Tax Facts to Consider in School Funding Reform
Delegate Vivian Watts who can't be at
FCPS 10/8/24 legislative briefing

- JLARC erred in declaring "LCI formula remains a reasonable measure of local ability to pay." JLARC's analysis of local ability to pay is pure theory – it doesn't reflect local ability to tax.
  - LCI is weighted 50% real estate value, 40% adjusted gross income of residents, and 10% local sales tax collections.

- The 40% adjusted gross income (AGI) factor is suppose to represent all other sources of local revenue. AGI is distorted as a surrogate measure.
  - Ability under-measured: Cities often get substantial tourist revenue from restaurants and hotels/motels. The AGI of residents does not reflect revenue from non-residents.
  - Ability over-measured: It's only been four years since the General Assembly finally gave counties close to the same taxing authority as cities have had for 100 years. Even after counties incorporate traditional city taxes to reduce over-reliance on the real estate tax, all local taxes (including the real estate tax) have a lower impact the higher the income.

- Cost-of-living is over 50% higher in NoVa than the rest of Virginia – the highest spread of any state except California. Income must be 50% higher in NoVa to cover the same costs.
  - Every state police officer is paid over 25% more when stationed in NoVa and, for other state employees, the state salary scale recognizes up to 30% higher pay may be justified.
  - The state SOQ cost of competing adjustment (COCA) is supposed to likewise help pay competitive teacher salaries. However, our COCA ends up being less than 3% because it goes through the LCI.
  - Meanwhile, state revenue reaps a windfall due to NoVa's high cost of living: 47% of individual income tax revenue comes from NoVa and 70% of the state general fund comes from the individual income tax.

- Once there is agreement on how to address JLARC's irrefutable findings on lack of state K-12 basic support and on specific critical un-met educational needs, it will take additional revenue. Alternatives to consider:
  - Simply raising the state individual income tax would increase the relative burden bourne by NoVa taxpayers. However, for the highest income households,
    - $1.4 billion could come from adding a 10% bracket on AGIs of over $1 million or $550 million from a 7% bracket on AGIs over $600 thousand (the highest federal bracket.)
  - It isn't good budgeting to be dependent on one tax for 70% Virginia's general fund.
    - Over $2 billion in state and local revenue could be raised by extending the sales tax, as many states do, to digital and non-essential services.
  - NoVa competes with Maryland localities that have a local income tax with a rate now at 3.2%. Rather than NoVa taxpayers contributing more in state taxes that aren't allocated to recognize our high cost of living, NoVa could pursue taxing its AGI directly.