

Discussion on Municipal Taxation and Recommendations

Lisa Dooley- Presentation to Joint Tax Reform Committee

Several of the issues of our discussion are contained in the attached study
“**West Virginia Public Finance Program Project Report**
Municipal Finance in West Virginia: Forging a Course for Fiscal Stability*

As background, there are 232 cities towns and villages in West Virginia today. The smallest, Thurmond with a population of 5 to the Largest, Charleston with a population just over 50,000. Even with that difference, most cities share more similarities than differences.

Breakdown of Classes: 232 Municipalities

50m and above Class I-	1
Less than 50m > than 10m Class II-	14
Less than 10m > than 2,000 Class III-	46
Less than 2,000 Class IV Towns and Villages-	172

It should be noted, there is no hierarchy of local government in West Virginia. Counties do not serve as supervisors for cities nor do they hold authority over cities. Unlike counties, Cities were created by their citizens and are the service providers for the state. They function as mini-legislative bodies enacting municipal laws for the benefit of their citizens

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while counties carry out state or constitutional mandates. General municipal services include: police and fire protection, parking facilities on the streets or otherwise, parks and recreational facilities, street cleaning, street lighting, street maintenance and improvement, sewerage and sewage disposal, and the collection and disposal of garbage, refuse, waste, ashes, trash and other unseen services mandated by the state and federal governments such as storm water maintenance and treatment.

The majority of municipal revenue are derived from the top three categories of B&O, Municipal Fees for Service and Property Taxes. Municipal B&O on average accounts for nearly 40% of municipal budgets. Other surrounding states also collect a gross receipts tax for municipal services. According to a study from 2003, West Virginia municipalities rely more heavily on municipal fees than any of the other Appalachia states and receive significantly lower amounts of property taxes.

Property taxes must be restructured. There have been dramatic changes in local government roles since the property tax distribution structure was created. For instance when the structure was set, unincorporated areas

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made up the majority of the state's population and counties maintained roads. Today, counties no longer maintain roads and Cities provide municipal services to citizens both inside and outside their boundaries. Municipal utilities serve more than 1 million customers and businesses.

Again, the majority of the assessed values of property lies within cities; yet, cities receive a small percentage of that property tax. That means the municipal taxpayer is being unfairly asked to support areas outside their city in a greater proportion than the city in which they reside. The distribution of taxes should be in correlation to services provided.

Additionally, one would think that when we hear that the appraisal of property results in an increase that it automatically means higher taxes for the city. That is not the case. With the rollback provisions and procedures, more value may mean less tax dollars. It is time to change this provision as well. No one likes taxes, but the best tax is uniform, broad-based with everyone paying their fair share, and one that has a link to service provided. It should also take into consideration the escalating costs of service provision.

What is working?

1. **The Home Rule Pilot-** Municipal law is not static. Municipalities are a laboratory; and the pilot is testing innovative government ideas that may not necessarily be adopted statewide. What fits in the Eastern Panhandle may not work in Charleston and to force a one-size-fits-all method on municipalities usually ends up costing the local taxpayer money and puts a halt to development of any kind. In concert with the West Virginia Legislature and the Governor's Office, legislation respecting "Home Rule" represents the active, dynamic political and legal issues of West Virginia municipalities and offer means to find better solutions for municipal citizens and businesses.

The top three legislative issues born from the pilot are: municipal business licenses cut from as high as 77 to 3, a registration program for vacant and dilapidated buildings, fire insurance proceeds being held to clean up hazardous burned-out structures. A new revenue stream created to offset costs of municipal services including critical services in the 1% municipal

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sales tax collected and administered by the state then distributed back to cities participating.

2. Intergovernmental agreements and combined services. Countless examples of cities working together including but not limited to: providing water and sanitary sewer services, billing, trash pickup, purchasing, transportation issues, law enforcement, fire protection, emergencies, security, etc. Incentivizing these efforts or consolidation of government would be a positive change.

What is not working?

1. Federal and State preemption and agencies undermining the authority of municipal government: We are all aiming for the same goal. There must be a stop to allowing these agencies to kill gnats with sledgehammers.

Examples:

a. Changing legislation that blankets the state to repair one perceived local problem. Example: Preemption of local ordinances.

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b. Allowing old bureaucratic ways to hold Cities back and stopping them from acting on innovative solutions.

Example: Cities take the initiative to correct a huge on-coming problem such as the Chesapeake Bay Legislation and instead of the regulatory agency working with a city who is stepping out to solve the problem, they come down with fines and orders that kill innovative thinking and programs before they can be brought forward.

Our current tax system is a product of years of tinkering around the edges and the system that has evolved is expensive to administer, based on the economy of the past, and impossible for the average citizen to understand.

At the very minimum, enact a state system that is equitable, efficient, linked to services and simple (transparent).

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Municipal Recommendations

1. **Reform Property Taxes.**
 - a. **Evaluation of Assessment Practices-we need uniformity. There is a great disparity between property values and the assessment as outlined in Mayor McKenzie's examples. Education, counties and cities lose collections.**
 - b. **Streamline outdated, lengthy methods –its 2 years behind.**
 - c. **Pay on what you have, not what you had. Close gap in collections and loss of revenue when someone moves out of state.**
 - d. **Taxes that are generated within a city should be shared and distributed back to that city in a more equitable ratio. While the assessed value lies primarily in cities, between counties and cities, the county receives the largest portion of property tax. Cities providing the services should collect the majority of property taxes if property is within city limits. (see Municipal Study)**
 - e. **Transparency, elimination of credits that are not beneficial to state or cities**
 - f. **Complete evaluation of non-profit exemptions.**

2. **The creation of a statewide education levy to support the school systems equitably. This would allow for a reduction in property taxes as well as allowing for the taxes collected to be shared for services more equitably between cities and counties.**

3. **Local Government Autonomy- Let citizens decide what is best for their communities. Allow us to compete with our surrounding states.**

4. **Expand sales tax to capture services and professionals. (this would offset any losses of eliminating inventory tax)**

5. **Eliminate tax credits that are not producing results.**

6. **Eliminate preemption on current authority. Exemptions and piece meal reform has always meant a loss of revenue to local government, at local govt. expense. (With limited video lottery cities lost authority to tax machines, yet studies show majority of machines in cities in WV).**

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- 7. Support modernizing systems in the tax department to capture more information (include municipal fields to identify nexus for municipal taxation)**

- 8. Develop incentives for delivery of regional/shared services or consolidation between cities. Tier taxing distribution or levy at a higher level for consolidation and shared resources.**

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Questions from the Committee Staff

1. **What local needs remain unmet?** Revenue and flexibility to address aging infrastructure, pensions, housing, etc. all that will attract and retain business and citizens, uniform assessments on property taxes.
2. **What is the present capacity to generate revenues?** (Municipal Fees, B&O, Licenses, Property Tax, Hotel Motel) Speak to its adequacy, limitations and opportunities.
3. **In order to cope with limited capacity to raise revenue, have jurisdictions relied on revenue sources that approach the limits of statutory authority?** (B&O and property tax rollbacks come to mind) If so, speak to what the Legislature can do to improve the situation. Remove rollback and allow increase in caps or offer expansion for cities on B&O
4. ***In what ways are local taxes or the administration of local taxes antiquated, inefficient, anticompetitive, unfair or over-complicated, and what are your ideas about how to remedy such problems?*** More data collection at state level to assist cities, uniform assessments of real property, sales tax on professional services

COMMENTS on Questions 5 & 6 from: Joe Estep, Finance Director City of Charleston

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

Gas & Oil Severance Tax, Consumer Sales Tax – Liquor, IRP Fees, Liquor & Wine Licenses, Gaming Revenue (Table Games), Video Lottery, Property Tax (Regular-Current and Excess Levies) on Public Utilities, Coal Severance and City Consumer Sales & Use Tax (see attached scheduled for details).

The absence of detail that supports the remittance of the above taxes renders forecasting, analytical assessment and deviation explanations impossible. Provisioning of this information would greatly enhance my City's ability to understand trends and expectations. For example, the City of Charleston Consumer Sales & Use Tax remittance contains no information regarding the taxpayer name and amount, nor does it provide information regarding sales that were exempt from the tax. In an ideal world the City would receive a data set that included Taxpayer, Gross Sales, Tax-Exempt Sales and Tax Collected. This would not only allow for the proper deviation analysis but also provide the ability to trend different business sectors.

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

Clearly cities are not exempt from facing ever-increasing costs of providing essential services to its citizenry, including businesses that operate within the city boundaries. Undoubtedly, efficiency and technology are valuable tools for offsetting some of the costs but there is a limit to the contribution these items can make. Left with the need for a revenue stream to sustain service provisioning at an acceptable level, it should be one that is naturally "price escalated", easy to administer and not heavy laden with exceptions or exemptions. To this end B&O Tax is the only stream that meets these criteria and is sufficient in contribution amount to satisfy this need. Sales Tax contains too many exemptions (per se, organization exemptions and destination issues). Income Tax has its own issue of deductions, exemptions and credits that would require City compliance officers to become de facto IRS auditors.

I don't know of any tax that would be viewed by the business community as a "pro-business" tax. B&O Tax is the most effective and efficient method of providing resources for a city to continue creating a population center that provides the market within which a good business can thrive and create wealth for its owners and jobs that fuel the local economy. Cities play a key role in the total business model but it must have the resources to provide that service.

7. ***Municipal B&O taxes and certain personal property taxes levied on business have been held out as especially anticompetitive and detrimental. What are your ideas for reforming these to the extent your organization's membership is involved with either? B&O gets a bad rap. Other states have a gross receipts tax to fund services. It is a very low, broad based, self-reporting, uniform tax. More flexibility for cities to set rates.***
8. ***What responsibilities of State government should be devolved onto local government? How do you see this working?***
9. ***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? Local government does not have the capacity to plan on an industry collapse. Cities are working to reinvent themselves and have only one remedy to shrinking revenue: make cuts to services as revenue decreases.***