Economic downturn reveals revenue weaknesses; solutions available

The recent economic downturn has revealed serious weaknesses in Virginia’s revenue system but the problems are solvable if certain steps are taken, according to Sara C. Okos, policy director of the Commonwealth Institute for Fiscal Analysis, a Richmond-based think tank.

Although a long recession and unemployment are exacerbating the commonwealth’s financial problems, by adopting a number of key reforms in individual and corporate income taxes, updating sales taxes to reflect an increasingly service-driven economy, and better managing tax credits and other preferential treatment, Virginia can address not only the massive revenue shortfall in the 2012-14 biennium, but can position the state for a better future, Okos wrote in the Virginia News Letter.

Many of the tools used to balance the state budget in recent years are no longer available, she noted. Funding from the federal American Recovery and Reinvestment Act has dried up and Virginia’s Revenue Stabilization Fund is mostly depleted. In addition, the state is reaching its legal borrowing limits and some of which will be addressed as part of the governor’s plan to relieve localities of mandates.

Governor plans to relieve localities of mandates

In mid-January, Gov. Bob McDonnell announced recommendations for local mandate relief, some of which will go before the General Assembly and some of which will be addressed through administrative actions and executive orders.

Economic outlook remains shaky

Economists typically look at the housing industry as an indicator of the nation’s progress during a recession. According to the September 2011 edition of the Virginia Municipal League’s (VML) Update newsletter, the housing industry accounts for at least 15 percent of economic growth in the U.S. Despite depressed prices, sales of new homes in the U.S. declined in August to a six-month low. The Commerce Department reported new home sales in August fell to 295,000, a decrease of 2.3 percent.

VML reports that for Virginia, one in every 780 households has received a foreclosure notice. The state continued to show other signs of the struggling economy: “The number of Virginians living in poverty in 2010 grew by 7.5 percent over 2009. Some 11 percent of the state’s population is living with incomes below the federal poverty line, about $22,000 a year for a family of four. And, statewide, the number of uninsured Virginians grew from 909,611 in 2009 to 1.02 million in 2010, an increase of about 10 percent.”

Economists also projected bleak growth rates in the job sector. The economy is expected to grow no more than 2 percent for the year, far below the 5 percent rate most economists suggest is needed to cause a decline in the unemployment rate. For further reading, see the VML newsletter online at www.vml.org/UP/USep0311.html.

Localities expected to struggle with funding

Increases in retirement rates and employee benefits, coupled with stagnant outside funding, will make for yet another challenging budget year in FY13 for local governments and school divisions. At the same time, it appears that declining property values will make it difficult for local revenues to make up for lost federal stimulus dollars and insufficient state funding, according to the Virginia Municipal League (VML).

Real property taxes comprise more than 50 percent of local-generated revenue, and unlike the state, which projects a general-fund revenue increase of 3.3 percent next fiscal year, most of Virginia’s cities and counties believe that FY13 will be as difficult as this year to fulfill their fiscal needs. In fact, more than one-third of the cities and counties responding to the annual VML-VACo (Virginia Association of Counties) Fiscal Survey believe that next fiscal year will be an even tougher challenge.

For example, Roanoke City Council kicked off its annual budget-writing process with the news that properties in the city will drop an average of 1.19 percent in value. This could mean a $3 million to $4 million loss in tax revenue. Roanoke County has seen similar declines, with property falling an average of 0.93 percent across the county, the first overall decrease in property values in at least 27 years.

For more information, see www.VML.org/UP/UPJan1312.html.

A push for mandates reform

In September, the Virginia Municipal League (VML) and Virginia Association of Counties (VACo) met with members of Gov. Bob McDonnell’s administration to discuss the effects of state mandates on local governments.

According to the VML, topics discussed included “local government concerns over budget reductions in state financial aid to localities, changes to the Line of Duty Act program, unfunded state requirements in public education, administrative problems in the Comprehensive Services Act, and other issues.”

As a result of the meeting, Bolling requested that VML and VACo submit a “top 10 list” of issues. Several related VML documents have been made available at www.vml.org.

Virginia emerges in the nation’s local-food movement

Virginia’s local-food system has experienced significant advances in such areas as new-farmer training, urban farms and community gardens, processing and distribution infrastructures, and increased access to affordable fresh foods. Meanwhile, Virginians have expressed a growing interest in buying and selling locally produced food. This combination calls for re-evaluating current local and state policies in order to enhance Virginia’s local-food movement.

Virginia Cooperative Extension estimates that if each household in Virginia were to allocate only $10 of its weekly food spending to local foods and drinks, local and state economies could generate an annual economic benefit of $1.65 billion.

According an article by Tanya Denckla Cobb in The Virginia News Letter from the University of Virginia. In addition to farming roles, the horse industry includes such activities as breeding, training and boarding, and recreation.

A recent study, prepared under contract for the Virginia Horse Industry Board, revealed that the horse industry accounted for a total direct-sale impact of $642.9 million in 2010 (horse operations, horse shows and competitions, and pari-mutuel industry). Furthermore, the horse industry contributed to 16,091 total jobs, with labor income of $502.4 million. Factoring in value-added impacts, sales for final demand) were $1.2 billion. To read more about the study’s findings, visit www.coopercenter.org/publications/VANsltr0711.

Virginia’s horse industry impacts economy

Over the past several decades, Virginia’s horse industry has increasingly boosted the state economy, according to an article in The Virginia News Letter from the University of Virginia. In addition to farming roles, the horse industry includes such activities as breeding, training and boarding, and recreation.

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The recommendations were taken from the Governor’s Task Force for Local Government Mandate Review, which has been meeting since early fall 2011 to compile a list of burdensome mandates on local governments. Some of the items to be addressed this year include removing the ability of a circuit court to mandate a locality to construct a new courthouse; eliminating the requirement that RFPs be published in newspapers; increasing the amount of time that local governments have to respond to Freedom of Information Act requests; eliminating a mandate that requires Virginia Department of Transportation approval of the location of locally-placed red-light cameras; removing a prohibition forbidding localities from creating their own procurement guidelines; and removing a mandate requiring the establishment of a variety of local education advisory committees.

The full report of Governor’s Task Force for Local Government Mandate Review can be seen at http://1.usa.gov/xgfbnf.

Governor calls for more K-12 education funding

Gov. Bob McDonnell sent the General Assembly a number of executive budget amendments to his introduced biennial budget, the bulk directed at increasing state funding to K-12 education.

“We are continuing to invest in our young people, and that is a crucial part of our efforts to position the commonwealth for economic growth in the years ahead,” McDonnell said in a press release announcing the amendments.

Combined with the governor’s $438 million increase in state funding for public education in his introduced budget, the amendments bring additional state funding for Virginia’s public schools to $497.2 million. Total state spending on K-12 in the governor’s proposed budget was $5.7 billion for FY13 and $5.8 billion for FY14.

According to McDonnell, $47 million of the increase would go to the class-size reduction program for students in kindergarten through the third grade, and $8 million would fund early reading intervention programs.


VSBA fights hunger through schools initiative

In November 2011, Virginia School Boards Association (VSBA) President Joan E. Wodiska launched the first-ever VSBA President’s Initiative, Food for Thought, to encourage school board members to work to end childhood hunger and improve school meals for all students. According to a message from Wodiska in the VSBA Newsletter, more than 218,000 children in Virginia do not have enough to eat.

Since the initiative’s launch, VSBA has released a public service announcement to raise awareness about hunger and the VSBA Board of Directors conducted a site visit to Cunningham Elementary School in Fluvanna County to have lunch with students.

In addition, the association has initiated a series of coordinated activities, including opening a Hunger and Healthy Meals Best Practices Database to house all the effective school division best practices around Virginia and a Hunger and Healthy Meals School District Competition. VSBA will also release a voluntary model school board policy to help reduce hunger and improve the quality of school meals, publish a cookbook with healthy recipes, host a “top chef” school lunch challenge, increase communications about the issue, and highlight successful partnerships.


Board of education to seek waiver from NCLB standards

At the Sept. 22 Virginia Board of Education meeting, members agreed to prepare a proposal that would seek a waiver from the No Child Left Behind standards.

A month prior to the board’s decision, U.S. Secretary of Education Arne Duncan announced that the Obama administration “will provide a process for states to seek relief from key provisions of the law, provided that they are willing to embrace education reform.”

The Virginia Department of Education, board of education, and stakeholders will draft an alternate federal accountability model. The Virginia Standards of Learning accountability program will be used as a basis for the waiver proposal; more information can be found at www.vml.org.

VACo looks at natural resources, transportation proposals

The Virginia Association of Counties has evaluated several aspects of Gov. Bob McDonnell’s proposed state budget, including sections covering natural resources and transportation, in its County Connections newsletter.

In natural resources, for FY13-14, McDonnell proposed that 90 percent ($45.3 million) of the end-of-year surplus deposited into the Water Quality Improvement Fund be designated for financial assistance to upgrade wastewater treatment plants to meet water quality standards established under the federal Clean Water Act. This amount falls short of the $104 million needed to meet existing obligations under already-signed grant agreements with local wastewater treatment plants.

Under McDonnell’s plan, the administration will not initiate legislation to authorize any further bonds to assist local wastewater treatment plants in upgrading their facilities in order to achieve Chesapeake Bay-related nutrient reduction goals. For the first time ever, revenues from the 50-cent tax for discarded tires will not be used for cleaning up tire piles. The revenues from the tax ($2.3 million for each of the year’s biennium) will be transferred to the Highway Maintenance and Operating Fund. In addition, revenues from the litter tax would be deposited into the General Fund and not be used to capitalize the Litter Control and Recycling Fund.

Major highlights of the governor’s transportation plan, announced at the Governor’s Annual Transportation Conference, include increasing from 0.5 cents to 0.75 cents the share of sales tax revenues dedicated to transportation, increasing transportation’s share of year-end budget surpluses to 75 percent, authorizing a version of tax-increment financing, and dedicating the first 1 percent in revenue growth over 5 percent to transportation.

However, other components of the proposal continue serious reductions in maintenance and construction of secondary roads. The governor’s plan calls for $339.6 million in FY13 and $354 million in FY14 for maintenance. In FY07, $404 million was budgeted for maintenance. The plan proposes $50.6 million in FY13 and $54.4 million in FY14 for secondary road construction. For purposes of comparison, at the end of 2005 Gov. Mark Warner’s budget proposed $207.1 million and $199 million respectively in FY06 and FY07.

To read more, see www.vaco.org/CountyConnectionsFiles/2012CountyConnections/connections10112.pdf.

Road-maintenance funding changes possible

The state may soon transfer responsibility for the secondary road system to local governments. A report commissioned by Virginia Secretary of Transportation Sean Connaughton outlines a plan for devolution. If the General Assembly enacts the plan, construction and maintenance of the road system would fall to counties, according to the Virginia Association of Counties (VACo). The report, “Policy Options for Secondary Road Construction and Management in the Commonwealth of Virginia,” was drafted by the School of Public Policy at George Mason University.

Data included in the report from the Virginia Department of Transportation (VDOT) show that from FY07 to FY10, construction and maintenance budgets for secondary roads have declined by one-third. Specifically, maintenance budgets have dropped from $483 million to $345 million.

The report also includes nine proposed options for secondary-road policy, several of which recommend partial or total devolution of secondary road systems to counties, according to VACo. The full report is available online at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1865957.