Options for the Future for the Alleghany Highlands

Prepared for the Alleghany Foundation

K. W. Poore & Associates, Inc.

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K. W. POORE & ASSOCIATES, INC.  
Planning • Community Development • Design
INTRODUCTION

Findings from the Phase I Report

The purpose of Phase I of the report prepared for the Alleghany Foundation by K. W. Poore & Associates, Inc. entitled “Challenges for Economic Growth in the Alleghany Highlands” was to examine the data and trends impacting the area, with particular focus on the local economy. The Foundation commissioned the report to provide information that would be valuable in making the best decisions about grant applications. The report’s findings were so important that the Foundation arranged for the report to be available to the community. Phase I delineated two major trends and four challenges resulting from those trends. Including some of the key data, the trends and challenges were defined as:

Trend #1: Declining Population
- The population of the Alleghany Highlands declined 17% over the 30 years ending in 2000 while the population of Virginia grew just over 52%.
- The area’s population is projected to decline 7% between 2000 and 2030, with Virginia’s population projected to grow 39%.
- The area’s workforce age population is projected to decline 17% from 2000 to 2030 while Virginia’s will grow 26%.
- 1 out of 4 of the area’s residents will be elderly by the year 2030. Across Virginia it will be 1 out of 5.
- Depending on where you live in the Alleghany Highlands, median household incomes are 64% to 75% of the statewide median of $51,000.

Trend #2: Declining Employment
- From 1990 to 2007, manufacturing employment declined 20% in the Alleghany Highlands.
- Even with recent job losses, manufacturing is a larger part of the local economy (26% of employment) than in Virginia (8%) and is likely to continue declining.
- One manufacturer represents 67% of all manufacturing jobs in the community before accounting for the closure of the AET and Parker Hannafin plants (a loss of 272 jobs).
- Professional and technical service jobs represent less than 1% of employment in the area, but nearly 10% in Virginia.
- Unemployment in the Alleghany Highlands regularly runs about 1.5 percentage points above Virginia’s, but this may mask the number of persons who are underemployed.
- The Workforce Participation Rates in the area range from 52% to 57% as compared to a state rate of 69%, a sign of a discouraged workforce.

Challenge #1: Creating Economic Opportunity
- The recently developed Comprehensive Economic Development Strategy included over $30 million in economic development projects and over $33 million in water and wastewater treatment projects.
- One of those projects, a gas line to the Regional Commerce Center will cost an estimated $5-$6 million, but is one reason industry is bypassing the site for other localities with industrial sites with all infrastructure in place or facilities ready to use.
- The planned Eastern Regional Wastewater Treatment Plant is essential to growth in the eastern portions of the County. Total cost is now estimated to be $46 million.
- Covington’s wastewater treatment plant is requiring upgrading as well at a cost of $5-$6 million.
- Tourism spending is a large part of the economy of Bath County and Greenbrier County, WV, but is a negligible portion of the economy of the Alleghany Highlands.
Local tourism efforts currently underway should help bring more tourists and their money into the area.

Challenge #2: Offering a Strong Housing Mix
- Depending on locality, 80% to 92% of housing in the Alleghany Highlands was built prior to 1980. In Clifton Forge over half of the homes were built prior to World War II.
- Poor housing conditions prevail in the area. Residential vacancy rates in Clifton Forge and Covington run 11%, double the statewide rate of 5%.
- There is very little multifamily housing, active senior adult housing, and executive housing in the area which deters new residents from coming to the area.
- Housing values remain very low as compared to the state and the nation. A few new residents are discovering the value of the area's older, sizable homes, but there is no concerted effort to get the word out about the area's housing.

Challenge #3: Providing Quality Education
- Performance of students on SOL tests compares well with similar school districts and the Commonwealth.
- The Alleghany Highlands compares well to the Commonwealth for persons with associate's degrees, but is significantly lags in persons with bachelor's and master's degrees.
- Covington spends $12,106 per pupil and Alleghany County pays $9,724 per pupil as compared to the statewide average of $9,755. Covington's higher costs are a result of the number of children from poverty and with special needs that the system educates and because the system is one of the smallest in the state.
- Constructing and paying for needed new school facilities (the Edgemont/Jeter-Watson complex under construction at $26.5 million and the new Alleghany High School in the planning stages at $48.0 million) will be challenging in a region where the population and economy are declining.

Challenge #4: Keeping Taxes Low
- Alleghany County and Covington have tax rates that are comparable and competitive with similarly sized communities.
- Current debts and debt services are reasonable and in keeping with communities of similar size.
- Current and pending capital projects will lead to higher debt loads in the future.
- Alleghany County and Covington may face raising taxes, increasing fees, or cutting staff and/or services in order to fund new debt service.

The complete Phase 1 report is available at www.alleghanyfoundation.org.

Themes that Shaped the Phase 2 Report
Given the continued losses in employment and associated losses in population for the Alleghany Highlands, it is obvious that economic development and job creation should be a priority for the community. As Phase I was published and presented to the public through a number of community presentations, two themes emerged out of conversations with area residents and community leaders. The first theme paralleled the findings of the Phase I report — the need to concentrate efforts and resources as much as possible on economic development efforts. The second theme that emerged is the need for greater cooperation within the Alleghany Highlands between the area’s local governments so that efforts and resources are well spent.
As Phase 1 outlined, the Alleghany Highlands is facing the challenge of undertaking needed economic development efforts, upgrading and expanding water and sewer utilities, and building new school facilities even as community services are maintained and taxes kept as low as possible in order to be economically competitive. The capital resources needed for these efforts will be hard to come by in today’s local and state funding environments and will impact the budgets of the local governments for years to come. Yet, developing strategies to secure new capital and/or free up existing capital for these projects is essential for economic growth in the Alleghany Highlands.

Cooperation is an issue in many communities, particularly in Virginia with its system of independent cities and counties. At the Phase 1 community presentations participants asked whether a lack of cooperation hinders economic development and what form of government most likely leads to successful economic development. In reality, economic development can happen anywhere local governments cooperate to meet the needs of business or industrial prospects considering the area.

Because of their importance, the two themes of funding economic development efforts and fostering stronger governmental cooperation will frame the content of Phase 2. Additionally, this report will attempt to keep two very important perspectives in mind.

The Perspective of an Unemployed/Underemployed Community Resident

An unemployed or underemployed resident of the Alleghany Highlands is not concerned whether the new job he secures is in Clifton Forge, Covington, Iron Gate, or Alleghany County. He simply needs a good job with adequate pay and sufficient benefits to provide for his family. As the area seeks to recruit new business and industry, providing for the employment needs of community residents should take priority over political considerations.

The Perspective of a Business or Industrial Prospect

The 22nd Annual Corporate Survey published in Site Selection magazine (cited in the Phase 1 report) was summarized in two questions that must be answered for a business or industry before it comes to an area:

- “How quickly can I get my business up and running?”
- “How much is it going to cost me?”

It takes “extreme” cooperation to attract and land a business or industrial prospect. To delay an answer or give an unsatisfactory answer is to lose the prospect to the next community on its list of possible locations. One example is the lack of a natural gas line at the Regional Commerce Center. After years of discussion, there is still no gas line and prospects who require natural gas continue to bypass the site.

The Question of Governmental Reorganization

Since one avenue to stronger regional cooperation involves combining local governments, the options for governmental reorganization will be explored in this report. While no position will be taken on which form of local government is best for the region, Phase 2 will seek to provide broad data on the savings that may be realized through implementing a different form of government, savings that could be invested in infrastructure and economic development.

Organization of Phase 2 Report

This report is organized into five sections. The first four examine the current governmental structure and the three options for a different structure. The final section briefly returns to the theme of economic development and growth with the analysis from the first four sections as background.
The sections are entitled:

- Continuation of Current Governmental Structure
- Consolidation of Local Governments & School Divisions
- Reversion of Covington to Town Status including Consolidation of School Divisions
- A Jointly Operated School Division
- A Final Word about Growth

* Sections of the Code of Virginia related to changing local governmental structure are shown in text boxes in order to aid the reader who may be unfamiliar with the provisions found there.
CONTINUATION OF CURRENT GOVERNMENTAL STRUCTURE

Available Research

Four studies were published at mid-decade regarding the efficiency of local governments based on their size. “School District and Municipal Reorganization: Research Findings & Policy Proposals” was a report published by the State and Local Government Program of Michigan State University for use by the Michigan House of Representatives. “Economies of Scale and the Provision of Public Goods by Municipalities” was published in the *Journal of Economics and Economic Education Research* in September, 2004 and reviewed a number of studies related to the efficiencies of local government based on size. “The Consolidation of City and County Governments: A Look at the History and Outcome-Based Research of These Efforts” was published by the University of Tennessee Institute for Public Service in 2005 and examined efficiencies particularly achieved or not achieved through consolidation. The Government Innovators Network of the JFK School of Government at Harvard University published a study entitled “City-County Consolidations and Diseconomies of Scale” in 2005. It examined certain diseconomies that might result in services because of consolidating jurisdictions and school divisions. These four studies, utilized in compiling this report, reviewed the findings of over seventy-five published reports and books.

The Efficiencies of Small Government

Researchers found small units of local government to be fairly efficient. They also highlighted the responsiveness of local officials in small communities to community needs because residents tended to know their public officials, staff, police forces, and school administrators personally. They found that the greatest efficiencies achieved through larger governmental entities came in the purchasing of equipment, maintaining roads, and providing for large capital expenses.

The greatest plus for the current arrangement of local governments is highlighted in this research. The smaller scale of local governments in the Alleghany Highlands does likely engender a stronger tie between the citizens of the several localities and their elected officials and public sector staff. Because the localities have always worked under tight budgets, the efficiency of the local governments is probably fairly high. However, the research cited in the studies did not address changes in population and employment such as those faced by the Alleghany Highlands. While it can be successfully argued that the current configuration of local government has worked up to now, looking into the future might reveal a different view.

The Challenges of Small Government

As indicated in the Phase 1 report “Challenges for Economic Growth for the Alleghany Highlands”, the area faces the challenge of providing for capital needs and economic development efforts while maintaining competitive fees and tax rates in the midst of declining population and employment. This challenge represents the biggest minus for the current governmental structure. The challenge can be represented by the following financial issues and decisions faced by the various Alleghany Highland communities in recent months:

**Clifton Forge**

- The Town Council recently approved loans/bonds totaling $2,010,500 for phase one installation of water meters ($760,500 at 0% for 30 years) and phase one improvements at the Water Treatment Plant ($1,250,000 at 3.05% for 20 years). Annual debt service will total $88,025.
- In the near future, the Town Council will be approving financing of $1,153,088 at 0% for 30 years for phase two
installation of water meters. Annual debt service will be an additional $38,436.

- The Town Council is in the process of conducting the required public hearings for the adoption of the FY 2009 Operating Budget that includes a $0.04 per $100 in valuation increase in the real property tax rate. The Town is also facing a reduction of approximately $55,000 in state aid for the next fiscal year.

- The Town’s current residential water and sewer rate is a flat rate of $50 per month ($19 per month for water and $31 per month for sewer service). The residential rate will soon be increased to $60 per month ($21 for water and $39 for sewer) during the transition to metered service, representing a 20% increase. This new sewer rate doesn’t yet reflect any rate increases that might result from the construction of the new Eastern Regional Wastewater Treatment Plant.

- The total cost of the planned Eastern Regional Wastewater Treatment Plant is now estimated at $46 million including all connecting mains, pumping stations, site access and preparation, and the treatment plant itself. Clifton Forge will be heavily impacted by these costs in that 40% of the customers of the current wastewater treatment plant are Clifton Forge residents and therefore approximately 40% of the operational costs and debt service of the new plant will fall to Clifton Forge users. Additionally, the sewer system in Clifton Forge has a very high rate of inflow and infiltration because of its structure, age, and condition. As a result, the Town’s peak flows during precipitation events are very high. The overall construction costs of the project have been increased in order to allow for these peak flows. Because Clifton Forge will be charged a bulk customer rate per 1,000 gallons of flow, the Town’s monthly cost of providing sewer service will increase significantly.

**Covington**

- The new Edgemont/Jeter Watson school complex is currently under construction at a cost of $26.5 million. Annual debt service for construction will peak at just under $2.0 million in 2013 once all of the debt is fully drawn down. The City’s total debt service (all loans, general obligation bonds including those for water and sewer projects, and bond-backed leases) will peak at just under $3.3 in 2013, before dropping below $2.5 million in 2014.

- The figures above include payments on a lease revenue bond secured by the Industrial Development Authority (IDA) to fund $11.5 million of the school construction debt with initial annual payments of approximately $800,000. A lease revenue bond is not accounted as debt service since payments are made through a lease with the IDA, but nevertheless remains an obligation that needs to be paid. Utilizing a lease revenue bond allowed the City to stay under the legal debt limit of 10% of assessed property values, but with payment of the lease revenue bond factored back in, the City’s borrowing capacity over the next several years will be limited. This limitation could lead to foregoing other needed capital improvements or difficulties in funding unforeseen capital needs and emergency repairs.

- In funding the new school construction, the City has also directed the Covington City School Board to set aside $259,000 in existing annual school construction and operating cost funds provided by the Commonwealth of Virginia to be used for debt service.

- The City Council is in the process of setting the real property tax rate for the FY 2009 General Fund Budget at the current $0.66 as planned in order to fund the school construction. Though not an increase in the tax rate, with the recent property reassessments, this is an increase in real
• property tax payments and revenue. The City is also facing a reduction of just over $96,000 in state aid for the next fiscal year.

• Covington is also facing required upgrades at its wastewater treatment plant of $2 to $10 million according to the City of Covington Five-Year Capital Improvement Plan Effective July 1, 2007. Allowing for a $6 million project and $1 million in grants, a new debt of $5 million would require an annual debt service of $250,000 on a 0% loan for 20 years. Based on current sewer fund revenue of $1,412,871 this increase in expenses would require an approximate 18% increase in sewer charges. The current $28 per month residential sewer charge would need to increase to $33 per month and the current $85 per month commercial charge would need to increase to $100 to cover this debt. Each additional $1 million in sewer system improvements would potentially add an additional 3.5% to the monthly rates.

Alleghany County

• Planning is ongoing for a new Alleghany High School projected to cost between $43 and $53 million. If constructed at $48 million, annual debt service would peak at $3.6 million in 2013 with the County’s total debt service peaking at $7.15 million in the same year. Based on the new real estate assessments, each $0.01 increase in the tax rate would raise an additional $95,337. After contributions from existing funds by Alleghany County Public Schools and Alleghany County, the implicit real property tax increase for the new school debt could be $0.24 per $100 in valuation, an increase of 36.4%.

• The County’s portion of the debt service and operational expenses related to the Eastern Regional Wastewater Treatment Plant will impact the sewer fees for County residents. At a January 2008 County Sewer & Water Commission meeting it was estimated that to fund the plant’s construction, the basic monthly sewer charge would go from its current $31 per month for the first $5,000 gallons to the “mid-$40’s by 2010.” A $45 monthly basic rate would represent a 45% increase.

• The Board of Supervisors is in the process of setting the real property tax rate for the FY 2009 General Fund Budget at the current $0.66. Though not an increase in the tax rate, with the recent property reassessments, this is an increase in real property tax payments and revenue needed to balance the budget, even without yet actively moving on the new high school plans. The County is also facing cuts in state aid and new mandates at a cost of approximately $400,000 and additional fuel and heating oil costs for the schools of $250,000.

As these examples indicate, the various localities in the Alleghany Highlands are facing numerous financial challenges. All of the projects outlined above, and impacting the finances of the localities, are needed. Securing additional tax revenue, either by increased rates or by not decreasing rates upon reassessment is a valid means of providing needed services and balancing tight budgets. All across Virginia, localities are encountering difficulties in putting together their FY 2009 budgets due to the economic times, decreases in state aid, increases in operational costs, and the cost of tackling delayed capital projects. However, with the added pressure of declining population and employment, and eventually a declining tax base, the Alleghany Highlands communities are in danger of pushing the limit on revenues and budgets more than most communities across Virginia.

The Impact of Inflation on Budgets

An additional important issue regarding the funding and budget situations for Clifton Forge, Covington, and Alleghany County needs to be examined—the cost of inflation. Rising energy prices have pushed the rate of inflation in the United States significantly higher in recent months. A higher rate of inflation will squeeze the budgets of
the various Alleghany Highland localities. As outlined on the previous pages, the current and pending capital projects being undertaken by Clifton Forge, Covington, and Alleghany County require significant debt service that will squeeze the budgets of the localities as well. Being squeezed by inflation and new debt service, will create very little “wiggle” room in future budgets. Because of lack of growth in the local economy, inflation-fueled increases in expenditures will likely have to be absorbed as reductions in services or funded through tax increases.

Both Alleghany County and Covington recently utilized investment firms to assist with studying funding issues and scenarios related to new school construction, and in the case of Covington, securing bond funding. Their guidance is required to make accurate projections of the impact of inflation. Morgan Keegan projected a 4% increase in general fund expenditures annually each year and an increase of 1% in real estate assessments annually (in years without a reassessment) in their report for Alleghany County. Davenport & Company LLC projected only a 2% increase in general fund expenditures for Covington each year, but a review of Davenport’s base data would suggest that 4% is a more likely projection. Davenport projected a 2% annual growth rate in real estate assessment growth annually, but taking reassessment years out of Davenport’s base data would yield a growth rate of 1.16%, a number closer to the 1% annual rate utilized by Morgan Keegan.

The table to the right looks at what might happen between assessments for Clifton Forge, Covington, and Alleghany County using their FY 2008 General Fund Budgets as a beginning point (the FY 2009 budgets were still being worked out as this report was being written) and utilizing the most recent real estate assessments. To be conservative, it utilizes a 3% growth rate in general fund expenditures and a 1% growth rate in real estate assessments. Given the volatility of the housing market right now, trying to project what reassessments will yield in the future would be difficult. This table does not include funding for the pending capital projects such as schools or water and wastewater improvements as described in the previous bullets. It represents just the impact of inflation on general fund expenditures. It only looks three years into the future, since Covington does reassessments every four years (Clifton Forge and Alleghany County reassess every six years). With each reassessment the local governments may gain some breathing space and be able to drop real property tax rates back, but unless the

<table>
<thead>
<tr>
<th>Locality</th>
<th>2012 General Fund Budget Assuming 3% Annual Increases and No Reassessment</th>
<th>Unfunded General Fund Budget Increase or Dollar Value of Reduction in Services Required to Absorb Inflation</th>
<th>Implicit Real Property Tax Rate Increase with No Reduction in Services</th>
<th>Percentage Increase in Real Property Tax Rate with No Reduction in Services</th>
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<tr>
<td>Clifton Forge</td>
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<td>Alleghany County</td>
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<td>$3,048,614</td>
<td>* $0.20</td>
<td>* 30.0%</td>
</tr>
</tbody>
</table>

* These figures do not include the potential construction of a new Alleghany High School which would add $0.24 to the Implicit Tax Rate and 36.4% to the Percentage of Increase in the Tax Rate.

inflation rate cools dramatically and given the debt service for capital improvements, that might be very unlikely.

This table does highlight the concept of an “implicit tax rate” and “implicit tax increase.” An implicit tax increase is defined as the amount of tax increase, in this case real property tax, that would be necessary to fund an expenditure assuming that no other means would be available to pay for that expenditure. Utilizing the updated real property assessments and pending real property tax rates now being used in planning the FY 2009 budgets of the various Alleghany Highlands localities, it can be calculated that every increase of $0.01 in the real property tax rate in Alleghany County raises an additional $95,337 in revenue; in Covington, an additional $28,728 in revenue; and in Clifton Forge, an additional $29,738 in revenue. Utilizing these figures, the projected increase in the real property tax rate, the implicit tax rate, needed to fund a new expenditure can be calculated.

In reality, communities generally do a combination of increasing revenue through new taxes and cutting spending to balance budgets. Hopefully, the projected implicit tax increases will be much less than the projected 30% to 70%. Even at half that, such increases would be hard for residents to absorb. An extra note about Covington’s situation is in order—only 12.2% of Covington’s revenue is derived from real property taxes and therefore the implicit tax increase that might result from inflation is much higher if only an increase in the real property tax rate is available to cover the additional cost. 28.6% of Covington’s revenue comes from machinery and tools taxes. In contrast, the percentage of Alleghany County’s general fund revenue raised through it’s real property tax and machinery and tools tax are roughly equal at 18.6% and 20.7% respectively. Clifton Forge, Covington, and Alleghany County could raise additional revenue by increasing other local tax rates, but in particular, any tax increase on industry through raising the machinery and tools tax rate could have significant consequences given the current economy in the Alleghany Highlands.

A Summary

The financial data provided in this section can be summed up as a series of questions. Given the size of the current and pending capital projects being undertaken by the local governments and the growing impact of inflation on annual budgets, do the localities have sufficient remaining revenue capacity:

- To tackle additional needed economic development projects like the gas line to the Regional Commerce Center or the creation of a business incubator, to use just two projects outlined in the recently developed Comprehensive Economic Development Strategy?
- To tackle other planned capital improvements or unforeseen needs that might develop?
- To fund annual inflation-fueled increases in expenditures without resorting to additional tax increases or cutting back on current services?

These are no small questions. They lead to seeking answers to two broader questions—“Can the current governmental structure accommodate the current and future needs of the Alleghany Highlands in 10, 20, and 30 years? If not, is there a better structure for allocating resources in order to fund strategies and projects that would move the community more purposefully toward a better future?” The next three sections of this report will look at potential savings and efficiencies that might be realized through reorganizing the Alleghany Highland’s local governments.
CONSOLIDATION OF LOCAL GOVERNMENTS
& SCHOOL DIVISIONS

The History of Consolidation

The consolidation of cities and counties in the United States has a long history with the first occurring in 1805. There have been 33 successful consolidations according to the University of Tennessee study previously cited, a number of which were in Virginia in the 1950’s, 1960’s, and early 1970’s including the very successful consolidations of Hampton-Elizabeth City County, Newport News-Warwick County, Chesapeake-South Norfolk-Norfolk County, Virginia Beach-Princess Anne County, and Suffolk-Nansemond County. Between 1921 and 1996 there were 132 formal consolidation attempts in the U.S., with 22 successes. Failed attempts included the consolidation effort in the Alleghany Highlands in 1987 and the attempt at consolidating Clifton Forge and Alleghany County in 1991.

In the text box to the right are the highlights of the Code of Virginia related to the consolidation of local governments. The Code contains provisions that facilitate the consolidating of local governments such as allowing the various forms of state aid to stay level for a specified period of time after consolidation. The Code also contains checks and balances that assure citizen involvement and judicial review.

Consolidation of local governments has its challenges according to the Harvard study which listed the challenges as: 1) one-time transition costs, 2) the merging of personnel structures, pay, and benefits, and 3) the possibility of creating a larger, inefficient bureaucracy (a less likely possibility in that the current local governmental entities are fairly small to begin with). The Harvard study further indicated that savings can be limited in labor intensive services such as police and fire protection and public works where the work load may require the same number of line staff after

The Code of Virginia outlines the procedures, requirements, and tools allowed to achieve consolidation. Key components of Article 2, Chapter 35, Title 15.2 of the Code include:

- Negotiation of a consolidation agreement by act of the governing bodies or by citizen initiative involving a petition signed by not less than 15% of the registered voters of a jurisdiction and the appointment by the circuit court of a citizen’s committee to negotiate an agreement.
- Requires general state aid to stay the same for 20 years after consolidation.
- Requires the Local Composite Index used for calculating educational aid to be established at the lower of the Composite Indexes for the consolidating entities for a period of 15 years.
- Allows the former county roads to still be maintained by the Commonwealth, if requested.
- Allows for Special Debt Retirement Divisions for up to 20 years and Special Service Divisions with no sunset clause.
- Allows for a consolidation agreement that would keep in place constitutional officers and their assistants and deputies at the same pay until their terms expire or new elections are held. This provision applies to school superintendents as well.
- Allows for townships within a consolidated city or tier cities in consolidated counties.
- Requires the review of the consolidation agreement by the Commission on Local Government and a Supreme Court of Virginia appointed special court.
- Requires approval by referendum of all jurisdictions that are a party to the consolidation agreement.
consolidation as before. As cited previously, significant savings can be gained through consolidation in the purchasing of equipment, road maintenance, and large capital expenses.

Because these several recent studies focused on consolidations that created very large, urban governments they did overlook an important issue. They concentrated only on the savings and efficiencies related to the provision of core services in a consolidated government and failed to consider potential savings in administrative costs, general services, and the cost of governing. In fact, the studies assumed a larger and more inefficient bureaucracy would result from consolidation. Further, though all of the studies touched on the impact of consolidation on schools, only the Michigan State study concentrated on the savings and efficiencies that might be realized by the consolidation of school divisions. As will be seen later in this section, those savings could be significant.

The guidance provided by these studies will be kept in mind as potential savings and efficiencies that might be gained through consolidation are outlined in this section. Yet, apart from statistical analysis, the greatest challenge to consolidation is the willingness of the citizenry and elected officials to consider it, and if found beneficial, to approve and implement it. Consolidation is “extreme” cooperation to its fullest extent. If there is not a desire for cooperation in order to achieve a greater good, any consolidation attempt will be at best an uphill climb.

Savings Potentially Realized through Consolidating Local Government

In order to project realistic potential savings gained through consolidating local government the FY 2008 budgets for Covington, Clifton Forge, and Alleghany County were examined and the following filters were developed:

- All joint functions and shared services currently in place between the several Alleghany Highlands local governments were excluded from the calculation. Examples include social services, the Commonwealth’s Attorney, Clerk of Circuit Court, and Sheriff’s Office functions at the Courthouse and Detention Center.
- Generally, all departments with one staff member were excluded from the calculation, assuming that in a consolidated government the several remaining staff members in a combined department would be needed to cover a larger territory.
- Generally, all departments with a budget of approximately $30,000 or less were excluded from the calculation.
- All transfers to the school divisions and debt serviced for school construction were excluded from the calculation. Any savings from consolidating the school divisions are considered later in this report.
- All payments for services were excluded from the calculation assuming many of those payments would continue. A large example would be the transfer and disposal of refuse (but not collection).
- All contributions to non-profits were excluded from the calculation assuming that a consolidated entity would continue giving to these organizations.
- All funding related to economic development was excluded from the calculation.
- Expenses for volunteer fire and rescue squads, the Covington Fire Department and Ambulance and Rescue Service, and the Clifton Forge Fire Department were excluded from the calculation because those services would need to continue.
- “Enterprise” functions (water and sewer service) and Capital Improvement Plan expenditures were excluded from the calculation because they are funded separately and will only likely increase in the future.
• All functions and departments related to administration, governance, and financial and legal services where the number of elected officials, boards, and commissions; the number of supervisory personnel; and the administrative costs can be reduced as redundancies are eliminated after a reasonable transition period were included in the calculation with a projected savings of 20%.

• Public works, the Sheriff’s Office law enforcement division, the police departments of Clifton Forge and Covington, and E911 services were included in the calculation at projected savings of only 10% due to the labor intensive nature of the work performed in these areas. Even with the labor intensive nature of the work, savings should be realized in the areas of supervision and administration after a reasonable transition period.

• All building costs were included in the calculation at a projected savings of 20% assuming there would be some reduction in needed space. The creation of local “service centers”, however, would reduce the potential savings if they were included in a consolidation agreement and implementation plan.

Because the FY 2009 budgets were still being developed at the writing of this report, the FY 2008 budgets for Clifton Forge, Covington, and Alleghany County were utilized in the calculations. Iron Gate’s budget was not utilized because of its small size. The potential savings, or more importantly, funding available for reinvestment into strategic projects, are projected to look like the figures in the table to the right.

### Potential Annual Savings/Reinvestment of General Fund Expenditures (Based on FY08 Budgets)

<table>
<thead>
<tr>
<th>Locality</th>
<th>Budget for Functions of Likely Savings</th>
<th>Savings/Reinvestments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town of Clifton Forge</td>
<td>$1,944,697</td>
<td>$194,470</td>
</tr>
<tr>
<td>City of Covington</td>
<td>$6,299,152</td>
<td>$947,531</td>
</tr>
<tr>
<td>Alleghany County</td>
<td>$7,852,127</td>
<td>$1,304,029</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$16,095,697</strong></td>
<td><strong>$2,446,030</strong></td>
</tr>
</tbody>
</table>

| Percentage of Savings / Reinvestment Based on Total of FY08 General Fund Budgets |
|----------------------------------|---------------------------------|------------------------|
| Clifton Forge                    | $2,664,681                      | 4.9%                   |
| Covington                        | $14,779,536                     |                        |
| Alleghany County                 | $32,877,311                     |                        |
| **Combined Total**               | **$50,321,528**                 |                        |

Source: FY08 General Fund Budgets of Clifton Forge, Covington, & Alleghany County; calculations by K. W. Poore & Associates, Inc.

Though a 4.9% overall savings does not sound like much, it does translate into $2.4 million in funds, a very conservative projection. The potential savings would be available to balance out services across the service area of a new consolidated government, to reinvest in strategic projects including economic development efforts, and to provide for existing and pending debt and other capital expenditures.
Savings Potentially Realized through Consolidating School Divisions

The Michigan State University study made several important conclusions when researching the consolidation of school divisions:

- Moving from very small school divisions (less than 500 pupils) to enrollment levels between 2,000 and 4,000 suggest potential cost savings on instructional and administrative costs.

- Total spending decreased almost 28% when consolidation occurred in divisions with enrollment levels between 300 and 600 students. However this decline dropped to 7% when consolidation divisions had student enrollment levels between 1,000 and 1,500.

- Central administration showed the largest expenditure reduction of all categories. Across all size ranges, doubling the size of the division resulted in a nearly 40% drop in administrative costs.

A review of per pupil expenditures for the Covington City Public Schools (CCPS), Alleghany County Public Schools (ACPS), and the seven school divisions in Virginia roughly equal in size to the combined enrollment of CCPS and ACPS would indicate that the kind of savings discovered in the Harvard study might also be possible in the Alleghany Highlands.

As the table on the next page suggests, ACPS, with an enrollment of 2,921 students, has per pupil expenditures 9% higher than Virginia school divisions of 3,500 to 4,000 students. CCPS, with an enrollment of 860 students, has per pupil expenditures 30% higher than school divisions of that size. Combining ACPS and CCPS as is with no changes in facilities, structure, or budget would still leave a consolidated division of 3,781 students expending from 13% to 14% more per pupil than Virginia school divisions of 3,500 to 4,000 students.

Based on the Michigan State University’s findings regarding small school divisions, an additional item of data is important to examine. CCPS is the tenth smallest school division in the Commonwealth, yet its per pupil expenditure runs 15.9% higher than the statewide average. The average per pupil expenditure for all ten of these small divisions runs 8.0% higher than the statewide average. Because of this, it is likely that a part of CCPS’s higher expenditures is related to its smaller size and the inability to spread certain costs across a broader number of students.

In order to make sure the data used in this analysis does compare “apples to apples”, several other indicators were examined:

- **Special Education Students.** Because educating special education students is more expensive, the percentages of these students were included in the previous table in order to see if ACPS or CCPS are carrying an undue hardship related to these students. ACPS’s percentage runs somewhat higher and CCPS’s percentage runs significantly higher than the average and median of 3,500-4,000 student school divisions which likely impacts their per pupil expenditures. Allowance is made for this extra cost by not utilizing the 28% savings projection found in the Michigan State study.

- **Free and Reduced Lunches.** The number of free and reduced lunches is an indicator of poverty. Because students from poverty tend to come to school with more problems, they are also more expensive to educate. Therefore, the percentages of these students were included in the previous table as well. ACPS’s and CCPS’s percentages of students receiving free and reduced lunches is the same as the average and median of 3,500-4,000 student school divisions.

- **Quality of Education.** The SOL passing rates for the seven school divisions of 3,500 to 4,000 students were reviewed and found to be comparable to CCPS and ACPS scores.
### Per Pupil Expenditures for ACPS, CCPS, and a Potential Consolidated School Division
### As Compared to Seven School Divisions with Enrollments of 3,500 to 4,000

<table>
<thead>
<tr>
<th>School Division</th>
<th>Average Daily Membership</th>
<th>Per Pupil Expenditure</th>
<th>Percent of Special Education Students</th>
<th>Percent of Free &amp; Reduced Lunches</th>
<th>Per Pupil Expenditure Compared to Statewide Average</th>
<th>Per Pupil Expenditure Compared to 3,500-4,000 Average</th>
<th>Per Pupil Expenditure Compared to 3,500-4,000 Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alleghany County</td>
<td>2,921</td>
<td>$10,290</td>
<td>17.7%</td>
<td>40.1%</td>
<td>-2.8%</td>
<td>8.8%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Covington City</td>
<td>860</td>
<td>$12,272</td>
<td>23.0%</td>
<td>40.9%</td>
<td>15.9%</td>
<td>29.8%</td>
<td>30.1%</td>
</tr>
<tr>
<td>Combined Totals</td>
<td>3,781</td>
<td>$10,741</td>
<td>18.9%</td>
<td>40.3%</td>
<td>1.5%</td>
<td>13.6%</td>
<td>13.9%</td>
</tr>
<tr>
<td>Fluvanna County</td>
<td>3,579</td>
<td>$9,053</td>
<td>15.7%</td>
<td>22.8%</td>
<td>-14.5%</td>
<td>-4.3%</td>
<td>-4.0%</td>
</tr>
<tr>
<td>King George County</td>
<td>3,769</td>
<td>$8,103</td>
<td>10.9%</td>
<td>21.8%</td>
<td>-23.4%</td>
<td>-14.3%</td>
<td>-14.1%</td>
</tr>
<tr>
<td>Page County</td>
<td>3,521</td>
<td>$9,030</td>
<td>12.1%</td>
<td>42.5%</td>
<td>-14.7%</td>
<td>-4.5%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Salem City</td>
<td>3,966</td>
<td>$9,468</td>
<td>12.1%</td>
<td>21.8%</td>
<td>-10.5%</td>
<td>0.1%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Scott County</td>
<td>3,832</td>
<td>$9,433</td>
<td>18.4%</td>
<td>51.3%</td>
<td>-10.9%</td>
<td>-0.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Hopewell City</td>
<td>3,867</td>
<td>$9,545</td>
<td>17.2%</td>
<td>71.8%</td>
<td>-9.8%</td>
<td>0.9%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Winchester City</td>
<td>3,699</td>
<td>$11,566</td>
<td>17.4%</td>
<td>47.3%</td>
<td>9.3%</td>
<td>22.3%</td>
<td>22.6%</td>
</tr>
<tr>
<td>Averages</td>
<td>3,747</td>
<td>$9,457</td>
<td>14.8%</td>
<td>39.9%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medians</td>
<td>3,769</td>
<td>$9,433</td>
<td>15.7%</td>
<td>42.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statewide</td>
<td>1,188,524</td>
<td>$10,584</td>
<td>14.5%</td>
<td>33.2%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Though the SOL scores are not the only indicator of student performance, they are a statewide instruments that can be used as a comparative tool.

- **Pre-Kindergarten Programs.** Because pre-K students are not included in the calculation of per pupil expenditures, the state figures were checked to see if this exclusion was consistent in the calculations for all divisions. It was, and therefore does not detract from division-to-division comparisons.

- **Teacher Salaries.** Teacher salaries were examined, particularly because CCPS has a more generous salary scale and benefits package than many school divisions. The FY 2008 Budgeted Average Teacher Salaries for the 3,500-4,000 school divisions averaged $46,977 and had a median
of $47,714. These compare well to CCPS’s FY 2008 Budgeted Average Teacher Salary of $47,064 and ACPS’s of $46,784. In fact, even with the disparity of the two system’s salary scale and benefits package, ACPS’s Actual Average Teacher Salary has caught up with CCPS’s. In FY 2004 CCPS’s Actual Average Teacher Salary was $45,409, 13th highest in the Commonwealth. In FY 2007 it was $44,640, 43rd highest. During the same timeframe ACPS’s Actual Average Teacher Salary went from $39,397 (ranked 55th) to $44,095 (ranked 54th). This leveling of the salary differences between the two divisions is not an indicator that CCPS’s salaries are declining, but rather reflects the retirement of veteran CCPS teachers and the hiring of new, relatively inexperienced teachers.

With this research and data in mind, and by examining the FY 2008 budgets for CCPS and ACPS, the following filters were developed to project potential savings in a consolidated school division. The filters were applied only to non-grant funded programs:

- Savings for teachers, classroom instruction, and library services were calculated at 10%.
- Savings for social workers, guidance counselors, attendance services, health services, cafeteria services, and DARE/Resource Officers were calculated at 10%.
- Transportation savings were calculated at 10%.
- Savings for central office executive and administrative staff and personnel and financial services were calculated at 30%.
- Savings for physical plant operations were calculated assuming the creation of a consolidated high school and the loss of one educational plant and the consolidation of the school offices under one roof. The average operating and maintenance cost per building across CCPS and ACPS is approximately $300,000 annually. The savings realized by closing one administrative building was estimated at $60,000.

Utilizing the two budgets and the filters above, the potential annual savings in school expenditures might look like those in the table below.

**Potential Annual Savings/Reinvestment in School Division Expenditures (Based on FY08 Budgets)**

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>ACPS</th>
<th>CCPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Office / Administrative</td>
<td>$471,641</td>
<td>$104,580</td>
</tr>
<tr>
<td>Instruction and Other Services</td>
<td>$2,318,764</td>
<td>$839,413</td>
</tr>
<tr>
<td>Physical Plant Operations / Maintenance</td>
<td>$360,000</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$4,094,398</strong></td>
<td><strong>$104,580</strong></td>
</tr>
</tbody>
</table>

| Percentage of Savings / Reinvestment Based on Total of FY08 School Division Budgets |
|---------------------------------|-------------|
| CCPS                            | $10,945,451 |
| ACPS                            | $30,257,635 |
| **Total**                       | **$41,203,086** |

Source: FY08 ACPS & CCPS Budgets; calculations by K. W. Poore & Associates, Inc.

As with the consolidation of local government, the blending of different pay scales and benefits packages would be a challenging task if ACPS and CCPS were merged into a consolidated school division. CCPS’s salary scale is more generous than ACPS’s at the lower end of the scale by about $3,000 and on the upper end of the scale by about $5,000 (they are closer together in the middle). CCPS has a more generous benefits package as well. Because of these differences, there would likely need to be a period of time during which the former ACPS teacher salaries and benefits were brought up to the higher amounts as the former CCPS teacher salaries and benefits were increased more slowly. However, as stated earlier, the
difference in Average Teacher Salaries between the two divisions is eroding and would make the adjustments required by a merger more feasible. This is particularly true in that any consolidation of governments and school divisions would take several years to be implemented once a move to do so was initiated. Attrition and additional retirements leading up to and after consolidation might also provide some breathing space for make the necessary adjustments. Of the total projected savings of approximately $4.1 million, the reduction in instructional costs is estimated at $2.4 million, funds that could be used to help make the adjustments. This would mean some of the savings would be lost in the process, but approximately 50% of the overall savings could still be realized even if the funding required to make the adjustments proves to be substantial.

One final, very important factor would need to be considered if the several Alleghany Highlands localities were to consolidate—the impact consolidation would have on the Local Composite Index (LCI). According to the Code of Virginia and by recent precedent established by the Virginia Board of Education, upon consolidation, the lower of the Composite Indexes for the consolidating school divisions would be used for determining the level of state aid for a period of fifteen years. In a recent opinion provided by the Virginia Department of Education, Alleghany County’s lower LCI of 0.2211 (Covington’s is 0.3053) would be applied resulting in an additional $597,572 in state aid annually for fifteen years. This aid would provide significant assistance during the time of transition from two to one school division.

Using the calculations for implicit tax increases previously developed, under a consolidated government, the combined revenue capacity would be $153,803 per $0.01 increase in real property tax rates. Utilizing this figure, the projected savings that could be realized through consolidation can be converted to implicit tax savings/reinvestment as indicated in the table to the right. Also included in this table is the implicit tax savings/reinvestment as indicated in the table to the right. Also included in this table is the implicit tax savings/reinvestment as indicated in the table to the right.

### Total of Potential Annual Savings/Implicit Tax Savings Available for Reinvestment through Consolidation

<table>
<thead>
<tr>
<th>Source</th>
<th>Savings / New Funding</th>
<th>Implicit Real Property Tax Rate Savings/Reinvestment (based on a Tax Rate of $0.66 per $100)</th>
<th>Percentage Of Implicit Tax Savings/Reinvestment (based on a Tax Rate of $0.66 per $100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidation of Governments</td>
<td>$2,446,030</td>
<td>$0.16</td>
<td>24.2%</td>
</tr>
<tr>
<td>Consolidation of School Divisions</td>
<td>$4,094,398</td>
<td>$0.27</td>
<td>40.9%</td>
</tr>
<tr>
<td>Impact on LCI from Consolidation</td>
<td>$597,572</td>
<td>$0.04</td>
<td>6.1%</td>
</tr>
<tr>
<td>Totals</td>
<td>$7,138,000</td>
<td>$0.47</td>
<td>71.2%</td>
</tr>
</tbody>
</table>

**Percentage of Savings Based on Total of All General Fund & School Division FY08 Budgets (with Local Funding for Schools Removed from General Fund Amounts)**

<table>
<thead>
<tr>
<th>Source</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clifton Forge</td>
<td>$2,664,681</td>
</tr>
<tr>
<td>Covington</td>
<td>$21,441,056</td>
</tr>
<tr>
<td>Alleghany County</td>
<td>$53,859,886</td>
</tr>
<tr>
<td>Total</td>
<td>$77,965,623</td>
</tr>
</tbody>
</table>

Source: FY08 General Fund & School Budgets from Clifton Forge, Covington, & Alleghany County; calculations by K. W. Poore & Associates, Inc.
reinvestment made possible by utilizing the lower LCI for a consolidated school division.

It would be very easy to oversell these savings and encourage a strategy of pushing for consolidation in order to reduce tax rates. That is not the intent of these projections. First, they are projections, and only that. If consolidation is to be pursued, detailed study and negotiation would need to be undertaken in order to establish the exact savings that could be realized and the initial costs of implementing a consolidation agreement. Second, if consolidation in the Alleghany Highlands was accomplished, freed up capital could be used for reinvestment in needed infrastructure improvements, funding of school construction debt, and economic development strategies and projects rather than for the reduction of tax rates. This is particularly true because, as indicated in the Phase 1 report, current local tax rates are reasonable and competitive as compared to similar localities leaving room for such reinvestments. An example would be funding the debt for a new Alleghany High School without being pressured to raise real property tax rates by the implicit $0.24 per $100 in valuation increase.
**REVERSION OF COVINGTON TO TOWN STATUS INCLUDING CONSOLIDATION OF SCHOOL DIVISIONS**

This section and the following section can be relatively brief. By considering consolidation first, all of the calculations needed to examine the impact of the reversion of Covington have been completed. Residents of the Alleghany Highlands are probably fairly familiar with reversion under Virginia law in that Clifton Forge only recently reverted to town status.

Simply put, the majority of savings outlined in the previous section in general fund budgets would not be available under reversion because a Town of Covington would still be responsible for most services within its boundary. This is particularly true in that Covington and Alleghany County already have numerous shared services from which savings from reversion might be realized such as social services, the courts, Commonwealth’s Attorney’s office, etc.

**Reversion’s Impact on Consolidating Schools**

The savings and additional state aid outlined in the previous section regarding school budgets would be available in that reversion would effectively consolidate the two school divisions under the leadership and authority of Alleghany County Public Schools. That portion of the general fund budget transferred to Covington City Public Schools by the City of Covington would no longer be the responsibility of a Town of Covington. Alleghany County would be responsible for the expenses of the schools within a Town of Covington, though the expenses would be reduced by the consolidation of the school divisions as calculated previously ($4,094,398). These savings could accrue to both the current residents of Covington and to residents of Clifton Forge and Alleghany County. Alleghany County would pay for the operations of the schools from the real property taxes it would be able to impose on Town residents. To remind the reader

The Code of Virginia outlines the procedures, requirements, and tools allowed for reversion of a city to town status. Key components of Article 2, Chapter 41, Title 15.2 of the Code include:

- Any city with a population of less than 50,000 may revert to town status. In 1989 special procedural requirements were enacted at the request of Clifton Forge requiring a referendum for cities of 5,000 to 5,900 persons as established by the preceding Census. After the 2010 Census, Covington will likely be included under these procedures.
- A city considering reversion must request review of such action by the Commission on Local Government before petitioning the circuit court for judicial review by a Supreme Court of Virginia appointed special court. Citizens of a city may initiate reversion by a petition signed by not less than 15% of the registered voters of the city.
- The governing body of the affected city may decline to accept the special court’s terms and conditions or accept eligibility for town status awarded as a result of citizen-initiated proceedings.
- Requires general state aid to stay the same for 15 years after a reversion that consolidates constitutional officers, school divisions, and school boards.
- The Acts of the Assembly 2007, Chapter 847, Item 135 and recent action and precedent established by the Virginia Board of Education allow the school divisions consolidating by reason of reversion to utilize the Local Composite Index used for calculating educational aid to be established at the lower of the Composite Indexes for the consolidating school divisions for a period of 15 years.
- Unless provided for by special agreement all debts, obligations, and liabilities of the former city remain with the town.
- A town that reverts to town status can not return to independent status.
of the savings that reversion of Covington to town status would provide, the data from two tables in the preceding section are combined below.

**Potential Annual Savings/Reinvestment in School Division Expenditures Upon Reversion (Based on FY08 Budgets)**

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>ACPS</th>
<th>CCPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Office / Administrative</td>
<td>$471,641</td>
<td>$104,580</td>
</tr>
<tr>
<td>Instruction and Other Services</td>
<td>$2,318,764</td>
<td>$839,413</td>
</tr>
<tr>
<td>Total of Savings</td>
<td>$4,094,398</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>ACPS / CCPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Plant Operations / Maintenance</td>
<td>$360,000</td>
</tr>
<tr>
<td>Total of Savings</td>
<td>$4,094,398</td>
</tr>
</tbody>
</table>

**Percentage of Savings / Reinvestment Based on Total of FY08 School Division Budgets**

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>Budget</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services, Administration, &amp; All Other</td>
<td>$7,316,315</td>
<td>-$731,632</td>
</tr>
<tr>
<td>Contribution to Schools</td>
<td>$4,283,931</td>
<td>-$4,283,931</td>
</tr>
<tr>
<td>Police, Fire, Rescue, 911</td>
<td>$2,003,350</td>
<td>$0</td>
</tr>
<tr>
<td>Street Maintenance</td>
<td>$1,175,940</td>
<td>Unknown</td>
</tr>
<tr>
<td>Totals</td>
<td>$14,779,536</td>
<td>-$5,015,563</td>
</tr>
</tbody>
</table>

**Potential Town of Covington Budget**

- **Potential Town of Covington Budget**: $9,763,973
- **Percentage of Savings**: 33.9%

Reversion’s Impact on Covington’s General Fund Budget and Tax Rates

As a town, Covington would continue to be responsible for funding its police, fire, rescue, and 911 services; would need to maintain the majority of its existing facilities; and would continue maintaining some portion of its streets with state assistance, particularly those that do not meet state standards. Negotiating the funding and responsibility for maintaining streets would be a part of developing a reversion agreement. Any savings in the street maintenance budget would be difficult to project at this time. The new town would also continue operating its own water and sewer utilities. Savings in administrative, general services, and all other services might equal 10% as some staff positions are eliminated. An example of where savings might be realized would be the central accounting office with a budget of about $400,000, a budget somewhat larger than similar cities because that office does the accounting for the schools. The savings to the Covington through conversion to a town might look like the following:

**Potential Annual Savings Accrued to Covington by Reversion (Based on FY08 Budgets)**

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>Budget</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Services, Administration, &amp; All Other</td>
<td>$7,316,315</td>
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</tbody>
</table>

**Potential Town of Covington Budget**

- **Potential Town of Covington Budget**: $9,763,973
- **Percentage of Savings**: 33.9%

It would be hard to predict the impact reversion would have on the real property tax rate for a Town of Covington. Because Covington relies so little on revenue from real property taxes, the savings just
outlined exceed the amount collected by a factor of more than 2 to 1. Yet other tax rates and revenue sources, such as the machinery and tools tax, would be subject to negotiation as a part of a reversion agreement. Through reversion, Alleghany County would have the right to impose its machinery and tools tax within the town limits. However, the total machinery and tools tax paid by industry would need to stay the same in order to maintain a competitive environment. Also, the County would be imposing its real property tax within town limits at a rate of $.066 per $100 in valuation. If Clifton Forge’s experience is any example, a real property tax rate of $0.21 per $100 might be needed by a Town of Covington.

Another issue that would have to be negotiated would be Covington’s current debts and liabilities. As noted in the text box on the previous page, the debts of the City of Covington would continue with a Town of Covington unless provided for by special agreement. If Covington were to pursue reversion, it would be essential that it try to reach such an agreement, particularly related to the new school debt, in order to maintain its fiscal viability.

Advantages and Disadvantages

For a city, the advantages of reversion to town status include no longer being responsible for schools and some services; having increased influence in county affairs; and maintaining a smaller unit of government close to its residents. Among the disadvantages are the financial and political costs of reversion; double taxation; an expanded say by the county in town affairs; the loss of power; and the perceived loss of identity.

For a county, the advantages of reversion to town status include having additional land, population, and property tax base; having access to additional other local revenue, such as a portion of the $.01 local sales tax; and increased cooperation. Among the disadvantages are the financial and political costs of reversion; the shifting of major responsibilities to the county, such as schools; and an increased influence of town residents in county affairs.
A JOINTLY OPERATED SCHOOL DIVISION

Virginia law does not have a mechanism for consolidated school divisions without the consolidation of local governments or the reversion of cities to town status. In lieu of such a mechanism, a number of communities have pursued the strategy of jointly operating a school division. Communities where their public schools are operated as a jointly operated school division include Williamsburg City-James City County, Emporia City-Greensville County, Bedford City-Bedford County, and Fairfax City-Fairfax County. Where implemented, a jointly operated school division would not alter the tax structure of an area.

A jointly operated school division is organized under the following parameters:

- Two school divisions are operated with a single name and governed by one school board.
- Each division maintains a separate Local Composite Index which if significantly unequal, channels more state aid to one division versus the other.
- Each division maintains separate records and files reports to local, state, and federal governments separately.
- The budget of a jointly operated school division would require approval of both governing bodies.

A jointly operated school division would likely allow for some reduction in executive, administrative, and central office costs in that the division would operate under the supervision of one superintendent. However, it would be less than the 30% reduction previously projected for these functions because of the separate accounting and record-keeping that would be required. A reduction of 15% might be more reasonable. The approximate $60,000 in potential savings through having one central office would be realized as well. There would be savings in other areas only if the jointly operated school division was reorganized with a consolidated high school and other reductions in instructional staff. The savings of a jointly operated school division might look like the following:

**Potential Annual Savings/Reinvestment in School Division Expenditures of a Jointly Operated School Division (Based on FY08 Budgets)**

<table>
<thead>
<tr>
<th>Area of Service / Function</th>
<th>ACPS</th>
<th>CCPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Office / Administrative</td>
<td>$235,820</td>
<td>$52,290</td>
</tr>
<tr>
<td>Physical Plant Operations / Maintenance</td>
<td>$60,000</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$348,110</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Percentage of Savings / Reinvestment Based on Total of FY08 School Division Budgets**

<table>
<thead>
<tr>
<th></th>
<th>CCPS</th>
<th>ACPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCPS</td>
<td>$10,945,451</td>
<td></td>
</tr>
<tr>
<td>ACPS</td>
<td>$30,257,635</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$41,203,086</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Percentage</strong></td>
<td><strong>0.08%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: FY08 ACPS & CCPS Budgets; calculations by K. W. Poore & Associates, Inc.

As can be seen above, the savings of a jointly operated school division would be minimal. In addition to the small savings, another challenge of a jointly operated school division is that it would only be successful where the level of cooperation between the participating localities is very high. In a situation like that in the Alleghany Highlands, where regional cooperation is an issue, a jointly operated school division would likely face many challenges, particularly as annual budgets are being prepared.
A FINAL WORD ABOUT GROWTH

As stated in the beginning of this report, concentrating resources on economic development strategies and projects and fostering cooperation between local governments are essential to the economic growth of the Alleghany Highlands. This report has examined reorganizing local government as a means of reallocating resources to needed areas, particularly economic development efforts. Ultimately, that is only a part of the picture. The real answer to securing the public resources needed for the advancement of the Alleghany Highlands is growth in business and industry that leads to growth in population and tax revenue. Reorganizing government is not an end in itself, but may be a tool to a greater end—jump starting sustainable economic growth through the reallocation of resources to the right task, the right place, the right time.

The right task and the right place for action are yet to be determined. The time to act, however, is now. The area can not continue down its current path of population decline and job loss. Hopefully the Phase I report and this report have provided insights and data that might help local leadership make the decisions needed to grow the business and industry, population, and tax base of the Alleghany Highlands.
REFERENCES


Hardy, Pat. *The Consolidation of City and County Governments: A Look at the History and Outcome-Based Research of These Efforts*. University of Tennessee Institute for Public Service. 2005.
