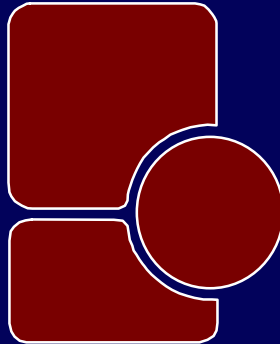


Joint Legislative Audit and Review Commission
of the Virginia General Assembly



State/Local Relations and Service Responsibilities

Briefing to the
State and Local Government Services and Responsibilities Subcommittee
of the Commission on Revision of Virginia's State Tax Code
On JLARC's 1992 Report
State/Local Relations and Service Responsibilities

Kirk Jonas

August 18, 2003

Background

- In 1991 JLARC was asked by the General Assembly in SJR No. 235 to examine State/local relations and service responsibilities to:
 - Identify specific governmental services and the provider of those services, and
 - Identify whether the responsibility for any services needed to be changed, e.g. a State service should be performed at the local level or a local service should be performed by the State
- JLARC staff examined the service delivery structures in the context of changes the Commonwealth had undergone in the past several decades. JLARC released its report in 1992.
- This presentation summarizes key report findings with updates where relationships have changed. It has been reviewed by VML and VACO staff.

JLARC's State/Local Relations and Service Responsibilities Report (1992)

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- The report took a broad view of major State/local relationships, based on extensive interviews with State and local officials, literature reviews, focus groups, and other methods.
- Most data in this briefing are presented as they were reported in 1992. *Where updates have been made they are italicized.*

Overview of 1992 Report Findings

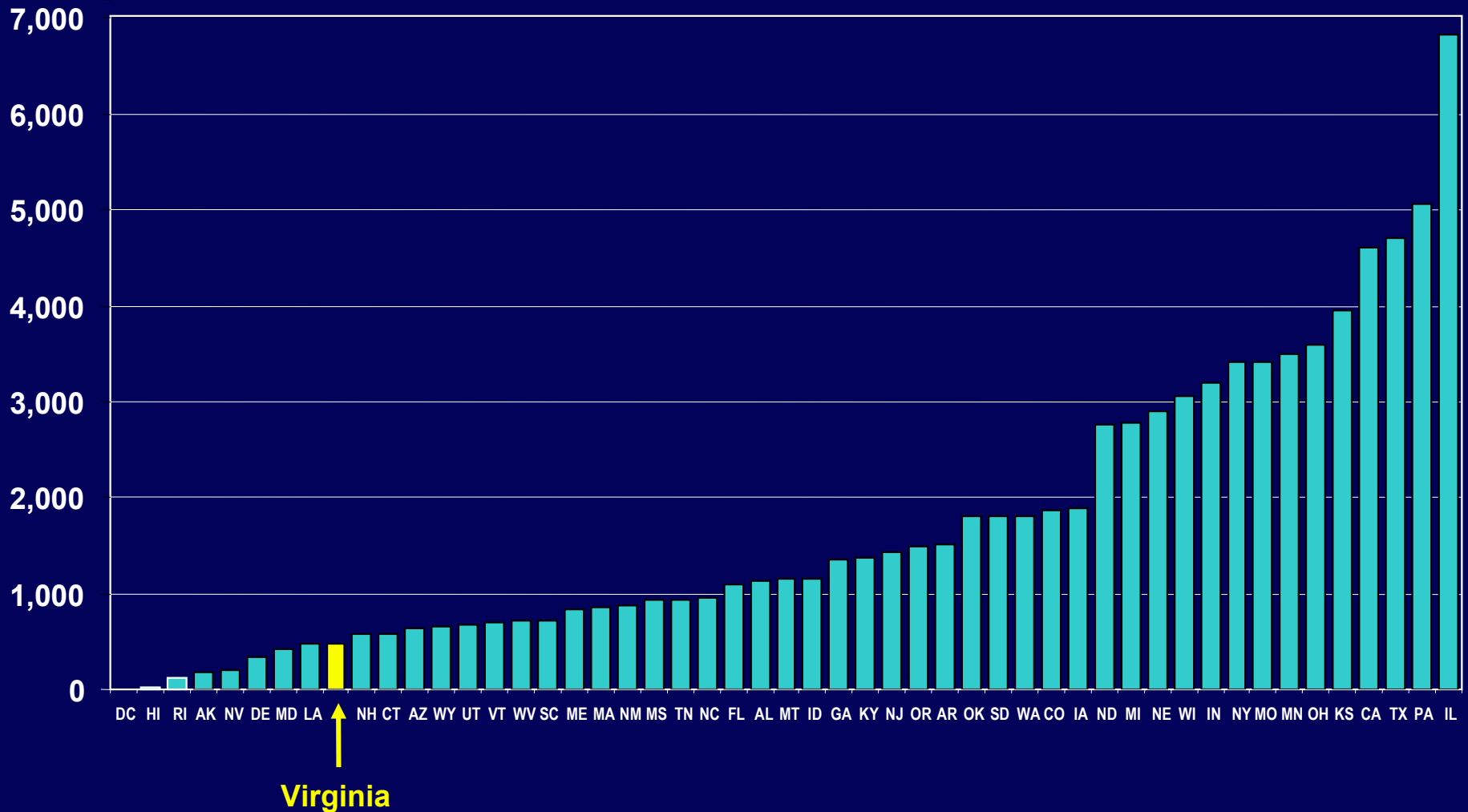
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- Overall, JLARC staff found that Virginia's governmental structure was sound. That structure is still fundamentally in place. Virginia had been widely recognized as a leader among states in its strong government management.
- Strengths of Virginia include:
 - Streamlined government size and structure compared to other states;
 - Sound financial management; and
 - Low rates of State/local taxation.
- However, service responsibilities of the State and localities evolved over the years in a sometimes piecemeal approach, and had not always kept up with the changing social and economic conditions in the State.

Number of States' Governmental Units

(Updated for Aug 18 Briefing; Virginia rank dropped one place; from 10th to 9th.)

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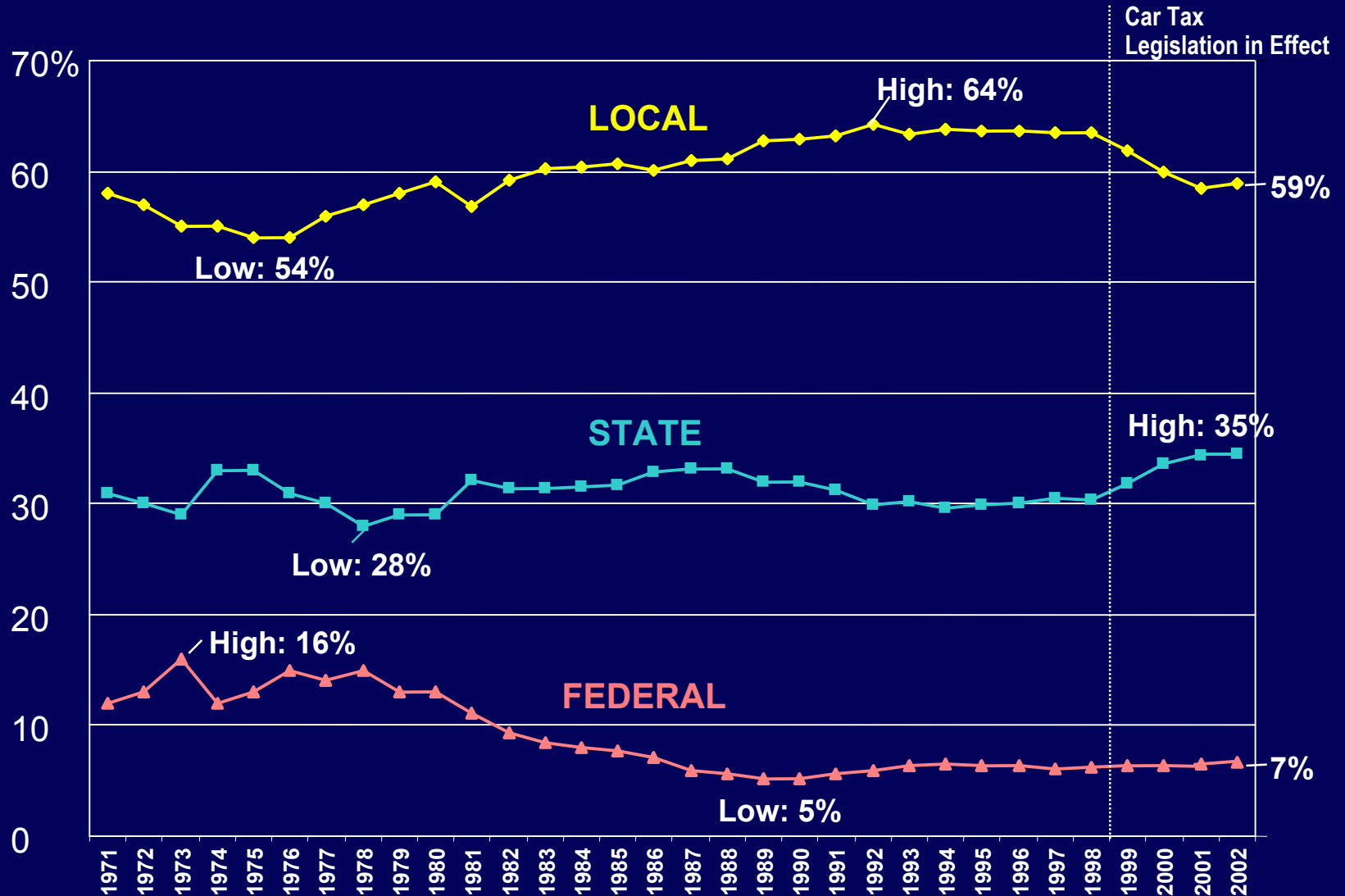
Overview

- The 1992 JLARC report substantiated officials' concerns that there was an imbalance between services provided and the revenue-raising abilities of the providers.
 - Localities funded about ten percent more locally-provided services in 1992 than they did a decade earlier, despite maintenance of State-funded efforts over that period. *Since that time the State share has increased.*
- The study examined the alignment of service and funding responsibilities in six major areas:
 - Transportation
 - Education
 - Human Services
 - Environmental Protection
 - Administration of Justice
 - General Administration

Funding Sources for Cities and Counties FY 1971- 2002 (Recent Years Added) (As Percentage of Total Funds)

Source: APA Comparative Cost Reports

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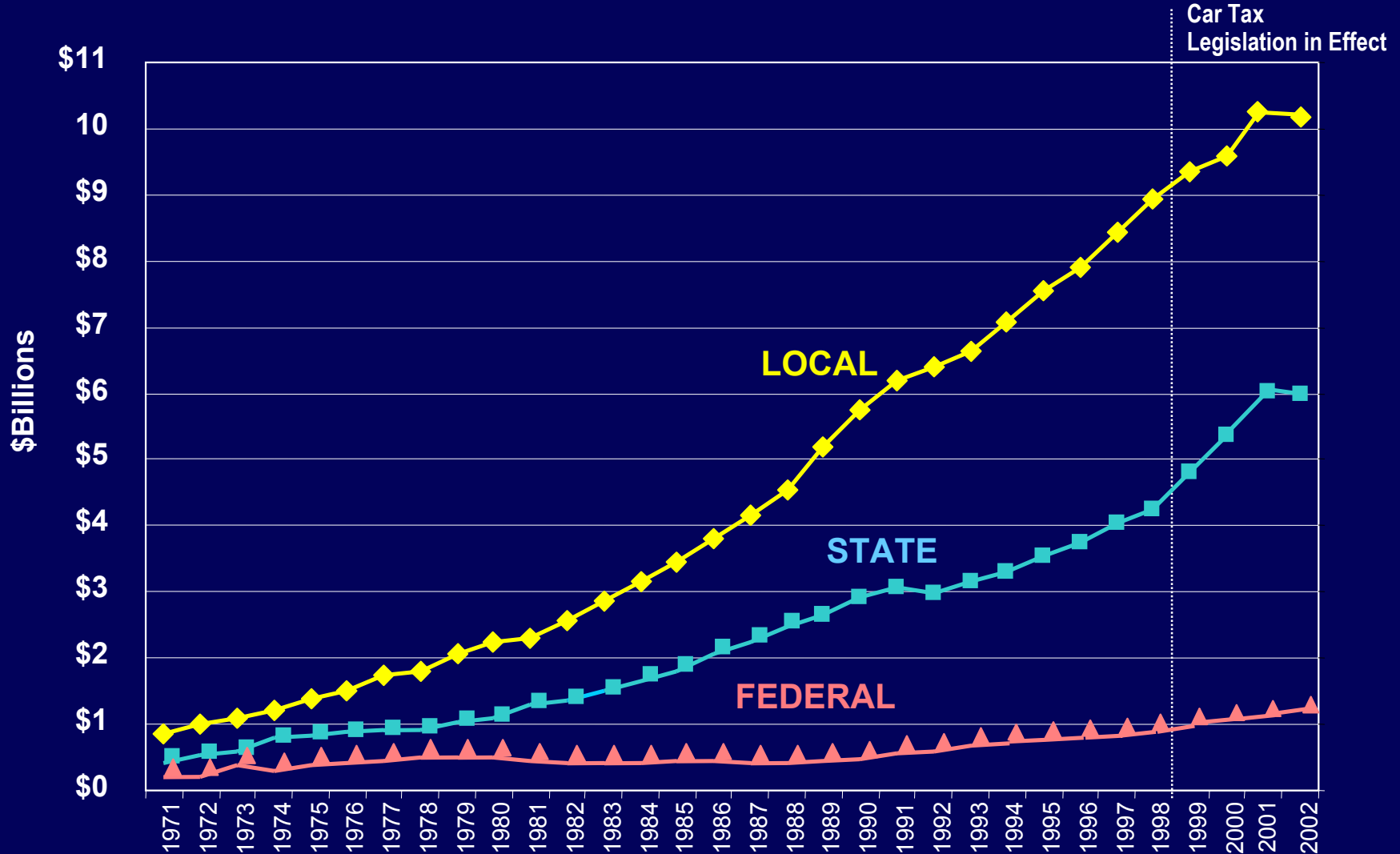


Funding Sources for Cities and Counties

Actual Dollars

FY 1971- 2002 (*Recent Years Added*)

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Transportation

- **Transportation in Virginia is marked by a significant level of State involvement both in terms of funding and service delivery.**
 - **The State is responsible for construction and maintenance of the primary system, interstate system, and most county roads.**
 - **Cities and two counties are responsible for most aspects of their streets and roads, although the State provides significant financial assistance.**
- **The current assignment of responsibility for providing transportation services was found to be generally appropriate.**
- **However, local officials cited the need for additional roads. Further, the lack of local flexibility in some transportation activities was raised. *Some local flexibility has been granted. In addition, some urban and suburban counties have committed local debt to accelerate projects.***

Education: State/Local Funding of the SOQ

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- **Article VIII, Section 2 of the *Constitution of Virginia* provides that the General Assembly:**
 - “determine the manner in which funds are to be provided for the cost of maintaining an educational program” meeting the SOQ
 - “shall provide for the apportionment of the cost of such program [the SOQ] between the Commonwealth and the local units of government comprising such school divisions”
- **From the Commentaries on the Constitution of Virginia:**
 - “The [General] Assembly must, by whatever means, see that sufficient funds, state and local, are available to maintain a quality program in every school division in the Commonwealth.”
 - “Section 2, in short, places a duty on both the localities and the General Assembly: the localities must put up their share of funds for public schools as determined by the General Assembly, and the General Assembly must see that State and local funds together are sufficient to meet the prescribed standards of quality.”

Education

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- Education is a locally provided service with a high level of State supervision and funding. It is the largest expenditure area for local governments and accounts for the largest share of State aid.
- Many localities provided considerably more local funds than required to fund the local share of the SOQ costs as calculated by the State in FY 1992. This continues to be true.
 - In FY 1992, variations in appropriations over the minimum required ranged from one percent in Bland County to 269 percent in Charlottesville. *In FY 2003, variations in local appropriations over the minimum required range from 12 percent in Bland to over 200 percent in some school divisions, with a statewide average of about 130 percent.*
 - Localities have been concerned about the burden of education costs that are not recognized by the State.
- School construction is clearly defined in the *Code of Virginia* as a local responsibility. Over the years, the State has provided construction assistance, principally in the form of lowering financing costs with low-interest loans. *In FY 1999, the State began funding a construction grants program.*

Health and Human Services

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- Health and human services are provided to Virginians through a variety of State, regional, and local entities.
 - The structure has evolved incrementally over the last several decades. Programs and services were implemented in response to recognized problems and issues.
- State and local officials cited the need for a more integrated approach to human services.

Social Services

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- **Social services are State-supervised but locally-administered, with substantial federal funding and mandates.**
- **The existing system of social services did not have clearly defined State and local responsibilities.**
 - **The system is complex, involving multiple levels of governments and varied funding streams. For example, in 1989 DSS identified 52 match rates for the funding streams used to support local programs.**
 - **State and local officials described the structure of social services as complicated, leading to a blurring of the division of responsibility.**

Land Use and Environmental Protection

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- Environmental protection is mandated by the *Constitution of Virginia* and implemented largely by localities.
- Local governments are responsible for land development including planning, zoning, and subdivision regulation. They are responsible for collecting solid waste, operating landfills, and developing management plans.

Administration of Justice

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- The JLARC staff review of the administration of justice service delivery area focused on three services:
 - Law enforcement
 - Jails and correctional facilities
 - Courts
- Services in this area are generally being performed and funded by the appropriate level of government.
- *State financial incentives during the early- and mid-nineties encouraged jail regionalization.*

Law Enforcement

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- Law enforcement is generally a locally provided service. Law enforcement services for many cities, towns, and nine counties are provided through local police departments and through sheriffs' offices for the remaining counties.
- However, State funding for local law enforcement treats localities inequitably based on the method of law enforcement service delivery. In FY 1991 State aid accounted for almost 62 percent of law enforcement expenditures in localities without police departments, but only 16 percent in localities with police departments.

Local Jails

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- **Local jails are operated by local governments with substantial amounts of State funding. (State funding accounted for about 86 percent of the typical jail's operating budget.)**
- **Local jails are only one component of the State's criminal justice system. As such, jails are clearly impacted by actions of the other components of this system.**
- ***Regional jails currently play a larger role than in 1992.***

Court System

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- The majority of the court system's administration and funding was assumed by the State in 1973.
- However, certain support staff, including court security and civil process deputies, clerks of the court staff, and judges' support staff, are funded by both the State and local governments.
- *Court construction and security can be mandated by judges and must be funded by localities.*

General and Financial Administration

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- Most service delivery responsibilities in this area are primarily local in nature and were appropriately assigned.
- Some specific issues, such as the transfer of State income tax processing from local financial officers (commissioners of revenue and directors of finance) were addressed by the report.
- The roles of various constitutional officers were addressed in different parts of the report.

Adequacy of Local Resources

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- National indicators of states' revenue capacity indicated that Virginia has above-average revenue raising potential and below average tax effort.
- Virginia's State taxes were typically lower than surrounding states while local taxes were higher.