Local Government and School Division Consolidation Incentives

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Where do we want to encourage consolidation?

- Encourage amicable consolidations that improve local fiscal sustainability and when possible realize state or local savings and local service improvements.
- Least fiscal sustainable localities: Those that have highest fiscal stress scores.
  - These localities have lowest per capita income, most limited tax bases (high revenue capacity), and greatest tax rates (high revenue effort).
- Where possible to realize state or local savings and local service improvements.
  - Top 10 most expensive per student SOQ cost divisions are geographically large, have no significant fiscal stress, and have high support costs
  - Consolidation would likely increase costs

Recommendations

1. Avoid creating additional barriers to the reversion or consolidation process.
2. Provide matching funds for localities to study the feasibility of consolidation or reversion.
3. Reduce the duration of hold harmless and special funding for school divisions to five years.
4. Redesign the school division consolidation incentive formula.
5. Provide incentives for joint contracting of school services as a first step toward full consolidation.

Recommendation 1
Avoid Additional Barriers to Process

- Incentives requiring an application to the Governor or General Assembly for funding should be avoided because:
  - Process already takes 5+ years.
  - Could potentially add years to align with the State's budget process.
  - Could make a local issue into a statewide issue
  - Situations where one locality (typically, a county) opposes reversion or consolidation with another locality (typically, a city)

Recommendation 2
Provide Matching Funds for Studies

- Create a special fund
- $50,000 match from Commonwealth.
- Encourage cooperation in funding these studies; however, understand that only one locality may be interested in pursuing.

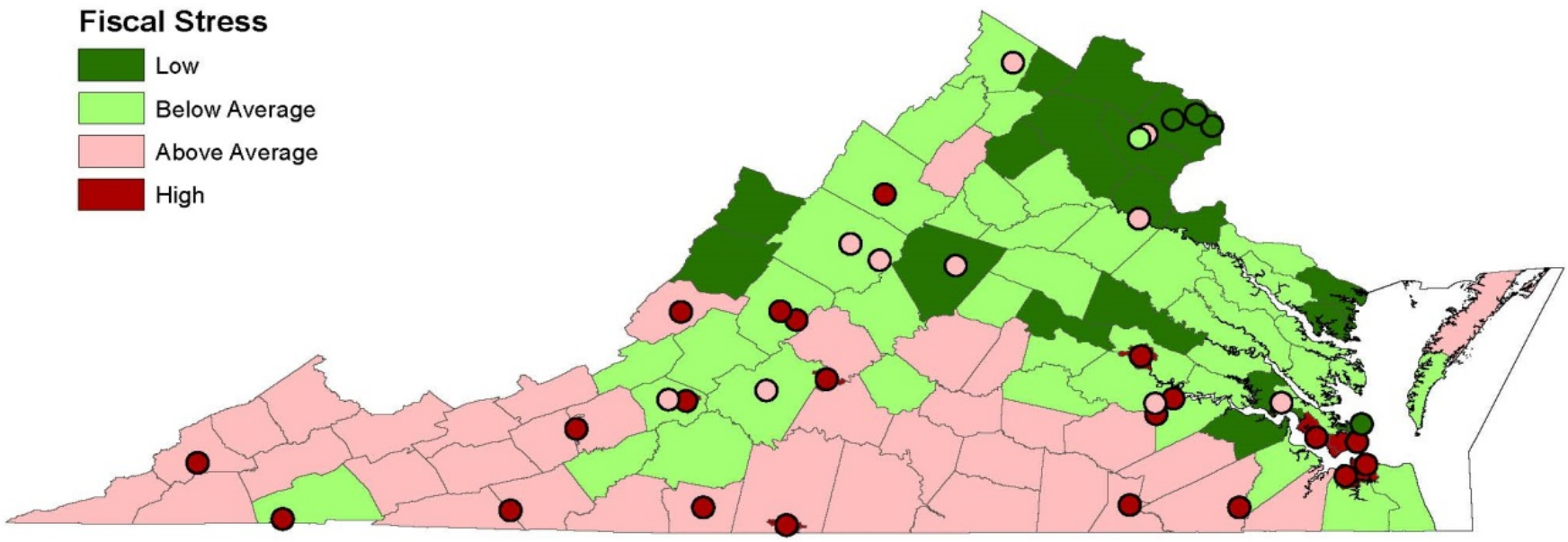
Recommendation 3
Reduce Duration of Incentives to 5 years

- Prior to 2000, incentive/hold harmless funding was only offered for five years.
- Was extended to 15/20 years depending on circumstances in 2000 & 2002, presumably to address local issues for specific proposals.
- Five years is similar to what other states offer.

Recommendation 4
Redesign the School Division Consolidation Incentive Formula

- Tying incentives to the 'cost of consolidation' is not realistic.
  - Most costs of consolidations are driven by local decisions – i.e. how much pain should be endured to realize savings quickly.
  - Unrealized cost of *not* consolidating – possibility of insolvency.
- A formula-based incentive that can be projected helps proposals move beyond the negotiation stage.
- Based on Fiscal Stress Index prepared by CLG
  - Locality's ability to generate additional local revenues from its current tax base relative to the rest of the Commonwealth
    - Revenue Capacity
    - Revenue Effort
    - Median Household Income

Commonwealth of Virginia:
Fiscal Stress Classification FY 2013



Source: VA Department of Housing & Community Development, Commission on Local Government

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Formula & Example

1. At least one locality must have an above average Fiscal Stress score (greater than 100).
   a. **Buena Vista (111.21)** & Rockbridge County (99.27)
2. Add Fiscal Stress points above 100 to the difference between the localities' Fiscal Stress scores to determine the incentive factor.
   a. (111.21 – 100) + 0 + (111.21 – 99.27) = 23.15
3. Apply the incentive factor to State Share of Basic Aid for the locality with lower Average Daily Membership (capped at 2,500).
   a. **Buena Vista (1,000)** & Rockbridge County (2,546)
   b. $3,711,587 * 23.15% = $859,232

Potential Scenarios

City/Town	County	Former Incentive	Proposed Incentive
Petersburg	Chesterfield	$26,407,796	$2,225,531
Martinsville	Henry	$564,771	$1,579,183
Manassas Park	Prince William	$44,502,550	$991,086
Fairfax city	Fairfax	$1,824,968	$0
Emporia	Greensville	$114,280	$1,033,566
Colonial Beach	Westmoreland	$1,022,698	$255,125

- Previous Incentive
  - State annual exposure ranged from $0 to $44.5 million+
- Proposed Incentive
  - State annual exposure ranges from $0 to $2.2 million

Recommendation 5
Provide incentives for joint operating contracts among school divisions

- Encourage new joint operating contracts among school divisions.
  - 3 years of incentives; if full consolidation occurs with 15 years an additional 2 years of incentive would be awarded.
  - 2 year incentive available to existing contractually consolidated divisions if they consolidate within 15 years of incentive adoption
- Allows school boards to retain control of smaller jurisdiction, while enjoying improved economies of scale and broader offering of programs.
  - Alleviates concerns about sending children to distant county schools.
  - While improved economy of scale/better programs possible – limited revenue resources would remain an issue for small school divisions.
- Recognizes that prior reversions only occurred where joint school operating contracts existed.

Conclusion

	Previous Incentives	Proposed Incentives
Feasibility Study Assistance	None.	Provide matching funds up to total $100,000
Hold Harmless Funding	15-20 years.	5 years.
School Division Consolidation Incentive Funding	15 years, applying the lower LCI of the two consolidating divisions to the entire new division.	5 years using formula recommended by CLG.
Incentives for Joint School Division Contracts	None.	3 years, then an additional 2 years if full consolidation later adopted.

Questions?