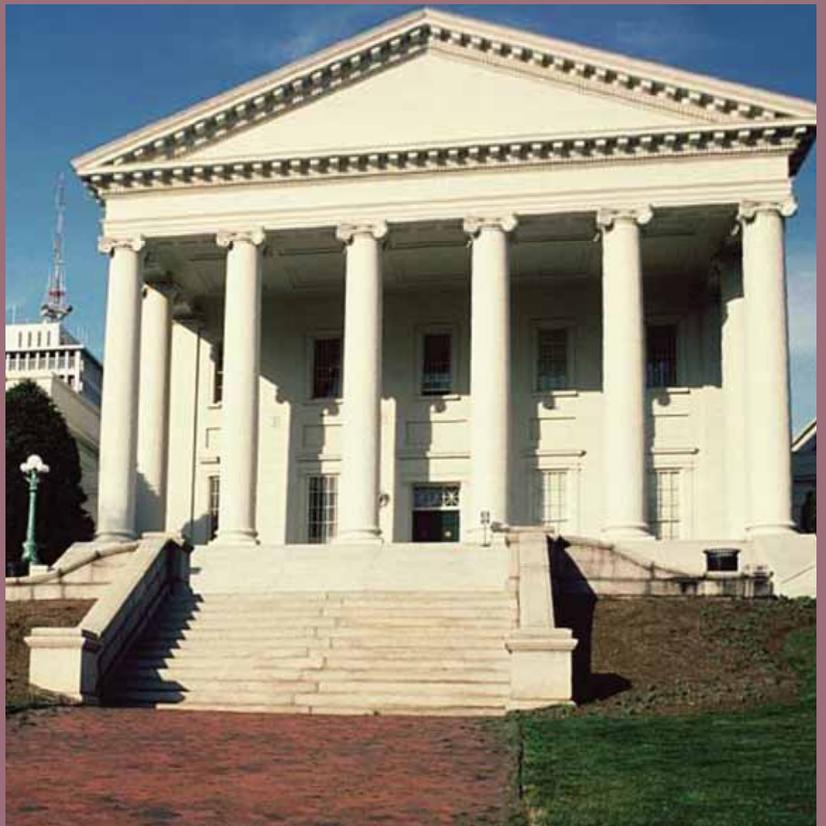


# Is Hampton

# Roads

# Receiving Its

# "Fair" Share?



# IS HAMPTON ROADS RECEIVING ITS “FAIR” SHARE FROM THE COMMONWEALTH?

State government in the Commonwealth of Virginia spends a lot of money. Over the past decade Virginia’s state budget has increased from \$17.1 billion to \$32 billion – an increase of 87 percent! However, the Joint Legislative Audit and Review Commission (JLARC), the legislature’s nonpartisan research group, believes the following facts should be taken into consideration:

- If one adjusts the numbers to account for inflation during this period (FY 1997 through FY 2006), then budget growth was 48 percent – a 4.4 percent annual rate of growth.
- If one further adjusts for growth in Virginia’s population over the past decade (an increase of 911,000 people), then the budget grew 25 percent – a 3 percent annual rate of growth.

A 3 percent growth rate in state government expenditures after inflation and after population growth is still substantial. Nevertheless, whatever one’s personal views with respect to the level of state government spending, how has that money been spent? And, how has this affected Hampton Roads? Here are the questions we seek to answer in this chapter:

- What types of activities and programs were supported?
- Where did the funding go geographically?
- Did Hampton Roads get its “fair” share?

## Programs

According to JLARC, over the past decade three areas accounted for 64 percent of the growth in expenditures of general funds derived from general taxation: (1) education; (2) medical assistance services; and (3) personal property tax relief (elimination of the “car tax”).

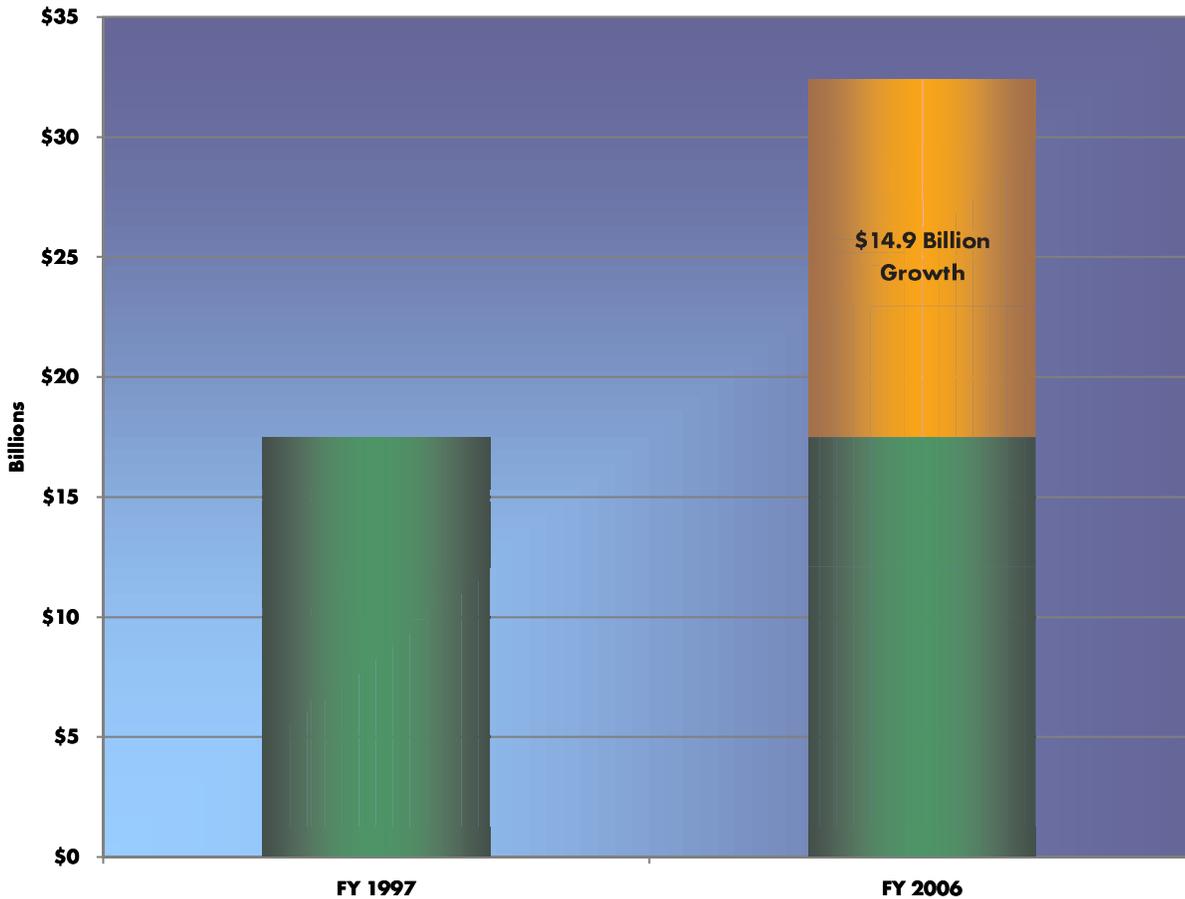
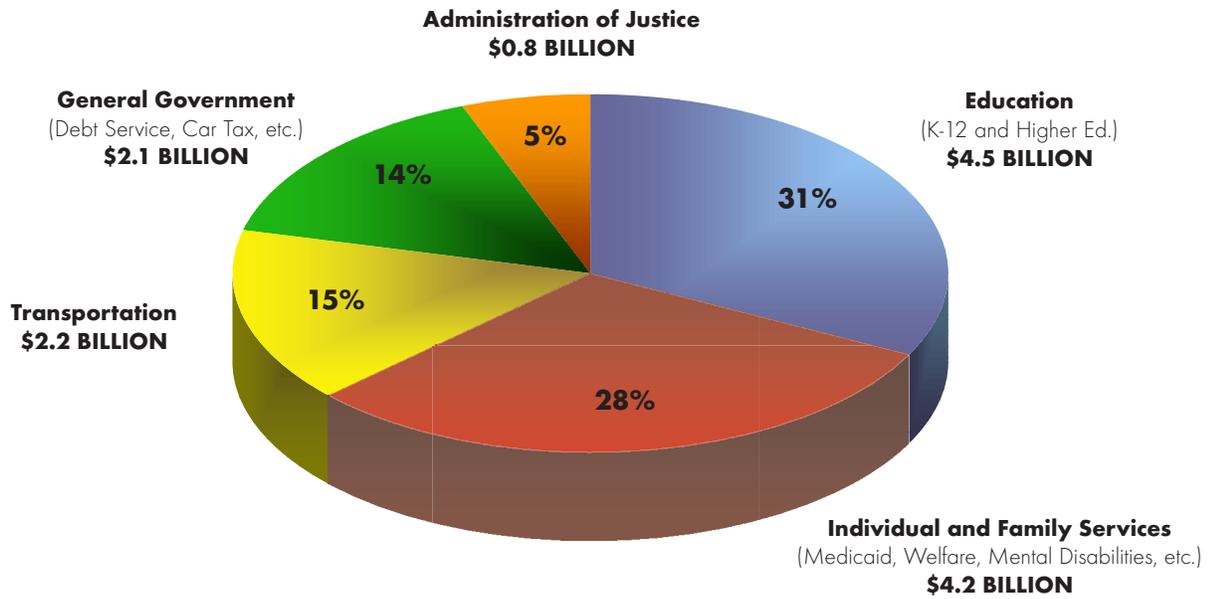
Table 1 reports the 10 highest areas of state government expenditure increase between FY 1997 and FY 2006. Note that K-12 public schools easily accounted for the largest total increase in the Commonwealth’s spending. This was slightly more than twice as large as the increased spending devoted to Medicaid and reducing the car tax. It’s also of interest that despite much public discussion about a crisis in transportation, increased spending in that area was less than one-third of the increased spending for Medicaid and car tax relief.

Figure 1 contains charts prepared by JLARC to show the growth in general and non-general funds for the decade by government

| TABLE 1<br>GROWTH IN COMMONWEALTH EXPENDITURES OF GENERAL FUNDS:<br>FY 1997 THROUGH FY 2006 |                             |
|---|-----------------------------|
| Agency  | Budget Growth (in millions) |
| Department of Education (K-12)  | \$1,961.0                   |
| Department of Medical Assistance Services   | \$ 890.1                    |
| Personal Property Tax Relief (Car Tax)  | \$ 890.1                    |
| Department of Corrections   | \$ 312.2                    |
| Department of Transportation  | \$ 275.7                    |
| Department of Accounts  | \$ 191.6                    |
| Comprehensive Services for Youth  | \$ 186.7                    |
| Compensation Board  | \$ 177.3                    |
| Department of the Treasury  | \$ 167.1                    |
| Department of Criminal Justice Services   | \$ 142.7                    |
| Source: Joint Legislative Audit and Review Commission                                       |                             |

functional areas, in terms of the general purpose of the funding. By this classification the big winners were education, individual and family services, transportation and general government, including the car tax program.

**FIGURE 1  
GROWTH IN GENERAL AND NON-GENERAL FUND EXPENDITURES,  
FY 1997 - FY 2006: A PICTURE**



Source: JLARC staff analysis of respective Appropriation Acts

# How Did Hampton Roads Fare?

The agencies and functional areas described in Figure 1 explain where the growth of Virginia's budget has occurred in the past decade. Determining where the money goes in terms of geographic regions requires further analysis. We will do this by examining three of the major spending growth areas: education (K-12 and higher education), the car tax cut and transportation. As we look at each of these areas, we'll see how Hampton Roads has fared.

**Whether the region is getting what a neutral party might consider to be its “fair” share in relation to what other regions of the Commonwealth receive is, of course, a sticky subject. To begin with, there is no agreement on what “fair” is, or should be. One definition of fairness may help Hampton Roads, while another definition, equally plausible, might harm it. The old English proverb reminds us, “All’s fair in love and war.” Perhaps we should add to this, “... and in the General Assembly.” It is exceedingly difficult to decide how much government should spend, much less where it should spend that money. Thus, those who wish to quibble with our analysis of the putative fairness of General Assembly funding have the standing to do so.**

Nevertheless, we'll plunge ahead and see what reasonable conclusions we can reach with respect to the fairness of the distribution of spending authorized by the General Assembly. We'll do so by analyzing spending in four categories that are easily traceable in terms of where the spending actually occurs: (1) K-12 public education; (2) higher education; (3) car tax cut reimbursements; and (4) transportation.

## K-12 Public Education

Article I, Section 15 of the Virginia Constitution provides that among the “qualities necessary to preservation of free government” are “an effective system of education throughout the Commonwealth.” Article VIII provides further that the General Assembly shall establish standards of quality for the public schools and shall provide for the apportionment of costs of the schools between the Commonwealth and the local school divisions. The article also requires that “each unit of local government shall provide its portion of such costs by local taxes or from other available funds.” While the constitution commands the General Assembly to apportion the costs of education, it does not actually require it to provide its share. This may seem to be a fine point, but the General Assembly typically has failed to appropriate its share, and legislative efforts to require it to do so have been defeated.

Standards of Quality (SOQ) are defined by the General Assembly to be the basic foundation elements necessary for an approved K-12 educational program. SOQs include such requirements as basic staffing levels and resources. SOQ standards are properly deemed to be minimal because virtually every school division has found it necessary to exceed them in order to operate a successful educational program.

The State Department of Education annually calculates a cost for the SOQs, which is used to determine the amount of the share of the state budget for public education when approved by the General Assembly. Currently, the Commonwealth has committed to pay 55 percent of the assignable costs (though it is not doing so). The remainder of the cost is to be paid by localities based on a local “ability to pay” index.

The local ability to pay index is based on a formula known as the composite index. It measures the relative wealth of a jurisdiction based on a locality's sales tax, income tax and property tax. The index ranges from 0.2036 to a statutorily imposed ceiling of .8. The lower the composite index, the smaller the capacity a local government has to pay for the foundation costs of education. The composite index is expressed as a percentage of educational costs a locality is expected to pay for its public schools.

Two other measures of local governments' ability to raise revenue are calculated annually by the Virginia Commission on Local Government. A measure of local revenue capacity gauges the degree of a jurisdiction's affluence and at the same time indicates the tax revenues it could expect to collect if it imposed levies at the statewide average rates of extraction. The other measure is a composite fiscal stress index that compares the level of revenue capacity per capita with the revenue effort and the median adjusted gross income.

Table 2 presents data for each of these three indexes for Hampton Roads and other areas within Virginia. The message of the data in Table 2 is clear. **Hampton Roads communities typically are not as wealthy as other urban and suburban regions of the state and, aside from Williamsburg and James City County, the region's composite index average is a rather low .31. The lower the composite index, the greater the per-pupil state aid that should go to a region's schools. Five of the 10 cities within Hampton Roads are classified "high stress" fiscally. This reflects, among other things, the fact that the measured capacity of Hampton Roads jurisdictions to raise tax revenue is well below the state average.**

As Table 3 indicates, there is a significant discrepancy in the amount of state assistance for which Hampton Roads communities qualify (as measured by the composite index in the last column) and the percentage of their expenditures they actually receive from the state (the next to last column). Consider the city of Hampton. The composite index (Table 2) says Hampton should provide 24.1 percent of its total educational expenditures, based upon its wealth, ability to raise revenue, etc. However, Hampton is contributing 40.6 percent of its expenditures. The gap ( $40.6 - 24.1 = 16.5$  percent) is the deficit between the funding Hampton should receive from the Commonwealth versus what it does receive.

**The unweighted average of the composite index for the 10 cities within Hampton Roads is .3358, signifying that these cities should contribute 33.58 percent of the funding for their K-12 public schools. However, their unweighted average contribution is 48.7 percent.** Once again, the difference ( $48.7 - 33.58 = 15.12$  percent) is the gap between the funding the 10 cities should receive and the funding they actually receive. The gap is smaller (5.29 percent) for the eight counties that either are located within Hampton Roads, or border it.

On the other hand, the same general relationship exists elsewhere in urban Virginia south of the Occoquan River. A selection of large urban counties and cities also is presented in Table 3. Richmond's gap between the composite index and its actual local funding is 16.21 percent. **If there are beneficiaries from the current way state K-12 financial aid is distributed, it is the counties of Northern Virginia (Arlington, Fairfax and Prince William), whose average unweighted gap between the composite index and their actual local funding is only 7.56 percent. This reflects the fact that the Commonwealth's current K-12 funding formula is subtly biased in favor of wealthy school districts that have a high ability to pay.**

It's also important to note that K-12 funding is limited to those items included in the Standards of Quality. As noted previously, the SOQs are exceeded by every public school system in the state, including the very poorest, because it simply would not be possible to operate a public school system limited to the standards of the SOQs. For example, the standards are inadequate to meet the reasonable staffing and employment needs of most schools. Further, the teacher salary levels included in the standards lag actual state payments by at least two years and are weighted such that they do not reflect the prevailing salary levels in the school divisions. In addition, the enormous costs of capital renovation and construction are not even included in the standards. The bottom line is that these methodologies tend to penalize less-wealthy school districts. Yes, Virginia's funding of K-12 public education reflects "ability to pay" factors, but not completely so. The composite index ultimately is used as a guide rather than as a rule in determining funding.

Research done by Professor Richard G. Salmon of Virginia Tech found that in FY 2005, the actual state and local percentages of recorded expenditure were 42.8 percent by the state and 57.2 percent by localities, rather than the promised 55 percent by the state and 45 percent by localities.

While the Commonwealth's funding procedures for K-12 public education do not work to the advantage of most Hampton Roads jurisdictions, it would be a stretch to declare those standards unreasonable. That said, if Virginia did not base its funding on SOQ levels, but instead on a more generous measure of what it actually takes to fund schools, then most Hampton Roads school districts would receive more money. Needless to say, however, the funding formula reflects political realities, horse trading and the legislative influence of the state's regions and localities.

**Is the current funding arrangement for K-12 public education unfair to Hampton Roads? Clearly, one could make that case based upon the ability to pay analysis presented here, though each region or locality within the Commonwealth has its own case to make. It will suffice for us to note that every neutral observer to whom we talked about this subject believes that the current funding mechanism is disadvantageous to Hampton Roads. Unfair? Perhaps. Detrimental? Almost certainly.**

**TABLE 2**  
**THE COMPOSITE INDEX, FISCAL STRESS AND REVENUE CAPACITY**  
**2003 – 2004**

| <b>Jurisdiction</b>           | <b>Composite Index</b> | <b>Fiscal Stress Index Score</b> | <b>Fiscal Stress Classification</b> | <b>Revenue Capacity Per Capita</b> | <b>Revenue Capacity Per Capita Rank</b> |
|-------------------------------|------------------------|----------------------------------|-------------------------------------|------------------------------------|---|
| <b>Hampton Roads Cities</b>   |                        |                                  |                                     |                                    |   |
| Chesapeake                    | .3186                  | 167.87                           | Above Average Stress                | \$1,273                            | 73                                      |
| Franklin                      | .2728                  | 182.18                           | High Stress                         | \$987                              | 41                                      |
| Hampton                       | .2410                  | 181.95                           | High Stress                         | \$862                              | 17                                      |
| Newport News                  | .2577                  | 181.09                           | High Stress                         | \$967                              | 34                                      |
| Norfolk                       | .2693                  | 185.31                           | High Stress                         | \$901                              | 25                                      |
| Poquoson                      | .3299                  | 155.84                           | Below Average Stress                | \$1,494                            | 97                                      |
| Portsmouth                    | .2185                  | 183.98                           | High Stress                         | \$798                              | 10                                      |
| Suffolk                       | .3014                  | 167.61                           | Above Average Stress                | \$1,183                            | 63                                      |
| Virginia Beach                | .3492                  | 166.96                           | Above Average Stress                | \$1,342                            | 81                                      |
| Williamsburg                  | .8000                  | 167.36                           | Above Average Stress                | \$1,750                            | 113                                     |
| <b>Hampton Roads Counties</b> |                        |                                  |                                     |                                    |   |
| Accomack                      | .3255                  | 169.93                           | Above Average Stress                | \$1,041                            | 50                                      |
| Gloucester                    | .3323                  | 163.03                           | Below Average Stress                | \$1,297                            | 76                                      |
| Isle of Wight                 | .3753                  | 160.72                           | Above Average Stress                | \$1,383                            | 86                                      |
| James City                    | .5499                  | 154.63                           | Below Average Stress                | \$1,956                            | 117                                     |
| Mathews                       | .4701                  | 159.62                           | Below Average Stress                | \$1,592                            | 104                                     |
| Northampton                   | .3925                  | 167.46                           | Above Average Stress                | \$1,385                            | 87                                      |
| Southampton                   | .2671                  | 167.61                           | Above Average Stress                | \$985                              | 38                                      |
| Surry                         | .2912                  | 152.85                           | Low Stress                          | \$2,801                            | 131                                     |
| <b>Others</b>                 |                        |                                  |                                     |                                    |   |
| Arlington County              | .8000                  | 140.00                           | Low Stress                          | \$3,114                            | 132                                     |
| Fairfax County                | .7456                  | 140.10                           | Low Stress                          | \$2,687                            | 127                                     |
| Prince William County         | .4287                  | 152.55                           | Low Stress                          | \$1,734                            | 111                                     |
| Loudoun County                | .6895                  | 132.54                           | Low Stress                          | \$2,700                            | 128                                     |
| Roanoke                       | 0.3763                 | 176.72                           | High Stress                         | \$1,200                            | 69                                      |
| Richmond                      | 0.4329                 | 177.11                           | High Stress                         | \$1,318                            | 79                                      |
| Henrico County                | 0.4604                 | 157.48                           | Below Average Stress                | \$1,680                            | 109                                     |
| Albemarle County              | 0.6095                 | 151.40                           | Low Stress                          | \$1,994                            | 121                                     |
| <b>Statewide Totals</b>       |                        |                                  |                                     | \$1,360                            |   |
| <b>Counties</b>               |                        |                                  |                                     | \$1,380                            |   |
| <b>Cities</b>                 |                        |                                  |                                     | \$1,311                            |   |

Composite index information from House Appropriations and Senate Finance Committees for 2003-04.  
 Fiscal stress rank score compiled by Virginia Commission on Local Government.  
 The higher the index score, the greater the fiscal stress.  
 Revenue capacity per capita compiled by Virginia Commission on Local Government.  
 (1 = lowest capacity; 134 = highest capacity.)

**TABLE 3  
ANALYZING STATE AND LOCAL SUPPORT FOR K-12 PUBLIC EDUCATION**

| <b>Jurisdiction</b>           | <b>Total Education Expenditures</b> | <b>State Aid</b> | <b>Local Expenditures</b> | <b>Percentage Local</b> | <b>Composite Index</b> |
|-------------------------------|-------------------------------------|------------------|---------------------------|-------------------------|------------------------|
| <b>Hampton Roads Cities</b>   |                                     |                  |                           |                         |                        |
| Chesapeake                    | \$372,739,928                       | \$189,874,820    | \$182,865,108             | 49.1%                   | .3186                  |
| Franklin                      | \$15,182,421                        | \$7,867,507      | \$7,314,914               | 48.2%                   | .2728                  |
| Hampton                       | \$203,916,316                       | \$121,139,276    | \$82,777,040              | 40.6%                   | .2410                  |
| Newport News                  | \$289,890,940                       | \$168,753,986    | \$121,136,954             | 41.2%                   | .2577                  |
| Norfolk                       | \$336,248,745                       | \$189,581,445    | \$146,667,300             | 43.6%                   | .2693                  |
| Poquoson                      | \$20,494,788                        | \$11,010,404     | \$9,484,384               | 46.3%                   | .3299                  |
| Portsmouth                    | \$142,798,065                       | \$87,201,304     | \$55,596,761              | 38.9%                   | .2185                  |
| Suffolk                       | \$120,518,540                       | \$67,605,545     | \$52,912,995              | 43.9%                   | .3014                  |
| Virginia Beach                | \$663,817,754                       | \$323,470,593    | \$340,347,161             | 51.3%                   | .3492                  |
| Williamsburg                  | \$7,631,352                         | \$1,306,349      | \$6,325,003               | 82.9%                   | .8000                  |
| <i>Average</i>                |                                     |                  |                           | 48.7%                   | .3358                  |
| <b>Hampton Roads Counties</b> |                                     |                  |                           |                         |                        |
| Accomack                      | \$49,343,764                        | \$28,868,131     | \$20,475,633              | 41.5%                   | .3255                  |
| Gloucester                    | \$52,340,712                        | \$29,225,454     | \$23,115,258              | 44.2%                   | .3323                  |
| Isle of Wight                 | \$45,750,296                        | \$24,416,549     | \$21,333,747              | 46.6%                   | .3753                  |
| James City                    | \$87,973,776                        | \$29,074,181     | \$58,899,595              | 67.0%                   | .5499                  |
| Mathews                       | \$11,493,575                        | \$5,638,233      | \$5,855,342               | 50.9%                   | .4701                  |
| Northampton                   | \$22,683,045                        | \$10,651,936     | \$12,031,109              | 53.0%                   | .3925                  |
| Southampton                   | \$25,910,191                        | \$16,159,786     | \$9,750,405               | 37.6%                   | .2671                  |
| Surry                         | \$14,026,989                        | \$2,559,823      | \$11,467,166              | 81.8%                   | .2912                  |
| <i>Average</i>                |                                     |                  |                           | 42.83%                  | .3754                  |
| <b>Others</b>                 |                                     |                  |                           |                         |                        |
| Arlington County              | \$325,007,089                       | \$41,549,216     | \$283,457,873             | 87.2%                   | .8000                  |
| Fairfax County                | \$1,950,120,658                     | \$391,044,777    | \$1,559,075,881           | 80.0%                   | .7456                  |
| Prince William County         | \$647,437,000                       | \$305,735,000    | \$341,702,000             | 52.8%                   | .4287                  |
| Loudoun County                | \$569,700,631                       | \$114,276,224    | \$455,424,407             | 79.9%                   | .6895                  |
| Roanoke                       | \$136,820,321                       | \$63,464,255     | \$73,356,066              | 53.6%                   | .3763                  |
| Richmond                      | \$301,706,020                       | \$122,288,277    | \$179,417,743             | 59.5%                   | .4329                  |
| Henrico County                | \$406,091,691                       | \$184,431,684    | \$221,660,007             | 54.6%                   | .4604                  |
| Albemarle County              | \$135,009,440                       | \$39,738,417     | \$95,271,023              | 70.6%                   | .6095                  |
| <i>Average</i>                |                                     |                  |                           | 67.3%                   | .5679                  |

Sources: Auditor of Public Accounts and Virginia Department of Education (data are for FY 2006)

# Public Higher Education

While higher education was not among the programs showing the strongest expenditure growth over the past decade, it is a state function one can easily track in terms of when and where expenditures have been made. Even so, since each institution has a distinct mission, in some ways the expenditures the Commonwealth makes on the various campuses are noncomparable.

Table 4 records the per-institution appropriation in state general fund dollars for all of Virginia's four-year public colleges and universities and summarizes the community system for purposes of comparison. There are three public four-year institutions of higher education in Hampton Roads: Christopher Newport University, Norfolk State University and Old Dominion University.

Christopher Newport University (CNU) is a nondoctoral, comprehensive institution. Four other institutions are roughly comparable to CNU: James Madison University, Longwood University, University of Mary Washington and Radford University. The University of Virginia-Wise, Norfolk State University, Virginia Military Institute and Virginia State University fall into the same general institutional category, but for a variety of reasons are noncomparable in terms of mission and/or background.

In 2007-08, CNU is receiving an estimated \$6,313 in state general fund support per full-time equivalent (FTE) in-state student. Out-of-state students are not funded by Commonwealth tax dollars; the state's policy is that these students should pay the full costs of their education via tuition and fees, and therefore no state subsidy is required. CNU ranks fourth among the five comparable comprehensive universities in terms of its funding per student, which is more than \$1,800 below the state average for all institutions, irrespective of their missions.

Norfolk State University, on the other hand, receives the second highest state general appropriation per FTE student among the 15 four-year public institutions. Only Virginia Military Institute receives a higher annual general fund appropriation per FTE student. Presumably, Norfolk State's lofty appropriation, which is higher than any of the Commonwealth's doctoral institutions and also more than \$1,600 higher than that of Virginia State University, reflects the institution's status as a historically black college or university (HBCU), its distinctive student body and its current mission. Also, for many years, Virginia was under a federal mandate to eliminate the vestiges of segregation in its public higher education system and this impetus resulted in substantial increases in Norfolk State's budget, along with plentiful capital projects.

Among the six doctoral research universities in the state, only George Mason receives a lower per student appropriation than does Old Dominion University. Old Dominion's general fund appropriation per in-state FTE student is about \$1,000 less than the state average. The College of William and Mary, however, receives \$9,814 per in-state FTE student, more than \$1,600 above the state average, and ranks below only the University of Virginia in that regard among the doctoral research institutions.

A word of caution is in order here. The Commonwealth has developed a funding formula for each of its colleges and universities that generates a recommended level of funding based upon the average that comparable institutions are receiving in other states. Thus, the mission, size and programs of a specific school, for example, Christopher Newport University, are compared to like institutions in other states. The presumption is that it is inappropriate to compare dissimilar institutions. Therefore, colleges and universities that support numerous doctoral programs, or maintain medical and law schools, engineering programs and other similarly expensive disciplines, will receive greater funding than those that do not. Therefore, one must be very cautious in comparing a specific institution's funding to the state average. More relevant is how an institution's funding compares to its formula-generated funding based upon comparable institutions in other states.

**The "formula" approach to higher education funding is regarded by some as a guarantee of mediocrity because it reflects only the average funding of other states for similar institutions. More funding than that, they argue, is required if Virginia public higher education is to excel. Regardless, of the 15 public four-year institutions in Virginia, eight receive more than the funding formula average and seven receive less than that average. Norfolk State, at 141.7 percent of the formula, is the outlier; William and Mary receives slightly more than the formula average. Christopher Newport and Old Dominion receive less than the average, with ODU, at only 91.4 percent of the formula, ranking 14th among the 15 four-year institutions.**

Data were not available for individual community colleges. However, if Thomas Nelson Community College (TNCC) and Tidewater Community College (TCC) are funded like the typical community college in the Commonwealth, then they receive only

**TABLE 4**  
**STATE GENERAL FUND APPROPRIATION PER IN-STATE FTE STUDENT: 2005-06 and 2007-08**

|   | <b>\$ Per In-State Student: 2005-06</b> | <b>\$ Per In-State Student: 2007-08</b> | <b>Percent Change</b> | <b>Percent of Base Funding Formula</b> |
|---|---|---|-----------------------|--|
| <b>Doctoral Research Institutions</b>   |   |   |                       |  |
| College of William and Mary             | \$8,532                                 | \$9,814                                 | 15.0%                 | 101.2%                                 |
| George Mason University                 | \$5,723                                 | \$7,005                                 | 22.4%                 | 98.6%                                  |
| Old Dominion University                 | \$6,516                                 | \$7,192                                 | 10.4%                 | 91.4%                                  |
| University of Virginia                  | \$9,162                                 | \$10,333                                | 12.8%                 | 98.6%                                  |
| Virginia Commonwealth University        | \$8,187                                 | \$8,915                                 | 8.9%                  | 91.1%                                  |
| Virginia Tech                           | \$8,329                                 | \$9,218                                 | 10.7%                 | 100.7%                                 |
| <b>Other Hampton Roads Institutions</b> |   |   |                       |  |
| Christopher Newport University          | \$5,488                                 | \$6,313                                 | 15.0%                 | 96.3%                                  |
| Norfolk State University                | \$10,504                                | \$11,352                                | 8.1%                  | 141.7%                                 |
| <b>Other Public Institutions</b>        |   |   |                       |  |
| University of Virginia-Wise             | \$7,667                                 | \$8,466                                 | 10.4%                 | 101.4%                                 |
| James Madison University                | \$5,504                                 | \$6,586                                 | 19.7%                 | 107.2%                                 |
| Longwood University                     | \$5,079                                 | \$6,665                                 | 31.2%                 | 101.9%                                 |
| University of Mary Washington           | \$5,054                                 | \$6,946                                 | 37.4%                 | 107.5%                                 |
| Radford University                      | \$5,096                                 | \$6,158                                 | 20.8%                 | 95.9%                                  |
| Virginia Military Institute             | \$11,396                                | \$13,161                                | 15.5%                 | 141.7%                                 |
| Virginia State University               | \$8,376                                 | \$9,670                                 | 15.4%                 | 94.1%                                  |
| Virginia Community College System       | \$3,668                                 | \$4,400 (est.)                          | 20.0%                 | 87.9%                                  |
| <b>Average Four-Year</b>                | <b>\$7,205</b>                          | <b>\$8,197</b>                          | <b>13.8%</b>          | <b>96.2%</b>                           |

Source: State Council of Higher Education for Virginia

87.9 percent of the funding formula average. Casual observation, however, suggests that the state's urban community colleges (TNCC and TCC being examples) may be funded less well than those located in rural areas.

As far as the region is concerned, the data in Table 4 dictate a mixed message. Two of Hampton Roads' four public four-year institutions are funded better than the formula, two are funded less well. Norfolk State clearly has held favored status in terms of funding, while Old Dominion's funding appears to have lagged. Given ODU's emphasis upon engineering and scientific teaching and research, this is hardly a recipe for the region's future economic prosperity. Nonetheless, it would be difficult to make the case that Hampton Roads has been discriminated against in terms of overall higher education funding.

# The Car Tax Cut

The Personal Property Tax Relief Act, more commonly referred to as the “car tax cut,” was a rarity in state government, for it involved state government cutting a local tax, after which the tax cut then became an expense of state government. However unusual the car tax cut might have been in terms of its mechanics, it was an extremely popular idea that was influential in electing James S. Gilmore II governor in 1997. Since then, the car tax cut has become a major financial burden to state government, much larger than forecast at the time. Further, as we shall see, all regions of the Commonwealth do not receive equal per capita benefits from the cut.

Regardless, the car tax cut has constituted one of the major growth areas in the state budget over the past decade. Portrayed in the gubernatorial campaign as costing about \$600 million, the true cost of the program in 2007 would have been about \$1.5 billion had the General Assembly not capped it at \$950 million in 2004. The year 2004 is a vitally important key where the car tax cut is concerned. Localities currently are reimbursed for the car taxes they no longer collect on the basis of their proportion of the 2004 tax year car tax reimbursements distributions.

Car tax reimbursements have placed a significant strain on the state’s general fund. Starting at 1.9 percent of the general fund in FY 1999, the reimbursement increased to 7.9 percent in FY 2003. However, if the cap remains in place (and this is a perennial political issue), then its importance within the state’s budget will drop as the general fund grows.

Under the current system of reimbursement, there is little relationship between today’s value of vehicles in jurisdictions and the amount reimbursed to those jurisdictions by the state. This is because the car tax cut causes state general fund monies collected throughout the Commonwealth from sales, income and other state taxes to flow back to the localities based on the value of vehicles in these jurisdictions in 1999. Those jurisdictions with large numbers of high-priced vehicles in 1999 therefore now receive high reimbursements.

**There is no recognizable connection between any identified social need and the funding stream that has accompanied the car tax cut. Monies that could otherwise have been used for eliminating disparities among school divisions, for meeting the rising costs of Medicaid or for improving our institutions of higher education are now returned to the wealthiest jurisdictions in the state in what, for Virginia, is an unprecedented transfer of wealth. Just seven jurisdictions receive more than half of all the money from the car tax reimbursement program, and those seven local governments generally have the least fiscal strain and the greatest ability to raise their own funds.**

As Figure 2 illustrates, in 2006, only six jurisdictions in Hampton Roads received reimbursements exceeding the statewide average per capita reimbursement of \$124.72. Two regional jurisdictions were near the average, and 10 were below it. Further, those below the statewide per capita average typically exhibited high fiscal stress (see Table 2).

Table 5 reports the actual dollars reimbursed to jurisdictions via the car tax cut and compares local governments in Hampton Roads with Virginia’s top seven jurisdictions in terms of total car tax reimbursements. Note that Virginia Beach, though it’s the state’s largest city in terms of population, ranks only third in terms of the total value of car tax reimbursements it receives from the Commonwealth.

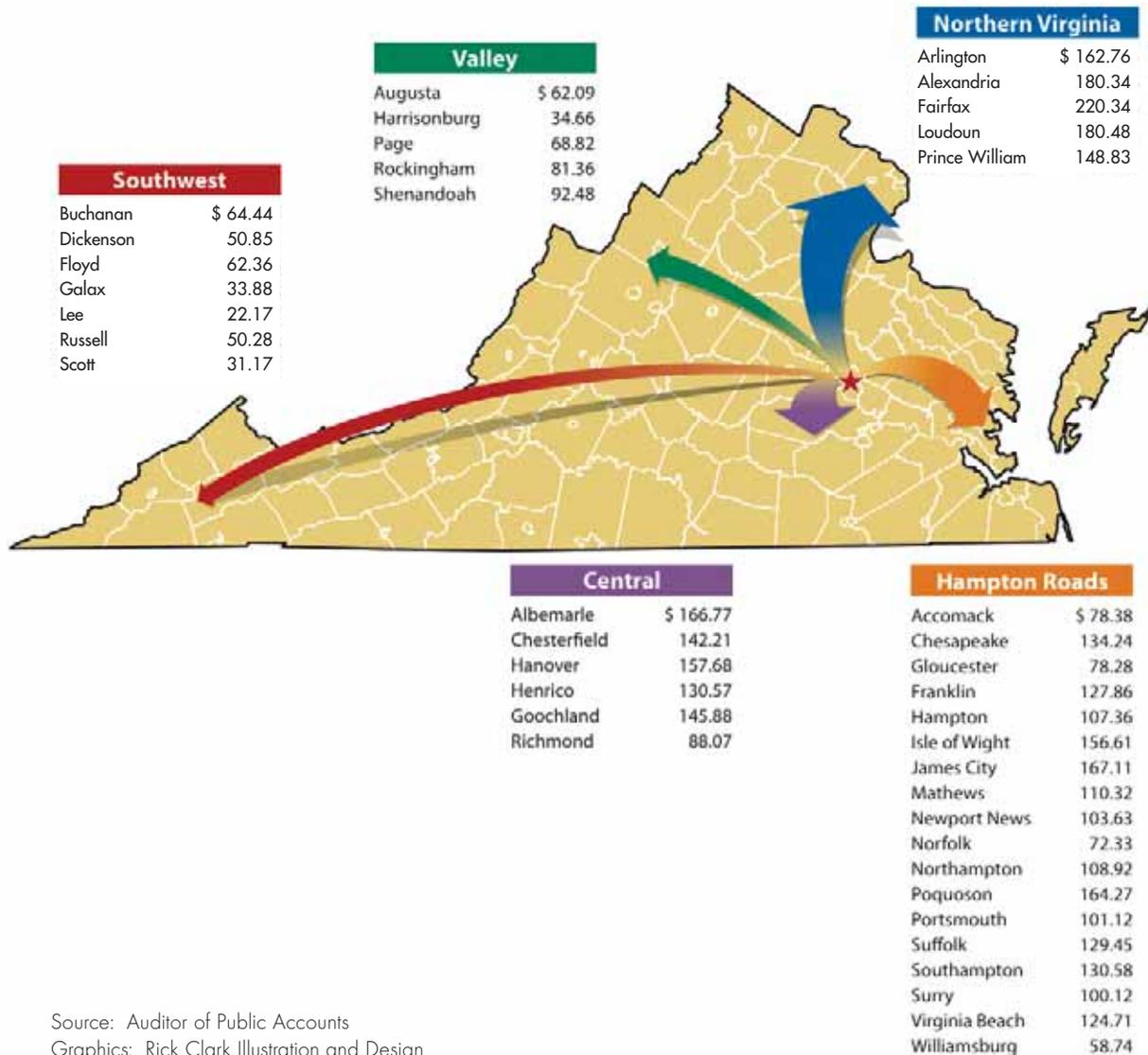
Further, it should be pointed out that the money reimbursed to local governmental units via the car tax cut program does not constitute new money to them. In the absence of the car tax reduction, local governments would have collected these funds anyway from local individual vehicle owners. And, this money would have been spent locally. Instead, there has been a shift of wealth from the entire state to those jurisdictions that typically exhibit the least financial need. **Fairfax County, for example, received \$220.34 per capita in car tax reimbursements, while Lee County received a paltry \$22.17 per capita. As one legislator from Northern Virginia put it, “Thank you very much!”**

Of course, the residents of the jurisdictions receiving the highest car tax reimbursements hasten to argue that there is some justice here because they also pay the most in state taxes. Even so, this tax program has the illogical consequence of taking from everyone in order to give to the wealthiest.

**Once again, it’s not clear how we actually could determine what should be deemed “fair” with respect to the car tax. What is obvious, however, is that Hampton Roads residents (and those throughout Virginia) are shoveling**

money to Northern Virginia. General fund monies that could be used to remedy the shortfall in school funding described previously are instead being sent to jurisdictions that have considerably lower financial need. General fund money that heretofore would have been distributed through various need-based formulae instead now is being doled out in a reverse Robin Hood fashion. It would not be difficult to argue this is unfair to the taxpayers of Hampton Roads. At the very least, the car tax reduction mechanism appears to be a policy of dubious merits if one has fairness and equity in mind.

**FIGURE 2  
THE CAR TAX CUT  
(PER CAPITA DISTRIBUTION OF STATE GENERAL FUNDS TO LOCALITIES)**



**TABLE 5  
CAR TAX REIMBURSEMENTS, 2006**

| <b>Top Seven</b>      | <b>Per Capita</b> | <b>Total</b>        |
|-----------------------|-------------------|---------------------|
| Fairfax County        | \$220.34          | \$213,897,975       |
| Prince William County | \$148.83          | \$54,951,376        |
| <i>Virginia Beach</i> | <i>\$124.71</i>   | <i>\$54,066,021</i> |
| Loudoun County        | \$180.48          | \$48,658,529        |
| Chesterfield County   | \$142.21          | \$41,594,538        |
| Henrico County        | \$130.57          | \$37,454,256        |
| Arlington County      | \$162.76          | \$31,634,311        |
| Top Seven             | \$157.14          | \$482,257,006       |
| <b>Hampton Roads</b>  |                   |                     |
| Chesapeake            | \$134.24          | \$28,939,611        |
| Newport News          | \$103.63          | \$18,799,436        |
| Norfolk               | \$72.33           | \$17,077,362        |
| Hampton               | \$107.36          | \$15,642,906        |
| Suffolk               | \$129.45          | \$10,294,089        |
| Portsmouth            | \$101.12          | \$9,983,570         |
| James City County     | \$167.11          | \$9,889,611         |
| Isle of Wight County  | \$156.61          | \$5,178,450         |
| Accomack County       | \$78.38           | \$3,092,569         |
| Gloucester County     | \$78.28           | \$2,812,618         |
| Southampton County    | \$130.58          | \$2,374,952         |
| Poquoson              | \$164.27          | \$1,946,952         |
| Northampton County    | \$108.92          | \$1,439,355         |
| Franklin              | \$127.86          | \$1,061,723         |
| Mathews County        | \$110.32          | \$1,012,313         |
| Williamsburg          | \$58.74           | \$783,031           |
| Surry County          | \$100.12          | \$686,197           |
| Hampton Roads         | \$113.49          | \$131,014,745       |
| Statewide             | \$124.72          | \$950,000,000       |

Source: Auditor of Public Accounts

# Transportation

One of the most hotly debated issues in the Virginia General Assembly in recent years has been transportation. Big money is involved, not the least because Virginia maintains the third largest highway system in the United States. The 2007 Virginia Department of Transportation (VDOT) budget is approximately \$4.3 billion. Even with this level of expenditure, however, Virginia ranked 44th among the 50 states in terms of its per capita spending on highways in 2003 (according to *The State of Transportation in Hampton Roads, 2006*, published by the Hampton Roads Planning District Commission).

The challenges facing VDOT are manifold. First, and foremost, it does not command nearly enough revenue to meet the apparent needs, or at least wishes, of Virginians for road maintenance and construction. Indeed, in 2006, VDOT spent almost \$1.4 billion on road maintenance (\$285 million of which is paid to localities that maintain their own highways). This level of expenditure, however, has come at the cost of new road construction, which has exceeded \$1.1 billion annually, but will fall continuously over the next few years because it has become necessary to transfer money from VDOT's construction fund to needed road maintenance and repair. In FY 2007, \$286 million was transferred and this number will rise progressively as maintenance and repair needs rise, and the purchasing power of these dollars declines. In 2012, for example, VDOT forecasts that it will transfer \$473 million from the construction fund into road maintenance and repair. The day is in sight when the Commonwealth will not have any new road construction money whatsoever.

One of the major sources of revenue for VDOT is fuel taxes. However, these taxes have been held constant at \$.175 per gallon for gasoline and \$.16 per gallon for diesel since 1987. In the intervening time, the consumer price index has risen 82 percent, meaning the purchasing power of these taxes has been seriously reduced. The purchasing power of the \$.175 per gallon tax on gasoline, for example, has been reduced to about \$.10 per gallon. **In any case, Virginia ranks among the bottom 10 states in terms of the taxes and fees it collects per gallon of unleaded gasoline, according to the Hampton Roads Planning District Commission (HRPDC).**

Second, the demand for VDOT's services continues to rise. Consider that between 1996 and 2005, the population of Hampton Roads increased by 6 percent, but the vehicle miles traveled within the region increased 18 percent and the number of registered vehicles was up 27 percent. This has driven higher VDOT maintenance and repair expenditures and has strengthened cries for new road construction and/or funding for public transportation.

Third, the tastes of drivers appear to have changed over the past decade. According to the HRPDC, nearly 83 percent of all commuters drove to work alone in our region in 2005, up from 73 percent in 1990. In 2005, more than half of all workers in Hampton Roads worked in a different community than the one in which they lived. There is an economic cause for this: rising incomes have allowed more people to acquire their own vehicle and to opt against car pools, public transportation and other alternatives.

While the debate over transportation funding in Virginia and in Hampton Roads has been contentious, the truth is that it actually has not been around the need for traffic congestion relief, or for the need to develop alternatives to the single-occupant vehicle. These needs are well established, as the data above demonstrate. Further, the cost of failing to address these needs has been calculated. The 2006 State of the Region report documented that traffic congestion in Hampton Roads imposed costs of \$472.9 million on drivers (about \$300 for every citizen in the region). This is without taking into account the environmental costs generated by congestion, resulting higher prices and adverse effects on business location decisions.

The 2006 State of the Region report also found that the typical drive time for a commuter going from I-564 in Norfolk to the Hampton University exit on the Peninsula (or vice versa) during rush hour was 41 minutes in 2005. Given the growth in population and vehicle registrations, this will increase to 82 minutes in 2015. These findings have been accepted without much debate. Everyone agrees that traffic congestion exists and that it imposes costs.

If the argument over regional transportation has not been about needs or trends, then what has it been about? The answer is – taxes. In a nutshell, many legislators are firmly against increasing taxes in order to provide additional transportation money. They argue that the General Assembly raised taxes in 2006 and that as a consequence the Commonwealth has some funds available to meet a portion of the outlined transportation needs. They believe that such funds, along with funds generated by significant borrowing through the sale of bonds, can meet many of Virginia's transportation needs – all without an increase in the state's gasoline tax.

Finally, in the case of Hampton Roads, after much give and take and more than a touch of bitterness, the General Assembly voted to allow the region's citizens to tax themselves in order to fund a series of very expensive projects such as a third crossing (we examine these projects below), which clearly cannot be funded by the techniques just outlined.

**It is not unfair to characterize the 2007 General Assembly as having ultimately decided, after all the shouting and political skirmishing, to send the following message to Northern Virginia and Hampton Roads: "Tax yourselves for transportation, if you wish; we're not going to do it for you." There are some who may regard this approach as the epitome of justice, but it clearly represents a step away from the Commonwealth's traditional responsibility for transportation funding and the notion that all of the regions of the state are interdependent. It also places substantial taxation burdens on several jurisdictions that already are fiscally stressed.**

This approach was not greeted with enthusiasm in some quarters. In early June 2007, Peninsula Republican Party voters defeated long-time incumbent Senator Marty Williams, who as chair of the Senate Transportation Committee, had much to do with the crafting of the compromise proposal to allow Hampton Roads to tax itself to pay for major regional transportation improvements (Daily Press, June 13, 2007).

In June 2007, the Hampton City Council unanimously rejected participation in the regional transportation compact. Councilman Rhet Tignor commented that the Commonwealth's punting of the taxing and funding issue for transportation to localities constituted a "dangerous precedent" (The Virginian-Pilot, June 14, 2007). He worried that the state might pass on the responsibility for other tasks, such as mental health, to the cities and counties.

A bit of history is in order. In 2002 the General Assembly passed legislation that allowed for a popular referendum on the question of a 1 cent increase in the sales tax in Hampton Roads that would be used by a local authority to respond to the region's transportation needs. With negligible involvement of the general public and limited involvement of local governmental and business leaders in its development, the proposal was probably doomed from the beginning. In any case, it was overwhelmingly rejected by the voters.

But, the subject did not disappear. The General Assembly passed a hotly debated compromise transportation package in spring 2007 that some regarded as modest, but others viewed as an unwarranted increase in regional taxation. The principal feature of the legislation permitted the establishment of a regional transportation authority (the Hampton Roads Transportation Authority, or HRTA) to raise revenues that legislators decided not to provide from state coffers. At least seven of 12 regional jurisdictions, comprising at least 51 percent of the population of the region, had to approve in order for the HRTA to go into effect. This hurdle was surmounted on June 14, 2007, when the Board of Supervisors of Isle of Wight County approved the HRTA by a 3-2 vote. Other approving jurisdictions included James City County, Newport News, Norfolk, Portsmouth, Virginia Beach and Williamsburg. Beginning Jan. 1, 2008, the HRTA will levy the interesting combination (a "hodgepodge," opponents charged) of automobile and real estate taxes listed in Table 6.

Projects undertaken by the new authority are required by law to have been included in the federally mandated 2030 Regional Transportation Plan or any succeeding plan. According to the Hampton Roads Planning District Commission, which will staff the HRTA, among the major projects included in the 2030 plan and the year-of-expenditure costs are:

|                                     |                 |
|-------------------------------------|-----------------|
| ■ Third Crossing                    | \$4.152 billion |
| ■ Southeastern Pkwy./Dominion Blvd. | \$1.117 billion |
| ■ Midtown Tunnel/MLK Extension      | \$ .549 billion |
| ■ U.S. Route 460 Improvement        | \$1.468 billion |
| ■ I-64 Widening (Peninsula)         | \$ .556 billion |
| ■ I-64 Widening (Southside)         | \$1.080 billion |
| Total                               | \$8.922 billion |

**TABLE 6  
STATE REVENUE ESTIMATES FOR THE HAMPTON ROADS TRANSPORTATION AUTHORITY**

| <b>Revenue Source</b>                                 | <b>State Estimate FY09</b> |
|---|----------------------------|
| \$10 Automobile Inspection Fee                        | \$12.3 million             |
| 5% Tax on Automobile Repairs                          | \$18.9 million             |
| Grantors Tax of 40% per \$100 of Value                | \$49.1 million             |
| Motor Vehicle Rental Tax of 2%                        | \$3.5 million              |
| One-Time Vehicle Registration Fee (Titling Tax) of 1% | \$41.2 million             |
| Annual Vehicle Registration Fee of \$10               | \$13.3 million             |
| 2% Retail Tax on Motor Fuel Sales                     | \$30.2 million             |
| <b>Total Revenue</b>                                  | <b>\$168.5 million</b>     |

Source: Hampton Roads Planning District Commission

**One can see that even with the new regional transportation authority, Hampton Roads will be significantly deficient in meeting its transportation needs. The new taxes will raise \$168.5 million per year, while the desired large projects alone will require \$8.92 billion in funding. The \$168.5 million stream of revenue will at most support \$2 billion in projects, if the revenue stream is used solely to pay for bonds.**

**At the end of the day, therefore, it is clear that the Commonwealth of Virginia has decided not to fund significant transportation needs inside Hampton Roads.**

Nevertheless, is there anything useful we can say about the share of VDOT funding the region currently receives? Only a bit. VDOT appropriately supports a variety of different programs relating to streets and highways in the nine highway districts within the Commonwealth. The complex formulae it uses to support these programs pay attention to population, land area, road mileage and, of course, need.<sup>1</sup> Figure 3 reports the proposed future financial allocations of VDOT for its “improvement program” (improving existing roads and building new roads) between 2007 and 2012.

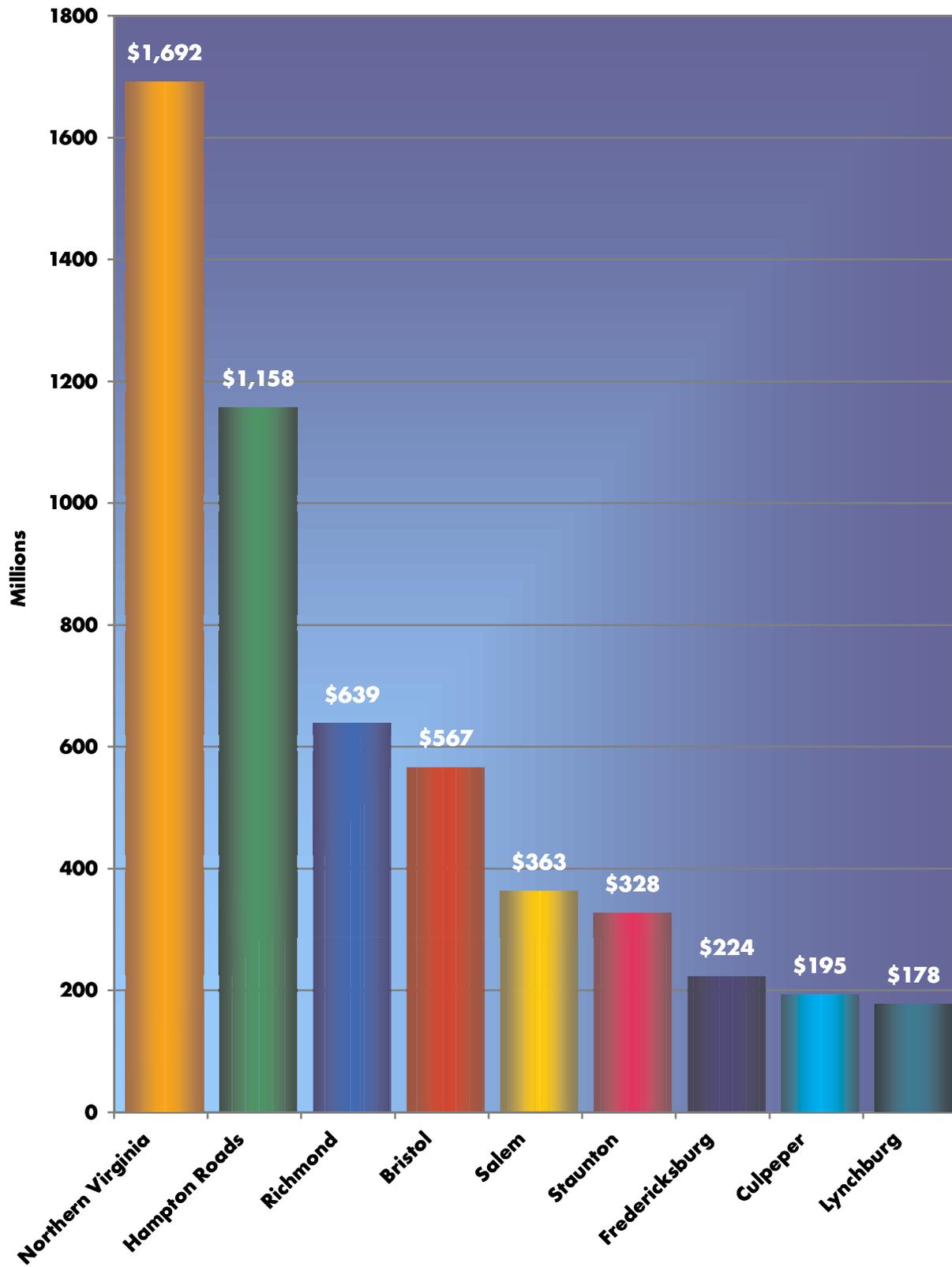
The improvement program funds allocated to Hampton Roads account for 22 percent of the total, while Northern Virginia receives 31 percent. Hampton Roads has no immediate reason for complaint here, as its allocation exceeds its proportion of the Commonwealth’s population (slightly less than 21 percent). One might argue that need is greater in Hampton Roads and Northern Virginia than elsewhere in the state because of population and economic growth. However, the allocations already reflect that notion to some extent. Further, a realistic appraisal suggests that the greatest relative need is in Northern Virginia and not in Hampton Roads.

**Hence, it does not appear that Hampton Roads has a strong basis for arguing that it is being underfunded relative to other VDOT transportation districts. The problem, bluntly, is that there isn’t nearly enough money to go around. The transportation funding pie simply isn’t very big compared to other states and it is going to become smaller in the future as more and more construction dollars are transferred into maintenance. That is why Hampton Roads ended up in the position of voting to tax itself in order to spur road construction within the region.**

**In contrast to the funding of K-12 public education, or the distribution of car tax reimbursements (where Hampton Roads does not fare well relative to many areas of the Commonwealth), the region has little solid basis for griping about the funding allocations made by VDOT. Once again, the primary problem is the overall lack of funding, not the funding formulae.**

<sup>1</sup> See <http://www.virginiadot.org/about/resources/07supplement.pdf>.

**FIGURE 3**  
**SIX-YEAR IMPROVEMENT PROGRAM ALLOCATIONS BY VDOT DISTRICT**  
**(2007-2012)**



Source: Virginia Department of Transportation

# Conclusions

**Hampton Roads contains many communities that by most measures of income and wealth and/or human and social needs are in great need of financial assistance from the Commonwealth. Even so, in several critical areas within the state budget, the region falls short of receiving the state revenue necessary to meet well-identified needs. K-12 public education funding and car tax reimbursements provide particularly outstanding examples, followed by higher education funding. It's not clear that the region is shortchanged with respect to transportation funding; the problem in that arena is that there simply isn't enough money statewide to deal with identified needs.**

Part and parcel of Hampton Roads' problems is the fact that many of its jurisdictions are "fiscally stressed," according to the Commonwealth's formulae. Communities such as Hampton, Newport News, Norfolk and Portsmouth are severely challenged to meet the financial needs they face. This means that if the Commonwealth's goal is to provide all Virginians high-quality K-12 public education opportunities, then it is failing to do so, or at the very least is doing so unequally. Among 134 city and county jurisdictions in Virginia, these four Hampton Roads cities rank between 10th and 34th in terms of highest financial stress, whereas the four Northern Virginia counties (Arlington, Fairfax, Loudoun and Prince William) rank between 111th and 132nd. The financial implications are immediately obvious. While the state's K-12 public education formula makes a bow in the direction of eliminating this disparity, it certainly does not do so completely.

How and why have these problems arisen? Differing economic growth sources and patterns (Hampton Roads versus Northern Virginia), divergent demographics, varying legislative aims, bad decisions and even chance have played a part. With respect to bad decisions, the adverse financial impact of the car tax reduction on Hampton Roads ranks high in that regard. While no one likes to pay the car tax, the method chosen by the General Assembly to mitigate Virginia's car tax redistributed income from regions such as Hampton Roads to other regions, particularly Northern Virginia. Good politics turned out to be bad economic policy for our region. Finally, after the decade of the 1990s when Hampton Roads enjoyed senior legislative leadership, the current stable of legislators is more junior or out of power politically, and therefore exercises comparatively less influence.

So, is Hampton Roads shortchanged in Richmond? Is the current distribution of state funds unfair? Perhaps. One can make the case that Hampton Roads is being shortchanged where state funds are concerned, but as we have seen, much depends upon what one chooses to measure and what metrics one uses. Suffice it to say that there's plenty of room for our region to fare better.



