

Local Budget Process and Pressures

Information for the Virginia Early Childhood Foundation

July 2020

Examples of Local Service/Funding Responsibilities

- ▶ K-12
 - ▶ Each locality must provide its share of school funds sufficient to comply with the state Standards of Quality
- ▶ Social Services
 - ▶ Localities share funding responsibility with the state for operations of and certain programs provided by local departments of social services.
- ▶ Children's Services Act
 - ▶ Localities provide local match for services
- ▶ Public health
 - ▶ Local health department required in each city/county, with a local funding share for the department's operations determined by contract with Virginia Department of Health.
- ▶ Community Services Boards
 - ▶ Each county or city (individually or jointly with other jurisdictions) must establish a CSB or behavioral health authority. A local match is required for the state funds.

Local Budget Process

- ▶ Local budget process/schedule governed by statute
- ▶ Each year, the local governing body must prepare and approve a budget for informative and fiscal planning purposes. Budgets may be amended during the fiscal year (depending on the amount of funding affected, public notice and a public hearing may be required).
- ▶ The budget must be approved and the tax rate set no later than the beginning of the fiscal year. The governing body must publish the budget on the locality's website or make it available in hard copy as needed.

Local Budget Process

- ▶ Many localities begin planning for the next fiscal year far in advance of the statutory deadlines.
- ▶ State Compensation Board (responsible for distribution of funding for Constitutional officers), Superintendent of Public Instruction, and Department of Taxation must provide localities and school divisions with estimated allocations of state funds for the upcoming fiscal year by the 15th day after the adjournment of the General Assembly.
- ▶ School Superintendents must provide to the local governing body appropriating funds an estimate of funds needed for the next fiscal year by April 1. (This estimate must be approved by the school board before submission to the local governing body.) The same deadline applies to local department heads.
- ▶ The school budget must be approved by the local governing body by May 15, or within 30 days of receipt of the estimates of state funds.
- ▶ Prior to adopting the budget, the governing body must publish a brief synopsis of the budget in a newspaper of general circulation, advertise a public hearing, and hold the hearing. The hearing must be at least seven days prior to the adoption of the budget, and notice of the hearing must be provided at least seven days prior to the hearing.
- ▶ If the proposed budget provides for an increase of at least 1 percent above taxes levied the previous year due to an annual or general reassessment, the locality must hold a separate public hearing, which must be advertised at least 30 days in advance.
- ▶ The local budget must be adopted and tax rates set by July 1.

Local Budget Process

- ▶ Adoption of the budget does not mean that funds have been appropriated. The governing body may appropriate on an annual, semiannual, quarterly, or monthly basis.
- ▶ For FY 2021, there has been more interest among counties in appropriating quarterly instead of annually, due to the economic uncertainty surrounding the pandemic.

Major Sources of Local Revenue

(Source: Fiscal Analytics, Ltd.)

Reliance on Local Source Tax Revenue			
	Cities	Counties	Large Towns
Real Property	45.1%	54.8%	23.3%
Personal Property	8.8%	12.4%	3.6%
Local Sales Tax	6.6%	5.5%	7.4%
BPOL	4.9%	2.9%	9.5%
Transient Occupancy	1.8%	0.8%	4.5%
Meals	6.1%	1.0%	18.8%
All Other	26.6%	22.7%	32.8%

Pressures on Local Government Budgets

- ▶ Localities are shouldering significant costs for jointly-funded services, such as K-12
 - ▶ Between FY 2009 and FY 2018, local expenditures for K-12 operating costs grew by more than 25 percent, while state support grew by approximately 10 percent (Source: Fiscal Analytics, Ltd.)
 - ▶ In FY 2018, localities spent \$8.3 billion in K-12 operating funding, while the state contributed \$6.7 billion.
- ▶ Local responsibilities continue to become more complex
 - ▶ For example, localities are responsible for meeting new security standards for local IT systems that connect to the state's voter registration database
 - ▶ New behavioral health standards for local and regional jails are being developed.
 - ▶ Growth in Children's Services Act costs is a strain on local budgets.
- ▶ Local ability to raise revenue is limited.
 - ▶ Legislation enacted in 2020 will extend additional taxing authority to counties, to draw closer to parity with the existing authority available to cities and towns, a major step forward in revenue diversification for counties. Even with this additional authority, however, real and personal property taxes are expected to continue to be a mainstay of local budgets.

COVID-19 Pandemic Has Created Uncertainty for Local Budgets

- ▶ The sharp economic contraction caused by the pandemic has inflicted significant damage on local revenue sources.
- ▶ State aid to localities is challenging to predict given the changing revenue situation at the state level.
 - ▶ At the April reconvened session, the General Assembly “unallotted” \$2.4 billion in spending over the biennium pending a revenue reforecast. Much of this spending relates to services delivered in partnership with localities, such as K-12.
 - ▶ A special session is planned for late summer at which the biennium budget will be reworked in accordance with the revised forecast. It is unknown how much, if any, of the unallotted funding may be restored.
 - ▶ VACo and VML have requested that the Administration and the legislature preserve aid to localities and avoid making permanent, structural budget reductions.
- ▶ Costs to reopen schools in the fall are expected to be significant.

A First Guess at Local Revenue Losses

(Source: Fiscal Analytics, Ltd.)

Base Case Local Revenue Loss from COVID-19 Economic Shutdown				
	FY 20 Est. Revenue Loss	% of local rev.	FY 21 Potential Revenue Loss	% of local rev.
Cities	\$248,110,581	3.7%	\$522,037,005	7.9%
Counties	\$372,263,495	2.6%	\$898,103,510	6.2%
Large Towns	\$26,928,667	7.6%	\$42,376,707	11.9%