

The first option available to local administrators is to increase revenues by increasing the local government's tax effort. Tax effort refers to the degree to which a local government taxes its available revenue capacity or tax base.

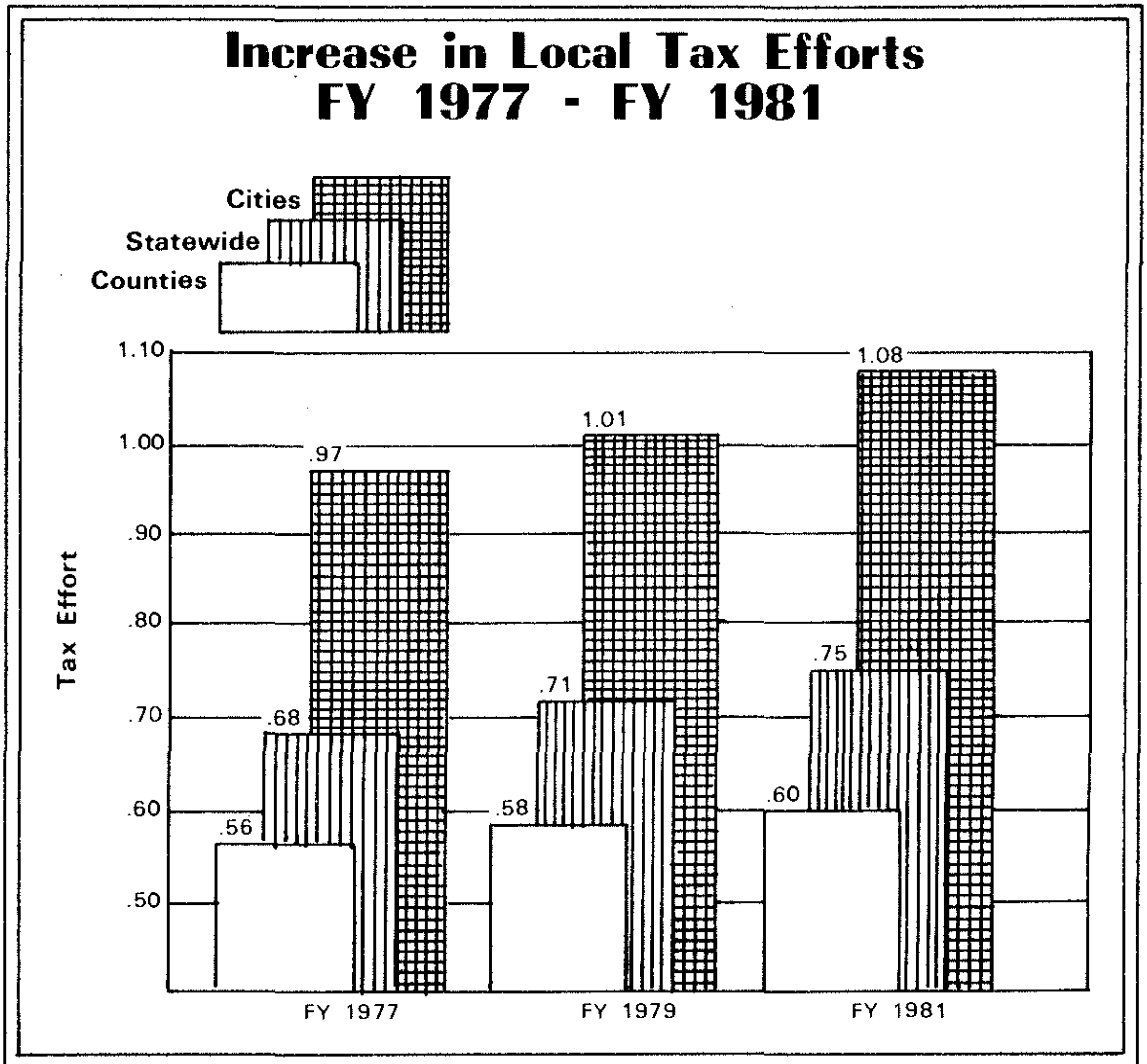
A local government's tax effort is an important indicator of fiscal condition. A very high tax effort indicates that a local government is utilizing a high degree of available revenue capacity to support local operations and services. This is a stressful condition for a local government because it indicates that a locality has few additional tax bases to tap as expenditure demands increase. A large increase in tax effort may also indicate fiscal stress. Localities which have increased their tax efforts dramatically may have also absorbed much of their flexibility to increase local revenues.

The measure used to assess tax effort in this study was developed by the Advisory Commission on Intergovernmental Relations (ACIR). Their index provides an excellent estimation of how heavily a local government taxes its available tax bases. Following ACIR's procedure, a local government's tax effort is equal to its actual local tax revenues divided by its revenue capacity. As with revenue capacity, this measure of tax effort provides a sound basis for examining each locality's tax levels, assessing how tax levels have changed over time, and comparing localities to each other.

Trends in Tax Effort

Virginia's local governments have steadily increased their tax effort in recent years (Figure 14). In FY 1977, the average tax effort was .68. By FY 1981, that statewide average had increased to .75. This condition was true for over 90 percent of Virginia's cities and 77 percent of Virginia's counties. The average increase in tax effort slightly exceeded nine percent. Some localities, however, showed substantial increases. For example, King William tapped 44 percent more of its tax base in FY 1981 than in FY 1977 (.50 to .72), Danville increased its effort by 37 percent (.73 to 1.00), and Hopewell had an increase of 35 percent (1.03 to 1.39). A complete listing of tax effort for each city and county is included in the appendixes.

Figure 14



Source: JLARC Analysis

The increase in tax effort indicates that local governments' revenue collections have grown at a faster rate than their taxable resources. During a period of slow growth in family income and heightened resistance to tax increases, increased local tax effort indicates widespread fiscal stress.

City/County Differences. Cities tax a much higher proportion of their revenue capacity than the majority of counties. In FY 1981, all cities had tax efforts greater than the statewide average. In comparison, only 12 percent of the counties had a tax effort exceeding this level. In addition, the cities have increased their tax effort from FY 1977 to FY 1981 at a rate of 11.5 percent, compared to the counties' increase of 6.6 percent. Thus, not only do city governments utilize their tax bases at a higher level, but they have also dramatically increased this use over time. This strongly indicates that cities have substantially less flexibility to increase revenues through higher taxes than counties.

Use of Taxing Authority

The index of tax effort provides the clearest overall indicator of tax utilization, but more specific examination is needed. Local governments may increase tax effort by adopting new taxes or by increasing effective rates on existing taxes. Part of the JLARC staff analysis was to assess the extent to which local governments have taken each of these actions.

Adoption of New Taxes. The simplest way to examine the use of local taxes is to count the taxes used by each locality. In FY 1977, a typical locality used 8.0 of the 10.3 taxes authorized. Thus, localities in 1977 were using substantially all (78 percent) of their taxing authority at that time. All localities were using the three taxes which produce the largest revenues -- real property, tangible personal property, and retail sales.

By FY 1981, the number of taxes used by a typical locality increased. In 1981, localities used 8.5 of the 10.3 taxes authorized (83 percent). This was true for both cities and counties. The conclusion flows therefore that localities do use most all of their taxing authority at present, and have increased that use in recent years. This information tends to confirm and explain the analysis of the tax effort index, which showed increased local tax effort over time.

Table 16 shows the number of local governments using specific tax instruments in FY 1977 and FY 1983. As the table indicates, almost all cities are using the taxes which constitute the "core" taxing

Table 16

COMPARISON OF LOCAL TAXES LEVIED
FY 1977 - FY 1983

	Cities		Counties	
Tax	FY 1977	FY 1983	FY 1977	FY 1983
Real Property	41	41	95	95
Tangible Personal Property	41	41	95	95
Retail Sales	41	41	95	95
Machinery and Tools	41	41	94	95
BPOL or Merchant's Capital	41	41	86	87
Motor Vehicle License	41	41	80	87
Consumer Utility	36	38	33	50
Utility License	37	37	9	29
Meals/Prepared Food	11	18	--	--
Transient Occupancy	16	21	5	5
Cigarette	15	16	2	2

Source: JLARC analysis of data published by Department of Taxation and Institute of Government.

authority. In addition to real and tangible property taxes and sales taxes, the vast majority of cities are also levying machinery and tools taxes, BPOL or merchant's capital tax, motor vehicle licenses, and consumer utility and utility license taxes. In order for the cities to adopt new taxes, they will have to expand increasingly into the "charter authority" taxes on meals, hotel/motel occupancy, and cigarettes. The number of cities levying these taxes did increase between FY 1977 and FY 1983.

County governments are also utilizing most of the taxes available to them. The exceptions are the consumer utility and utility license taxes. In FY 1983, only 50 county governments used the consumer tax and 29 used the utility license tax. However, these numbers do represent increases from FY 1977, and do indicate that counties are beginning to use more of their secondary tax bases.

Changes in Effective Tax Rates. Another way to look at the use of local taxes is to examine increases or decreases in tax rates over time. Table 17 shows nine principal taxes as well as the number of cities and counties which have increased or decreased each rate.

Table 17

CHANGES IN LOCAL EFFECTIVE TAX RATES
FY 1977 - FY 1983

	Tax Increase			Tax Decrease		
	City	County	Total	City	County	Total
Real Property	12	38	50	29	55	84
Tangible Personal Property	18	57	75	4	16	20
Machinery and Tools	12	51	63	10	20	30
Consumer Utility	11	9	20	3	3	6
BPOL/Merchant's Capital	7	13	20	5	15	20
Vehicle License	16	27	43	1	2	3
Meals	5	-	5	0	-	0
Transient Occupancy	3	0	3	0	-	0
Cigarette	5	-	5	0	-	0

Source: JLARC analysis of data published by Department of Taxation and Institute of Government.

A number of important trends are evident. On seven of the nine taxes, more local governments have increased effective tax rates than have decreased them. Most often, the difference is substantial. For example, from FY 1977 to FY 1983, 75 local governments increased personal property tax rates while only 20 decreased rates. Sixty-three local governments increased the rate on machinery and tools. Thirty decreased rates. The greatest difference was in the use of motor vehicle licenses -- 43 local governments increased the rate, while only 3 decreased it. The information adds detail to the methods localities have used to raise local tax effort.

While tangible personal property tax rates have increased, effective rates for real property have decreased. A total of 50 local governments have increased the true effective tax rates for real property, while 84 have decreased rates. In large part, the decreases reflect local governments' attempts to control the tax burden on property owners and to increase their reliance on non-property taxes.

From 1977 to 1981, the assessed value of real property increased 51 percent. This increase was much greater than either the cost-of-living (39.9 percent) or family income (39.8 percent). Thus, if effective rates had not been reduced, the taxes of property owners would have taken a much larger portion of income in 1981 than in 1977.

Even with the decreases in effective tax rates, local governments are still highly reliant on property tax revenues. From FY 1977 to FY 1981, counties' dependence increased slightly, from 66 to 67 percent of total local revenues. Cities' reliance slightly decreased, from 55 to 52 percent.

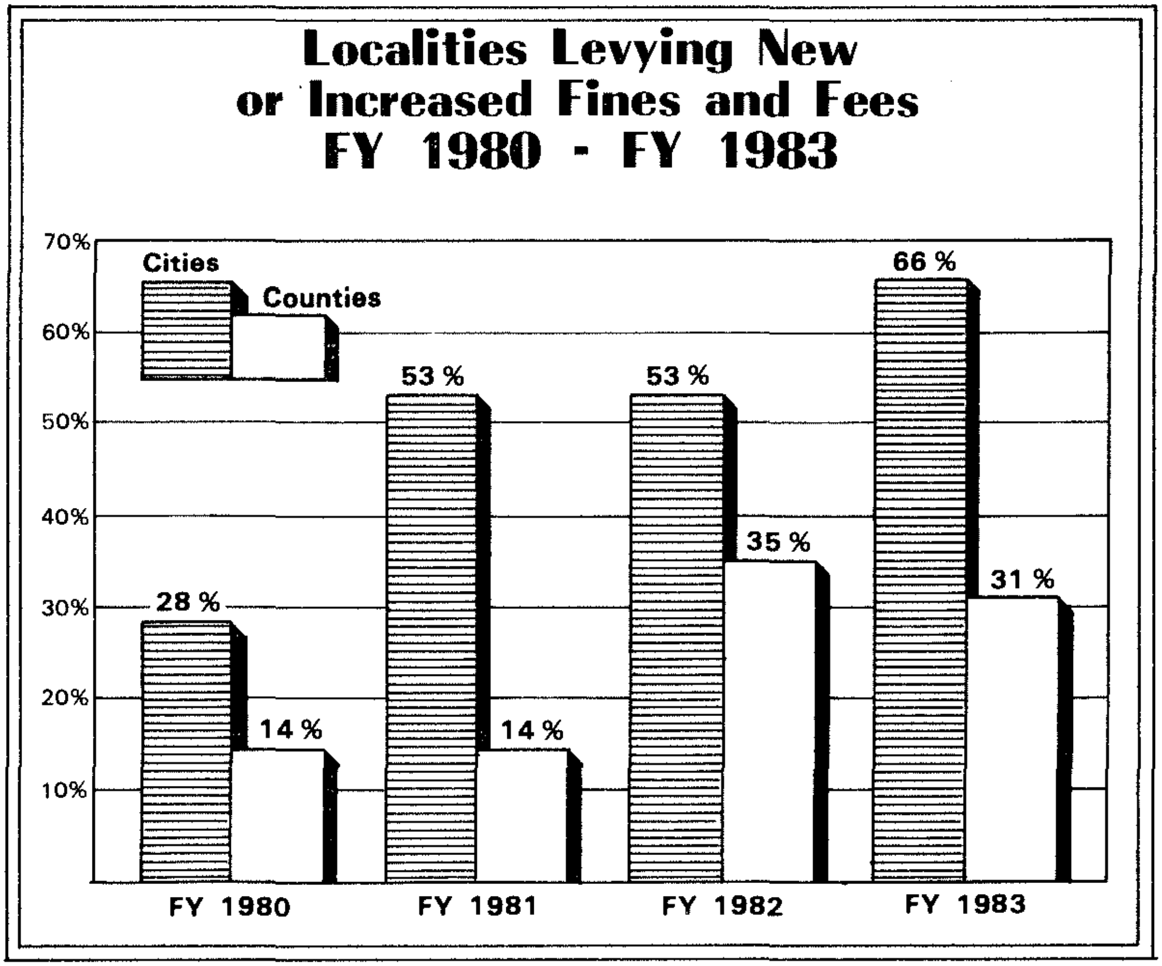
Fines and User Charges. Fines and user fees are another means for local governments to increase revenues. Even though potential revenues from these levies are relatively small, fines and user fees are important because they can help local governments support specific operations and services, by charging service users.

User charges and fines have become more popular as a means to augment local revenues, and local governments have been steadily increasing their use over the past five years. The Auditor of Public Accounts reports that revenues from fines and user charges increased about 1.5 times as fast as local taxes between FY 1981 and FY 1982.

In the survey of cities and counties, local officials were asked to indicate whether they had adopted new fines and fees, or whether they had increased existing fees over the past four years. The survey responses showed that there has been a clear increase in the number of local governments which have adopted new or higher fees over the past four years (Figure 15). This is evident for both cities and counties, although a higher proportion of cities have pursued this option. In FY 1983, 66 percent of cities adopted or increased fines and fees, compared to 31 percent of counties.

The analysis of local taxes shows clearly that localities have taken significant actions to increase local revenues. Local governments have adopted new taxes and fees, and have increased rates on existing taxes and fees. As a result, over 80 percent of Virginia's cities and counties increased their tax effort between FY 1977 and FY 1981. This strongly points to signs of fiscal stress among localities.

Figure 15



Source: JLARC Survey of Cities and Counties

ACTIONS TO CONTROL EXPENDITURES

The second option available to local governments is to take actions to control expenditure growth. This can occur in many ways. When faced with inadequate revenues, local governments may decide to reduce fringe benefits, salaries, or the number of employees. They may also eliminate personnel positions through attrition, or freeze job vacancies. Local governments may also defer spending on capital outlays for equipment or facilities, or defer maintenance on existing equipment and facilities.

A pattern of widespread budgetary actions is an indication of fiscal stress. While individual actions show movement toward local government efficiency and cost-effectiveness, numerous actions over a long period of time are likely to have a serious impact on service levels, condition of capital facilities, and the stability of local government workforce.

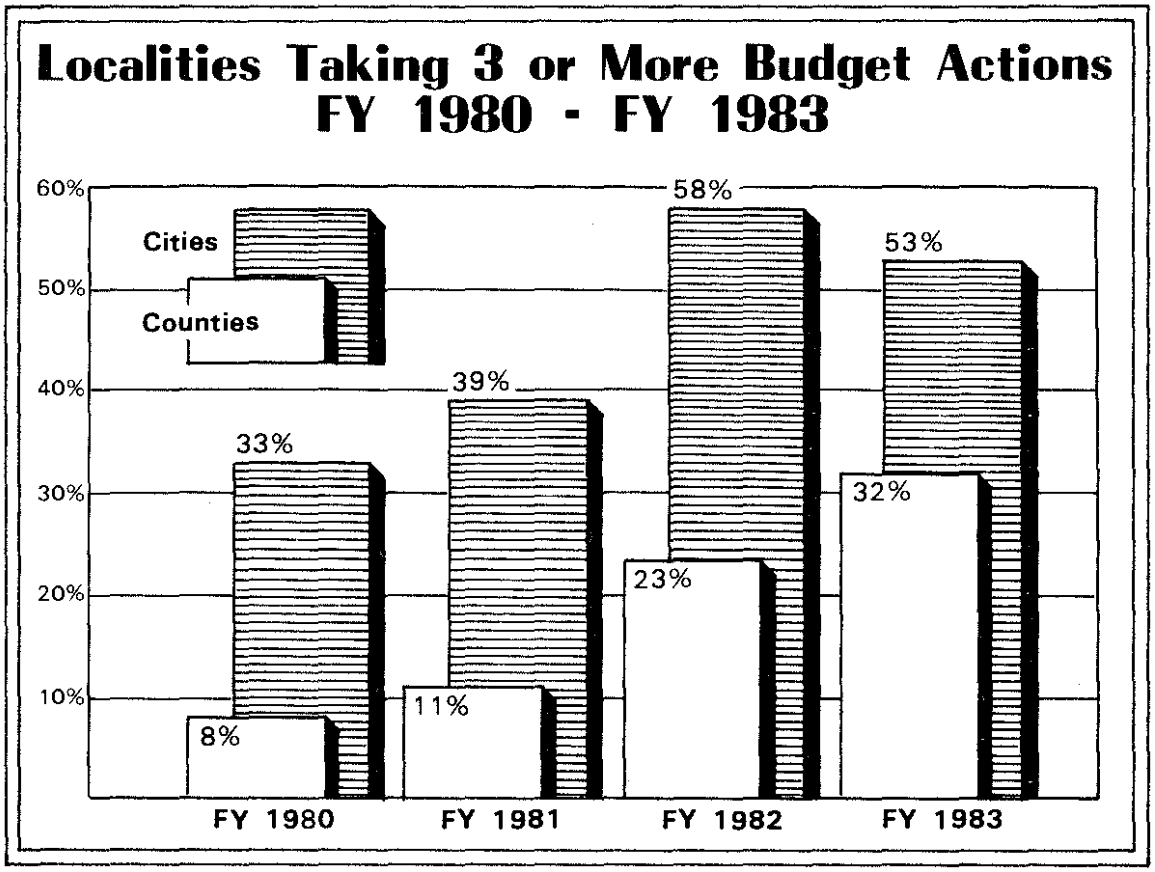
The JLARC survey asked local officials to cite the number and types of budget actions they had taken during each of the past four fiscal years. The responses showed that local governments have been taking an increasing number of budget actions to control or reduce spending.

Frequency of Budget Actions

Figure 16 shows the percentage of local governments which have taken three or more budget actions over the past four years. This level of action was chosen to isolate localities which have taken frequent or widespread budget actions in recent years. A listing of the number of actions taken by each city and county is included in the appendix.

The number of local governments which have taken three or more budget actions increased slightly from FY 1980 to FY 1983. In FY 1980, 33 percent of cities found it necessary to take widespread actions. By FY 1983, over half the cities took three or more actions. Counties have also shown a rapid increase. Only 8 percent of the counties initiated three or more budgetary actions in FY 1980, but in

Figure 16



Source: JLARC Survey of Cities and Counties

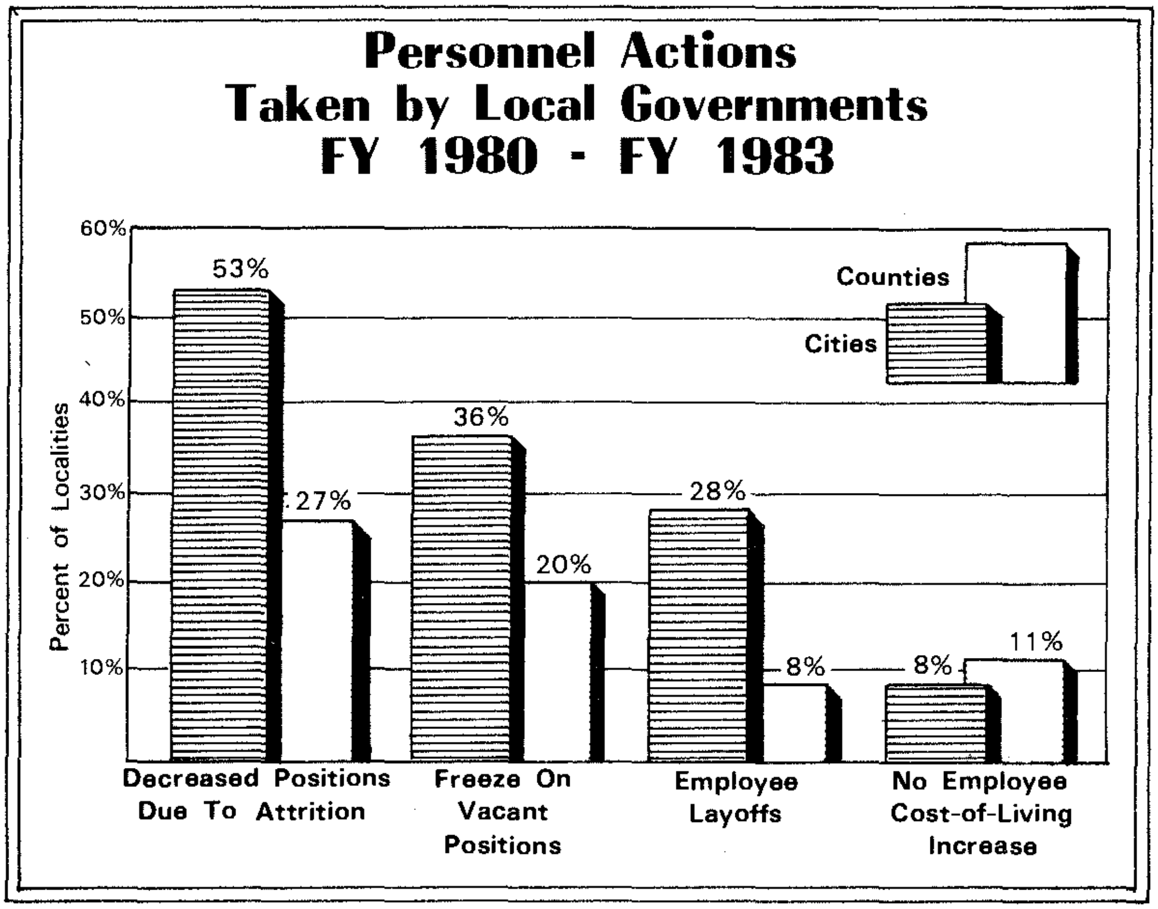
FY 1983, 32 percent took this level of actions. This indicates both a response to increasing levels of stress and an extensive effort by local governments to alleviate it.

<u>Type of Budget Actions</u>

The specific types of budget actions taken by local governments is also important. Figures 17 and 18 show the percentage of local governments which have taken specific actions at least twice over the past four years. The threshold of two was selected to highlight a consistent pattern of actions on the part of a local government, rather than an isolated action during a single year.

Personnel Actions. Local governments have taken a range of personnel levels actions in recent years. Fifty-three percent of the cities and 27 percent of the counties decreased personnel positions through attrition (Figure 17). Many cities also found it necessary to freeze vacant positions or lay off employees.

Figure 17

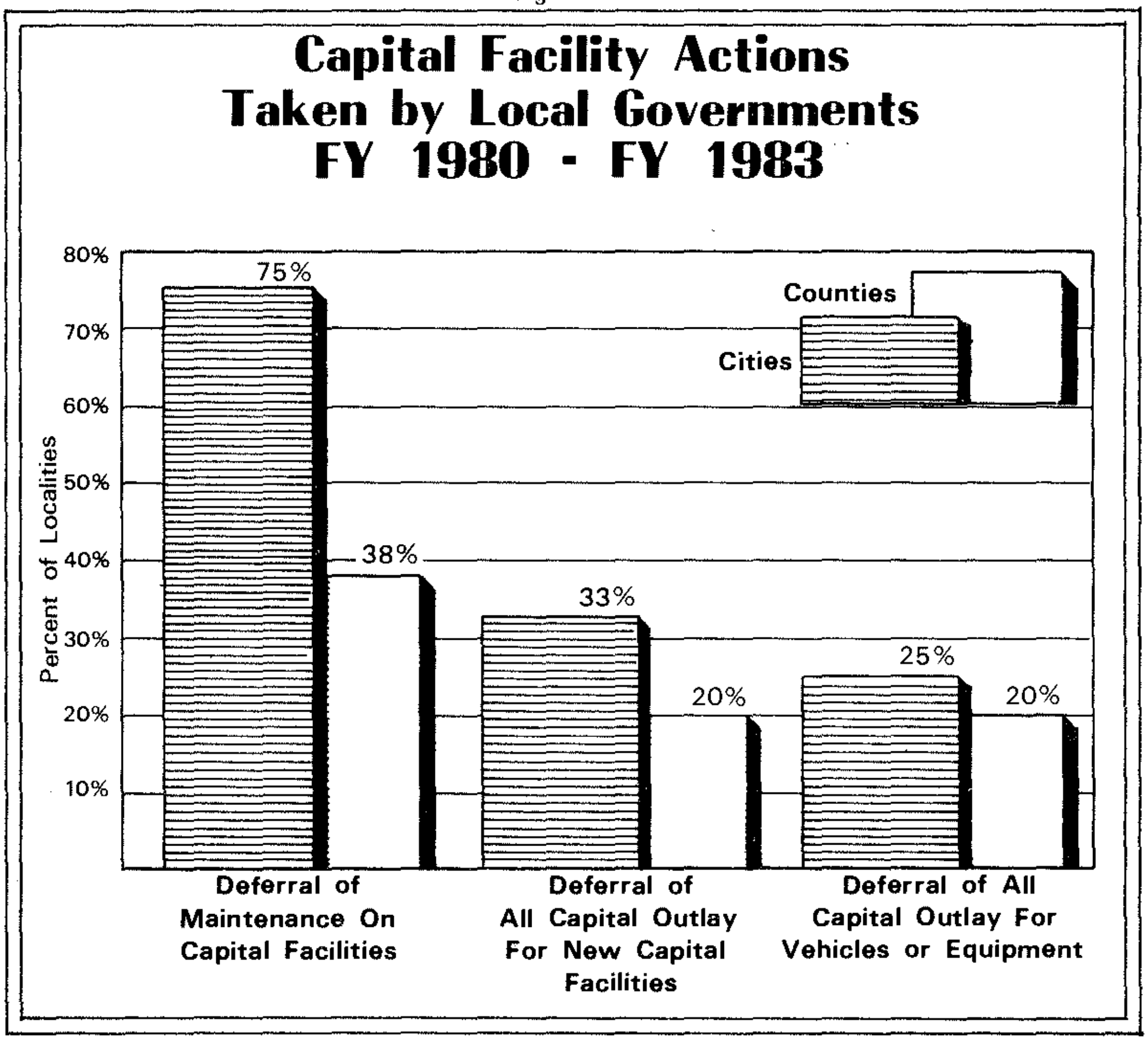


Source: JLARC Survey of Cities and Counties

There are costs attached to the these actions. Reduction in personnel levels can result in a decreased level of services. For example, Newport News found it necessary to lay off employees in the city's Public Works Department over the last two fiscal years. According to the city manager, estimated savings attributable to these actions was $750,000. Nevertheless, the level of services in refuse collection and disposal had to be decreased.

Deferral of Spending. Many local governments have also found it necessary to defer maintenance on all capital facilities, or have delayed spending for new facilities or equipment. For example, 75 percent of cities and 38 percent of counties found it necessary to defer all maintenance of capital facilities during at least two of the past four fiscal years (Figure 18). A third of cities and a fifth of counties deferred spending at least twice on all new capital facilities. And, a fourth of cities and a fifth of counties deferred spending for vehicles or equipment.

Figure 18



Source: JLARC Survey of Cities and Counties

While these actions do help the local governments meet immediate financial needs, deferral of capital spending or maintenance has long-term consequences for operations and services. Capital needs cannot be postponed indefinitely, and may have to be met at a time when infrastructure costs are much greater. For example, the administrator of Lee County noted, "We are in desperate need of funds to build schools. We have two elementary schools, one built in 1911 and one in 1912, which are in dilapidated condition." The Charles City administrator echoed the same theme -- "Capital needs have gone untouched in the school system because of operating needs."

Summary. Local governments have taken significant action to control or reduce spending. They have taken a number of steps to reduce personnel levels and have deferred spending on capital facilities and maintenance. The increasing trend of these actions again suggests a pattern of widespread fiscal stress.

LEVELS OF STRESS AMONG VIRGINIA'S LOCAL GOVERNMENTS

As a group, local governments do show clear symptoms of fiscal stress -- stagnant growth in revenue capacity and personal income, high or increasing tax effort, and an increasing number of budgetary actions to control expenditures. The large number of local governments with distinct indications of stress, as well as the wide variety of local fiscal problems, supports a general finding that legislative action to address fiscal stress is warranted.

There is, however, significant variation in the levels of stress experienced by local governments. Some local governments have high levels of stress on most of the indicators of fiscal position, while others show relatively low levels of stress on the indicators. Overall, the majority of cities show a higher level of fiscal stress than counties.

Computation of Composite Stress Index

Measures of revenue capacity, tax effort and resident income provide the most reliable indicators of a local government's fiscal position. Using these measures, five key symptoms of fiscal stress may be identified:

- low revenue capacity or tax base
- low growth in tax base
- high tax effort
- high increase in tax effort
- low resident income

None of these measures viewed alone is an adequate indicator of fiscal position. However, a local government which shows a pattern of stress across all the indicators may be considered to have a poor fiscal condition. A "composite stress index" can be computed to identify those local governments which have high levels of stress across each of the separate indicators.

JLARC staff explored a number of ways of combining the primary stress indicators. Although there was some variation in results, the overall rankings did not shift markedly. Each computation involved two steps. First, each local government was assigned a "relative stress index" for each of primary stress indicators -- level of revenue capacity, change in capacity (1977-81), level of tax effort, change in tax effort (1977-81), and resident income (a measure based on poverty, family income, and change in income). In the second step, the five "relative stress indexes" were combined to compute a composite stress index for each local government.

In the first step, each local government was assigned a "relative stress index", ranging from 1 (very low stress) to 8 (very high stress) on each of the five indicators of fiscal position. The index assigned to a local government was dependent on the distance of its raw score (in standard deviations) from the statewide average for that indicator. For example, Charlottesville's tax effort in 1977 (1.13) was much greater than the State average of .68. Thus, Charlottesville received an '8' on the relative stress index for level of tax effort. In comparison, Floyd County's tax effort of .36 was far below the State average. Floyd County's relative stress index of '1' indicates a low level of stress on this specific measure.

Each local government had five separate relative stress indices. These indices together reflect the strengths and weaknesses in the fiscal position of each local government.

The second step involved adding the relative stress indices to compute a "composite stress index." The "change in revenue capacity" and "level of tax effort" indicators were given added weight in the composite because of their importance in assessing fiscal position. A local government with a low growth in its tax base faces the immediate stress of having to increase revenues through taxation or having to cut operation or service expenditures. The level of tax effort was weighted more heavily because a local government with high tax effort has little flexibility to increase revenues by raising taxes.

The composite stress index used in this study represents a credible and considered way to compute a single indicator of relative fiscal stress among local governments. It is important to note, however, that there are other methods which may be used to compute an overall stress index. As indicated earlier, JLARC staff found a high degree of convergence between the measure presented here and others examined in its analysis. Those local governments which were found to be highly stressed on the "composite stress index" used in this analysis were also identified as being stressed using other methods.

The JLARC study used the true value of real estate in its revenue capacity computations. These computations, therefore, do not take into account the reduced real estate tax base of some localities due to their participation in the State's land use assessment program. For Loudoun County, for example, the use of these reduced assessments lowers revenue capacity from $652.68 to $567.20, and could slightly shift the relative stress position of the county. Modest shifts could also occur for other localities participating in the program.

It should be noted, however, that levels of service provided to these lands are low. Since the land use program is a local option, JLARC used true value of real estate figures in order to treat all localities on an equal basis. If the General Assembly determines that capacity measures should reflect participation in the land use program, however, these adjustments can readily be made.

City/County Differences in Fiscal Position

It is important to emphasize that the composite stress index is a relative measure. It accurately identifies those local governments which are experiencing a high level of fiscal stress on a large number of indicators compared to other local governments in the State.

Figure 19 presents composite stress scores for all local governments. Local governments with a score one standard deviation above the State average of 31.87 are viewed as having a poor fiscal condition. Conversely, those with a score one standard deviation below 31.87 are considered to have a relatively good fiscal position. Local governments with a composite stress index close to 31.87 have average fiscal positions compared to others in the State.

Figure 19 shows wide variation in the relative fiscal position of Virginia's local governments. Scores ranged from a low of 12.75 for Rappahannock to a high of 46.75 for Hopewell. This index demonstrates that Hopewell has high levels of stress on all the indicators of fiscal position, while Rappahannock has relatively low levels of stress on the indicators.

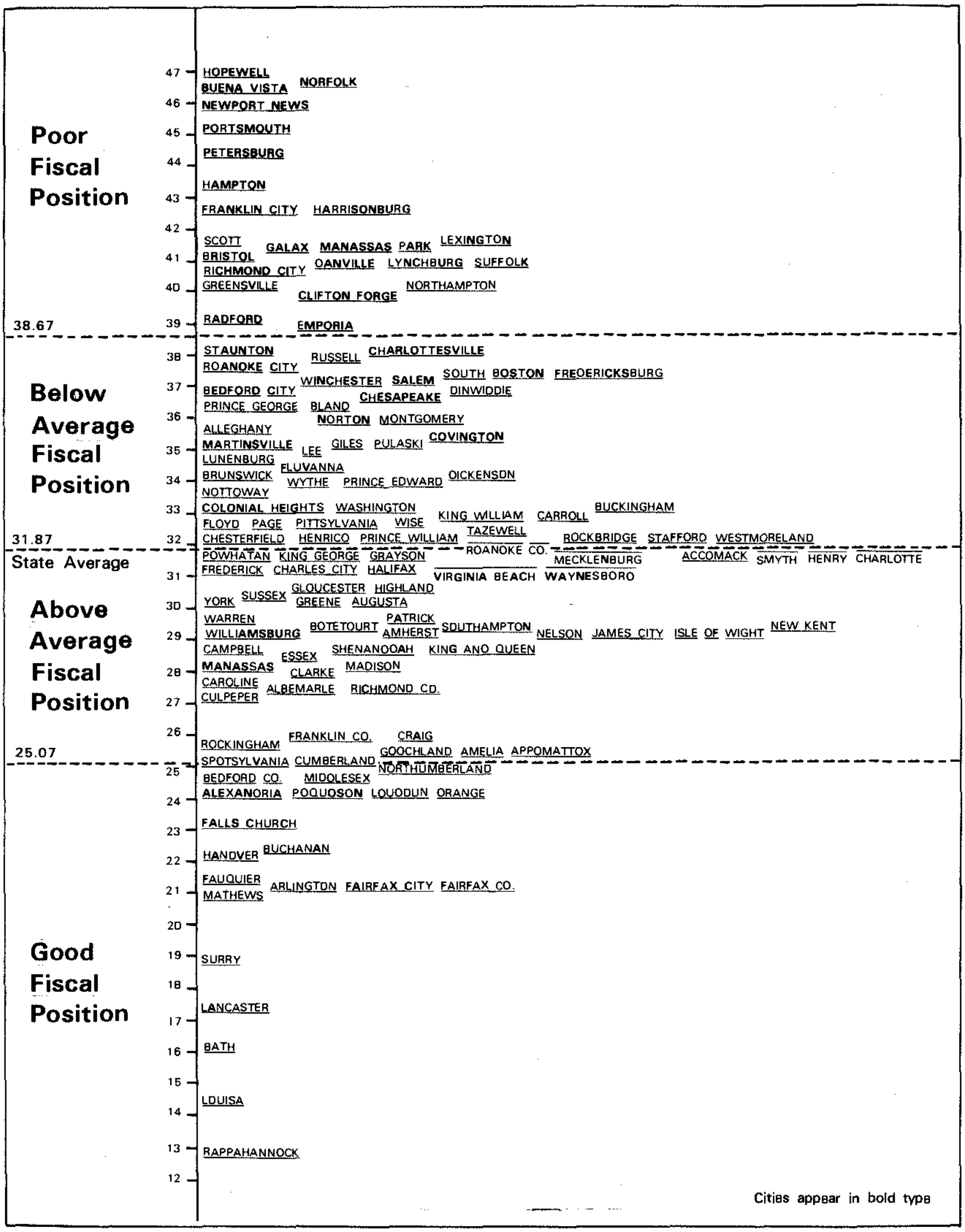
Cities, as a group, show more signs of fiscal stress than counties. This is confirmed on the composite stress index -- cities have an average score of 37.40, significantly higher than the county average of 29.47.

More city governments also have a "poor" fiscal condition than counties. Of the twenty-four local governments which have a composite stress score over 38.57 (one standard deviation above the State average), 90 percent were cities. For example, the cities of Hopewell, Norfolk, Buena Vista, Newport News, Portsmouth, Petersburg, Hampton, Harrisonburg, and Franklin have the highest levels of relative stress in the State. Only four cities (Fairfax, Falls Church, Alexan-

Figure 19

Scores On The Composite Stress Index

City/County Differences



Source: JLARC Analysis

dria, and Poquoson) may be considered to have good fiscal positions in comparison to other Virginia localities.

The financial problems of counties have not been as extensive as cities. Of the 95 counties, only Scott, Greensville, and Northampton have poor fiscal conditions. Most of the counties (62 percent) have average to relatively good fiscal positions.

CONCLUSION

Local governments have experienced increasing financial stress over the past five years. The pressures caused by two regional and national recessions, reduced federal aid to localities, and taxpayer unwillingness or inability to support local tax increases have been significant.

In response to these pressures, local governments have taken many of the actions available to them. Despite political stress, they have increased existing taxes and fees or adopted new ones. Over 83 percent of cities and over 71 percent of counties had a higher overall tax effort in FY 1981 than in FY 1977. Local governments have also taken significant actions to control spending. Chief among these have been deferral of maintenance and capital outlays, and reduction in personnel positions through attrition.

The levels of stress affecting local governments are not uniform. Some localities show few signs of financial difficulty while others are stressed more seriously. On almost any dimension of comparison, cities of all types are more stressed than counties. Nevertheless, there are few local governments which are not stressed to some degree. The levels of stress experienced by local governments are sufficient to warrant legislative action.

V. MAJOR STRESSES FACING DIFFERENT TYPES OF LOCALITIES

Up to this point, the analysis of fiscal stress has focused on aggregate levels and trends for cities and counties. The analysis showed that cities and counties have increased their tax effort and have taken significant actions to control spending, in response to the financial pressures evident in recent years. Analyzing counties and cities at this level of detail, however, masks many important distinctions among counties and among cities. Some types of local governments are burdened by a weak tax base, while others are stressed by a high tax effort. Still others experience fiscal stress caused by high levels of poverty among local citizens.

To examine the characteristics of stressed localities more closely, JLARC staff grouped all localities into clusters. Clusters were formed on the basis of fundamental characteristics of localities, such as population, population density, and size of tax base. Examination of each cluster allowed an analysis of the different types of fiscal stress experienced by different types of local governments.

Clustering Virginia's Local Governments

Clustering relies on segregating similar localities into groups, based on characteristics which affect or influence their fiscal position. In selecting these characteristics and in clustering, a number of qualitative and quantitative techniques were examined, tested, and discarded. The clusters which evolved from this process represent reasonably homogeneous groupings.

Virginia's 136 local governments were divided into ten clusters. Cities were divided into three clusters, based on size and proximity to metropolitan areas:

Cluster One: Large Cities
Cluster Two: Small Cities in Rural Areas
Cluster Three: Small Cities in Metropolitan Areas

As a group, counties are more diverse than cities. They were therefore divided into seven clusters. Two of the clusters were comprised of growing counties which are providing or beginning to provide "urban" services to their residents:

Cluster Four: Urbanizing Counties
Cluster Five: Suburbanizing Counties

Four of the clusters consisted of small counties with low population density and high poverty. Because it was difficult to make clear distinctions between these rural counties, clustering was based on population growth and size of the tax base:

Cluster Six: High Growth, Moderate Capacity Counties
Cluster Seven: High Growth, Low Capacity Counties
Cluster Eight: Low Growth, Low Capacity Counties
Cluster Nine: Low Growth, Moderate Capacity Counties

The final cluster consisted of three localities whose financial condition is dominated by the existence of Virginia Electric and Power Company plants.

Cluster Ten: Counties with Major Power Facilities

Despite attempts to group all localities, some localities did not fit the pattern of characteristics found in any of the ten clusters. These "outliers" were grouped together with the localities they most closely resemble, but have not been included in aggregate analyses for the cluster.

FISCAL POSITION OF LOCAL GOVERNMENT CLUSTERS

Once the localities were grouped into clusters, the fiscal position of each cluster was examined using the key indicators of fiscal condition -- revenue capacity and tax effort. Other indicators were also examined, including budget actions to control spending, dependence on property taxes, debt, poverty levels, and resident income. This analysis yielded a balanced view of the types of stresses facing different types of local governments.

Cluster One: Large Cities

Cluster One contains Virginia's large cities. Their populations average over 100,000, and range from 40,000 (Charlottesville) to over 260,000 (Norfolk). Most of the large cities have experienced a decline in population, with upper-income persons moving to adjoining counties. Nevertheless, large cities have the highest population densities among Virginia's localities (2900 people per square mile).

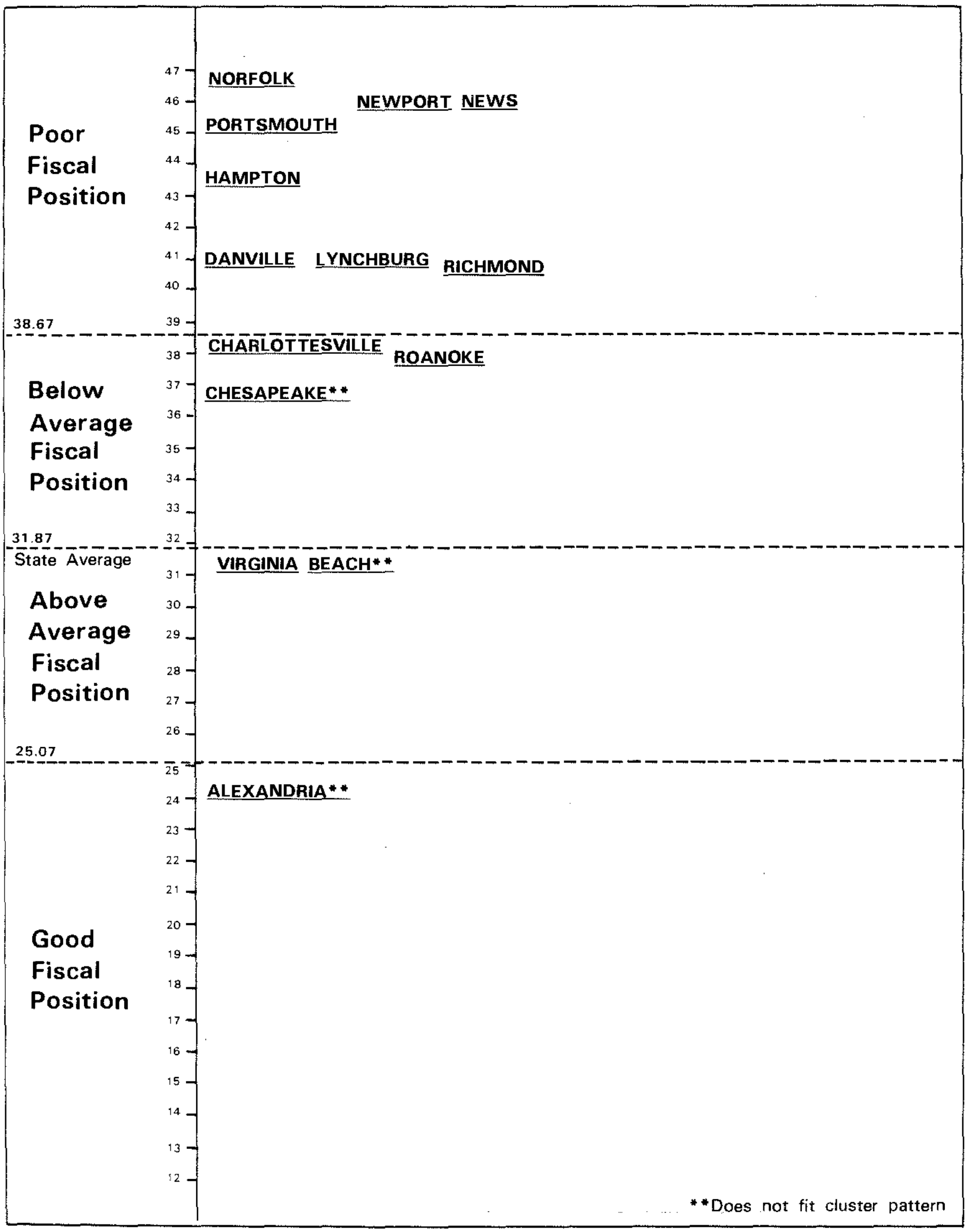
Large cities are among the most fiscally stressed localities in the State. Ten of the eleven members have very high levels of stress, as measured by the composite stress index (Figure 20). As a group, the large cities are the only cluster to have above-average levels of stress on all the key indicators of fiscal condition. They have moderately weak tax bases, very high and increasing tax efforts, and high concentrations of poverty.

Revenue Capacity. Aside from Alexandria, which has a very high revenue capacity, the large cities have average or moderately low tax bases. In FY 1977, the large cities as a group had a revenue capacity of $285.50 per person, compared to the State median of $318.90

Figure 20

Scores On The Composite Stress Index

Cluster 1: Large Cities



Source: JLARC Analysis

(Table 18). This indicates that these local governments have a below-average ability to support services. This has been a major cause of stress, because it has been necessary for the large cities to provide a full range of urban services for many years.

Table 18

KEY CHARACTERISTICS OF CLUSTER 1

Cluster	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Large Cities	$285.50	$82.70	1.19	+.08	16.3%	17.0
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

The growth in the large cities' tax bases has been below the statewide median. Except for Alexandria, the slow rate of growth has been a significant cause of the cities' fiscal problems, and has resulted in widespread and frequent actions to raise additional revenues or to cut expenditures in order to maintain levels of operation and services.

Income of Population. For most cities in Cluster 1, income levels in 1977 ranged from moderately low ($14,357 in Danville) to moderately high (16,997 in Hampton). Overall, 16.3 percent of the citizens in the large cities have incomes below the poverty level. Relatively low income levels and relatively high poverty levels have acted as a drag on these cities' capacity to produce local revenues.

Tax Effort. The large cities tap their available tax bases at a much higher proportion than any of the other clusters. The tax effort for large cities is twice the statewide median. Moreover, ten of the eleven large cities increased their tax efforts from FY 1977 to FY 1981. This is especially significant since large cities were already at very high tax effort levels in FY 1977.

High and increasing tax effort is one of the most serious fiscal stresses facing the large cities. It also differentiates them clearly from the other clusters. This high use of their tax bases has limited the range of options available for increasing local revenues. It indicates that large cities will find it increasingly difficult to raise additional revenues through higher taxes. Because the large cities' level of debt is also high, their flexibility to generate revenues through debt financing is further restricted.

Budget Actions. The large cities have taken extensive budget actions to help themselves maintain a stable fiscal position. The large cities in Cluster 1 have taken more budget actions to control expenditures than any other cluster. From FY 1980 to FY 1983, over 90 percent of large cities took two or more actions each year. The most common actions taken by the large cities were reductions in the number of personnel positions through attrition, freezes on personnel vacancies, increases in fines or fees, and deferral of maintenance on capital facilities. By themselves, these budget actions could be interpreted as signs of efficiency or preference. However, the widespread use of these actions over time indicates a high level of budgetary stress.

Cluster Outliers. Two large cities do not fit the patterns described. Virginia Beach and Chesapeake differ from other large cities in that their population densities are relatively low and growth in population is high. Although Cheseapeake does show above-average levels of stress on many indicators, Virginia Beach has a good fiscal condition. Virginia Beach's revenue capacity is strong. Moreover, the local government has maintained a moderately low tax effort over time, and has taken fewer budget actions than most other large cities.

Cluster 2: Small Cities in Rural Areas

Many of Virginia's small cities are located in rural areas. These cities form Cluster 2. They range in size from 4600 (Norton) to 22,000 (Staunton), and have the lowest population densities of the three city clusters. In general, their populations are stable, although 10 of the 17 cities in the cluster experienced slight population decreases between FY 1977 and FY 1981.

The small cities in rural areas show more indications of fiscal stress than all other clusters except the large cities. All but one of the rural cities have above-average levels of stress; nine of the local governments have especially high levels (Figure 21).

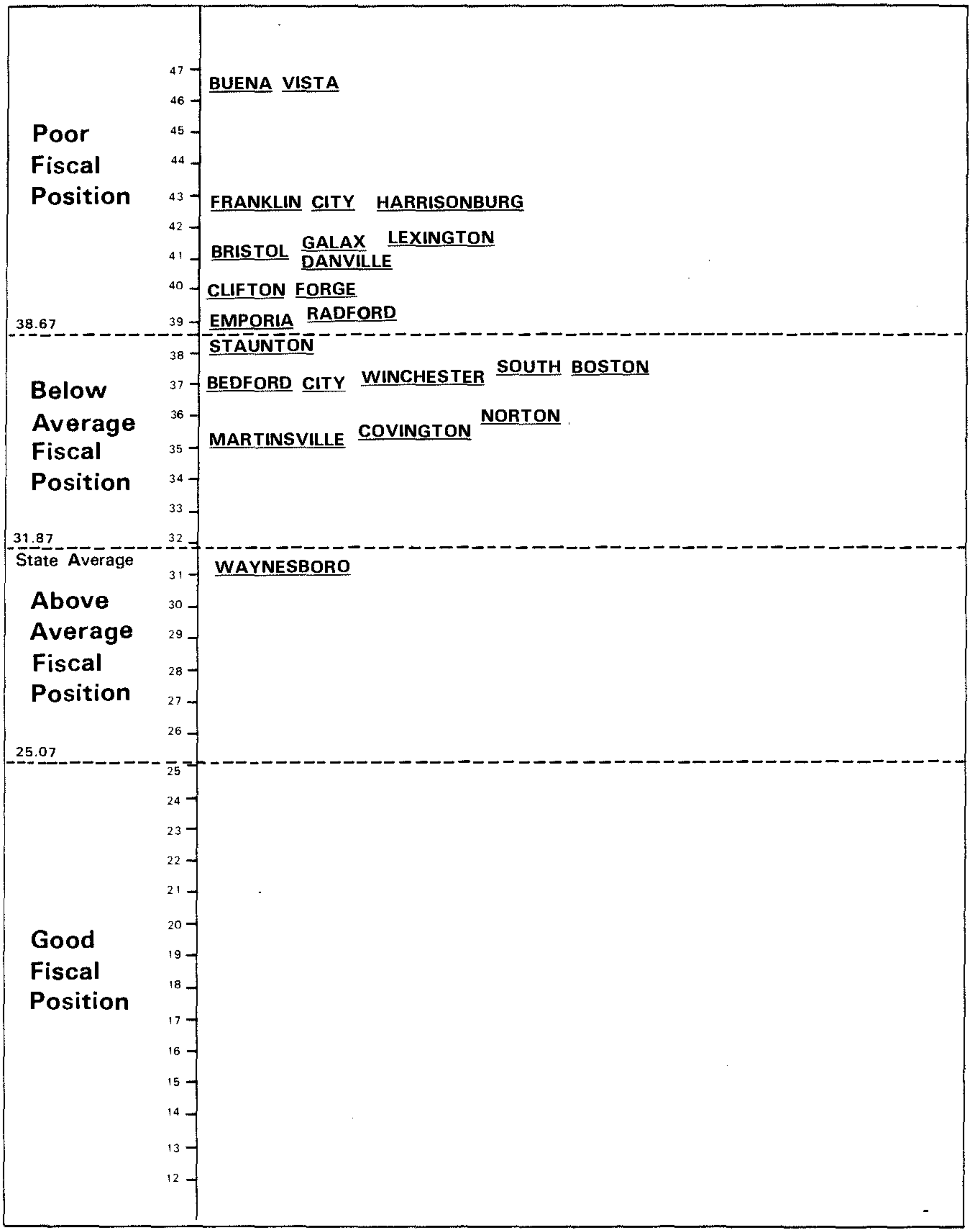
One cause of fiscal stress is the relatively low revenue capacities of the rural cities. While the tax bases of these localities are not growing quickly, the rural cities continue to be primary commercial centers for their areas. They have therefore been forced to maintain a full range of urban services. In part, this has resulted in large increases in local tax efforts.

Revenue Capacity. The rural cities tend to have average to below-average abilities to support local services. In FY 1977, the median revenue capacity for the cluster was $331.00 per person (Table 19). However, the rate of growth in the tax bases of the rural cities has been low. While the statewide median growth in capacity was $89.60 per person, the capacity of rural cities grew $82.10 per person. Tax base growth in Buena Vista ($46), Clifton Forge ($56) and Radford ($56) was especially weak. This indicates that the ability of the rural cities to fund necessary services has not kept pace with other local governments in the State.

Figure 21

Scores On The Composite Stress Index

Cluster 2: Rural Cities



Source: JLARC Analysis

Table 19

KEY CHARACTERISTICS OF CLUSTER 2

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Small Cities in Rural Areas	$331.30	$82.10	.80	+.16	15.2%	10.0
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

Income of Population. In addition to a moderately weak tax base, the median family income of persons residing in the rural cities is below the statewide median. Resident income is also growing at a rate much slower than in other localities across the State. The State's median family income grew almost $6,000 per family from 1977 to 1981. However, income increases in Bristol ($4,167), Galax ($4,628), Emporia ($4,138), and Martinsville ($4,871) were very small. The level of poverty for cities in this cluster is also above the State median. Localities such as Franklin (22.1 percent), Norton (18.8 percent), and Lexington (18.5 percent) have a very high proportion of poor residents.

Tax Effort. In FY 1977, all of the rural cities tapped a high degree of their tax bases in order to raise sufficient revenues to support services. The majority of these cities had efforts which were moderately high or very high by State standards.

The rural cities dramatically increased their tax efforts from FY 1977 to FY 1981. Their median increase of +.13 was the highest among the ten clusters. The cities of Harrisonburg, Galax, and Buena Vista showed increases among the highest in the State. These increases in tax efforts indicate that the rural cities have found it necessary to tap a significantly greater portion of their available tax bases over the past five years to provide services.

Budget Actions. Rural cities have also found it necessary to take many diverse actions to control spending. The frequency and pattern of budget actions used by rural cities have been similar to those of the large cities and indicate a significant effort to control fiscal stress.

The most serious expenditure control used by the rural cities has been to defer maintenance of their capital plants. About 75 percent of the 16 local governments in the cluster have been forced to defer maintenance of capital facilities during three of the last four years. This particular action has important implications for the future fiscal health of the small cities. Continued deferral of maintenance will likely lead to increased expenditure demands in future years.

Cluster Three: Small Cities in Metropolitan Areas

Each city in Cluster 3 is located in one of the State's eight Standard Metropolitan Statistical Areas (SMSAs). Geographically, all but one (Salem) are located along the eastern urban corridor. The cities in this cluster are small, but are densely populated. They range in size from 6400 persons (Manassas Park) to 24,000 (Salem). Poquoson is the least densely populated, with about 850 people per square mile, while Falls Church is the most densely populated (4750 per square mile).

There is more variation between local governments in this cluster than in any other cluster. Half of the cities within this cluster have above-average levels of stress, while the other half appear to be in relatively good fiscal condition (Figure 22). The differences in condition stem from disparate tax bases. The "stressed" metropolitan cities--Hopewell, Manassas Park, Fredericksburg, Salem, and Colonial Heights--tend to have moderate tax bases which have not grown at rates consistent with the State median. One result is that these local governments have had to greatly increase their tax efforts from levels which were already high.

In comparison, other metropolitan cities--Manassas, Williamsburg, Fairfax, Falls Church, and Poquoson--have been able to avoid the fiscal stress observed in most cities. The large growth in tax bases witnessed in these localities has allowed local governments to maintain stable tax efforts.

Revenue Capacity. The revenue capacities of the small metropolitan cities vary from very weak to very strong. The median capacity for this cluster in FY 1977 was $378.40 per person, well above the State median of $318.90 (Table 20). Important differences are evident. Hopewell and Manassas Park have weak tax bases and a below-average ability to support local services. For example, Hopewell had a tax base of $300.00 in FY 1977, which grew only $59.00 between FY 1977 and FY 1981. The level of growth in the revenue capacities of Salem, Colonial Heights, and Fredricksburg is somewhat higher than State averages.

Table 20

KEY CHARACTERISTICS OF CLUSTER 3

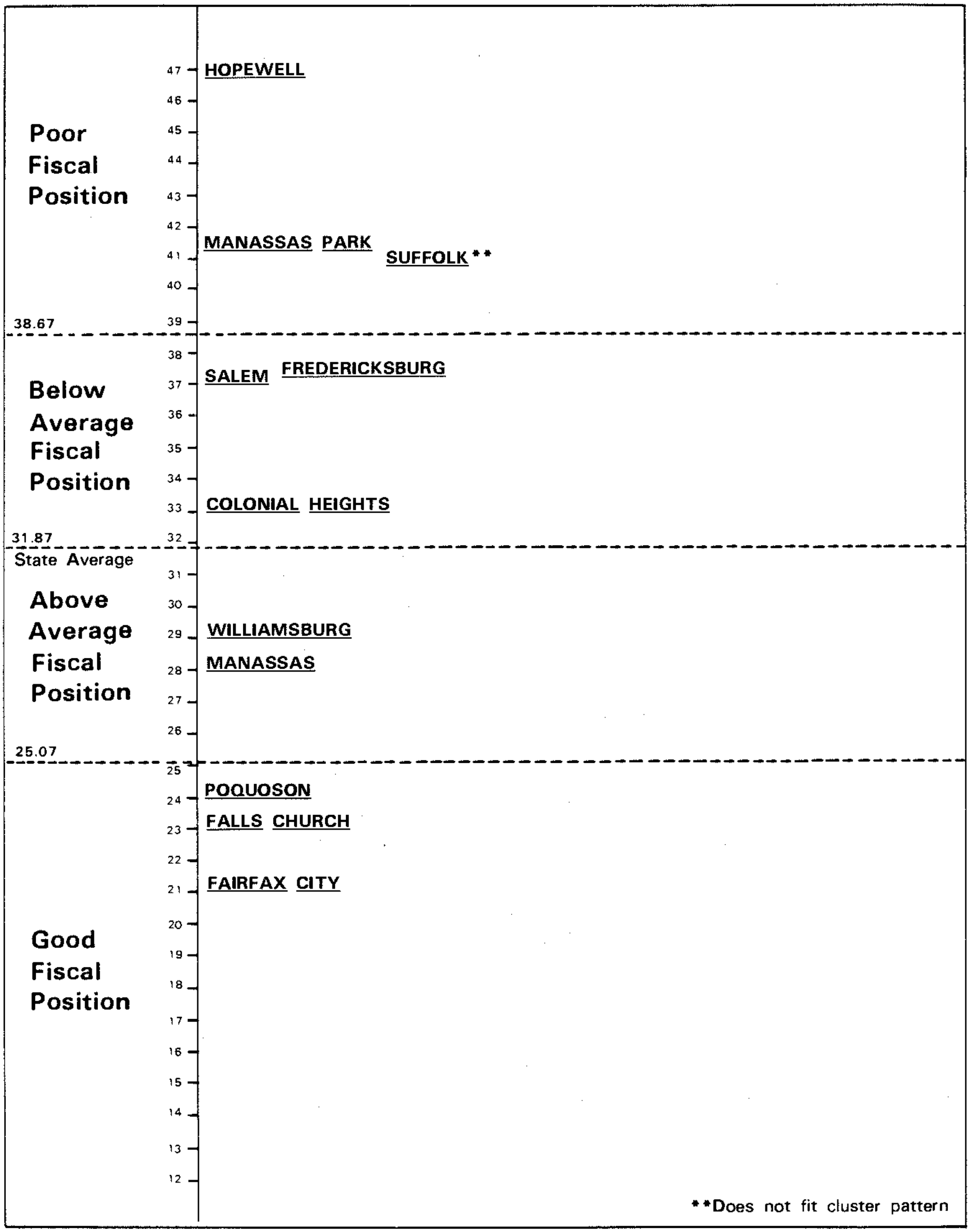
	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Small Cities in Metropolitan Areas	$378.40	$106.40	.95	+.11	7.9%	10.5
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

Figure 22

Scores On The Composite Stress Index

Cluster 3: Metropolitan Cities



Source: JLARC Analysis

In comparison, the other localities in Cluster 3 have the ability to support service demands more comfortably than the majority of other cities and counties. Williamsburg, Fairfax, Falls Church, and Manassas have among the strongest tax bases in the State. Each has also shown average to very high growth in capacity over the past five years. Poquoson had a weak tax base in FY 1977, but subsequent growth ($126) has been very high.

Income of Population. Localities in Cluster 3 have the lowest poverty and highest income levels among the city clusters. Although Williamsburg, Hopewell, and Fredericksburg have poverty levels close to the statewide average, the other seven localities have very low poverty rates. Median family income is also very high. Only Fredericksburg has an income level less than the State norm. The relatively high income of the residents is a benefit to the local governments because it produces increased revenue from "discretionary" spending by residents. Many of the metropolitan cities have shown a very high increase in revenues from the sales tax in recent years.

Tax Effort. With the exception of Poquoson, the metropolitan cities have maintained very high tax efforts. In FY 1977, the median tax effort of the metropolitan cities was .95, compared to the State median of .57. The cities of Fairfax (1.28), Manassas (1.30) and Manassas Park (1.31), for example, had particularly high tax efforts. Seven of the ten local governments in Cluster 3 also found it necessary to dramatically increase their tax efforts between FY 1977 and FY 1981. High and increasing tax effort is one of the principal stresses experienced by small cities in metropolitan areas.

Budget Actions. The metropolitan cities have also taken a high number of budget actions to address fiscal stress. Eighty percent of these cities utilized two or more budgetary actions during two of the last four fiscal years. Actions included increasing fines and service charges, deferring maintenance on capital facilities, decreasing employment levels, and reducing fringe benefits.

Cluster Outlier. One locality does not fit the cluster pattern. Suffolk's population density of 110 persons per square mile differentiates it from the other small cities in metropolitan areas. However, the fiscal position of Suffolk's local government is similar to that of other stressed cities. Suffolk has low revenue capacity, high and increasing tax effort, and high poverty, and has taken a significant number of actions to control spending in recent years.

Cluster Four: Urbanizing Counties

The urbanizing counties form the cluster with the smallest number of members. The localities in the cluster vary in population and density, but all have at least 36,000 residents and densities of over 100 persons per square mile. This size and density is much higher than the vast majority of the other counties in the State.

The urbanizing counties are experiencing average levels of stress, although each locality has both strengths and weaknesses in its fiscal position (Figure 23).

The primary factor affecting the fiscal condition of these localities is that they have experienced large increases in population over the last decade. Most localities in this cluster, including Chesterfield, Stafford, and Prince William, have growth rates well above the statewide norm. The increase in population has resulted in a change of character for these counties, and high density and commercial areas have formed or have begun to form in geographic areas previously used for agricultural purposes.

Rapid growth has resulted in moderately strong and diversified tax base which has grown at a rate greater than the State median. There have been significant increases in private sector jobs and retail sales. Moreover, the persons moving into the localities have incomes well above statewide averages. One result of these changes is that poverty and unemployment levels in these localities are very low.

High growth, however, has not been a panacea for the urbanizing localities. Problems stem from the tension between the "established" rural community, which hopes to maintain an agricultural or rural environment, and new residents, who expect a full range of urban services.

To avoid major fiscal difficulties, the urbanizing counties have responded to these demands. While extensive budget actions were not necessary in FY 1980 and FY 1981, most urbanizing counties have employed a variety of expenditure controls in the past two years. Some of the local governments have increased their tax efforts, while the others have increased their levels of debt. Urbanizing counties have also become more dependent on general property taxes. Their current dependence on property taxes approaches levels comparable to the rural counties.

Revenue Capacity. The urbanizing counties have an above-average ability to support local services. The median revenue capacity for the urbanizing counties in FY 1977 was $359.00 per person (Table 21). The majority had tax bases greater than the State median. Specific levels ranged from James City ($340.00) to Loudoun ($501.00). Only Stafford ($317) and Roanoke ($313) had capacities close to the State median.

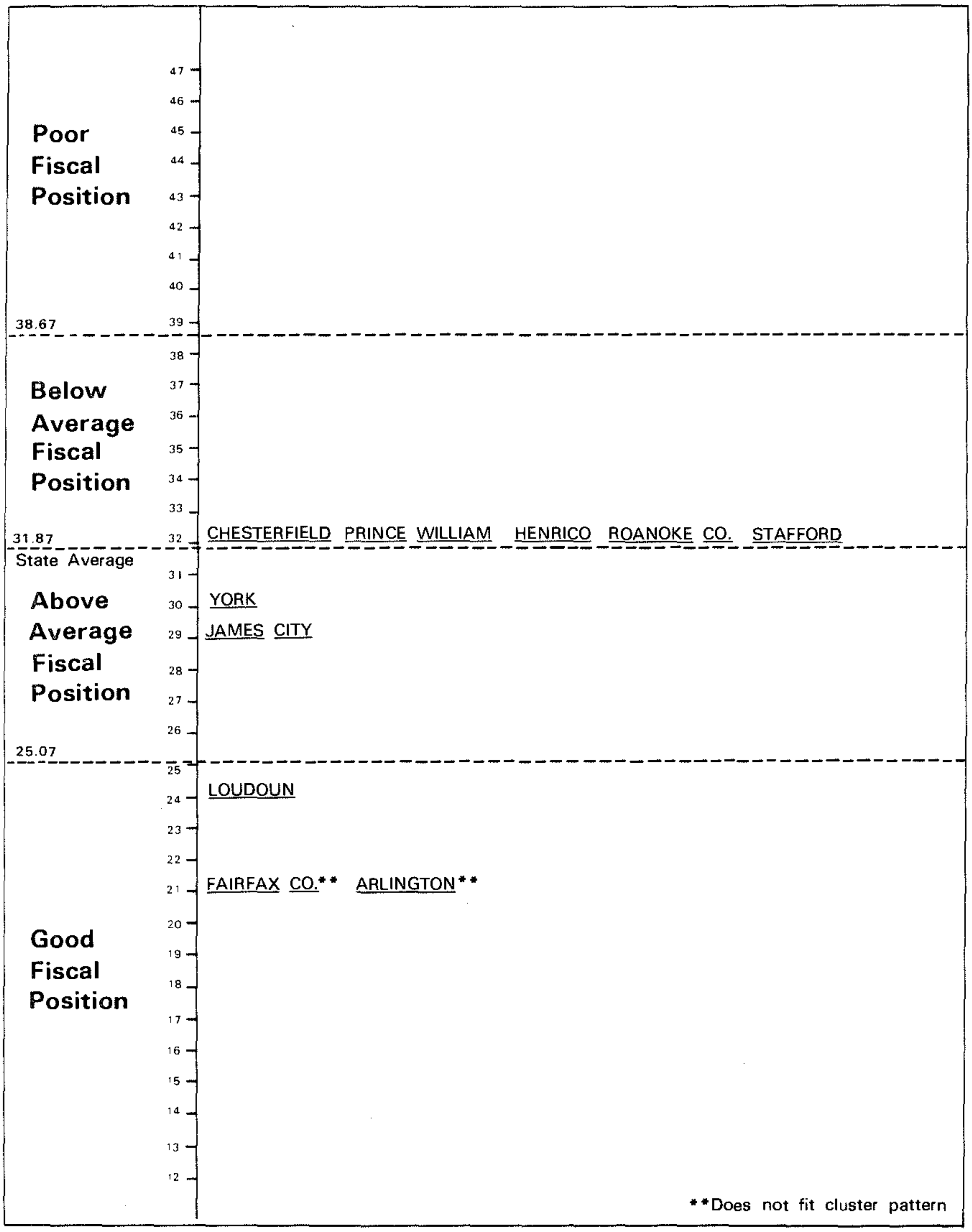
This ability remained constant from FY 1977 to FY 1981. For example, the capacity growth of Loudoun ($151.00) and James City ($158.00) has been among the highest in the State. The growth for the other localities has been average or above average. Among localities in Cluster 4, only York has had a low growth in capacity ($70.00).

Income of Population. The high incomes of the residents in the urbanizing localities clearly differentiates this cluster from the

Figure 23

Scores On The Composite Stress Index

Cluster 4: Urbanizing Counties



Source: JLARC Analysis

Table 21

KEY CHARACTERISTICS OF CLUSTER 4

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Urbanizing Counties	$359.00	$98.00	.94	+.04	6.5%	11.5
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

others. Poverty rates, for example, are extremely low by State standards. Moreover, the median family income of the residents is very high and is growing at a rate much greater than in other clusters.

The income of the residents is very important when assessing the fiscal position of the urbanizing counties. It is apparent that while the urbanizing localities do have high tax efforts, they are not as high as those of the large cities and are similar to the small cities in rural areas. Cities in rural areas have much greater levels of poverty and lower family incomes, however. This indicates that urbanizing localities may be able to tap a greater proportion of their tax bases before they reach the levels of stress which exist in cities.

Tax Effort. Localities in Cluster 4 fall into two groups based on tax effort. Chesterfield, Henrico, Prince William, and Roanoke had high tax efforts in FY 1977, but have decreased their tax efforts since that time. Thus, these four local governments had sufficient resources over the five-year period to actually reduce the proportion of the tax base which they had to utilize.

The four local governments in the second group--James City, Loudoun, York, and Stafford--had average to moderately high tax efforts in FY 1977, but found it necessary to increase their tax efforts. Their FY 1981 levels are generally not as high as those found in cities or the other urbanizing counties, but do indicate increased efforts to support urban services in some parts of the counties.

Budget Actions. As urbanizing counties have begun to provide more services, they have found it necessary to take more actions to control expenditures and raise revenues. In FY 1980 and FY 1981, very few of the urbanizing local governments were forced to take two or more budgetary actions. In the next two years, however, 87 percent of these local governments did so. The majority of these actions have been increasing use of fines and user charges and deferring maintenance on the capital facilities.

Cluster Outliers. Arlington and Fairfax Counties are both outliers for Cluster 4. Arlington and Fairfax have very high population densities and provide urban services to the majority of residents. In contrast to the other urbanizing counties, Arlington has experienced a slight drop in population over the past five years.

Arlington and Fairfax show a good fiscal position relative to other local governments. Both have strong revenue capacities. Moreover, their tax bases have grown at a rate twice the State median. Both counties do have high tax efforts, but have significantly decreased their tax efforts over the past five years. Moreover, poverty levels are low and family incomes are high.

Cluster Five: Suburbanizing Counties

Cluster 5 contains 16 counties which are adjacent to the urbanizing counties or small cities. The most salient characteristics of these "second tier", suburbanizing counties are rapid population growth and relatively low levels of poverty. As in the urbanizing counties, the suburbanizing localities are in transition away from a primarily rural character. The key difference, however, is that this development is more recent for suburbanizing counties. As a result, the suburbanizing counties tend to have smaller populations and lower population densities and have not experienced the same levels of service demands as urbanizing counties.

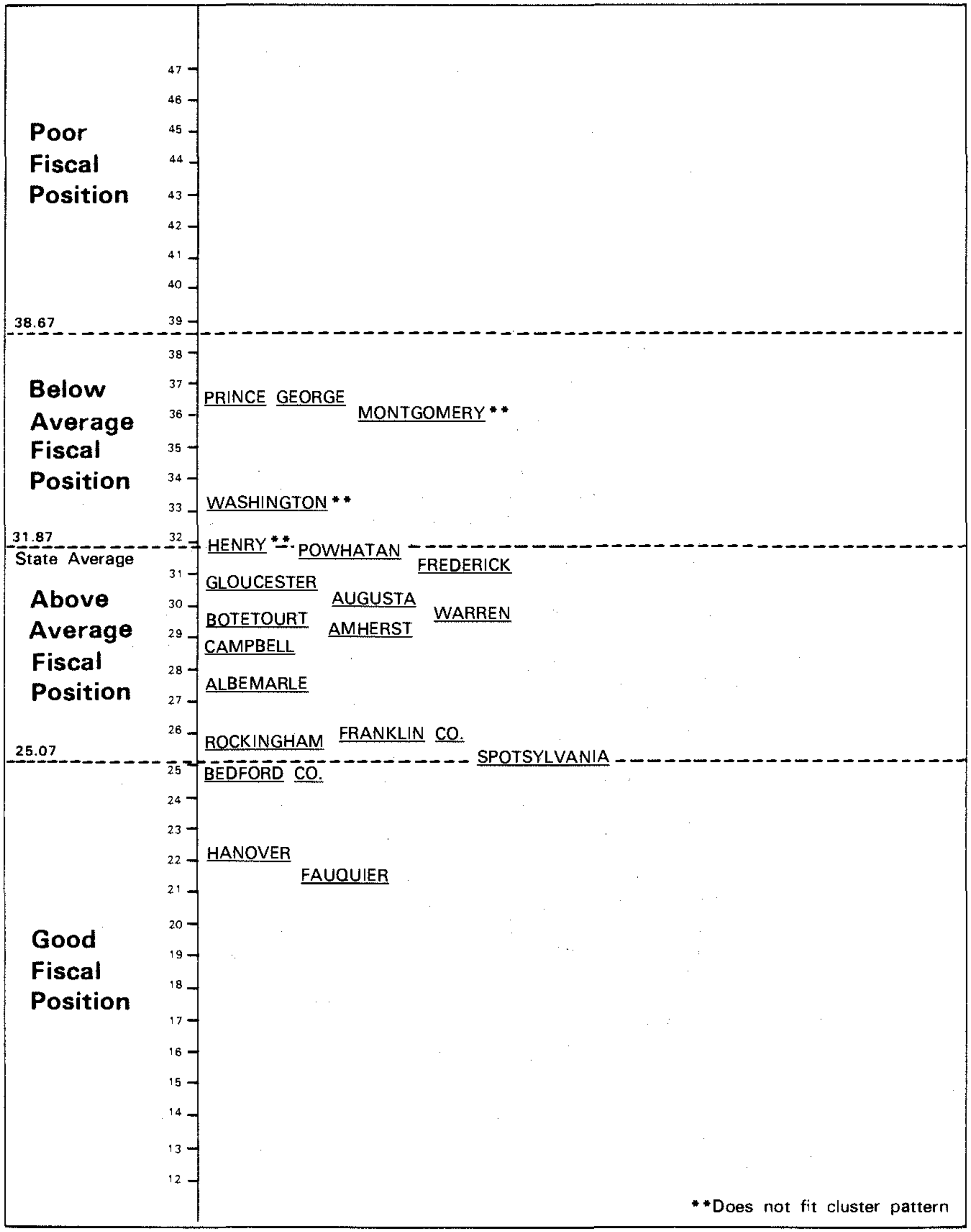
Overall, these local governments are among the least stressed in the State. Of the 16 local governments in the cluster, only Prince George has a fiscal condition which is lower than the statewide average on the composite stress index (Figure 24). Fiscal strengths include low and stable tax efforts, high family incomes, and low levels of poverty relative to State averages. In recent years, however, the suburbanizing local governments have had to take some budget actions and have increased their reliance on general property tax revenues. It is likely that as their populations and service demands increase, the suburbanizing counties will begin to experience a higher degree of stress.

Revenue Capacity. The suburbanizing localities have an average ability to support local services. Counties in Cluster 5 had a median revenue capacity of $311.00 per person in FY 1977, slightly less than the the statewide median (Table 22). However, their median growth of $93.00 per person was greater than the State median. Only the localities of Gloucester, Augusta, Powhatan, and Prince George have tax bases which have not grown at a rate consistent with State trends. However, each of these localities has been able to maintain a tax effort below or comparable to the State average. This suggests that the low growth in capacity has not lead to significant fiscal problems for these localities.

Figure 24

Scores On The Composite Stress Index

Cluster 5: Suburbanizing Counties



Source: JLARC Analysis

Table 22

KEY CHARACTERISTICS OF CLUSTER 5

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Suburbanizing Counties	$311.00	$93.00	.54	+.05	9.9%	5.0
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

Income of Population. The suburbanizing localities have low levels of poverty. None of the 16 localities have poverty rates greater than the State average. In addition, all of the localities in the cluster except Warren and Franklin have median family incomes comparable to or above the statewide average.

The relatively high income of the citizens suggests that these local governments have a great deal of flexibility in increasing their tax efforts. While the suburbanizing local governments tap proportionately less of their tax bases than the rural cities and large cities, their citizens are, overall, much healthier financially.

Tax Effort. The suburbanizing local governments have not found it necessary to tap a significant proportion of their tax bases. With the exception of Albemarle, all had low tax efforts in FY 1977. Moreover, these local governments have not significantly increased their tax efforts relative to other localities in the State. The majority of the local governments decreased or slightly increased their tax efforts from FY 1977 to FY 1981. Only three of the 16 local governments in the cluster had large increases in their tax efforts. However, these local governments -- Fauquier, Frederick, and Hanover -- increased from low FY 1977 levels.

Budget Actions. The suburbanizing counties are not taking expenditure-control measures at the consistently high levels of the cities or urbanizing counties. However, large increases in actions have occurred in recent years. In FY 1980, only 10 percent of the counties found it necessary to take two or more of the budget actions listed on the JLARC survey. In comparison, 80 percent of the localities took two or more actions in FY 1983, indicating that these local governments are beginning to respond to fiscal stresses by taking steps to control expenditures.

Cluster Outliers. Three counties share many characteristics of the transitional counties, but show some important distinctions. For example, Montgomery, and Washington Counties have poverty levels which are much higher than in the other suburbanizing or urbanizing counties. Henry County has had a stable population, whereas the others in the cluster show large increases.

Henry, Montgomery, and Washington Counties show average to above-average levels of stress. The major problems of these local governments are relatively weak tax bases and low resident incomes. However, these local governments have moderately low levels of tax effort. While Henry County has had a relatively high increase in effort, Montgomery and Washington have decreased their tax efforts over the past five years. These local governments have also not found it necessary to take extensive budget actions in recent years.

Cluster Six: High Growth, Moderate Capacity, Rural Counties

The ten localities in Cluster 6 resemble the suburbanizing counties in some ways. Most have populations which are increasing faster than the statewide average. However, they are smaller and more rural than the suburbanizing counties, with an average population of 13,500 and a population density of 44 persons per square mile. The local governments primarily serve residents whose occupations relate to agriculture.

The high growth, moderate capacity, rural counties tend to be among the least stressed of the rural counties. Except for Fluvanna, all have average to below-average scores on the composite stress index (Figure 25). These counties have had above average-growth in private sector jobs. In part, this has resulted in unemployment levels which are below the State average. In addition, poverty is not as prevalent as in other rural counties, and family income is somewhat higher.

The fiscal condition of the local governments in Cluster 6 is marred by two factors. While their revenue capacities are high, they have not grown at a rate matching the State average. This has resulted in increased tax efforts over the past five years, as well as increased dependence on general property taxes.

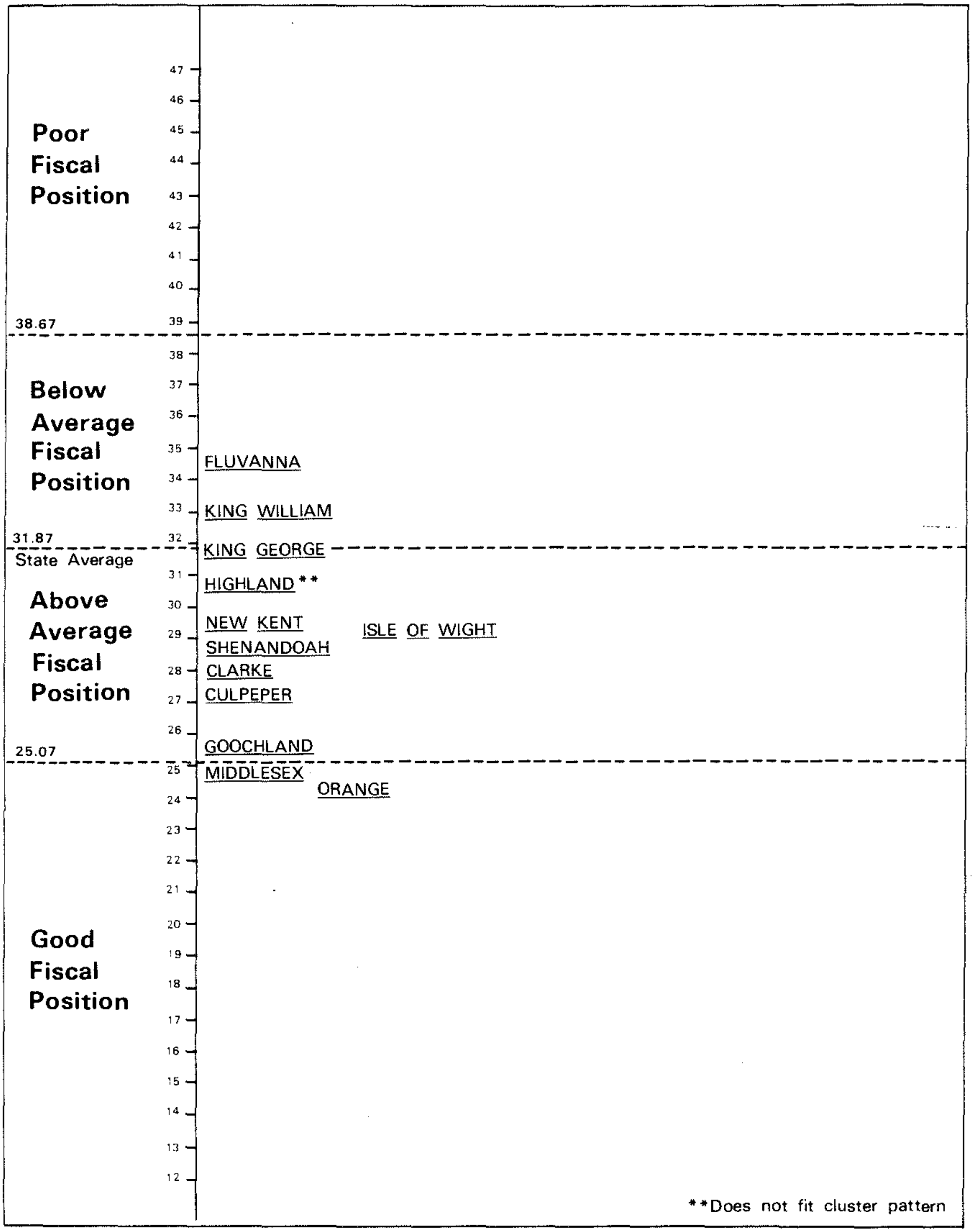
Revenue Capacity. The local governments in Cluster 6 had a good capacity to provide local services in FY 1977. All of the local governments had tax bases which were stronger than the statewide median. This ability, however, has not improved over time. The median change in capacity for this cluster, $77.50, was well below the State median of $89.60 (Table 23). Six of the local governments, including Fluvanna, King William, and New Kent, had growth rates significantly below the State median. Among localities in Cluster 6, only Middlesex and Orange experienced very high growth in their revenue capacities.

Income of Population. While the revenue capacities of these local governments have not grown quickly, the level and change in resident incomes is the highest of the four clusters of rural counties,

Figure 25

Scores On The Composite Stress Index

Cluster 6: High Growth/Moderate Capacity Rural Counties



Source: JLARC Analysis

Table 23

KEY CHARACTERISTICS OF CLUSTER 6

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
High Growth, Moderate Capacity, Rural Counties	$388.40	$77.50	.49	+.08	14.4%	4.0
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

and is comparable to statewide averages. Of the twelve localities, only Fluvanna (19.0 percent) and Middlesex (17.0 percent) have poverty levels significantly above the State median of 13.7 percent.

Tax Effort. The local governments in Cluster 6 tap a very small proportion of their revenue capacities. In FY 1977, their median tax effort was .49, compared to the statewide median of .57. Indications of emerging fiscal difficulties, however, are apparent in the increasing tax efforts of these local governments in recent years. All twelve of the local governments in this cluster have increased their tax efforts at rates comparable to or above the statewide median. This increase is much greater than in most other rural localities.

Budget Actions. In an attempt to diversify revenue sources, many localities in Cluster 6 have increased and levied new fines and user fees. However, other budget actions, such as deferring capital outlay and maintenance, have not been taken. While the local governments are taking increasing budget actions, the number of actions is not very high. In FY 1980, 29 percent of the local governments took two or more budgetary actions listed on the JLARC survey. By FY 1983, this proportion had increased to 43 percent.

Cluster Seven: High Growth, Low Capacity, Rural Counties

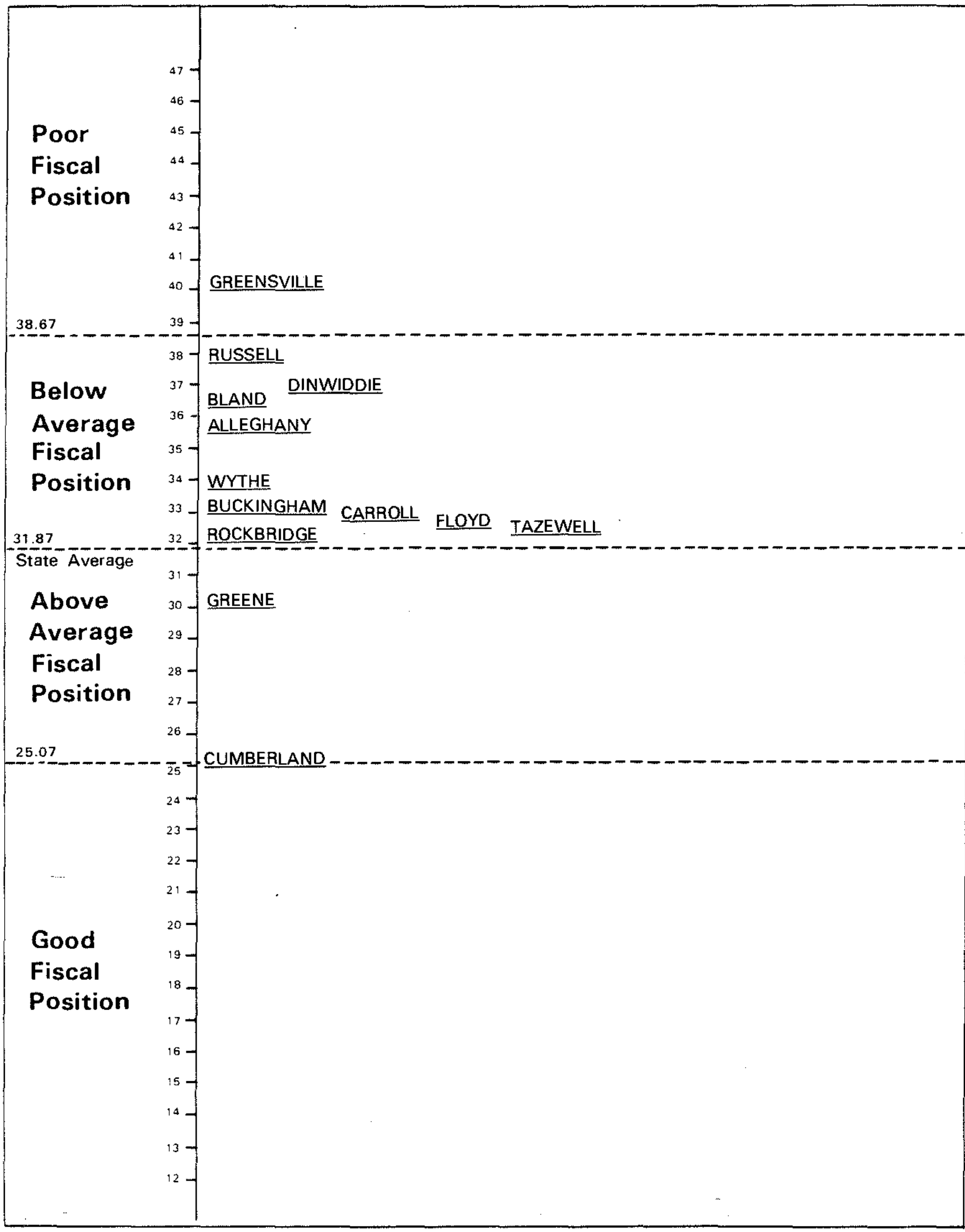
The 11 agricultural counties in Cluster 7 are small and rural. They average 15,000 residents and have densities below 50 persons per square mile. These localities share the high growth in population observed in Cluster 6, but their fiscal conditions are dominated by very weak revenue capacities and low family incomes.

Nine of the 11 local governments in Cluster 7 show average to above-average levels of fiscal stress (Figure 26). In addition to their poor tax bases, the local governments are burdened by a very high dependence on property taxes and high unemployment.

Figure 26

Scores On The Composite Stress Index

Cluster 7: High Growth/Low Capacity Rural Counties



Source: JLARC Analysis

Revenue Capacity. The rural localities in Cluster 7 have among the lowest abilities to support local services in the State (Table 24). Only Floyd and Buckingham have tax bases equal to the statewide median. The others range between Carroll's capacity of $205 per person and Rockbridge's capacity of $301.

Table 24

KEY CHARACTERISTICS OF CLUSTER 7

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
High Growth, Low Capacity, Rural Counties	$264.40	$70.40	.45	+.04	14.7%	1.5
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

The tax bases of these local governments were also relatively stagnant from FY 1977 to FY 1981. The median growth in revenue capacity for the cluster was $70.40 per person, well below the State median of $89.60. One locality, Cumberland, experienced high growth in its tax base. Others, such as Floyd ($50), Greensville ($59), and Buckingham ($60), had growth rates which lagged significantly behind the rest of the State.

Income of Population. Resident incomes are also very low. All of the localities in Cluster 7 are characterized by a moderate to high level of poverty. For example, Cumberland (24.7 percent) and Greensville (22.7 percent) have extremely high poverty levels. In addition, the median family incomes of the residents are very low by State standards. Of the 11 localities, only Dinwiddie and Alleghany have family incomes close to the 1981 statewide average of $20,871. Seven of the localities have income levels significantly below State norms, including Carroll ($15,865), Cumberland ($15,930), and Buckingham ($14,865).

Tax Effort. As in the other rural counties, the local governments in Cluster 7 have low tax efforts. Only Alleghany taps its tax base at a proportion higher than the statewide median. Tax efforts for these localities did not significantly increase from FY 1977 to FY 1981.

Local governments in Cluster 7 have the highest dependence on property taxes in the State. In FY 1981, 76 percent of all local revenues were derived from that source. Because of this dependence, as well as the low income of the residents, these local governments have been reluctant to greatly increase their tax efforts.

Budget Actions. Over time, the localities in Cluster 7 have taken an increasing number of actions to control expenditures and raise revenues. However, the level of actions is far below the State average. In conjunction with their low tax efforts, this indicates the local governments' attempts to maintain minimal levels of services in order to keep tax burdens low. It also points to limited flexibility, should reductions become necessary in the low levels of service provided.

Cluster 8: Low Growth, Low Capacity, Rural Counties

Nineteen rural counties, most located in southside and southwestern Virginia, form Cluster 8. These counties are predominantly agricultural in character, have low population densities, and have had low growth in population.

These local governments are experiencing average to above-average levels of fiscal stress, with Northampton and Scott among the most stressed in the State. None of the local governments have a relatively good fiscal position (Figure 27).

The local governments in Cluster 8 share some significant problems. They have very low tax bases which are growing very slowly relative to the rest of the State. And, their poverty and unemployment levels are among the highest in the State.

Revenue Capacity. As in Cluster 7, the localities in Cluster 8 have among the lowest revenue capacities in the State. All of the 19 local governments had revenue capacities in FY 1977 which were significantly lower than the statewide median (Table 25). Examples include Grayson ($216), Lee ($202), and Pittsylvania ($233). Moreover, their abilities to support local services have not improved since that time. From FY 1977 to FY 1981, only six of these localities showed growth in their revenue capacities higher than the statewide median. In part, this was due to the low growth in retail sales and in private sector employment.

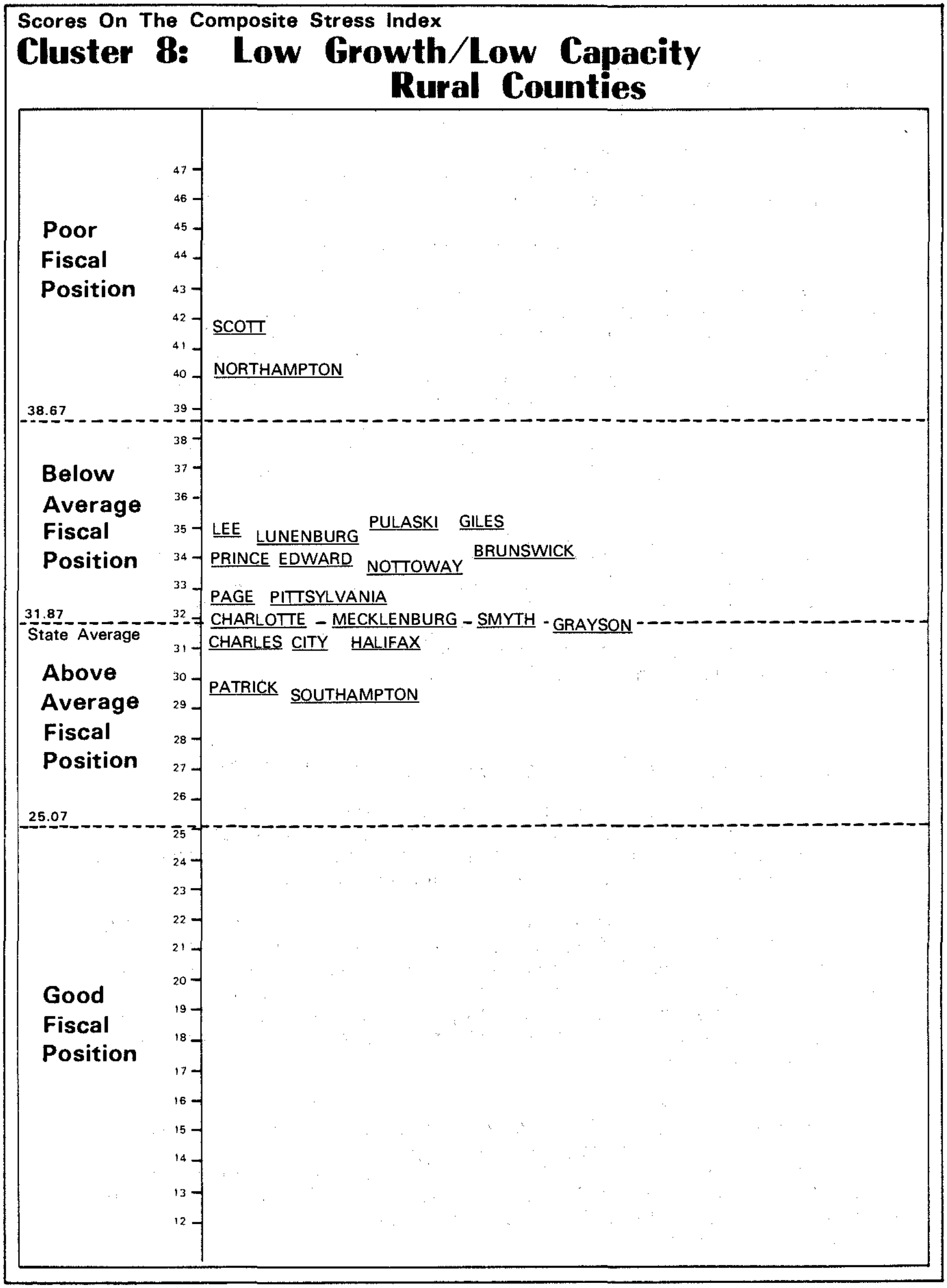
Table 25

KEY CHARACTERISTICS OF CLUSTER 8

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Low Growth, Low Capacity, Rural Counties	$259.50	$83.70	.41	+.04	18.0%	6.5
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

Figure 27



Source: JLARC Analysis

Income of Population. Much of the low level and growth in revenue capacities can be traced to the wealth of the population. Many residents of Cluster 8 localities are poor. The median level of poverty for the cluster is 18 percent. In Charlotte, Lee, and Northampton, over 25 percent of the population live in poverty. In addition, the levels and growth of family income are far below State averages. Finally, unemployment in these localities is the highest in the State.

Tax Effort. The low income and high poverty levels of Cluster 8 have a direct bearing on tax effort. Many officials in these localities feel that residents cannot afford high taxes. Moreover, they note that most localities have few viable industrial or commercial firms to tax. As a result, the 19 local governments in the cluster have very low levels of tax effort. The median tax effort for these localities in FY 1977 was .41. Only Scott County tapped its tax base at a proportion greater than the statewide median. While the majority of local governments have increased their tax efforts in recent years, the changes have been low by State standards. These localities remain heavily dependent on property taxes, which account for about two-thirds of local tax revenue.

Budget Actions. As in the other rural clusters, the local governments in Cluster 8 have taken a relatively low number of budget actions to address fiscal difficulties. An increase in actions, however, is evident. In FY 1980, 31 percent of the local governments took two or more budgetary actions; by FY 1983, this level had increased to 50 percent. Many of these counties have deferred maintenance of their capital facilities, increased fines and fees, and reduced personnel levels through attrition.

Cluster Nine: Low Growth, Moderate Capacity, Rural Counties

The counties in Cluster 9 are also small, rural communities. Their populations average about 11,000 residents. Population levels are either stable or declining, with growth rates ranging from -6.0 percent in Sussex County to +2.6 percent in Appomattox County.

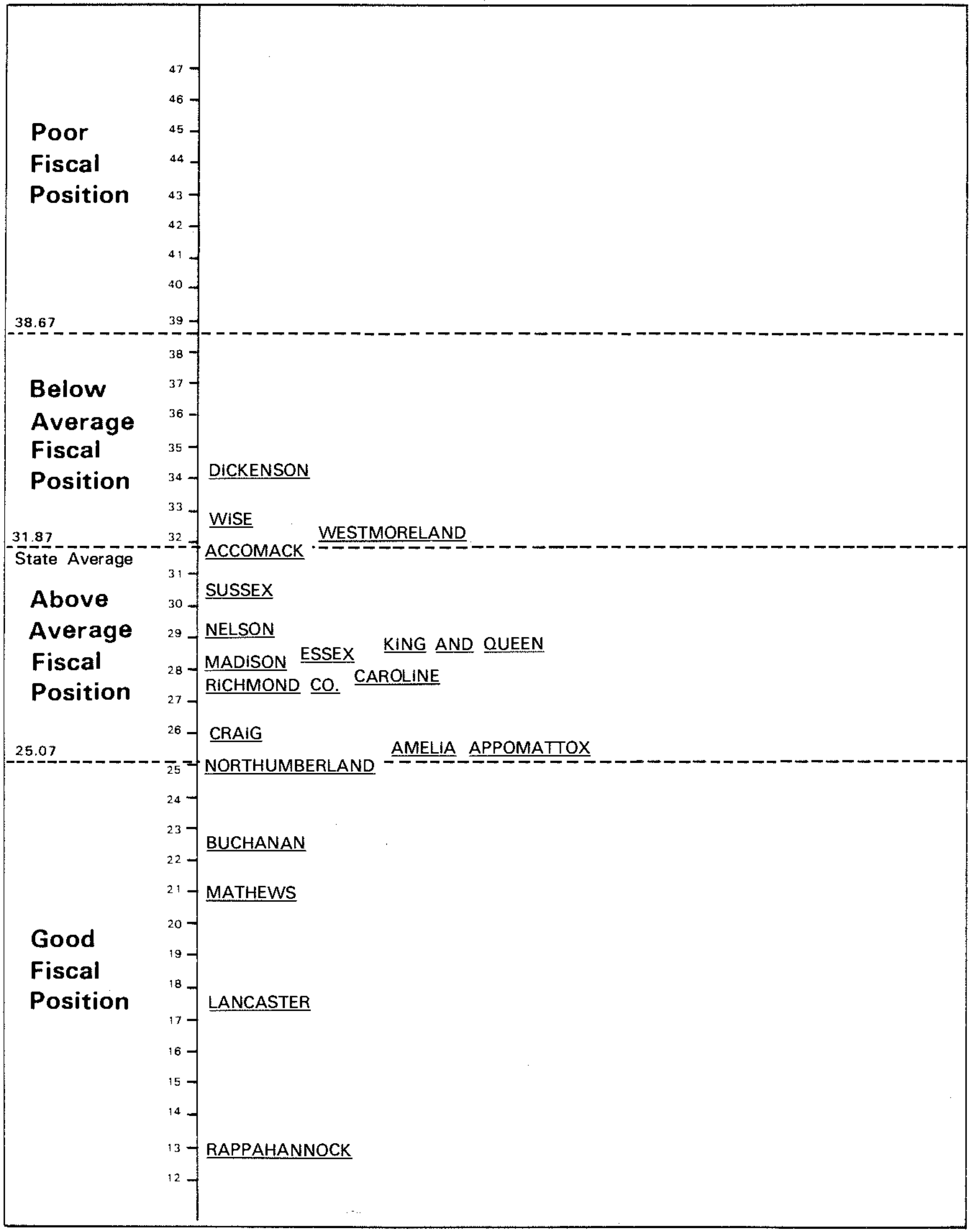
Overall, the localities in Cluster 9 have below-average levels of fiscal stress (Figure 28). Westmoreland is the only local government out of the 16 localities in the cluster which has a poor condition relative to statewide averages. Many of these localities have revenue capacities which are higher than the statewide median. Local governments have also been able to maintain relatively low tax efforts and debt burdens.

Fiscal weaknesses are also apparent. Foremost is that these local governments are highly dependent on general property taxes. For example, King and Queen County derives 87 percent of its local revenues from property taxes. In addition, poverty and unemployment levels are high. As in the other rural clusters, many local governments in this cluster have been reluctant to raise tax rates for fear of over-burdening local residents.

Figure 28

Scores On The Composite Stress Index

Cluster 9: Low Growth/Moderate Capacity Rural Counties



Source: JLARC Analysis

Revenue Capacity. The localities in Cluster 9 tend to have average revenue capacities, indicating a moderate ability to support local services. Most of the local governments have capacities comparable to the statewide median (Table 26). The exceptions are some Northern Neck localities such as Northumberland and Lancaster, which have above-average tax bases due to extensive waterfront and second home development. Localities in this cluster without waterfront property, such as Amelia, Craig, and Caroline, have low revenue capacities. The growth in revenue capacities of localities in Cluster 9, however, has been above the statewide average. These localities had a median capacity growth of $103.90 per person, compared to the statewide median of $89.60.

Table 26

KEY CHARACTERISTICS OF CLUSTER 9

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Low Growth, Moderate Capacity, Rural Counties	$327.50	$103.90	.48	+.04	16.4%	7.5
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

Source: JLARC Analysis.

Income of the Population. Although many of the localities in Cluster 9 have tax bases above statewide norms, their residents are not affluent. Overall, the poverty level for Cluster 9 is 16.4 percent, above the State median of 13.7 percent. The median family income for the cluster is $12,700, the lowest among the ten clusters. None of these localities have resident incomes which reach the State average of $14,800.

The low income of the population has a large affect on the condition of the local governments. Many of the residents may be characterized as "land-rich, but cash poor." As a result, the local governments have chosen to maintain low tax efforts.

Tax Effort. The local governments in Cluster 9 have a median tax effort of .48. The majority of tax efforts fall between .30 (Rappahannock) and .54 (Caroline). The local governments in this cluster are not tapping a high proportion of their tax bases relative to the State median.

Since FY 1977, about half of the local governments have slightly increased their tax efforts, while tax efforts have slightly decreased for the other half. Overall, the growth in tax effort for the cluster was +.04, less than the statewide median of +.06.

Budget Actions. Among the clusters of rural counties, the local governments in Cluster 9 have tended to take more budget actions over the past four years. In each of the past four fiscal years, about 55 percent of the local governments took two or more steps to control expenditures.

Cluster Ten: Rural Counties with Major Power Facilities

The three localities in Cluster 10 -- Bath, Surry and Louisa Counties -- share many of the characteristics of the other rural clusters. They have low population densities and population growth, and are agricultural in character. In addition, resident income is relatively low and poverty levels are high.

Table 27

KEY CHARACTERISTICS OF CLUSTER 10

	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Rural Counties With Major Power Facilities	$601.20	$465.50	.44	.00	16.1%	*
Statewide Median	318.90	89.60	.57	+.06	13.7	7.7

*Insufficient responses to analyze.

Source: JLARC Analysis.

The good fiscal position of the local governments results from the existence of major power facilities owned by Virginia Electric and Power Company (Figure 29). The high value of Vepco's property has resulted in tax bases for these three local governments which are more than twice the State median. Their growth in revenue capacity between FY 1977 and FY 1981 was over five times the statewide median. As a result, the local governments have been able to maintain very low tax efforts.

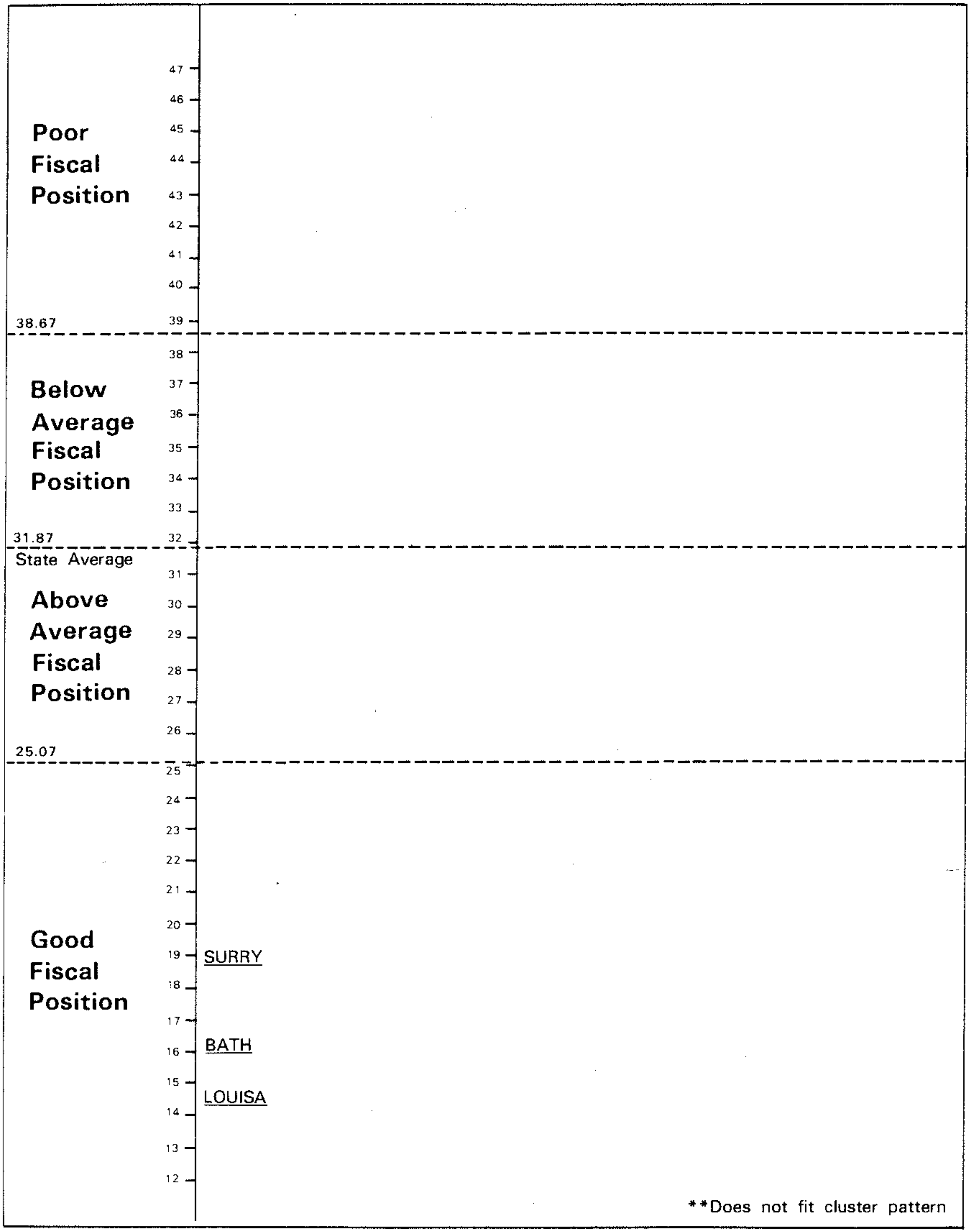
CONCLUSIONS

There is wide variation in both the levels and types of stresses facing local governments. Some localities confront stagnant revenue capacities and high poverty, while others must deal with high tax efforts or increasing demands for services. Many local governments face multiple stresses.

Figure 29

Scores On The Composite Stress Index

Cluster 10: Rural Counties with Major Power Facilities



Source: JLARC Analysis

Table 28 summarizes the analysis of fiscal stress in clusters of similar localities. The table lists six key characteristics of fiscal condition for each of the 10 clusters.

Fiscal Position of City Governments

Large cities and small cities in rural areas show above-average levels of stress on the majority of fiscal indicators. This indicates a much poorer fiscal condition than any of the other clusters. Fiscal difficulties stem from a moderately weak tax base and a high level of poverty. These cities also tax a very high proportion of their tax bases to support local services. Moreover, they have increased these efforts significantly over the past five years. In addition, the city governments have taken a significant number of budget actions to control expenditures.

Some of the small cities in metropolitan areas have relatively good fiscal positions due to their strong tax bases. However, many of these metropolitan cities, such as Hopewell and Manassas Park, have experienced the high levels of stress observed in large cities and small cities in rural areas.

Fiscal Position of Urbanizing and Suburbanizing Counties

Urbanizing and suburbanizing counties have relatively strong fiscal positions. The urbanizing counties, for example, have above average tax bases, high resident incomes, and low levels of poverty. While their tax efforts are high, the urbanizing counties have not found it necessary to increase their tax efforts at a rate consistent with the State median. However, indications of fiscal stress are present. Foremost among them is increased reliance on property taxes. Urbanizing localities have also been forced to respond to the service demands caused by rapid population growth. This has led to increased use of budget actions to control spending, and higher levels of long-term debt.

The suburbanizing counties have not experienced the levels of stress apparent in most other clusters. While some suburbanizing counties have moderately weak tax bases, these local governments have been able to maintain low tax efforts and have not taken many actions to control expenditure growth or raise additional revenues. If population and service demands of these localities continue to increase, however, it is likely that they will begin to experience some of the fiscal difficulties now faced by urbanizing counties.

Fiscal Position of the Rural Counties

Overall, the rural counties show levels of stress comparable to urbanizing counties. However, their fiscal strengths and weaknesses are very different. The majority of rural counties have weak tax bases which are growing at a slow rate. This is the result of relatively

Table 28

KEY CHARACTERISTICS OF FISCAL CONDITIONS IN CLUSTERS

Cluster	Revenue Capacity	Change in Capacity	Tax Effort	Change in Effort	Poverty Level	Number of Budget Actions
Large Cities	$285.5	$ 82.7	1.19	+.08	16.3%	17.0
Small Cities in Rural Areas	331.3	82.1	.80	+.16	15.2	10.0
Small Cities in Metropolitan Areas	378.4	106.4	.95	+.11	7.9	10.5
Urbanizing Counties	359.0	98.0	.94	+.04	6.5	11.5
Suburbanizing Counties	311.0	93.0	.54	+.05	9.9	5.0
High Growth, Moderate Capacity, Rural Counties	388.4	77.5	.49	+.08	14.4	4.0
High Growth, Low Capacity, Rural Counties	264.4	70.4	.45	+.04	14.7	1.5
Low Growth, Low Capacity, Rural Counties	259.5	83.7	.41	+.04	18.0	6.5
Low Growth, Moderate Capacity, Rural Counties	327.2	103.89	.48	+.04	16.4	7.5
Counties With Major Power Facilities	601.2	465.47	.44	.00	16.1	*
State Median	$318.9	$ 89.6	.57	+.06	13.7%	7.7

*Insufficient responses to analyze

above average stress compared to other clusters

Source: JLARC Analysis.

stagnant economic activity, and has caused these local governments to remain highly dependent on property taxes to support local operations.

The fiscal strength of the rural counties is that the local governments have maintained relatively low tax efforts in recent years. In the wake of economic recessions and declining federal aid, however, it has become more difficult for these local governments to fund local services. These problems have led to some increases in local tax efforts. Local officials feel that their ability to produce added revenues through tax increases is limited, however, given the high poverty and low income levels of local residents.

The range and diversity of stresses facing local governments makes it unlikely that any single policy action will equally benefit all localities. Nevertheless, policy actions should address both the levels and types of fiscal stress confronting local governments.

VI. VIRGINIA'S TOWNS

Virginia's 189 towns make up the most diverse group of local governments. Although a few towns are large, with populations as high as 30,000, most are small. Over half the towns have populations under 1,000. The total population of Virginia's towns in 1980 was 352,009, or 6.6 percent of the State's total population.

Like cities, towns become municipal corporations through the legislative enactment of municipal charters which define their authority, rights, privileges, and duties. Towns differ from cities, however, in two important ways. A town is a part of the county or counties in which it is located, whereas a city is independent of any other local government. In addition, cities serve as administrative arms of the State, while towns strictly serve local needs.

Generally the number of town residents in any county represents a small portion of the total county population. Across the State, only about 10 percent of county residents live in towns. Most counties do have towns within their boundaries -- only 22 counties contains no towns. Accomack County, with 14 towns, has the largest number of towns; however, town populations represent less than one-third of the county's population. Montgomery County is at the other extreme, with two-thirds of its residents living in one of the county's two large towns.

Only limited information is available on towns. JLARC research and analysis relied on a survey mailed to the 130 towns with populations over 500. Eighty-five towns (65%) responded to the survey, and provided information about financial conditions, revenues and expenditures, and State mandates and aid. The response provides a reasonable but limited basis for describing towns in Virginia.

TOWN SERVICES

Through its charter, a town has the authority to provide such services as are desirable or necessary. One reason for the incorporation of a town is to provide certain urban services to its residents. In many cases, these services may not feasibly be provided to all county residents, and might not be desired by all. In some cases, however, they become practical necessities in pockets of high population density. Urban services include water treatment and distribution, sewage collection and treatment, and residential refuse collection (Table 29). By their nature, these services are dependent on densely populated areas to allow economical operation.

The service most frequently provided by towns is residential refuse collection, which seems to be provided at a fairly uniform percentage by towns of all sizes. Most towns, however, continue to rely on the county for refuse disposal services. Water treatment and

Table 29

SERVICES PROVIDED BY TOWNS
(% of 84 Towns Responding)

	Town Provides Funding and Service	Town Provides Funding Only[1]
Public Safety		
Law Enforcement	92%	4%
Fire Protection	65	24
Emergency Rescue	29	28
Public Works		
Water Distribution	91	5
Water Treatment	70	2
Sewage Collection	85	4
Sewage Treatment	80	6
Residential Refuse Collection	96	3
Refuse Disposal	35	13
Street Maintenance	55	5
Street Cleaning	85	1
Education	5	-
Other		
Parks and Recreation	64	34
Planning and Zoning	91	4

[1]In some cases, towns may provide funding to private agencies or other local governments which in turn are the principal service providers. Private rescue squads are an example of this relationship.

Source: JLARC Survey of Towns.

distribution, and sewage collection and treatment are also provided at consistently high levels by towns of all sizes.

The level of service provided by towns of differing sizes varies considerably. Not surprisingly, survey results show that the larger the town, the more services it provides. Some larger towns have service levels comparable to some small cities.

Sixty-four of the 65 towns with populations over 1,000 indicated that town law enforcement served to supplement that provided by the county sheriff's department and State Police. About three-quarters of smaller towns also provide additional law enforcement services. These services are provided at varying levels, and range from a single patrol officer to a local police department with 39 full-time officers.

Over one-half of towns provide some type of fire protection to residents. This service is provided more often by larger towns, 73 percent of which have their own fire departments. More frequently, towns give substantial financial support to local volunteer fire departments rather than providing the service themselves. Eighty-eight percent of all towns provide some level of funding to the volunteer departments which serve their citizens. Towns may also provide part-time personnel to help with administration.

Fewer towns provide emergency rescue services. Twenty-five towns indicated that they operate emergency rescue units, while another 23 make regular contributions to the operations of volunteer or county rescue squads.

Local street maintenance provides the greatest disparity in services provided by towns of varying size. All towns with populations over 3,500 provide their own street maintenance, with the help of urban assistance payments from the State. These towns also receive additional funds from the State for urban construction. In contrast, only seven smaller towns receive State assistance payments for upkeep on primary extensions and other designated roads. Streets and sidewalks in the remaining towns are maintained directly by the State through the Department of Highways and Transportation. Small towns especially seem reliant on the State for maintenance of local roads. Only 15 percent of towns with populations less than 1,000 indicated that the town provided any funding for street maintenance.

As indicated, towns provide the higher levels of services demanded by urban areas within counties. These services can and do vary significantly, but characteristically include sewer and water systems, public safety, and street maintenance. Four towns operate their own school systems.

MANDATES

The State takes an active interest in many local activities, and uses its authority to impose mandates on local governments in order to ensure adequate services. The State does oversee some areas of town activities, but is much less involved in town activities than in cities' or counties' operations.

The State has extensive mandates in the areas of education, health, and social services which affect the workings of major city and county agencies. Since towns do not provide these services, they escape the heaviest areas of State involvement and oversight. Other areas, such as sewer and water systems, are more affected by State requirements.

The restrictions of State mandates do not seem to be a major problem for Virginia's town governments. Only 38 percent of those town officials responding to the JLARC survey expressed concern with any

State mandate. Only 15 percent cited three or more areas of local concern. In part, this low level of concern can be attributed to population thresholds which have been set for some mandates. For example, requirements for uniform annual financial reports submitted to the Auditor of Public Accounts do not apply to towns under 3,500. Lower concern over mandates can also be explained by lesser State involvement in town activities.

As with officials in cities and counties, town officials find most State mandates to be reasonable. The principal concern with mandates is the adequacy of the financial assistance accompanying them. Although the number of towns expressing concern with State mandates was low, the comments received were concentrated in three areas. Of principal concern were regulations regarding water and sewage treatment facilities, law enforcement, and maintenance of local roads (Table 30).

The main concern of town officials is the cost of complying with some mandates. Some officials expressed concern about the reasonableness of certain mandates when applied to towns with small populations. The General Assembly has recently taken measures to exclude towns with populations less than 3,500 from compliance with new auditing and procurement practices. Several administrators expressed a wish that the State continue to show sensitivity to the unique situations that often exist in small towns.

Table 30

NUMBER OF TOWNS CITING MANDATES AS UNREASONABLE
(Of 85 Towns Responding)

Area	Number of Towns Citing
Water Treatment or Distribution	14
Sewage Treatment and Collection	8
Law Enforcement	11
Maintenance of Roads and Sidewalks	9
Auditing Procedures	8
Procurement Practices	5
Volunteer Fire/Rescue	3

Source: JLARC Survey of Towns.

Local administrators of 14 towns viewed requirements in the area of water treatment to be unreasonable. Most complaints concerned the inflexibility of regulations and the burden of regular sampling and analysis requirements on small public works departments. Three localities felt that stringent specifications for updating existing facilities were too costly for the achieved benefit.

Eight localities listed some area of health services as troublesome. All complaints referred to regulation of sewage treatment and disposal, but no specific mandates were cited. Local officials mainly commented on the inflexibility and unreasonableness of regulations in the area.

Almost all of the 11 complaints in the area of law enforcement dealt with training requirements. About half of the localities citing this area noted that the State should contribute to the cost of training law enforcement officers. Other administrators felt that training requirements were too lengthy or inapplicable to small police forces, and were too stringent for part-time personnel.

Complaints in the area of road maintenance were concentrated on requirements for qualification of streets for urban assistance payments. Nine town officials commented in this area. Towns officials felt that requirements for 50-foot right-of-ways and 30 feet of hard surface were inappropriate for application to small towns with narrow streets. This area of requirements is currently being reviewed as part of JLARC's study of highway allocation processes and formulas.

Seven localities with populations greater than 3,500 felt that audit procedures are burdensome and costly. Five felt that procurement requirements are unreasonable. Requirements in these areas only apply to towns over 3,500. In addition, two localities felt that regulations for training and equipment of fire and rescue squads are inappropriate for all-volunteer units with small budgets.

The two main concerns that towns have with State mandates are cost and appropriateness. Like city and county officials, town officials feel that State mandates should be accompanied by sufficient funding. In addition, towns feel that some mandates are inappropriate for small towns with limited resources and staff. On balance, however, most mandates were not cited as burdensome to towns. As with cities and counties, there appeared to be little consensus about specific mandates which are burdensome.

TOWN REVENUES

Towns derive revenues from local taxes, fines, user charges, sale and rental of property, and numerous other local sources (Table 31). In FY 1982, the towns responding to the JLARC survey received

Table 31

SOURCES OF TOWN REVENUES
FY 1979 - FY 1982
(dollars in millions)

Source	FY 1979	(%)	FY 1982	(%)
Local Taxes	$26.4	(64.9)	$32.6	(70.3)
State Aid	4.6	(11.3)	8.9	(19.2)
Federal Aid	9.7	(23.8)	4.9	(10.5)
Total	$40.7	(100.0)	$46.4	(100.0)

Source: JLARC Survey of Towns.

over 70 percent of their total revenues from these sources. Most were derived from taxes levied under broad grants of municipal charter authority. Federal and State aid comprised only about 30 percent of town revenues. This contrasts with cities and counties, which derive about 40-45 percent of local revenues from intergovernmental aid.

Local Revenues

Despite broad authority to tax, real and personal property taxes are two of the main sources of locally-produced revenues. All towns responding to the JLARC survey levy property taxes; 90 percent tax personal property as well (Table 32).

Towns' dependence on property taxes is less than that of cities and counties. Revenues generated by local property taxes comprised about 43 percent of town tax revenues in FY 1982, compared to about 50 percent of cities' and counties' revenues. The average effective real estate rate in towns is $0.22 per $100 assessed value. Tangible personal property is taxed at an average of $0.71 per $100 assessed value, although in some towns the rate levied is as high as $2.75.

A major reason for the lower town dependence on these taxes and the lower rates of taxation is that real and personal property is also subject to county assessment and taxation, making it difficult for towns to raise these taxes.

Other Local Taxes. Towns possess the unique authority to pre-empt some taxes imposed by the county in order to generate revenues necessary to provide local services. Towns have exclusive authority to levy license taxes on business and professional firms within their corporate limits, and counties may levy this tax within the town only if specifically permitted to do so by the town's governing body. Towns may also pre-empt the county taxes on consumer utilities under certain circumstances, and counties are required to credit town residents for any town motor vehicle license tax. These pre-emptive powers are an important protection to the revenue integrity of towns.

In addition to its pre-emptive powers, a town has authority under its municipal charter to levy taxes not available to most counties. This extra taxing authority includes excise taxes on cigarettes, restaurant meals, and hotel and motel accommodations (Table 32). The use of these taxes by towns is not widespread; three towns currently levy the transient occupancy tax, while four employ a tax on cigarettes. Only one town has adopted a meals tax. The revenues generated by the use of these excise taxes can be substantial. Towns levying these taxes currently raise from $50,000 to $200,000 a year from these sources. Towns which have elected to impose these taxes are generally large.

In the survey responses, almost half of all town officials responding felt that their towns were fully utilizing taxing authority.

User Fines and Fees. Another important source of revenues for town governments is levies of user fines and fees. The largest percentage of revenues collected by user fees comes from service

Table 32

PRINCIPAL TOWN TAXES, FY 1982
(Of 85 Towns Responding)

Tax	Number of Towns Levying	Proportion of Locally Raised Revenue
Real Property	85	37%
Tangible Personal Property	80	6
Business, Professional, and Occupational Licenses (BPOL)	79	17
Motor Vehicle License	78	6
Utility License	63	1
Machinery and Tools	61	1
Consumer Utility	37	9
Cigarette	4	1
Transient Occupancy	3	1
Meals	1	0
Other (including Sales Tax)	-	21
Total		100%

Source: JLARC Survey of Towns.

charges for water distribution and sewage collection. These fees generally defray operating expenses for these services. Other fees include collections from parking rates, court and parking fines, charges for building permits, and fees for the use of park and recreation facilities.

Intergovernmental Revenues

Towns receive financial assistance from the State and federal governments in various forms: revenue sharing, direct financial assistance, and direct services. Distribution of assistance is based on a variety of criteria, including population, services provided by the town, and sales and activities taking place within the corporate limits of the town.

Revenue Sharing. Perhaps the most important source of non-categorical revenue sharing is the local option 1% sales tax, which all counties levy. Towns receive a share of county sales taxes, based on one-half the population of local school-age population. In FY 1982, these revenues comprised about 21 percent of local revenues (Table 32).

State Aid. Another source of funds is the town share of profits from the sale of alcoholic beverages, which is distributed on the basis of population. While a small sum in total, the $1.2 million distributed to towns by the State in FY 1982 represented about 6 percent of total State ABC profits. Towns also share in revenues generated by taxes on rolling stock, and taxes on ticket sales to boxing and wrestling events held within towns. Towns with school districts also receive a portion of the county's share of revenue from the tax on wine and spirits.

Since towns do not provide many of the services required and partially funded by the State, they receive lesser amounts of State aid. There are three areas where State aid is most heavily concentrated -- education, highway maintenance and construction, and grants to localities with police departments.

Four towns operate special school districts, and are entitled to education funding. These towns receive an increased share in certain general revenue sharing funds to help support local schools. In addition, they are entitled to a percentage, based on school-age population, of special revenue sharing funds targeted for education which are distributed to all cities and counties. And, they receive basic and categorical State aid for education. In FY 1982, these four towns received $287,000 in special revenue sharing funds, in addition to $1.3 million in other aid for education.

Twenty-six towns, all with populations greater than 3,500, receive urban construction allocations and urban assistance payments for maintenance of local roads. In addition, 7 smaller towns have opted to maintain primary extensions and other designated local roads, and receive urban assistance payments. The State maintains streets in the other towns as a direct service. In FY 1982, these 33 towns received $6.1 million in urban assistance payments. The 26 towns over 3,500 were allocated $3.2 million for road construction.

Because the State's centralized accounting system does not separate towns from counties, a full listing of State aid to towns cannot be compiled. Efforts currently under way to redefine the way State aid is accounted for will remedy this for FY 1984.

Federal Aid. In addition to State financial assistance, towns receive a portion of federal revenue sharing funds based on population. They have, in the past, also been eligible for money distributed under various federal grant programs. Survey respondents indicated that they received $4.9 million in federal funds in FY 1982.

Because towns rely on counties for provision of education, health, and welfare services, towns have been less affected by recent cutbacks in federal programs. One major area of concern, however, is grants for construction and renovation of water and sewer treatment facilities. The federal government's share of construction projects has decreased from 75 percent to 55 percent, while regulations for upgrading existing facilities have been tightened. In addition, the criteria for distributing funds has been altered, leaving many officials of small towns concerned about their ability to compete for a shrinking pool of available funds.

FISCAL STRESS IN TOWNS

The assessment of towns' financial condition is based solely on information provided by the JLARC survey of towns. The primary indicators were based on budget actions localities may have taken in recent years to control or reduce spending. An analysis of tax rates was also conducted, to determine whether towns have been increasing their use of local taxes over time. Information was also gathered on the opinions of town officials regarding their own fiscal condition.

Budget Actions To Control Spending

Actions to control expenditures provide useful information about service disruptions and fiscal stress facing towns. Especially important indicators are those drastic actions which are generally avoided except in difficult financial times, such as employee layoffs. Patterns of widespread or frequent budget actions indicate that towns have been forced to take steps to adjust services to meet available revenues.

As Figure 30 indicates, only about one-fourth of towns responding took two or more budget actions to control spending in FY 1983. This portion is based on the 75 towns which provided complete responses to the survey question on budget actions. Over the past four fiscal years, the trend toward budget actions has increased. Nevertheless, the 24 percent total is well below the totals shown for cities and counties. Moreover, the threshold of two actions in a particular year is less than the 3 actions used as a threshold in analyzing city and county responses. Evidence from this analysis suggests that towns have faced lesser stresses than cities and counties.

The most frequently cited budget action was an increase in the adoption of user fines and fees (Figure 30). About half of all towns increased these fees at least once in the last four years, and about one-fifth have taken the action more than once. The increased use of user fees rather than budget cuts may indicate a willingness on the part of town governments to find new sources of revenue before trimming services. Most of the increased fees have been for water and sewer services. These increases reflect higher operating costs, as well as the costs of improvements to existing facilities and the construction of new plants.

In the area of capital spending, cost-cutting actions have been increasing steadily over the past four years. In FY 1980, 11 towns deferred either capital projects or maintenance, while in FY 1983, twice as many towns took these actions. About one in five towns took these actions more than once during the period.

Personnel actions appear to be the last choice of town officials in cost-cutting exercises. Only about one in ten towns took a budget action involving personnel over the past four years. The most frequently adopted measure was denial of cost-of-living increases. Few towns found it necessary to lay off employees. A small number of towns, however, did adopt hiring freezes or allow staffing levels to decline through attrition.

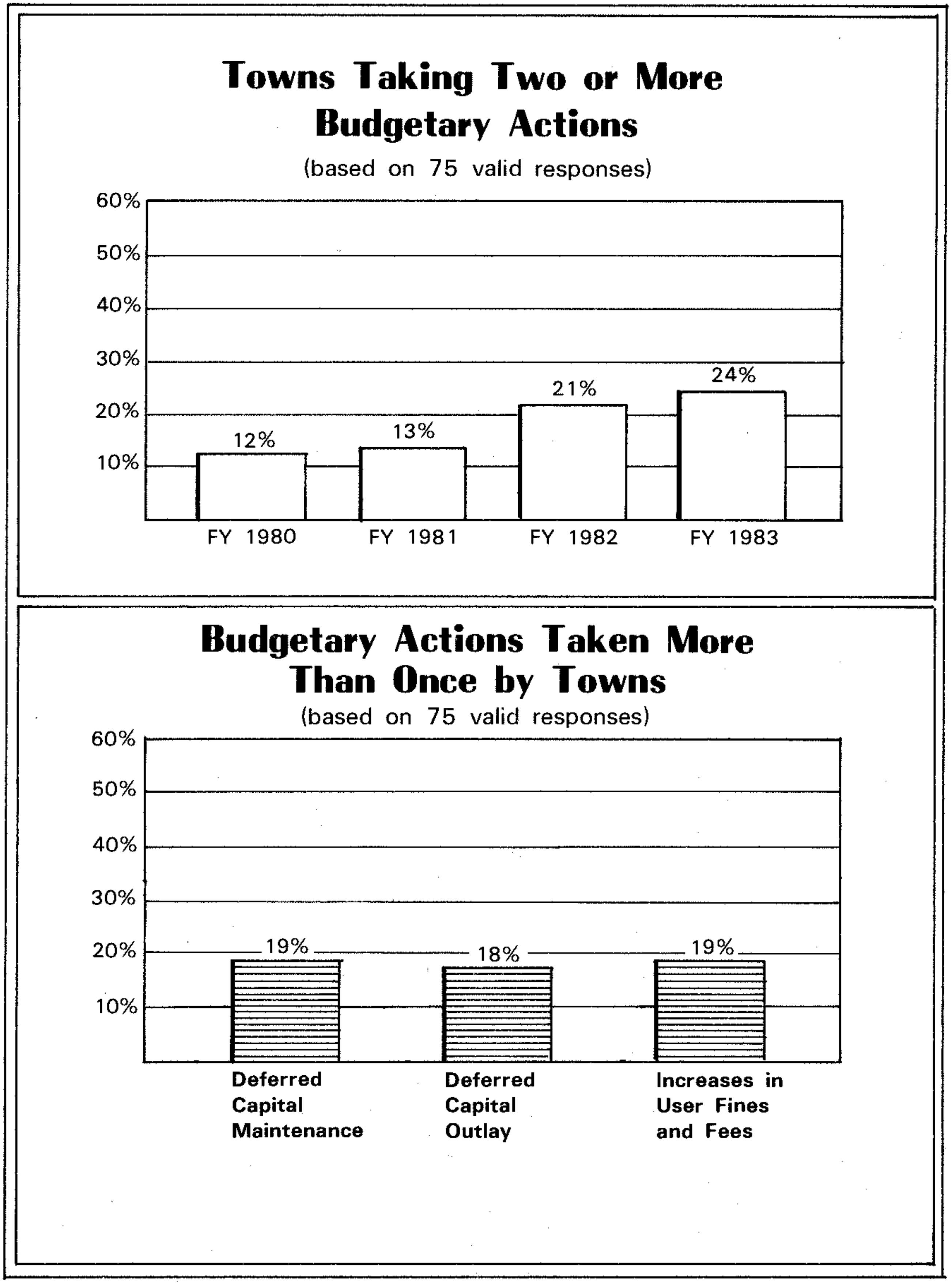
Small towns were especially reluctant to take any personnel actions, owing in great part to the very small number of employees (averaging about 7). In contrast, over one-third of the larger towns reduced staff size through attrition, and about 22% adopted hiring freezes. In these larger towns the frequency of these actions is rising.

As indicated earlier, the trend toward budget actions is much lower in towns than that seen in cities and counties. For some localities, however, increased actions may indicate some symptoms of fiscal stress.

Towns' Use of Taxes

Another indication of fiscal stress is increased use of local taxes. If towns are taking widespread steps to adopt or increase taxes, it may indicate a need to increase local revenues. Table 33 lists the number of towns which have increased, decreased, or adopted new taxes.

Figure 30



Source: JLARC Survey of Towns

Table 33

NUMBER OF TOWNS CHANGING TAX RATES*
FY 1979 - FY 19B3

Tax	Tax Increased	Tax Decreased	Tax Adopted
Real Property**	11	50	2
Tangible Personal Property**	24	6	1
Machinery and Tools**	16	8	1
Business, Professional, and Occupational Licenses	46	0	0
Consumer Utility	5	0	5
Utility License	0	2	7
Motor Vehicle License	32	0	1
Transient Occupancy	-	-	3
Cigarette	-	-	1
Meals	-	-	1

*Of 85 towns responding
**Effective Tax Rates

Source: JLARC Survey of Towns.

As the table shows, towns have increased their use of taxes somewhat over the past four years. For example, 24 towns increased personal property rates, while only six decreased them. Thirty-two towns increased motor vehicle licenses fees, while none decreased them. Similar patterns exist for BPOL taxes and machinery and tools taxes.

Information on tax rates gained through the survey of towns cannot be independently verified and provides a very limited view of tax effort. Nevertheless, survey responses do indicate a pattern of increased town use of taxing authority over the past four years.

Opinions of Town Officials

The last measure used to assess the financial condition of towns was the opinions of town officials. Most town officials do not view their localities as suffering widespread fiscal stress. There are exceptions, but most towns responding to the survey feel able to balance the services citizens require with the financial resources available. Only 25 percent of all towns felt they did not have resources sufficient to provide reasonable levels of service. A slightly lower percentage of the officials of towns with populations greater than 3,500 felt resources were strained; over one-fourth of these officials felt their towns had not yet tapped the full extent of their taxing authority.

One-third of all local officials feel their towns are in better financial condition than 6 years ago. But another third feel they are in worse shape. Even though these percentages may be significant, they are much below the levels of response of city and town officials.

Conclusion

There are no precise indicators of fiscal stress in towns. The approach taken to examine fiscal stress in towns must therefore be viewed as tentative. Nevertheless, some towns do appear to show some symptoms of stress, although the levels are not comparable to cities and most counties. In the main, most towns do not show widespread signs of stress.

CONCLUSION

Towns are the most diverse group of local governments in Virginia, since they exist to serve local needs. For the most part, towns generally provide the higher levels of service demanded by urban areas within counties. Services provided by towns are concentrated in sewer and water systems, public safety, and street maintenance.

State involvement in town activities is much lower than in city and county operations. Both State mandates and State aid are generally viewed as reasonable. Areas of concern focus on the appropriateness of State mandates for small towns, and requirements and lack of funding for sewer and water systems. As with cities and counties, however, the level of complaints is low, and there is no consensus about which mandates are particularly burdensome.

About one-third of towns responding do show some signs of fiscal stress. Some towns have taken actions to control spending and have increased taxes over time. Nevertheless, the level of stress indicated by these symptoms is much lower than those of cities and counties.

VII. POLICY OPTIONS

JLARC research indicated that State mandates are not a substantive problem. Nevertheless, many mandated programs and services are not funded at levels consistent with the State's historical commitment. Further, many local governments are fiscally stressed, and State action is warranted to relieve this stress and aid localities in their efforts to fund service responsibilities. These conclusions and policy options to address these conclusion are included in this chapter.

STATE MANDATES AND FINANCIAL AID

The State imposes extensive mandates on local governments. Mandates affect the organization, staffing levels, services provided, administrative procedures, budgets, and spending of all local governments. In mandating services or activities, the State has assumed a significant interest in ensuring that local governments provide at least a minimum level of services in education, welfare and social services, health, corrections, and several other areas.

Most mandates are not viewed as unreasonable by most local administrators. Indeed, many local officials acknowledge that State mandates have had positive impacts for local residents. Moreover, there is no consensus among local officials about which specific mandates are burdensome. This finding was confirmed by four major research efforts which were utilized to identify specific troublesome mandates:

- surveys of all 41 cities, 95 counties, and 130 towns over 500;
- statewide workshops at which 102 localities were represented;
- extensive case study visits to 13 localities; and
- follow-up telephone interviews with 24 local administrators who cited general frustrations with mandates on the JLARC survey.

These methods produced strong convergence of evidence that, substantively and procedurally, localities have few problems with mandates. Rather, localities' concerns are largely focused on the adequacy of State funding of mandates.

To minimize the impact of mandates and to recognize the shared State-local nature of many service responsibilities, the State has committed itself to aid in funding many required services and activities. Commitments have come from constitutional provisions, statutory decisions, and historical tradition. Over the 12-year period from FY 1971 through FY 1982, State financial aid comprised a roughly stable share of local budgets. Still, the level of State aid to localities has not matched the State's level of involvement in local affairs. The proportion of local budgets funded through State aid is low by regional and national standards. And, the State's most recent initiatives in State aid -- assumption of the approved costs for some constitutional officers and aid for localities with police departments -- have been offset by declines in the State share of total funding for public education.

There are several program areas where State funding has not been consistent with State involvement or historical commitments. Aid to education is foremost among these. Aid to education is particularly important because it comprises over 70 percent of all aid to localities and accounts for over half of all local government expenditures. The State's involvement in education is extensive. Local school divisions must comply with wide-ranging and specific requirements imposed by the General Assembly and the Board of Education. Within education, aid for special education is another key area where State aid has failed to meet historical levels. Aid for the State's auxiliary grant program has also been inconsistent with its level of control.

In providing and funding required services and activities, local governments are dependent on the levels of State aid. This reliance has become more important as the federal government has increasingly withdrawn from full funding of its program commitments. Disruptions or declines in levels or shares of State funding create fiscal stress by forcing localities to choose between service reductions and increased local funding. If State mandates prevent service reductions, then localities have no choice but to fund increased costs. Part of the fiscal condition of localities is determined, therefore, by State decisions about levels of aid for specific programs. Although localities have not reached a crisis point, incremental action by the State to more adequately fund its mandates is warranted.

Recommendation (1). The State should either establish as a goal full funding of its mandated programs and services or commit itself to equitable, adequate, and stable funding of its aid to localities. Further, the General Assembly should consider establishing mechanisms for determining costs of its mandated programs.

Adoption of this recommendation would address principal local concerns regarding mandates and related State aid. While full funding, from the localities' point of view, would be most desirable, adequate State resources may not be available to accomplish it. Moreover, full funding would not reflect the partnership relationship that is desirable for some programs. In the absence of full State funding, the commitment to equitable, adequate, and stable funding would address many local concerns.

Neither of these goals, however, is immediately achievable because of a lack of (1) specific legislative commitments, (2) necessary information on costs, and (3) the availability of additional financial aid. Mechanisms can be established, however, to lay the groundwork for the achievement of either of these goals.

Specific Legislative Commitments. While the State has traditionally funded a share of most mandated programs, the level of State aid for most programs has been determined more by available revenue and legislative appropriations than by specific State commitments. As a result, the State and local shares of many mandated programs have fluctuated over time. For example, the State's established cost per pupil declined from 82.4 percent of the estimated Standards of Quality cost in FY 1975 to 78.0 percent in FY 1982. The establishment of a statutory funding commitment would contribute to a stable and predictable State share of such costs.

Recommendation (1a.) The General Assembly should promote stable and predictable funding of State-local programs by establishing in statute its commitment to program funding. The commitment should specify the share of program costs to be funded by the State.

Necessary Information on Costs. While the stability and predictability of funding could be promoted by statutory commitments to specified funding levels, the adequacy and equity of the funding would depend on the level of funding committed and the accuracy of the basis on which the costs of programs were calculated.

If the State commits itself to funding a specific percentage of the estimated cost per pupil of Standards of Quality, for example, it is essential that the methodology for computing the cost be technically correct and that costs be reasonable. Systematic evaluations of the cost of major mandated programs would promote the adequacy and equity of the State funding.

Steps have already been taken in some areas to conduct such assessments. JLARC's study of the allocation of highway funds, which was mandated by the General Assembly in 1982 and 1983, is reviewing the equity of highway allocation formulas and the adequacy of maintenance spending, urban assistance payments, and aid for mass transit. A similar study of the estimated per pupil cost of the educational Standards of Quality could be performed by JLARC in its scheduled study of the functional area of elementary and secondary education.

Efforts should also be made to make follow-up assessments of the accuracy of fiscal impact statements for new mandates. Such assessments could provide a basis for reconsideration of a mandate if its fiscal impact was underestimated.

Recommendation (1b.) The General Assembly should promote adequate and equitable funding of State-local programs by directing an assessment and validation of the basis for sharing major program costs. In particular, JLARC should assess the method for estimating the cost of the State's Standards of Quality. Such costing mechanisms should include methodologically rigorous studies and systematic reviews of the fiscal impacts of mandated programs on local governments.

Finally, better information on the effects of mandates would be available if local government organizations, such as the Local Government Advisory Council and other groups, would act as forums for identifying widespread problems with mandates and financial aid. While consensus on substantive problems with mandates does not currently exist, such organizations could serve as valuable conduits for identifying problems in the future.

Availability of Additional Financial Aid. As demonstrated in this report, the State share of several important programs has fallen in recent years. While the State may not wish to commit itself to additional funding of some programs prior to validating estimates of program costs, JLARC research suggests that additional funding should be provided in several key areas. Specifically, these areas are the funding of the educational Standards Of Quality, categorical aid for special education, and the State's share of auxilary grant funding. In each case, State control is high and localities have been shown to have strong concerns about funding levels. For SOQ and special education funding, the traditional State share of costs has declined. Based on existing data, it is possible to estimate the amount of aid which would be necessary to meet existing State commitments.

Table 34 presents estimates of the amount of additional aid which would be required. Estimates of the cost of meeting educational Standards Of Quality are derived from Department of Education calculations for FY 1984, and have been adjusted for FY 1985-86 to account for inflation and declining school enrollments. Though these calculations should be reviewed in the future, a strong case can be made for funding the State share of 82 percent of estimated SOQ costs, which the State did fund in FY 1975.

Estimates of the State's historical commitment for special education are based on 28 percent of the added costs of educating handicapped students and have also been adjusted for inflation. In FY 1978, the State funded about 28 percent of these estimated costs. And, the added cost of funding a more appropriate share of the Auxiliary Grant program is estimated with State reimbursement set at 80 percent. Although this level is adjustable, it is based on the maximum share of State financial participation for any shared cost in welfare and social services.

The amount of additional aid needed to meet existing State commitments is substantial. About $233.3 million in increased aid for these programs would be required for the FY 1984-86 biennium.

Recommendation (1c). Additional aid should be provided to localities to fund programs at levels consistent with the State's traditional level of commitment. Specifically, funds should be provided to fund (1) the State share of 82 percent of the estimated costs of meeting educational Standards of Quality; (2) up to 28 percent of the added costs of special education; and (3) 80 percent of the Auxiliary Grant program.

Table 34

AMOUNTS OF ADDITIONAL AID NECESSARY TO MEET STATE COMMITMENTS
(dollars in millions above FY 1984 appropriation)

Program Objective	Amount Needed FY 1985	FY 1986	Biennial Total
1. To fund the State share of 82 percent of estimated costs of meeting educational Standards Of Quality	$67.4	$ 97.0	$164.4
2. To fund the added costs of special education at historical levels (28 percent)	28.5	34.9	63.4
3. To fund the Auxiliary Grant program at levels more consistent with State control (80 percent)	2.5	3.0	5.5
Total	$98.4	$134.9	$233.3

Source: JLARC Estimates Using DOE, SDSS Data.

Taken together, Recommendations 1, 1a, 1b, and 1c will help to address long and short-term problems associated with mandates and their funding. These recommendations do not, however, provide for immediate full funding of mandates or fully address the underlying fiscal stresses which affect a locality's ability to fund its service responsibilities. As shown in Chapter IV, additional aid is warranted to address the fiscal stresses shown in many Virginia localities.

ADDRESSING FISCAL STRESS

While the State is taking incremental steps to both define and meet its commitments (Recommendations 1-1c), many localities are experiencing fiscal stresses that may be largely independent of State mandates. Measured by an index which combines revenue capacity, tax effort, and level of poverty, it is clear that Virginia's cities experience far greater fiscal stress than the State's counties. This situation may be further exacerbated by the fact that the value of State financial aid and direct services is greater to counties than to cities. The per capita value of all State aid to counties in FY 1981 was $395, much greater than the $273 value of per capita aid to cities. This $122 gap is reduced to $32 when highway funds are excluded, but remains significant. In general, Virginia's cities suffer financial stress resulting from high tax effort, high poverty, and often, stagnant revenue capacity.

Another group of stressed localities are poor, rural counties. These localities suffer principally from low capacity and high poverty.

While cities and poor, rural counties suffer clear fiscal stress as measured by the index, almost all localities show one or more specific symptoms of stress. Even localities such as urbanizing counties, which appear to have a good fiscal balance sheet, still face high demands for services and are becoming increasingly dependent on the property tax. Most localities manifest some symptoms of stress and need some form of State assistance to meet their service responsibilities.

Recommendation (2). The State should take steps to assist stressed localities in their efforts to meet service responsibilities.

Because of the differing stresses that face localities, three independent approaches have been prepared:

(a) distributing additional aid through a formula measuring fiscal stress;

(b) balancing highway funding between cities and counties; and

(c) equalizing taxing authority.

A section has been presented on each approach, describing the approach, the amount of State aid involved, and the potential impacts. It is essential to understand, however, that the approaches may address different goals. In particular, equalizing taxing authority will do little for the most stressed communities.

Distribution of Additional Aid Through a Stress Formula

Under this approach, the State would provide additional financial assistance to localities based on their level of fiscal stress. The results of study research do not point to precise amounts of additional aid which would be necessary to balance fiscal stress among local governments. It is possible, however, to use the key measures of stress -- revenue capacity and tax effort -- to develop a range of amounts which would meet general policy objectives. A summary of some possible objectives is presented in Table 35.

As Table 35 indicates, a substantial infusion of new aid would be necessary to balance the major causes of local fiscal stress. For example, $341.0 million in added State aid would be necessary to bring localities with high overall stress levels down to moderately high levels for the FY 1984-86 biennium. About $552.3 million would be required for FY 1984-86 to bring all localities with above average stress levels down to statewide averages. Policy objectives other than those listed could be used to develop different ranges. As the table

Table 35

AMOUNTS OF ADDITIONAL ASSISTANCE NEEDED TO ADDRESS STRESS
(dollars in millions)

Objective	Amount Needed (FY 1984-86)	Less $233.3 To Meet State Commitments
1. Amount sufficient to bring localities with high overall stress levels down to moderately high stress levels.	$341.0	$107.7
2. Amount sufficient to bring localities with at least moderately high stress down to moderate stress levels.	385.2	151.9
3. Amount sufficient to bring localities with high overall stress down to average stress levels	481.9	247.8
4. Amount sufficient to bring localities with above average stress down to average levels.	552.3	319.0

Source: JLARC.

shows, the total amounts would be offset substantially if $233.3 million in funds were provided, as recommended, to meet traditional levels of State aid to education, special education, and auxiliary grants.

The advantage of additional aid distributed according to a stress formula is that aid can be targeted more precisely to localities which are most stressed. The formulas below capture the key dimensions of fiscal stress and result in higher per capita distributions to cities and to rural localities with high poverty and low revenue capacity:

(i) Formula using 50 percent population, and 50 percent capacity, tax effort, and poverty;

(ii) Formula using 50 percent population, and 50 percent revenue capacity and tax effort; or

(iii) Formula using 50 percent population, and 50 percent tax effort and poverty.

The impact of the distribution of new aid based on a stress formula would be to reduce stress in all localities through the infusion of new aid, while helping the most severely stressed localities the most. As with all formulas, a stress formula would have to be recalculated annually or biennially, since fiscal stress is relative and would change over time due to changing local financial conditions.

Recommendation (2a.) The General Assembly should consider distributing additional aid to localities on the basis of a stress index or formula, as a means of balancing the fiscal stresses facing local governments.

Balancing Highway Funding

Highway funding accounts for most of the advantage that counties enjoy over cities in the area of State aid and direct services. Of the $122 per capita benefit gap, $90 can be directly attributed to differences in highway funding. This differential is currently under review in JLARC's study of highway allocations, and a final report is due in December 1983. Because Virginia's cities as a class are the most highly stressed localities in the State, the correction of differences in highway funding would contribute substantially to relieving fiscal stress.

Recommendation (2b). Specific figures on the amount of State aid necessary to balance the benefits of highway funding will be available in December. At that time, the General Assembly should consider those findings and prepare recommendations which would both narrow the benefit gap and aid in reducing the fiscal stresses facing cities.

Equalizing Taxing Authority

A few localities in Virginia would benefit from the grant of additional taxing authority. Currently, Virginia counties and cities have substantially different taxing authority. At one time, these differences probably reflected clear distinctions between counties and cities. Today, with the existence of cities with extremely large geographical areas and with the urbanization of some counties, those differences are muted. Many counties in the State are now called upon to offer services which were once considered principally urban.

With a wide range of taxes, an individual locality can be responsive to its own particular resources and stresses. Some localities, particularly urbanizing or suburbanizing counties which have relatively strong and diverse tax bases could benefit from taxing authority similar to that afforded cities. Such authority could reduce the political stress encountered by localities which face strong taxpayer resistance to higher property taxes.

It must be noted, however, that equalized taxing authority would do nothing to alleviate the problems of the most stressed communities. Cities already have the full taxing authority permitted by law, and show very high tax efforts. Additional taxing authority would force them to increase tax effort beyond already high levels in order to produce added revenue. The result would increase one key symptom of their fiscal stress. The benefit of added taxing authority would also be limited for poor, rural localities. These localities do not have sufficient revenue capacity or local economic activity to produce significant revenues through additional taxes. Still, equalized taxing authority would have benefits for some localities, and if offered generally, could provide counties with additional flexibility to meet their service responsibilities in the future. As part of a package of legislative actions, additional taxing authority could meet the needs of some localities.

Recommendation (2c). The General Assembly should consider equalizing taxing authority between counties and cities.

CONCLUSION

No one approach will address all of the stresses affecting the ability of Virginia localities to meet their service responsibilities. And, the most effective approaches may well require the examination of additional revenues at the State level. An improved economy would both reduce local stress and improve the State's ability to provide additional aid. Other methods of producing additional revenue are discussed in the Appendix. Consideration of such methods is premature, however, until firmer decisions are made regarding the State's objectives for funding mandates and relieving local fiscal stress. Legislative actions to ensure equitable and adequate aid to localities and to address the fiscal stresses facing local governments should be considered by the General Assembly.

VIII. APPENDIXES

APPENDIX A

HOUSE JOINT RESOLUTION NO. 12

Offered January 13, 1983

To continue the Joint Legislative Audit and Review Commission study of the responsibilities and financial resources of local governments.

Patrons—Hall, Ball, Bagley, R. M., Morrison, and Manning

Referred to the Committee on Rules

WHEREAS, House Joint Resolution No. 105 of the 1982 Session of the General Assembly requested the Joint Legislative Audit and Review Commission, with the assistance of a twelve member legislative subcommittee, to study the responsibilities and financial resources of local governments; and

WHEREAS, increased service costs, slowed revenue growth, and reduced federal aid have created financial stress for many localities; and

WHEREAS, during its two meetings and six regional workshops the Commission has begun studying the many complex issues concerning state-local relations, state mandates, and state financial assistance to cities, counties and towns; and

WHEREAS, the Commission has prepared an interim report for the 1983 General Assembly which outlines special research efforts planned for 1983 to complete its study of local mandates and financial conditions; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission should continue its study of the: (1) responsibilities of local governments for providing public services; (2) differences in the responsibilities of cities, counties, and towns; (3) sources of revenue available to localities and their adequacy; (4) additional revenue sources that could be used to provide public services; and (5) Commonwealth's responsibilities for providing public services and procedures for aiding local governments.

The Commission shall complete its study and submit its report with recommendations to the General Assembly and Governor by September 1, 1983.

APPENDIX B

MANDATE INVENTORY

A. ADMINISTRATION OF GOVERNMENT

1. Fiscal & Purchasing

a. Localities must have an annual audit performed on all accounts and records by either the Auditor of Public Accounts or an independent certified public accountant. Towns having a population of less than 3,500 are excluded unless they maintain a separate school division.

Source: Virginia Code Section 15.1-167

b. Localities must submit a financial report, in compliance with the Uniform Financial Reporting System for Counties and Municipalities, to the Auditor of Public Accounts annually. Towns having a population of fewer than 3,500 are excluded unless they maintain a separate school division.

Source: Virginia Code Section 15.1-166

c. Localities must follow a budget process that complies with State requirements for content, form, publication and public hearings. These requirements are optional for localities that have a charter or special law containing budget provisions.

Source: Virginia Code Section 15.1-160 et seq

d. Localities must use a uniform fiscal year that begins on July 1 and ends on June 30. Towns having a population of less than 3,500 are excluded, but any school division they operate must use this fiscal year.

Source: Virginia Code Section 15.1-159.8

e. Localities must do their purchasing of goods and services, including professional services, in accordance with the Virginia Public Procurement Act or adopt alternative provisions based on competitive principles. Towns having a population of fewer than 3,500 are exempt from most provisions of the Act.

Source: Virginia Code Sections 11-35 et seq

f. Localities collecting State revenues must deposit these funds into the State's account weekly. This applies to treasurers and circuit court clerks.

Source: Virginia Code Sections 58-971, 973 and Department of Accounts policy memorandum.

g. Localities must verify the placement of each new mobile home dwelling in a locality prior to remission of taxes levied on the purchase of the mobile home and collected by the Division of Motor Vehicles.

Source: Virginia Code Section 58-685.23 and Division of Motor Vehicles instructions.

h. Localities must certify that abandoned motor vehicles have been demolished prior to payment by the Division of Motor Vehicles for this service.

Source: Virginia Code Section 46.1-555.9 and Division of Motor Vehicle instructions

i. Localities must certify that information on a refund voucher is correct as to rental car dealers prior to remission of their share of Motor Vehicle Rental Tax by the Division of Motor Vehicles.

Source: Virginia Code Section 58-685.23

2. Personnel & Retirement

a. Local governments having more than 15 employees must adopt a personnel classification plan for service and a uniform pay plan.

Source: Virginia Code Section 15.1-7.1

b. Local governments having more than 15 employees must establish a grievance procedure that is approved by the Department of Personnel and Training; otherwise the State's grievance procedures will apply.

Source: Virginia Code Section 15.1-7.1

c. Localities having a population of 5,000 or more must provide retirement coverage under the Virginia Supplemental Retirement System (VSRS) or their own plan which equals or exceeds two-thirds of the VSRS benefit level.

Source: Virginia Code Section 51-111.31

d. Local governments must submit quarterly reports detailing the number of persons in salaried positions and the amount of their salaries. The Virginia Unemployment Compensation Act requires that the reports be sent to the Virginia Employment Commission.

Source: Virginia Code Section 60.1-1 et seq

e. Local governments must provide benefits to workers under the Virginia Workmen's Compensation Act for injuries or occupational diseases which are the result of employment.

Source: Virginia Code Section 65.1-1 et seq

f. Localities which opt to participate in the group life insurance program managed by the Virginia Supplemental Retirement System must follow State reporting and payment procedures.

Source: Virginia Code Section 51-111.67:1 et seq

g. Localities which opt to join the Social Security Program must submit a plan to the Virginia Supplemental Retirement System and comply with federal requirements for payments and records.

Source: Virginia Code Section 51-111.5

3. General Government

(Note: Mandates establishing the forms of government and procedures for handling business have been excluded.)

a. Each city and county must establish a three member electoral board.

Source: Virginia Code Section 24.1-29 et seq

b. Local electoral boards must appoint a general registrar and must follow State procedures for voting and registration.

Source: Virginia Code Section 24.1-29 et seq

c. Localities must follow state procedures for managing and preserving public records (including preservation, storage, filing, microfilming, management, disposal, and destruction).

Source: Virginia Code Section 42.176 et seq

d. Localities are required to participate in the State blanket surety bond program for local officials that are required to be bonded under State law.

Source: Virginia Code Section 2.1-526.9

e. Local government must assess real estate periodically and at 100 percent of fair market value.

Source: Virginia Code Section 58-760 et seq

f. Localities must file requests for salaries for constitutional officers to the Compensation Board and follow procedures developed by the Board.

Source: Virginia Code Section 14.1-50 et seq

B. EDUCATION

1. Elementary & Secondary Education/Curriculum

a. School divisions must design programs that enable students to master the basic skills in math and verbal language. (SOQ #1)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

b. School divisions, through testing, must assess student progress in attaining basic skills. (SOQ #2)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

c. School divisions must offer vocational education programs that prepare students for work outside the public education spectrum. (SOQ #3)

Source: Virginia Code Section 22.1-227; and Acts 1982, c. 578

d. School divisions must identify gifted and talented students and provide them differentiated instructional opportunities. (SOQ #5)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

e. School divisions must offer educational alternatives for students whose needs are not met in the normal education program. (SOQ #6)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

f. School divisions must have procedures for assessing student conduct. (SOQ #7)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

g. School divisions must employ 54 instructional personnel for each 1,000 students in average daily membership. (SOQ #8)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

h. School divisions must assign instructional personnel so that a division-wide ratio of 25 students to one teacher is not exceeded for grades K-6. (SOQ #8)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

i. School divisions must assign instructional personnel so that the maximum number of pupils in any K-3 class does not exceed 30.

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

j. School divisions must employ certified teachers and provide programs for teacher recertification and professional development. (SOQ #9)

Source: Virginia Code Sections 22.1-16, 299; and Acts 1982, c. 578

k. School divisions must employ principals and supervisory personnel who have been certified by the Board of Education and provide them a professional development program. (SOQ #9)

Source: Virginia Code Sections 22.1-16, 293; and Acts 1982, c. 578

l. School divisions must involve educational staff and the community in revising long-range school improvement plans. (SOQ #11)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

m. School divisions must design programs to raise the performance of low achieving students in reading and mathematics.

Source: Virginia Code Section 22.1-16, and Board of Education regulations

n. School divisions are required to provide driver's education in the classroom.

Source: Virginia Code Section 22.1-205

o. School divisions must provide instruction on drugs and alcohol abuse at the 8th grade level, during physical and health education classes.

Source: Virginia Code Section 22.1-206

p. School divisions must provide instruction to students on physical and health education.

Source: Virginia Code Section 22.1-207

q. For school divisions to receive funding for adult education programs, they must provide post-secondary education for adults in compliance with Board of Education regulations.

Source: Virginia Code Section 22.1-223 et seq; and Board of Education regulations

r. School divisions must select textbooks from a Department of Education approved list or select textbooks according to approved procedures.

Source: Virginia Code Section 22.1-238 et seq; and Board of Education Bylaws

s. School divisions which provide summer instructional programs must include them in their annual budgets and offer them to all school-age pupils.

Source: Virginia Code Section 22.1-211

t. School divisions are required to have all teachers enrolled in the Virginia Supplemental Retirement System.

Source: Virginia Code Sections 51-111.31, 111.33

u. School divisions must comply with minimum standards for school facilities on new construction and renovation of existing facilities.

Source: Virginia Code Sections 22.1-138, 140; and Board of Education regulations

v. School divisions which choose to participate in the school lunch program must provide meals based on a nutritional meal pattern established by the federal government.

Source: Virginia Code Section 22.1-24

2. Special Education

a. School divisions must provide a free and appropriate education to the handicapped between the ages of two and 21 years. (SOQ #4)

Source: Virginia Code Section 22.1-215; and Acts 1982, c. 578

b. School divisions must meet staffing levels set by the Board of Education for individual types of student disabilities.

Source: Virginia Code Section 22.1-16; and Board of Education regulations

c. School divisions must employ staff having qualifications set by the Board of Education for working with handicapped students.

Source: Virginia Code Section 22.1-16; and Board of Education regulations

d. School divisions must prepare an individual education program (IEP) consisting of medical, psychological, sociological and educational assessments for each handicapped student.

Source: Virginia Code Section 22.1-214; and Board of Education regulations

e. School divisions must have procedures for allowing parents to inspect and review student records and for providing parents a due process hearing on matters concerning program placements and individual education plans.

Source: Virginia Code Section 22.1-214; and Board of Education regulations

f. School divisions must submit annual and six-year plans to the Board of Education for the education of handicapped students.

Source: Virginia Code Section 22.1-215; and Board of Education regulations

g. School divisions are required to provide free transportation for handicapped in specially equipped buses or vans.

Source: Virginia Code Section 22.1-221

h. School divisions must pay the costs of placing handicapped students in other institutions when they cannot provide a free appropriate public education for any student.

Source: Virginia Code Section 22.1-218

3. Finance & Administration

a. School divisions must provide free education to each person of school age, and localities must appropriate funds for this purpose.

Source: Virginia Constitution, Article VIII, Section 1; and Virginia Code Sections 22.1-2, 94

b. School divisions must file accreditation reports and meet accreditation standards adopted by the Board of Education. (SOQ #10)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

c. School divisions must maintain a policy manual that includes employee grievance and evaluation procedures. (SOQ #12)

Source: Virginia Code Section 22.1-16; and Acts 1982, c. 578

d. School divisions are required to ensure attendance by students and to maintain and report to the Department of Education accurate records of daily pupil attendance.

Source: Virginia Code Section 22.1-254 et seq; and Board of Education regulations

e. School divisions must conduct a census of their school-age population once every three years.

Source: Virginia Code Section 22.1-281 et seq

f. School divisions must employ local superintendents according to Board of Education requirements for qualifications, terms of office and minimum salaries.

Source: Virginia Code Section 22.1-58 et seq; and Board of Education regulations

g. School divisions are required to submit to the Department of Education annual reports by August 1 concerning programs, expenditures, personnel and facilities.

Source: Virginia Code Section 22.1-B1 and Board of Education regulations

h. School divisions must maintain student scholastic records in conformity with established guidelines regarding confidentiality, storage, maintenance and disposal.

Source: Virginia Code Section 22.1-287 et seq

i. School divisions must verify that students have been properly treated and immunized before admittance into the public school system.

Source: Virginia Code Section 22.1-270 et seq

j. If transportation of nonhandicapped students is provided, school divisions must conform to State regulations regarding equipment, insurance and driver qualifications.

Source: Virginia Code Section 22.1-176 et seq; and Board of Education Bylaws

k. School divisions must provide free textbooks to pupils whose parents are financially unable to afford the cost of books.

Source: Virginia Code Section 22.1-251

l. Localities must approve local school budgets by May 1 for counties and May 15 for cities.

Source: Virginia Code Section 22.1-93

m. School divisions must provide the Department of Education with an independent audit of the school's activity fund for any extracurricular activities.

Source: Virginia Code Section 22.1-16; and Board of Education regulations

C. PUBLIC SAFETY

1. Law Enforcement & Traffic Control

a. Local law enforcement agencies are required to submit monthly and annual crime reports to the State Police under the Virginia Uniform Crime Reporting Program.

Source: Virginia Code Section 52-25 et seq

b. Local law enforcement agencies are required to report arrests to the State Police under the Central Criminal Records Exchange Program.

Source: Virginia Code Sections 19.2-388, 390

c. Local criminal justice agencies must maintain criminal history record information according to State law and regulations issued by the Department of Criminal Justice Services.

Source: Virginia Code Sections 9-169, 170, 184, 196 and Section 19.2-389; and "Rules and Regulations Relating to Criminal History Record Information"

d. Local law enforcement agencies that join the State Police's criminal justice communications network must provide a terminal device and control access to the terminal and network information.

Source: Virginia Code Section 52-16 et seq

e. All full-time law enforcement officers must meet the minimum training standards established by the Criminal Justice Services Commission.

Source: Virginia Code Sections 9-109(2), 111.1

f. Localities with police departments may obtain funds from the Department of Planning and Budget if their enforcement personnel have complied with training standards prescribed by the Criminal Justice Services Commission.

Source: Virginia Code Sections 14.1-84.2, 84.6:1

g. Localities must certify that motor vehicles will be used solely for police work to receive unmarked vehicle license plates from the Division of Motor Vehicles.

Source: Virginia Code Section 46.1-49

2. Correction & Detention of Prisoners

a. Localities must have jails or lockups that comply with Department of Corrections regulations concerning physical and operating requirements.

Source: Virginia Code Section 53.1-68 et seq and Department of Corrections regulations

b. Cities and counties operating juvenile detention programs (including outreach, secure detention, and homes) must comply with Department of Corrections standards on housing and management.

Source: Virginia Code Section 16.1-311 et seq and Department of Corrections regulations

c. Cities and counties operating local service units for juvenile and domestic relations courts must provide services determined by Department of Corrections regulations. Services include intake, investigations, probation, aftercare, diversion, family counseling and placements.

Source: Virginia Code Section 16.1-233 et seq and Department of Corrections regulations

d. Cities and counties must provide office space, utilities, furniture and telephone service for State-operated service units for juvenile and domestic relations courts.

Source: Virginia Code Section 16.1-234

e. Localities seeking to operate a community diversion program that addresses State inmates must comply with Department of Corrections program requirements for managing inmates.

Source: Virginia Code Section 53.1-180 et seq and Department of Corrections regulations

f. Localities seeking to have State inmates assigned to their jails for work release must follow Department of Corrections guidelines for supervising the inmates.

Source: Virginia Code Section 53.1-60, 131 and Department of Corrections guidelines

g. To obtain funds for a delinquency prevention program from the Department of Corrections, localities must provide minimum services for public awareness and set up a youth services citizen board.

Source: Virginia Code Section 2.1-251 et seq and Department of Corrections regulations

h. Localities seeking funds under the Alcohol Safety Action Program must follow Department of Transportation Safety requirements regarding public information efforts and administration.

Source: Virginia Code Section 18.2-271.1

3. Civil Defense & Emergency Services

a. Each county and city must adopt a local emergency operations plan establishing a chain of command and responsibilities for local agencies during an emergency. Localities within a ten-mile radius of a nuclear power plan must include a radiological response component in their plans. Towns with populations greater than 5,000 can develop a plan and operate a program separate from a county.

Source: Virginia Code Section 44-146.13 et seq and Section 44-146.30

b. Each county and city must appoint a director of emergency services. Towns with populations greater than 5,000 can operate a program separate from a county, but must then appoint a director.

Source: Virginia Code Section 44-146.19

c. To receive funding from the Office of Emergency and Energy Services for their emergency services programs, localities have to comply with a set of minimum program standards.

Source: Virginia Code Section 44-146.18; and Office of Emergency and Energy Services guidelines

D. PUBLIC WORKS

1. Utilities & Refuse Disposal

a. Localities must implement a solid waste management plan which meets State standards or participate in a regional solid waste management plan.

Source: Virginia Code Section 32.1-183 and Department of Health regulations

b. Localities must obtain a permit from the State Department of Health in order to operate a sanitary landfill and must also comply with regulations for maintenance of the landfill.

Source: Virginia Code Sections 32.1-180, 181 and Department of Health regulations

c. Localities that own a public water system must comply with State waterworks regulations and obtain a permit from the State Department of Health.

Source: Virginia Code Section 32.1-167 et seq and Department of Health "Waterworks Regulations"

d. If a locality has a sewage collection, treatment, or disposal system that is not regulated as an effluent facility (emptying into State waters), then it is controlled by the State Department of Health regulations for sewage handling and disposal.

Source: Virginia Code Section 32.1-163 et seq and Department of Health regulations

e. Localities must obtain a National Pollutant Discharge Elimination System (NPDES) permit from the State Water Control Board before they can discharge effluents into State waters from wastewater treatment plants

Source: Virginia Code Section 62.1-44.2 et seq and State Water Control Board Regulation #6

f. Construction, maintenance and operation of any sewage treatment plant dumping effluent into State waters must be consistent with sewage regulations issued jointly by the State Water Control Board and the State Department of Health.

   Source: Virginia Code Section 32.1-163 et seq and Section 62.1-44.2 et seq; State Water Control Board/Department of Health Regulation #8; and Water Quality Standards

g. Localities that dispose of sewage treatment products and wastes by applying them onto land must obtain a "no discharge" certificate from the State Water Control Board.

   Source: Virginia Code Sections 62.1-44.17, 44.19

h. Localities are required to report annually to the State Water Control Board their water withdrawal rates during the year if their average water withdrawal rate exceeds 10,000 gallons per day during any month.

   Source: Virginia Code Section 62.1-44.38 and State Water Control Board Regulation #11

2. Roads & Other Facilities

   a. To qualify for urban assistance payments, cities and towns with populations greater than 3,500 which maintain their own roads must meet Department of Highways and Transportation standards.

      Source: Virginia Code Section 33.1-41 et seq

   b. Cities and towns with populations greater than 3,500 must provide five percent matching funds for urban construction projects built within their borders by the Department of Highways and Transportation.

      Source: Virginia Code Section 33.1-44

   c. All intraurban public transit systems must submit annual financial and statistical data to the Department of Highways and Transportation.

      Source: Virginia Code Section 33.1-223.1

d. Localities which operate public transit systems must contribute at least five percent of the nonfederal funds for capital acquisition and for fuel, tires and maintenance. Localities must provide at least 50 percent of the nonfederal funds for administration.

Source: Virginia Code Section 33.1 46.1

e. Cities and counties must provide a dog pound facility that is constructed and operated according to standards for animal care and health issued by the Department of Agriculture and Consumer Services.

Source: Virginia Code Section 29-213.19; and Department of Agriculture and Consumer Services regulations

f. Localities which own dams must make any improvements necessary to correct deficiencies in construction or maintenance that are found during inspection by the State Water Control Board.

Source: Virginia Code Section 62.1-115.1 et seq; and State Water Control Board Regulation #9

f. Localities which choose to operate airports or air navigation facilities must maintain those facilities consistent with Department of Aviation standards.

Source: Virginia Code Section 5.1-2.2 and Department of Aviation Rules 19 and 68

h. Localities are required to enforce the Uniform Statewide Building Code.

Source: Virginia Code Section 36-105

E. HEALTH AND WELFARE

1. Public Health

a. Cities and counties must establish local health departments which enforce the health laws of the State. However, they may contract with the State Department of Health to carry out this responsibility.

Source: Virginia Code Section 32.1-30 et seq

b. Local health departments must carry out environmental health programs for the inspection of food and public facilities. These programs involve shellfish, restaurants, summer camps, campgrounds, migrant labor camps, milk products and dairies.

Source: Virginia Code Sections 35.1-1, 2, 11, 14, 16, 17; Section 35.1-203 et seq; Section 35.1-530.1 et seq; and Department of Health regulations

c. Local health departments must carry out general health programs for tuberculosis, veneral disease and rabies.

Source: Virginia Code Section 32.1-49 et seq; Section 32.1-55 et seq; and Section 29-213.23

d. Local health departments are required to carry out administrative programs for vital records and epinephrine training and provide support for State district health programs.

Source: Virginia Code Sections 32.1-31, 112.1, 254, and 255

e. Local health departments are required to provide maternal and child health services including immunization of children, treatment of ophthalmia neonatorum, treatment of phenylketonuria, voluntary screening for genetic and metabolic diseases, preschool physicals, and identification and management of intermediate and high risk pregnancies of low income pregnant women.

Source: Virginia Code Sections 32.1-46, 64, 67, 68, 270; and 1982 Acts, Chapter 680, item 420

f. Localities receiving litter control grants must follow guidelines set by the Department of Conservation and Economic Development.

Source: Virginia Code Section 10-206.

2. Mental Health and Mental Retardation

a. Cities and counties must establish or join a community services board by July 1, 1983.

Source: Virginia Code Section 37.1-194 et seq

b. Localities must approve the plan and budget of the community services board before it is eligible for a State grant and must provide matching funds.

Source: Virginia Code Section 37.1-197 et seq

c. Community service boards must establish a prescription team for reviewing patient committments to and discharges from State institutions.

Source: Virginia Code Section 37.1-197.1; and Board of Mental Health and Mental Retardation regulations

d. Community service boards which receive State funds must ensure that their programs meet certification standards issued by the Board of Mental Health and Mental Retardation in the areas of mental health, mental retardation and substance abuse.

Source: Virginia Code Section 37.1-199; and Board of Mental Health and Mental Retardation certification standards

e. Community service boards which receive State support must comply with administrative procedures and policies issued by the Department of Mental Health and Mental Retardation.

Source: Virginia Code Section 37.1-199; and Department of Mental Health and Mental Retardation memoranda

3. Public Assistance Administration

a. Local social service agencies must operate with prescribed levels of administrative staff.

Source: Virginia Code Section 63.1-60; and Board of Social Services regulations

b. Local social service agencies must conform to a merit system of personnel administration for administrative staff.

Source: Virginia Code Sections 63.1-61, 87; and Board of Social Services regulations

c. Local social service agencies must ensure and maintain the confidentiality of administrative records.

Source: Virginia Code Section 63.1-53; and Board of Social Services regulations

d. Local social service agencies must conform to policies for office space and facilities set by the Department of Social Services.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

e. Local social service agencies must submit reports on staffing to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

f. Local social services agencies must submit reports concerning administrative planning to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

g. Local social service agencies must destroy program records according to retention and disposition schedules set by the Department of Social Services.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

h. Local social service agencies must select and use seven of 13 salary steps set by the Department of Social Services for administrative employees.

Source: Virginia Code Section 63.1-66; and Board of Social Services regulations

i. Localities must submit a budget for local social service agencies to the Department of Social Services annually and fund a share of the budget.

Source: Virginia Code Sections 63.1-33, 91; and Board of Social Services regulations

4. Financial Assistance to Needy

a. Local social service agencies must determine the eligibility of clients for the food stamp program.

Source: Virginia Code Section 63.1-25.2

b. Local social service agencies must determine the eligibility of clients for the aid to dependent children program.

Source: Virginia Code Sections 63.1-105, 105.1, 109, 110; and Board of Social Services regulations

c. Local social service agencies must determine the eligibility of clients for the aid to dependent children in foster care program.

Source: Virginia Code Sections 63.1-105, 105.1, 109, 110; and Board of Social Services regulations

d. Local social service agencies must determine the eligibility of aid to dependent children recipients for the emergency assistance program.

Source: Virginia Code Sections 63.1-105, 105.1, 109, 110; and Board of Social Services regulations

e. Local social service agencies must determine the eligibility of clients for the refugee assistance program.

Source: Virginia Code Sections 63.1-25; and Board of Social Services regulations

f. Local social service agencies must determine the eligibility of clients for the medicaid program.

Source: Virginia Code Sections 63.1-97.1, 98; and Board of Social Services regulations

g. Local social service agencies must determine the eligibility of clients for the fuel assistance program.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

h. Local social service agencies must determine the eligibility of clients for the temporary assistance for repatriates program.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

i. Local social service agencies must determine the eligibility of clients for the State/local foster care program and provide local funding for a share of the program costs.

Source: Virginia Code Sections 63.1-55, 55.8, 56, 56.2; and Board of Social Services regulations

j. Local social service agencies must administer the auxiliary grant program for supplemental security income recipients and provide local funding for a share of the program costs.

Source: Virginia Code Section 63.1-25.1; and Board of Social Services regulations

k. Local social service agencies which elect to provide the general relief program must submit a plan and share in the costs of the program.

Source: Virginia Code Section 63.1-106; and Board of Social Services regulations

l. Local social service agencies which elect to participate in the State/local hospitalization program must serve the indigent and share in the costs of the program.

Source: Virginia Code Section 63.1-134 et seq

m. Local social service agencies must submit reports on caseloads for financial assistance programs to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

n. Local social service agencies must submit reports on expenditures for financial assistance programs to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

o. Local social service agencies must operate with staffing levels prescribed for financial assistance programs by the Department of Social Services.

Source: Virginia Code Section 63.1-60; and Board of Social Services regulations

p. Local social service agencies must conform to a merit system of personnel administration for employees handling financial assistance programs.

Source: Virginia Code Sections 63.1-61, 87; and Board of Social Services regulations

q. Local social service agencies must select and use seven of 13 salary steps set by the Department of Social Services for employees handling financial assistance programs.

Source: Virginia Code Section 63.1-66; and Board of Social Services regulations

r. Local social service agencies must ensure and maintain the confidentiality of client records for financial assistance programs.

Source: Virginia Code Section 63.1-53; and Board of Social Services regulations

5. Social Services for Needy

a. Local social service agencies must provide family planning services.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

b. Local social agencies must conform to Title XX planning requirements.

Source: Virginia Code Sections 63.1-25; and Board of Social Services regulations

c. Local social service agencies must provide employment services.

Source: Virginia Code Section 63.1-133.7 et seq

d. Local social service agencies must provide protective services for children.

Source: Virginia Code Section 63.1-248.1 et seq

e. Local social service agencies must provide services to children in foster care.

Source: Virginia Code Section 63.1-55, 55.8, 56, 56.2; and Board of Social Services regulations

f. Local social service agencies must provide three services, chosen from a State list, to supplemental security income recipients.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

g. Local social services agencies must provide early and periodic screening, diagnosis, and treatment (EPSDT) services.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

h. Local social service agencies must provide day care services for children.

Source: Virginia Code Section 63.1-25; and Board of Social Services regulations

i. Local social service agencies must provide adoption services.

Source: Virginia Code Section 63.1-220 et seq

j. Localities must fund their share of the social services required by the State.

Source: Virginia Code Section 63.1-91; and Board of Social Services regulations

k. Local social service agencies must submit reports on caseloads for social service programs to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

l. Local social service agencies must submit reports on the protective services for children program to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

m. Local social service agencies must submit reports on services to children in foster care to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

n. Local social service agencies must submit reports on protective services to the Department of Social Services.

Source: Virginia Code Sections 63.1-33, 52; and Board of Social Services regulations

o. Local social service agencies must operate with staffing levels prescribed for social service programs by the Department of Social Services.

Source: *Virginia Code* Section 63.1-60; and Board of Social Services regulations

p. Local social service agencies must conform to a merit system of personnel administration for employees handling social service programs.

Source: *Virginia Code* Sections 63.1-61, 87; and Board of Social Services regulations

q. Local social service agencies must select and use seven of 13 salary steps set by the Department of Social Services for employees handling social service programs.

Source: *Virginia Code* Section 63.1-66; and Board of Social Services regulations

r. Local social service agencies must ensure and maintain the confidentiality of client records for social service programs.

Source: *Virginia Code* Section 63.1-53; and Board of Social Services regulations

s. Localities which receive funds for aging services from the Department for the Aging must prepare and administer an area aging plan.

Source: *Virginia Code* Section 2.1-373; and Department for the Aging grant procedures

F. JUDICIAL SYSTEM

1. General

a. Localities must provide quarters, equipment, furniture and other necessary support for courts and magistrates.

Source: *Virginia Code* Sections 15.1-19, 257; Sections 16.1-69.50, 69.51:1; Sections 17-19.1, 42, 47, 71, 76; and Section 19.2-48.1

b. Localities must process payments to attorneys, jurors and witnesses for later reimbursement by the State.

Source: *Virginia Code* Sections 14.1-189, 195.1, 195.2; and Sections 15.1-66.4, 131.6

c. Localities must provide representation for indigents charged with local offenses which might result in imprisonment.

Source: Virginia Code Section 19.2-16.3

G. PARKS, RECREATION AND LIBRARIES

1. General

a. To qualify for State or federal grants-in-aid, local libraries must meet State requirements for personnel, materials and operating procedures.

Source: Virginia Code Section 42.1-46 et seq; and State Library Board regulations

b. Public libraries serving a population of over 5,000 must employ State licensed librarians.

Source: Virginia Code Section 54-271

c. Localities receiving erosion control grants for public beaches must conform to requirements for beach monitoring and grant administration, as directed by the Commission on Conservation and Development of Public Beaches.

Source: Virginia Code Section 10-215 et seq

d. Local boating ordinances and regulatory markers must be approved by the Commission of Game and Inland Fisheries.

Source: Virginia Code Section 62.1-182

e. Localities must notify the Commission of Game and Inland Fisheries by May 1 annually of local ordinances that restrict carrying loaded firearms and hunting or trapping near public roads.

Source: Virginia Code Section 18.2-287.1; and Section 29-144.5

H. COMMUNITY DEVELOPMENT

1. General

a. Localities must adopt a comprehensive plan for land use development.

Source: Virginia Code Section 15.1-446.1

b. Localities must adopt ordinances regulating the subdivision of land and its development.

   Source: Virginia Code Section 15.1-465

c. Localities must create a local planning commission to advise on matters pertaining to land use development.

   Source: Virginia Code Section 15.1-427.1

d. Localities enacting zoning ordinances are required to establish a board of zoning appeals to hear appeals on specific sections of the ordinances which create undue hardships on the public.

   Source: Virginia Code Section 15.1-494

e. Localities are required to adopt an erosion and sediment control program consistent with State guidelines.

   Source: Virginia Code Section 21-89.1 et seq; and Virginia Soil and Water Conservation Commission regulations

f. Localities which establish a wetlands board must adopt the model wetlands zoning ordinance set forth in State law and comply with operating requirements of the ordinance.

   Source: Virginia Code Section 62.1-13.5 et seq

g. If localities elect to have a Virginia Tech extension program, they must provide office facilities and share some salary and operating costs.

   Source: Virginia Code Section 3.1-40 et seq; and Virginia Tech Extension Division requirements

h. If local governments choose to establish their own air pollution control program, they must conform to regulations of the State Air Pollution Control Board and federal laws.

   Source: Virginia Code Section 10-17.30

i. Localities which elect to participate in the pilot johnson grass control program must follow guidelines issued by the Department of Agriculture and Consumer Services.

   Source: Virginia Code Section 15.1-867.2 and Department of Agriculture and Consumer Services guidelines.

LEVEL OF REVENUE CAPACITY 1977 and 1981

CHANGE IN REVENUE CAPACITY 1977 - 1981

Counties	1977 Per Capita Capacity ($)	1977 Statewide Rank	Relative Stress Index	1981 Per Capita Capacity ($)	1981 Statewide Rank	Change in Capacity ($)	Statewide Rank	Relative Stress Index
ACCOMACK	309.75	75	5	380.42	84	70.67	106	6
ALBEMARLE	354.49	43	4	476.09	30	121.60	21	3
ALLEGHANY	232.78	125	7	304.40	127	71.62	103	6
AMELIA	314.69	72	5	435.12	54	120.42	23	4
AMHERST	232.06	128	7	319.05	122	86.99	73	5
APPOMATTOX	277.77	97	6	380.58	83	102.81	40	4
ARLINGTON	532.28	6	1	765.84	6	233.56	4	1
AUGUSTA	319.63	67	5	398.43	75	78.80	90	6
BATH	493.70	9	1	959.72	3	466.02	1	1
BEDFORD	301.63	81	5	396.12	76	94.49	58	5
BLAND	240.75	121	7	283.99	132	43.23	136	7
BOTETOURT	289.84	87	6	377.14	86	87.30	72	5
BRUNSWICK	250.92	120	7	334.61	108	83.69	81	5
BUCHANAN	386.36	24	3	687.17	8	300.80	3	1
BUCKINGHAM	318.63	69	5	379.49	85	60.86	120	7
CAMPBELL	262.56	107	6	360.83	98	98.27	48	5
CAROLINE	304.54	78	5	388.29	81	83.75	79	5
CARROLL	205.01	133	8	275.58	134	70.57	107	6
CHARLES CITY	269.79	104	6	364.93	93	95.14	56	5
CHARLOTTE	280.74	95	6	356.62	102	75.88	96	6
CHESTERFIELD	359.76	40	4	445.98	45	86.22	76	5
CLARKE	397.96	21	3	462.32	34	64.36	114	6
CRAIG	293.75	84	6	388.41	80	94.66	57	5
CULPEPER	379.23	27	3	499.04	20	119.81	25	4
CUMBERLAND	273.35	102	6	393.47	78	120.11	24	4
DICKENSON	363.84	38	4	459.49	36	95.65	55	5
DINWIDDIE	255.57	115	7	326.02	113	70.45	108	6
ESSEX	375.03	28	3	488.97	26	113.94	32	4
FAIRFAX	465.18	11	1	638.21	11	173.03	9	1
FAUQUIER	473.11	10	1	608.58	13	135.47	16	3
FLOYD	320.12	65	5	370.28	88	50.16	130	7
FLUVANNA	409.22	19	2	464.96	32	55.74	127	7
FRANKLIN	254.26	116	7	360.84	97	106.57	37	4
FREDERICK	370.55	32	3	435.96	53	65.41	113	6
GILES	294.29	83	6	367.59	91	73.30	101	6
GLOUCESTER	365.69	36	4	444.56	47	78.87	89	6
GOOCHLAND	415.88	17	2	512.49	17	96.61	53	5
GRAYSON	216.32	132	8	316.41	123	100.09	45	5
GREENE	286.15	88	6	364.58	94	78.43	91	6
GREENSVILLE	233.05	124	7	293.00	129	59.95	121	7
HALIFAX	232.73	126	7	319.13	121	86.40	75	5
HANOVER	369.12	33	3	498.09	22	128.96	18	3
HENRICO	392.90	22	3	482.63	27	89.73	68	5
HENRY	259.63	110	7	342.22	107	82.59	83	5
HIGHLAND	442.56	13	1	489.43	25	46.87	134	7
ISLE OF WIGHT	333.84	58	4	425.69	58	91.85	63	5
JAMES CITY	340.32	53	4	498.47	21	158.16	11	2
KING AND QUEEN	355.15	42	4	451.08	41	95.93	54	5
KING GEORGE	332.91	59	4	400.30	73	67.39	111	6
KING WILLIAM	407.58	20	2	463.69	33	56.10	125	7
LANCASTER	440.35	14	1	585.50	14	145.15	13	2
LEE	202.86	134	8	285.20	131	82.34	85	5
LOUDOUN	501.53	8	1	652.68	10	151.14	12	2
LOUISA	601.42	3	1	1066.9	2	465.47	2	1

KEY

LEVEL OF REVENUE CAPACITY

Statewide Rank: 1 = highest capacity
136 = lowest capacity

Relative Stress Index: 1 = lowest stress (high capacity)
8 = highest stress (low capacity)

CHANGE IN CAPACITY, 1977 - 1981

Statewide Rank: 1 = highest growth in capacity
136 = lowest growth in capacity

Relative Stress Index: 1 = lowest stress (high growth)
8 = highest stress (low growth)

	LEVEL OF REVENUE CAPACITY 1977 and 1981					CHANGE IN REVENUE CAPACITY 1977 - 1981		
	1977 Per Capita Capacity ($)	1977 Statewide Rank	Relative Stress Index	1981 Per Capita Capacity ($)	1981 Statewide Rank	Change in Capacity ($)	Statewide Rank	Relative Stress Index
LUNENBURG	275.52	100	6	324.71	115	49.19	131	7
MADISON	319.27	68	5	423.16	61	103.89	39	4
MATHEWS	372.12	30	3	508.70	19	136.58	15	3
MECKLENBURG	276.31	98	6	355.70	103	79.39	88	6
MIDDLESEX	419.83	16	2	552.95	15	133.12	17	3
MONTGOMERY	222.83	131	8	307.95	125	85.12	77	5
NELSON	309.33	76	5	447.37	43	138.04	14	3
NEW KENT	359.87	39	4	426.63	57	66.77	112	6
NORTHAMPTON	262.14	108	7	326.36	112	64.23	115	6
NORTHUMBERLAND	386.01	25	3	493.14	24	107.14	36	4
NOTTOWAY	259.55	111	7	330.31	111	70.76	105	6
ORANGE	352.65	44	4	478.74	29	126.09	19	3
PAGE	272.52	103	6	363.45	95	90.93	65	5
PATRICK	259.48	112	7	357.35	101	97.87	50	5
PITTSYLVANIA	223.04	130	8	297.64	128	74.60	98	6
POWHATAN	304.45	79	5	352.09	105	47.64	133	7
PRINCE EDWARD	257.31	114	7	321.52	119	64.21	116	6
PRINCE GEORGE	200.98	135	8	252.76	136	51.78	128	7
PRINCE WILLIAM	359.65	41	4	457.47	37	97.82	51	5
PULASKI	260.34	109	7	333.84	109	73.51	100	6
RAPPAHANNOCK	448.83	12	1	610.41	12	161.57	10	1
RICHMOND	364.94	37	4	454.30	39	89.36	70	5
ROANOKE	313.50	73	5	415.58	65	102.08	41	4
ROCKBRIDGE	301.76	80	5	389.61	79	87.85	71	5
ROCKINGHAM	304.88	77	5	421.60	62	116.72	27	4
RUSSELL	263.09	106	6	321.29	120	58.20	123	7
SCOTT	179.53	136	8	271.20	135	91.68	64	5
SHENANDOAH	367.40	34	3	456.79	38	89.39	69	5
SMYTH	223.64	129	8	307.34	126	83.70	80	5
SOUTHAMPTON	253.44	117	7	369.72	89	116.28	28	4
SPOTSYLVANIA	343.20	51	4	445.26	46	102.06	42	4
STAFFORD	317.04	70	5	416.19	64	99.15	47	5
SURRY	1034.5	1	1	1226.5	1	192.09	7	1
SUSSEX	319.83	66	5	441.06	49	121.23	22	4
TAZEWELL	282.41	92	6	374.54	87	92.13	62	5
WARREN	347.64	47	4	425.41	59	77.76	93	6
WASHINGTON	251.43	119	7	321.76	118	70.33	109	6
WESTMORELAND	335.19	57	4	398.96	74	63.77	117	6
WISE	315.49	71	5	405.83	70	90.34	66	5
WYTHE	282.26	93	6	332.78	110	50.51	129	7
YORK	370.78	31	3	440.39	50	69.61	110	6
Cities								
ALEXANDRIA	506.87	7	1	709.97	7	203.10	6	1
BEDFORD	345.49	49	4	419.79	63	74.30	99	6
BRISTOL	321.79	63	5	415.04	66	93.25	60	5
BUENA VISTA	234.25	123	7	280.49	133	46.24	135	7
CHARLOTTESVILLE	346.78	48	4	452.99	40	106.21	38	4
CHESAPEAKE	274.82	101	6	383.18	82	108.36	35	4
CLIFTON FORGE	269.38	105	6	325.53	114	56.16	124	7
COLONIAL HEIGHTS	340.40	52	4	441.54	48	101.15	44	5
COVINGTON	372.65	29	3	448.40	42	75.75	97	6
DANVILLE	285.55	89	6	357.46	100	71.91	102	6
EMPORIA	339.88	54	4	432.05	55	92.17	61	5
FAIRFAX	536.87	5	1	765.92	5	229.04	5	1
FALLS CHURCH	726.11	2	1	914.28	4	188.18	8	1

KEY

LEVEL OF REVENUE CAPACITY

Statewide Rank: 1 = highest capacity
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Relative Stress Index: 1 = lowest stress (high capacity)
8 = highest stress (low capacity)

CHANGE IN CAPACITY, 1977 - 1981

Statewide Rank: 1 = highest growth in capacity
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Relative Stress Index: 1 = lowest stress (high growth)
8 = highest stress (low growth)

	LEVEL OF REVENUE CAPACITY 1977 and 1981					CHANGE IN REVENUE CAPACITY 1977 - 1981		
	1977 Per Capita Capacity ($)	1977 Statewide Rank	Relative Stress Index	1981 Per Capita Capacity ($)	1981 Statewide Rank	Change in Capacity ($)	Statewide Rank	Relative Stress Index
FRANKLIN	313.39	74	5	395.50	77	82.11	86	6
FREDERICKSBURG	412.91	18	2	497.98	23	85.07	78	5
GALAX	382.41	26	3	460.60	35	78.19	92	6
HAMPTON	285.14	90	6	365.10	92	79.95	87	6
HARRISONBURG	331.30	60	5	402.19	71	70.89	104	6
HOPEWELL	300.44	82	5	359.51	99	59.07	122	7
LEXINGTON	253.08	118	7	353.12	104	100.04	46	5
LYNCHBURG	320.92	64	5	410.96	67	90.04	67	5
MANASSAS	428.96	15	2	543.87	16	114.91	31	4
MANASSAS PARK	232.11	127	7	314.54	124	82.43	84	5
MARTINSVILLE	337.92	55	4	435.99	52	98.07	49	5
NEWPORT NEWS	281.55	94	6	343.55	106	62.00	119	7
NORFOLK	258.41	113	7	322.04	117	63.63	118	6
NORTON	352.44	45	4	467.65	31	115.21	29	4
PETERSBURG	280.10	96	6	362.87	96	82.77	82	5
POQUOSON	284.17	91	6	409.90	68	125.73	20	3
PORTSMOUTH	276.00	99	6	324.63	116	48.64	132	7
RADFORD	235.43	122	7	291.52	130	56.09	126	7
RICHMOND	352.06	46	4	438.70	51	86.64	74	5
ROANOKE	326.55	62	5	423.38	60	96.82	52	5
SALEM	344.83	50	4	446.36	44	101.53	43	5
SOUTH BOSTON	290.38	86	6	401.04	72	110.67	34	4
STAUNTON	328.64	61	5	406.34	69	77.70	94	6
SUFFOLK	292.33	85	6	369.63	90	77.29	95	6
VIRGINIA BEACH	337.86	56	4	431.72	56	93.86	59	5
WAYNESBORO	366.14	35	3	481.05	28	114.91	30	4
WILLIAMSBURG	541.32	4	1	653.06	9	111.74	33	4
WINCHESTER	392.04	23	3	509.39	18	117.36	26	4

KEY

LEVEL OF REVENUE CAPACITY

Statewide Rank: 1 = highest capacity
136 = lowest capacity

Relative Stress Index: 1 = lowest stress (high capacity)
8 = highest stress (low capacity)

CHANGE IN CAPACITY, 1977 - 1981

Statewide Rank: 1 = highest growth in capacity
136 = lowest growth in capacity

Relative Stress Index: 1 = lowest stress (high growth)
8 = highest stress (low growth)

APPENDIX D

SOURCES OF GROWTH IN REVENUE CAPACITY 1977 - 1981

Counties	Percent Change Real Property Value	Percent Change Retail Sales	Percent Change Family Income
ACCOMACK	27.60	38.57	39.47
ALBEMARLE	50.65	68.40	44.43
ALLEGHANY	49.59	52.08	41.28
AMELIA	58.32	30.19	42.21
AMHERST	78.14	38.40	36.10
APPOMATTOX	72.33	33.95	38.35
ARLINGTON	89.32	43.78	42.10
AUGUSTA	40.55	22.04	39.38
BATH	20.30	-9.14	37.32
BEDFORD	67.67	42.09	47.38
BLAND	23.47	21.19	41.28
BOTETOURT	60.72	14.84	42.84
BRUNSWICK	61.38	22.01	41.11
BUCHANAN	368.3	49.69	41.70
BUCKINGHAM	33.92	14.01	34.08
CAMPBELL	80.69	31.22	40.46
CAROLINE	41.21	42.84	42.12
CARROLL	71.21	15.94	40.40
CHARLES CITY	54.37	15.64	46.74
CHARLOTTE	40.56	21.80	44.54
CHESTERFIELD	41.10	56.14	43.00
CLARKE	21.83	16.54	39.07
CRAIG	50.78	44.53	44.63
CULPEPER	50.99	27.96	39.82
CUMBERLAND	84.05	13.78	35.00
DICKENSON	91.26	22.43	39.22
DINWIDDIE	48.13	18.66	45.31
ESSEX	41.81	35.09	37.35
FAIRFAX	71.22	42.24	38.59
FAUQUIER	50.77	17.38	45.78
FLOYD	23.25	23.07	33.54
FLUVANNA	23.23	20.62	45.07
FRANKLIN	87.85	7.20	35.64
FREDERICK	29.44	26.91	39.01
GILES	49.57	32.03	41.95
GLOUCESTER	36.83	40.11	42.01
GOOCHLAND	33.62	45.41	45.19
GRAYSON	79.91	41.95	43.80
GREENE	41.23	38.09	48.40
GREENSVILLE	42.91	11.79	37.64
HALIFAX	64.69	5.92	48.31
HANOVER	51.42	52.50	42.21
HENRICO	38.31	31.79	41.29
HENRY	59.36	5.61	34.47
HIGHLAND	18.12	1.60	37.84
ISLE OF WIGHT	45.23	37.77	43.18
JAMES CITY	70.00	79.98	42.93
KING AND QUEEN	34.59	-9.21	39.80
KING GEORGE	29.76	49.00	37.28
KING WILLIAM	23.13	13.52	51.08
LANCASTER	48.63	40.76	41.65
LEE	84.21	22.04	44.29
LOUDOUN	51.73	44.60	41.55
LOUISA	39.33	31.64	32.78

KEY
Percent Change in Real Property Value is the change in the true value of real estate, 1977-1981.
Percent Change in Retail Sales is the change in retail sales, 1977-1981.
Percent Change in Family Income is the change in median family income, 1977-1981.

SOURCES OF GROWTH IN REVENUE CAPACITY 1977 - 1981

	Percent Change Real Property Value	Percent Change Retail Sales	Percent Change Family Income
LUNENBURG	28.85	19.86	37.58
MADISON	46.68	46.82	46.47
MATHEWS	58.65	29.22	45.09
MECKLENBURG	41.61	28.75	40.12
MIDDLESEX	51.25	29.62	39.76
MONTGOMERY	72.66	34.09	37.82
NELSON	69.53	58.40	38.69
NEW KENT	34.70	30.61	51.56
NORTHAMPTON	28.73	45.97	37.23
NORTHUMBERLAND	39.47	31.49	42.57
NOTTOWAY	46.14	30.23	38.19
ORANGE	68.19	28.05	39.48
PAGE	61.94	18.60	30.84
PATRICK	63.87	22.03	41.15
PITTSYLVANIA	55.74	15.03	42.46
POWHATAN	19.53	23.93	43.11
PRINCE EDWARD	40.87	36.94	37.45
PRINCE GEORGE	41.86	50.86	43.70
PRINCE WILLIAM	55.43	30.29	41.59
PULASKI	49.43	23.04	32.84
RAPPAHANNOCK	53.27	31.00	44.40
RICHMOND	30.06	50.55	45.53
ROANOKE	62.31	53.40	40.95
ROCKBRIDGE	52.34	11.38	40.46
ROCKINGHAM	63.98	68.43	40.23
RUSSELL	61.43	22.14	43.91
SCOTT	135.4	50.43	48.55
SHENANDOAH	39.27	27.70	39.48
SMYTH	70.97	20.15	40.52
SOUTHAMPTON	76.02	22.88	41.07
SPOTSYLVANIA	44.82	63.59	39.99
STAFFORD	51.29	45.72	41.90
SURRY	54.77	61.82	55.42
SUSSEX	59.77	53.34	36.94
TAZEWELL	71.14	42.14	35.84
WARREN	38.26	17.73	36.27
WASHINGTON	52.60	35.55	39.87
WESTMORELAND	27.68	11.24	37.03
WISE	84.10	24.38	42.89
WYTHE	22.62	29.92	36.02
YORK	49.46	85.36	42.78
Cities			
ALEXANDRIA	80.45	37.31	42.64
BEDFORD	39.00	28.59	32.58
BRISTOL	37.28	31.83	34.87
BUENA VISTA	22.00	31.61	42.39
CHARLOTTESVILLE	55.24	28.13	37.58
CHESAPEAKE	73.89	44.54	40.18
CLIFTON FORGE	38.31	17.13	37.32
COLONIAL HEIGHTS	38.99	39.17	40.75
COVINGTON	33.76	8.26	32.75
DANVILLE	41.73	31.20	35.95
EMPORIA	58.16	22.39	30.70
FAIRFAX	65.40	64.98	40.93
FALLS CHURCH	54.10	41.65	36.03

KEY

Percent Change in Real Property Value is the change in the true value of real estate, 1977-1981.
Percent Change in Retail Sales is the change in retail sales, 1977-1981.
Percent Change in Family Income is the change in median family income, 1977-1981.

SOURCES OF GROWTH IN REVENUE CAPACITY 1977 - 1981

	Percent Change Real Property Value	Percent Change Retail Sales	Percent Change Family Income
FRANKLIN	41.79	16.49	32.38
FREDERICKSBURG	38.25	5.10	29.00
GALAX	27.09	27.30	42.75
HAMPTON	39.53	42.96	35.88
HARRISONBURG	41.80	16.27	33.85
HOPEWELL	33.80	12.83	34.92
LEXINGTON	64.71	28.27	38.64
LYNCHBURG	48.60	27.80	36.61
MANASSAS	49.69	28.73	42.21
MANASSAS PARK	46.95	65.36	37.01
MARTINSVILLE	45.28	32.76	31.62
NEWPORT NEWS	34.80	40.93	36.79
NORFOLK	28.70	39.81	39.30
NORTON	29.91	74.94	36.10
PETERSBURG	44.26	27.96	36.26
POQUOSON	55.99	197.5	43.15
PORTSMOUTH	18.01	25.96	39.93
RADFORD	46.98	30.75	32.83
RICHMOND	38.67	29.25	39.97
ROANOKE	56.07	18.85	38.90
SALEM	49.85	14.29	42.25
SOUTH BOSTON	50.80	61.51	35.98
STAUNTON	35.58	21.87	33.59
SUFFOLK	40.67	30.69	38.82
VIRGINIA BEACH	47.18	38.61	38.90
WAYNESBORO	45.39	34.09	29.49
WILLIAMSBURG	23.50	26.45	41.08
WINCHESTER	49.01	23.47	33.77

KEY

Percent Change in Real Property Value is the change in the true value of real estate, 1977-1981.
Percent Change in Retail Sales is the change in retail sales, 1977-1981.
Percent Change in Family Income is the change in median family income, 1977-1981.

LEVEL OF TAX EFFORT 1977 and 1981 | CHANGE IN TAX EFFORT 1977 - 1981

Counties	1977 Tax Effort	1977 Statewide Rank	Relative Stress Index	1981 Tax Effort	1981 Statewide Rank	Change in Effort	Statewide Rank	Relative Stress Index
ACCOMACK	0.48	44	2	0.50	29	0.02	45	3
ALBEMARLE	0.81	99	6	0.86	89	0.05	55	4
ALLEGHANY	0.72	88	5	0.78	84	0.05	60	4
AMELIA	0.41	22	2	0.41	10	0.00	32	3
AMHERST	0.60	77	4	0.51	33	-0.10	11	1
APPOMATTOX	0.49	49	3	0.47	22	-0.02	21	2
ARLINGTON	1.31	131	8	1.07	113	-0.25	3	1
AUGUSTA	0.53	59	3	0.59	58	0.06	66	4
BATH	0.45	34	2	0.44	19	-0.01	24	3
BEDFORD	0.55	64	3	0.48	24	-0.08	12	1
BLAND	0.30	1	1	0.51	34	0.20	124	8
BOTETOURT	0.62	78	4	0.62	64	0.01	37	3
BRUNSWICK	0.55	62	3	0.55	47	0.01	36	3
BUCHANAN	0.48	45	2	0.78	85	0.30	135	8
BUCKINGHAM	0.45	35	2	0.42	11	-0.03	17	2
CAMPBELL	0.64	81	4	0.60	62	-0.04	16	2
CAROLINE	0.55	61	3	0.43	12	-0.12	7	1
CARROLL	0.48	40	2	0.43	15	-0.04	14	2
CHARLES CITY	0.58	72	3	0.68	71	0.10	86	5
CHARLOTTE	0.35	7	1	0.40	6	0.05	52	4
CHESTERFIELD	1.11	119	8	0.92	96	-0.20	5	1
CLARKE	0.46	38	2	0.59	56	0.13	99	6
CRAIG	0.41	24	2	0.40	7	-0.02	22	2
CULPEPER	0.53	58	3	0.60	59	0.06	67	5
CUMBERLAND	0.37	10	1	0.30	1	-0.06	13	1
DICKENSON	0.51	55	3	0.80	87	0.30	133	8
DINWIDDIE	0.57	69	3	0.77	83	0.20	123	8
ESSEX	0.49	50	3	0.58	53	0.09	81	5
FAIRFAX	1.47	134	8	1.33	131	-0.14	6	1
FAUQUIER	0.54	60	3	0.70	76	0.16	110	7
FLOYD	0.36	8	1	0.43	17	0.08	73	5
FLUVANNA	0.43	26	2	0.70	74	0.27	131	8
FRANKLIN	0.44	31	2	0.43	16	-0.01	25	3
FREDERICK	0.56	66	3	0.74	81	0.18	118	7
GILES	0.50	51	3	0.63	65	0.13	101	6
GLOUCESTER	0.51	56	3	0.59	55	0.07	71	5
GOOCHLAND	0.51	54	3	0.57	52	0.06	65	4
GRAYSON	0.41	21	2	0.43	13	0.02	42	3
GREENE	0.45	33	2	0.50	31	0.06	62	4
GREENSVILLE	0.63	79	4	0.65	67	0.02	43	3
HALIFAX	0.48	42	2	0.47	23	-0.01	27	3
HANOVER	0.50	53	3	0.64	66	0.14	103	6
HENRICO	1.02	115	8	0.98	103	-0.04	15	2
HENRY	0.49	47	3	0.59	54	0.10	87	5
HIGHLAND	0.44	29	2	0.53	41	0.09	79	5
ISLE OF WIGHT	0.58	70	3	0.66	69	0.08	76	5
JAMES CITY	0.88	106	6	1.05	110	0.16	109	7
KING AND QUEEN	0.44	28	2	0.49	26	0.05	57	4
KING GEORGE	0.64	80	4	0.68	72	0.04	49	4
KING WILLIAM	0.50	52	3	0.72	79	0.22	125	8
LANCASTER	0.37	11	1	0.40	8	0.03	46	4
LEE	0.42	25	2	0.50	28	0.08	74	5
LOUDOUN	0.87	105	6	0.99	105	0.11	92	6
LOUISA	0.35	6	1	0.35	3	0.00	30	3

KEY

LEVEL OF TAX EFFORT

Statewide Rank: 1 = lowest effort
136 = highest effort

Relative Stress Index: 1 = least stress (low effort)
8 = most stress (high effort)

CHANGE IN EFFORT, 1977- 1981

Statewide Rank: 1 = smallest change in effort
136 = greatest change in effort

Relative Stress Index: 1 = least stress (small change)
8 = most stress (large change)

	LEVEL OF TAX EFFORT 1977 and 1981					CHANGE IN TAX EFFORT 1977 - 1981		
	1977 Tax Effort	1977 Statewide Rank	Relative Stress Index	1981 Tax Effort	1981 Statewide Rank	Change in Effort	Statewide Rank	Relative Stress Index
LUNENBURG	0.36	9	1	0.46	21	0.10	85	5
MADISON	0.44	30	2	0.53	43	0.09	83	5
MATHEWS	0.39	14	2	0.48	25	0.09	82	5
MECKLENBURG	0.35	5	1	0.38	4	0.04	48	4
MIDDLESEX	0.39	16	2	0.50	27	0.11	89	6
MONTGOMERY	0.60	76	4	0.60	60	-0.00	28	3
NELSON	0.60	74	4	0.59	57	-0.01	23	3
NEW KENT	0.58	71	3	0.70	75	0.12	96	6
NORTHAMPTON	0.56	67	3	0.74	80	0.18	117	7
NORTHUMBERLAND	0.43	27	2	0.50	32	0.07	70	5
NOTTOWAY	0.45	36	2	0.51	35	0.06	64	4
ORANGE	0.48	43	2	0.56	50	0.08	72	5
PAGE	0.41	20	2	0.52	38	0.12	94	6
PATRICK	0.39	15	2	0.40	9	0.01	39	3
PITTSYLVANIA	0.39	13	2	0.39	5	0.00	34	3
POWHATAN	0.49	48	3	0.54	46	0.06	61	4
PRINCE EDWARD	0.41	23	2	0.43	14	0.01	41	3
PRINCE GEORGE	0.78	95	5	0.79	86	0.00	31	3
PRINCE WILLIAM	1.57	135	8	1.26	126	-0.31	2	1
PULASKI	0.40	18	2	0.55	49	0.15	107	7
RAPPAHANNOCK	0.30	2	1	0.31	2	0.01	38	3
RICHMOND	0.44	32	2	0.50	30	0.06	63	4
ROANOKE	1.19	122	8	1.16	121	-0.03	19	2
ROCKBRIDGE	0.59	73	4	0.60	61	0.01	40	3
ROCKINGHAM	0.46	37	2	0.52	36	0.06	68	5
RUSSELL	0.57	68	3	0.72	78	0.15	106	7
SCOTT	1.22	125	8	0.53	42	-0.69	1	1
SHENANDOAH	0.34	4	1	0.54	44	0.20	122	8
SMYTH	0.39	12	2	0.44	18	0.05	56	4
SOUTHAMPTON	0.56	65	3	0.52	39	-0.03	18	2
SPOTSYLVANIA	0.65	82	4	0.65	68	0.00	35	3
STAFFORD	0.66	83	4	0.90	94	0.25	128	8
SURRY	0.33	3	1	0.55	48	0.23	127	8
SUSSEX	0.39	17	2	0.52	37	0.13	98	6
TAZEWELL	0.46	39	2	0.61	63	0.15	104	7
WARREN	0.49	46	3	0.54	45	0.05	59	4
WASHINGTON	0.55	63	3	0.53	40	-0.02	20	2
WESTMORELAND	0.48	41	2	0.56	51	0.09	78	5
WISE	0.51	57	3	0.69	73	0.18	115	7
WYTHE	0.40	19	2	0.45	20	0.04	50	4
YORK	0.68	85	4	0.81	88	0.13	100	6
Cities								
ALEXANDRIA	1.23	127	8	1.27	128	0.04	47	4
BEDFORD	0.60	75	4	0.75	82	0.15	105	7
BRISTOL	0.90	107	7	0.99	104	0.09	80	5
BUENA VISTA	0.93	110	7	1.12	120	0.19	121	8
CHARLOTTESVILLE	1.13	120	8	1.18	124	0.04	51	4
CHESAPEAKE	1.05	117	8	1.10	118	0.05	54	4
CLIFTON FORGE	0.99	113	7	0.88	92	-0.10	9	1
COLONIAL HEIGHTS	0.76	92	5	1.01	108	0.25	130	8
COVINGTON	0.77	93	5	0.86	90	0.10	84	5
DANVILLE	0.73	89	5	1.00	107	0.28	132	8
EMPORIA	0.79	97	6	0.91	95	0.12	93	6
FAIRFAX	1.29	128	8	1.17	123	-0.12	8	1
FALLS CHURCH	0.99	114	7	1.07	114	0.08	75	5

KEY

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CHANGE IN EFFORT, 1977- 1981

Statewide Rank: 1 = smallest change in effort
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	LEVEL OF TAX EFFORT 1977 and 1981					CHANGE IN TAX EFFORT 1977 - 1981		
	1977 Tax Effort	1977 Statewide Rank	Relative Stress Index	1981 Tax Effort	1981 Statewide Rank	Change in Effort	Statewide Rank	Relative Stress Index
FRANKLIN	0.87	104	6	1.04	109	0.17	112	7
FREDERICKSBURG	0.92	109	7	1.10	117	0.18	116	7
GALAX	0.80	98	6	0.99	106	0.19	120	8
HAMPTON	1.06	118	8	1.16	122	0.11	90	6
HARRISONBURG	0.84	102	6	1.06	112	0.23	126	8
HOPEWELL	1.03	116	8	1.39	134	0.36	136	8
LEXINGTON	0.78	96	6	0.95	100	0.16	108	7
LYNCHBURG	1.15	121	8	1.26	127	0.11	91	6
MANASSAS	1.30	130	8	1.09	115	-0.21	4	1
MANASSAS PARK	1.32	132	8	1.46	135	0.14	102	6
MARTINSVILLE	0.84	103	6	0.89	93	0.05	58	4
NEWPORT NEWS	1.19	123	8	1.31	130	0.12	97	6
NORFOLK	1.29	129	8	1.37	133	0.08	77	5
NORTON	0.71	87	5	0.96	102	0.25	129	8
PETERSBURG	1.23	126	8	1.34	132	0.12	95	6
POQUOSON	0.68	84	4	0.68	70	-0.00	29	3
PORTSMOUTH	1.20	124	8	1.20	125	0.00	33	3
RADFORD	0.69	86	5	0.71	77	0.02	44	3
RICHMOND	1.57	136	8	1.64	136	0.07	69	5
ROANOKE	1.39	133	8	1.29	129	-0.10	10	1
SALEM	0.92	108	7	1.09	116	0.17	114	7
SOUTH BOSTON	0.76	90	5	1.05	111	0.30	134	8
STAUNTON	0.76	91	5	0.94	99	0.19	119	8
SUFFOLK	0.82	101	6	0.93	97	0.10	88	5
VIRGINIA BEACH	0.82	100	6	0.86	91	0.05	53	4
WAYNESBORO	0.97	112	7	0.96	101	-0.01	26	3
WILLIAMSBURG	0.77	94	5	0.94	98	0.17	113	7
WINCHESTER	0.94	111	7	1.10	119	0.17	111	7

KEY

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CHANGE IN EFFORT, 1977- 1981

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APPENDIX F

BUDGET ACTIONS TAKEN
(FY 1980 - FY 1983)

Counties	Personnel Actions	Greater Use Fines or Fees	Deferred Maintenance or Capital Outlay
ACCOMACK	0	0	0
ALBEMARLE	2	2	0
AMELIA	0	2	1
ARLINGTON	4	4	4
AUGUSTA	2	0	4
BLAND	0	0	0
BRUNSWICK	2	2	4
BUCHANAN	2	0	4
BUCKINGHAM	0	1	3
CAMPBELL	0	0	0
CAROLINE	0	2	3
CARROLL	1	0	0
CHARLES CITY	1	0	4
CHARLOTTE	0	1	0
CHESTERFIELD	2	2	4
CLARKE	0	2	0
CRAIG	4	3	4
CULPEPER	0	3	1
CUMBERLAND	0	0	0
DICKENSON	0	0	3
ESSEX	3	0	0
FAIRFAX	0	2	0
FAUQUIER	1	2	0
FLOYD	0	0	0
FLUVANNA	0	0	0
FRANKLIN	0	2	0
FREDERICK	1	1	0
GLOUCESTER	0	1	4
GRAYSON	0	1	0
HALIFAX	1	2	4
HENRICO	2	4	2
HENRY	0	0	0
HIGHLAND	0	0	0
JAMES CITY	0	3	0
KING AND QUEEN	2	0	3
KING GEORGE	0	0	0
KING WILLIAM	1	0	0
LEE	0	0	0
LOUDOUN	2	2	4
LOUISA	0	0	0
LUNENBURG	0	0	0
MATHEWS	1	0	4
MECKLENBURG	0	2	4
MONTGOMERY	1	2	4
NEW KENT	0	1	4
NORTHAMPTON	1	1	1
NORTHUMBERLAND	0	0	0
PAGE	0	1	4
PITTSYLVANIA	1	1	3
POWHATAN	0	1	2
PRINCE EDWARD	0	0	0
PRINCE WILLIAM	0	2	2
PULASKI	0	2	4

KEY

Personnel Actions measure the number of years a locality took two or more of the following actions: giving no cost of living increases, reducing fringe benefit levels, reducing employee salaries, freezing personnel vacancies, reducing the number of personnel positions through attrition, or laying off employees.
Greater Use of Fines or Fees measures the number of years a locality increased the level of user fines or fees, or levied new fines or fees.
Deferred Maintenance or Capital Outlay measures the number of years a locality deferred maintenance of its capital plant, or deferred all necessary capital outlay for infrastructure or vehicles.

BUDGET ACTIONS TAKEN
(FY 1980 - FY 1983)

	Personnel Actions	Greater Use Fines or Fees	Deferred Maintenance or Capital Outlay
RAPPAHANNOCK	0	0	4
RICHMOND	0	1	0
ROANOKE	1	2	3
ROCKBRIDGE	0	0	1
ROCKINGHAM	1	0	1
RUSSELL	2	0	2
SCOTT	0	1	3
SHENANDOAH	0	2	4
SMYTH	0	1	0
SOUTHAMPTON	0	0	0
SPOTSYLVANIA	0	0	0
STAFFORD	0	1	4
SUSSEX	4	0	0
TAZEWELL	0	0	0
WASHINGTON	1	1	2
WISE	0	0	0
WYTHE	0	0	4
YORK	3	1	1
Cities			
ALEXANDRIA	1	2	3
BEDFORD	1	0	4
BUENA VISTA	1	1	4
CHARLOTTESVILLE	3	4	4
CHESAPEAKE	4	0	4
COLONIAL HEIGHTS	1	0	4
DANVILLE	1	4	4
EMPORIA	0	1	4
FAIRFAX	0	4	0
FALLS CHURCH	4	1	4
FRANKLIN	4	1	4
FREDERICKSBURG	3	4	1
GALAX	0	0	3
HAMPTON	1	2	4
HOPEWELL	1	2	2
LEXINGTON	3	4	4
LYNCHBURG	1	1	0
MANASSAS	0	1	0
MANASSAS PARK	1	1	4
MARTINSVILLE	0	1	3
NEWPORT NEWS	3	1	1
NORFOLK	3	4	4
NORTON	0	1	1
PETERSBURG	4	4	4
POQUOSON	1	4	2
PORTSMOUTH	2	4	4
RADFORD	1	2	2
RICHMOND	4	3	2
SALEM	0	2	4
SOUTH BOSTON	1	2	2
STAUNTON	2	2	2
SUFFOLK	4	2	4
VIRGINIA BEACH	1	3	0
WAYNESBORO	0	2	4
WILLIAMSBURG	0	1	0
WINCHESTER	0	1	4

KEY

Personnel Actions measure the number of years a locality took two or more of the following actions: giving no cost of living increases, reducing fringe benefit levels, reducing employee salaries, freezing personnel vacancies, reducing the number of personnel positions through attrition, or laying off employees.
Greater Use of Fines or Fees measures the number of years a locality increased the level of user fines or fees, or levied new fines or fees.
Deferred Maintansnce or Capital Outlay measures the number of years a locality deferred msintenance of its capital plant, or deferred all necessary capital outley for infrastructura or vehicles.

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS

Counties	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank
ACCOMACK	31.50	62.5	23.50	69.0	24	41.5	16	37.0
ALBEMARLE	27.25	30.5	18.25	20.5	26	56.0	17	48.5
ALLEGHANY	35.50	98.0	24.50	82.0	33	110.5	22	109.0
AMELIA	25.25	24.0	19.25	28.5	20	13.5	14	16.5
AMHERST	29.00	42.0	20.00	38.5	26	56.0	17	48.5
APPOMATTOX	25.25	24.0	18.25	20.5	22	24.5	15	27.5
ARLINGTON	21.00	8.0	12.00	3.0	20	13.5	11	6.5
AUGUSTA	30.00	51.0	21.00	49.0	27	68.5	18	63.5
BATH	16.00	3.0	13.00	6.0	10	3.0	7	3.0
BEOFORO	24.50	18.5	16.50	15.0	22	24.5	14	16.5
BLANO	36.25	101.5	28.25	118.0	31	97.0	23	117.5
BOTETOURT	29.25	46.0	20.25	44.0	27	68.5	18	63.5
BRUNSWICK	34.00	89.5	26.00	101.0	26	56.0	18	63.5
BUCHANAN	22.25	12.0	19.25	28.5	17	6.5	14	16.5
BUCKINGHAM	33.00	84.0	24.00	73.0	25	47.0	16	37.0
CAMPBELL	28.50	38.0	19.50	31.5	26	56.0	17	48.5
CAROLINE	27.50	32.0	19.50	31.5	22	24.5	14	16.5
CARROLL	32.75	81.5	24.75	88.0	26	56.0	18	63.5
CHARLES CITY	31.00	57.0	23.00	66.5	27	68.5	19	79.5
CHARLOTTE	31.75	66.5	24.75	88.0	24	41.5	17	48.5
CHESTERFIELO	32.00	72.0	19.00	25.5	31	97.0	18	63.5
CLARKE	27.75	33.0	19.75	34.5	25	47.0	17	48.5
CRAIG	25.75	27.5	18.75	22.5	22	24.5	15	27.5
CULPEPER	27.00	29.0	20.00	38.5	22	24.5	15	27.5
CUMBERLANO	25.00	21.5	20.00	38.5	17	6.5	12	9.0
OICKENSON	34.00	89.5	26.00	101.0	28	79.0	20	92.5
OINWIOOIE	36.75	104.5	27.75	114.0	33	110.5	24	124.0
ESSEX	28.25	36.0	21.25	51.0	22	24.5	15	27.5
FAIRFAX	21.00	8.0	12.00	3.0	20	13.5	11	6.5
FAUQUIER	21.25	10.0	15.25	10.0	20	13.5	14	16.5
FLOYO	32.50	78.5	24.50	82.0	26	56.0	18	63.5
FLUVANNA	34.25	91.0	25.25	93.0	28	79.0	19	79.5
FRANKLIN	25.75	27.5	19.75	34.5	22	24.5	16	37.0
FREOERICK	31.00	57.0	22.00	58.5	28	79.0	19	79.5
GILES	35.00	95.0	26.00	101.0	30	90.0	21	100.5
GLOUCESTER	30.50	54.5	21.50	54.0	27	68.5	18	63.5
GOOCHLANO	25.25	24.0	17.25	19.0	22	24.5	14	16.5
GRAYSON	31.50	62.5	24.50	82.0	25	47.0	18	63.5
GREENE	30.00	51.0	22.00	58.5	26	56.0	18	63.5
GREENSVILLE	40.00	117.5	29.00	122.5	32	104.5	21	100.5
HALIFAX	31.00	57.0	24.00	73.0	24	41.5	17	48.5
HANOVER	22.00	11.0	16.00	13.0	21	17.0	15	27.5
HENRICO	32.00	72.0	19.00	25.5	31	97.0	18	63.5
HENRY	31.75	66.5	23.75	70.0	28	79.0	20	92.5
HIGHLANO	30.50	54.5	21.50	54.0	24	41.5	15	27.5
ISLE OF WIGHT	29.00	42.0	21.00	49.0	25	47.0	17	48.5
JAMES CITY	29.00	42.0	21.00	49.0	27	68.5	19	79.5
KING ANO QUEEN	28.50	38.0	21.50	54.0	22	24.5	15	27.5
KING GEORGE	31.50	62.5	21.50	54.0	28	79.0	18	63.5
KING WILLIAM	32.75	81.5	22.75	64.0	30	90.0	20	92.5
LANCASTER	17.25	4.0	14.25	7.0	11	4.0	8	4.0
LEE	34.75	93.0	27.75	114.0	27	68.5	20	92.5
LOUOOUN	24.00	15.5	16.00	13.0	23	35.0	15	27.5
LOUISA	14.25	2.0	12.25	5.0	8	1.5	6	1.5
AVERAGE	31.86		22.87		27.36		18.37	

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS

	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank
LUNENBURG	34.50	92.0	26.50	104.0	27	68.5	19	79.5
MADISON	28.00	34.5	22.00	58.5	22	24.5	16	37.0
MATHEWS	20.75	6.0	15.75	11.0	18	8.5	13	10.5
MECKLENBURG	31.75	66.5	24.75	88.0	24	41.5	17	48.5
MIDDLESEX	24.50	18.5	19.50	31.5	18	8.5	13	10.5
MONTGOMERY	35.75	99.5	26.75	106.0	29	85.0	20	92.5
NELSON	29.00	42.0	22.00	58.5	22	24.5	15	27.5
NEW KENT	29.25	46.0	20.25	44.0	28	79.0	19	79.5
NORTHAMPTON	40.00	117.5	31.00	132.0	32	104.5	23	117.5
NORTHUMBERLAND	24.75	20.0	18.75	22.5	20	13.5	14	16.5
NOTTOWAY	33.50	86.0	25.50	95.5	27	68.5	19	79.5
ORANGE	24.00	15.5	19.00	25.5	19	10.0	14	16.5
PAGE	32.50	78.5	25.50	95.5	26	56.0	19	79.5
PATRICK	29.50	48.5	22.50	62.5	24	41.5	17	48.5
PITTSYLVANIA	32.50	78.5	24.50	82.0	27	68.5	19	79.5
POWHATAN	31.50	62.5	21.50	54.0	29	85.0	19	79.5
PRINCE EDWARD	33.75	87.5	25.75	97.5	26	56.0	18	63.5
PRINCE GEORGE	36.25	101.5	24.25	77.0	35	119.5	23	117.5
PRINCE WILLIAM	32.00	72.0	19.00	25.5	31	97.0	18	63.5
PULASKI	35.00	95.0	27.00	109.0	30	90.0	22	109.0
RAPPAHANNOCK	12.75	1.0	10.75	1.0	8	1.5	6	1.5
RICHMOND	27.25	30.5	20.25	44.0	22	24.5	15	27.5
ROANOKE	32.00	72.0	20.00	38.5	31	97.0	19	79.5
ROCKBRIDGE	32.00	72.0	23.00	66.5	26	56.0	17	48.5
ROCKINGHAM	25.50	26.0	19.50	31.5	22	24.5	16	37.0
RUSSELL	37.75	111.0	27.75	114.0	33	110.5	23	117.5
SCOTT	41.50	126.5	28.50	120.0	35	119.5	22	109.0
SHENANDOAH	28.50	38.0	22.50	62.5	23	35.0	17	48.5
SMYTH	31.75	66.5	24.75	88.0	26	56.0	19	79.5
SOUTHAMPTON	29.25	46.0	22.25	61.0	23	35.0	16	37.0
SPOTSYLVANIA	25.00	21.5	17.00	17.5	23	35.0	15	27.5
STAFFORD	32.00	72.0	23.00	66.5	31	97.0	22	109.0
SURRY	18.75	5.0	16.75	16.0	13	5.0	11	6.5
SUSSEX	30.25	53.0	24.25	77.0	23	35.0	17	48.5
TAZEWELL	32.25	76.0	25.25	93.0	27	68.5	20	92.5
WARREN	29.50	48.5	20.50	47.0	26	56.0	17	48.5
WASHINGTON	33.00	84.0	24.00	73.0	27	68.5	18	63.5
WESTMORELAND	32.00	72.0	24.00	73.0	25	47.0	17	48.5
WISE	32.50	78.5	24.50	82.0	28	79.0	20	92.5
WYTHE	33.75	87.5	24.75	88.0	28	79.0	19	79.5
YORK	30.00	51.0	20.00	38.5	29	85.0	19	79.5
Cities								
ALEXANDRIA	24.00	15.5	15.00	8.5	23	35.0	14	16.5
BEDFORD	36.75	104.5	26.75	106.0	31	97.0	21	100.5
BRISTOL	41.00	123.0	29.00	122.5	34	114.0	22	109.0
BUENA VISTA	46.25	134.0	32.25	135.0	43	135.5	29	136.0
CHARLOTTESVILLE	38.00	112.5	26.00	101.0	32	104.5	20	92.5
CHESAPEAKE	36.50	103.0	24.50	82.0	34	114.0	22	109.0
CLIFTON FORGE	39.75	116.0	25.75	97.5	35	119.5	21	100.5
COLONIAL HEIGHTS	33.00	84.0	23.00	66.5	32	104.5	22	109.0
COVINGTON	35.25	97.0	24.25	77.0	30	90.0	19	79.5
DANVILLE	40.75	121.0	29.75	126.0	36	125.0	25	128.5
EMPORIA	38.75	114.0	27.75	114.0	32	104.5	21	100.5
FAIRFAX	21.00	8.0	12.00	3.0	20	13.5	11	6.5
FALLS CHURCH	23.00	13.0	15.00	8.5	22	24.5	14	16.5
AVERAGE	31.86		22.87		27.36		18.37	

ALTERNATE METHODS OF ASSESSING RELATIVE STRESS

	METHOD 1		METHOD 2		METHOD 3		METHOD 4	
	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank	Relative Stress Index	Statewide Rank
FRANKLIN	42.50	128.5	30.50	129.0	36	125.0	24	124.0
FREDERICKSBURG	37.25	108.5	25.25	93.0	33	110.5	21	100.5
GALAX	41.25	124.5	29.25	124.5	35	119.5	23	117.5
HAMPTON	43.25	130.0	29.25	124.5	40	132.5	26	132.0
HARRISONBURG	42.50	128.5	30.50	129.0	37	127.5	25	128.5
HOPEWELL	46.75	136.0	31.75	134.0	43	135.5	28	135.0
LEXINGTON	41.50	126.5	30.50	129.0	36	125.0	25	128.5
LYNCHBURG	40.75	121.0	27.75	114.0	37	127.5	24	124.0
MANASSAS	28.00	34.5	16.00	13.0	27	68.5	15	27.5
MANASSAS PARK	41.25	124.5	28.25	118.0	39	130.5	26	132.0
MARTINSVILLE	35.00	95.0	24.00	73.0	30	90.0	19	79.5
NEWPORT NEWS	45.75	133.0	30.75	131.0	42	134.0	27	134.0
NORFOLK	46.50	135.0	32.50	136.0	40	132.5	26	132.0
NORTON	35.75	99.5	26.75	106.0	30	90.0	21	100.5
PETERSBURG	44.25	131.0	31.25	133.0	38	129.0	25	128.5
POQUOSON	24.00	15.5	17.00	17.5	23	35.0	16	37.0
PORTSMOUTH	45.00	132.0	30.00	127.0	39	130.5	24	124.0
RADFORD	39.00	115.0	27.00	109.0	34	114.0	22	109.0
RICHMOND	40.50	119.0	27.50	111.0	35	119.5	22	109.0
ROANOKE	37.50	110.0	24.50	82.0	32	104.5	19	79.5
SALEM	37.00	106.5	25.00	91.0	35	119.5	23	117.5
SOUTH BOSTON	37.25	108.5	28.25	118.0	32	104.5	23	117.5
STAUNTON	38.00	112.5	27.00	109.0	35	119.5	24	124.0
SUFFOLK	40.75	121.0	28.75	121.0	35	119.5	23	117.5
VIRGINIA BEACH	31.25	59.5	20.25	44.0	30	90.0	19	79.5
WAYNESBORO	31.25	59.5	20.25	44.0	28	79.0	17	48.5
WILLIAMSBURG	29.00	42.0	20.00	38.5	26	56.0	17	48.5
WINCHESTER	37.00	106.5	26.00	101.0	32	104.5	21	100.5
AVERAGE	31.86		22.87		27.36		18.37	

KEY

Relative Stress Index and Statewide Rank: Higher numbers indicate higher levels of relative stress as determined by the method applied. Although some localities shift in rank using different methods, overall stress ratings are very similar

Revenue, tax, and poverty factors were combined in different ways to calculate the relative stress index:

Method 1: (underlined factors weighted)	Revenue capacity, <u>change in capacity</u>; <u>Tax effort</u>, change in tax effort; Percent Poverty, median family income, change in income.
Method 2: (unweighted)	Revenue capacity, change in capacity; Tax effort, change in tax effort; Percent poverty, median family income, change in income.
Method 3: (underlined factors weighted; poverty excluded)	Revenue capacity, <u>change in capacity</u>; <u>Tax effort</u>, change in tax effort.
Method 4: (unweighted; poverty excluded)	Revenue capacity, change in capacity; Tax effort, change in tax effort.

Taxes in Use

Counties	1981 Real Estate Rate	1982 Tangible Personal Property	Machinery and Tools	Sales	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	Number of Taxes Levied	Number of Taxes Authorized
ACCOMACK	0.38	1.68	X	X		X		X					6	8
ALBEMARLE	0.58	3.75	X	X	X	X	X	X		X			9	9
ALLEGHANY	0.63	2.08	X	X	X	X	X	X					8	8
AMELIA	0.31	1.50	X	X	X	X	X	X					8	8
AMHERST	0.46	1.50	X	X	X	X	X						7	8
APPOMATTOX	0.36	1.75	X	X	X	X							6	8
ARLINGTON	0.87	3.82	X	X	X	X	X			X	X	*	9	11
AUGUSTA	0.40	1.24	X	X	X	X		X					7	8
BATH	0.30	0.84	X	X	X	X							6	8
BEDFORD	0.41	0.88	X	X	X	X							6	8
BLAND	0.53	0.35	X	X	X	X							6	8
BOTETOURT	0.50	1.80	X	X	X	X		X					7	8
BRUNSWICK	0.33	3.41	X	X	X	X		X					7	8
BUCHANAN	0.22	0.82	X	X	X			X					6	8
BUCKINGHAM	0.23	1.80	X	X	X	X	X	X					8	8
CAMPBELL	0.41	1.58	X	X	X	X							6	8
CAROLINE	0.37	1.34	X	X	X	X		X					7	8
CARROLL	0.44	0.90	X	X	X	X							6	8
CHARLES CITY	0.59	2.51	X	X	X	X		X					7	8
CHARLOTTE	0.28	1.07	X	X	X	X							6	8
CHESTERFIELD	0.90	2.70	X	X	X	X	X						7	8
CLARKE	0.50	2.69	X	X		X		X					6	8
CRAIG	0.37	1.38	X	X	X	X							6	8
CULPEPPER	0.51	1.66	X	X	X	X		X					7	8
CUMBERLAND	0.11	0.94	X	X	X	X							6	8
DICKENSON	0.34	1.16	X	X	X								5	8
DINWIDDIE	0.72	4.05	X	X		X	X	X				*	7	9
ESSEX	0.38	2.81	X	X	X	X							6	8
FAIRFAX	1.25	3.98	X	X	X	X	X	X		X	X	*	10	11
FAUQUIER	0.54	2.86	X	X	X	X	X	X					8	8
FLOYD	0.35	0.68	X	X	X	X		X					7	8
FLUVANNA	0.63	3.07	X	X	X	X	X						7	8
FRANKLIN	0.32	0.81	X	X	X	X		X					7	8
FREDERICK	0.55	3.61	X	X	X	X	X	X					8	8
GILES	0.45	1.80	X	X	X								5	8
GLOUCESTER	0.44	1.63	X	X	X	X	X	X					8	8
GOOCHLAND	0.43	2.77	X	X	X	X	X	X					8	8
GRAYSON	0.30	0.58	X	X	X	X		X					7	8
GREENE	0.40	3.90	X	X	X	X		X					7	8
GREENSVILLE	0.31	2.62	X	X	X	X	X	X					8	8
HALIFAX	0.32	0.89	X	X		X	X	X					7	8
HANOVER	0.53	2.73	X	X	X	X							6	8
HENRICO	0.84	2.85	X	X	X	X	X	X					8	8
HENRY	0.48	1.24	X	X	X	X	X	X					8	8
HIGHLAND	0.39	1.20	X	X	X	X							6	8
ISLE OF WIGHT	0.33	3.37	X	X		X							5	8
JAMES CITY	0.69	3.00	X	X	X	X	X						7	8
KING AND QUEEN	0.52	0.88	X	X	X	X							6	8
KING GEORGE	0.75	2.40	X	X	X	X		X					7	8
KING WILLIAM	0.69	3.15	X	X	X	X		X					7	8
LANCASTER	0.26	1.52	X	X	X	X							6	8
LEE	0.52	0.51	X	X	X	X							6	8
LOUDOUN	0.93	3.75	X	X	X	X		X		*			7	9

Taxes in Use

Counties	1981 Real Estate Rate	1982 Tangible Personal Property	Machinery and Tools	Sales	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	Number of Taxes Levied	Number of Taxes Authorized
LOUISA	0.29	0.56	X	X	X	X							6	8
LUNENBURG	0.41	0.90	X	X	X	X							6	8
MADISON	0.39	1.02	X	X	X	X		X					7	8
MATHEWS	0.40	1.25	X	X	X	X							6	8
MECKLENBURG	0.33	0.73	X	X	X	X				*			6	9
MIDDLESEX	0.38	1.05	X	X	X	X							6	8
MONTGOMERY	0.60	1.13	X	X	X	X		X					7	8
NELSON	0.46	2.50	X	X		X		X					6	8
NEW KENT	0.67	2.49	X	X	X	X	X	X					8	8
NORTHAMPTON	0.73	2.18	X	X	X	X		X					7	8
NORTHUMBERLAND	0.46	1.20	X	X	X	X							6	8
NOTTOWAY	0.42	2.02	X	X	X	X		X					7	8
ORANGE	0.45	2.20	X	X	X	X	X						7	8
PAGE	0.52	1.12	X	X	X		X						6	8
PATRICK	0.31	1.20	X	X	X	X	X	X					8	8
PITTSYLVANIA	0.31	1.05	X	X	X	X							6	8
POWHATAN	0.48	1.50	X	X	X	X	X	X					8	8
PRINCE EDWARD	0.30	1.61	X	X	X	X		X					7	8
PRINCE GEORGE	0.60	2.62	X	X	X	X	X	X				*	8	9
PRINCE WILLIAM	1.27	3.32	X	X	X	X		X		X			8	9
PULASKI	0.46	0.99	X	X	X	X		X					7	8
RAPPAHANNOCK	0.22	1.05	X	X		X		X					6	8
RICHMOND	0.31	2.62	X	X	X	X							6	8
ROANOKE	0.83	2.62	X	X	X	X							6	8
ROCKBRIDGE	0.36	3.37	X	X	X	X	X	X					8	8
ROCKINGHAM	0.35	1.40	X	X	X	X		X		X			8	9
RUSSELL	0.57	0.53	X	X	X			X					6	8
SCOTT	0.56	0.72	X	X	X			X					6	8
SHENANDOAH	0.44	1.49	X	X	X	X		X					7	8
SMYTH	0.45	0.60	X	X	X	X							6	8
SOUTHAMPTON	0.33	3.00	X	X	X	X							6	8
SPOTSYLVANIA	0.63	1.00	X	X	X	X							6	8
STAFFORD	1.04	2.28	X	X	X	X		X					7	8
SURRY	0.34	2.62	X	X	X	X							6	8
SUSSEX	0.37	2.25	X	X	X	X							6	8
TAZEWELL	0.51	1.50	X	X	X	X							6	8
WARREN	0.46	1.99	X	X	X			X					6	8
WASHINGTON	0.47	0.75	X	X		X	X						6	8
WESTMORELAND	0.55	1.12	X	X	X	X							6	8
WISE	0.25	0.76	X	X	X		X						6	8
WYTHE	0.46	0.61	X	X	X	X							6	8
YORK	0.59	3.52	X	X	X	X	X						7	8

* = Authority to levy tax; tax not levied

Taxes in Use

Cities	1981 Real Estate Rate	1982 Tangible Personal Property	Machinery and Tools	Sales	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	Number of Taxes Levied	Number of Taxes Authorized
ALEXANDRIA	1.21	4.31	X	X	X	X	X	X	X	X	X		11	12
BEDFORD	0.60	0.78	X	X	X	X							6	12
BRISTOL	1.09	1.00	X	X	X	X	X	X	X	X	X		11	12
BUENA VISTA	0.81	3.19	X	X	X	X	X	X			X		9	12
CHARLOTTESVILLE	1.01	3.29	X	X	X	X	X	X		X			9	12
CHESAPEAKE	0.91	3.00	X	X	X	X	X	X	X	X	X		11	12
CLIFTON FORGE	0.64	2.28	X	X	X	X	X	X			X		9	12
COLONIAL HEIGHTS	1.13	2.62	X	X	X	X	X	X	X	X			10	12
COVINGTON	0.52	2.28	X	X	X	X	X	X					8	12
DANVILLE	0.60	2.49	X	X	X	X				X			7	12
EMPORIA	0.56	3.75	X	X	X	X	X	X	X	X			10	12
FAIRFAX	1.14	2.48	X	X	X	X	X	X		X	X		10	12
FALLS CHURCH	0.88	4.56	X	X	X	X	X	X	X	X	X	X	12	12
FRANKLIN	0.84	3.20	X	X	X	X	X	X			X		9	12
FREDERICKSBURG	0.91	3.06	X	X	X	X	X	X					8	12
GALAX	0.74	1.06	X	X	X	X	X	X					8	12
HAMPTON	1.10	4.05	X	X	X	X	X	X	X	X	X	X	12	12
HARRISONBURG	0.59	1.10	X	X	X	X	X	X					8	12
HOPEWELL	1.05	2.20	X	X	X	X	X	X	X				9	12
LEXINGTON	0.81	4.56	X	X	X	X	X	X	X	X			10	12
LYNCHBURG	1.03	2.10	X	X	X	X	X	X	X	X	X		11	12
MANASSAS	1.13	2.25	X	X	X	X	X	X					8	12
MANASSAS PARK	1.79	2.90	X	X	X	X	X	X					8	12
MARTINSVILLE	0.66	0.93	X	X	X	X		X					7	12
NEWPORT NEWS	1.15	3.75	X	X	X	X	X	X	X	X	X		11	12
NORFOLK	1.19	3.00	X	X	X	X	X	X	X	X	X	X	12	12
NORTON	0.78	1.83	X	X	X	X	X						7	12
PETERSBURG	1.45	2.32	X	X	X	X	X	X	X	X		X	11	12
POQUOSON	0.57	3.37	X	X	X	X	X	X					8	12
PORTSMOUTH	1.20	3.00	X	X	X	X	X	X	X	X	X	X	12	12
RADFORD	0.66	1.40	X	X	X	X		X					7	12
RICHMOND	1.41	2.97	X	X	X	X	X	X	X	X		X	11	12
ROANOKE	1.06	2.81	X	X	X	X	X	X		X	X	X	11	12
SALEM	1.04	2.43	X	X	X	X	X	X				X	9	12
SOUTH BOSTON	0.78	1.87	X	X	X	X	X	X					8	12
STAUNTON	0.92	1.60	X	X	X	X	X	X					8	12
SUFFOLK	0.80	2.28	X	X	X	X	X	X	X	X	X		11	12
VIRGINIA BEACH	0.58	3.00	X	X	X	X	X	X	X	X	X	X	12	12
WAYNESBORO	0.77	2.50	X	X	X	X	X	X					8	12
WILLIAMSBURG	0.59	2.62	X	X	X	X	X	X	X	X			10	12
WINCHESTER	0.86	2.90	X	X	X	X	X	X					8	12

Change in Tax Rates 1977-1982

Counties	Real Estate (as of 1981)	Tangible Personal Property	Machinery and Tools	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	No. of Taxes Increased	No. of Taxes Decreased	No. of Taxes Adopted
ACCOMACK	I	I	I		S		S					3	0	0
ALBEMARLE	D	D	D	D	S	A	S		S			0	4	1
ALLEGHANY	I	D	I	A	I	A	A					3	1	3
AMELIA	D	I	I	I*	I	A	A					4	1	2
AMHERST	D	I	I	S	S	A						2	1	1
APPOMATTOX	D	S	S	S	S							0	1	0
ARLINGTON	D	D	D	S	S	S			S	S		0	3	0
AUGUSTA	D	S	S	S	S		S					0	1	0
BATH	D	D	D	D	S							0	4	0
BEOFORD	D	I	I	S	S							2	1	0
BLAND	I	D	D	S	A							1	2	1
BOTETOURT	D	I	I	S	I		A					3	1	1
BRUNSWICK	D	I	I	S	I		I					4	1	0
BUCHANAN	D	I	I	S	R		A					2	0	1
BUCKINGHAM	D	D	S	S	S	A	S					0	2	1
CAMPBELL	D	S	S	S	S							0	1	0
CAROLINE	D	I	S	S	S		S					1	1	0
CARROLL	D	I	I	D	I							3	2	0
CHARLES CITY	S	I	D	S	S		D					1	2	0
CHARLOTTE	D	S	S	S	I							1	1	0
CHESTERFIELD	0	S	S	S	S	S						0	1	0
CLARKE	I	S	S		I		I					3	0	0
CRAIG	D	I	I	S	I							3	1	0
CULPEPPER	D	I	I	S	A		A					2	1	2
CUMBERLAND	D	I	D	S	S							1	2	0
DICKENSON	D	I	I	D	R							2	1	0
DINWIDDIE	I	I	I		S	A	I					4	0	1
ESSEX	I	D	I	D	A							2	2	1
FAIRFAX	D	S	S	D	S	S	S		S	S		0	2	0
FAUQUIER	I	D	I	D	I	A	I					4	2	1
FLOYO	I	S	S	S	S		S					1	0	0
FLUVANNA	I	I	I	S	I	A						4	0	1
FRANKLIN	D	S	I	S	I		A					2	1	1
FREDERICK	I	I	I	S	I	A	S					4	0	1
GILES	I	I	I	S								3	0	0
GLOUCESTER	D	I	I	I	S	A	I					4	1	1
GOOCHLAND	D	I	I	0	S	S	S					2	2	0
GRAYSON	D	D	I	I	S		S					2	2	0
GREENE	D	I	A	I*	I		S					3	1	1
GREENSVILLE	D	I	I	I*	S	A	A					3	1	2
HALIFAX	D	I	I		S	A	S					2	1	1
HANOVER	I	I	I	S	S							3	0	0
HENRICO	D	S	S	S	S	S	S					0	1	0
HENRY	D	I	I	S	S	A	I					3	1	1
HIGHLAND	I	I	S	S	I							3	0	0
ISLE OF WIGHT	I	I	I		I							4	0	0
JAMES CITY	D	S	S	I	S	S						1	1	0
KING AND QUEEN	I	D	D	D	S							1	3	0
KING GEORGE	I	I	I	S	S		S					3	0	0
KING WILLIAM	I	I	I	D	S		A					3	1	1
LANCASTER	0	S	S	D	S							0	2	0
LEE	I	0	D	D	A							1	3	1
LOUDOUN	D	S	D	I	S		S					1	2	0
LOUISA	D	D	D	S	S							0	3	0

Change in Tax Rates 1977-1982

Counties	Real Estate (as of 1981)	Tangible Personal Property	Machinery and Tools	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	No. of Taxes Increased	No. of Taxes Decreased	No. of Taxes Adopted
LUNENBURG	I	D	I	S	S							2	1	0
MADISON	D	I	I	D	I		I					4	2	0
MATHEWS	I	S	S	S	S							1	0	0
MECKLENBURG	I	I	I	I	S							4	0	0
MIDDLESEX	I	S	D	S	S							1	1	0
MONTGOMERY	D	D	I	S	S		A					1	2	1
NELSON	D	D	D		I		S					1	3	0
NEW KENT	S	I	D	I*	S	A	A					2	1	2
NORTHAMPTON	I	I	D	S	S		A					2	1	1
NORTHUMBERLAND	I	I	I	S	S							3	0	0
NOTTOWAY	D	I	I	S	A		A					2	1	2
ORANGE	D	I	D	S	S	A						1	2	1
PAGE	I	I	I	S		A						3	0	1
PATRICK	D	I	I	S	I	A	A					3	1	2
PITTSYLVANIA	D	I	I	S	I							3	1	0
POWHATAN	D	I	I	I*	I	A	S					4	1	1
PRINCE EDWARD	D	I	S	S	S		I					2	1	0
PRINCE GEORGE	D	S	S	S	S	S	S					0	1	0
PRINCE WILLIAM	D	S	D	I*	S		D		S			1	3	0
PULASKI	I	S	S	D	A		A					1	1	2
RAPPAHANNOCK	D	I	I	R	S		I					3	1	0
RICHMOND	I	S	S	S	S							1	0	0
ROANOKE	D	I	D	S	S							1	2	0
ROCKBRIDGE	D	S	S	I*	I	A	A					2	1	2
ROCKINGHAM	D	I	I	S	I		S		S			3	1	0
RUSSELL	I	I	D	I			A					3	1	1
SCOTT	D	D	D	D			I					1	4	0
SHENANDOAH	I	I	I	S	A		S					3	0	1
SMYTH	I	S	S	S	S							1	0	0
SOUTHAMPTON	D	S	I	S	I							2	1	0
SPOTSYLVANIA	I	I	S	S	A							2	0	1
STAFFORD	I	I	D	S	S		S					2	1	0
SURRY	I	I	I	S	S							3	0	0
SUSSEX	I	I	I	S	I							4	0	0
TAZEWELL	I	I	I	S	A							3	0	1
WARREN	D	I	I	S			A					2	1	1
WASHINGTON	I	I	I		I	A						4	0	1
WESTMORELAND	I	I	I	S	I							4	0	0
WISE	D	I	S	S		S						1	1	0
WYTHE	D	I	I	S	S							2	1	0
YORK	I	I	I	S	I	S						4	0	0

Key:

I = Tax increased between FY 1977 and FY 1983 (between FY 1977 and FY 1981 for property taxes)

D = Tax decreased between FY 1977 and FY 1983 (between FY 1977 and FY 1981 for property taxes)

S = Tax rate remained the same

I* = Locality switched from Merchant's Capital to BPOL Tax

A = Tax was adopted between 1977 and 1983

R = Tax repealed

Change in Tax Rates 1977-1982

Cities	Real Estate (as of 1981)	Tangible Personal Property	Machinery and Tools	BPOL or Merchants Capital	Motor Vehicle License	Utility License	Consumer Utility	Meals	Transient Occupancy	Cigarette	Admissions	No. of Taxes Increased	No. of Taxes Decreased	No. of Taxes Adopted
ALEXANDRIA	D	S	I	S	S	S	S	S	S	S		1	1	0
BEDFORD	I	S	S	D	S							1	1	0
BRISTOL	I	S	S	S	I	A	S	A	A	I		3	0	3
BUENA VISTA	D	I	I	S	S	S	I			A		3	1	1
CHARLOTTESVILLE	D	S	S	S	S	S	S		S			0	1	0
CHESAPEAKE	D	I	S	S	I	S	S	I	I	I		5	1	0
CLIFTON FORGE	D	I	D	I	S	S	S			I		3	2	0
COLONIAL HEIGHTS	I	I	S	I	S	A	S	S	S		R	3	0	1
COVINGTON	D	I	I	S	I	S	S					3	1	0
DANVILLE	D	S	S	S	S				S			0	1	0
EMPORIA	D	S	I	S	I	S	I	A	A			3	1	2
FAIRFAX	D	D	D	S	D	S	S		S	S		0	4	0
FALLS CHURCH	D	S	S	I	S	S	S	S	S	S	S	1	1	0
FRANKLIN	D	S	S	S	I	S	S			S		1	1	0
FREDERICKSBURG	D	S	D	D	S	S	S					0	3	0
GALAX	I	I	I	I	I	S	A					5	0	1
HAMPTON	D	I	I	S	S	S	I	S	S	S	S	3	1	0
HARRISONBURG	D	S	S	S	I	A	S					1	1	1
HOPEWELL	I	S	I	S	S	S	S	A				2	0	1
LEXINGTON	I	I	S	S	S	S	I	S	S			3	0	0
LYNCHBURG	D	S	S	S	I	S	S	A	A	S		1	1	2
MANASSAS	D	I	D	S	S	S	S					1	2	0
MANASSAS PARK	D	I	I	I	S	A	S					3	1	1
MARTINSVILLE	D	I	S	S	S		S					1	1	0
NEWPORT NEWS	D	D	D	S	S	S	I	A	S	S		1	3	1
NORFOLK	I	I	S	S	S	S	D	I	S	S	S	3	1	0
NORTON	I	I	I	I	I	S						5	0	0
PETERSBURG	I	S	S	S	S	S	S	S	S		S	1	0	0
POQUOSON	D	D	D	D	S	S	S					0	4	0
PORTSMOUTH	I	S	I	S	S	S	I	I	I	I	D	6	1	0
RADFORD	D	S	S	S	I		A					1	1	1
RICHMOND	D	S	S	D	I	S	S	I	S		S	2	2	0
ROANOKE	D	D	D	D	S	D	D		I	S	S	1	6	0
SALEM	D	S	S	I	I	S	I				A	3	1	1
SOUTH BOSTON	D	I	D	S	I	S	S					2	2	0
STAUNTON	I	I	I	S	S	S	S					3	0	0
SUFFOLK	D	I	I	S	I	S	I	A	A	I		5	1	2
VIRGINIA BEACH	D	I	D	S	S	S	I	I	S	I	I	5	2	0
WAYNESBORO	D	S	D	S	I	S	I					2	2	0
WILLIAMSBURG	I	S	S	S	S	A	I	A	A			2	0	3
WINCHESTER	D	I	S	S	I	S	D					2	2	0

Key:

I = Tax increased between FY 1977 and FY 1983 (between FY 1977 and FY 1981 for property taxes)

D = Tax decreased between FY 1977 and FY 1983 (between FY 1977 and FY 1981 for property taxes)

S = Tax rate remained the same

A = Tax was adopted between 1977 and 1983

I* = Locality switched from Merchant's Capital to BPOL Tax

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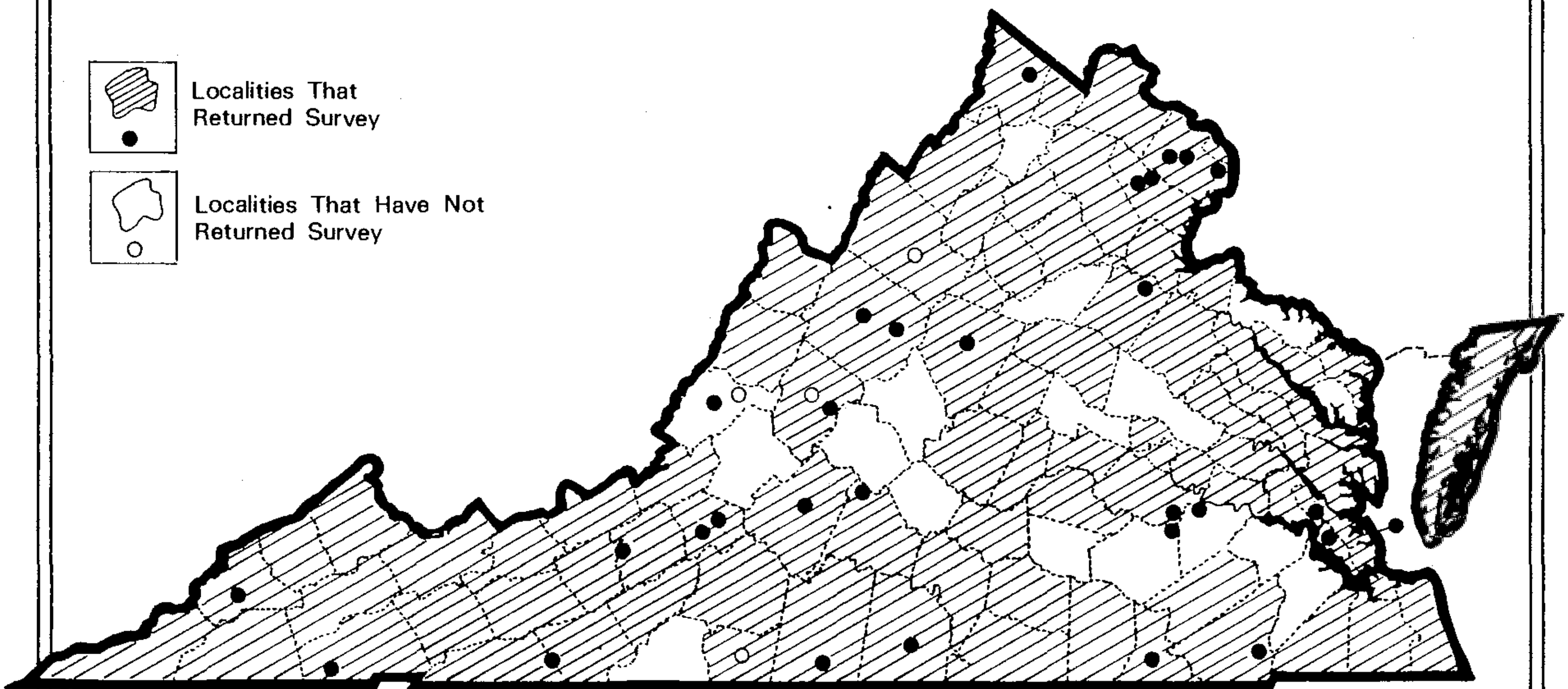
CITY AND COUNTY SURVEY RESPONSE



APPENDIX K

POSSIBLE REVENUE SOURCES AVAILABLE TO LOCAL GOVERNMENTS

HJR 12, passed in the 1983 session of the General Assembly, requests JLARC to identify "additional revenue sources that could be used to provide public services." Listed below are descriptions of additional sources which would (1) provide significant amounts of revenue and (2) would not cause unreasonable administrative burdens. Estimates of potential revenue are difficult to forecast, but are offered for information purposes where possible.

The list is not exhaustive. There are numerous alternative taxes, but many are not suited to Virginia given its resources and philosophy. JLARC is currently exploring additional revenue sources to supplement those described above.

Additional Sales Tax

Virginia currently levies a three percent State sales and use tax on most retail sales transactions. An additional one percent sales tax is allowed as a local option. All cities and counties have exercised this option.

Virginia's total sales tax (4%) is low by regional and national standards. For example, the national average is 5.5 percent. Regionally, eight of twelve states levy higher combined State and local sales taxes. The other four states in the region levy taxes at Virginia's four percent level (Table 1).

If the General Assembly elected to allow localities to levy an additional local sales tax, the statewide revenue impact would be significant. The Department of Taxation estimates that an additional one percent sales tax would yield about $254 million in FY 1985, if it were adopted statewide. Estimates of the impact for each locality are included at the completion of this section. A combined State and local sales tax of five percent would remain below both the regional and national averages. Because sales taxes are currently collected by the State, no new administrative costs or procedures would be necessary.

Sales Tax on Business Services and Professions. In addition to taxing retail sales transactions, some states have chosen to tax services. Significant revenues may be collected through this tax. The Department of Taxation estimates that $214.65 million could be generated in FY 1984 if all classifications were taxed. For example, taxing of business services would generate about $64.3 million, health services would generate $62.6 million and auto repair $21.8 million.

Table 1

SALES TAXES IN NEIGHBORING STATES
(as of January, 1983)

State	State Tax	Local Tax	Total Levy
VIRGINIA	3%	1%	4%
Alabama	4	3	7
Arkansas	3	1	4
Florida	5	1	6
Georgia	3	1	4
Kentucky	5	5	5.5
Louisiana	3	3	6
Maryland	5	-	5
Mississippi	5.5	-	5.5
North Carolina	3	1	4.3
South Carolina	4	-	4
Tennessee	4.5	2.25	6.75
West Virginia	5	-	5
Regional Average	4.1%	1.1%	5.1%
National Average	4.0%	1.5%	5.5%

Source: JLARC Compilation of State Digests.

Local Option Income Tax

Local governments in Virginia are prohibited from levying a tax on income. This source of revenue has been reserved for State use exclusively.

About 40 percent of the states, both regionally and nationally, currently allow local option income taxes. The form of the tax, however, varies greatly. Variations in the details of local income taxes make them difficult to compare. The principal variation lies in the base to which the tax is applied. Some states allow local governments to tax net income, while others allow taxation of adjusted gross income. Variations also exist in the method of taxation. In some states, the tax is applied as a proportion of taxable income. In others, it is a surcharge of State tax liability. For example, in Maryland the surcharge is from 20% - 50% of the State tax liability.

Authorization of a local option income tax would be a fundamental change in tax policy for Virginia. It would also require new administrative mechanisms and higher collection costs at the State level. Nevertheless, its revenue impact would be substantial. A State income tax increase of one percent on taxable income above $12,000 would produce an estimated $174.4 million in FY 1985, according to Department of

Taxation estimates. Distribution of this sum to individual localities, based on population, is presented at the conclusion of this section. A true local option income tax would probably bring in a similar amount, depending on the specific methods used.

Occupational Tax. The occupational, or payroll tax, is another form of the local income tax used in other states. With this tax, local governments tax compensation earned within the limits of the locality. Typically, employers withhold a percentage of all employees wages and forward the collections to the local tax department. Across the nation, tax rates range from .5 to 4.3 percent of earnings.

Revenues derived from an occupational tax may be ear-marked for special purposes. For example, in Kentucky an occupational tax of 2.2% may be levied by all cities and counties. One-third of the collected revenues is designated for school board purposes.

An occupational tax may bring in significant revenues for local governments. In Ohio, for example, the occupational tax is the primary source of revenue for most of the cities.

Corporate Income Tax

The majority of states levy a corporate income tax. Most states use the revenue to support State programs and policies, but some have chosen to allow local governments to utilize the tax. For example, in Kentucky, cities are given authority to tax corporations 2% of the net profits declared on Federal returns. The tax is paid directly to the local tax department.

In Virginia, local governments can not levy a corporate income tax. The State rate of 6 percent is consistent with seven of the twelve states in the southern region. Two of the neighboring states -- Louisiana (8%) and Maryland (7%) -- have higher tax rates. However, the other southeastern states have world wide taxation; Virginia does not. That is, the tax base does not include profits that are made in other states or overseas.

Virginia's rate of 6 percent has been stable since FY 1972 when it was increased from 5 percent. This increase balanced revenue losses caused by changes in State tax laws.

Since 1970, the number of corporations in Virginia has increased 43 percent. However, a declining proportion of the general fund has been collected from corporate taxation. In FY 1970, corporate taxes accounted for 9.1 percent of general fund revenues. By FY 1982, this percentage had decreased to 6.3. During the same period, revenues from individual income taxes increased from 39% to 53% of general fund revenues.

According to Department of Taxation estimates, a one percent increase of all taxable income would result in about $140 million from FY 1984 to FY 1986. In addition, it is estimated that increasing payment requirements from 80 percent to 90 percent of tax liability would net $10.6 million.

Severance Taxes

Severance taxes are imposed on the removal, or severance, of a natural resource from the land. One rationale for the tax is the concept that natural resources belong to all citizens and that the State should be reimbursed by the producers for the loss of a non-renewable source of wealth.

Nationwide, 31 states collect an estimated $2 billion annually in severance taxes levied on producers of coal, natural gas, petroleum, timber and minerals.

In Virginia, local governments have the authority to levy severance taxes on producers of coal and natural gas. For six counties in Southwest Virginia, revenues from severance generate from 25% to 50% of their general fund.

If the State chose to levy a severance tax to raise revenue for local government functions, the Department of Taxation estimates that a 1 percent levy would generate close to 15 million dollars.

State Lottery

In recent years, an increasing number of states have chosen to run state lotteries. While local governments have not been given this authority, revenues collected from states have been ear-marked to assist local governments perform selected functions such as education and social services.

The amount of revenue which could be generated depends on the type of lottery. Department of Taxation estimates range from 11.8 million to 24.2 million dollars annually. However, Department officials indicate that these estimates may be low and are planning to review the recent experience of other states with lotteries.

APPENDIX L

Estimated Revenue From Selected Local Tax Increases

Locality	Increase In Local 1% Option Sales Tax To 2%		Local Option Income Tax Rate Of 1% On Taxable Income Over $12,000	
	Est. Revenue 84-86	Per Capita	Est. Revenue 84-86	Per Capita
ACCOMACK	$2,187,425	$71.02	$1,469,288	$47.70
ALBEMARLE	$4,963,263	$87.38	$4,152,930	$73.11
ALLEGHANY	$487,044	$34.30	$794,316	$55.94
AMELIA	$381,390	$47.09	$396,161	$48.91
AMHERST	$1,747,489	$60.05	$1,562,054	$53.68
APPOMATTOX	$717,009	$60.25	$631,085	$53.03
ARLINGTON	$19,950,558	$130.06	$19,348,611	$126.13
AUGUSTA	$3,206,888	$58.73	$3,367,960	$61.68
BATH	$973,711	$183.72	$307,266	$57.97
BEDFORD	$1,018,128	$28.28	$2,226,933	$61.86
BLAND	$124,727	$19.49	$270,415	$42.25
BOTETOURT	$999,832	$41.49	$1,444,418	$59.93
BRUNSWICK	$705,741	$44.67	$608,232	$38.50
BUCHANAN	$3,104,020	$81.26	$2,306,186	$60.37
BUCKINGHAM	$427,467	$36.23	$439,130	$37.21
CAMPBELL	$2,544,831	$55.08	$2,848,023	$61.65
CAROLINE	$683,511	$38.18	$917,816	$51.27
CARROLL	$941,024	$33.37	$1,120,616	$39.74
CHARLES CITY	$78,979	$11.79	$379,454	$56.63
CHARLOTTE	$502,064	$41.84	$468,585	$39.05
CHESTERFIELD	$13,390,234	$89.33	$13,281,401	$88.60
CLARKE	$528,508	$53.38	$650,838	$65.74
CRAIG	$109,711	$29.65	$205,194	$55.46
CULPEPER	$2,118,813	$94.17	$1,345,834	$59.81
CUMBERLAND	$250,703	$31.73	$308,066	$39.00
DICKENSON	$1,033,089	$51.40	$976,774	$48.60
DINWIDDIE	$808,008	$35.91	$1,178,678	$52.39
ESSEX	$1,184,704	$136.17	$465,478	$53.50
FAIRFAX	$67,533,823	$109.15	$67,511,902	$109.12
FAUQUIER	$2,817,733	$76.99	$3,014,989	$82.38
FLOYD	$420,335	$35.03	$501,211	$41.77
FLUVANNA	$321,957	$31.26	$532,180	$51.67
FRANKLIN	$1,754,299	$49.00	$1,916,552	$53.53
FREDERICK	$2,393,728	$69.79	$2,158,415	$62.93
GILES	$1,276,823	$71.73	$933,791	$52.46
GLOUCESTER	$1,609,307	$76.27	$1,373,811	$65.11
GOOCHLAND	$551,118	$46.70	$932,080	$78.99
GRAYSON	$448,324	$28.56	$676,103	$43.06
GREENE	$263,857	$34.72	$487,878	$64.19
GREENSVILLE	$540,109	$48.66	$461,810	$41.60
HALIFAX	$1,288,246	$42.24	$1,324,983	$43.44
HANOVER	$5,206,642	$101.89	$4,157,106	$81.35
HENRICO	$27,903,254	$150.18	$15,807,630	$85.08
HENRY	$3,783,466	$66.61	$3,505,781	$61.72
HIGHLAND	$105,746	$36.46	$126,063	$43.47
ISLE OF WIGHT	$1,606,547	$72.37	$1,394,430	$62.81
JAMES CITY	$3,370,261	$142.81	$1,751,963	$74.24
KING AND QUEEN	$95,758	$16.23	$312,966	$53.05
KING GEORGE	$434,131	$40.20	$726,313	$67.25
KING WILLIAM	$677,645	$70.59	$635,710	$66.22
LANCASTER	$1,178,656	$116.70	$646,341	$63.99
LEE	$1,208,287	$45.77	$885,770	$33.55

Estimated Revenue From Selected Local Tax Increases

	Increase In Local 1% Option Sales Tax To 2%		Local Option Income Tax Rate Of 1% On Taxable Income Over $12,000	
Locality	Est. Revenue 84-86	Per Capita	Est. Revenue 84-86	Per Capita
LOUDOUN	$7,195,698	$123.85	$5,286,500	$90.99
LOUISA	$869,457	$48.85	$900,120	$50.57
LUNENBURG	$597,657	$48.99	$503,889	$41.30
MADISON	$553,602	$54.81	$506,928	$50.19
MATHEWS	$400,097	$49.39	$522,844	$64.55
MECKLENBURG	$2,578,503	$89.84	$1,394,273	$48.58
MIDDLESEX	$526,823	$66.69	$444,061	$56.21
MONTGOMERY	$4,930,042	$76.20	$3,106,283	$48.01
NELSON	$483,630	$39.32	$579,224	$47.09
NEW KENT	$334,593	$37.59	$596,697	$67.04
NORTHAMPTON	$1,371,882	$93.33	$593,426	$40.37
NORTHUMBERLAND	$440,383	$44.04	$566,183	$56.62
NOTTOWAY	$1,026,097	$70.28	$724,714	$49.64
ORANGE	$1,317,024	$72.36	$1,210,103	$66.49
PAGE	$1,258,611	$64.54	$930,555	$47.72
PATRICK	$631,557	$36.09	$817,857	$46.73
PITTSYLVANIA	$2,059,544	$31.16	$3,382,375	$51.17
POWHATAN	$331,642	$25.12	$740,745	$56.12
PRINCE EDWARD	$1,591,134	$95.28	$650,987	$38.98
PRINCE GEORGE	$753,932	$28.24	$1,188,327	$44.51
PRINCE WILLIAM	$12,667,735	$83.12	$11,360,294	$74.54
PULASKI	$2,779,396	$79.19	$1,795,540	$51.15
RAPPAHANNOCK	$186,246	$31.57	$342,631	$58.07
RICHMOND	$767,007	$112.80	$376,384	$55.35
ROANOKE	$6,643,897	$89.06	$5,769,695	$77.34
ROCKBRIDGE	$991,221	$54.46	$897,046	$49.29
ROCKINGHAM	$4,260,410	$73.08	$3,369,718	$57.80
RUSSELL	$1,508,142	$47.13	$1,588,940	$49.65
SCOTT	$1,138,096	$45.16	$1,164,497	$46.21
SHENANDOAH	$2,014,083	$73.24	$1,490,960	$54.22
SMYTH	$2,405,092	$72.01	$1,501,923	$44.97
SOUTHAMPTON	$540,228	$29.68	$956,546	$52.56
SPOTSYLVANIA	$4,080,568	$113.98	$2,220,648	$62.03
STAFFORD	$1,870,734	$44.23	$2,876,129	$67.99
SURRY	$227,049	$37.84	$340,189	$56.70
SUSSEX	$654,156	$61.71	$549,800	$51.87
TAZEWELL	$4,990,947	$97.48	$3,038,018	$59.34
WARREN	$1,962,313	$91.27	$1,271,001	$59.12
WASHINGTON	$2,955,738	$61.97	$2,293,427	$48.08
WESTMORELAND	$761,670	$54.02	$691,792	$49.06
WISE	$3,525,772	$79.95	$2,571,989	$58.32
WYTHE	$2,161,195	$84.09	$1,245,753	$48.47
YORK	$2,291,387	$62.27	$2,374,608	$64.53
ALEXANDRIA	$16,910,772	$159.54	$14,370,325	$135.57
BEDFORD	$946,623	$150.26	$327,481	$51.98
BRISTOL	$3,831,890	$210.54	$1,770,330	$97.27
BUENA VISTA	$467,996	$70.91	$317,059	$48.04
CHARLOTTESVILLE	$7,067,681	$176.69	$2,669,505	$66.74
CHESAPEAKE	$7,906,866	$67.41	$7,571,172	$64.55
CLIFTON FORGE	$494,334	$100.88	$289,755	$59.13
COLONIAL HEIGHTS	$1,578,467	$95.09	$1,403,823	$84.57
COVINGTON	$1,317,358	$151.42	$481,050	$55.29

Estimated Revenue From Selected Local Tax Increases

	Increase In Local 1% Option Sales Tax To 2%		Local Option Income Tax Rate Of 1% On Taxable Income Over $12,000	
Locality	Est. Revenue 84-86	Per Capita	Est. Revenue 84-86	Per Capita
DANVILLE	$6,703,576	$146.37	$3,124,307	$68.22
EMPORIA	$964,724	$189.16	$264,519	$51.87
FAIRFAX	$6,444,925	$330.51	$1,713,725	$87.88
FALLS CHURCH	$4,017,323	$422.88	$1,967,215	$207.08
FRANKLIN	$941,572	$127.24	$446,768	$60.37
FREDERICKSBURG	$3,450,231	$225.51	$1,086,084	$70.99
GALAX	$1,607,339	$236.37	$400,020	$58.83
HAMPTON	$14,439,638	$116.73	$7,325,125	$59.22
HARRISONBURG	$3,894,798	$189.99	$1,070,532	$52.22
HOPEWELL	$2,257,570	$94.86	$1,589,008	$66.77
LEXINGTON	$740,076	$110.46	$343,385	$51.25
LYNCHBURG	$10,898,959	$162.19	$4,523,711	$67.32
MANASSAS	$2,771,399	$165.95	$1,627,401	$97.45
MANASSAS PARK	$293,500	$45.86	$323,634	$50.57
MARTINSVILLE	$3,061,173	$171.02	$1,322,543	$73.89
NEWPORT NEWS	$12,392,513	$84.71	$9,347,627	$63.89
NORFOLK	$31,524,559	$117.89	$12,910,118	$48.28
NORTON	$1,291,313	$280.72	$286,129	$62.20
PETERSBURG	$5,698,720	$142.11	$2,391,996	$59.65
POQUOSON	$217,830	$23.94	$660,258	$72.56
PORTSMOUTH	$8,905,382	$85.55	$6,221,575	$59.77
RADFORD	$812,122	$59.28	$652,109	$47.60
RICHMOND	$33,544,284	$153.87	$16,445,090	$75.44
ROANOKE	$16,841,973	$167.08	$6,498,782	$64.47
SALEM	$4,159,028	$173.29	$1,722,884	$71.79
SOUTH BOSTON	$1,163,964	$168.69	$427,928	$62.02
STAUNTON	$2,837,337	$128.97	$1,527,953	$69.45
SUFFOLK	$3,362,576	$70.94	$2,781,751	$58.69
VIRGINIA BEACH	$24,694,418	$90.49	$18,214,484	$66.74
WAYNESBORO	$2,277,265	$150.81	$1,118,618	$74.08
WILLIAMSBURG	$4,157,879	$407.64	$614,194	$60.22
WINCHESTER	$4,286,926	$214.35	$1,468,892	$73.44
	$543,770,790 *		$389,600,000	

* The estimated total sales tax figure has been revised to $617.6 million, which results in an increase of about 13.5% in each locality's estimated revenue.

APPENDIX M

Distribution of State Aid Per Capita - FY 1981

Counties	State Financial Assistance	Direct Services: Local Health Departments	Direct Services: Community Service Boards	Direct Services: Court Service Units	Total Direct Services	Total State Aid
ACCOMACK	209.72	4.17	7.91	2.61	14.70	224.42
ALBEMARLE	183.08	5.00	6.59	1.25	12.84	195.92
ALLEGHANY	308.22	5.93	3.06	3.56	12.55	320.77
AMELIA	234.23	8.66	4.66	4.43	17.76	251.99
AMHERST	228.33	5.47	5.36	1.66	12.49	240.83
APPOMATTOX	287.88	4.79	5.40	3.17	13.37	301.25
ARLINGTON	193.42	6.73	10.51	0.00	17.24	210.66
AUGUSTA	228.21	4.30	5.58	1.07	10.95	239.16
BATH	266.86	10.78	3.06	1.47	15.31	282.17
BEOFORD	247.22	2.71	5.35	1.79	9.86	257.08
BLAND	249.36	5.78	6.25	1.81	13.84	263.20
BOTETOURT	241.60	5.47	7.94	2.42	15.82	257.43
BRUNSWICK	264.41	6.52	5.78	1.37	13.66	278.07
BUCHANAN	274.14	4.09	3.50	0.91	8.50	282.63
BUCKINGHAM	249.39	6.41	4.69	3.52	14.62	264.00
CAMPBELL	266.94	2.79	5.36	1.86	10.01	276.95
CAROLINE	266.88	4.62	5.20	3.24	13.06	279.94
CARROLL	234.13	3.38	6.26	2.15	11.79	245.93
CHARLES CITY	286.50	9.94	4.03	4.66	18.63	305.13
CHARLOTTE	280.28	5.53	4.67	2.83	13.04	293.32
CHESTERFIELD	227.71	3.46	5.05	2.37	10.88	238.59
CLARKE	170.27	6.44	5.29	1.91	13.64	183.91
CRAIG	264.59	17.11	0.00	0.53	17.64	282.23
CULPEPER	224.77	5.41	7.88	2.45	15.74	240.51
CUMBERLANO	269.91	13.09	4.68	3.35	21.12	291.03
DICKENSON	274.13	5.73	3.04	4.99	13.76	287.89
DINWIDDIE	266.93	2.56	6.32	2.51	11.38	278.32
ESSEX	225.19	6.40	5.09	5.33	16.83	242.02
FAIRFAX	199.09	4.86	4.82	0.00	9.68	208.77
FAUQUIER	194.66	5.17	7.88	0.56	13.60	208.26
FLOYD	213.88	6.60	6.02	1.01	13.63	227.52
FLUVANNA	242.55	4.10	6.58	1.15	11.83	254.38
FRANKLIN	232.10	3.03	6.06	1.76	10.85	242.95
FREDERICK	235.10	3.05	5.25	0.64	8.95	244.04
GILES	240.80	3.27	6.00	5.21	14.48	255.28
GLOUCESTER	202.93	3.44	5.08	3.17	11.69	214.62
GOOCHLAND	198.04	8.14	3.88	1.67	13.69	211.73
GRAYSON	239.01	7.74	6.25	1.55	15.53	254.54
GREENE	304.45	6.55	6.53	2.60	15.68	320.13
GREENSVILLE	371.42	8.14	6.31	3.16	17.62	389.04
HALIFAX	287.66	3.18	5.77	2.10	11.05	298.71
HANOVER	205.14	3.74	5.52	0.79	10.05	215.19
HENRICO	181.07	3.11	4.16	0.00	7.27	188.34
HENRY	250.51	2.44	6.08	2.88	11.40	261.91
HIGHLAND	215.90	17.44	0.00	0.40	17.84	233.74
ISLE OF WIGHT	217.50	5.92	6.52	3.15	15.59	233.09
JAMES CITY	181.65	3.94	8.74	6.05	18.73	200.39
KING AND QUEEN	211.11	10.57	5.53	1.51	17.61	228.72
KING GEORGE	258.70	5.15	5.11	1.61	11.87	270.58
KING WILLIAM	182.46	6.42	5.02	3.25	14.70	197.16

Note: State highway funds and value of State police patrolling [illegible]ncluded

Distribution of State Aid Per Capita - FY 1981

Counties	State Financial Assistance	Direct Services: Local Health Departments	Direct Services: Community Service Boards	Direct Services: Court Service Units	Total Direct Services	Total State Aid
LANCASTER	204.68	7.36	4.99	3.44	15.79	220.46
LEE	274.75	5.54	3.62	2.33	11.49	286.24
LOUDOUN	253.84	4.38	7.71	0.99	13.09	266.93
LOUISA	187.95	4.92	6.60	2.22	13.73	201.68
LUNENBURG	237.16	4.87	4.66	1.86	11.38	248.55
MADISON	235.37	9.45	7.86	1.56	18.87	254.24
MATHEWS	190.53	7.74	5.15	2.20	15.10	205.63
MECKLENBURG	250.83	4.26	5.78	3.16	13.20	264.03
MIDDLESEX	193.60	9.48	5.17	1.69	16.34	209.94
MONTGOMERY	178.27	2.52	6.01	1.69	10.22	188.49
NELSON	242.68	8.55	6.59	1.31	16.45	259.13
NEW KENT	242.81	7.23	3.92	4.01	15.17	257.98
NORTHAMPTON	180.17	13.42	7.91	3.08	24.41	204.59
NORTHUMBERLAND	185.60	10.49	4.99	1.74	17.23	202.82
NOTTOWAY	233.38	5.53	4.67	3.16	13.36	246.74
ORANGE	227.06	6.44	7.88	2.60	16.92	243.98
PAGE	234.06	4.74	5.26	1.46	11.46	245.52
PATRICK	243.45	3.97	6.09	1.65	11.71	255.16
PITTSYLVANIA	256.58	3.36	6.43	2.30	12.10	268.67
POWHATAN	213.40	4.56	3.88	1.94	10.38	223.78
PRINCE EDWARD	182.86	6.79	4.69	2.04	13.51	196.37
PRINCE GEORGE	245.34	2.27	6.33	1.62	10.22	255.56
PRINCE WILLIAM	278.08	3.61	4.90	4.44	12.94	291.02
PULASKI	267.46	4.16	6.01	2.76	12.93	280.39
RAPPAHANNOCK	199.25	11.22	7.85	0.55	19.62	218.88
RICHMOND	246.09	17.61	5.31	0.85	23.77	269.86
ROANOKE	269.77	2.98	7.93	1.31	12.22	281.99
ROCKBRIDGE	231.31	7.42	6.13	1.28	14.84	246.15
ROCKINGHAM	197.37	3.56	5.97	0.70	10.24	207.60
RUSSELL	261.84	3.78	4.95	0.60	9.33	271.16
SCOTT	263.22	6.26	3.62	1.36	11.24	274.46
SHENANDOAH	205.09	3.81	5.25	0.80	9.87	214.96
SMYTH	264.63	4.64	6.25	2.02	12.91	277.54
SOUTHAMPTON	238.38	7.46	6.52	1.57	15.55	253.92
SPOTSYLVANIA	262.69	3.26	5.13	2.43	10.82	273.52
STAFFORD	264.58	3.02	5.13	2.33	10.47	275.05
SURRY	277.96	7.09	5.94	0.00	13.04	291.00
SUSSEX	288.48	8.33	6.32	1.78	16.43	304.90
TAZEWELL	240.77	2.71	4.94	2.49	10.13	250.90
WARREN	217.73	3.65	5.26	2.65	11.56	229.29
WASHINGTON	234.27	2.94	7.99	2.07	13.00	247.27
WESTMORELAND	210.52	7.43	5.02	2.06	14.51	225.03
WISE	273.21	4.32	3.63	2.37	10.32	283.53
WYTHE	242.28	3.78	6.25	1.57	11.61	253.88
YORK	284.35	3.78	8.75	1.70	14.23	298.58
County Average	237.93	5.94	5.61	2.12	13.66	251.60

Note: State highway funds and value of State police patrolling not included

Distribution of State Aid Per Capita - FY 1981

Cities	State Financial Assistance	Direct Services: Local Health Departments	Direct Services: Community Service Boards	Direct Services: Court Service Units	Total Direct Services	Total State Aid
ALEXANDRIA	156.31	11.41	11.77	0.00	23.18	179.49
BEDFORD	55.96	2.71	5.35	1.28	9.34	65.30
BRISTOL	278.71	5.21	7.98	5.14	18.33	297.04
BUENA VISTA	257.05	9.29	6.12	2.95	18.35	275.40
CHARLOTTESVILLE	179.68	5.71	6.59	2.56	14.86	194.54
CHESAPEAKE	281.70	3.35	4.43	4.90	12.67	294.38
CLIFTON FORGE	244.21	8.09	3.06	2.38	13.53	257.74
COLONIAL HEIGHTS	220.94	3.99	6.39	1.86	12.25	233.19
COVINGTON	185.47	9.74	3.06	7.60	20.41	205.87
DANVILLE	235.41	5.93	6.42	0.41	12.76	248.17
EMPORIA	100.29	0.00	6.05	6.35	12.40	112.69
FAIRFAX	110.99	4.93	4.80	0.00	9.74	120.73
FALLS CHURCH	150.30	5.06	4.93	0.00	9.99	160.29
FRANKLIN	284.66	11.73	6.55	4.29	22.57	307.23
FREDERICKSBURG	171.79	7.25	5.16	9.47	21.89	193.68
GALAX	180.30	10.71	6.26	4.16	21.13	201.43
HAMPTON	266.82	3.96	6.96	5.18	16.09	282.92
HARRISONBURG	105.41	5.64	5.96	1.08	12.69	118.10
HOPEWELL	238.93	1.68	6.32	4.99	12.99	251.91
LEXINGTON	144.31	13.44	6.14	3.48	23.06	167.37
LYNCHBURG	191.44	5.61	5.36	3.36	14.33	205.77
MANASSAS	194.92	4.77	4.90	2.20	11.86	206.79
MANASSAS PARK	346.78	6.99	4.91	3.44	15.35	362.13
MARTINSVILLE	242.79	6.27	6.08	7.52	19.87	262.66
NEWPORT NEWS	250.89	8.76	6.96	5.85	21.57	272.46
NORFOLK	208.76	8.43	5.37	6.11	19.91	228.67
NORTON	242.00	0.00	3.53	5.94	9.46	251.47
PETERSBURG	277.15	8.44	6.35	8.70	23.48	300.64
POQUOSON	269.74	4.72	8.73	1.96	15.42	285.16
PORTSMOUTH	279.60	7.09	9.84	4.29	21.22	300.82
RADFORD	169.36	6.34	6.03	2.36	14.73	184.10
RICHMOND	284.43	9.37	9.99	5.05	24.41	308.84
ROANOKE	237.18	6.44	7.92	2.22	16.58	253.76
SALEM	65.77	5.30	7.90	1.65	14.85	80.62
SOUTH BOSTON	131.75	3.18	5.76	3.83	12.77	144.52
STAUNTON	167.01	6.32	5.58	3.36	15.26	182.26
SUFFOLK	256.22	4.90	6.52	3.95	15.38	271.60
VIRGINIA BEACH	223.57	2.48	4.27	0.00	6.75	230.32
WAYNESBORO	212.15	7.97	5.59	6.05	19.62	231.76
WILLIAMSBURG	131.32	8.87	8.75	2.63	20.24	151.56
WINCHESTER	180.40	5.43	5.27	5.06	15.75	196.15
City Average	205.18	6.28	6.24	3.75	16.27	221.45
State Average	228.0	6.04	5.80	2.61	14.45	242.51

Note: State highway funds and value of State police patrollin[illegible] included

APPENDIX N

RESPONSES TO THE EXPOSURE DRAFT

As part of an extensive data validation process, local governments and other organizations interested in JLARC's review and evaluation effort were given the opportunity to comment on an exposure draft of this report. The exposure draft was distributed to 215 reviewers. Written responses were received from 12 organizations, and those responses are available on request. A written response from the Secretary of Education, John T. Casteen, III, is printed in this Appendix.

In addition, the Joint Legislative Audit and Review Commission held a public hearing to receive comments on the draft at its regular meeting on November 14, 1983. Representatives from 2D local governments and other organizations made statements. The written statement which the Secretary of Administration and Finance, Wayne F. Anderson, provided at the hearing as been printed as a part of this Appendix. In addition, the list of speakers is printed herein, as is the list of organizations providing written comments.

Appropriate technical corrections resulting from the written responses and the public hearing have been made in this final report. Page references in the responses relate to the exposure draft and may not correspond to page numbers in the final report.

Enclosed Statements

1. Wayne F. Anderson
   Secretary of Administration and Finance

2. John T. Casteen, III
   Secretary of Education

Statements Available on Request

1. Mayor Vince Thomas, City of Norfolk representing the
   Virginia Municipal League (as its 2nd Vice President)

2. George S. Kemp, Jr., Councilman
   City of Richmond

3. Joseph Leafe, Chairman
   Regional Legislative Office
   City of Norfolk

4. Brenda Cloyd, President
   Virginia Education Association

5. Tom Miller, City Manager
   City of Hampton

6. Bob Terrell
   Newport News Citizens Committee

7. Mrs. Tony Carney
   Virginia School Board Authority

8. Doreen Williams
   Fairfax County

9. Mark Jinks, Budget Director
   Arlington County

10. John Cutlip, County Administrator
    County of Shenandoah

11. Leon Hirsh, Director of Budget and Accounting
    York County

12. John MacDonald, Finance Director
    James City County

13. George M. VanSant, City Councilman
    City of Fredericksburg

14. Bradford S. Hammer
    Deputy City Manager of Alexandria

15. Michael Rogers, Deputy Director of Finance
    Henrico County

16. Don Flanders, County Administrator
    Roanoke County

17. John Jackson, County Administrator
    Gloucester County

18. A. R. Sharp, Deputy County Administrator
    Loudoun County

19. John Cutlip, County Administrator
    Shenandoah County

20. Larry M. Foster, City Manager
    City of Buena Vista

21. Thomas R. Blount, Manager
City of Hopewell

22. George R. Long, Executive Director
Virginia Association of Counties

23. Robert S. Noe, Jr., County Executive
County of Prince William

24. G. Robert Lee, County Administrator
County of Clarke

25. Perry M. DePue, Chairman, Board of Supervisors
James City County

26. Lettie E. Neher, Clerk, Board of Supervisors
County of Albemarle

27. E. E. Brooks, Town Manager
Town of Appalachia

28. J. E. Johansen
City of Portsmouth

29. J. Royall Robertson, Chairman Board of Supervisors
County of Chesterfield

30. Carter W. Beamer, Manager
Town of Wytheville

31. Richard W. Hall-Sizemore, Intergovernmental Liaison
County of Spotsylvania

STATEMENT GIVEN BY WAYNE F. ANDERSON
AT JLARC PUBLIC HEARING ON
LOCAL MANDATES AND FINANCIAL RESOURCES
NOVEMBER 14, 1983

Thank you, Mr. Chairman and Members of the Commission.

I will later make a few general comments on JLARC's report on Local Mandates and Financial Resources, but I want to begin by answering the question posed at your September meeting.

You asked Mr. Pethtel at that time how amounts included in the 1984-86 budget targets approved by Governor Robb compare with recommendations in JLARC's report calling for increased state aid.

The table on the screen displays these facts:

1. The budget targets include $180.8 million more for basic aid or $16.4 million more than the $164.4 million recommended in the report. Whereas JLARC recommended funding 82% of the SOQ, the budget targets would fund 85.7% in FY 85 and 89.1% in FY 86. (An additional $238 million will be required to fully fund the state's share of the SOQ.)

2. The budget targets for Special Education and Auxiliary Grants are below the increases recommended by the JLARC report. However, the report overlooks important new legislation that will impact favorably on Special Education costs now borne by localities.

   First, the report cites complaints from the local school divisions that they must provide funds for the placement of handicapped children in private or out-of-locality schools by courts and welfare agencies. Under Senate Bill No. 85, which was passed by the 1983 General Assembly, an "Interagency Assistance Fund" was established to pay for the additional costs of educating these children for fiscal 1984-85, in order that no charges would be assessed to local school divisions. The Department of Education had earlier estimated that this fund would cost $7 million more for the 1984-86 biennium. It now estimates the cost to be $6 million, of which $3 million is currently funded within the financial proposal. The $3 million from the general fund earmarked for this fund in the financial proposal is included in a separate program for education payments for foster care children.

   Second, Senate Bill No. 151 and Senate Joint Resolution No. 25, also passed at the 1983 Session, carried a requirement that state funding be increased to 32% of operational costs for the transportation of handicapped children on specially equipped, state approved school buses (known as exclusive scheduling), in order to equalize that funding with the percentage for routine and mainstream transportation. The Department has also allocated general funds of $4.2 million for the biennium within its financial proposal for this requirement. Like the Interagency Assistance Fund, this amount is included in a separate program for pupil transportation payments.

3. Getting back to the slide, total increases for the three programs are $196.5 million or $36.8 million below the JLARC recommendations. Said another way, the targets would fund about 80% of the recommended amounts.

4. Targets for other state aid to local governments provide increases of $241.9 million for other public instruction programs and $83.3 million for a variety of aid to cities, counties, and towns.

5. The total increases in the targets amount to $521.7 million, almost as much as the JLARC report calculates would be required to bring localities with above average stress levels down to average levels. That would take $552.3 million. To achieve this reduction in stress described by JLARC, you would, of course, have to direct more money on the basis of stress or need factors.

The 1984-86 budget, as finally adopted by the General Assembly, is therefore likely to reduce stress somewhat in some, hopefully all, local communities despite the fiscal squeeze within which the state's budget is being put together.

GENERAL COMMENTS ON JLARC STUDY

This study on local finance is another JLARC product deserving commendation for a number of reasons:

-- it probes all four major components of local finance -- financial condition, mandates, state aid and local revenue powers -- and attempts to integrate the findings and recommendations.

-- the measures of revenue capacity, tax effort, and stress are as well conceived and reliable as any in the field.

-- the analysis of fiscal condition of cities and counties by clusters or types produced illuminating descriptions of their strengths and weaknesses. Significantly, the report says flatly that, "The levels and types of stress faced by local governments warrant action by the General Assembly."

The JLARC study, then, has done a good job of describing local finance problems and of identifying alternative solutions. However, as a former worker in this research vineyard, I suggest that there is an additional phase of work to be done before JLARC or anyone else can make decisions on the best ways to strengthen local finance in Virginia.

Certain major proposals need to be analyzed in greater depth to determine their strengths and weaknesses and what they would do for each city and county, especially those with serious stress levels. I understand JLARC usually appoints a subcommittee to develop action proposals. If so, I'm suggesting that such a subcommittee would need these further analyses:

1. The analyses called for by Recommendations 1a. and 1b. that would attempt to fix the state share of state-local programs, including Standards of Quality, based on some appropriate method for estimating program costs.

2. The analyses called for by Recommendation 2 that would show the effects of proposals to:

    a. enact a revenue sharing program to distribute additional aid through a formula measuring fiscal stress,

    b. balance highway funding between cities and counties, and

    c. equalize taxing authority.

3. Analyses of the major proposals in Appendix A-10. Experience elsewhere and revenue productivity estimates indicate that these additions to local revenue powers are most deserving of study:

    a. additional sales taxing power, and

    b. local option income tax or payroll tax.

4. I would add that analyses of various approaches for increasing the state's share of education would round out the set of alternatives and would provide JLARC with a fully adequate basis for making decisions on the best means for strengthening local finances in our state.

POTENTIAL INCREASE IN GENERAL FUND APPROPRIATIONS
1984-86 TARGETS COMPARED TO
FY1984 APPROPRIATIONS
(MILLIONS)

	Potential Increase 1984-86		JLARC Recommendation to Meet Commitments	Potential (Shortfall) Excess
JLARC Stress Analysis				
Basic Aid	$180.8		$164.4	$ 16.4
Special Education	14.1		63.4	(49.3)
Auxiliary Grants	1.6		5.5	(3.9)
		$196.5	$233.3	$(36.8)
Other Public Instruction				
Standards of Quality[1]	11.8			
State Sales Tax	68.7			
Fringe Benefits	155.2			
Categorical[2]	6.2			
		$241.9		
Other Than Education				
Constitutional Officers	40.1			
Police Departments - HB599	15.2			
Local Jails - Detention Homes	17.0			
Local Health Departments	8.4			
MH&MR (Community Services Boards)	9.5			
Department of Social Services	(6.9)			
		$ 83.3		
Total Potential Increase, 1984-86		$521.7		

[1] Excludes Basic Aid and Special Education

[2] Excludes Special Education

NET INCREASE IN STATE AID FOR BASIC AID COMPONENT (SOQ), SPECIAL EDUCATION, AUXILIARY GRANTS

	Fiscal 1984 Appropriation	Fiscal 1984 X 2 Appropriation	1984-86 Target	Increase
Basic Aid	$593.4	$1186.8	$1367.6	$180.8
(Accounts for 85% of SOQ funding in 1984-86)				
Special Education				
. SOQ	37.5	75.0	87.7	12.7
. Categorical	20.9	41.8	43.2	1.4
	58.4	116.8	130.9	14.1
Auxiliary Grants	6.4	12.8	14.4	1.6
(Covers room and board of residents of licensed homes for adults who receive federal Supplemental Security Income (SSI) or who are low income, aged, blind or disabled. State funds - 62.5%, localities - 37.5%.)				
TOTALS	$658.2	$1,316.4	$1,512.9	$196.5

PUBLIC INSTRUCTION OTHER THAN BASIC AID, SPECIAL EDUCATION

	Fiscal 1984 Appropriation	Fiscal 1984 X 2 Appropriation	1984-86 Target	Increase (Decrease)
Public Education				
OTHER SOQ[1]				
. Adult Education	$ 0.5	$ 1.0	$ 0	$ (1.0)
. Foster Children	2.0	4.0	7.0	3.0
. Gifted and Talented	3.8	7.6	9.0	1.4
. Incentive Payments	12.9	25.8	24.3	(1.5)
(For localities whose support for public instruction exceeds state mandates)				
. No-Loss	1.9	3.8	2.5	(1.3)
(Benefits wealthy localities which are theoretically not eligible for increased state aid support)				
. Vocational Education	28.0	56.0	65.5	9.5
. Staff Preparation and Development	0	0	3.5	3.5
(New program in 84-86)				
. Enrollment Loss	4.4	8.8	7.9	(0.9)
(Intended to "cushion" adverse effects of decreasing enrollment on state aid)				
. Remedial Education	18.4	36.8	35.9	(0.9)
	71.9	143.8	155.6	11.8
STATE SALES TAX	249.9	499.8	568.5	68.7
(Represents 1¢ out of the 3¢ state sales tax earmarked for public instruction)				
FRINGE BENEFITS	141.9	283.8	439.0	155.2
(Represents state contributions for VSRS, Social Security and life insurance on behalf of instructional personnel - $54 per $1000)				
CATEGORICAL PROGRAMS[2]	41.9	83.8	90.0	6.2
(Includes vocational education, adult education, general education, programs for refugees and Indians, research and testing, and pupil transportation)				
TOTALS	$505.6	$1,011.2	$1,253.1	$241.9

1 Excludes Basic Aid and Special Education

NET INCREASE IN STATE AID (GF)
SELECTED PROGRAMS
1984-86 OVER FY 1984
(MILLIONS)

	Fiscal 1984 Appropriation	Fiscal 1984 X 2 Appropriation	1984-86 Target	Increase
Constitutional Officers				
. Sheriffs	$ 51.3	$ 102.6	$121.4	$ 18.8
. Commonwealth's Attorneys	7.2	14.4	17.3	2.9
. Circuit Courts	0.5	1.0	1.9	0.9
. Treasurers	10.5	21.0	22.1	1.1
. Commissioners of Revenue	9.3	18.6	19.8	1.2
. Central Accounts				15.2
	$ 78.8	$ 157.6	$182.5	$ 40.1
Police Departments (House Bill 599 component)	51.9	103.8	119.0	15.2
Local Jails - Detention Homes	34.0	68.0	85.0	17.0
Department of Health (Local health departments)	34.2	68.4	76.8	8.4
Mental Health and Mental Retardation (Community services boards)	52.6	105.2	114.7	9.5
Department of Social Services				
. State and Local Hospitalization (State funds - 75%; localities fund - 25%)	6.8	13.6	13.0	(0.6)
. Local Welfare Administration (Constitutes state's share of administrative program costs provided by 124 local welfare agencies; JLARC maintains that state has kept its commitment to fund local welfare agencies)	24.4	48.8	42.5	(6.3)
	31.2	62.4	55.5	(6.9)
TOTALS	$282.7	$565.4	$633.5	$83.3

OCT 25 1983

COMMONWEALTH of VIRGINIA

Office of the Governor

Richmond 23219

John T. Casteen, III
Secretary of Education

MEMORANDUM

October 19, 1983

TO: Mr. Ray D. Pethtel, Director
Joint Legislative Audit and Review Commission

FROM: John T. Casteen, III JTC

In order to make sure that your files include information contained in my files, I enclose copies of two memoranda concerning the JLARC study of state mandates and local financial resources. You may already have received copies of these memoranda.

JTC/dtb

Enclosure

cc: The Honorable Hunter B. Andrews

COMMONWEALTH of VIRGINIA

DEPARTMENT OF EDUCATION
P.O. Box 6Q
RICHMOND 23216

October 13, 1983

TO: The Honorable John T. Casteen, III

FROM: S. John Davis

SUBJECT: JLARC Study of State Mandates and Local Financial Resources

This responds to your memorandum dated September 22, 1983, requesting our review and comments on subject JLARC study.

Subsequent to your request, we received a copy of an analysis on the subject prepared by Mrs. Nancy Suttenfield, our Education Budget Analyst (her memorandum to you dated September 29, 1983, copy enclosed for ease of reference).

Her analysis is exactly on target. It is consistent with the Department's thinking, in highlighting the improvements made by the State in funding the Standards of Quality in 1982-84 and other planned improvements in 1984-86, as contained in the 1984-86 Financial and Addendum Proposals approved by the Board of Education on July 29, 1983.

I appreciate that the JLARC study is historical in nature. Thus, it obviously does not tell the story of the significant turnaround in state support for public education, commencing in the 1982-84 biennium and continued through the Governor's Target Guidance Memorandum for 1984-86. Many of the JLARC recommendations relating to this Department have been overtaken by these improvements. If the 1984 session of the General Assembly confirms the Governor's initiatives in public education for 1984-86, many of the concerns of the localities on this subject will have been allayed.

Mrs. Suttenfield's comments regarding special education funding highlights the emphasis placed in this area by the Board of Education in its 1984-86 Financial and Addendum Proposals. New funding has been requested for the regular special education SOQ program in support of the 10% salary increases for the three instructional staff funded from this account; for handicapped children in foster homes (SB 85); for a separate pupil transportation account for handicapped children; and for the special education categorical program. I urge your support for these initiatives, some of which are included in the Addendum Proposal.

I support Mrs. Suttenfield's comments regarding the need to review the percentage factors currently in the composite index formula, as well as reviewing the regular pupil transportation formula, noting that changes should not create a net financial impact on state resources. Caution is urged, however, in surfacing final recommendations in these areas, as there will be winners and losers among the localities.

SJD:vm
Enclosure

cc: Stuart Connock
Ray T. Sorrell
Nancy D. Suttenfield

COMMONWEALTH of VIRGINIA

Department of Planning and Budget

STUART W. CONNOCK
DIRECTOR

September 29, 1983

OCT 1983
ASSOC. SUPERINTENDENT
Financial & Administrative Services

MEMORANDUM

TO: The Honorable John T. Casteen, III
Secretary of Education

THROUGH: Herbert L. Hunt
Manager, Education Section

FROM: Nancy D. Suttenfield NDS
Senior Budget Analyst

SUBJECT: JLARC Exposure Draft Report Entitled "Local Mandates and Financial Resources," Dated September 13, 1983

I recently obtained and have reviewed the above referenced report. This memorandum is to brief you on its content as it relates to the 1984-86 budget for public education in the event that you are asked to respond to the report. Listed below are the major public education issues raised in the report and my comments.

1. Funding of the Standards of Quality -- The report makes several related recommendations collectively for the funding of all mandates, but it does cite the Standards of Quality as a specific example in making these recommendations. The recommendations are that:

A. "The State should establish as a goal either full funding of its mandated programs ... or should commit itself to equitable, adequate, and stable funding of its aid to localities."

B. "The General Assembly should ... establish in statutes its commitment to program funding." (i.e., State share of total program costs)

C. "The General Assembly should ... direct an assessment and validation of the basis for sharing major program costs." (i.e., methods of estimating total costs)

D. "Additional funding should be provided to localities to fund programs at levels consistent with the State's traditional level of commitment. Specifically, funds should be provided to fund ... the State's share of 82 percent of the estimated costs of meeting educational Standards of Quality."

The report cites statistics provided to JLARC by the Department of Education that compares the SOQ per pupil amounts that have been established in Appropriation Acts since 1975 to DOE estimates of the "full costs" of the SOQ per pupil. (These historical data were also included in DOE's 1984-86 program proposal submitted last spring. For reference, fiscal year 1974-75 was the first year that the current basic aid formula was used to fund preselected per pupil amounts and to distribute basic aid to localities.) The data showed a decline in the percentage of the full costs actually funded from 82.4 percent in fiscal year 1974-75 to 78.0 percent in fiscal year 1981-82. It is this decline and the initial 1974-75 percentage that form the basis for recommendations A, B and D above.

However, the report fails to note that for 1982-84, Chapter 622 provided SOQ funding at 79.1 percent of estimated full costs in 1982-83 and 82.5 percent in 1983-84. Further, the targets and the financial proposal for 1984-86 provide for per pupil amounts that are, respectively, 85.7 percent and 89.1 percent of estimated full costs for those two years. Thus, the State has already satisfied recommendation D above, since it has already reversed the decline in funding and in fact now exceeds, and will continue to exceed in 1984-86, the traditional (1974-75) funding level.

With regard to recommendations A and B as they relate to the Standards of Quality, there are two other major considerations not addressed in the report. First, in order to reach "full funding" of the Standards of Quality in 1984-86, the Department of Education calculates that it would cost the State an additional $238 million for the biennium, an amount that could only be financed through severe budget cuts in other program areas, a major tax increase, or some combination thereof. In general, localities would also have to take these same actions in order to put up their matching share, since costs at any funding level are shared equally (on a statewide basis) between the State and the localities. Second, if the General Assembly were to enact legislation, as recommended, to fully fund the Standards of Quality, the resulting funding obligation would necessarily force the State (and localities) to take these sweeping budget cutting/tax increasing actions.

A related observation is that the implications of these recommendations for both general tax increases and mandate related expenditure increases are diametrically opposed to the State and local government tax and expenditure limitation proposals that were fashionable nationwide several years ago, but which remain influential, if not mandated, in the tradition of fiscal conservatism in Virginia. Also, since the JLARC report evolved from a review of the many State mandates for localities and the corresponding local fiscal requirements, these recommendations are not tied to the more recent theme of excellence in education through increased State budgetary support of educational programs. The recommendations for greater funding support for education emanate instead from the obvious finding that State involvement in local public education programs is more extensive than in any other local activity.

With regard to recommendation C, the JLARC report cites disagreement about the validity of the methodology used to calculate costs of meeting the Standards of Quality. One must be careful not to confuse this methodology with the "basic aid formula" and its relationship with other programs whose funding is driven by the level of basic aid. The methodology under question here by JLARC is the one which the Department of Education uses to estimate the costs of "fully funding" the SOQ, the funding level discussed above and which the State has not until recently even approached. According to my information, some legislators apparently feel that DOE's "full cost" estimates include frills, while other critics (primarily localities) view the estimates to be the minimum dollar amount required to meet the SOQ. Neither view can be considered completely objective.

The report states that methodologies for computing all program costs should be technically correct, but it specifically recommends that "JLARC should assess the method for estimating the cost of the State's Standards of Quality." To the extent the methodology used by DOE to estimate full costs is technically incorrect, the Administration should certainly encourage and support efforts to validate a costing methodology for the Standards. The results would provide a definitive basis for the State to obtain recognition for providing sufficient funding support for the SOQ, or they would reveal that further efforts remain for the State to meet its funding obligation to its own educational mandates.

2. Funding of Special Education -- The report recommends that additional "funds should be provided to fund up to 28 percent of the added costs of special education." The report presents data showing a decline in the State's share of support from 28.7 percent in fiscal year 1978-79 to an estimated 21.4 percent for fiscal year 1982-83. (It is unclear why there is an inconsistency in fiscal periods examined here versus those used for the Standards of Quality analysis.) Again, this recommendation follows from the other one calling for funding at levels consistent with some traditional level.

Since the percentages in the report were developed from special education costs reported by the local school divisions, it is unclear how this percentage will change for 1984-86. JLARC itself questioned the validity of the data and methods used by the school divisions to arrive at these costs. It would, therefore, also seem that the recommendation to fund 28 percent may be inappropriate and even arbitrary, since respectively, total costs have not been validated and fiscal year 1978-79 is apparently the assumed traditional level. My examination of the DOE financial proposal does, however, indicate that total general fund support of special education programs in 1982-84 is $111.1 million, and within its 1984-86 target DOE has allocated $130.9 million for these programs, or a 17.8 percent increase for the biennium.

In addition, the report overlooks important new legislation that will impact favorably on special education costs now borne by localities. The report cites complaints from the local school divisions that they must provide funds for the placement of handicapped children in private or out-of-locality schools by courts and welfare agencies. Under Senate Bill No. 85, passed by the 1983 General Assembly, an "interagency assistance fund" to pay for the additional costs of educating these children was established effective for fiscal year 1984-85, in order that no charges would be assessed the local school divisions. DOE had earlier estimated that this fund would cost $7 million for 1984-86. It now estimates the cost to be $6 million, of which $3 million is currently funded within the financial proposal. The $3 million from the general fund earmarked for this fund in the financial proposal is not included in the $130.9 million for special education programs cited above, since this funding is included in a separate program for education payments for foster care children. However, this newly funded amount for 1984-86 should be considered in responding to the JLARC recommendation.

Second, Senate Bill No. 151 and Senate Joint Resolution No. 25, also passed at the 1983 session, carried a requirement that State funding be increased to 32 percent of operational costs for the transportation of handicapped children on specially equipped, State approved school buses (known as "exclusive scheduling"), in order to equalize that funding with the percentage for routine and mainstream transportation. DOE has also allocated general funds of $4,211,500 for the biennium within its financial proposal for this requirement. Like the interagency assistance fund, this amount is also not included in the $130.9 million for special education programs, since it is also included in a separate program for pupil transportation payments. However, this newly funded amount for 1984-86 should also be considered when responding to local concerns about State support of the additional costs of special education.

Finally, as separate addendum requests, DOE has requested as priority 2 the remaining $3 million needed for the interagency assistance fund for foster care/handicapped children and as priority 4 a total of $2,346,600 for further support of certain other special education costs. The JLARC recommendations could provide a basis for you to support these addendum requests, if you desire and funds are available. If these requests are eventually funded, they would further respond to the study recommendations.

The Honorable John T. Casteen, III
September 29, 1983
Page 5

3. Formula Funding -- The report identifies several formulas for the distribution of State funds to the localities that "warrant review, revision, or ongoing monitoring". Two are used to distribute public education funds.

The report suggests review and monitoring of the composite index used to allocate basic aid among the school divisions. That index applies 50/40/10 weights against individual local real property values, personal income and retail sales as proxies for local "ability to pay". The study does not question the specific formula elements that comprise the index or the accuracy of the data used, but it suggests that the weights applied should be monitored over time to reflect changes in local dependence on revenue derived from these tax bases. The report indicated that the 50/40/10 dependence weights used in the index compared to actual dependence weights for fiscal year 1981-82 of 47/44/9. This is a reasonable recommendation that would have no State fiscal impact, since it would affect only local shares of total State basic aid. However, there would be many individual winners and losers among the localities as the same total was reallocated.

The second formula is used for the distribution of pupil transportation funds. The report indicates that the formula used to allocate funds was developed around 1940. It suggests the formula may not be a good proxy for factors that influence transportation costs today in the widely varying types of geographic areas. The study suggests that this formula warrants review. A formula that is over 40 years old should certainly be reviewed and updated. It is highly likely that a revision to this formula would also result in gains for individual local school divisions at the expense of others. Again, no fiscal impact would occur at the State level from a reallocation of local entitlements from the same State appropriation.

In summary, any formula changes that would result in a more equitable allocation of public education funds among the localities would maximize the utility of State public education dollars. However, those localities who would be the losers would naturally resist the change and probably clamor for funding to carry them through the transition, such as the no loss payments some localities have received since 1975 when the current basic aid formula and composite index was adopted.

Please let me know if I can answer any questions about the report or any of my comments in this memorandum.

HLH/2229/BDEV14/lfr

cc: Ray T. Sorrell
Stuart W. Connock

APPENDIX O

TECHNICAL APPENDIX

JLARC policy and sound research practice require a technical explanation of research methodology. The full technical appendix for this report is available on request from JLARC, Suite 1100, 910 Capitol Street, Richmond, Virginia 23219.

JLARC STAFF

RESEARCH STAFF

Director
Ray D. Pethtel

Deputy Director
Philip A. Leone

Division Chiefs
Susan Urofsky, Division I
● Kirk Jonas, Division II

Section Managers
Gary T. Henry, Research Methods & Data Processing
John W. Long, Publications & Graphics

Project Team Leaders
● John M. Bennett
Joseph H. Maroon
Barbara A. Newlin
Walter L. Smiley
Glen S. Tittermary
Mark D. Willis

Project Team Staff
● Suzette Denslow
Lynn L. Grebenstein
Stephen W. Harms
● Clarence L. Jackson
R. Jay Landis
Sarah J. Larson
● Cynthia Robinson
Robert B. Rotz
Mary S. Kiger
E. Kim Snead
Ronald L. Tillett
● R. Shepherd Zeldin

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Section Manager
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Business Management & Office Services

Administrative Services
Joan M. Irby

Secretarial Services
Deborah A. Armstrong
Rosemary B. Creekmur
Betsy M. Jackson
Patricia L. Jordan

SUPPORT STAFF

Technical Services
David W. Porter, Graphics
William E. Wilson, Computers

Interns
Anthony T. Hebron
Martha M. Ragland
William H. Scarborough
● Geraldine A. Turner

● *Indicates staff with primary assignment to this project.*

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