



TAX REFORM: High Tax. Low Growth.

**Mayor Andy McKenzie
City of Wheeling**

June 9, 2015

Simplicity. Efficiency. Fairness.

– John Deskins, PhD West Virginia
University

1. What local needs remain unmet?

- Infrastructure
- Pensions
- Dilapidated buildings

2. What is the present capacity to generate revenues?

- Limitations and opportunities

In Appalachia, WV cities have the lowest share of revenue from state government in total municipal revenue – below the national average.

However, West Virginia has the highest share of charges and miscellaneous general revenue in total revenue.

3. In order to cope with limited capacity to raise revenue, what have cities relied on for revenue sources and with limited statutory authority?

City of Wheeling General Fund: \$32 million

- **34%:** B&O
- **10%:** Property tax
- **54%:** Licenses/service fees
 - Fire service, ambulance, sanitation reimbursement, cable franchise, parking/ moving violations, utility, hotel/motel
- **2%:** Sales tax

State-wide

41%: B&O tax yields largest revenue share in the municipal general revenue from own sources.

21%: Property tax is second largest single revenue source for local municipalities.

Total of all charges, licenses and fees surpasses the share of property tax and brings 29% of total municipal general revenue from own sources.

West Virginia municipal general revenue sources show that B&O tax, property tax, and the total municipal charges, licenses and services fees are the three largest revenue sources, accounting for 91% of total general revenue.

4. In what ways are local taxes, or the administration of local taxes, antiquated, inefficient, anti-competitive, unfair, or overly complicated? What are your ideas to fix them?

For more than 150 years, the legislature has taken a complicated tax code and made it even more complex.

Look at what works in other states.

Compare their approach to taxing personal income and property, entrepreneurship. What taxing authority do their local governments have and how is it coordinated with state tax policy?

Virginia

We share a mountainous border with Virginia, yet their tax structure fosters the nation's leading economic growth.

Residents in the Martinsburg community can justify doing business across the state line because of Virginia's tax advantages. Also applies to Huntington, Parkersburg, Wheeling, and Weirton with the state of Ohio.

Kentucky enacted tax incentives for manufacturing jobs and has grown their workforce while ours has declined.

This sector employed more in our state prior to World War II than it does today and offers more opportunity, high wages and excellent benefits.

A more progressive tax system will invite more business to West Virginia, not drive it away.

5. What state taxes are shared or levied on behalf of your local government or other interests of your local government?

- Property tax
- Sales tax

6. Municipal B&O taxes and certain personal property taxes levied on business have been held out as especially anti-competitive and detrimental. What are your ideas for reforming these to the extent your organization's membership is involved with either?

Property tax fairness

7. What responsibilities of state government should be devolved onto local government? How do you see this working?

Be competitive with taxes in neighboring states to spur growth for WV and attract investment.

Current structure penalizes retirees and veterans. Bold reform can incentivize them to make West Virginia their home.

Unless the tax system is streamlined, families and business have no future in West Virginia.

To improve financial health in West Virginia,
review:

1. Property Tax Valuation
2. Oil/Gas Economic Impact
3. Government Consolidation

Property Tax Valuation

Disconnect exists between property tax on selling price vs. assessed/appraised value

- Under market rate
- Losing revenue because of under-assessment

Challenges:

- Assessor education and training
- Political repercussions

We pay taxes in arrears – tax what we *have*, not what we *had*.

Wheeling had a fire service fee on personal property, and it was a constant struggle to find out what personal property people HAD in the past – so we eliminated it.

Logical starting point: county assessment of property tax

The code applies differently in all 55 counties. Why not a one-size-fits-all approach?

Restore fairness to property owners!



Tax Parcel W76-32
2015 Assessed Value: \$293,940
Property Tax: \$3,938



Tax Parcel W76-31
2015 Assessed Value: \$42,600
Property Tax: \$1,225



Tax Parcel W51-1013
2015 Assessed Value: \$700,860
Property Tax: \$20,154



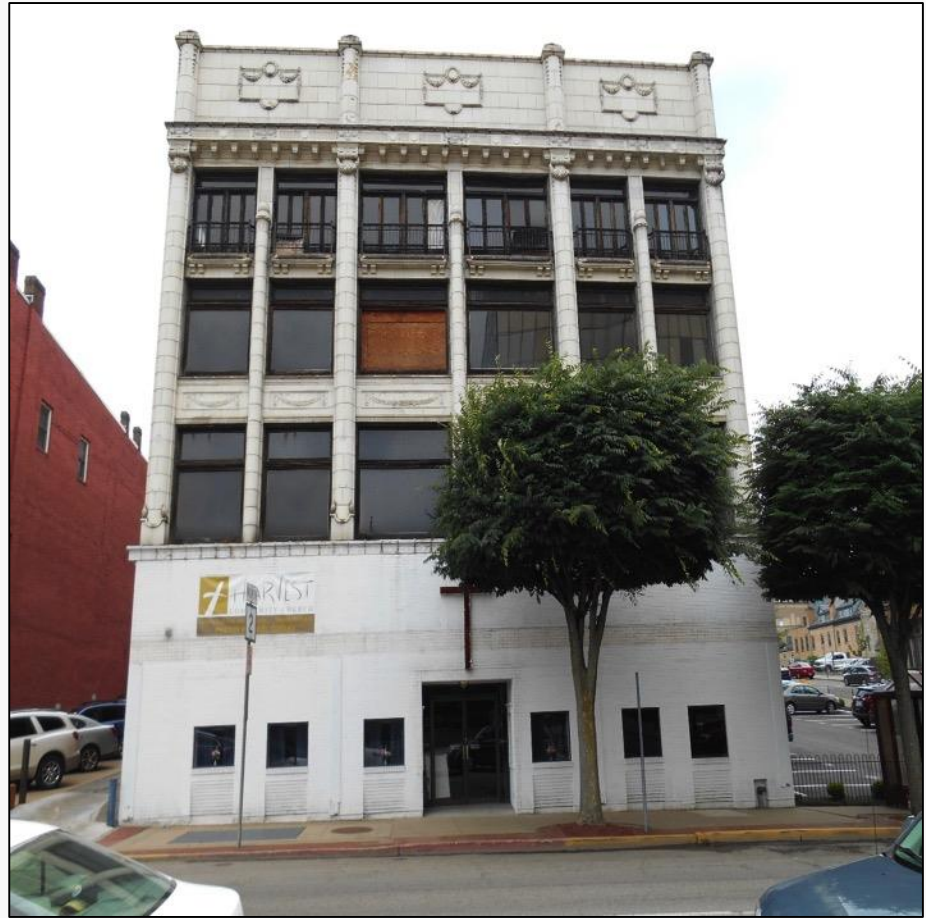
Tax Parcel W50D-103
2015 Assessed Value: \$15,720
Property Tax: \$449 *Sold to State*



Tax Parcel W50D-79

2015 Assessed Value: \$4,837,740

Property Tax: \$139,114



Tax Parcel W50D-101

2015 Assessed Value: \$55,020

Property Tax: \$1582



Tax Parcel W50B-117
2015 Assessed Value: \$620,040
Property Tax: \$17,829



Tax Parcel W50B-114
2015 Assessed Value: \$745,300
Property Tax: \$11,490

West Virginia has the 7th lowest property tax collection per capita in the U.S. – *John Deskins, Ph.D., West Virginia University*

Simplifying the way we tax personal property, corporations, sales, gasoline consumption and other goods and services will encourage manufacturing, mining and natural gas exploration.

Despite its stable tax base, revenue generation of the property tax is impeded by the rate limits brought by the 1932 Tax Limitation Amendment.

The same amendment created four taxable property classes, leading to a relatively large burden on the business property.

WV municipalities account for 34% of the total taxable valuations, while they capture only 7.8% of the property tax levies.

13 counties with Class I and II municipalities account for 47.6% of the total taxable valuations but capture only 10% of the property tax levies.

8. How is local government planning for structural changes to the economy that presently appear to be worsening, such as the contraction of the mining and gaming industries, which also portend precipitous revenue declines for local government?

Oil/Gas Economic Impact: Property values have only gone up in the local area in the last few years due to industrial users building new plants. We've not seen substantial property value growth in urban areas of WV. In fact, they have trailed inflation for the past 20 years.

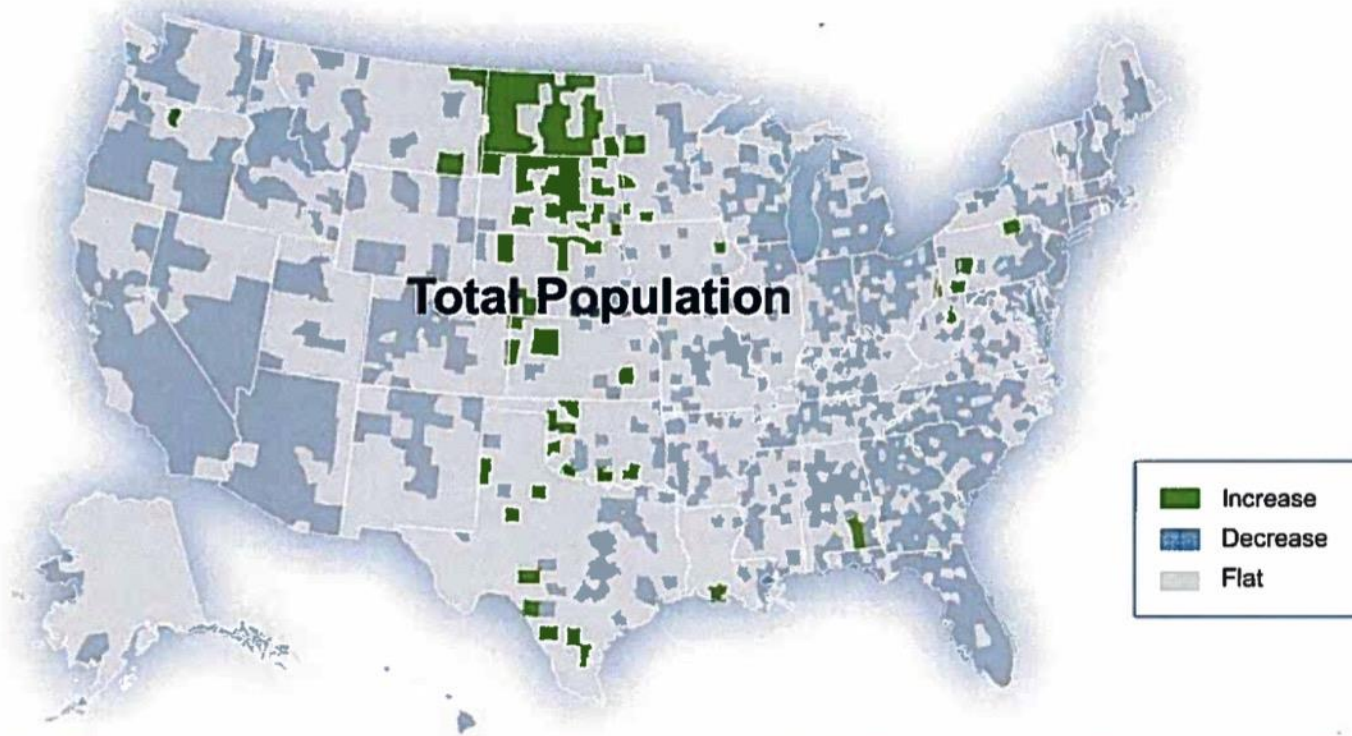
We need to tax the extraction of oil/gas at a higher rate in West Virginia, but reward companies for refining what's extracted with tax credits.

Seeing an immediate impact with high-paying jobs and want the opportunities for generations.

Household Income Has Benefited from the Energy Revolution¹

Changes in Median Household Income by County: 2007 – 2013

US median household income is \$52,250



Those states with exposure to the Energy Evolution have benefited the most

Government Consolidation

Low population density and population loss in West Virginia municipalities are serious impediments to revenue generation.

Flexibility is needed in local governments to manage local affairs. Important because the demands for services change over time.

Home Rule: Creates more efficiency

- Fixed pensions
- Changed sales tax
- Investing in streets, infrastructure, and economic development

Legislature still restricts municipalities – need to allow local government consolidation.

As difficult as change is, these fundamental solutions must be implemented.

Tax reform is critical to West Virginia growth and the livelihoods to which we all aspire. For a bright future it will truly make a positive difference in the way we live, work and play.

Source:

Municipal Finances in West Virginia: Forging a Course for Fiscal Stability – Mehmet Serkan Tosun, West Virginia University



The seal of the City of Wheeling, West Virginia, is a circular emblem. It features a central figure of a woman in classical attire holding a scale of justice. To her left is a building, and to her right are stacks of barrels. The text "CITY OF WHEELING" is arched across the top, and "WEST VIRGINIA" is arched across the bottom. Two stars are positioned on the left and right sides of the seal.

Wheeling
WEST VIRGINIA