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Is It Time for Perestroika¹ in Virginia Government?

Frank Raflo

A significant contribution to disillusionment with government may...be rising confusion over who is supposed to be in charge of what.

--Alice Rivlin, former director of the Congressional Budget Office, speaking to the National Academy of Public Administration, November 1991.

In the late 1920s and early 1930s, Governor Harry F. Byrd, Sr., then the undisputed political leader of Virginia, led the Virginia General Assembly and the Commonwealth through changes in the state's tax system that created a basic division of responsibilities between local and state government. In 1928, a state constitutional amendment reserved property taxation solely for local government, providing a source of revenue from which education could be funded. At the same time, the state in effect reserved for itself the income tax, the gasoline tax, and most other revenue sources, from which the state would pay for primary highways. In 1933, the Byrd Road Act gave the state responsibility for constructing and maintaining secondary roads, as well.

According to C. Flippo Hicks, general counsel for the Virginia Association of Counties (VACO), these and other actions helped give Governor Byrd a reputation for progressive government. For a long time, the Byrd-inspired division of financing and responsibilities worked very well, while Virginia maintained a record of fiscal responsibility.

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In the 1990s, with Virginia no longer a predominantly rural, southeastern state but a suburban, middle-Atlantic one, state and local governments in Virginia face realities that Governor Byrd could not foresee in the 1920s. Three particular realities are all related to the existence of a larger and more diverse population: 1) the demand by citizens for more and better public services; 2) fiscal stress on government caused by the demand for public services, as well as by federal or state mandates; and 3) the demand by citizens for greater efficiency and accountability in government, as the price of voter approval for new or higher taxes to pay for essential services.

The consequence of these new realities is that the economic survival of Virginia's local governments--whether urban or rural, city or county--now requires a redefinition of the levels of functional government. In the same sense as the quote above by Alice Rivlin, Virginia needs a redefinition of who is, and who *should be*, in charge of what. But, as discussions over more than a decade have shown, it has been easier to form the questions than to forge a solution.

A Decade of Debate

In 1980, former Governor Gerald Baliles--at the time a delegate to the Virginia General Assembly--raised several questions about local government responsibilities. Noting that many counties now provide most of the "urban" services provided by cities, Baliles asked, "Cities and counties--what are they now, and what do we want them to be?"

¹The Russian word *perestroika* has been used widely since the mid-1980s to refer to social and political restructuring in the former Soviet Union.

Ten years later, speaking to officials and citizens gathered in Leesburg for a Virginia Assembly on local government, Baliles moved the discussion beyond definitions to responsibilities:

...the time is right for the responsibilities and requirements of state and local governments to be reexamined in light of defined priorities and the current economy, to determine how each is best managed and paid for.

In response, one of the Assembly's final recommendations called for a task force to define the relationship between state and local governments, define service needs, and assign responsibility for major governmental functions.

Since 1990, the General Assembly has attempted to find answers to the questions about the proper role of the different levels of government. In 1990 and 1991, the legislature passed resolutions directing the Joint Legislative Audit and Review Commission (JLARC) to examine state mandates on local governments as well as state and local public service responsibilities (education, social services, jails and corrections, etc.). The final report of the study is due in November 1992, but a summary of the findings as of May 1992 included the following key points:

- Local concerns expressed to JLARC include a lack of flexibility in implementing state mandates, inadequate funding for mandates, unequal taxing authority for cities and counties, and lack of adequate taxing authority for all localities;

- During the last decade, federal financial aid has decreased dramatically at the same time that federal mandates have increased.

There have been other studies, including the Commission on Local Government Structure and Relationships (1990), the Commission on State and Local Infrastructure Needs and Revenue Resources (1992), and the current Commission on the Dillon Rule and Local Government, scheduled to make its report to the governor in November 1992. (The Dillon Rule, a judicial precedent adhered to by Virginia's courts, holds that localities have only the powers that are granted to them by the state.)

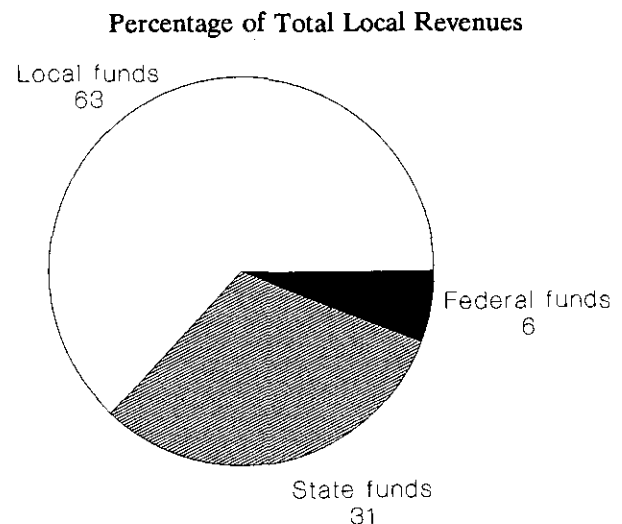
What do the Dillon Rule, JLARC, and all the rest have to do everyday problems? A great deal, when the problem is local tax dollars and bills. Primarily, the concern is whether local governments can continue to meet the needs of their citizens with the current

mix of local authorities, responsibilities, and sources of revenue, especially the property tax.

Business as Usual: Placing the Burden on the Property Tax

Locally generated funds are the primary source of revenue for Virginia's localities, providing over 60 percent of the total revenues available to the state's local governments (Figure 1). In turn, general property taxes make up the largest percentage of locally generated revenues for most jurisdictions.

Figure 1. Sources of total revenue available to localities, Fiscal Year 1990-91.



Source: *Comparative Report of Local Government Revenues and Expenditures, 1992.*

As a member of the Dillon Rule study commission, I listened to government and business representatives throughout the state explain what they felt should be done about the Dillon Rule. During the hearings, I posed the following question, one that is of special interest to rural counties:

Spending as you do between 65 percent and 80 percent of total revenue for the support of schools, and depending on the real property tax as your chief source of revenue, do you feel that in the next decade or sooner you will be able to continue to rely on the property tax to fund your educational needs?

The response in each case was a resounding "no."

(*Ed. note:* REAP research on school finance suggests that the question of who actually benefits from public education has implications for the use of property taxes to fund education. For more on this topic, see *Paying for Schooling in Virginia: A Citizen's Guide to School Finance*, by George McDowell et al.; for a copy, contact REAP at the address listed on page 4.)

The issues of expanding responsibilities and costs of local government go beyond education, however. Of equal importance and difficulty are the handling of trash and the provision of social services. Along with education, these activities affect counties and cities alike. Although many counties have financial difficulties, the fiscal-stress problems of Virginia's cities are even greater. Moreover, the problems and the need to provide services go beyond city or county lines. So it is necessary in any discussion of counties, even rural counties, to include cities in the evaluation.

On the matter of trash disposal, there was a time in rural Virginia when the trash was taken to "the dump." For years, community leaders heard complaints "do something about that dump." Eventually, landfills were offered as the solution: Everything would be covered up and the problem of waste would forever be buried in the ground.

"Would that it were so," one hears now from many localities, as the cost of trash containment is spiraling almost out of control for many localities. Many county supervisors who appeared at the Dillon Rule hearings felt that trash-handling costs have only begun to mount, saying "We may be able to contain school costs, but this trash thing has gone beyond our capacity." In Lee County, for example, the cost of closing the existing landfill and building a new one to meet regulations will equal all real estate taxes for one year, according to Mr. Hicks of VACO.

The other major concern is providing social services. Localities face growing problems with increased costs at the same time that economic difficulties are eroding the localities' tax base. While provision of social services is a problem throughout Virginia, this need--of the three being discussed here--is especially severe for Virginia's cities.

So, in defining education, trash, and social services as the three main responsibilities of local government--the responsibilities that are supported primarily by local property taxes--what solutions can be offered?

Is the Solution Just More Money?

In the March 1992 issue of the *University of Virginia Newsletter*, John Knapp and Tyler Fox argued that the dominance of the property tax as a source of revenue for localities is unlikely to change because

there are few other options. In fact, the authors state, "[M]ost localities [in Virginia] have already implemented all the nonproperty taxes they are permitted to use, and most are using the maximum allowed rates." I would add that the tax options not now available to Virginia counties, but which are sought with Dillon Rule changes, would provide at best limited relief to the fiscal problems.

Virginia, therefore, must do more than simply looking for new sources of money. Finding new money and new taxing authority may help eventually, and but we must first determine that the purpose for which we are seeking additional funds is the right one.

Equally important, however, is to ensure that the purposes of government are being achieved cost-effectively. Localities must be more efficient in managing the funds available to meet their responsibilities. The question is how to match available money with the best method for using it. One example, related specifically to managing growth, is an adequate public service facilities ordinance (PSFO). The key to such an ordinance is a commitment on the part of the local board of supervisors or city council to an annual capital improvements budget. An adequate PSFO offers the opportunity for a locality to tie its growth approvals to a level of infrastructure expenditure that can be paid for. It is not a question of saying "no," but rather of saying "yes" to the extent that can be financed.

Areas without growth-management problems nevertheless have money-management problems. The lesson of the adequate PSFO for those areas is that expenditures must be cost-effective. The principle of an adequate PSFO is that a locality does what is affordable: what the locality *can* afford *to* do and to pay for, and what it *cannot* afford *not* to do. In the final analysis, affordability refers both to costs in money and costs in quality of life.

Conclusion

Local government has become more complicated. Whatever functions local governments see assigned to their area, elected officials will have to exercise greater oversight. This does not necessarily mean full-time officials, but it should mean more in-depth questioning by those who are, in final analysis, responsible for the function of government.

In all of the stress of local government, one thing seems clear: The dominance of the real property tax as the basis for funding local government cannot continue in this state if the present level of function assigned to local governments is not changed. The fiscal reality is that real property cannot support much more taxation; the political reality is that citizens in

Virginia and many other states have decided that property tax increases may have reached their limit, unless increases are clearly tied to a function that the citizens and voters want and for which they will pay.

The studies continue. It is doubtful that many new sources of revenue at any level will emerge, or that voters will choose to pay more. People will continue to ask the questions of who will do what, how much will it cost, and where will we get the money. The time is fast approaching, however, when there will have to be answers that offer more than the promise of another commission and another study.

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NOTICES

*"Reinvent Your Local Government" is the theme for this year's annual conference of the Virginia Municipal League (VML), to be held October 18-20 in Hampton. The conference likely will address many of the same issues discussed in this issue of *Horizons*. A featured speaker will be David Osborne, co-author of the book *Reinventing Government*, which argues that governments must move from a traditional bureaucratic model to a more entrepreneurial one. For more information on the conference, contact VML at P. O. Box 12164, Richmond, VA 23241; phone (804) 649-8471.

*A new REAP Report on financing education in Virginia is now available. *Paying for Schooling in Virginia: An Analysis of the Distributional Implications of State Aid in Fiscal Year 1992-1993*, by Carlos Elias and George McDowell, analyzes the effect of Virginia's current biennial budget on the disparity of total per pupil expenditures across the Commonwealth. This free publication may be ordered from Extension Distribution, Landsdowne Street, Blacksburg, VA 24061-0512; phone (703) 231-6192.

For more information, please contact REAP at Hutcheson Hall, Rm. 216, Virginia Tech, Blacksburg, VA 24061-0401; telephone (703) 231-9443.

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