JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

Report summary

Local Government and School Division Consolidation

WHAT WE FOUND

Local structure and local identity impede consolidation

Counties and cities generally perform the same services for their citizens. Consolidating these services can potentially reduce the funds per citizen necessary to provide local services. This is particularly the case when both the county and city have relatively small populations.

However, the Constitution of Virginia establishes independent cities, counties, and towns as entities of local government. Local identity has been a major impediment to local government or school division consolidation. Citizens and local elected officials typically express concern about losing local identity and control.

Fiscal outlook improved, but services improved only minimally

The three most recent local consolidations (which have actually been cities reverting to towns and consolidating with a county) in Virginia occurred primarily to address concerns about the fiscal sustainability of the cities involved. In each case, the cities avoided potential insolvency by reverting to town status and transferring the cost of most local government services to adjacent counties. While additional state funds were not among the reasons cited for consolidation, these funds did help facilitate agreements and equitable terms between the localities.

WHY WE DID THIS STUDY

The 2013 Appropriation Act directed JLARC to review options for additional funding to encourage local government and school consolidations. Interest in the topic was spurred by the consolidation of the City of Bedford and Bedford County.

ABOUT LOCAL GOVERNMENT AND SCHOOL DIVISION CONSOLIDATION IN VIRGINIA

Virginia has 95 counties, 38 cities, and 191 towns. In recent years, there have been three consolidations. Each occurred when a city reverted to a town and consolidated with the surrounding county.

The state uses two funding strategies to support local consolidation. The first maintains local funding at pre-consolidation levels for services such as constitutional officers, human services, and general registrars. This prevents a newly consolidated locality from experiencing a funding reduction and removes a possible deterrent to consolidation. The second is the option to use the lower composite index of the two consolidating localities when calculating K-12 funding; this results in the state paying a higher share of K-12 costs for the combined locality.

All three consolidations have had only minimal impact on K-12 educational services because each of the three cities and counties already jointly operated their school divisions for all or most services prior to consolidation. There have been improvements reported for some other types of services. For example, water, sewer, and solid waste services reportedly improved in Halifax County.

Net savings to state are minimal or will not materialize

Since 1996, the three localities have received about $13 million in special state funds for consolidation (in 2014 dollars). About $7.6 million of this amount has been additional K-12 education funding. The remainder has been funding localities were able to maintain to offset potential state savings, primarily for public safety and constitutional officers.

Moving forward, net state savings from consolidation are either minimal or not likely to materialize even over the very long term. Over 30 years, the state will realize about $1.6 million in savings from the Clifton Forge and Alleghany County consolidation. In contrast, the Bedford County consolidation could cost the state nearly $80 million over 30 years.

State savings minimal for Alleghany and will not occur in Bedford

	Additional state funding (30 years)	State funding reductions (30 years)	Net state savings (30 years)
Clifton Forge & Alleghany County	$1.4M	$3.0M	$1.6M
City of Bedford & Bedford County	$6.2M to 81M	$1.6M	$-4.6M to -79.4M

Source: JLARC staff analysis of data provided by VDOE, DCJS, SCB, OCS, and SBE.
Note: All amounts shown are adjusted to 2014 dollars.

Virginia's current approach is potentially high-cost and arbitrary

Virginia's current policy was developed in an ad hoc manner during the early 1980s to address a specific local circumstance. It was not intended to be used in future consolidations. Today, neither the purpose of providing additional funds for consolidation, nor the process by which interested localities approach the state is clearly defined.

There are potential local consolidations in which K-12 funding differentials between the city and county could increase the state's funding obligations by substantially more than the Bedford consolidation. Under the state's current approach, there are four potential consolidations in which state funding for K-12 could increase by at

least $32 million annually. There are another six which could each result in between $5 million and $10 million annually.

Virginia's current approach has a minimal analytical basis and does not correspond to the actual cost of each consolidation. Rather, additional funding is based on the difference between the two locality's local composite index scores and number of students in each school division. Neither of these factors has a clear relationship to the costs and benefits of a given consolidation. Virginia's current approach also provides funding for an arbitrary period of time with little relationship to the complexity of the consolidation.

WHAT WE RECOMMEND

Legislative action

- Provide grants to assess the feasibility of consolidation, likelihood of improving fiscal sustainability and local services, and state or local savings.

- Amend the Code of Virginia and the Appropriation Act to remove references to additional state funding for consolidation based on the local composite index for future consolidations.

- Amend the Code of Virginia to direct the Commission on Local Government to prepare and submit proposals through the Governor's budget, as necessary, for additional state funding for localities that consolidate based on the cost of each specific consolidation as it is proposed.

Executive action

- Develop a new process to determine the amount and duration of additional state funds, to be based primarily on the projected cost and complexity, for local consolidation.

See the complete list of recommendations on page v.