

To: Emmett Hangar
Rob Bell
Cc: Virgil Goode

THE PROBLEM OF UNFUNDED MANDATES IN GREENE COUNTY

Counties, especially small counties such as Greene, have few options re tax revenue sources and no options to reduce mandated spending on state and federal programs. We understand that the economy nation wide is in a slow down, that tax revenues on the state level are highly dependent on business income, and that state revenues are below projection this year as a result. But handing this problem to the counties, which have far less authority to take the necessary action to deal with it, is **unfair to the taxpayers.** If the state requires or mandates that the counties spend stated amounts on certain programs, and then cut state funds during the fiscal year that were slated to support those programs, **the county has absolutely no way to make up the shortfall other than to borrow the money. Then the taxpayers' real estate taxes have to be increased enough the next year to pay back the borrowing, the interest on the borrowing, and cover the shortfall for the next year on the state funding as well.**

The problems created when mandated expenditures originate at the federal or state level, but responsibility for generating the revenue to pay for it is passed all the way down to the local level, are certainly well recognized. The National Conference of State Legislatures discussed the issue in its 1994 publication *Mandate Relief for Local Governments*. The US Congress addressed the issue at the federal level by requiring studies of financial impact on localities for certain new legislation in The Unfunded Mandates Reform Act of 1995. Some states already had mandate restraint legislation, and some enacted it around that time. By April of 1996, **17 states were requiring reimbursement to localities of all mandated spending, and 9 provided reimbursement for selected mandates.** But the problem has continued to increase, with the National Conference of State Legislatures estimating that federal programs shifted at least \$100 billion in costs to states in fiscal years 2003 through 2006.

State legislation to address the issue of unfunded mandates in Virginia has been high on the legislative priorities list of the Virginia Association of Counties and the Thomas Jefferson Planning District Commission, but **Virginia still has not enacted mandate reimbursement requirements.** Virginia does have a provision (2.2-113) allowing counties to apply for relief from mandated expenses other than education for an annual period. It is possible that our Board of Supervisors might apply for this limited relief. But a long term approach to provide some solutions should be sought.

Real estate taxes are the main source of local revenue for Greene and other small counties. Problems with real estate taxes include:

1. Ability to pay is not closely related to value of property because increases in assessment often occur even though income remains the same or declines, even though the taxpayer has made no changes to the property. This has been the case in Greene and other counties.
2. Taxpayer cannot choose any action to reduce the tax other than selling their home, which they may have lived in for a lifetime. (User taxes are more flexible on the payer, as they can to some extent elect to buy less expensive items or use less.)
3. Local ability to change real estate tax revenue to meet fiscal needs is slow, as tax rates are only set once a year and collections based on new rates occur several months or most of a year later. No change can be made during the year if county revenues or state revenue allocations fall short of anticipated amounts.

POSSIBLE SOLUTIONS

1. **State or federal mandated programs with spending requirements set by the state or federal government should be fully funded by state or federal pass through revenues. Cuts should not be passed on to localities. The state should pass legislation requiring full reimbursement to localities of spending mandates passed on to those localities.** The state can handle budget shortfalls three different ways, all of which are better choices than the localities have:
 - a. The first choice would be to **reduce programs expenses selectively and pass the reduced spending requirement on to the localities to match the reduced state funding contribution.** If this requires some reduction in service quality, then it just does. This is the same approach private individuals have to take in deciding to drive less or get more efficient cars to save gas costs, reduce their name brand buying, etc.
 - b. The second choice in the case of programs that can't safely be cut would be to **use the state's more flexible taxing authority to take short term steps to raise additional taxes on a temporary basis (such as a three month increase in sales tax or a one year income tax rate increase) if the need for funds reaches an emergency level. At both the federal and state levels, legislation similar to the 1990 federal PAYGO rules should be instituted. These required all increases in direct spending (including mandated programs) or revenue decreases to be offset by other spending decreases or revenue increases, and deficits to be offset by an across the board automatic cut in mandatory spending programs. At the federal level, these rules were effective in helping the country cut spending as a percentage of Gross Domestic Product every year from 1991 to 2000, and to move from a federal deficit to a Federal surplus. Since then, PAYGO rules have been relaxed and finally abandoned, resulting in a return to a large federal deficit and increase in the federal debt. Reinstitution of these rules at both federal and state levels would help ensure that federally mandated programs would be paid for by federally generated revenue, state mandated programs would be paid for by state generated revenue, and locally controlled programs would be paid for by locally generated revenue.**
 - c. A third way would be to borrow money at the state level so funding promises to the counties could be met. The state can borrow money faster and at lower rates than the counties, and although this is an extremely bad way out, **anything is better than forcing the counties to borrow the money to meet state and federal spending requirements.**

Does our state legislature feel that it constitutes representative government to mandate programs, decide how they are run, and what will be spent on them, and then require the local governments, which can't cut spending to solve the shortfall, to simply raise the real estate taxes, including those of many people who really can't afford it, to pay for it all? If a household is in a financial bind, income taxes go down automatically if income decreases. Consumption taxes can be reduced by spending less. But there is nothing taxpayers in a pinch can do to control their real estate taxes except to sell or subdivide. With the pressure of unfunded mandates and limited local taxing options, even normal appreciation of land values can force people on a low or fixed income to choose between staying in their homes and paying for their prescriptions and other family needs. This is unacceptable and **must be fixed with appropriate legislation at the state level, and the federal level as well.**

Signatures:

Andrea Wilkerson, Chair
Frank Wilcox, Projects
Agnes M. Hill, Vice-Chair
Jenny Dietzel, Promotion
Michelle Strickland, Membership