

## Section 1

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### Data on Virginia's Local Government Tax Structure

The emphasis of this publication is on tax rates and tax provisions, not tax revenues. Nonetheless, without information on revenues, it is impossible to get a good grasp of the relative importance of the various sources.

Tax revenue data are available from the Auditor of Public Accounts' *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2000*. Table 1.1 shows the distribution of tax revenue for cities, counties, and the thirty-one large incorporated towns for which information is gathered.

Car tax relief represents a major change in Virginia local government finance. When the relief is fully phased-in, a large amount of revenue previously reported as personal property tax revenue will be reported as non-categorical state aid. The first year that the new law affected local governments was FY 1999. In that year, car tax reimbursements totaled \$61.9 million, and in FY 2000 the amount was \$317.5 million.<sup>1</sup>

#### Fiscal Year 2000 Data

The real property tax stands out as the single most important source of tax

revenue, accounting for 45.0 percent of city revenue, 54.1 percent of county revenue, and 24.8 percent of town revenue (**Table 1.1**). The relative importance of other taxes varies by type of jurisdiction.

The personal property tax ranked second in importance for cities with 12.4 percent. Obviously, when the car tax relief plan is completed, the share of the personal property tax will diminish since vehicles valued at less than \$20,000 and used for personal purposes account for a large portion of the personal property tax base. The local sales and use tax, a uniform 1 percent in cities and counties with town and county sharing, ranked third in importance for cities, accounting for 10.3 percent of tax revenue. Other important city sources of tax revenue are the consumer utility tax (7.4 percent), the business license tax (6.7 percent), and the meals tax (5.3 percent).

The second most important source of county tax revenue is the personal property tax with 17.2 percent of the total. The local sales and use tax is also important with 8.7 percent of the total.

For towns the meals tax ranked second as a source of revenue with 16.1 percent of the total. Other important

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<sup>1</sup> Unpublished information provided by the Auditor of Public Accounts.

town taxes are business licenses (13.8 percent), the local sales and use tax (10.6 percent), consumer utility taxes (8.7 percent) and the personal property tax (5.9 percent).

So far, this analysis has been limited to averages for cities, counties, and towns. Averages obscure the large variety among localities. This diversity is caused by three factors: (1) differences in the size of local tax bases; (2) differences in tax instruments available to localities; and (3) differences in local tax rates and provisions. To illustrate the first factor, if two localities A and B are the same population size, but locality A has much higher real property values than locality B, then even if they employ the same effective rate, their tax collections will differ. In reference to the second factor, although many of the tax instruments are available to all localities, there are restrictions on some. For example, unlike cities, many counties must hold a referendum before they can impose a meals tax. Furthermore, a county cannot impose a business, professional, and occupational license tax on a firm located in an incorporated town within the county if the town already imposes the tax and does not grant the county permission to impose the tax.<sup>2</sup> The third factor is illustrated by the fact that not all localities impose the same rate even when permitted.

The diversity of local taxation is illustrated by **Table 1.2**, **Table 1.3**, and **Table 1.4** for cities, counties, and towns, respectively. The tables show for each

source of tax revenue the locality with the highest share of tax revenue from that source and the locality with the lowest share.

Some examples highlight the differences. The meals tax accounted for only 1.3 percent of tax revenue in the City of Manassas Park but 23.1 percent in Williamsburg with its strong tourist business (Table 1.2). Poquoson, a small city on the Chesapeake Bay with relatively affluent residents, received 64.9 percent of its tax revenue from the real property tax. In contrast, the small city of Covington in the Alleghany Highlands received only 16.9 percent of its tax revenue from that source.

Surry County, home of a Virginia Power nuclear generating plant, received 73 percent of its tax revenue from the tax on public service corporations (Table 1.3). On the other hand, four counties received only 1.7 percent of their revenue from that source. Levies on coal, oil, and gas accounted for 35.9 percent of tax revenue in coal-rich Buchanan County, but eighty-nine of the ninety-five counties received no revenue from that source.

The resort town of Colonial Beach received 63 percent of its tax revenue from the real property tax (Table 1.4). In contrast, the town of Vinton received only 3.3 percent of its tax revenue from that source. The meals tax accounted for 31.4 percent of Ashland's tax revenue, but was not a factor in Herndon where the tax is not imposed. In fact, a number of taxes were not imposed by many of the towns.

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<sup>2</sup> *Code of Virginia*, §58.1-3711

## Historical Data

The *Comparative Report* is the source for the following brief historical analysis. The data reported in **Table 1.5** cover the seven major categories of local taxation reported for the last ten years by the Auditor of Public Accounts. In the early years the Auditor did not collect as much detail as now, so a historical analysis cannot provide the same level of detail that has been available since FY 1994.

Table 1.5 shows the average annual growth rate for the eleven-year period as well as year-by-year growth rates. Over the full period of years the average annual growth rate of the grand total of taxes collected by all cities and counties and the larger incorporated towns was 5.2 percent. This reflected growth in tax base and changes in tax rates and tax structure. The trend rate for all local governments is heavily weighted by the larger jurisdictions. Data for individual jurisdictions showed a large amount of variation depending on conditions in the local economy and population change.

The average annual growth rate of revenue from the real property tax, the most important single source, was 4.5 percent. The most rapid growth was 7.3 percent in other general property taxes, a category composed of taxes on machinery and tools and merchants'

capital, and revenue from property tax penalties and interest.

"Other taxes" was second in growth with a 6.7 percent average annual rate of increase. "Other taxes" is a grouping composed of taxes on business licenses, franchise licenses, motor vehicle licenses, bank stock, recordation of wills, tobacco, admissions, hotel and motel rooms, restaurant meals, coal, oil and gas, emergency telephone service, and other miscellaneous taxes.

Tax revenue from the personal property tax was a close third in average annual growth. The 6.5 percent increase was fueled by strong motor vehicle unit sales, more expensive new vehicles, and fundamental changes in the used car market that resulted in higher priced, younger, and better quality vehicles. The poor showing of this tax in FY 1999 and FY 2000 was due to the implementation of the car tax relief act; FY 1999 was the first year of state aid to localities to compensate them for loss of "car tax" revenue. If state revenue reimbursements are added to personal property tax collections, then they increased by 10 percent in FY 2000 and the average annual growth rate for the entire period was 7.7 percent.

The 1 percent local option sales and use tax provided revenue growth of 5.1 percent annually. The average rate would have been higher had there not been poor years associated with the 1990-1991 recession.



**Table 1.1**  
**Percentage Distribution of Tax Revenue, Fiscal Year 2000**

Tax	Percent of Total Tax Revenue			
	Cities	Counties	Towns *	Grand Total
Real property	45.0	54.1	24.8	50.4
Public service corporation property	2.5	3.2	1.2	2.9
Personal property, general	12.4	17.2	5.9	15.3
Personal property, mobile homes	0.0	0.1	0.0	0.1
Machinery and tools	3.1	2.1	3.3	2.5
Merchants' capital	...	0.2	...	0.1
Local sales and use	10.3	8.7	10.6	9.3
Consumer utility	7.4	3.9	8.7	5.2
Business license	6.7	4.2	13.8	5.2
Franchise license	1.0	0.4	2.5	0.6
Motor vehicle license	1.4	1.5	2.9	1.5
Bank stock	0.7	0.3	3.6	0.5
Recordation and wills	0.3	0.7	0.0	0.5
Tobacco	1.0	0.1	1.5	0.4
Admission	0.4	0.0	0.0	0.1
Hotel and motel	1.4	0.9	3.9	1.1
Restaurant meals	5.3	0.9	16.1	2.7
Coal, oil, and gas	0.0	0.4	0.2	0.3
Emergency telephone service	1.1	0.9	0.6	1.0
Other local taxes	0.1	0.2	0.2	0.2
Total †	100.0	100.0	100.0	100.0

Source: Virginia Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2000*, Tables B and B-2

\* Limited to 31 large incorporated towns reported by the Auditor of Public Accounts

† Excludes penalties and interest on general property taxes that are included in total general property taxes by the Auditor of Public Accounts. Amounts may not add to 100.0 due to rounding.

**Table 1.2**  
**City Government Percentage Distribution of Tax Revenue, Fiscal Year 2000**

Tax	% of Total	Median %	Minimum		Maximum	
			%	Locality*	%	Locality*
Real property	45.0	38.8	16.9	Covington	64.9	Poquoson
Public service corporation property	2.5	2.2	0.8	Bristol	4.9	Clifton Forge
Personal property, general	12.4	12.0	2.5	Williamsburg	22.9	Buena Vista
Personal property, mobile homes	0.0	0.0	0.0	(26)	0.3	(2)
Machinery and tools	3.1	2.8	0.0	(3)	42.3	Covington
Merchants' capital	...	0.0	0.0	(40)	0.0	(40)
Local sales and use	10.3	12.7	3.1	Poquoson	30.0	Norton
Consumer utility	7.4	6.3	0.0	Bedford	12.5	(2)
Business license	6.7	6.8	2.1	Poquoson	13.2	Norton
Franchise license	1.0	0.6	0.0	Petersburg	3.8	Danville
Motor vehicle license	1.4	1.4	0.0	Williamsburg	2.4	(2)
Bank Stock	0.7	0.9	0.0	Manassas Park	3.0	Clifton Forge
Recordation and wills	0.3	0.4	0.0	(3)	1.1	Poquoson
Tobacco	1.0	0.6	0.0	(18)	2.4	Franklin
Admission	0.4	0.0	0.0	(24)	1.3	Norfolk
Hotel and motel	1.4	1.0	0.0	(7)	18.6	Williamsburg
Restaurant meals	5.3	5.2	1.3	Manassas Park	23.1	Williamsburg
Coal, oil, and gas	0.0	0.0	0.0	(40)	2.3	Norton
Emergency telephone service	1.1	0.8	0.0	Clifton Forge	1.9	Bedford
Other local taxes	0.1	0.0	0.0	(26)	3.2	Fredericksburg
Total †	100.0					

Source: Virginia Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2000*, Tables B and B-2

\* The number of localities is shown in parentheses when more than one locality has the same value.

† Excludes penalties and interest on general property taxes that are included in total general property taxes by the Auditor of Public Accounts. Amounts may not add to 100.0 due to rounding.

**Table 1.3**  
**County Government Percentage Distribution of Tax Revenue, Fiscal Year 2000**

Tax	% of Total	Median %	Minimum		Maximum	
			%	Locality*	%	Locality*
Real property	54.1	48.6	18.8	Bath	66.8	Rappahannock
Public service corporation property	3.2	2.9	1.7	(4)	73.0	Surry
Personal property, general	17.2	18.4	0.7	Bath	30.2	Lunenburg
Personal property, mobile homes	0.1	0.4	0.0	(15)	1.2	(4)
Machinery and tools	2.1	2.4	0.0	(7)	41.1	Alleghany
Merchants' capital	0.2	0.2	0.0	(45)	3.8	(2)
Local sales and use	8.7	7.6	0.8	Surry	21.6	Prince Edward
Consumer utility	3.9	4.4	0.0	(11)	13.5	Henry
Business license	4.2	0.0	0.0	(49)	10.6	Arlington
Franchise license	0.4	0.5	0.0	(8)	1.9	Amelia
Motor vehicle license	1.5	2.4	0.0	(2)	5.7	Pittsylvania
Bank stock	0.3	0.1	0.0	(29)	2.3	Henrico
Recordation and wills	0.7	0.6	0.0	(2)	1.6	Hanover
Tobacco	0.1	0.0	0.0	(93)	0.2	Arlington
Admission	0.0	0.0	0.0	(93)	0.3	Dinwiddie
Hotel and motel	0.9	0.0	0.0	(49)	3.7	Arlington
Restaurant meals	0.9	0.0	0.0	(63)	5.8	Rockbridge
Coal, oil, and gas	0.4	0.0	0.0	(89)	35.9	Buchanan
Emergency phone service	0.9	1.0	0.0	(16)	3.7	Mecklenburg
Other local taxes	0.2	0.0	0.0	(79)	5.6	Buchanan
Total †	100.0					

Source: Virginia Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2000*, Tables B and B-2.

\* The number of localities is shown when more than one locality has the same value.

† Excludes penalties and interest on general property taxes that are included in total general property taxes by the Auditor of Public Accounts. Amount may not add to 100.0 due to rounding.

**Table 1.4**  
**Town Government Percentage Distribution of Tax Revenue, Fiscal Year 2000\***

Tax	% of Total	Median %	Minimum		Maximum	
			%	Locality†	%	Locality†
Real property	24.8	20.5	5.3	Vinton	63.0	Colonial Beach
Public service corporation property	1.2	1.1	0.2	Vinton	2.4	Herndon
Personal property, general	5.9	6.8	0.0	(4)	15.6	Warrenton
Personal property, mobile homes	0.0	0.0	0.0	(20)	0.5	(2)
Machinery and tools	3.3	0.4	0.0	(10)	36.6	West Point
Merchants' capital	...	0.0	0.0	(33)	0.0	(33)
Local sales and use	10.6	8.6	3.4	Altavista	31.0	Vinton
Consumer utility	8.7	8.6	0.0	(7)	22.7	Bridgewater
Business license	13.8	12.7	3.7	Chincoteague	29.1	Farmville
Franchise license	2.5	2.1	0.0	(2)	7.7	Blacksburg
Motor vehicle license	2.9	2.7	1.4	(2)	5.8	Strasburg
Bank stock	3.6	4.2	0.8	Dumfries	13.8	Blackstone
Recordation and wills	0.0	0.0	0.0	(33)	0.0	(33)
Tobacco	1.5	0.0	0.0	(23)	5.0	Pulaski
Admission	0.0	0.0	0.0	(33)	0.0	(33)
Hotel and motel	3.9	2.4	0.0	(11)	13.5	Chincoteague
Restaurant meals	16.1	19.5	0.0	Herndon	31.4	Ashland
Coal, oil, and gas	0.2	0.0	0.0	(31)	5.8	Big Stone Gap
Emergency telephone service	0.6	0.0	0.0	(23)	3.3	Blacksburg
Other local taxes	0.2	0.0	0.0	(28)	2.8	Dumfries
<b>Total ‡</b>	<b>100.0</b>					

Source: Virginia Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 2000*, Tables B and B-2

\* Limited to 31 large incorporated towns reported by the Auditor of Public Accounts.

† The number of localities is shown in parentheses when more than one locality has the same value.

‡ Excludes penalties and interest on general property taxes that are included in total general property taxes by the Auditor of Public Accounts. Amount may not add to 100.0 due to rounding.

**Table 1.5**  
**Growth of Virginia Local Government Tax Revenue by Major Source, Fiscal Years**  
**1989 to 2000**

Source	Avg. Annual Growth Rate, 1989-2000*	Percent Change from Preceding Fiscal Year										
		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total tax revenue**	5.2	10.4	7.0	3.5	4.0	5.2	5.4	4.7	6.2	5.6	4.4	3.7
Real property	4.5	13.6	8.5	3.5	2.1	2.6	3.0	3.3	5.9	5.0	5.1	6.4
Public service corp. property	4.8	4.6	7.2	10.4	10.4	4.5	3.2	0.7	2.5	4.0	3.3	3.6
Personal property#	6.5	8.3	8.7	-0.6	4.4	8.0	13.2	11.4	8.8	7.3	-1.0	-8.6
Other general property taxes†	7.3	12.4	12.3	13.5	6.1	11.2	1.4	2.5	6.7	6.5	10.1	3.4
Local sales and use	5.1	4.6	-2.2	1.8	5.3	8.8	7.1	3.1	6.7	4.6	7.4	7.3
Consumer utility	4.4	8.9	7.0	4.9	5.7	4.5	3.8	3.3	2.4	4.3	0.9	6.9
Other local taxes‡	6.7	6.5	3.9	5.9	8.0	9.6	6.4	4.8	5.9	7.1	7.7	6.3

Source: Auditor of Public Accounts, *Comparative Report of Local Government Revenues and Expenditures*. Selected years.

\* Average annual growth rate based on least squares trend line.

\*\* Adjusted to include personal property tax reimbursements from the state, the average annual growth rate was 5.4 percent and the growth rates in fiscal years 1999 and 2000 were 5.4 percent and 7.0 percent, respectively.

# Adjusted to include personal property tax reimbursements from the state, the average annual growth rate was 7.7 percent and the growth rates in fiscal years 1999 and 2000 were 4.3 percent and 10.0 percent, respectively.

† Taxes on machinery and tools, merchants' capital, and property tax penalties and interest.

‡ Taxes on business licenses; franchise licenses; motor vehicle licenses bank stock, recordation of wills, tobacco, admissions; hotel and motel rooms; restaurant food; coal, oil, and gas; emergency telephone service; and other miscellaneous taxes.