



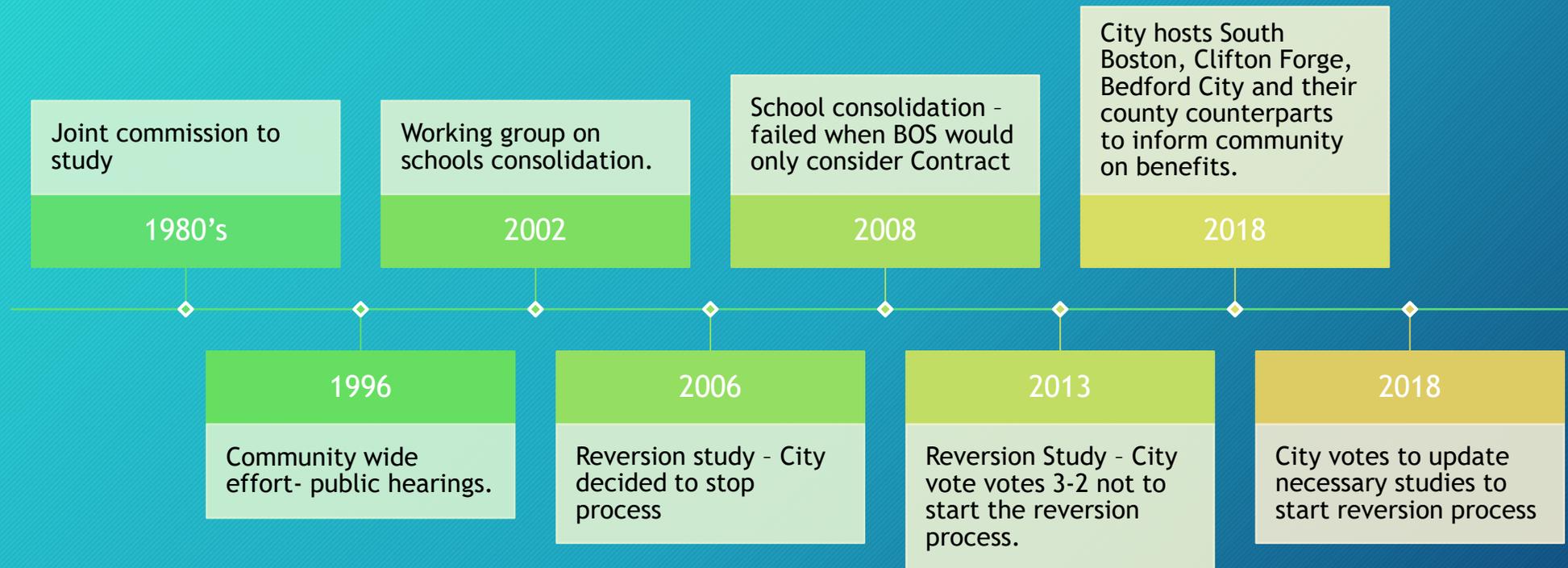
Considering Reversion



Why Is Reversion Being Considered?

- The cost to provide services for the citizens of Martinsville continues to increase, while revenue does not. Balancing the budget requires use of fund balance, increasing rates and fees, or significant reductions in service (or combinations of all 3).
- Continued use of fund balance to balance the annual budget is unsustainable.
- Reversion allows the possibility of consolidation of certain like services (schools and constitutional functions) with those currently provided by Henry County.

Reversion/Consolidation Efforts over the years



Commission on Local Government Study

During the 2016 regular session of the General Assembly, the existing moratoria for city annexation, county immunity from city annexation, and the granting of new city charters was extended until 2024 (Appendix A). Additionally, the Commission on Local Government (CLG or the Commission) was directed to study and provide a report to the General Assembly by December 1, 2018, on the following:

1. Evaluate the structure of cities and counties in the Commonwealth;
2. Evaluate the impact of annexation upon localities;
3. Consider alternatives to the current moratorium on annexation by cities;
4. Consult with and seek input from the Virginia Municipal League, Virginia Association of Counties, and localities directly affected by moratorium.

Commission on Local Government Recommendations (DEC 2018)

The Commission suggests that the Commonwealth may consider making the moratoria permanent especially relative to independent city structure. Accordingly, the Commission has identified the following for consideration:

1. Modify reversion and consolidation statutes to remove obstacles.
2. Make reversion and consolidation more cost-effective through incentives.
3. Grant additional powers to counties through reversion and other interlocal agreements.
4. Evaluate mandated service delivery methods to identify appropriate service level.
5. Relax the requirements for the establishment of joint authorities and special districts.
6. Provide planning grants to explore interlocal agreements and other operational efficiencies.
7. Evaluate adequacy of local fiscal resources to identify enhancements.
8. Create or expand programs to reduce local fiscal stress.
9. Incentivize additional regional cooperation and regional programs.

WHY does the City need to consider Reversion?

We can deliver the same services we have today at a savings to the taxpayer with more money to have for capital/infrastructure needs.



MARTINSVILLE 2019 BUDGET GF REVENUE

MARTINSVILLE GENERAL FUND REVENUES			
Row Labels	Total	%	Comments
FEDERAL AND STATE	\$8,903,362	29%	APPROPRIATIONS DEPEND ON STATE/FEDERAL CONDITIONS
REAL ESTATE	\$6,550,000	21%	STAGENT/DECLINING
TRANSFERS/FUND BALANCE	\$2,833,532	9%	PRESSURE ON UTILITY AND GENERAL SURPLUS
PERSONAL PROPERTY	\$2,108,000	7%	STAGENT/DECLINING
SALES USE	\$2,000,000	6%	ECOMMERCE IMPACT
BPOL	\$1,800,000	6%	CONSTANTLY UNDERFIRE FROM STATE TO ELMINATE
REVENUE FROM USE OF MONEY/PROP	\$1,090,008	4%	
COST ALLOCATION	\$1,063,925	3%	COST ALLOCATED TO UTLITY FUNDS BASED ON SERVICES
RECOVERED COSTS	\$892,622	3%	
UTILTIY COST/FUEL	\$810,000	3%	
ELECTRIC TAX	\$635,700	2%	
PERMITS FEES & LICENSES	\$546,125	2%	
OTHER	\$335,369	1%	
CAR TAX	\$325,000	1%	
BANK TAX	\$310,000	1%	
CIGARETTE TAX	\$200,000	1%	
FINES & FORFEITURES	\$138,500	0%	
OTHER LOCAL TAXES	\$133,750	0%	
PENALTIES	\$110,000	0%	
INTEREST	\$100,000	0%	
Grand Total	\$30,885,893		

Martinsville 2019 GF Expenditures

2019 FY BUDGETED EXPENDITURES			
EXPENDITURE AREA	DOLLARS	Percent	Description
CONST OFFICE / STATE MAN	\$ 6,860,402	22%	Funded by State / City pays Benefits
PUBLIC SAFETY (POLICE/FIRE)	\$ 6,430,242	21%	
SCHOOL TRANSFER	\$ 6,427,640	21%	
GENERAL GOVT	\$ 4,527,932	15%	
PUBLIC WORKS	\$ 3,914,125	13%	Fully funded by State
LOCAL ORGANIZATIONS	\$ 1,754,464	6%	Contracts (911, Social Services, Library)
PARKS/RECREATION	\$ 589,221	2%	
UTILITY BILLING	\$ 381,867	1%	Transferred to Utility Operation
TOTAL GENERAL FUND	\$ 30,885,893		

Major Challenges Facing the City

Schools:

We have a steady declining population, meaning less state money each year. Schools look to the City to make up the difference.

State is about to re-calculate the LCI, which determines state funding. This will likely result in a further shift of funding burden to localities, approximately \$2M to combined Martinsville-Henry County. This will occur regardless of whether the City reverts.

Jail:

The Jail and City Farm are completely full, with annual costs of \$100-200K+ to house elsewhere. A jail expansion would be \$30M+ if built to state standards with 25% covered by the state, or \$1-2M+ if a new metal pod is built without state aid for construction and annual operations.

Wastewater:

Henry County has refused to pay its \$6-8M share of the Smith River interceptor, and seeks to reopen its own system, which would lose the City \$1M in annual revenue.

Revenues:

City revenues are largely consumed by Schools and Public Safety, with very little discretionary funding left available for items such as economic development, social improvement programs and property maintenance.

TAIL WINDS

- City is financially stable.
THE CITY IS NOT BROKE NOR WILL IT EVER BE PROVIDED THAT WE CONTINUE TO MAINTAIN OUR FUND BALANCE.
- Fund balance is where it is supposed to be: (Projected YE 2018)
 - General Fund - 10% 3.1million
 - Utility Funds - 11 million
- Revenue sharing is coming but still 5-10 years away.
- Sound budget management allows savings to support new budget year.

HEADWINDS

- Services have been curtailed but minimal impact to citizens: Housing, Armory, Mustangs, Parks and Rec contracted out.
- Taxes and fees have increased since 2013
 - Two separate Meals Tax rate increases - from 6% to 6.5% in FY14; and 6.5% to 7% in FY18 - no more increases possible.
 - Two water/sewer rate increases, and two electric rate adjustments
 - Cigarette tax increase in FY18
- Employees have been reduced, choices getting tougher.
- School population continues to decline (2453 in 2009, 1785 in 2019). Council/SB will be dealing with budget shortfall later this month.
- City Jail capacity shortfall / Impact of County Jail.
- Revenues stagnant and/or undersized.
- Expenditures/needs will continue to exceed budget.
- Capital needs not supported with dedicated revenue stream sufficient to meet the needs.

Overall Summary

- The City can continue in the current (“treading water”) mode of operations indefinitely, with continued reductions to offset increases. Ultimately there will be an impact to services & programs (required reductions) and required revenue sources (increase in taxes).

What is Town Reversion?

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.)

How Reversion Differs from Full Consolidation

County consent not required as in full merger

City may pursue without County's consent, but City must still meet legal requirements

Voter approval not required as in full merger, but law could change (exception: Clifton Forge special vote)

By creating a town government, residents retain control over urban services (water, sewer, police, fire, refuse collection)

• TO REVERT OR NOT TO REVERT, THAT IS THE QUESTION

Advantages of Reversion

- Reduce residents' tax burden by spreading costs over larger tax base & eliminating service duplication
- Regain annexation authority after two years
- Reduce competition for businesses and increase regional cooperation
- State financial incentives offered

Disadvantages of Reversion

- High cost & aggravation of process
- Uncertainty of impact of special terms that may be imposed by court
- Loss of control over schools and certain other services, except indirectly as county voters
- Diminished civic pride from losing independent city status

When to consider Reversion?

- Local tax burden becomes unreasonably high in relationship to residents' income level - (i.e. can the city afford to remain independent?) City's has high fiscal stress rating.
- 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

Three studies required:

1. effect on City,
2. on County,
3. and on Schools.

Reversion Process

STEP ONE - Commission on Local Government Review

- Notice & supporting evidence filed by city with COLG
- County files response
- Two or three-day hearing with presentation/cross examination of witnesses
- COLG files report of finding/conclusions

STEP TWO - COURTS

- Three-judge court appointed by S.C.
- Typically 6 to 9 months before court ruling issued
- Potential appeal to Supreme Court

Reversion Process

STEP THREE - Court issues ruling, setting terms and conditions.

- Power to direct such conditions “as it deems appropriate” to achieve the following objectives:
- Ensure an orderly transition to town status
- Adjust financial inequities
- Ensure protection of the best interests of the localities and their residents

STEP FOUR - CITY DETERMINES WHETHER TO MOVE FORWARD.

- Town status is permanent; town may not return to independent city status
- City may decline to accept town status prior to 21 days after entry of the court order granting reversion; important right, as court might impose conditions that make town status unacceptable
- If court declines to grant town status or the city declines town status, no new proceeding may be brought for five years after court proceeding.

All Council members must vote on reversion,
simple majority rules.

Negotiation may occur at any time, on any or all subjects.

City may decide to cancel reversion up to 21 days after the court renders judgment.

Legal Standard for Reversion -What City must Prove

1

City with population of less than 50,000

2

Town status will not substantially impair the ability of the County to serve its residents

3

Town status will not cause a substantially inequitable sharing of resources and liabilities

4

Town status is in the best interests of all affected persons, based on a balancing of equities

5

Town status is in the best interests of the Commonwealth in promoting viable local governments

§ 15.2-4106. Hearing and decision by court.

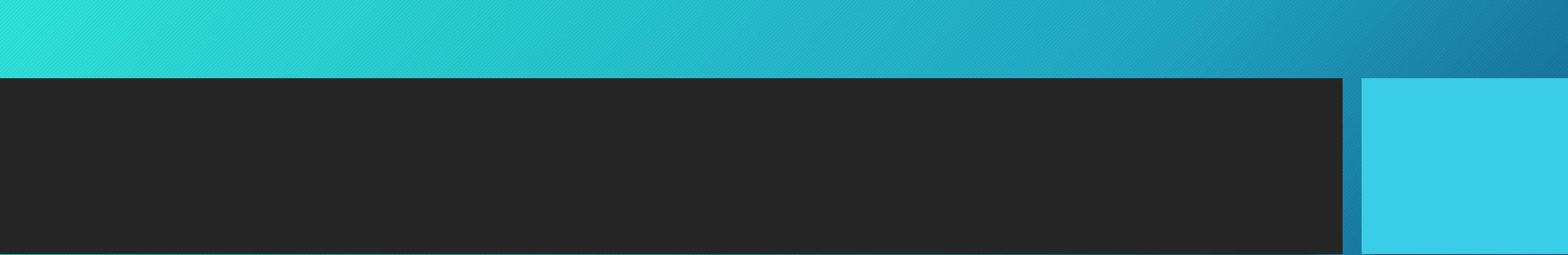
A. The special court shall enter an order granting town status if, after hearing the evidence, the court finds that:

The proposed change from city to town status will not substantially impair the ability of the adjoining county in which the town will be located to meet the service needs of its population;

The proposed change from city to town status will not result in a substantially inequitable sharing of the resources and liabilities of the town and the county;

The proposed change from city to town status is, in the balance of equities, in the best interests of the city, the county, the Commonwealth, and the people of the county and the city; and

The proposed change from city status to town status is in the best interests of the Commonwealth in promoting strong and viable units of government.

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- B. The court shall have authority to impose such terms and conditions as it deems appropriate to:
1. Ensure an orderly transition from city status to town status;
 2. Adjust financial inequities;
 3. Balance the equities between the parties; and
 4. Ensure protection of the best interests of the city, the county, the Commonwealth, and the people of the county and the city.

Effects of Reversion

Town eliminates:

1. School system (school buildings become HCPS property).
2. Constitutional Officers (but Jail and Farm remain town property).
3. Annexation moratorium (after two years).

Town keeps:

1. Current debt.
2. Current contracts.
3. All Departments (including Police, Fire & EMS).
4. All utility systems.
5. All Authorities, Boards (except School Board) and Commissions.
6. Ownership of all City properties except schools.

- ❖ City Council reverts to Town Council, election cycle remains the same.
- ❖ County will control redistricting for Board of Supervisor Districts.
- ❖ Town may annex land after two years.

Town may annex two years after Reversion.

§ 15.2-3209. Hearing and decision.

The court shall determine the necessity for and expediency of annexation, considering the best interests of the people of the county and the city or town, services to be rendered and needs of the people of the area proposed to be annexed, the best interests of the people in the remaining portion of the county and the best interests of the Commonwealth in promoting strong and viable units of government.



Reversion



Sewer Line
Contribution



PSA Violates State
Environmental Policy





CITY HAS ALWAYS DESIRED TO NEGOTIATE A SOLUTION WITH THE COUNTY.



Next Steps:

1. Studies available in early December for Council review at City Hall, in same manner as annual audit review.
2. Dec 10th Public Hearing.
3. Studies made available to public and media/our city website.
4. Vote.
5. Email questions or comments to town@ci.martinsville.va.us