THE STATE OF GOVERNMENT

With – count them – nearly 100 governmental units in the cities and counties that comprise Hampton Roads, are our citizens being served efficiently and responsibly?

If you have the vague feeling that a large number of governmental units exists in Hampton Roads, and that some of these governmental units have overlapping responsibilities, then you have not been hallucinating. A minimum of 92 governmental units serve the 16 cities and counties conventionally considered to be a part of Hampton Roads. These include six county governments, 10 city governments, 15 dependent school systems, and at least 61 more governmental units or districts that deal with matters such as sanitation or jails.

An Overview of Hampton Roads Governmental Units

The 16 jurisdictions that comprise the Hampton Roads Planning District Commission (HRPDC) are the major local governments of Hampton Roads. HRPDC is a regional authority whose existence was established by the Virginia Area Development Act (or Regional Cooperation Act) of 1969 in order to "encourage and facilitate local government cooperation and state-local cooperation in addressing on a regional basis problems of greater than local significance." HRPDC itself was formed in 1990 with the merger of the Southeastern Virginia and Peninsula Planning District commissions. Selected information about each of the 16 major local governmental units is included in Table 1.

Each of the cities in Hampton Roads has a council-manager form of government and each county has a council-administrator (or board-administrator) plan. These structures separate policy-making from administration. Thus, the city council or board of supervisors establishes policies and appoints (or hires) a manager or administrator to handle day-to-day execution of those policies. Both forms of government are commonly used throughout the country, though the council-manager structure is typically employed in cities of 10,000 to 25,000 people, particularly in suburban areas.

All of the cities in Hampton Roads have "weak" mayors, even though all but three provide for direct election of the mayor by the citizens. In Norfolk, Suffolk and Williamsburg, the mayor is chosen by the council from among its members. (Although in November 2000, Norfolk will hold an advisory referendum on whether to directly elect future mayors.) The "weak" mayor arrangement means that the mayors act as executive figureheads, primarily for ceremonial purposes. They do not have veto or unilateral appointment powers.

Counties in Virginia often have incorporated towns within their borders. Southampton County has six such towns while Surry has three and Isle of Wight two. Gloucester, James City and York counties have no incorporated cities.

There are also a number of limited governments ("special districts" or "authorities") in Hampton Roads. These special-purpose governmental units are authorized by Virginia statute and deliver specific services to localities and regions of the state. Some are established directly by state government and others are sanctioned by the state but created by localities. In addition, some primarily serve a single city or county (for example, redevelopment and housing or industrial development authorities) while others typically provide regional services (for example, jail or airport authorities). Revenue is generated by fees charged for services, and there are various levels of support from state and, in rare circumstances, local funds. **Only sanitary districts have taxing authority but most other limited governments may issue bonds payable from fees charged for services.**

TABLE 1

Major Local Governments in Hampton Roads (Excluding Special Districts and School Districts)

City/County	Number on Council/Board of Supervisors	Number of Local Government Employees[a]	FY 1999/2000 Budget[b] (Millions)
Chesapeake	9 (elected mayor)	9,302	$497.8
Franklin	7 (elected mayor)	671	$38.1
Hampton	7 (elected mayor)	5,470	$269.8
Newport News	7 (elected mayor)	10,316	$276.0
Norfolk	7 (nonelected mayor)	15,946	$565.5
Poquoson	9 (elected mayor)	488	$18.6
Portsmouth	7 (elected mayor)	5,651	$369.0
Suffolk	7 (nonelected mayor)	2,731	$68.0
Virginia Beach	11 (elected mayor)	18,341	$1,069.7
Williamsburg	5 (nonelected mayor)	1,765	$31.8
Gloucester County	7	1,534	$68.9
Isle of Wight County	5	986	$53.0
James City County	5	728	$84.5
Southampton County	7	737	$34.7
Surry County	5	416	$20.4
York County	5	2,327	$69.2
Totals	**110**	**77,409**	**$3,535**

Notes: [a]Number of local government employees as of March 1997. Source: U.S. Department of Commerce. Bureau of the Census. 1997 Census of Governments: Volume 3, Public Employment. "Compendium of Public Employment," GC97(3)-2, March 2000.

Generally speaking, there are seven categories of limited governments available to localities. They are: community development (an illustration is the Norfolk Redevelopment and Housing Authority), transportation (Tidewater Transportation District Commission), economic development (Virginia Beach Industrial Authority), parks/recreational (Hampton Roads Sports Facility Authority), medical/health (Chesapeake Hospital Authority), environmental (Hampton Roads Sanitation District) and criminal justice (Western Tidewater Regional Jail). Miscellaneous special district governments in Hampton Roads include the Chesapeake Bay Bridge and Tunnel Commission and the Medical College of Hampton Roads (which has governing authority for Eastern Virginia Medical School).

Fiscal Condition of Governments in Hampton Roads

Revenues for localities can take the form of taxes (including property and consumption taxes, but not income tax), intergovernmental transfers (particularly from the state, but also from the federal government), and charges for services (such as records, courts and libraries) and use of local government facilities.

Operating expenditures of local governments include primary and secondary education, road maintenance, the provision of public goods (for example, policing) and administrative costs. The major capital expenditures are school construction and maintenance and road construction.

A September 1999 report by Barents Group, LLC for Virginia Forward (an interest group made up of business leaders from around the Commonwealth) projected combined local budget deficits of more than $950 million by 2005 if behavior did not change. Of course, as the Barents Group report noted, the fiscal health of localities and regions differs substantially throughout Virginia. Thus, while the aggregate projection foresees deficits, shortfalls are not imminent for all localities. In the end, the fiscal strength of a local government is based upon the relationship between the ability to raise revenue and expense needs.

Unfortunately, the "revenue effort" of Hampton Roads indicates severe fiscal stress. Revenue effort is related to "revenue capacity," which is a per capita calculation of the revenue which each locality would raise if statewide average tax rates or license fees were added to the locality's resource base. A jurisdiction's revenue effort, then, is calculated by dividing its total revenue by the absolute value of its revenue capacity. In 1996-97, the average city in Virginia had a revenue effort of 122.76 percent, and the average county's effort was 70.46 percent (with all jurisdictions averaging 85.95 percent). The Hampton Roads region had the highest average revenue effort in the state at 112.57 percent. That was due, in part, to Norfolk's value of 157.46 percent, also the highest in the state. Table 2 illustrates how each city rated.

TABLE 2
Revenue Effort by Locality, 1996-97

City/County	Revenue Effort	Statewide Rank	Relative Stress Score
Chesapeake	1.1769	24	60.46
Franklin	1.1590	27	60.15
Hampton	1.3597	11	63.60
Newport News	1.3965	8	64.23
Norfolk	1.5746	1	67.29
Poquoson	0.8437	58	54.73
Portsmouth	1.4443	5	65.05
Suffolk	0.9845	44	57.15
Virginia Beach	1.1173	33	59.43
Williamsburg	1.2093	20	61.01
Gloucester County	0.7504	71	53.12
Isle of Wight County	0.9350	46	56.30
James City County	0.9314	47	56.24
Southampton County	0.7195	74	52.59
Surry County	0.6919	83	52.12
York County	0.9087	52	55.85

Source: Commission on Local Government, Report on the Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Counties and Cities: 1996-97.

When "fiscal stress" (see Table 3) is calculated (based upon revenue capacity, revenue effort and the median adjusted gross income of a jurisdiction), Norfolk has the highest fiscal stress level in the state at 186.73 (compared to the average of 173.25 for cities and 165.00 for all jurisdictions). Hampton Roads' fiscal stress value is 170.07, second only to Southwestern Virginia's 170.31.

TABLE 3
Fiscal Stress Index Scores by Locality, 1996-97

City/County	Fiscal Stress Index Score	Statewide Rank	Stress Classification
Chesapeake	167.07	51	Above Average Stress
Franklin	176.22	20	High Stress
Hampton	177.56	15	High Stress
Newport News	179.41	11	High Stress
Norfolk	186.73	1	High Stress
Poquoson	154.47	120	Low Stress
Portsmouth	183.84	4	High Stress
Suffolk	169.51	41	Above Average Stress
Virginia Beach	169.10	43	Above Average Stress
Williamsburg	172.24	33.5	Above Average Stress
Gloucester County	162.61	86	Below Average Stress
Isle of Wight County	163.86	76	Below Average Stress
James City County	155.99	113	Below Average Stress
Southampton County	166.40	59	Above Average Stress
Surry County	142.52	133	Low Stress
York County	158.54	105.5	Below Average Stress

Source: Commission on Local Government, Report on the Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia's Counties and Cities: 1996-97.

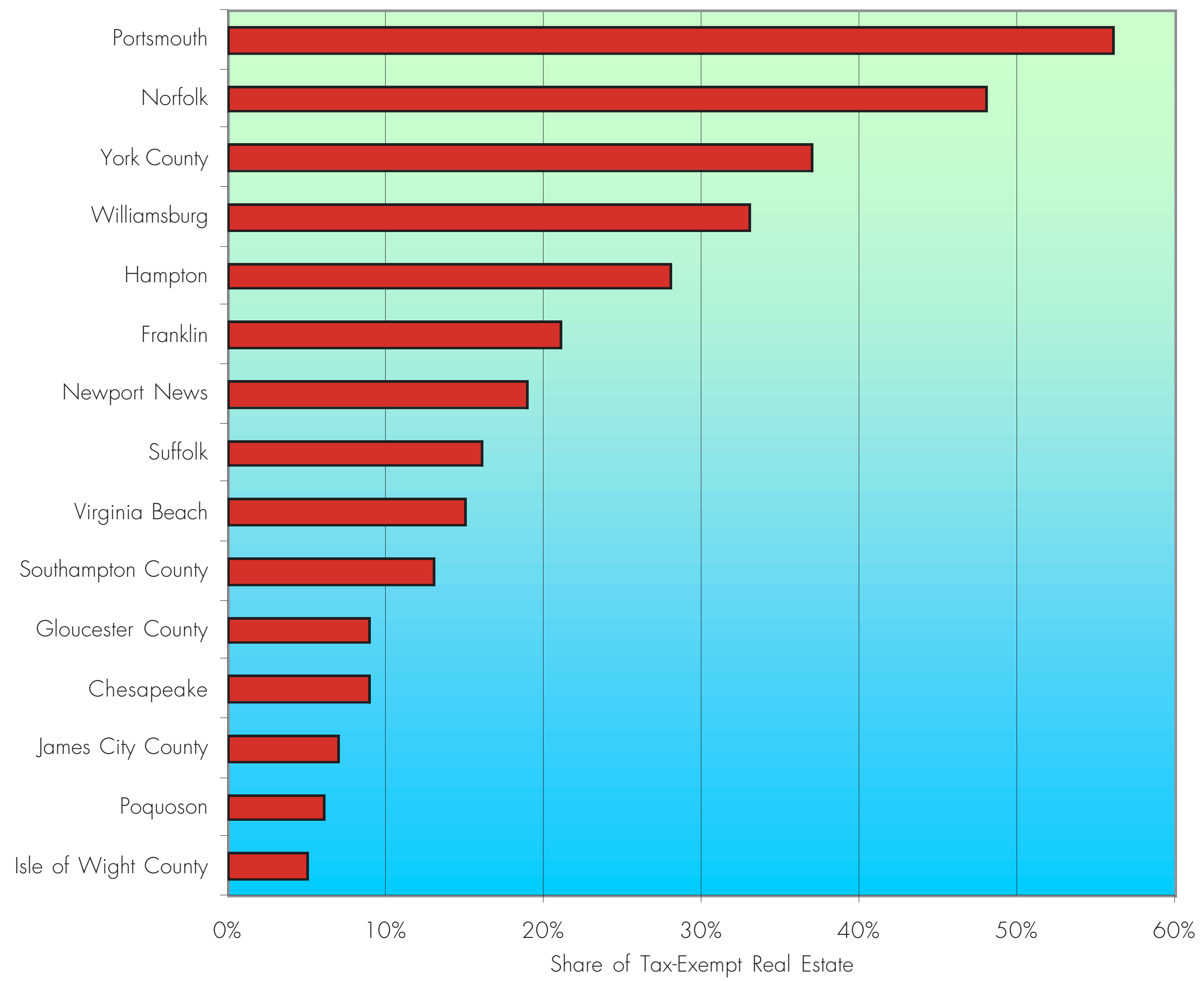
Major Issues Confronting the Governments of Hampton Roads

Virginia's tax structure limits the ability of local governments to raise revenue. Because it is a "Dillon Rule" state, cities and counties are dependent on the state to grant the authority to collect taxes and fees (though localities may set property tax rates). At present, localities cannot tax incomes and, as a result, the bulk of their local revenues comes from property taxes. In fact, in FY 1998, 41 percent of all local revenue in Virginia was raised in the form of real estate property tax; in Hampton Roads, it accounted for 22.3 percent of total local revenue.

Part of the predicament Hampton Roads finds itself in stems from the unusually high level of tax-exempt property in the area. Tax-exempt property is that property owned by the federal (such as military bases) or state governments and nonprofit groups like churches. **Nearly $20 billion worth of property in Hampton Roads is nontaxable, of which $6 billion is in Norfolk and constitutes 47 percent of the value of real estate in that city.** In neighboring Portsmouth, roughly 55 percent of the real estate cannot be taxed. Graph 1 shows how the localities compare.

Despite the lack of tax revenue, local services must be provided to these properties. This places an extraordinary burden on local governments.

GRAPH 1
Percentage of Tax-Exempt Real Estate in Hampton Roads, Fiscal Year 1998



Source: Virginia Department of Taxation

In addition, business equipment is considered taxable property. However, there has been a shift in the types of businesses operating in Hampton Roads. Whereas manufacturing and agriculture had been leading businesses in years past, consulting and service-based businesses, as well as retail outfits, have begun to dominate the area. Of course, the former utilize the type of equipment that generates considerable property tax revenue while the latter do not. This transformation has contributed to the region's fiscal difficulties.

Furthermore, the value of various tax bases has also shifted in recent years. Real estate values have not kept pace with inflation in recent years, while incomes and retail sales have increased dramatically. Given that 100 percent of property taxes goes to localities while 100 percent of income taxes and 74 percent of sales taxes go to the state, the trends in tax-base values have a significant effect on cities and counties.

Urban areas are particularly affected by this situation. **As suburban (and, to some extent, rural) areas have continued to experience rapid growth, urban areas have been hit with declining levels of wealth and, in some cases, declining property values. They have also been left to provide expensive social services for many of those who remain in their jurisdictions.** To be sure, suburbs also face significant demands for services, but the ability to tax comparatively high real estate values compensates for the increasing cost of services. Urban areas, on the other hand, face an incentive to increase property taxes to address their budget demands; of course, increasing tax rates may drive more businesses and residents out of the cities, making it even more difficult to raise revenues.

Finally, direct state aid has been declining in recent years. By 1997, less than 28 percent of local government revenue in Virginia came from the state. That number is beginning to rise, however, as a result of the state's replacement payments for the loss of personal property tax (the "car tax") revenue. Nevertheless, in 1996 Virginia ranked 36th in the percentage of total local government revenue from state aid, according to the Hampton Roads Planning District Commission.

Clearly, there exists an imbalance in the tax burdens carried by the state government and local governments in Virginia. As of 1996, Virginia raised $56 of state taxes per $1,000 of personal income. That compares to a national average of $69 and an average of $71 among a set of mid-Atlantic and southeastern states. Yet, Virginia local governments collect more taxes per $1,000 than those comparison states. Virginia local governments collect an average of $42 per $1,000, while the average in comparison states is $35. **In combined state and local taxes, Virginia collects $98 per $1,000 compared to the U.S. average of $113 and a comparison state average of $106.**

TABLE 4

Distribution of Revenue by Source (State and Local Government Combined)

	Property Tax	General Sales Tax	Individual Income Tax	Corporate Income Tax	Other Taxes
Virginia	32%	16%	28%	2%	22%
U.S. Average	30%	25%	21%	4%	19%
Comparison State Avg.	25%	27%	22%	4%	23%

Source: Barents Group LLC, "Virginia's State and Local Tax Structure: Recent Performance and Restructuring Options," Washington, D.C., December 1999: 11.

Another way of assessing the tax structure in Virginia is to examine the sources of revenue for government in Virginia. Table 4 shows the percentage of total revenue raised by various taxes in Virginia for 1996 and shows averages for the United States and comparison states. Clearly, Virginia relies more heavily on property taxes – a local revenue source – than do most other states, particularly among the comparison group states.

On the other hand, Virginia also gets much of its revenue from the individual income tax, which is assessed at the state level. But the Commonwealth is less reliant on the sales tax and gets a somewhat smaller portion of its revenue from the corporate income tax than other states. In terms of the state and local effective tax rate, 9.8 percent of the personal income of Virginians goes to nonfederal taxes, while the national average is 11.3 percent. Indeed, the Hampton Roads Planning District Commission reported that just three states have lower effective tax rates than Virginia (including only Tennessee among the comparison states).

Potential Solutions

The state has not completely ignored the situation of the localities, particularly with regard to the cities. In 1998, the Commission on the Condition and Future of Virginia's Cities (also known as the Moss Commission) was established to study the problems facing cities and recommend solutions. Among the recommendations proffered by the Moss Commission is one suggesting that Virginia develop a comprehensive urban policy to deal with the unique circumstances of its urban areas.

The following year, the General Assembly created the Commission to Study Virginia's State and Local Tax Structure. Indeed, the most bold reform options available pertain to fiscal policy in Virginia. All of them have as a goal an increase in revenue for localities. For example, the most sweeping change would be to authorize local governments to raise revenue with a limited income tax on either individual or corporate incomes. Short of that, the state could increase the amount of aid it gives directly to localities. Given state budget surpluses, this could be done without, or with only minimal, additional revenue. **Of course, the combination of increased aid and the state's commitment to replace the localities' lost "car tax" revenue would undoubtedly eat away at most, if not all, of the surplus. Indeed, the estimated eventual cost of the car tax replacement is $1 billion a year, equaling the recent budget surplus.**

Thus, preserving budget surpluses while increasing aid to localities would require the state to increase significantly the amount of revenue it receives. Though increasing the individual income tax rate would be one option, it seems unlikely given the fact that such taxes are already relied on quite heavily. Thus, the state might turn to an increase in either corporate income taxes or the sales tax. One recommendation the Moss Commission forwarded to the Tax Structure Study Commission for consideration is that regional sales taxes be authorized where interjurisdictional services are provided. Because the sales tax is regressive, however, it may not be a politically acceptable revenue solution for many Virginians. It seems quite unlikely that any increase in the sales tax would be implemented on the heels of the sales tax reduction for groceries enacted in the most recent General Assembly session.

There does not seem to be much political will to make any changes in Virginia's tax structure. This is due, in part, to the state's current political culture, which has been described by the interest group Virginia 21 as "free-lunch populist politics." In other words, politicians of both parties have found it advantageous to offer expanded services (for education, transportation, etc.) at virtually no cost to the taxpayers. But the political environment is also largely shaped by the constitutional limit of one gubernatorial term. This means that a different governor's agenda is imposed every four years. It also means that campaign promises are offered at regular intervals by those seeking the open gubernatorial seat. **Because conventional wisdom holds that such promises must conform to the "no new taxes" environment, few plans for major overhaul of the tax structure will be developed and hard choices will not be confronted even though the overall level of taxation might not change.**

Localities may be left to find solutions on their own. One option is for localities to share a variety of services. The state has indicated its support for regional cooperation with the passage of the Regional Competitiveness Act of 1996. Of course, there are significant road blocks here as well. Among them is that there is more incentive for some localities to share services than for others to do so. For instance, localities with greater need for particular services, such as policing or environmental protection, might seek partners in those adjacent localities with less need but available resources; the latter cities and counties, however, might find little benefit in paying for services they hardly use.

Business relocation also presents complicated incentives and disincentives. Localities often offer businesses tax breaks to locate within their jurisdiction. But the benefits of welcoming new business cannot usually be confined to that jurisdiction. For example, residents of surrounding localities might take many of the new jobs and, in the process, will take the incomes back to their home cities/counties to spend on housing and retail. Yet those cities/counties are unlikely to compensate the neighboring localities which, while attracting new businesses, have nonetheless experienced a loss of revenue.

Finally, it is not always clear which services can or should be shared among localities. When there are not legal prohibitions, there may be reservations among the public. **If elected officials are unaware of how the public would react to sharing services with neighboring localities, they are unlikely to initiate any such plans.**

Reapportionment and Redistricting After the 2000 Census

Government in Hampton Roads will be profoundly affected by the reapportionment and legislative redistricting that occurs after the 2000 census. An immediate concern is whether the state redistricting committees will use population figures that result from the actual census enumeration or rely upon adjusted figures based on statistical sampling. The actual enumeration tends to undercount hard-to-reach populations such as the poor, many of whom are African American. A study by the National Committee for an Effective Congress examined the 1990 undercount in Virginia state legislative districts. The results indicate that six out of the top 10 most undercounted House of Delegates districts are in Hampton Roads, including the two most undercounted districts (89 in Norfolk and Chesapeake, and 95 in Hampton and Newport News). In State Senate districts, five of the top 10 were in Hampton Roads, including once again the top two most undercounted districts (five in Norfolk and Chesapeake, and two in Hampton and Newport News).

Those hoping to use statistical sampling data were dealt a setback, however, in the most recent Virginia General Assembly session. A new law (and perhaps the U.S. Constitution) prohibits the use of population data based on sampling for the purpose of drawing district boundaries. A number of Democratic legislators have filed a lawsuit to block that law (based on protections afforded by the Voting Rights Act), but the outcome is far from certain at this point. Nevertheless, redistricting promises once again to be contentious as a number of communities and their cities stand to lose representation after reapportionment.

From a regional perspective, however, Hampton Roads is unlikely to lose seats. According to estimates by the Census Bureau, cities and counties in Hampton Roads gained nearly 150,000 people and lost just over 51,000 from 1990-98. Growth was particularly strong in Chesapeake (+47,582), Virginia Beach (+39,291), York County (+16,355) and Suffolk (+10,560). Only Norfolk (-46,035), Portsmouth (-4,974) and Southampton County (-100) had decreases in population over the last decade. Thus, Norfolk could lose two seats in the House of Delegates and perhaps one seat in the Senate, while Portsmouth could lose seats as well. These seats would move to cities such as Chesapeake and Virginia Beach.

Potential shifts in seats among Hampton Roads cities will have at least three visible effects. First, shifts likely will cause political turmoil and result in legal action. Such fireworks might be reduced if the Commonwealth relied upon redistricting/reapportionment commissions, as do a number of states. Members of such commissions are appointed and may or may not be elected officials. Their use can (but does not always) reduce overt partisan politics in the redistricting process.

A second effect of redistricting will be a shift in political power from the City of Norfolk to cities such as Chesapeake and Virginia Beach, which together will dominate South Hampton Roads legislative delegations during the next decade. Changes on the Peninsula will be less dramatic, though population has been moving north over the past decade.

A third effect of redistricting relates to the political power and representation of the region's African-American population. Republicans, who will control this redistricting process, could choose to place several African-American Democratic legislators within the same districts on the Peninsula and in South Hampton Roads. Barring adverse court action, this would force these individuals to run against each other and might diminish Democratic representation. Alternatively, Republicans could opt to maximize the number of African-American legislative districts, and thereby improve the chances of Republican domination of the remaining districts. This strategy (which has been described as "more African Americans, but fewer Democrats") is one that Republicans have pursued with some success in other states.

For more than a century, Democrats have drawn the boundaries of legislative districts, sometimes over Republican protests. It seems likely that the direction of protests will be reversed this time.