

# DEPARTMENT OF TAXATION

## 2006 Fiscal Impact Statement

1. **Patron** Robert D. Hull

3. **Committee** House Finance

4. **Title** Local Government Taxing Authority

2. **Bill Number** HB 1594

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

**5. Summary/Purpose:**

This bill would grant any county the same taxing powers now granted to municipalities if the county contributes 2% or more toward the costs of construction or improvement of urban system highway or street construction projects within the county.

Under current law, when compared to municipalities, counties are not authorized to impose certain taxes and are limited in the tax rates that they may impose for other taxes.

The effective date of this bill is not specified.

**6. Fiscal Impact Estimates are:** Not available. (See Line 8.)

**7. Budget amendment necessary:** No.

**8. Fiscal implications:**

This bill would have no impact on state revenues. To the extent that counties choose to contribute funds toward urban system highway or street construction projects that would otherwise be paid by the Commonwealth Transportation Board, this bill would reduce state expenditures for transportation projects. The immediate impact on local revenues is uncertain because counties may or may not expand or increase the taxes they impose. Counties may experience an increase in revenues to the extent that they use their increased powers in imposing taxes on meals, admissions, transient occupancy and other local taxes.

**9. Specific agency or political subdivisions affected:**

All counties.

**10. Technical amendment necessary:** No.

## 11. Other comments:

### Taxing Authority of Counties

Examples of limitations which currently apply to counties (except for specifically identified counties and counties excepted under a specific grandfather clause), but not municipalities, include the following:

- The tax rate which counties may impose on food and beverages is limited and the tax may only be levied if approved in a referendum; and
- The tax rate which counties may impose on transient occupancies is limited and the resulting revenue must be designated for certain purposes.

The issue of equalizing city and county taxing authority was most recently addressed in the report of the Commission on Virginia's State and Local Tax Structure for the 21<sup>st</sup> Century (2001 House Document No. 22). The Commission recommended that the distinction in the taxing authority of Virginia's cities and counties be eliminated. The Commission report states that the distinction is "based solely on an historical legalism and which has no relevancy to modern service responsibilities . . . ." The Commission report also notes that equalizing city and county taxing authority will broaden "the potential revenue base of counties, reduce their dependence on their real estate tax base, and make the potential revenue bases and therefore the measurement of revenue effort of cities and counties directly comparable."

### Obligation of Municipalities to Match State and Federal Transportation Funds

In any case in which federal highway funds made available for the construction or improvement of federal or state highways must be matched, the Commonwealth Transportation Board ("Board") must contribute the matching funds. In the case, however, of municipalities of 3,500 or more population eligible for an allocation of construction funds for urban highways, the Board may contribute toward the cost of construction of any federal-aid highway or street project ninety-eight percent of the necessary funds, including the federal portion, if the municipality contributes the other two percent, and within such municipalities the Board may contribute all the required funds on highways in the interstate system.

In the case of municipalities of 3,500 or more population eligible for an allocation of construction funds for urban highways, the Commonwealth Transportation Board may contribute toward the costs of construction or improvement of any highway or street project for which no federal-aid highway funds are made available ninety-eight percent of the necessary funds if the municipality contributes the other two percent.

### Proposal

This bill would give any county that contributes 2% or more toward the costs of construction or improvement of the urban system highway or street construction projects within the county additional taxing powers formerly reserved to municipalities.

cc : Secretary of Finance

Date: 01/23/2006 JEM