MINUTES

Regular Meeting
Commission on Local Government
10:00 a.m., January 12, 2009
First Floor Board Room
The Jackson Center
501 North Second Street
Richmond, Virginia

Members Present

Vola T. Lawson, Chairman
Elmer C. Hodge, Jr., Vice Chairman
Harold H. Bannister, Jr.
Kathleen K. Seefeldt

Members Absent

Frances M. Parsons

Staff Present

Susan Williams, Local Government Policy Manager
Steve Ziony, Principal Economist
Matthew Bolster, Senior Policy Analyst
Barbara Johnson, Administrative Assistant

Call to Order

In the absence of Chairman Frances M. Parsons, Vice Chairman Vola T. Lawson called the meeting to order at 10:06 a.m. on January 12, 2009 in the Board Room of the Department of Housing and Community Development (DHCD) at the Jackson Center in Richmond, Virginia.

I. Election of Officers

Mrs. Seefeldt nominated Mrs. Lawson for Chairman and such nomination was seconded by Mr. Hodge. At this time, Mrs. Lawson asked Mr. Bannister to assume the Chair for the purpose of conducting the election of officers for 2009. The Commission unanimously elected Mrs. Vola T. Lawson as Chairman. Mr. Bannister nominated Mr.

Elmer C. Hodge, Jr., for Vice Chairman, such nomination was seconded by Mrs. Seefeldt, and the Commission unanimously elected Mr. Hodge as Vice Chairman. **[Mrs. Lawson resumed the Chair at this point in the meeting.]**

II. <u>Reappointment of Mr. Bannister</u>

Ms. Williams congratulated Mr. Bannister on his reappointment to the Commission by Governor Kaine on December 15, 2008.

III. <u>County of Montgomery – Town of Christiansburg Proposed Revenue and Economic Growth-Sharing Agreement</u>

Ms. Williams presented the draft report on the County of Montgomery – Town of Christiansburg Proposed Revenue and Economic Growth-Sharing Agreement. She indicated that the draft report was emailed to the Commission members participating in the review of the agreement for their review and comment on December 22, 2008 and that a hard copy was mailed to members the following day. Ms. Williams led members through the Table of Contents, highlighting various sections of the draft report, including the scope of review, general background of the town and county and limitations of analysis sections. Ms. Williams noted that, as explained in the scope of review section of the draft report, the Commission is authorized by Va. Code § 15.2-2903 "to investigate, analyze, and make findings of fact, as directed by law, as to the probable effect" of the proposed agreement on the people residing in that area. Ms Williams then presented the following draft findings to the members for their consideration:

- The agreement will have no effect on the residents of the growth sharing area, since they are not subject to the taxes proposed for revenue sharing.

- The agreement will have no effect on County residents as a whole (including the towns) in their capacity as consumers. Although local consumers may pay part of the meals and transient occupancy taxes, the sharing of the resulting tax revenues between the localities has no impact on the consumer tax burden.

- The total revenues over the life of the agreement may vary significantly from the parties' forecast. In their Joint Submission, the Town and County assumed annual constancy in the pertinent town tax rates as well as the dollar volume of taxable retail sales that will be logged by each of the projected businesses in the growth-sharing area. To the contrary, historical data for Montgomery County demonstrates that taxable sales per vendor generated by food service businesses and drinking places as well as by lodging establishments during CY 1990 through CY 2007 have not been constant. Consequently, the revenue projections provided in the parties' joint submission, which assume annual constancy in the dollar volume of taxable retail sales generated by each business that locates in the proposed growth-sharing area, are not likely to be reliable. Furthermore, the parties' projections assume a constant Town tax rate over the course of the agreement, and any changes to the tax rate would further undercut the reliability of their projections. As such, both parties to the agreement should exercise prudence with respect to future budgeting based on these projections.

- For the Town, the agreement has an opportunity cost, because for 20 years (subject to a 10-year limitation on each taxed business), it will collect less revenue from meals and transient occupancy taxes in the growth sharing area—a difference that it would be entitled to keep in the absence of the agreement. However, this cost is likely to be outweighed in the long run by the benefits of maintaining a cooperative relationship with the County. By agreeing to the growth sharing arrangement, the Town has established by precedent an incentive for the County to consider future boundary adjustments.

- The expected direct revenue benefits under the agreement contribute to the County's fiscal health but are not critical to it. The indirect revenue benefits are likely to be more significant. Montgomery County retains independent revenue-raising authority within the proposed growth sharing area, including real property, personal property, local sales, and merchants' capital taxes, which, in the aggregate, may produce significantly more revenue than that which will be collected under the proposed agreement with Christiansburg. Little commercial development would happen, however, without the Town's commitment to provide public water and sewer service under the agreement. The Town likely would provide such service even in the absence of the agreement, but the agreement guarantees it.

- Although the County's fiscal stress scores have hovered around the statewide average and successive increases in its per capita revenue capacity – Montgomery County should be able to meet its public finance requirements regardless of whether the growth sharing area produces revenue.

- Maintaining the current general business zoning is critical to the revenue generating potential of the growth sharing area. The County made the initial zoning decision, but zoning authority now lies solely with the Town. The agreement does not require the Town to retain the current zoning. The Town has no apparent reason to downzone the growth sharing area, but the County may wish to include a provision in the agreement discouraging the Town from pursuing any downzoning actions.

Next, Ms. Williams presented the following statement from the draft report that would precede members' signatures at the end of the final report:

> The Commission on Local Government recognizes the significant efforts put forth by the officials of the Town of Christiansburg and Montgomery County and commends the officials for working together in the spirit of cooperation to negotiate and achieve the economic growth sharing agreement we have herein reviewed.

Ms. Williams then presented five sets of supplementary tables and graphics, which she explained were emailed to the members separately from the draft report and relate to the third, fifth and sixth proposed findings and are further reflected on pages 11 – 13 in the limitations of analysis section of the draft report.

Mrs. Lawson suggested that a concluding sentence be added to the report indicating that the Commission recommends that the agreement proposed by Montgomery County and Christiansburg be approved by the localities. A brief discussion ensued and the following language was decided upon: "Provided that the parties take into consideration the foregoing findings, the Commission sees no reason why the parties should not adopt the agreement."

Mrs. Seefeldt suggested an amendment to the sixth proposed finding, and the sentence was rewritten as follows:

- Since the County's fiscal stress scores have hovered around the statewide average and the County has recorded successive increases in its per capita revenue capacity, Montgomery County should be able to meet its public finance requirements regardless of whether the growth sharing area produces revenue.

Mrs. Seefeldt next suggested that "on this property" be added at the end of the last sentence in the seventh proposed finding, to which suggestion there was no objection.

Mrs. Seefeldt then made a motion that the Report on the County of Montgomery – Town of Christiansburg Proposed Revenue and Economic Growth-Sharing Agreement be approved by the Commission as amended and with the addition of the supplementary tables and graphics as a fourth appendix. Her motion was seconded by Mr. Bannister and unanimously approved by the members present, which included all Commission members who participated in the review of the agreement.

IV. Administration

A. Approval of Minutes of Regular Meeting of November 17, 2008

Mr. Bannister made a motion that the minutes of the Commission's regular meeting of November 17, 2008 be approved, such motion was seconded by Mr. Hodge and the Commission unanimously approved the minutes without amendment.

B. Public Comment Period

The Chairman opened the floor to receive comments from the public. No person appeared to testify before the Commission during the public comment period.

C. Presentation of Financial Statement for December 2008

Referencing an internally produced financial statement that encompassed expenditures through the end of December 2008, Ms. Williams stated that the financial report covered one-half of Fiscal Year 2009 (FY09) and that Commission non-personnel expenditures for that two-month period represented 24.67% of the total amount budgeted for the fiscal year. Ms. Williams noted that a transfer of $20,000 - $25,000 to the Commission's budgeted amount for personnel expenditures for FY09 is forthcoming. The members accepted the report for filing.

D. <u>Local Government Policy Manager's Report</u>

1. <u>Announcements</u>

Ms. Williams reported that, in his amendments to the budget, which were released on December 17, the Governor suspended per diem payments by executive branch agencies to citizen members of boards and commissions effective July 1, 2009. Ms. Williams stated that the only other amendments which would directly impact the Commission or staff are the elimination of planned salary increases for public employees in both FY2009 and FY2010. Ms. Williams stated that the General Assembly must still act on the budget. Mr. Bannister inquired as to whether the agency will be moving out of the Jackson Center in 2009. Ms. Williams responded that, at present, the agency is expected to move at the end of May into a building recently acquired by the state, which is located on Main Street between Sixth and Seventh Streets in downtown Richmond. Ms. Williams then informed members that the Governor's office recently issued a prohibition on the printing of documents by executive branch state agencies. The ban will prohibit the printing of several reports issued annually by the Commission. Ms. Williams indicated that the reports will continue to be available on the Commission's website.

2. <u>Staff Activities and Reports</u>

Ms. Williams reported on the Commission's performance measure for the second quarter of FY2009 (October 1, 2008 through ending December 31, 2008). She stated that Commission staff responded to a total of 52 requests for technical assistance and information during that period.

Next, Ms. Williams informed members that, per their request at the last meeting, she contacted the Virginia Municipal League (VML) and the Virginia Association of Counties (VACo) regarding Mr. Bolster's outstanding briefing on the structure of land use planning, land use regulation and infrastructure finance in Virginia. Ms. Williams indicated that VACo forwarded it to their 2009 conference planning committee for future consideration, and VML noted the offer in their 2009 conference file.

Ms. Williams then reported that she attended the Local Legislative Liaison Retreat hosted by VML and VACo in Henrico County on December 16. She indicated that she was provided the opportunity to address attendees for the purpose of fiscal impact analysis volunteer recruitment.

Next, Ms. Williams updated members regarding the progress of the Subcommittee studying development and land use tools in Virginia, which is chaired by Delegate Athey. Ms. Williams indicated that the Subcommittee and its three Workgroups will meet again on January 13 in Richmond.

Ms. Williams then informed members that Governor's amendments to the budget included a 9.1 percent reduction in funding to the Planning District Commissions (PDCs). Ms. Williams indicated that she and Mr. Bill Shelton, DHCD director, met with representatives of the Virginia Association of Planning District Commissions (VAPDC) on December 12, at their request, to discuss their funding concerns. Ms. Williams followed up with e-mails to all PDC executive directors regarding the reductions and providing a revised funding spreadsheet. Ms. Williams added that she was asked to serve as a speaker at the VAPDC Winter Conference on January 29 in Richmond. She was asked to provide an update on the work of the Subcommittee studying development and land use tools.

Finally, Ms. Williams called members' attention to two recent newspaper articles that were distributed regarding potential interlocal issues between the Town of Culpeper and Culpeper County and between the Towns of Cedar Bluff and Richlands and Tazewell County.

3. Meeting Per Diem

Ms. Williams stated that, in accordance with the Commission's policy on compensation and reimbursement, per diem will be paid to all members present for their service to the Commonwealth on January 12, 2009.

V. Status Report - Fiscal Stress Report for 2006/2007

A. Revenue Capacity Per Capita

Mr. Ziony explained that, in measuring revenue capacity at the county and city levels, the Commission on Local Government has employed the Representative Tax System (RTS) methodology, whose early development can be traced from the U.S. Advisory Commission on Intergovernmental Relations to the University of Virginia and, in turn, to the Joint Legislative Audit and Review Commission. With regard to a selected time frame, the RTS approach isolates five resource bases that capture, directly or indirectly, aspects of private-sector affluence which local governments can tap in financing their programmatic objectives. As applied to any given jurisdiction, the computational procedure rests centrally upon the multiplication of each resource-base indicator (e.g., real property true valuation or adjusted gross income) by the associated statewide average rate of return—-i.e., the revenue yield to all county and city governments per unit of the stipulated resource. Mr. Ziony stated that, once the full set of jurisdictional wealth dimensions has been covered by this weighting operation, the five resulting arithmetic products are added to generate a cumulative measure of local capacity, the magnitude of which is then divided by the population total for the designated county or city. The latter calculation engenders a statistic gauging, in per capita terms, the collections which the target jurisdiction would realize from taxes, service charges, regulatory licenses, fines, forfeitures, and various other extractive mechanisms (i.e., potential revenue) if local public officials established resource-base levies at statewide average values.

Mr. Ziony indicated that 97.0% of Virginia's localities (N=130) realized per capita gains in fiscal capacity from the end of 2005/2006 through the close of 2006/2007. With respect to these jurisdictions, 29 counties and 11 cities, representing 29.9% of the localities statewide, manifested double-digit rates of expansion in their revenue-generating potential. Six of the latter entities sustained fiscal ability increases of 20% or higher. Over the 2006/2007 period, the localities experiencing negative capacity "growth" were Washington County (-.53%), Arlington County (-1.41%), Alexandria City (-1.53%), and Northampton County (-5.38%).

B. <u>Revenue Effort</u>

Mr. Ziony explained that the concept of revenue effort focuses on the degree to which county and city governments actually harness the revenue-generating potential of their respective jurisdictions through the employment of locally controlled devices for resource mobilization (e.g., taxes, service charges, and regulatory license fees). With respect to a particular locality, Mr. Ziony stated that the effort dimension operationally takes shape as an extraction/capacity ratio, a statistical mechanism in which the sum of jurisdictional revenues across all "own-source" funding categories is divided by the aggregate fiscal ability of the given county or city. Through this indicator the receipts which the target locality derives from its various private-sector resource bases are gauged in relation to the yield that the jurisdiction could anticipate if local revenue-raising simply reflected the average rates of return for the Commonwealth at large.

Mr. Ziony stated that, while the fiscal effort levels of eight jurisdictions climbed by at least 10% in 2006/2007, the more consequential finding is that 56 counties and 27 cities (or 61.9% of all localities) registered diminished collections per dollar of fiscal capacity across that time span. Mr. Ziony added that revenue effort shrinkage of 10% or greater characterized 13 of the negative "growth" jurisdictions (i.e., nine counties and four cities). He indicated that the steepest rates of decline--20.12% and 21.08%--emerged in Grayson County and Mecklenburg County, respectively. He also noted that the effort statistic of a county or city typically undergoes reduction when the locality's own-source revenues fail to keep pace with the relative growth in its fiscal capacity.

C. Fiscal Stress

Mr. Ziony explained that, as approached by the Commission on Local Government, the measurement of fiscal stress entails the construction of a three-variable index founded upon chronologically equivalent indicators linked to the most current observation period for which relevant statistics can be obtained across all counties and cities. More precisely, the stress index taps jurisdictional measures denoting (1) the level of revenue capacity per capita during a specified fiscal period (currently 2006/2007), (2) the degree of revenue effort over the same time span, and (3) the magnitude of median adjusted gross income for individuals and married couples in the pertinent calendar year (presently 2006). With respect to each of these factors, Mr. Ziony indicated that any given county or city is assigned a relative stress score establishing the distance, in standard deviation units, of the target locality's raw score from the mean of the overall data distribution. The foregoing "transformation" procedure ensures the imposition of a common statistical gauge upon the several constituent dimensions of the index. Under the computational technique employed by the Commission, Mr. Ziony stated that the three relative stress values associated with a particular jurisdiction are added to produce an integrated expression of its fiscal strain during the selected measurement period (in the current instance, 2006/2007). The higher the magnitude of this summary statistic, the greater the fiscal duress experienced by the specified county or city. Mr. Ziony noted that the composite index score, though not an absolute indicator of financial hardship at the local level, identifies the standing of the designated jurisdiction in relation to every other county or city throughout Virginia.

Mr. Ziony stated that the stress index levels of most localities were highly stable between 2005/2006 and 2006/2007. In fact, one jurisdiction (Chesterfield County) manifested identical index scores across these measurement periods. The data further indicate that 107 of the remaining localities posted inter-period differences of less than two points in absolute magnitude. Mr. Ziony reported that, during the most recent computational round, 74 of the latter jurisdictions registered index values that deviated from their 2005/2006 levels by less than one point.

Mr. Ziony indicated that 94.0% of Virginia's localities retained their 2005/2006 index classifications over the course of 2006/2007. Only eight jurisdictions shifted from one class to another on the four-category scale, and each of the positional movements was confined to an immediately adjacent category. In sum, Mr. Ziony stated that there were no instances of "quantum leaps" across multiple index classes. More importantly, he explained that the top and bottom ranges of the stress index continuum exhibited sharp compositional differences along jurisdictional class lines during 2006/2007. With respect to the 22 localities at the "high" end of the data series, 77.3% (N=17) were cities. Among the 23 "low stress" jurisdictions, counties represented 82.6% (N=19) of the total.

VI. <u>2009 General Assembly Session</u>

A. <u>Local Fiscal Impact Estimates</u>

Ms. Williams reported that VACo and VML were able to recruit 34 volunteers from 32 localities to participate in the Commission's local fiscal impact analysis process this year. She indicated that this is about the same number as last year when 35 volunteers were recruited. Ms. Williams explained that the forms, instructions and other information detailing the process have been updated and provided to all the volunteers. She also indicated that because bills that have a local fiscal impact must be introduced by the first day of Session, the Division of Legislative Services could refer the first batch of bills as early as the end of the week.

B. Bills of Interest and Legislative Action Summaries

Ms. Williams indicated that Commission staff has completed about fifteen legislative action summaries (LASs) thus far, the majority of which have concerned charter bills. Ms. Williams stated that Delegate Lohr introduced a bill to extend the current moratorium on city annexation to 2020, which would otherwise expire on July 1, 2010. Ms. Williams explained that this bill is substantially the same as the bill that passed the General Assembly but was vetoed by the Governor Kaine in 2007. At that time, the Governor stated that "Any further extension [of the moratorium] should be accompanied by a careful consideration of the effects of this 'temporary' restriction." Ms. Williams noted that such consideration by the legislature has not yet occurred.

VII. Scheduling of Meetings

The Commission confirmed that its next regular meeting will take place on Monday, March 9, 2009 at the Jackson Center in Richmond. The remaining 2009 regular meetings of the Commission are tentatively scheduled to take place in Richmond on the second Monday of the month as follows: May 11; July 13; September 14; and November 9.

VIII. <u>Upcoming Events of Interest</u>

Ms. Williams indicated that the annual VML / VACo Legislative Day will take place on February 5, 2009, with participants meeting at the Richmond Marriott Hotel. A brief discussion ensued during which Mrs. Lawson indicated that she would like to approach VML and VACo regarding the opportunity for the Commission to address both organizations at their 2009 annual conferences.

VIII. <u>Adjournment</u>

There being no further business to come before the Commission, the meeting was adjourned at 12:04 p.m.

Vola T. Lawson
Chairman

Susan B. Williams
Local Government Policy Manager