



**Priority Issues for General Assembly Delegation
and City Council Consideration**

September 6, 2011

1. **Investment:** Public investment in roads, parking facilities, water/sewer services, public gathering places and access can be, when economic studies project a positive return on the City's investment, an appropriate and essential ingredient in directing and fostering private investment. City Council should continue to identify public-private ventures where studies show that joint participation will enhance the economic prosperity of the City, broaden its tax base, and serve the interests of the citizens at large. Emerging decisions about the development of a comprehensive parking strategy for the resort area and public infrastructure to support the development of a headquarters hotel are two instances where public investment in infrastructure will be critical to ultimate success. Other projects on the horizon including Town Center/Pembroke area expansion, Burton Station and Newtown strategic growth area plans where all will require public investment in roads, utilities, parking and the like in order for these areas to attract private investment and bring the SGA plans to reality.
2. **Transportation:** Virginia Beach benefitted greatly from the Governor's initiative to build new road projects through the transportation financing package approved by the 2011 General Assembly. Despite this infusion of largely debt financed funds, many critical road and transit oriented projects, bridges that have significantly deteriorated, and road maintenance that now leaves 26.7% of the state's primary system rated deficient and 34.2% of the secondary/local roads deficient, remain.

Virginia Beach has been proactive in setting aside local dollars to address key transportation needs but the City must still adapt to the need to work regionally to meet its other transportation goals. Since the City has many local road building projects that remain unfunded, new or expanded revenue sources must be identified to address key points of congestion. The City Council must also take a leadership role in advocating the development of new revenue sources to finance wholly inadequate road construction and maintenance funding by the Commonwealth. In 2010 alone, the state transferred \$500 million out of construction funds and into highway maintenance. This while the Commonwealth's primary source of transportation funding, the gas tax, remains 17.5¢, the same level as in 1987 and equivalent in buying power to just 9¢ today. We encourage the City Council to advocate and the General Assembly to adopt an increase in the gasoline tax and index it to inflation.

Equally important, the City and State need to move as quickly as feasible to integrate light rail into the region's transportation network, connecting it to higher speed passenger rail running north and south. City Council is encouraged to take steps to expedite the completion of the Alternatives Study for the light rail extension, as soon as actual usage data is available, so that the project can be moved forward for funding consideration. Likewise, the General

Assembly is encouraged to provide a dedicated source of funding for the rail operating fund it established during the 2011 legislative session. This fund is critical for Virginia to compete for federal funding by providing match funds for capital costs associated with passenger rail and funds that will be required by 2013 to support existing and new operating for passenger rail service.

3. **Military Affairs:** The complex relationships between federal agencies and facilities and local government has continued to evolve as new strategic military planning and budget pressures challenge the military and host communities to adapt. The replacement of components lost at JFCOM, the retention of all carrier task forces and the addition of the LCSs, the future of additional capacity for practice and training, nailing down agreement for the location of additional radar to plug the gaps caused by existing high rise buildings, the potential partnerships to share the off shore environment so that Naval training and off shore energy exploration and production can co-exist, and the reduction of encroachment around all military facilities, all are essential issues to be resolved. Success will require the ultimate in inter-governmental relations as federal, state, regional, and local partners must seek the best solutions. It is increasingly critical that the city continue to offer aggressive and proactive leadership in identifying and negotiating issues that could impede the retention and expansion of military interests or the future growth of new and expanding industries in the city.
4. **Public employee benefits:** City Council's support for enabling legislation that would provide a local option for local government employees' to contribute up to 5% to their retirement plan is most appropriate. Unfortunately, despite the 2011 General Assembly adopting this provision for state employees, they defeated legislation to allow local governments the same fiscal management tool. This and other employee benefit reforms will similarly require legislative action and City Council is encouraged to actively support expanded local option in addressing this rising source of local government debt.

In a national study released by the Pew Center, the pension and health-care funding gap for public workers increased by 26% over the previous year. Cities and states all around the nation face the “ticking time” bomb of unfunded liabilities created by the costs of defined benefit plans for employees now and in their retirement. Just for pensions alone, the city’s annual contribution to VRS nearly doubled from \$24.4 M to \$47.1 M in FY'2010 yet local governments remain handicapped by the State’s failure to provide benefit package options and alternatives to our cities and counties. We urge City Council to work with other localities in Hampton Roads, the VML/VACCO, our delegation to the General Assembly, and the business community to lobby for enabling legislation that will empower localities to provide defined contribution plans in lieu of defined benefit plans, allow greater flexibility to modify retirement service and age qualifications, and require local employee contributions to their benefit packages.

5. **Parking Strategy for Strategic Growth Areas:** The gradual movement toward an urban policy for the SGAs is a significant evolution in our city’s continual transformation from an agricultural community, to a suburban mecca, and now to a city with both of the former, but a new trend toward urban revitalization as well. Public transit makes this both possible and

financially feasible, but we must deal with parking to ensure we create pedestrian friendly environments in each SGA. The success of the city's Strategic Growth Area Plans will depend in part on development of a parking strategy specific to the needs of each SGA. Private sector transit oriented development can significantly increase new development that enhances property value and tax revenue but it will only be realized if parking is addressed in a comprehensive way.

6. **Inter-governmental relations:** Virginia Beach has continued to do a remarkable job of adapting to the recession's effects on local revenue and the cuts made by the Commonwealth, while maintaining the lowest real estate tax rate in the region. The continued movement away from funding statutory obligations by the Federal Government and the Virginia General Assembly has accelerated forcing the City of Virginia Beach to assume program and service costs formerly financed in whole or part by the state or federal government. The impact is being felt in such critical areas as transportation, education, courts and justice, public safety and human services. To comprehensively address the shifting of governmental responsibilities, Envision Virginia Beach 2040, a strategic planning commission, has been appointed by city council to address this strategic realignment of duties and responsibilities and to identify the legislative, fiscal, and governmental actions needed to adapt to changed circumstances. We applaud this proactive approach and encourage the City Council's close engagement in the process and ultimate review and implementation of the commission's findings and recommendations.
7. **Business, Professional & Occupational License Tax (BPOL):** The BPOL Tax is a poorly structured tax that should be replaced with a more equitable tax on business. It also represents a significant source of revenue to local governments that cannot be forfeited.

For FY 2010-2011, the Virginia Beach Department of Management Services estimates the total BPOL Tax collected will be \$41.1 million. This represents approximately 9¢ on the current real estate tax. The 2011 Virginia General Assembly passed enabling legislation allowing local governments to restructure the way the BPOL Tax is levied from one based on a business's gross receipts to being based on the business's taxable income. While on its surface this appears a more reasonable option, it may well prove just the opposite. Many businesses using techniques such as bonus payments and accelerated depreciation will be able to hide "taxable income" and escape or greatly reduce their BPOL Tax burden. S-corporations, LLCs and partnerships have no corporate Virginia income tax and would escape the tax altogether.

Another alternative being considered would be to move from a BPOL Tax to a flat fee for all businesses. Currently a flat fee of \$40 or \$50 is imposed on businesses with gross receipts under \$100,000. In 2010, this flat fee applied to 75% of all Virginia Beach businesses and generated \$1.2 million in tax revenues. The remaining 25% of businesses with receipts over \$100,000 paid the tax based on type of business and an applied tax rate. Those tax receipts generated \$39.8 million. If these businesses were moved into a flat fee status of \$50 each, the tax revenue loss to the city would be \$39.6 million.

The BPOL Tax should be repealed contingent upon the General Assembly providing enabling legislation for a tax that represents an equitable and sustainable replacement source of revenue to local governments.