

Comments about the Recommendation to Create A Permanent Fiscal Studies Commission

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The Commission to Study Virginia's State and Local Tax Structure for the 21st Century (HJR 578/1999) which published its report in 2001 recommended the creation of a permanent fiscal studies commission modeled after the Revenue Resources and Economic Study Commission (RRESC) that existed from 1968 to 1979.¹ Earlier, the Commission on State Local Government Responsibility and Taxing Authority had made a similar recommendation in its 1998 report.² Also, the 1999 General Assembly considered a bill (SB 1114) calling for the creation of a new RRESC. The bill passed the Senate (40-0) but died in House Rules.³ I have been asked to give my views on the recommendation for a new RRESC based on my experience with the previous RRESC.

I was the first staff director of the commission. Later, after I had left Richmond to work at the University of Virginia, I served as a consultant. Finally, in the last years of the commission I was appointed as a member. In gathering information for this testimony I have relied on memory, past publications, and conversations with a few people familiar with the commission. I think I have most of the facts straight, but given the number of years that have passed and the limited time I could devote to this task, there may be some inaccuracies.

The commission was created to study the tax structure and sources of revenue of the Commonwealth and its local governments, especially the division of sources of revenue between the state and the localities, and to recommend reforms. The commission

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¹ The commission's recommendation is provided in Appendix A.

² "Having worked on revenue and services issues for the past three years, we understand that we have only begun to scratch the surface. Due to the complexity, depth and ongoing evolution we support the creation of a permanent commission to be made up of state and local government officials as well as individuals from the private sector. This commission would continue this work by conducting an in-depth examination of state and local taxes, including (i) the taxation of farm land, (ii) local government's dependence on the real estate tax, (iii) the appeals process for all local taxes, and (iv) the expansion of the retail sales and use tax in the areas of services and Internet sales." *Final Report of the Commission on State and Local Government Responsibility and Taxing Authority* (House Document No. 88, 1998), page 17.

³ The bill called for the RRESC to be in the legislative branch of state government and to be staffed by personnel from the Division of Legislative Services with assistance from the Department of Taxation. <<http://leg1.state.va.us/cgi-bin/legp504.exe?991+sum+SB1114>>

was made permanent in 1973 and its name was changed slightly to the Revenue Resources and Economic Commission. The commission's last year was 1979.

Over its lifespan the commission was composed of a minimum of twelve to a maximum of fifteen members. (See the table in Appendix B.) Membership was comprised of senators, delegates, and the public. Initially, the Governor appointed seven public members but in its later years the balance shifted to General Assembly members with only three public members. The first chairman was Senator Leroy Bendheim. In 1976 Delegate Carrington Williams became the chairman.

Of the twenty-six commission members who were members of either the Senate or the House all but six served on the House Finance Committee, Senate Finance Committee, or House Appropriations Committee at some point between 1967 and 1979. Delegate Edward Lane chaired the House Appropriations Committee for four years. The average term served on the commission was three and one-half years.

In the early years staffing was provided by research personnel in the Division of State Planning and Community Affairs. In 1972 the staff came from the Division of State Planning and the Department of Taxation with assistance from the Division of Legislative Services. Starting in 1978 the commission had its own five-person staff.

All of the staff directors were economists. Staff work was augmented with special studies by economic consultants. All of the staff reports were published separately from the commission reports. The staff served in the dual capacity of preparing its report and assisting the commission members with their report. The commission reports contained suggested legislation.

The commission covered many topics during its existence. A continuing topic was the long-term outlook for state and local government finances. Six-year projections were regularly updated. Some of the major topics covered were the administration of the local real property tax, property tax relief, the sales tax on food for home consumption relief, the BPOL tax, and the development of a uniform reporting system for local government finances. The commission regularly reviewed the state's major tax instruments with particular emphasis on the individual income tax. Many of the commission's recommendations were adopted into law. (For a listing of commission reports see Appendix C.)

With such a good record why was the commission terminated? I don't have a definitive answer, but my guess is that the emergence of a strong Senate Finance Committee staff was a major factor. Some other reasons may have been that the commission completed many of its goals and difficulty in replacing the staff director.

The basic question is, why should a new commission be created especially since there are now many finance staffs in Richmond? I don't have precise information about the expansion of finance staffs but my perception is that there has been significant growth in the number of staff members at the Department of Taxation, the Senate Finance

Committee, the House Appropriations Committee, the Joint Legislative Audit and Review Commission, and the Division of Legislative Services. Furthermore, there have been a number of study reports including those of the Commission to Study Virginia's State and Local Tax Structure for the 21st Century, the Governor's Commission on Government Finance Reform for the 21st Century (the "Bliley Commission")⁴, and the Governor's Commission on Transportation Policy that was chaired by J. Kenneth Klinge⁵. Some of this work is excellent and as time goes by more and more information produced by these groups is accessible on the web.

However, many products are not readily available and are not put in historical archives. Often, documentation for methodology and sources is lacking. Often the staff work is been constrained by political forces and staff does not have representation from the business and academic communities. My most serious concern is that most of the work represents a short-range view that rarely extends beyond a biennium and there is little attempt to see the big picture that takes into account state and local government revenues and expenditures. There is a need for analysis on an ongoing basis of the finances of state and local governments. The only recent comprehensive, long-range study was one sponsored by Virginia Forward, a private business group.⁶ Virginia state government does not publish any long-term expenditure projections. Without such projections, the six-year revenue forecasts provide only half the story. Furthermore, even though state and local finances are bound together like Siamese twins, all too often the studies that are done relate to one or the other level of government without showing how one affects the other.

I think a new RRESC could fill the role of taking the long view of three biennia and showing where the Commonwealth is headed using various reasonable scenarios about revenue sources and expenditure programs. I think it is important to have a commission with majority representation by members of the General Assembly but also with at least four members from local government, business, and the academic community. The commission should have its own staff director, located in Richmond, who has graduate training in public finance and public policy analysis. The staff director should have a small staff of two or three and sufficient funds to contract for special consulting studies to augment the work of the staff. I would like to see the development of more public finance expertise in Virginia, so I would have a preference for contracting for academic research with public and private colleges and universities located in the state. The RRESC staff would be expected to take advantage of the large amount of information available from existing finance staffs and would be expected to lead the effort to make fiscal information widely available. The new RRESC should follow the precedent of the old in regard to separate staff and commission reports. Such a policy would help to attract quality people to staff the commission and would result in the release of staff reports and studies that would be well-documented and objective.

⁴ *Report of the Governor's Commission on Government Finance Reform for the 21st Century* (December 17, 2001).

⁵ *Final Report of the Governor's Commission on Transportation Policy* (December 15, 2000).

⁶ See: Barents Group LLC of KPMG, *Virginia's State and Local Tax Structure: Recent Performance and Restructuring Options*. Prepared for Virginia Forward. December 1999. <http://www.virginiaforward.com/financial/tax_struct.PDF>

I concur with many of the observations about a new RRESC that were made by the Commission to Study Virginia's State and Local Tax Structure for the 21st Century. The only recommendation about which I differ is the proposal that a significant majority of the members should come from nongovernmental entities. I think that having legislative members in the majority is a better idea, as long as there are several slots for people from local government, business, and the academic community. That way, the new RRESC would also serve as a source of information for the legislative participants and the non-legislators would benefit from their expertise and political judgment. Also, when legislative members agreed with recommendations of the commission, they would be in a position to sponsor legislation.

In conclusion, I endorse the idea of a permanent fiscal studies commission. The Commonwealth of Virginia is a modern, urban state with more than 7 million people. The state government has a \$27 billion dollar annual budget and the local governments account for billions more. For such a large enterprise we need to have a clear picture of where we are headed. A new RRESC commission would provide major assistance in analyzing fiscal problems and developing solutions.

Appendix A

Recommendation for a Permanent Fiscal Study Commission By the Commission to Study Virginia's State and Local Tax Structure for the 21st Century (HJR 578/1999)*

We recommend that a permanent body be created with broad public and private representation to offer on a continuing basis critical and objective comment on the long-term trends affecting state and local fiscal resources and service responsibilities.

The breadth and complexity of the issues referred to this Commission for consideration suggest the desirability of the establishment in the Commonwealth of a permanent body, comparable in nature and role to the Revenue Resources and Economic Study Commission created initially by Senate Joint Resolution No. 15 in 1968, to analyze on a continuing basis the fiscal needs and resources of Virginia's state and local governments. The constant creation of *ad hoc* study groups by the legislature during the past decade underscores the need for the existence of a permanent body, detached from any partisan or institutional interests, to cultivate and maintain an expertise in state and local fiscal matters. To that end, we recommend that the membership of the proposed commission be broad-based, with representation from both the public and private sectors, but with a significant majority of the members being from nongovernmental entities. This proposed commission should be constituted and empowered so as to see beyond immediate political and institutional interests and enabled to offer critical and objective comment on the long-term trends affecting state and local resources and service responsibilities. To ensure continuity, the members should be appointed for multi-year staggered terms. The members should be eligible for reimbursement for all reasonable and necessary expenses but should not receive reimbursement for their service. In terms of its role, the commission would be available to undertake analyses at the request of the legislature, to examine issues designated for study by a majority of its membership, and to issue advisory reports on state and local fiscal concerns on a periodic basis, but not exceeding four-year intervals. The proposed commission should be granted a budget to carry out its activities independently. While this entity should be assisted in its work by the staffs serving the relevant state legislative and executive agencies and local governments, it should also be supported by a small independent staff.

* Commission of Virginia's State and Local Tax Structure for the 21st Century Final Report and Related Documents (June 2001), pp. 34-35.

Appendix B

Revenue Resources and Economic Study Commission Members

Commissioner	Appointed By	Year of Service												Total	
		67-68	68-69	69-70	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79		
Dr. Thomas C. Atkeson	Governor	x	x												2
Sam T. Barfield	Governor			x	x	x	x	x	x	x	x				8
Leroy S. Bendheim	Governor										x				1
William F. Blocher, Jr.	Governor											x	x		2
Robert Block*	Governor					x	x								2
Lawrence H. Camp	Governor	x	x												2
H. Dunlop Dawbarn	Governor			x	x										2
Dr. Harmon H. Haymes	Governor					x	x								2
Edwin Hyde	Governor			x	x										2
George W. Jones	Governor			x	x										2
John L. Keddy	Governor			x	x										2
Dr. John L. Knapp	Governor							x	x	x	x	x	x		6
J. Cleveland Lucy	Governor	x	x												2
Wiley F. Mitchell, Jr.	Governor			x	x	x	x								4
C. H. Morrissett	Governor	x	x												2
Herbert C. Mosely	Governor	x	x												2
Wilfred Mundle	Governor					x	x								2
Raymond Munsch	Governor					x	x	x	x	x	x	x	x		8
Richard D. Robertson	Governor	x	x												2
Maynard H. Sayers	Governor											x	x		2
Wirt W. Shapard	Governor	x	x												2
T. George Vaughn, Jr.*	Governor			x	x	x									3
Willis M. Anderson	House	x	x	x	x										4
Bernard G. Barrow	House											x	x		2
Russell L. Davis	House			x	x										2
Garry G. DeBruhl	House									x	x				2
Robert E. Gibson	House	x	x	x	x	x	x								6
George W. Jones	House							x	x	x	x	x	x		6
Edward W. Lane	House	x	x												2
Joseph A. Leafe	House							x	x	x	x	x	x		6
Willard L. Lemmon	House			x	x	x	x								4
Herbert N. Morgan	House					x	x								2
Stanley A. Owens	House							x	x						2
Owen Pickett	House							x	x	x	x	x	x		6
Lester E. Schlitz	House					x	x	x	x						4
Alson H. Smith, Jr.	House									x	x	x	x		4
Warren G. Stambaugh	House											x	x		2
Carrington Williams	House	x	x					x	x	x	x				6
George S. Aldhizer, II	Senate						x	x	x						3
Leroy S. Bendheim	Senate	x	x	x	x	x	x	x	x	x					9
Edward L. Breeden, Jr.	Senate	x	x												2
A. L. Brault	Senate			x	x	x	x								4
Edward T. Caton, III	Senate			x	x	x									3
Dudley J. Emick, Jr.	Senate									x	x	x	x		4
Garland Gray	Senate	x	x												2
J. Harry Michael, Jr.	Senate			x	x	x	x	x	x	x	x	x	x		10
Elliot S. Schewel	Senate									x	x	x	x		4
George M. Warrren	Senate	x	x												2
Number of Members		15	15	15	15	15	14	12	12	13	13	13	13		

Source: *Annual Report of the Secretary of the Commonwealth* (selected years)

*Resigned

Appendix C

Reports by the Revenue Resources and Economic Study Commission

Staff Report to the Revenue Resources and Economic Study Commission (1970)

Fiscal Prospects and Alternatives (Staff report, 1971)

Report of the Revenue Resources and Economic Study Commission to the Governor and the General Assembly of Virginia (1971)

Fiscal Prospects and Alternatives (Staff Report, 1974)

Report of the Revenue Resources and Economic Study Commission to the Governor and the General Assembly of Virginia (Senate Document 15; 1974)

Report of the Revenue Resources and Economic Study Commission to the Governor and the General Assembly of Virginia (Senate Document 20; 1976)

A Comparative Analysis of Public Utility Taxation in Virginia (1975)

Report of the Special Governor's Committee to Study State Franchise and License Taxes Applicable to Public Service Corporations in Virginia to The Governor and the General Assembly (House Document 23; 1976)

Revenue Resources and Economic Study Commission Report to the Governor and the General Assembly and Local Fiscal Issues a Staff Report (1977)

The Taxation of Real and Personal Property in Virginia (Staff report, 1978)

A Study from Revenue Resources and Economic Commission on Local Fiscal Reporting to the Governor and the General Assembly of Virginia (Senate Document 10; 1978)

Report of the Revenue Resources and Economic Study Commission on Sales Tax on Vending Machines to the Governor and the General Assembly of Virginia (Senate Document 10; 1979)

Report of the Revenue Resources and Economic Study Commission on Real Property Taxation to the Governor and the General Assembly of Virginia (Senate Document 11; 1979)

Report of the Revenue Resources and Economic Study Commission on Personal Property Taxation to the Governor and the General Assembly of Virginia (Senate Document 9; 1979)

Inflation and the Virginia Income Tax / Personal Property Taxation in Virginia Localities / Transportation Taxation in Virginia (1979)

A Comparative Analysis of Public Utility Taxation in Virginia (prepared by William F. Hellmuth, Larry G. Beall and George W. Jennings)

Transportation Taxation in Virginia: an Interstate and Intermodel Analysis (prepared by Charles J. Gallagher and George E. Hoffer)

