



# The Common Wealth Report

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*Where Virginia's Tax Revenue is Generated and Where it is Spent*

An Accounting of the Tax Revenue Sent to the Commonwealth of Virginia and Revenue sent by the Commonwealth to the localities of Albemarle, Charlottesville, Fluvanna, Greene, Louisa, Nelson, Fairfax, Loudoun, Lynchburg, Petersburg, Hanover, Henrico, Williamsburg, and James City.

FY 2009/ FY 2011



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**Underwritten by: The Charlottesville Regional Chamber of Commerce**

## **Preface - The Common Wealth Report, The Free Enterprise Forum Local Government Return on the Dollar from the Commonwealth, FY 2009/FY 2011**

The Free Enterprise Forum, as a part of its mission to inform, analyze and promote dialog, is pleased to compile, chart and present this accounting of and analysis of state revenues and expenditures. We sincerely appreciate the Charlottesville Regional Chamber of Commerce for underwriting this important report.

According to Webster's dictionary, "com•mon•wealth is a nation, or state, : as  
a : one founded on law and united by compact or tacit agreement of the people for the common good

b : one in which supreme authority is vested in the people"

The attached reports cover the counties of Albemarle, Fluvanna, Greene, Louisa, Nelson, Fairfax, and Loudoun, as well as the cities of Charlottesville, Lynchburg, Petersburg, Hanover, Henrico, Williamsburg, and James City. The analysis seeks to create a comparison between the State tax revenue generated from each locality and the amount of State funds expended in each locality.

The Free Enterprise Forum has compiled the data regarding the revenue distributed and taxes collected by the state government. The majority of the data compiled comes from the Commonwealth of Virginia's Auditor of Public Accounts (APA) *Comparative Report on Local Government Revenue and Expenditures* for the fiscal year of 2011. From the Commonwealth of Virginia's Department of Taxation *Annual Report* for the fiscal year of 2011, the share of the sales tax that is provided by the state to the locality (also known as the "Local Option") is found and contributes to the total revenue the locality receives from the Commonwealth.

Also in the *Annual Report*, the income, sales, and recordation taxes that the state government accumulates is presented by each locality. Due to reporting differences, the income tax liability for each locality is given for the fiscal year 2009.

The Free Enterprise Forum *Common Wealth Report* seeks to demonstrate how much revenue is being sent from the locality to the Commonwealth. To express the amount in a dollar-per-dollar situation, the total revenue received from the Commonwealth is divided by the total tax paid to the Commonwealth. Simply, this number then communicates how much of a tax dollar sent to the Commonwealth is returned to the locality.

It is important to note that due to the manner in which it is tracked, no motor fuels tax revenue or transportation spending is included in this analysis.

Localities receive revenue from the Commonwealth that includes Payments in lieu of taxes, non-categorical state aid, shared expenses, and categorical state aid. Payments in lieu of taxes are defined as revenues collected from the Commonwealth for service charges according to the Uniform Financial Reporting Manual (UFRM). Non-categorical

state aid include revenues which are raised by the state and shared with the local government and subject to the local government's discretion according to the UFRM. Shared expenses include revenues collected from the Commonwealth for the state's share of expenditures in activities that are considered to be a state/local responsibility in the Comparative Report according to the UFRM.

Categorical state aid includes revenues received from and designated by the Commonwealth for a specific use by the local government as defined by the UFRM. Direct state expenditures to individuals are not included in this analysis.

Finally, while this report includes preschool and K-12 educational spending, it does not include state spending on higher education. Therefore, funding for institutions of higher learning [i.e.: College of William & Mary, George Mason University, Northern Virginia Community College, Piedmont Community College, University of Virginia, Virginia Commonwealth University, etc.] are not included in this analysis.

The Free Enterprise Forum is a privately funded public policy organization focused on local government issues in the Charlottesville region. The geographic scope of this study mirrors those areas in which the Free Enterprise Forum operates.

The goal of the *Common Wealth Report* is to promote dialogue and discussion regarding the financial impacts of government appropriation of revenue. The Free Enterprise Forum hopes that this data and analysis will spark additional public interest in local government activity.

Well-informed citizens make well-informed decisions.

Respectfully Submitted,

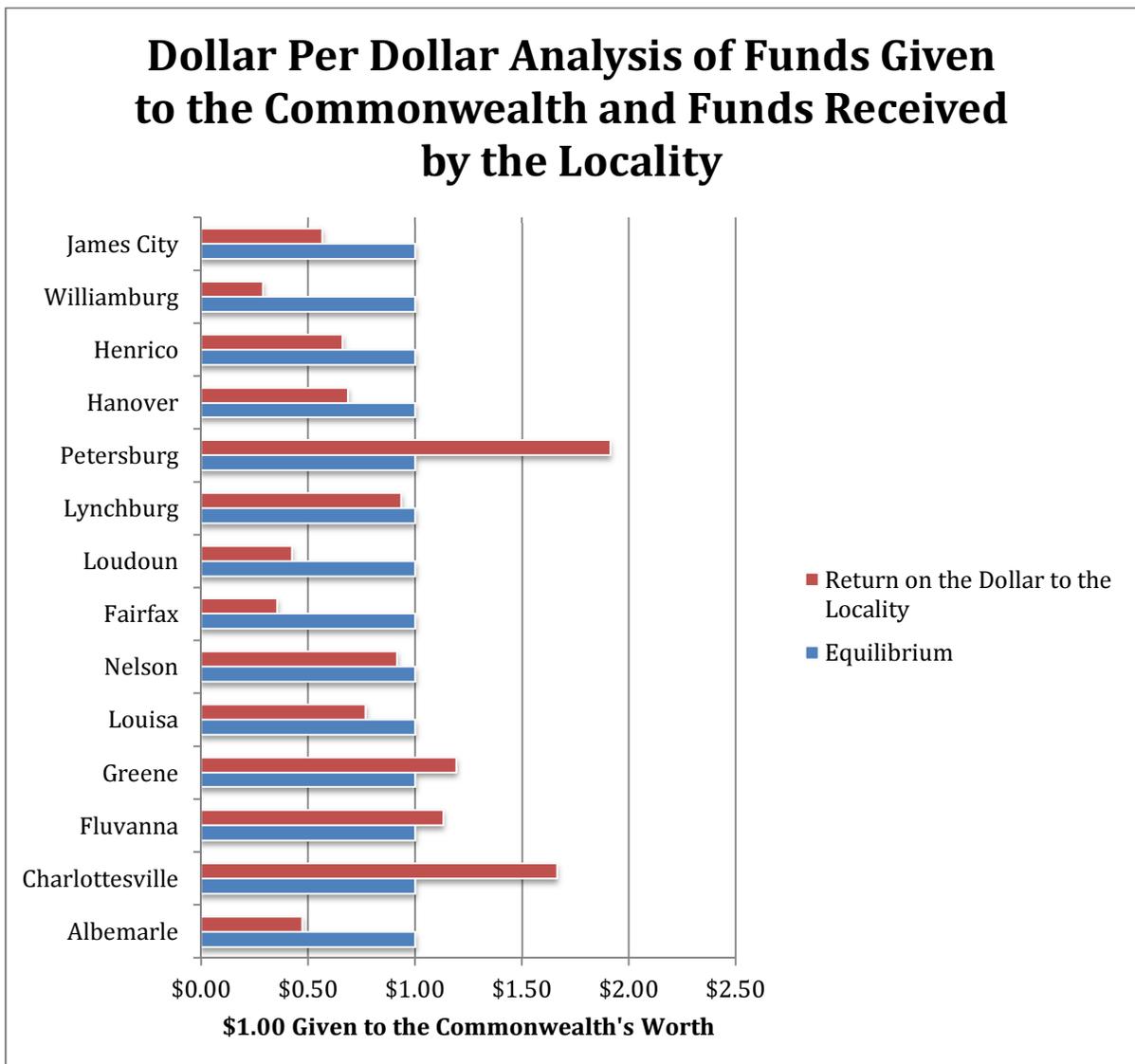
Neil Williamson, President

## I. Dollar to Dollar

Citizens from each locality pay taxes to the state government and the state government also gives revenue to the localities. However, the distribution is not equal. The Commonwealth decides the allocations of funds to the localities not by equal distribution, but by need, and often political pressure, instead.

By summing the taxes paid to the state by each individual locality, the total revenue collected through taxes by the individual locality can be obtained. The total revenue given to the locality is gathered and tabulated with the 1% share of the state's income tax to equal the total revenue received by the locality from the Commonwealth. Then by subtracting the revenue from the tax collections, the actual funding of the locality is found.

Figure 1



Using a dollar-to-dollar situation, the total revenue of a locality can be divided by the total taxation of a locality to discover how far one dollar is stretched. In Albemarle County, a dollar given to the state is echoed back in the form of \$0.47 to the locality. To the city of Charlottesville, the Commonwealth returns \$1.66 to the locality for every dollar sent to the state. In Fluvanna County, \$1.13 is given back to the county for each dollar the state collected in taxes. For Greene County, each dollar given to the state government is returned to the county as \$1.19. In Louisa County, a dollar given to the Commonwealth is transformed to \$0.77 when it is returned to the locality. Nelson County receives \$0.91 for each dollar it sends to the Commonwealth, nearly breaking even. In the county of Hanover, the Commonwealth returns \$0.69 for every dollar accumulated by the area. In Henrico County, \$0.66 is given back to the locality for the dollar collected by the Commonwealth. For the city of Williamsburg, a mere \$0.29 is returned to the locality for every dollar sent to the Commonwealth in taxes. In the county of James City, a dollar received by the Commonwealth is transformed into \$0.57 given back to the locality.

### **Common Wealth Spending is Inverse to Locality Economic Prosperity**

In our analysis, each locality can be considered either a “Donor” or a “Recipient” of the Common Wealth.

For example, Fairfax County is a donor locality as it contributes more to the Common Wealth so that the state might be able help recipient localities prosper. For the common good of the state, the return of the dollar is not an equal in each direction. If that were the case, a Commonwealth would not be needed.

Albemarle County is a donor to the Commonwealth, as demonstrated through this report. For each dollar sent to the Commonwealth, \$0.47 is received back to the locality. Albemarle is a fairly prosperous area and has a significantly large population.

The city of Charlottesville is a recipient of the Commonwealth. Charlottesville city receives \$1.66 for each dollar it sends to the state government. Charlottesville, as with most urban communities, tends to use more state revenue for development, care, and education.

The county of Fluvanna is a recipient of the Commonwealth. A dollar sent to the Commonwealth is then transformed into \$1.13 back into the locality’s pocket. Fluvanna has very little population when compared to its geographic size.

Greene County is a recipient of the Commonwealth. Greene receives \$1.19 from the dollar it sent to the Commonwealth. Greene County is the smallest geographic county in Virginia, but the population is still small even with consideration of its size.

The county of Louisa is a donor to the Commonwealth. Louisa County residents receive \$0.77 for each dollar they send to the state government. The placement of the Dominion power plant inside this locality has an impact on the economic condition of the locality.

Nelson County is a donor to the Commonwealth. \$0.91 is returned to the locality of the \$1.00 sent to the state government. This locality is almost breaking even. Nelson County's small population tends to hinder state funding.

Fairfax County is a donor to the Commonwealth. For every dollar issued to the Commonwealth, Fairfax receives \$0.36 back. With a population of 1,081,726 people, the Commonwealth gives a generous portion of revenue to Fairfax, but Fairfax generates significantly more in taxes due to its high population, corporate entities, commercial activity and affluence of its population.

The county of Loudoun is a donor to the Commonwealth. Only \$0.42 is returned to the locality from the initial dollar sent to the Commonwealth. Like Fairfax, Loudoun also has a significant amount of wealth of its residents and is geographically the second largest locality observed. Loudoun is one of the most prosperous and fastest growing localities in the nation. As such, the funds generated by Loudoun are not given back in whole.

Somewhat surprising, the city of Lynchburg is a donor to the Commonwealth. A dollar from Lynchburg to the Commonwealth means \$0.94 back to the residents' of Lynchburg. This is another instance of nearly breaking even. Lynchburg is a city and has more urban issues, so more money is allocated to the area. Unlike the other cities studied, Lynchburg has a large population, which then means more tax revenue is generated for the state.

The city of Petersburg is a recipient of the Commonwealth. Petersburg's dollar nearly doubles in value when sent back from the Commonwealth, with an amount of \$1.91. Petersburg has a small population, is an inner city, and is not very developed.

Hanover County is a donor to the Commonwealth. For each dollar sent to the Commonwealth is returned in the value of \$0.69 to the occupants of Hanover County. Hanover is a suburb of Richmond and has a fairly large population. This contributes to its economic wealth and makes the Commonwealth consider it not in need of more funds.

The county of Henrico is to donor to the Commonwealth. A dollar sent to the state government from Henrico County become \$0.66 back to Henrico County. The county of Henrico is large in population, similar to the size of Loudoun County. However, Henrico is not as prosperous an area as Loudoun, so the return on the dollar is larger.

The city of Williamsburg is a donor to the Commonwealth. The inhabitants of Williamsburg receive a mere \$0.29 for the dollar they sent to the Commonwealth. Williamsburg is extremely small in population and therefore do not receive many funds from the Commonwealth for aid. In addition, Williamsburg is a tourist destination and generates significant tax revenue in sales tax.

The county of James City is a donor to the Commonwealth. \$0.57 is returned to the locality for the dollar sent to the state government. James City is small in population when its size is considered, so the Commonwealth does not allocate many funds to the locality. James City County's residents pay a large income tax and contribute significantly to the sales tax, causing the locality to "lose" money to the Commonwealth.

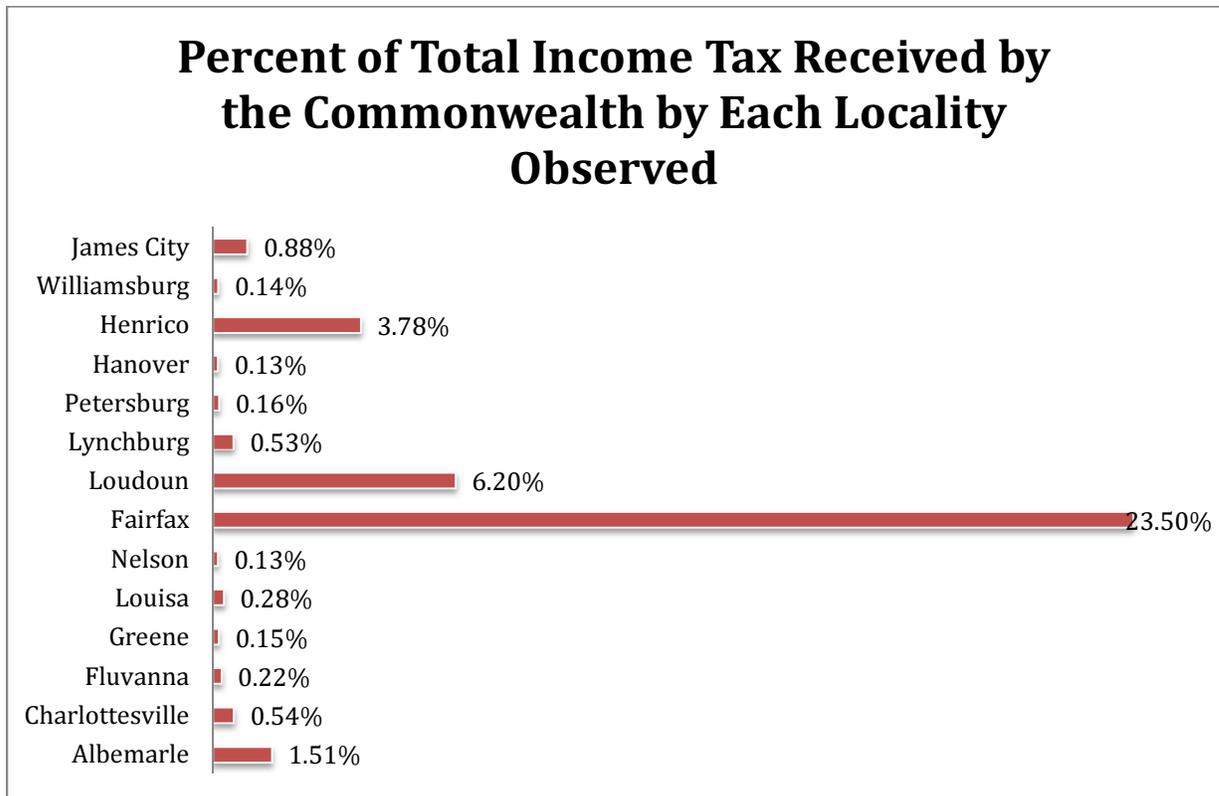
## II. Virginia's Income Tax

The income tax is generated from the individual's (or corporate entity's) financial activity. Unlike the Sales Tax, the Commonwealth receives all of the revenue accumulated by the income tax.

In Virginia, the corporate income tax rate is 6% of the computed Virginia taxable income.

For each paycheck received by the individual, a percentage is collected from the income that is taken as a tax to the State government. In the individual income tax, the percentage that income is taxed at is determined by the amount of income received by the individual. If one accumulates more income, one pays at a higher tax rate. The rates are as follows: 2%, 3%, 5%, or 5.75%. The majority of people within the localities of Albemarle, Charlottesville, Fluvanna, Greene, Louisa, Nelson, Fairfax, Loudoun, Lynchburg, and Petersburg lie within the 5.75% rate of income taxation. The income tax also incorporates the individual estimated income tax, fiduciary income tax, and employer income tax withholding.

Figure 2



Above is a graphical description of the percentage of the total income tax revenue received by the Commonwealth by each locality. Fairfax County's income tax revenue allots for 23.50% of the entire state's collected income tax revenue. Nelson County and Hanover County both only account for 0.13% of the total income tax revenue collected.

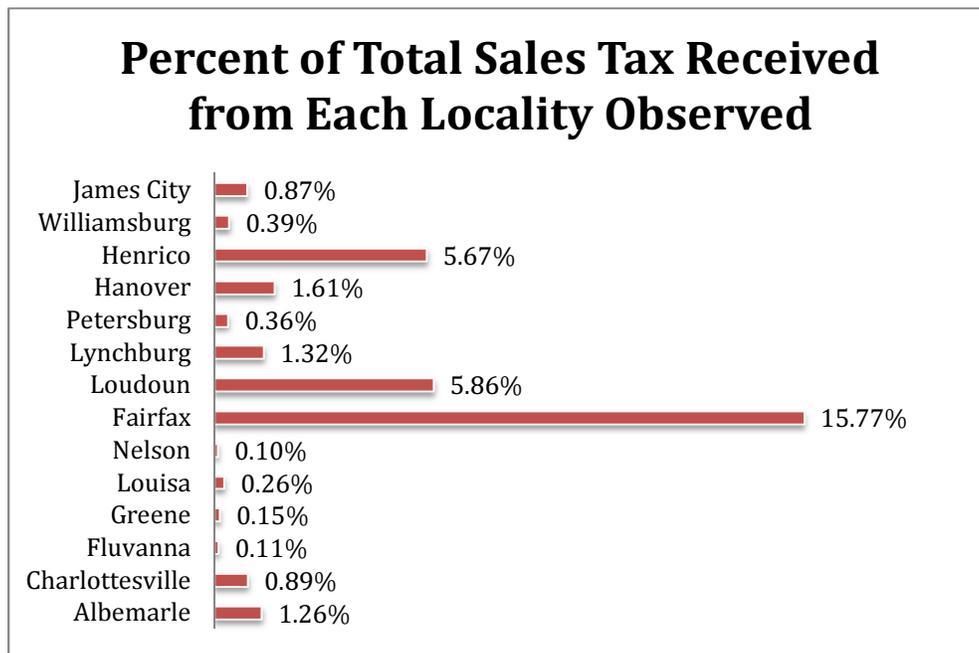
### III. Sales Tax

The sales tax is collected during the time of purchase of goods and services. The retailer applies the tax after the amount of the purchase is calculated. The sales tax is set by the state and is based on the amount of the purchase. If one buys expensive items, the sales tax will be a larger value because it is reflective on the amount being spent. If one buys cheaper items, the sales tax will be much smaller.

In Virginia, the sales tax is 5% of the initial purchase. Within the sales tax, there is a portion received by the locality and by the state. The local option is 1% of the initial purchase and is used by the local government. The state collects the remaining 4% of the initial purchase for its own revenue collection.

By law, a quarter of the revenue the state receives from the sales tax must be distributed by the state to localities, particularly for educational purposes. One eighth of the revenue collected from the sales tax by the state is deposited into the Transportation Trust Fund and is subject to the Commonwealth Transportation Board. One sixteenth of the revenue collected from the sales tax by the state is allotted to the Public Education Standards of Quality and the Local Real Estate Property Tax Relief Fund.

Figure 3



Shown above graphically, the total state sales tax is comprised of multiple localities' tax revenue. Fairfax County generates from its sales 15.77% of the entire sales tax revenue collection over the Commonwealth. If all of the other localities observed combined sales tax revenue, the percentage would only be 3.04% percentage points greater than the sales tax revenue provided by Fairfax County.

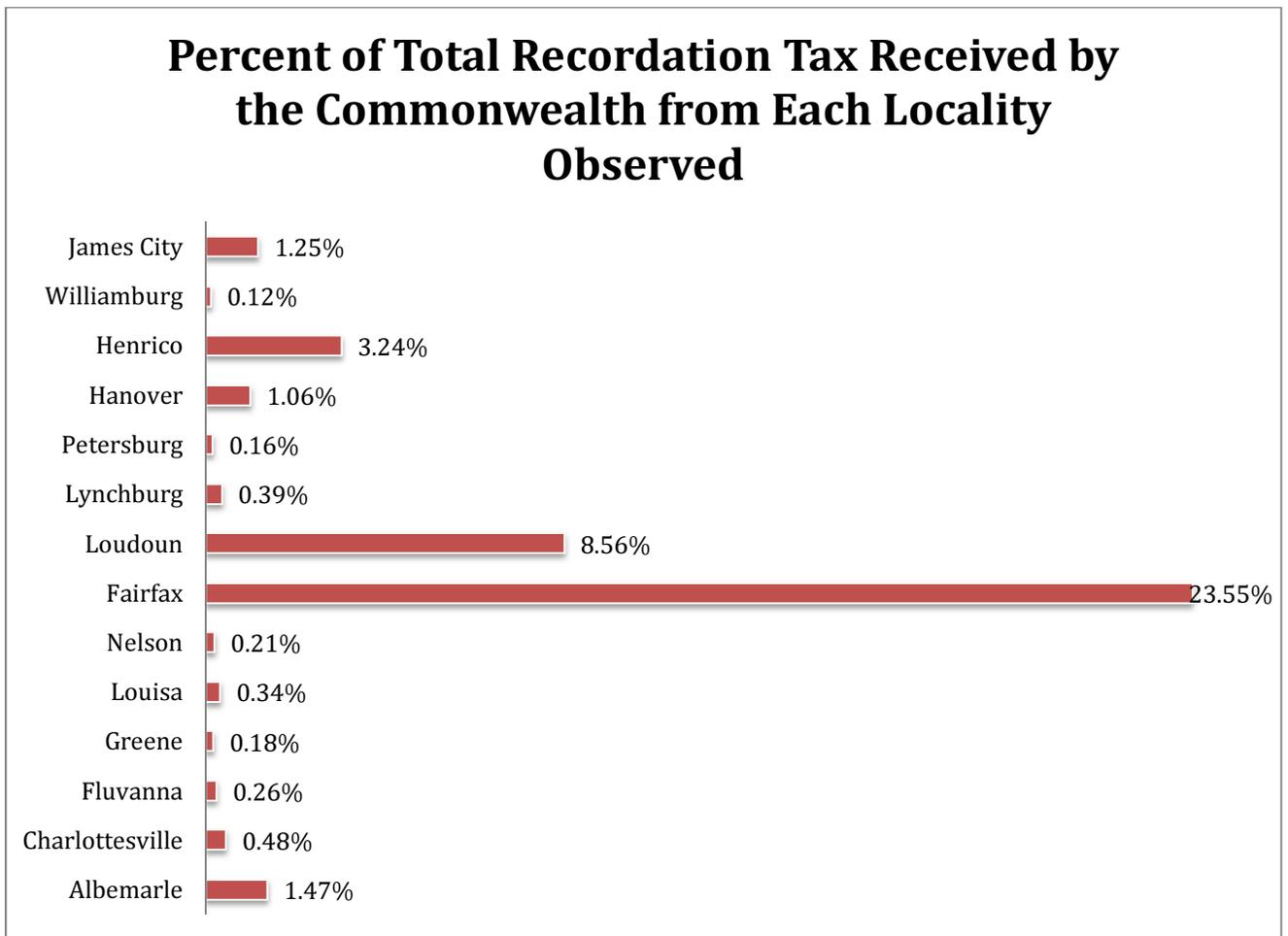
#### IV. Recordation Tax and Deeds of Conveyance

A recordation tax applies to a recordation of a deed or mortgage in the official state registry. Deeds of conveyance pertain specifically to legal documents signifying transfers of property and possessions.

In Virginia, this tax on deeds, deeds of trust, and leases accumulates 25 cents per \$100 of value. The additional grantor's tax is calculated at a rate of 50 cents per \$500 of value.

Half of the additional grantor's tax is placed into the General Fund and the other half is deposited into the treasury of the locality. The revenue generated by the recordation tax is directly attributed to the state government. The amount of money returned to the locality by the state through the recordation tax is allotted for in the revenue received by the Commonwealth.

Figure 4



## V. Virginia Motor Fuel Excise Tax

Virginia's Motor Fuels Excise Tax is collected as the fuels leave the terminal rack. The terminal rack is the point at which fuels physically leave a terminal and are delivered into a tank truck, rail car, or other means of transfer. The only exception is when fuels are imported into Virginia by ways other than the terminal transfer system or when fuels are blended in Virginia outside the terminal transfer system. In these cases, taxes are imposed upon import or blending.

This tax collection mechanism eliminates the ability to track fuel tax collections by locality as the distribution racks where the taxes are paid are most often not in the jurisdiction where the fuel is purchased. The Commonwealth has not tracked tax generation by locality since it switched to the terminal rack system (which also resulted in a significant increase in tax collection due to "shrinkage" in transport to retailers).

As of July 1, 2007, the following are the fuel tax rates in Virginia.

<b>Fuel Type</b>	<b>Tax Rate</b>
Gasoline/Gasohol	Seventeen and one-half cents per gallon (.175)
Diesel	Seventeen and one-half cents per gallon (.175)
Blended Fuels	Seventeen and one-half cents per gallon (.175)
Aviation Fuels	Five cents per gallon (.05)
Alternative Fuels	Seventeen and one-half cents per gallon (.175)

Prior to motor fuel excise tax collection at the terminal rack, it was collected at the retail level and thus there was an ability to track tax payments by locality.

In 2005, the Charlottesville Regional Chamber of Commerce compiled tax collection data from the Office of the Virginia Secretary of Transportation. The Chamber analysis showed that in FY2005, Virginia Motor Fuel Excise Tax collections in Albemarle County totaled \$13.08 million and in the City of Charlottesville the fuels tax collections totaled \$8.39 million; in the aggregate of \$21.47 million. *(In addition another \$21.83 million in federal motor fuel excise taxes were collected in Albemarle County and the City of Charlottesville.)* As motor fuel excise tax collections have stabilized over the past decade, it is reasonable to estimate Virginia Motor Fuels Excise Tax collections paid by motorists in Albemarle and Charlottesville to be more than \$21 million annually.

Over the past decade or longer, Virginia Department of Transportation expenditures of Virginia tax dollars within Albemarle and Charlottesville have been constrained by a combination of VDOT project schedules, regional project decision-making and

the Commonwealth's budgetary considerations. VDOT annually expends significant motor fuel tax dollars for on-going transportation maintenance. Also, most recently several area transportation projects (Airport Road, John W. Warner Parkway, etc.) have been advanced, ending what had been a significant donor/recipient imbalance in Virginia fuel taxes collected in relation to Virginia tax expenditures for transportation projects in Albemarle and Charlottesville.

## **VI. Conclusion**

In the end, the Commonwealth provides vital services that are needed for the state to function properly. Bearing in mind the need for state police, state legislators, judges and state departments, the contribution to the Commonwealth is not money wasted.

Where state funds are returned to use in localities, this financial analysis identifies two classes of localities: donors and recipients.

Virginia is a collection of localities that operates as a whole. There is a Common Wealth that encompasses the entire Commonwealth and allows for the localities to exchange. In a Commonwealth, the more economically stimulated localities pay more to the Commonwealth for the Commonwealth to then aid the localities that need more support economically.

We believe this report helps shed light on this economic reality and will allow others to determine if the levels of taxation and spending are appropriate.

The best decisions are made when all parties are able to agree on the facts.