

Does the Commonwealth Balance Its Budget on the Backs of Local Governments?



DOES THE COMMONWEALTH BALANCE ITS BUDGET ON THE BACKS OF LOCAL GOVERNMENTS?

In late 2011 the Virginia Municipal League and the Virginia Association of Counties conducted a survey of their members about “local government fiscal issues.” Of the 121 localities responding to the survey, slightly more than half (62) of local cities and counties indicated their greatest fiscal concern to be “reductions in state funding.” The next most important issue for the respondents was their worry about a “lack of local revenue growth/real estate assessment reductions” (55 responses). Respondents expressed five other concerns, but only a “loss of federal funding” attracted more than 15 responses.

Perhaps Solomon had local government officials in mind when he wryly commented in Ecclesiastes that “there is nothing new under the sun” (1:9). Good times or bad, local government officials always express concerns about their revenue streams. Faced with the almost insatiable demands of citizens for services, local government officials constantly must struggle to balance budgets. Thus, one cannot be surprised when local government officials complain that the Commonwealth habitually seems to find ways to reduce their revenue streams, or openly shifts costs to them. As we shall see, there is considerable truth to their laments in this regard. School funding provides an excellent example. Historically, the goal for school funding has been to have the Commonwealth pay 55 percent of the freight and localities 45 percent. Between 2008 and 2010, legislated policy changes relating to Standards of Quality payments to local school systems resulted in a series of reductions that have totaled approximately \$400 million on a biennial basis within Hampton Roads. As a consequence, localities in our region now are paying approximately one-half of the costs of public education.



The Impact Of The Dillon Rule

Virginia is a “Dillon Rule” state. In 1868, Iowa Judge John Forest Dillon issued a momentous ruling in which he asserted: “Municipal corporations owe their origin to, and derive their powers and rights wholly from, the legislature. It breathes into them the breath of life, without which they cannot exist. As it creates, so may it destroy. If it may destroy, it may abridge and control” (Clinton v. Cedar Rapids and the Missouri River Railroad, [24 Iowa 455; 1868]).

Judge Dillon effectively ruled that local governments have only those powers granted to them specifically in their charters, or in general laws passed by their state legislatures. Thus, to quote one Hampton Roads legislator who prefers to remain anonymous, “Local governments can’t do diddly unless they receive explicit permission from the General Assembly.”

By contrast, some states have chosen not to operate under the Dillon Rule because they have made general grants of power to their localities to govern as needed unless specifically denied such power by their state legislatures. There is little doubt that many, perhaps most, state legislators like the Dillon Rule because it establishes them as the center of power. Any and all must come to state legislators as supplicants if they want to get anything accomplished. Proponents of the Dillon Rule argue that it promotes desirable standardization and that it avoids situations where each locality operates by a different set of rules. Perhaps, but it is costly in terms of time and removes decision making from localities to Richmond. To observe that the Dillon Rule frustrates many local government officials is an understatement.

The oftentimes neglected flip side of the Virginia General Assembly assuming all power and parceling out limited authority to local governments is that it means that the state has to be willing to assume responsibility for cities, counties and towns having the resources needed in order to effectively govern their communities. Put simply, either Virginia must be willing to grant revenue-raising authority to local governments, or the state must be willing

to sufficiently fund programs for the localities, or there must be a combination of fundraising authority to local governments along with state assistance.

Virginia grants powers to local governments through the charters that establish local units of government, and the charters can be amended. There are also provisions of general law that apply to all units of government similarly situated. Some localities adopt a particular form of government that involves a city manager, while others seek a package of powers that may be further amended with special legislation to meet the unique needs of the local community.

Whatever the basic organization of a local government, it still must perform the core functions of government related to education, public safety, transportation and social welfare. In the best case, productive partnerships exist between local government units and the Commonwealth that result in efficient and cost-effective provision of the core functions of government.

Since Virginia is a Dillon Rule state, this leads us to the following questions: How has the state met these responsibilities and how have local governments fared in this partnership with the Commonwealth? Does a review of state and local revenues for the cities and counties of Hampton Roads reveal, as some have expressed, that our local governments have a legitimate concern about a loss of fiscal support from the all-powerful state government in Richmond?

In order to answer these questions, we first must examine where the Commonwealth raises its own revenues.

Where The Commonwealth Raises Its Revenues

As background to delving into the questions of state aid to local governments in Hampton Roads, it is instructive to review the sources of revenue available to state government and the performance of these sources in producing revenue over the last decade. A significant share of that revenue ends up being provided to local government units. In general, the Commonwealth's revenues are sensitive to the business cycle, but (and this often is important) changes in government revenue tend to lag the private sector both in times of recession and recovery. Graph 1 illustrates this sensitivity in terms of general fund tax collections. These fluctuations profoundly influence the willingness of state government to meet its funding obligations to local government units.

Commonwealth revenues are divided into two categories – general fund and non-general fund (see Graph 2). **General fund revenue is derived from specific taxes levied on individuals or transactions. This constitutes about 40 percent of the state's total budget revenue. Examples include individual and corporate income taxes, which account for nearly 71 percent of general fund revenue, as well as sales and use taxes, which account for 21 percent of the total.**

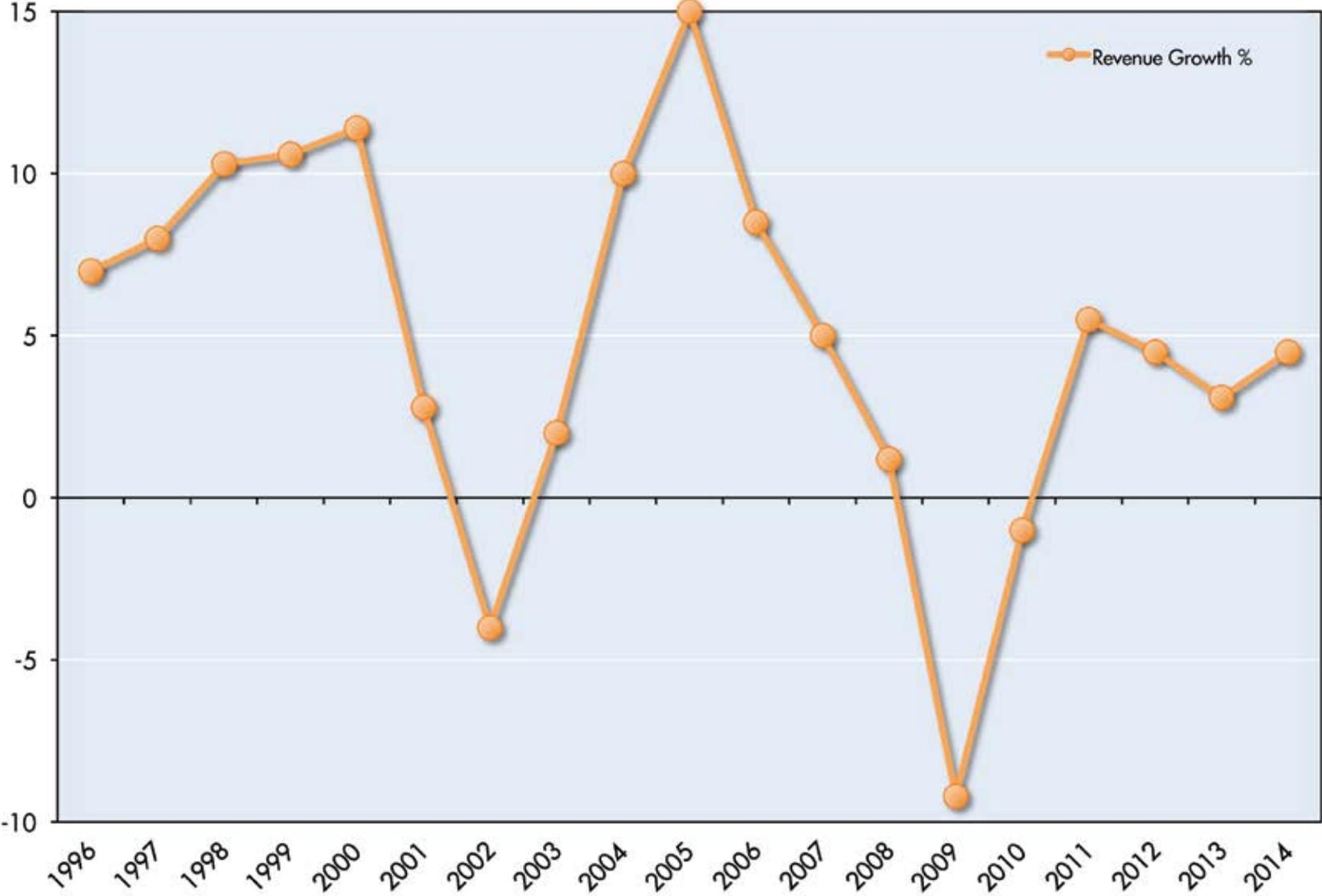
The remaining 60 percent of the state's revenue comes from a variety of sources referred to as "non-general fund revenue." This is derived from fees and transfers rather than generally levied taxes, as displayed in Graph 4. About 42 percent of non-general revenue comes from federal grants and contracts that are awarded to the Commonwealth. The second-largest source of non-general fund revenue at 24 percent is institutional fees. These fees include the tuition and fees that are collected at state colleges and universities and patient fees paid at state hospitals and mental health institutions. Transportation-related revenues come from a variety of taxes, but are considered non-general funds because they go into a special fund for expenditures rather than to support general costs of

government. These taxes include motor vehicle fuels taxes, motor vehicle sales and use taxes, vehicle license fees and other miscellaneous fees.

The other 24 percent of non-general funds comes from a variety of taxes that include the unemployment insurance fund, hunting and fishing and other license sales, lottery ticket sales, sale of state property and interest earnings on state funds.

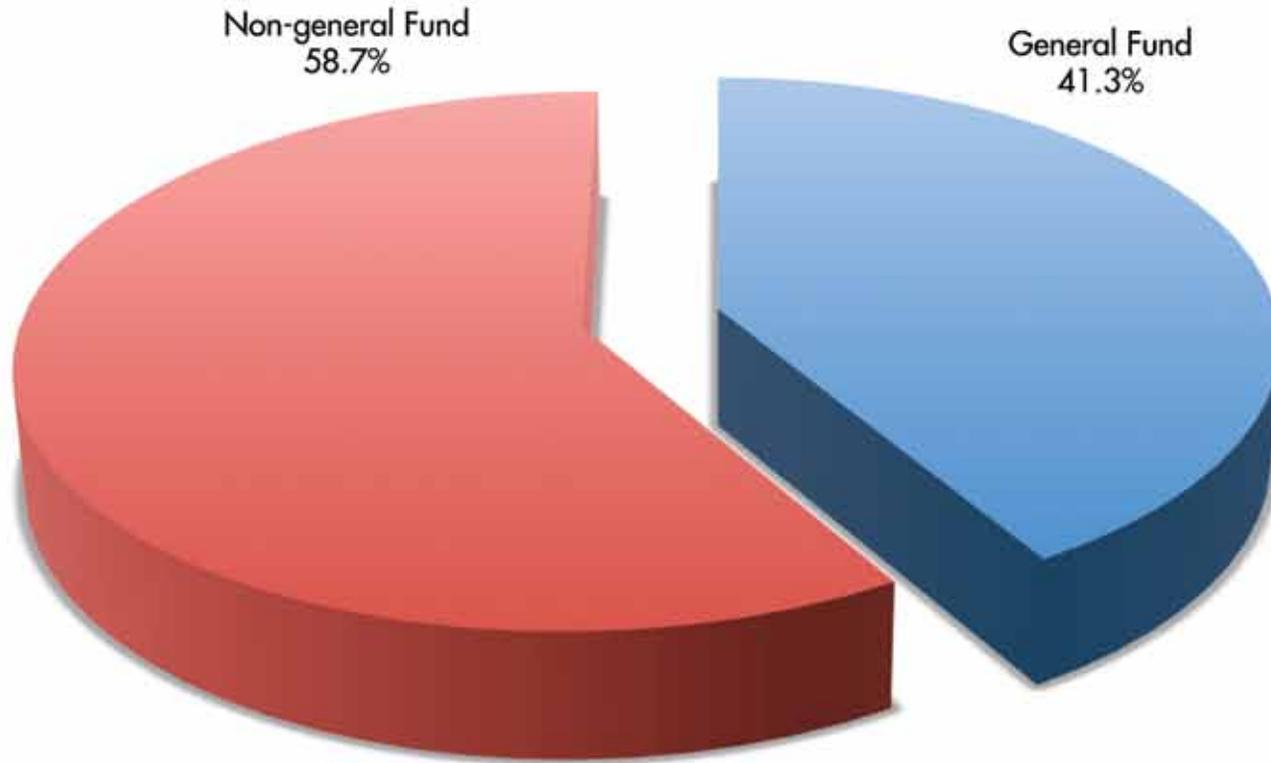
Graph 5 clearly reveals that non-general fund growth greatly exceeded the growth of general funds during the past decade. This is important because Commonwealth financial aid to localities always has come primarily from general funds. A portion of the expansive growth of non-general funds is the result of switching the support of state government programs from tax-dollar support to fees. Rapidly rising tuition and fees at state-assisted colleges and universities provide a prime example of this switch. Legislators have tended to view their general fund allocations to institutions of higher education as checking accounts from which they can make withdrawals. While they may dutifully decry the situation, they know that some of the impact of their general funds cuts is likely to be mitigated by tuition increases.

GRAPH 1
GENERAL FUND REVENUE GROWTH, 1996 PROJECTED TO 2014



Source: Virginia Department of Planning and Budget

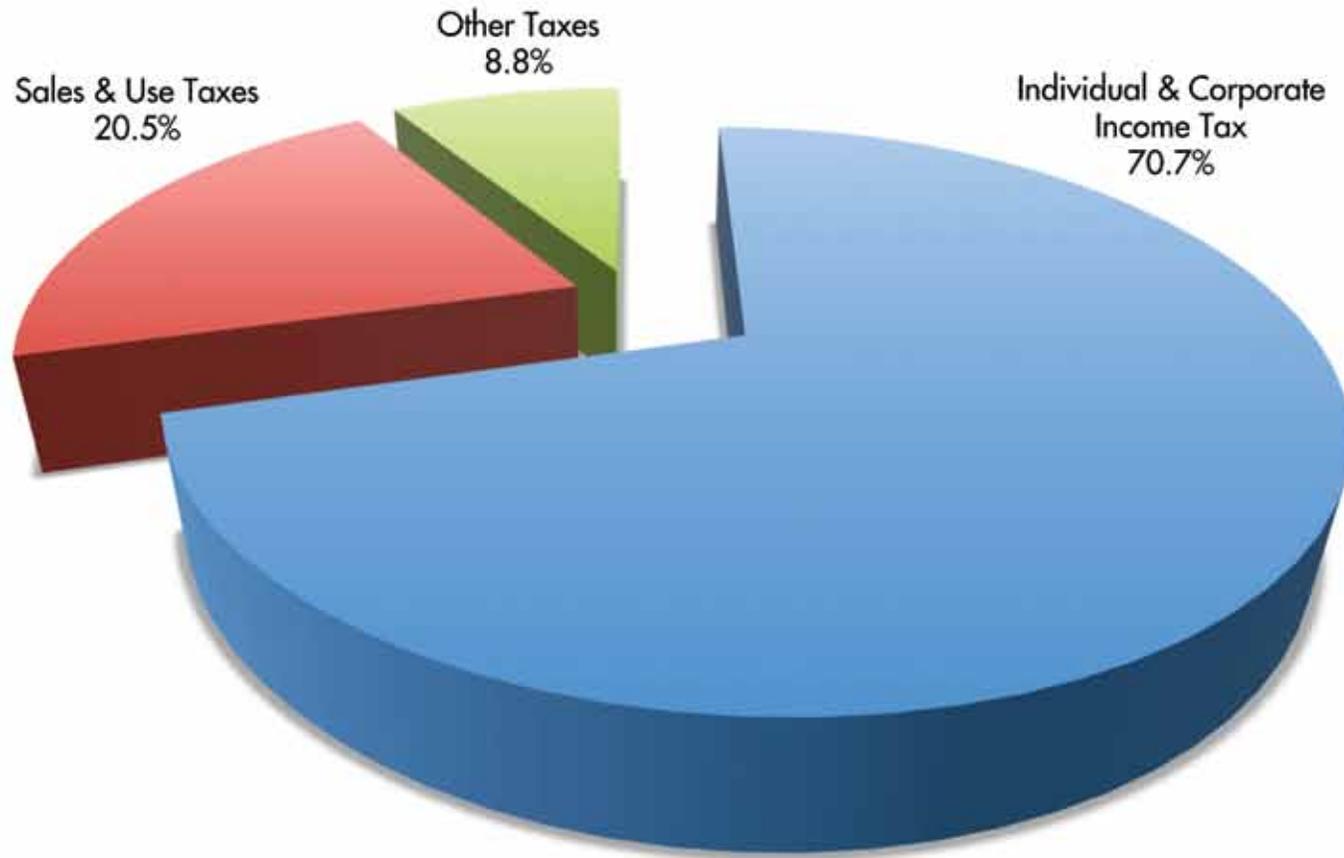
GRAPH 2
COMPONENTS OF THE VIRGINIA STATE BUDGET



Source: Virginia Department of Planning and Budget

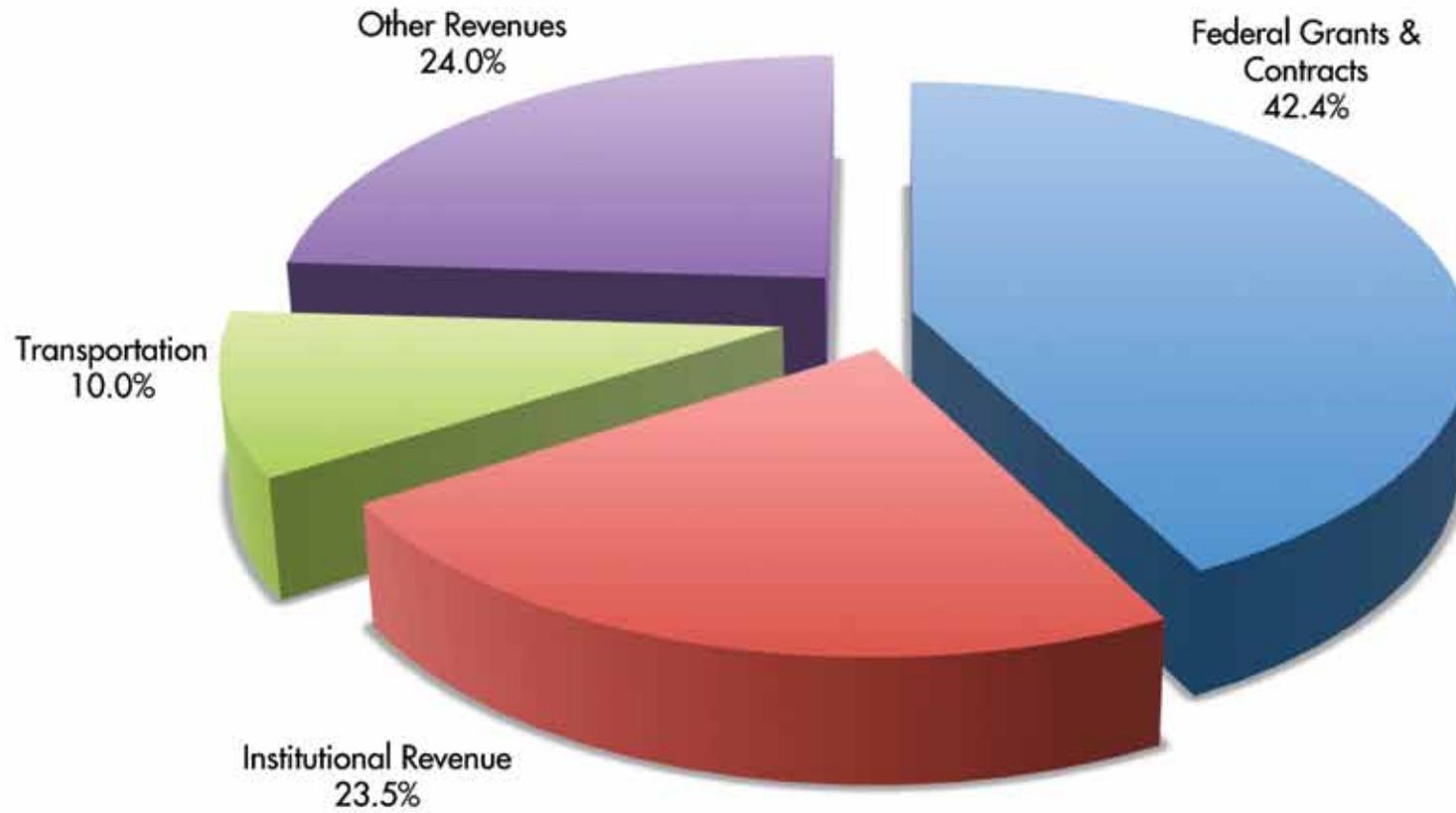
GRAPH 3

SOURCES OF GENERAL FUND STATE REVENUE IN VIRGINIA, 2012



Source: Virginia Department of Planning and Budget

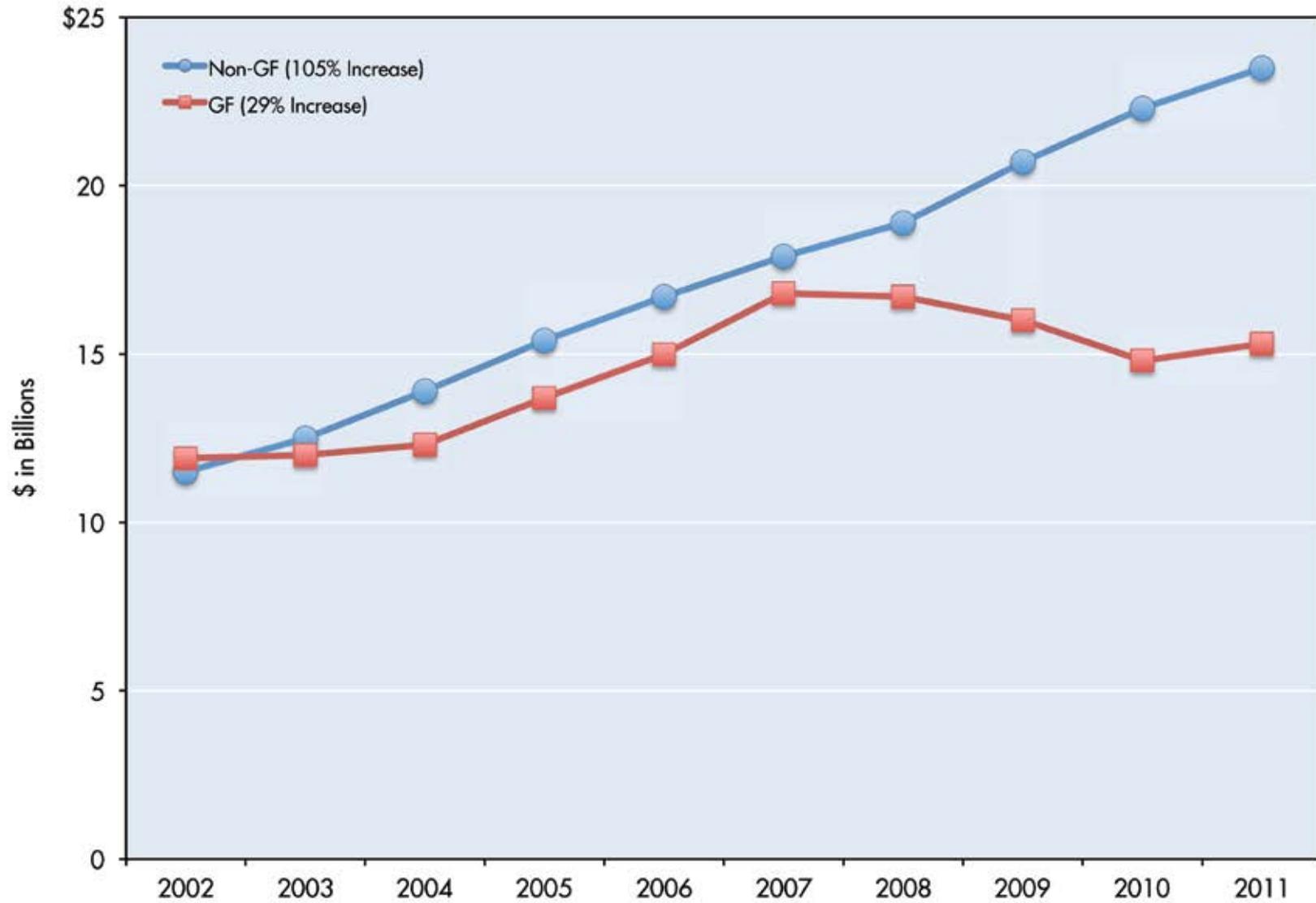
GRAPH 4
SOURCES OF NON-GENERAL REVENUE IN VIRGINIA, 2012



Source: Virginia Department of Planning and Budget

GRAPH 5

COMPARISON OF GROWTH OF GENERAL AND NON-GENERAL FUNDS IN VIRGINIA, 2002-2011



Source: Virginia Joint Legislative Audit and Review Commission, 2011

Where Local Governments Get Their Money

Through their individual charters and general law, localities in Virginia are given the power to levy certain taxes. There are at least 20 different taxes that some or all local governments are empowered by state government to enact. Of these, however,

only three taxes have been enacted by all 39 cities and 95 counties in the Commonwealth. These are the real property, personal property and local one-cent sales tax, and they account for 80 percent of local government revenue.

By itself, the real property source of revenue accounts for about 63 percent of the total. Communications sales and use taxes on services such as telephones and cable television have been imposed by all local governments, but they raise less than 5 percent of local revenue.

Restaurant meal taxes have been imposed in 79 of Virginia's 134 jurisdictions, but they raise only about 2.5 percent of local revenues. All the cities in Hampton Roads have implemented a meal tax; none of the counties that must have a referendum before imposing a meal tax has one. James City and York counties forfeit about \$2.3 million each in annual revenue because they do not have meal taxes.

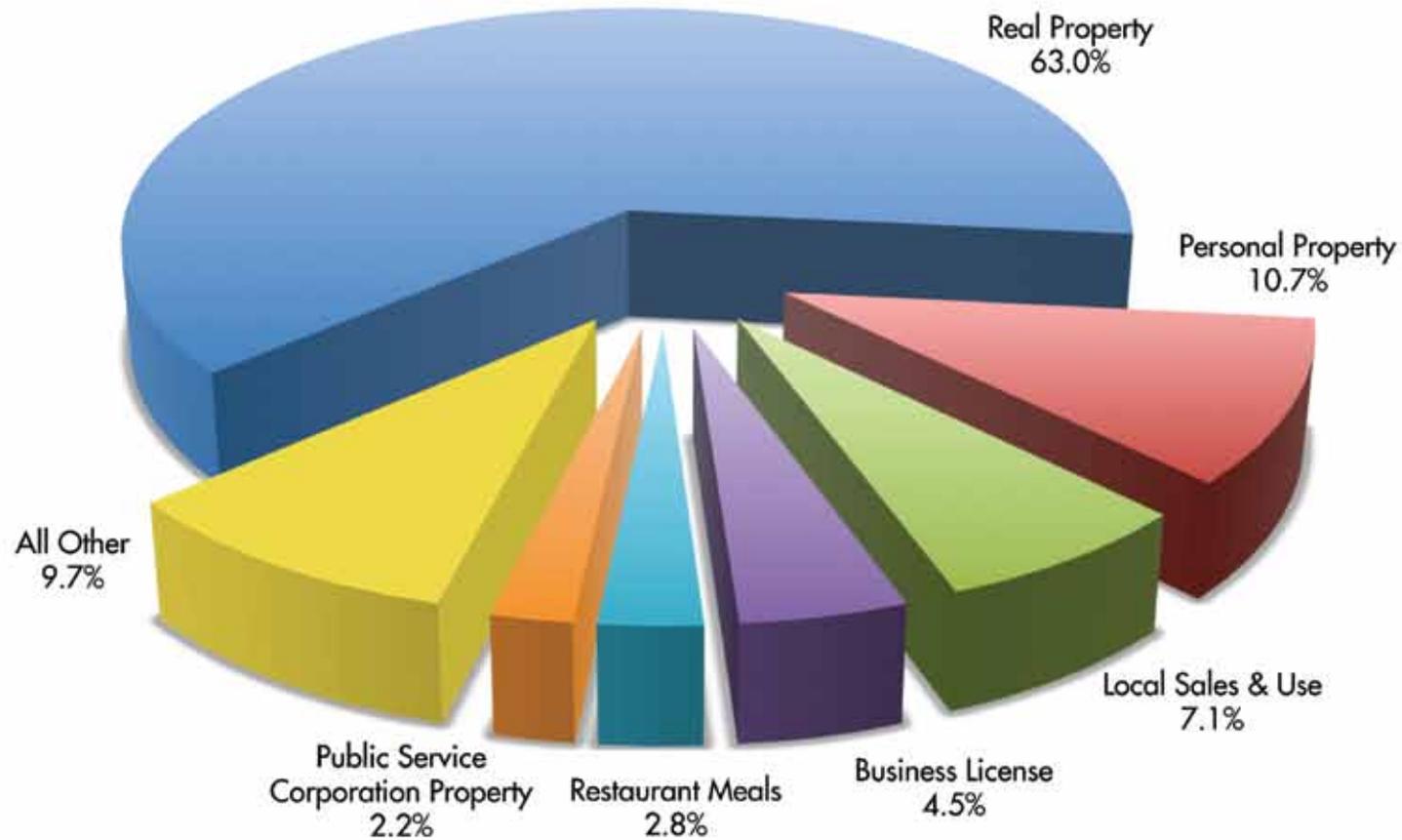
Table 1 records the sources of revenue of Virginia's local government units. Cities and counties tend to adjust their tax rates on real property to balance their budgets or to provide relief to taxpayers when assessed valuations rise rapidly.

Tax	Amount (\$)	% of Total
Total taxes	13,880,131,877	100.0
Real property	8,750,515,404	63.0
Personal property	1,489,328,194	10.7
Local sales and use	982,221,495	7.1
Business license	630,976,370	4.5
Restaurant meals	383,358,092	2.8
Public service corporation property	303,900,488	2.2
Consumer utility	300,705,489	2.2
Machinery and tools property	207,816,158	1.5
Hotel and motel room	165,761,501	1.2
Motor vehicle license	159,373,460	1.1
Recordation and will	96,767,397	0.7
Bank stock	90,217,513	0.6
Tobacco	61,329,877	0.4
Coal, oil and gas	46,299,028	0.3
Franchise license	18,128,491	0.1
Admission	17,184,269	0.1
Merchants' capital	10,924,990	0.1
Other local taxes	66,587,298	0.5
Penalties and interest	98,736,363	0.7

Source: "Virginia Local Tax Rates, 2011," Weldon Cooper Center, University of Virginia

GRAPH 6

SOURCES OF LOCAL TAX REVENUE IN VIRGINIA, FY 2011



Source: Auditor of Public Accounts, Draft Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2011 (Richmond: Jan. 26, 2012), Exhibits B and B-2
<http://www.opa.state.va.us/ComparativeReport.cfm>

State Financial Assistance Given To Local Government Units

About one-third of Virginia’s operating budget either goes directly to localities, or is spent by the state on behalf of localities. This usually is referred to as “state aid” and consists of:

- Any payment made directly to a local government or a school division,
- Any payment made on behalf of a local government or school division, or
- Any payment made to an organization or group that provides a direct benefit to a local government or its residents, such as a public library, planning district commission or a mental health community services board.

The Executive Budget for FY 2013-14 lists aid to localities by each state secretariat, as shown in Table 2. The numbers displayed here are projections that must be approved by the General Assembly and the governor.

State aid supplied to localities funds in whole or in part the operations of police departments and the construction and maintenance of secondary roads. The salaries of local elected officials, such as treasurers, commissioners of the revenue, commonwealth’s attorneys, sheriffs and clerks of the courts are partially funded by the state as well. Local sheriffs’ offices and jails receive the largest share of state support for constitutional officers. The Commonwealth also funds local social services and health departments, programs for community-operated juvenile corrections, and programs for individuals with mental illness, intellectual disabilities or substance abuse problems, and a wide range of local activities and services jointly with local governments. State aid also includes partial funding for local libraries, improvements to local airports, parks and recreation programs, local emergency services teams, litter control and recycling, and wastewater treatment plants.

The formulas for distributing monies to these diverse programs and services are as numerous as the programs themselves. Components of distribution formulas

State Secretariat	FY 2013 Estimated Distribution	FY 2014 Estimated Distribution
Administration	\$627,309,647	\$627,954,451
Agriculture and Forestry	\$4,283,398	\$4,283,398
Commerce and Trade	\$145,798,610	\$132,862,568
Education	\$6,570,552,867	\$6,618,309,460
Finance	\$1,115,376,520	\$1,114,130,240
Health and Human Resources	\$1,725,803,557	\$1,692,605,895
Natural Resources	\$82,569,798	\$37,300,404
Public Safety	\$349,793,201	\$350,305,701
Technology	\$27,740,251	\$27,740,251
Transportation	\$1,184,747,158	\$1,209,620,486

Source: Virginia Department of Planning and Budget

typically include population, form of government, measured financial need and characteristics unique to the objectives of the specific funding.

Local governments in Virginia have been expected to generate larger portions of their budgets themselves. The Commonwealth’s share of local government expenditures has declined significantly in recent years. FY 2011 was no exception, as Virginia reduced its contribution to each local government unit by 5.47 percent (see Table 3). As a consequence, in FY 2011, 61.4 percent of local government expenditures were financed by locally raised revenues, up from 58.3 percent in FY 2002.

It’s worth noting that Hampton Roads localities only received about the same amount of funding from the Commonwealth in FY 2011 as they did in FY 2006. In effect, the financial world has stood still half a decade for local government units in our region, insofar as state support is concerned.

TABLE 3

REDUCTIONS IN COMMONWEALTH SUPPORT TO LOCALITIES IN HAMPTON ROADS, FY 2011

	FY 2011 Commonwealth Base Support	Reduction	Percent
Franklin	\$893,781	\$48,865	-5.47%
Gloucester	\$4,270,352	\$233,469	-5.47%
Isle of Wight	\$2,346,451	\$128,285	-5.47%
Poquoson	\$760,773	\$41,593	-5.47%
Surry	\$681,459	\$37,257	-5.47%
Williamsburg	\$781,835	\$41,104	-5.47%
York	\$4,490,798	\$245,521	-5.47%
Chesapeake	\$26,538,061	\$1,450,889	-5.47%
Hampton	\$22,689,105	\$1,240,459	-5.47%
Newport News	\$30,931,197	\$1,691,071	-5.47%
Norfolk	\$50,410,861	\$2,756,063	-5.47%
Portsmouth	\$21,238,702	\$1,161,163	-5.47%
Suffolk	\$6,851,785	\$374,601	-5.47%
Virginia Beach	\$47,635,986	\$2,604,355	-5.47%
Commonwealth	\$1,097,453,714	\$60,000,000	-5.47%

To deal with this reality, local governments have had to supply their own locally raised revenues (see Table 4). Since 63 percent of locally generated revenue comes from the property tax, this substitution has meant rising property taxes in nearly every jurisdiction. Thus, some (though not all) of the property tax increases that the region’s citizens have experienced in recent years effectively have been manufactured in Richmond.

TABLE 4

SOURCES OF LOCAL GOVERNMENT REVENUE, FY 2002 – FY 2011

FY	Total Revenue	State Aid	Local Revenue	Federal Revenue
2002	100	34.8	58.3	6.9
2003	100	33.9	59.1	7.6
2004	100	32.6	59.0	8.4
2005	100	33.2	59.3	7.5
2006	100	32.2	60.5	7.3
2007	100	33.0	60.2	6.8
2008	100	32.5	60.9	6.5
2009	100	32.8	60.5	6.7
2010	100	30.6	60.6	8.8
2011	100	30.6	61.4	8.0

Source: Auditor of Public Accounts: Comparative Reports

The Special Case Of Public School Funding

The majority of money provided to localities by the Commonwealth goes to public education. But the amount of money going to a school division is heavily dependent on the ability of the local government to provide adequate funding.

The Virginia Constitution requires the Board of Education to formulate Standards of Quality (SOQ) for public schools. The General Assembly is charged with revising the SOQ, determining SOQ costs and apportioning the cost between the state and localities. The decision about how much to appropriate for public schools is left to the General Assembly. The SOQ is established in the Virginia Constitution as the minimum educational program school divisions must provide. Every school division exceeds the standards in order to operate its schools. The specific requirements of the SOQ are set out in the Code of Virginia and the

Appropriation Act and include requirements for programs and staffing. Because the standards are included in the Appropriation Act as well as in the Code, they have been changed frequently in recent years. The end result nearly always has been a reduction in the costs the state has mandated for itself to meet.

State funding must be matched by the locality. Localities may spend more than the required amounts and offer programs and employ staff beyond what is required, and as indicated above, find it necessary to exceed SOQ minimums in order to run their schools. The amount of match is related to the Composite Index.

The Composite Index determines a school division's ability to pay education costs that are part of the Commonwealth's Standards of Quality. The index is calculated using three indicators of a locality's ability to pay:

- True value of real property (weighted 50 percent)
- Adjusted gross income (weighted 40 percent)
- Taxable retail sales (weighted 10 percent).

The rather complex formula for determining a local government's ability to fund its schools is provided in Figure 1. Each locality's index is adjusted in an attempt to maintain an overall statewide local share of 45 percent and an overall state share of 55 percent. The index is recalculated every two years. The Composite Index range is from .20 to .80. The lower the Composite Index, the fewer resources the locality has to support its schools and the higher the state aid.

The goal is to create equal access to schools of at least a prescribed minimum level of quality throughout Virginia. There are, however, serious questions as to how effectively the current formula levels the playing field across the state, but the formula has not been tested in court as has happened in several other states. The biggest problem is that the index is applied to the SOQ costs described above, not the real or actual cost of operating schools.

Table 5 reports the Composite Index for Hampton Roads localities for 2012-14. Lower index numbers reflect greater financial need.

TABLE 5	
2012-2014 COMPOSITE FUNDING INDEX	
Franklin	0.3276
Gloucester	0.3798
Isle of Wight	0.4258
Poquoson	0.3816
Southampton	0.3171
Williamsburg	0.8000
York	0.4049
Chesapeake	0.3678
Hampton	0.2912
Norfolk	0.3102
Newport News	0.2934
Portsmouth	0.2755
Suffolk	0.3530
Virginia Beach	0.4110
Arlington	0.8000
Alexandria	0.8000
Charles City	0.4483
Chesterfield	0.3539
Danville	0.2767
Fairfax	0.6789
Hanover	0.4203
Loudoun	0.5666
Lynchburg	0.3727
Petersburg	0.2516
Tazewell	0.2695

Source: Virginia Department of Education, http://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/index.shtml

FIGURE 1

DERIVATION OF THE COMPOSITE INDEX OF THE COMMONWEALTH'S LOCAL ABILITY TO PAY FORMULA

ADM Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local ADM}}}{\frac{\text{State True Value of Property}}{\text{State ADM}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}}}{\frac{\text{State Adjusted Gross Income}}{\text{State ADM}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}}}{\frac{\text{State Taxable Retail Sales}}{\text{State ADM}}} \right]$$

Population Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local Population}}}{\frac{\text{State True Value of Property}}{\text{State Population}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}}}{\frac{\text{State Adjusted Gross Income}}{\text{State Population}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}}}{\frac{\text{State Taxable Retail Sales}}{\text{State Population}}} \right]$$

Local Composite Index =

$$[(.6667 \times \text{ADM Component}) + (.3333 \times \text{Population Component})] \times 0.45 \text{ (average local share)}$$

Source: Virginia Department of Education

Over the past decade, the components of the Composite Index have been altered to diminish the funds that the Commonwealth must provide to meet the SOQ. The net effect has been to shift costs to localities and in the final analysis to impose a greater than 45 percent share of total costs on the localities. Since 2008, there have been a number of changes in state funding policies related to Standards of Quality that have had a substantial impact on Hampton Roads school systems and public schools throughout Virginia. These changes (catalogued in Table 6) alter factors within the SOQ process that result in lowering state assistance to the funding of public schools. **Cumulatively, these changes have cost localities in Hampton Roads approximately \$400 million on a biennial basis.**

Table 7 focuses on per-pupil expenditures of school districts in Hampton Roads, the sources of the revenues that support those expenditures and the trends of those expenditures. Note that Commonwealth funding comes from two sources – state general fund support and sales tax revenue. The ultimate amount of state funding provided represents the interaction of the SOQ requirements, the Composite Index and the funding formula.

The funding challenges facing local government units in Hampton Roads are vividly illustrated in Table 7. **The Commonwealth’s general fund contribution per student fell 23.7 percent statewide between 2009 and 2011, but 26.2 percent in Hampton Roads.** Counteracting this decline was additional local government support, slightly increased sales tax revenue and greater funding from the U.S. government.

The bottom line, however, is that expenditures per student within Hampton Roads fell 4.3 percent between 2009 and 2011, and easily the major factor was a sharp decline in financial support from the Commonwealth. Thus, it is difficult to avoid the conclusion that one of the major tools state government has used to balance its budget is to “put the cities and counties on a diet” (the view of a legislator) or to “use local government as a type of bank account” (the view of a Hampton Roads city official).

State Funding Policy Changes	Year	Biennial Change \$ in Millions
Cap funding for support positions	2009	(\$754)
Eliminate school construction grants	2009	(55)
Adjust health care for participation rates	2010	(269)
Eliminate certain school expenditures from SOQ calculation (equipment, travel)	2010	(244)
Include \$0 values in linear weighted average calculation	2010	(79)
Eliminate lottery support for school construction and operating costs	2010	(67)
Reduce K-3 class size program	2010	(36)
Update federal deduction percentage	2010	(34)
Extend school bus replacement cycle from 12 to 15 years	2010	(19)
Eliminate enrollment loss assistance	2010	(16)
		Total = (1,573)

Source: Senate of Virginia Finance Committee

TABLE 7

SOURCES OF PER-PUPIL EXPENDITURES IN HAMPTON ROADS

	Locality	End-of-Year ADM for Determining Cost Per Pupil	Local		State		State Retail Sales and Use Tax		Federal		Total Expenditures For Operations	
			Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	For Operations	Per Pupil
2003	Chesapeake	38,879	\$124,414,791	\$3,200	\$122,191,548	\$3,143	\$26,810,176	\$690	\$18,580,788	\$478	\$291,997,303	\$7,510
2005	Chesapeake	40,125	\$138,968,750	\$3,463	\$144,139,778	\$3,592	\$34,644,773	\$863	\$20,860,907	\$520	\$338,614,209	\$8,439
2007	Chesapeake	39,351	\$184,857,184	\$4,698	\$147,223,372	\$3,741	\$40,212,884	\$1,022	\$24,215,929	\$615	\$396,509,370	\$10,076
2009	Chesapeake	39,109	\$175,117,027	\$4,478	\$195,674,631	\$5,003	\$38,486,531	\$984	\$22,383,446	\$572	\$431,661,635	\$11,037
2011	Chesapeake	38,827	\$162,866,145	\$4,195	\$156,061,326	\$4,019	\$38,156,378	\$983	\$50,206,617	\$1,293	\$407,290,466	\$10,490
2003	Franklin	1,387	\$3,600,713	\$2,596	\$5,597,363	\$4,036	\$906,445	\$654	\$1,537,833	\$1,109	\$11,642,354	\$8,394
2005	Franklin	1,378	\$4,135,746	\$3,002	\$6,611,600	\$4,798	\$1,083,429	\$786	\$2,111,433	\$1,532	\$13,942,208	\$10,119
2007	Franklin	1,287	\$4,052,104	\$3,148	\$7,806,495	\$6,065	\$1,248,560	\$970	\$2,057,991	\$1,599	\$15,165,150	\$11,782
2009	Franklin	1,224	\$4,917,456	\$4,017	\$7,810,471	\$6,380	\$1,111,646	\$908	\$1,868,224	\$1,526	\$15,707,797	\$12,831
2011	Franklin	1,202	\$4,631,771	\$3,855	\$6,264,420	\$5,213	\$1,210,164	\$1,007	\$2,817,340	\$2,345	\$14,923,695	\$12,419
2003	Gloucester	6,265	\$16,225,614	\$2,590	\$20,710,056	\$3,306	\$4,282,316	\$684	\$3,026,480	\$483	\$44,244,466	\$7,062
2005	Gloucester	6,072	\$19,325,747	\$3,183	\$22,457,231	\$3,698	\$5,387,437	\$887	\$3,311,666	\$545	\$50,482,081	\$8,313
2007	Gloucester	5,931	\$22,447,016	\$3,785	\$25,468,978	\$4,294	\$5,917,873	\$998	\$3,272,636	\$552	\$57,106,503	\$9,629
2009	Gloucester	5,895	\$23,025,450	\$3,906	\$27,309,810	\$4,633	\$5,638,621	\$957	\$3,630,115	\$616	\$59,603,995	\$10,111
2011	Gloucester	5,864	\$22,299,728	\$3,803	\$20,208,933	\$3,446	\$5,640,655	\$962	\$5,236,389	\$893	\$53,385,704	\$9,104
2003	Hampton	22,845	\$52,590,392	\$2,302	\$82,840,334	\$3,626	\$17,109,235	\$749	\$14,778,240	\$647	\$167,318,201	\$7,324
2005	Hampton	22,521	\$57,841,966	\$2,568	\$93,530,460	\$4,153	\$21,595,796	\$959	\$19,360,454	\$860	\$192,328,677	\$8,540
2007	Hampton	21,753	\$61,864,753	\$2,844	\$110,079,124	\$5,060	\$22,588,261	\$1,038	\$19,486,549	\$896	\$214,018,687	\$9,839
2009	Hampton	20,955	\$66,852,906	\$3,190	\$118,923,795	\$5,675	\$21,497,142	\$1,026	\$20,571,119	\$982	\$227,844,960	\$10,873
2011	Hampton	20,709	\$69,931,563	\$3,377	\$92,647,308	\$4,474	\$19,736,650	\$953	\$24,622,192	\$1,189	\$206,937,712	\$9,992
2003	Isle of Wight	4,981	\$14,648,598	\$2,941	\$14,659,480	\$2,943	\$3,534,024	\$710	\$2,360,109	\$474	\$35,202,212	\$7,067
2005	Isle of Wight	5,044	\$15,987,400	\$3,170	\$17,238,698	\$3,418	\$4,626,235	\$917	\$2,851,545	\$565	\$40,703,878	\$8,070
2007	Isle of Wight	5,276	\$19,991,040	\$3,789	\$20,959,966	\$3,973	\$5,400,145	\$1,024	\$3,180,655	\$603	\$49,531,806	\$9,388
2009	Isle of Wight	5,326	\$24,722,946	\$4,642	\$23,576,612	\$4,427	\$5,207,127	\$978	\$3,454,702	\$649	\$56,961,387	\$10,695

TABLE 7

SOURCES OF PER-PUPIL EXPENDITURES IN HAMPTON ROADS

	Locality	End-of-Year ADM for Determining Cost Per Pupil	Local		State		State Retail Sales and Use Tax		Federal		Total Expenditures	
			Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	For Operations	Per Pupil
2011	Isle of Wight	5,359	\$22,310,126	\$4,163	\$19,055,281	\$3,556	\$5,666,345	\$1,057	\$5,625,746	\$1,050	\$52,657,498	\$9,827
2003	Newport News	31,382	\$82,205,732	\$2,620	\$105,167,219	\$3,351	\$24,073,034	\$767	\$26,633,838	\$849	\$238,079,823	\$7,587
2005	Newport News	31,327	\$79,189,640	\$2,528	\$128,012,338	\$4,086	\$31,262,693	\$998	\$29,596,722	\$945	\$268,061,394	\$8,557
2007	Newport News	30,113	\$90,845,960	\$3,017	\$149,190,630	\$4,954	\$32,057,626	\$1,065	\$31,304,701	\$1,040	\$303,398,917	\$10,075
2009	Newport News	29,138	\$94,467,083	\$3,242	\$157,126,807	\$5,393	\$30,374,599	\$1,042	\$39,468,050	\$1,355	\$321,436,539	\$11,032
2011	Newport News	28,235	\$92,591,731	\$3,279	\$126,762,002	\$4,490	\$29,726,406	\$1,053	\$49,703,892	\$1,760	\$298,784,032	\$10,582
2003	Norfolk	34,474	\$82,891,757	\$2,404	\$128,178,655	\$3,718	\$25,531,397	\$741	\$37,533,025	\$1,089	\$274,134,835	\$7,952
2005	Norfolk	33,693	\$95,178,369	\$2,825	\$142,523,954	\$4,230	\$32,220,179	\$956	\$35,861,850	\$1,064	\$305,784,352	\$9,076
2007	Norfolk	32,764	\$88,308,202	\$2,695	\$168,439,491	\$5,141	\$31,830,412	\$972	\$49,422,837	\$1,508	\$338,000,943	\$10,316
2009	Norfolk	31,748	\$99,438,271	\$3,132	\$175,291,528	\$5,521	\$30,102,433	\$948	\$45,470,191	\$1,432	\$350,302,423	\$11,034
2011	Norfolk	31,098	\$106,856,958	\$3,436	\$135,312,352	\$4,351	\$28,993,920	\$932	\$55,369,166	\$1,780	\$326,532,396	\$10,500
2003	Poquoson	2,483	\$6,610,323	\$2,662	\$7,393,395	\$2,978	\$1,465,923	\$590	\$590,355	\$238	\$16,059,995	\$6,468
2005	Poquoson	2,568	\$7,054,193	\$2,747	\$8,803,424	\$3,428	\$1,888,203	\$735	\$808,904	\$315	\$18,554,723	\$7,224
2007	Poquoson	2,570	\$7,986,512	\$3,108	\$9,988,436	\$3,887	\$2,178,317	\$848	\$817,613	\$318	\$20,970,878	\$8,161
2009	Poquoson	2,459	\$8,405,235	\$3,418	\$11,172,914	\$4,544	\$2,065,716	\$840	\$973,363	\$396	\$22,617,227	\$9,198
2011	Poquoson	2,317	\$8,874,068	\$3,831	\$8,292,500	\$3,579	\$1,994,792	\$861	\$1,149,597	\$496	\$20,310,957	\$8,767
2003	Portsmouth	15,476	\$30,113,534	\$1,946	\$65,274,282	\$4,218	\$10,625,226	\$687	\$14,998,781	\$969	\$121,011,824	\$7,819
2005	Portsmouth	15,220	\$32,881,851	\$2,160	\$72,078,139	\$4,736	\$12,536,029	\$824	\$15,586,683	\$1,024	\$133,082,702	\$8,744
2007	Portsmouth	14,739	\$29,094,171	\$1,974	\$83,344,036	\$5,655	\$12,206,131	\$828	\$23,825,764	\$1,617	\$148,470,103	\$10,074
2009	Portsmouth	14,422	\$34,828,815	\$2,415	\$91,616,384	\$6,353	\$11,810,986	\$819	\$18,911,868	\$1,311	\$157,168,053	\$10,898
2011	Portsmouth	14,159	\$38,313,457	\$2,706	\$69,347,105	\$4,898	\$13,382,728	\$945	\$26,920,248	\$1,901	\$147,963,539	\$10,450
2003	Southampton	2,767	\$6,803,418	\$2,459	\$10,754,097	\$3,887	\$2,259,801	\$817	\$1,947,299	\$704	\$21,764,616	\$7,866
2005	Southampton	2,800	\$7,790,704	\$2,783	\$11,626,841	\$4,153	\$2,747,044	\$981	\$2,084,884	\$745	\$24,249,473	\$8,661
2007	Southampton	2,777	\$8,518,999	\$3,068	\$13,824,934	\$4,979	\$3,135,050	\$1,129	\$2,455,525	\$884	\$27,934,508	\$10,060

TABLE 7

SOURCES OF PER-PUPIL EXPENDITURES IN HAMPTON ROADS

	Locality	End-of-Year ADM for Determining Cost Per Pupil	Local		State		State Retail Sales and Use Tax		Federal		Total Expenditures	
			Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	For Operations	Per Pupil
2009	Southampton	2,763	\$8,195,551	\$2,967	\$15,957,399	\$5,776	\$2,968,108	\$1,074	\$2,391,007	\$866	\$29,512,065	\$10,683
2011	Southampton	2,752	\$9,333,091	\$3,392	\$13,486,621	\$4,901	\$2,522,606	\$917	\$3,408,264	\$1,239	\$28,750,582	\$10,449
2003	Suffolk	12,492	\$29,636,713	\$2,372	\$42,701,650	\$3,418	\$8,865,674	\$710	\$6,506,550	\$521	\$87,710,586	\$7,021
2005	Suffolk	13,331	\$35,761,533	\$2,683	\$49,744,663	\$3,732	\$11,560,735	\$867	\$10,090,351	\$757	\$107,157,281	\$8,038
2007	Suffolk	13,441	\$39,025,460	\$2,904	\$59,665,490	\$4,439	\$14,111,930	\$1,050	\$10,650,923	\$792	\$123,453,803	\$9,185
2009	Suffolk	13,648	\$47,105,627	\$3,451	\$68,433,245	\$5,014	\$13,550,545	\$993	\$11,820,533	\$866	\$140,909,951	\$10,324
2011	Suffolk	13,940	\$48,724,032	\$3,495	\$56,259,509	\$4,036	\$14,011,327	\$1,005	\$17,967,669	\$1,289	\$136,962,537	\$9,825
2003	Surry	1,108	\$9,487,688	\$8,563	\$1,283,223	\$1,158	\$679,260	\$613	\$804,344	\$726	\$12,254,515	\$11,060
2005	Surry	1,055	\$9,226,956	\$8,744	\$1,762,860	\$1,671	\$808,239	\$766	\$816,346	\$774	\$12,614,400	\$11,955
2007	Surry	1,000	\$10,254,813	\$10,253	\$1,813,171	\$1,813	\$1,009,852	\$1,010	\$964,254	\$964	\$14,042,090	\$14,040
2009	Surry	976	\$10,529,872	\$10,793	\$3,146,222	\$3,225	\$963,479	\$988	\$1,100,578	\$1,128	\$15,740,152	\$16,133
2011	Surry	897	\$11,112,439	\$12,387	\$2,120,391	\$2,364	\$913,433	\$1,018	\$1,572,684	\$1,753	\$15,718,947	\$17,521
2003	Virginia Beach	75,554	\$241,170,140	\$3,192	\$213,155,329	\$2,821	\$51,447,271	\$681	\$54,367,110	\$720	\$560,139,850	\$7,414
2005	Virginia Beach	74,230	\$270,318,729	\$3,642	\$247,384,614	\$3,333	\$64,861,559	\$874	\$58,256,933	\$785	\$640,821,835	\$8,633
2007	Virginia Beach	71,270	\$325,037,400	\$4,561	\$290,107,605	\$4,071	\$72,151,254	\$1,012	\$60,244,476	\$845	\$747,540,736	\$10,489
2009	Virginia Beach	69,654	\$333,604,259	\$4,789	\$310,611,676	\$4,459	\$69,168,038	\$993	\$54,203,644	\$778	\$767,587,617	\$11,020
2011	Virginia Beach	69,458	\$358,869,482	\$5,167	\$240,944,480	\$3,469	\$70,058,126	\$1,009	\$78,316,621	\$1,128	\$748,188,709	\$10,772
2003	Williamsburg	8,535	\$51,193,049	\$5,998	\$14,107,652	\$1,653	\$5,973,971	\$700	\$3,073,312	\$360	\$74,347,984	\$8,711
2005	Williamsburg	719	\$5,567,726	\$7,748	\$1,067,267	\$1,485	\$657,483	\$915	\$4,068,623	\$5,662	\$11,361,099	\$15,810
2005	James City	8,690	\$50,721,850	\$5,837	\$19,079,563	\$2,196	\$7,087,921	\$816	\$10,394	\$1	\$76,899,728	\$8,849
2007	Wmb./James	10,028	\$61,183,857	\$6,101	\$28,353,161	\$2,827	\$9,217,623	\$919	\$4,113,345	\$410	\$102,867,986	\$10,258
2009	Wmb./James	10,241	\$68,431,062	\$6,682	\$33,094,656	\$3,232	\$8,958,284	\$875	\$4,690,720	\$458	\$115,174,721	\$11,247
2011	Wmb./James	10,493	\$69,040,150	\$6,580	\$26,177,934	\$2,495	\$9,895,154	\$943	\$9,430,761	\$899	\$114,543,999	\$10,916
2003	York	12,340	\$31,689,542	\$2,568	\$34,541,149	\$2,799	\$7,291,953	\$591	\$10,960,709	\$888	\$84,483,353	\$6,846

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SOURCES OF PER-PUPIL EXPENDITURES IN HAMPTON ROADS

	Locality	End-of-Year ADM for Determining Cost Per Pupil	Local		State		State Retail Sales and Use Tax		Federal		Total Expenditures	
			Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	Amount	Per Pupil	For Operations	Per Pupil
2005	York	12,618	\$39,160,563	\$3,103	\$39,657,110	\$3,143	\$9,306,537	\$738	\$12,537,762	\$994	\$100,661,971	\$7,977
2007	York	12,647	\$44,637,597	\$3,530	\$47,807,004	\$3,780	\$10,823,988	\$856	\$13,870,456	\$1,097	\$117,139,045	\$9,262
2009	York	12,746	\$46,410,764	\$3,641	\$54,296,624	\$4,260	\$10,473,202	\$822	\$12,530,359	\$983	\$123,710,950	\$9,706
2011	York	12,478	\$46,093,861	\$3,694	\$42,534,573	\$3,409	\$11,861,997	\$951	\$17,197,390	\$1,378	\$117,687,822	\$9,431
2003	State	1,154,815	\$4,886,864,074	\$4,232	\$3,134,398,349	\$2,714	\$781,300,156	\$677	\$650,989,969	\$564	\$9,453,552,548	\$8,186
2005	State	1,178,704	\$5,350,178,843	\$4,539	\$3,717,388,928	\$3,154	\$1,005,038,160	\$853	\$773,814,530	\$656	\$10,846,420,461	\$9,202
2007	State	1,188,524	\$6,114,823,391	\$5,145	\$4,480,982,743	\$3,770	\$1,135,152,370	\$955	\$848,290,617	\$714	\$12,579,249,120	\$10,584
2009	State	1,200,765	\$6,608,951,019	\$5,504	\$5,013,396,165	\$4,175	\$1,089,629,856	\$907	\$875,879,632	\$729	\$13,587,856,673	\$11,316
2011	State	1,212,413	\$6,512,439,602	\$5,371	\$4,091,526,935	\$3,375	\$1,125,126,903	\$928	\$1,356,530,556	\$1,119	\$13,085,623,996	\$10,793
2003	Hampton Roads	263,152	\$737,656,682	\$2,803	\$855,515,047	\$3,251	\$185,539,219	\$705	\$198,694,084	\$755	\$1,977,405,031	\$7,514
2005	Hampton Roads	271,389	\$869,111,724	\$3,202	\$1,005,718,541	\$3,706	\$242,274,291	\$893	\$218,215,457	\$804	\$2,335,320,013	\$8,605
2007	Hampton Roads	264,946	\$998,105,068	\$3,767	\$1,164,071,893	\$4,394	\$264,089,906	\$997	\$249,883,654	\$943	\$2,676,150,525	\$10,101
2009	Hampton Roads	260,303	\$1,046,052,324	\$4,019	\$1,294,042,775	\$4,971	\$252,376,456	\$970	\$243,467,919	\$935	\$2,835,939,473	\$10,895
2011	Hampton Roads	257,788	\$1,071,848,602	\$4,158	\$1,015,474,735	\$3,939	\$253,770,682	\$984	\$349,544,577	\$1,356	\$2,690,638,596	\$10,437

Source: Virginia Department of Education: State Superintendent Reports

Final Thoughts

Virginia is well regarded and has often been ranked at or near the top of all of the states as being the “best managed state” and “best state in which to do business.” The Commonwealth has an AAA bond rating.

A state cannot receive such kudos without managing its finances capably and it must be able to deal effectively with the revenue declines associated with virtually inevitable economic recessions. Virginia has demonstrated the ability to do so without tax increases. **However, the evidence presented in this chapter reveals that the Commonwealth has utilized its local government units as a sort of fiscal balance wheel in order to surmount revenue challenges. Progressively, it has been off-loading costs to local government units.**

One might be tempted to view this evolving funding pattern and conclude that it really doesn't make any difference as long as vital services such as K-12 education actually receive adequate funding. The problem is that this is beginning to distort our tax structure. **Virginia now ranks 13th in terms of the tax revenue it generates from local government units, but 35th in terms of the revenue it generates at the state level** (Virginia Joint Legislative Audit and Review Commission, “Virginia Compared to Other States, 2012 Edition”).

Local citizens are keenly aware of this trend because the primary revenue source of local governmental units is property taxes. **Excessively high property taxes distort residential housing and rental markets and depress commercial property markets. This is not a recipe for either housing market recovery or economic growth. Reality is that the Commonwealth is best situated via its income and sales taxes to raise the revenue needed to support local services. Indeed, it is essential that state government step up to the plate because, under the Dillon Rule, it has assumed the ultimate responsibility to provide such funding.**

We need a more balanced, growth-friendly state and local government tax structure in Virginia. It is time for elected state officials to recognize the cost-shifting behavior that has occurred for at least the last decade, and take gradual, but firm, steps over the current decade to halt this unproductive trend. The Hampton Roads legislative delegation should lead the way.

