

Transition from City to Town Status

PRESENTATION TO THE
MARTINSVILLE CITY COUNCIL

December 10, 2019

Outline.

- **City-to-town reversion, generally.**
- **Prospective financial impact (evaluation by Robinson, Farmer, Cox Assocs.).**
- **Feasibility for consolidating school divisions (study by S. John Davis & Assocs., Ltd.).**

City-to-town reversion, generally.

- **Partial consolidation of localities**
- **Restores traditional town/county relationship, subject to special conditions**
 - County – schools, social services, health & mental health, constitutional officers
 - Town – urban services (police, fire, water, sewer, etc.)
- **Typically used when:**
 - local tax burden becomes unreasonably high in relationship to residents' income level – (i.e. can the city afford to remain independent?)
 - tax base is static or declining, yet service expenditures are increasing
 - lack of competitive business sites reduces odds of solving financial problems within current boundaries
 - Consolidation of services may yield savings and promote efficiency

Fiscal Report

Prospective financial impact, continued (Robinson, Farmer, Cox Assocs.).

Summary:

- **Substantial reduction in Town operational expenses as contrasted to City's.**
 - Approx. \$31.7 million reduction.
 - Fiscal report proposes that City/Town residents' tax rates remain at the same level.
- **County would need to increase tax rates.**
 - Increased revenues of approx. \$28.7 million and increased expenditures of approx. \$30.6 million.
 - Fiscal report proposes that approx. \$1.9 million difference be covered by a five cent increase to current county real estate tax of \$0.555.

Prospective financial impact, continued (Robinson, Farmer, Cox Assocs.).

City of Martinsville, Virginia
City Transition To Town Status Evaluation

Fiscal Year 2019

Summary

Revenues/Expenditures	Martinsville			Henry County				
	City	Increase/ (Decrease)	Town	FY19 Budget	Increase/ (Decrease)	Reversion Adjusted Before Tax Increase	\$0.05 RE Tax Increase	Reversion Adjusted Before Tax Increase
	FY19 Budget		Reversion Adjusted					
Total All Revenues (Including Use Of Fund Balance)	\$ 52,150,574	\$ (32,294,279)	\$ 19,856,295	\$ 144,137,074	\$ 28,714,997	\$ 172,852,071	\$ 1,886,234	\$ 174,738,305
Total All Expenditures	\$ 51,552,876	\$ (31,696,581)	\$ 19,856,295	\$ 144,137,074	\$ 30,613,142	\$ 174,750,216	\$ -	\$ 174,750,216
Net Operations	\$ 597,698	\$ (597,698)	\$ -	\$ -	\$ (1,898,145)	\$ (1,898,145)	\$ 1,886,234	\$ (11,911)
City/Town Tax Rates Per \$100 Assessed Value								
Real Property	\$ 1.0621		\$ 0.4571	\$ 0.555				\$ 0.605
Personal Property (Vehicles)	\$ 2.30		\$ 0.75	\$ 1.55				\$ 1.55
Personal Property (Business Equipment)	\$ 2.30		\$ 0.75	\$ 1.55				\$ 1.55
Machinery & Tools	\$ 1.85		\$ 0.30	\$ 1.55				\$ 1.55

Prospective financial impact, continued (Robinson, Farmer, Cox Assocs.).

Revenues:

- **Certain City revenues absorbed by the County.**
 - Revenues from State or Constitutional officers.
 - Revenues from property taxes; local sales and use taxes; taxes on recordation/wills; grantor taxes; and court fines and forfeitures.
 - Revenues from use of property; charges for services; and recovered costs.
 - Revenues from state recordation tax sources; state and federal victim witness aid; and state jail per diem aid.
 - Revenues from federal, state, and local school operational funds and school cafeteria funds.

Prospective financial impact, continued (Robinson, Farmer, Cox Assocs.).

Expenditures:

- **Certain City expenditures absorbed by the County.**
 - Certain expenditures for general government administration; judicial administration; public safety; community planning.
 - Staff and expenses for all constitutional officers would transfer to the County.
 - However, there would be a Town treasurer requiring staff and expenses.
 - Expenditures for school board; school cafeteria fund; and social services.

Prospective financial impact, continued (Robinson, Farmer, Cox Assocs.).

Savings and costs not covered by study:

- **No estimates based on transfer of general capital facilities, additional office space.**
- **Redundancies such as the courthouse and office space not accounted for.**
- **Transfer of costs to the county for maintenance and operation of jail not addressed.**
- **Enterprise funds excluded from analysis (should be self-funded).**

School Consolidation Report

Feasibility for consolidating school divisions (study by S. John Davis & Assocs., Ltd.).

Executive summary:

- Declining enrollment/average daily membership
- Local Composite Index (“LCI”)
- Local Fiscal Efforts
- School employee compensation
- Consolidation

Feasibility for consolidating school divisions (study by S. John Davis & Assocs., Ltd.).

Effects of declining enrollment/average daily membership:

- From 2012 to 2019, fall enrollments for both localities have decreased; however, Martinsville’s declines have been more dramatic.
- For Martinsville, “[t]he loss of direct state aid due to the continuous decline in enrollment has been nearly catastrophic” and “has forced substantial increases from local sources.”

Fall Enrollment, Actual and Projected, for Henry County and Martinsville City School Divisions, FYs 2012-2025

School Division	Fiscal Year						
	2012	2013	2014	2015	2016	2017	2018
Henry County	7,463	7,465	7,387	7,428	7,415	7,508	7,479
Martinsville City	2,317	2,271	2,259	2,300	2,186	2,041	2,016
School Division	Fiscal Year						
	2019	2020	2021	2022	2023	2024	2025
Henry County	7,455	7,447	7,371	7,459	7,440	7,436	7,432
Martinsville City	1,942	1,716	1,678	1,611	1,542	1,496	1,407

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

- **“It is extraordinarily difficult to manage successfully a school division budget when a key revenue source, e.g., the Commonwealth of Virginia, is being reduced proportionally to the loss of pupils in” average daily membership.**
- **It is also more difficult for Martinsville than Henry County to effectively staff middle and high schools, given its smaller secondary membership.**
- **This results in higher per-pupil expenditures for the City.**
- **This also results in an absence of economies of scale.**
 - Current operating costs appropriated for administrative purposes are substantially higher for Martinsville (approx. 5%) than for Henry County (approx. 3%).
 - More administrative positions are needed per pupil, and it is difficult to reduce these positions to correspond to declining enrollments and average daily membership.

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

Elementary Teaching Positions, Secondary Teaching Positions, End-of-Year Average Daily Membership, and Pupil/Teacher Ratios, for Henry County and Martinsville City School Divisions, Selected Fiscal Years, 2012 to 2018

Division No.	School Division	Elementary Teaching Positions ¹	End-of-Year Average Daily Membership K-7 ²	Pupil/Teacher Ratio K-7	Secondary Teaching Positions ³	End-of-Year Average Daily Membership 8-12 ⁴	Pupil/Teacher Ratio 8-12	Pupil/Teacher Ratio K-12
Fiscal Year 2018⁵								
044	Henry	303	4,400	14.5	204	2,691	13.2	14.0
116	Martinsville	95	1,198	12.6	70	720	10.3	11.6
STATE		58,947	774,585	13.1	38,278	473,968	12.4	12.8
Fiscal Year 2017								
044	Henry	302	4,351	14.4	201	2,660	13.3	13.9
116	Martinsville	104	1,178	11.3	72	707	9.8	10.7
STATE		58,617	766,630	13.1	38,096	469,100	12.3	12.8
Fiscal Year 2016								
044	Henry	295	4,318	14.6	195	2,670	13.7	14.3
116	Martinsville	102	1,277	12.6	70	752	10.8	11.8
STATE		58,568	764,952	13.1	37,443	466,738	12.5	12.8
Fiscal Year 2012								
044	Henry	311	4,412	14.2	200	2,600	13.0	13.7
116	Martinsville	106	1,335	12.6	71	801	11.4	12.1
STATE		56,966	752,444	13.2	37,185	454,591	12.2	12.8

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

**Number of Support Personnel by Function and Pupil:Support Personnel Ratios
for Henry County and Martinsville City School Divisions, FY 2016-2017**

Number of Support Personnel by Function -- FY 2016-2017							
Division No.	School Division	Administrative	Technical and Clerical	Instructional Support	Other Professional	Trades, Labor, Operative, and Service	TOTAL
044	Henry	22.28	88.80	12.00	27.00	142.50	292.58
116	Martinsville	13.20	25.65	4.28	5.05	59.00	107.18
	State	3,380.93	16,627.37	2,577.27	4,890.75	28,907.90	56,384.22
Pupil:Support Personnel Ratio -- FY 2016-2017							
Division No.	School Division	Administrative	Technical and Clerical	Instructional Support	Other Professional	Trades, Labor, Operative, and Service	TOTAL
044	Henry	318.58	79.93	591.50	262.89	49.81	24.26
116	Martinsville	145.30	74.78	448.13	379.80	32.51	17.90
	State	370.46	75.33	485.98	256.10	43.33	22.21

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

Local Composite Index (“LCI”):

- **LCI is a measure that the Commonwealth uses to determine the fiscal capacity of school divisions. Average daily membership is a component of LCI.**
- **“Nearly all direct state aid, including State Basic Aid, is distributed to local school divisions through use of the LCI.”**
- **The LCIs of both Martinsville and Henry County have been in decline.**
 - For FY 2019-20, Martinsville is ranked 131/134.
 - For FY 2019-20, Henry County is ranked 127/134.
- **The LCIs are projected to decline further.**

Local Fiscal Efforts:

- Trends in local contributions to the school divisions have differed in Martinsville and Henry County.
- For FY2016-17, Henry County ranked 115/134.
- For FY2016-17, Martinsville ranked 11/134.
- Martinsville’s “fiscal effort nearly triple[d] from 2011-2012 to 2016-2017,” “primarily due to its overstressed tax base.”

School employee compensation:

- **If a consolidation of the school divisions were to occur, there are several alternative strategies that could be taken with respect to school employee consolidation:**
 - using the existing Henry County scales,
 - using the existing Martinsville City scales, or
 - using new median scales.
- **The report recommends placing teachers in a consolidated school division using new scales created from the current scales from Henry County and Martinsville.**

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

- **Cost savings could be achieved by reductions in the numbers of teachers, staff, and administrators:**
 - Cost savings of **\$1,420,960** pursuant to the reduction of thirty-three Martinsville City School Division teachers to conform to the Henry County pupil-teacher staffing ratio of **14:1** rather than the **11.6:1** pupil-teacher staffing ratio used by Martinsville; and
 - Cost savings of **\$587,47627** for the reduction of **5** to **9** central office administrators.
- **Report offers alternative scenarios ranging from increased costs of \$407,919, to savings of \$501,628, in personnel expenses per fiscal year.**

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

Consolidation:

- Projections of State aid for a merged school division, between Martinsville and Henry County:

Projection of State Aid for Merged School Division, FY 2019

Standards of Quality			
Henry County	Martinsville City	Merged Division	Difference ³⁰
44,538,704	12,066,595	55,504,139	(1,101,160)
Incentive Programs			
2,197,729	494,069	2,553,317	(138,481)
Categorical Programs			
68,431	28,863	109,102	11,808
Lottery-Funded Programs			
7,456,926	2,286,998	8,916,787	(827,137)
Total State Aid			
54,259,756	14,876,525	67,083,344	(2,052,937)

Projection of State Aid for Merged School Division, FY 2020

Standards of Quality			
Henry County	Martinsville City	Merged Division	Difference ³¹
44,748,708	11,640,884	55,222,834	(1,166,758)
Incentive Programs			
4,113,462	942,432	5,002,200	(53,694)
Categorical Programs			
69,060	28,937	109,245	11,248
Lottery-Funded Programs			
7,494,832	2,115,316	8,837,609	(772,539)
Total State Aid			
56,441,254	14,727,569	69,171,888	(1,996,935)

Feasibility for consolidating school divisions, continued (study by S. John Davis & Assocs., Ltd.).

- **Until 2013, the General Assembly offered additional state financial assistance to encourage local school divisions to consolidate to increase their cost-efficiencies.**
- **Studies have been conducted, and recommendations have been made; however, a new incentive program has not yet been enacted.**
- **“Until a formal Consolidation Incentive Program is legislated, representatives of school divisions and/or localities who are considering merger will have to seek state financial assistance through special legislation.”**

Thank you.