

**Report on
Local Government
Consolidation Incentives**



**Commission on Local Government
Commonwealth of Virginia**

November 24, 2015

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Commission on Local Government (CLG)***

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Executive Summary

The Commission on Local Government (CLG), a five-member body appointed by the Governor, promotes and preserves the viability of Virginia's local governments by fostering positive intergovernmental relations. The Commission assists counties, cities and towns in the Commonwealth in several ways. These duties include the review and publication of advisory reports and provision of technical assistance on boundary change and governmental transition issues; publication of an annual catalogue of state and federal mandates on local governments; and development of an annual report analyzing the comparative revenue capacity, revenue effort, and fiscal stress of Virginia's cities and counties.

Recent local government transition cases led to a study by the Joint Legislative Audit and Review Commission (JLARC) of the state's role in providing special funding incentives to localities undergoing consolidation or reversion. The bulk of these incentives were directed toward school division consolidation while other incentives provided hold harmless funding for certain local resources for a period of 15 to 20 years. JLARC's study revealed that Virginia's approach was potentially high-cost with some possible consolidations exposing the state to at least \$32 million annually. The analysis also revealed that the approach was arbitrary and originated to address one specific local circumstance. As a result of this study, the General Assembly ended the school division consolidation incentives and directed the CLG to "...develop a process to determine an appropriate calculation for additional state funds for future local consolidations... (Item 107, Chapter 665, 2015 Acts of Assembly)."

The Commission, through research and consultation with a variety of stakeholders, identified five recommendations to address local government consolidation and reversion in the Commonwealth. The Commission would like to emphasize that these recommendations would incentivize two different approaches to consolidation or reversion: full consolidation and contractual operational consolidation. The latter option is an intergovernmental agreement tool not previously incentivized that could assist many fiscally stressed localities with improving local fiscal sustainability and achieving local service improvements without having to overcome the significant local identity barriers that usually impeded consolidation. The Commission is also recommending use of its annual Fiscal Stress Index in lieu of the local composite index (LCI) of ability to pay as the primary input for the school division consolidation incentive formula. The remaining recommendations address the administration and duration of special funding incentives in the event of a consolidation or reversion.

The five recommendations – in summary – are as follows:

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

Background

The Commonwealth of Virginia provides several options for local governments to consolidate their operations through consolidation of two like or unlike units of government and through reversion of cities to town status. These efforts usually occur as a result of circumstances related to fiscal and economic distress afflicting the localities. There have been 3 complete consolidation efforts in the last 20 years: (1) the reversion of the former city of South Boston to town status in Halifax County (1996), (2) the reversion of the former city of Clifton Forge to town status in Alleghany County (2000), and (3) the reversion of the former city of Bedford to town status in Bedford County (2013).

Historically, the state has provided special funding to assist with the transition of consolidation/reversion for the affected localities. This helped localities overcome fiscal obstacles and disincentives related to their consolidation efforts while also potentially creating greater local government efficiencies, state savings, and avoiding fiscal insolvency.

The first source of special funding included a hold harmless provision for state aid for a period of 15 to 20 years, depending on whether the action involved a reversion or full consolidation. Excluding K-12 funding, this included state aid such as funds for constitutional officers, transportation, social services, etc.

The second source of special funding involved additional K-12 funding based on a formula using the lower local composite index of the two localities. This formula originated in 1982 during discussions involving additional state aid for the consolidation of the Alleghany County and Clifton Forge school divisions. Universal application of this formula was not considered during these discussions; however, the formula remained available for its application to consolidations with some minor revisions until 2013.

When the City of Bedford reverted to town status in 2013, Bedford County became responsible for providing some of the essential basic local government services in the former city. Using the previous formula in place to encourage reversions and consolidations, Bedford County became eligible for about \$6 million a year for fifteen years in school aid incentive payments. Unfortunately, that formula did not direct greater incentive payments to encourage consolidations of the localities with the least amount of fiscal resources. Instead, it created excessive incentives for larger suburban counties to consolidate with smaller cities with average tax bases. In fact, consolidations of the state's poorest localities would have resulted in incentive payments under \$200,000 per year, while consolidations in urban areas would have resulted in incentive payments exceeding \$25 million annually.

Following the Bedford reversion, the General Assembly directed JLARC to study the issue:

JLARC is hereby directed, with assistance from the Commission on Local Government, to analyze and make recommendations going forward regarding the most effective balance between the costs of incentives for government and school consolidations with the expected resulting savings and operational benefits, and how best to structure such state incentives to achieve both clarity

for localities as well as justification that incentives are adequate, but not more than necessary. JLARC shall complete its study and submit a final report no later than October 1, 2014.

JLARC subsequently issued its report in September 2014, including the following recommendations:

- 1. The General Assembly may wish to consider setting forth in the Code of Virginia the state's goal to provide special funding to facilitate amicable consolidations that improve local fiscal sustainability, and when possible realize state or local savings and local service improvements.*
- 2. The General Assembly may wish to consider providing grants through the Appropriation Act to localities to assess whether consolidation is feasible, and the likelihood of improving fiscal sustainability and local services, and achieving state or local savings.*
- 3. The General Assembly may wish to amend § 22.1-25 of the Code of Virginia and item 139, A.4.c.1 of the Appropriation Act to remove references to additional state funding for future consolidations based on the local composite index.*
- 4. The Commission on Local Government should develop a new process to determine the amount of additional state funds for local consolidation. The amount of additional funding for local consolidation should be based primarily on the projected cost of consolidation. The length of time additional funding is provided should be based primarily on the complexity and length of time necessary for the consolidation. The process should be developed in coordination with the Department of Education and state Board of Education.*
- 5. The General Assembly may wish to amend the Code of Virginia to direct the Commission on Local Government to prepare and submit proposals through the governor's budget for additional state funding for localities that wish to consolidate. The amount of additional funding requested should be based primarily on the projected cost of the specific consolidation being proposed.*

The 2015 General Assembly amended the 2014-2016 Appropriation Act to eliminate incentives that had been previously offered to consolidating school divisions. At the same time, the legislature directed the Commission to complete this study as follows (see Appendix A):

It is the Commonwealth's goal to encourage amicable consolidations that improve local fiscal sustainability and, when possible, realize state or local savings and local service improvements. Therefore, the Commission on Local Government shall develop a process to determine an appropriate calculation for additional state funds for future local consolidations. The Commission's recommendations shall be submitted to the Governor and Chairmen of the House Appropriations and Senate Finance Committees no later than December 1, 2015. The amount of additional funding for local consolidation should be based primarily on the projected cost of consolidation. The length of time additional funding is provided should be based primarily on the complexity and length of time necessary for the consolidation. The process should be developed in coordination with the Department of Education and State Board of Education with input from other stakeholders.

Existing Conditions

The Commonwealth provides a process for an existing independent city to revert to town status, and for two or more localities (of any type), or two or more school divisions, to consolidate. The State also has historically provided financial and other types of incentives to encourage such actions.

School-Aid Incentives. Until this year, the General Assembly permitted two school divisions that consolidate to utilize the lower composite index of local ability-to-pay to determine the State's share of funding responsibility for the consolidated school division's entire membership. In situations where there was a large disparity between composite index scores and when the larger school division had a higher composite index, this could result in a significant increase in state financial assistance for fifteen years. This provision for special funding was removed in its entirety from the Appropriations Act via item 136, Chapter 665, 2015 Acts of Assembly.

Hold-Harmless Funding. Hold-harmless funding, which ensures that state funding streams will not be reduced due to a reversion or consolidation, is provided for fifteen years for city to town reversions, and twenty years for full consolidations. State agencies which disburse aid to localities are required to continue calculating aid for such localities as though the consolidation had not occurred for that period of time.

Other State Assistance. Some other provisions in state law provide for continued state police assistance and VDOT street maintenance when counties become part of a consolidated city, and continued library aid following a reversion.

Consolidation Process. Consolidations may be initiated by the local governing bodies involved, or by citizen petition following lengthy negotiations to create an agreement to set out details about how the consolidation of finances, workforces, and services are to occur. Ultimately, they must all go to referendum before approval.

School divisions may also consolidate separate from the local government reversion or consolidation process. This requires the school divisions to seek approval from the Board of Education. In recent times, none have occurred, with the exception of those that resulted from reversions.

Reversion Process. In 1988, the General Assembly created a process providing any city with a population less than 50,000 the right to revert to town status, regardless of whether the surrounding county was willing to concur. This process relieves those cities of the responsibility of providing public education, courts, social services, and several other state-mandated services. These services would then become the responsibility of the county which the city reverted to. This occurred one year after the General Assembly enacted the State's moratorium on city annexation, which limited these cities' ability to enjoy the financial impacts of growth, at the same time as these cities were grappling with shrinking tax bases.

Similar to consolidation, the city and county involved are encouraged to amicably negotiate a detailed reversion agreement; however, if this is not possible, the courts can step in and stipulate how the reversion will occur.

Review of Recent Consolidation & Reversion Efforts

The existing processes for two localities to consolidate or for a city to revert to town status have significant barriers and take several years from start to finish. All nine consolidation proposals that were placed on the ballot in the last 40 years have failed. Since the reversion process was created in 1988, only three cities have opted to revert to town status, even though the process was set up to eliminate some of the hurdles of consolidation: no referendum is required, and counties have little ability to block reversion proposals. Several more cities have considered reverting to town status, however their councils have abandoned such plans. It should be noted that the termination of consolidation or reversion proposals is always a local decision, whether it be by the voters or the governing body.

All proposals to alter the form of local government take several years of study, negotiation, and hearings. The South Boston reversion, which began with discussions in 1988, did not become effective until July 1, 1995 – 7 years later - because Halifax County appealed the case to the Virginia Supreme Court. The City of Bedford began negotiating with Bedford County in 2008, and the reversion agreement was amicably executed five years later on July 1, 2013.

The three instances of successful reversion that have occurred all had a big barrier removed: cooperation among school divisions. In the South Boston reversion, Halifax County already shared a single superintendent, and jointly operated the middle and high school. In the Clifton Forge reversion, a school division was jointly operated with Alleghany County. In Bedford, the city paid Bedford County to provide public education services to its students.

Stakeholder Input

The Commission staff convened a panel of stakeholders, including representatives from the Virginia Association of Counties, the Virginia Municipal League, as well as attorneys and consultants who have represented cities and counties in past reversion and consolidation studies.

The group generally agreed that:

- Incentives should last at least five years; however, there was considerable discussion that a five-year period would be insufficient and that, as an example, should an additional five-year period be included, a phased reduction of 20% per year be used for the second period of five years. Currently, the incentives last from 15 to 20 years.
- Incentives should be provided for school divisions to enter into new joint operational contracts.

- There is a clear distinction between a consolidation incentive and a consolidation reimbursement. Incentives lure localities to consider consolidating that otherwise would not have considered doing so. Reimbursements do not entice localities to consider consolidating.
- Reimbursing localities for the “cost of consolidation” based on the “complexity of consolidation” would be difficult, because these costs and complexities are mostly driven by local political decisions about the consolidation or reversion, not by existing local conditions.
- The State should provide funding assistance for feasibility studies to localities considering reversion or consolidation. This is a cost that is somewhat consistent in each consolidation or reversion proposal. An estimate provided at the meeting was that a minimum of \$100,000 is needed for a basic feasibility study.
- The Governor and General Assembly should not be involved in making funding decisions about incentives to individual consolidation and reversion proposals. This places these state-level decision makers in the center of a local controversy.
- It is valuable to have an estimate of the amount of additional state funding at the beginning of the negotiations that must occur between the two localities.

Reasons to Consolidate or Revert to Town Status

Small localities have three primary reasons to seek to consolidate. First, consolidating or reverting to town status would enable the locality to reduce the amount of tax effort required to support its basic level of governmental services. Second, consolidating resources would allow for increased efficiencies and improved economies of scale. Finally, consolidation would allow these localities to provide an expanded level of services to its citizens.

For larger localities, there are minimal reasons to cooperate with smaller neighboring localities. These jurisdictions generally already operate efficiently, providing an acceptable level of service, with reasonable tax rates. Entering into consolidations with nearby fiscally stressed localities is frequently seen as a burden.

The Commonwealth also has an interest in encouraging improved fiscal conditions for its local governments. First, there is an unrealized cost to the Commonwealth if it were required to take over the finances of an insolvent local government, as has happened in other states. Second, the State is responsible for a larger share of the cost of public education in its less-wealthy school divisions, and should seek to ensure that those funds are spent on high quality, efficient educational programming. Unfortunately, very small school divisions are unable to provide the same broad course offerings available to larger divisions.

Recommendations

1. **Avoid creating additional barriers to the reversion or consolidation processes.**

Proposals to provide incentives that would involve applying to the Governor or General Assembly for incentive funding should be avoided for several reasons:

- The existing process for reversion or consolidation easily takes more than five years. If localities were required to apply for incentives before proceeding with their reversion or consolidation, the process would take longer, as application cycles would have to align with the State's budget cycle.
- Decisions made as part of the existing reversion and consolidation processes currently are solely made by local officials and voters, except for findings of law that are handled by the courts. Even among local decision makers – proposals to consolidate or revert frequently fail. If decisions about funding for reversion or consolidations are required to be brought before the Governor or General Assembly, it would add an additional decision point where the process could terminate, and make a local issue a statewide issue.
- All parties to consolidations and reversions are not in favor of proceeding with the process, which would add uncertainty to any grant application process. Citizens can petition their governing bodies to consolidate with a neighboring locality, and the elected officials can object. Similarly, when reversions have been proposed in the past, counties have objected to cooperating with the affected city.

2. **Provide matching funds for localities to study the feasibility of consolidation or reversion.**

One of JLARC's recommendations in its 2014 study on consolidation was to provide grants through the Appropriation Act to assist localities in assessing whether consolidation is feasible and to determine the likelihood of improving fiscal sustainability and local services, and achieving state or local savings. We support this concept, as localities experiencing fiscal duress currently must bear the total cost of studying the pros and cons of consolidation and reversion. Generally, this grant should be administered as follows:

- A special fund should be created so that these grants would be available to localities as needed when considering reversion or consolidation. Maintaining a separate fund would prevent the General Assembly or Governor from being involved in allocating funds to any specific consolidation issue. Such fund could be administered by the Commission on Local Government.
- The State would provide a grant of up to \$50,000, while localities would contribute up to \$50,000 in matching funds toward a feasibility study for any proposal to consolidate localities or school divisions, or revert to town status.

- Localities should be encouraged to cooperate in funding such proposals; however, if one locality is unwilling to consider supporting such a study, the funds should still be awarded to the locality desiring to study the proposal, especially if they are experiencing above-average fiscal stress.

3. Reduce duration of incentives to five years.

The two primary financial incentives that the Commonwealth historically provided for reversion and consolidation – hold harmless funding, and adjusted local composite index values for school aid – were initially provided for a duration of only five years, until amended in 2000 and 2002 to fifteen or twenty years, depending on the situation. Also, when studying the incentives provided by other states, this duration is far above the norm. Accordingly, we recommend returning the duration of the hold harmless funding incentives and special funding for school divisions incentives to five years. The hold harmless provisions would allow the newly consolidated entity to enjoy the same level of funding for local services such as constitutional officers for a period of five years as if the consolidation or reversion had not occurred.

4. Redesign the school division consolidation incentive formula.

Although it would be ideal for consolidation incentive funds to correlate with the cost of consolidation or to state savings, most of the cost of consolidation that is identified through feasibility studies are issues that are driven by local political decisions. For instance, a proposal to consolidate could realize savings quickly by laying off employees that are no longer needed, but due to political pressure on local officials, savings are deferred by realizing savings through employee attrition. Similar problems occur when determining how to equalize different pay scales between two consolidating localities.

In addition, there are immeasurable costs if two localities fail to consolidate when there is a fiscal crisis. The State has never had to rescue a locality from fiscal disaster. It is also unclear how debt that is defaulted upon by one locality would affect municipal bond ratings for other Virginia localities, or the Commonwealth's bond rating.

Until 2015, the bulk of financial incentives provided for consolidation and reversion consisted of additional state aid for K-12 funding offered by providing a more favorable local composite index to the consolidated school division.

Tying incentives to school funding seems sensible, as education expenditures made up 47% of total local government spending in FY 2014, by far exceeding any other category. State aid to localities for public education also accounted for 33% of the State's FY 2014 General Fund spending. Any incentive provided; however, must be reasonable, and prevent large payouts such as that which occurred with the Bedford reversion.

The State's funding formula for basic aid to school divisions generally sets a recognized per-pupil cost based upon the Standards of Quality, with the total cost shared between the school division and the State. In localities with a lower local composite index (a limited tax base), the state pays a greater share

of the per-pupil cost of public education, while in wealthier areas, the locality is responsible for a greater share. Buena Vista currently has the lowest local composite index, with a score of 0.1756, meaning the City is responsible for 17.56% of the state recognized per-pupil cost, with the state paying the remaining 82.44%. The index is capped so no locality has a score higher than 0.8000, therefore the state will always pay 20% of the recognized per-pupil cost to those divisions. Nine school divisions currently have a score of 0.8000. To ensure that the state funds that are used for public education are spent efficiently, incentives should be directed toward consolidations of smaller school divisions with low wealth, to ensure that the Commonwealth's contributions are spent effectively. This would also encourage localities surrounding those low wealth jurisdictions to negotiate an agreement to consolidate school divisions.

The Commission recommends these incentives should be calculated as follows:

1. In order to qualify for the school division consolidation incentive, at least one of two consolidating school divisions must have an above-average Fiscal Stress score from the CLG's Fiscal Stress report. (Score of 100=average)
 - a. With respect to the two towns that operate school divisions, and the two counties that have town school divisions operating within them (West Point and King William County, and Colonial Beach and Westmoreland County), the fiscal stress index shall not be utilized. Instead, at least one of the two consolidating school divisions must its most recent Local Composite Index fall below the statewide average (FY 2015 average = 0.3968) in order to qualify for the school division consolidation incentive.

Examples:

Locality 1	Fiscal Stress Score	Locality 2	Fiscal Stress Score	Score of 100 = Average
Buena Vista	111.21	Rockbridge County	99.27	Qualifies for an incentive. Buena Vista's score exceeds 100.
Poquoson	92.79	York County	93.54	Does not qualify. Neither locality has a score exceeding 100.
Martinsville	110.79	Henry County	103.61	Qualifies for an incentive. Both scores exceed 100.
Petersburg	112.57	Dinwiddie County	100.58	Qualifies for an incentive. Both scores exceed 100.
Colonial Beach	0.352	Westmoreland County	0.4633	Qualifies for an incentive. Colonial Beach's score is below the statewide average LCI of 0.3968.

2. Once qualified:
 - a. For the affected localities, add together the total number of fiscal stress points above 100.
 - b. Determine the difference between the two affected localities' fiscal stress scores.
 - c. Add the results of step 2a and 2b above for the final incentive factor.
 - d. With respect to the two towns that operate school divisions, and the two counties that have town school divisions operating within them (West Point and King William County, and Colonial Beach and Westmoreland County), the fiscal stress index shall not be utilized for this calculation. Instead, any consolidations proposed involving these entities shall substitute the local composite index for any involved entity.
 - i. For the affected localities, add together the total number of local composite index (LCI) points below the average of all school divisions' LCI.
 - ii. Determine the difference between the two affected localities' LCIs.
 - iii. Add the results of step i and ii, and multiply by 100 for the final incentive factor.

Examples:

	Step 2a (total points exceeding 100) <i>*Step 2di for town school divisions</i>	Step 2b (difference between stress scores) <i>*Step 2dii for town school divisions</i>	Step 2c Final Incentive Factor <i>*Step 2diii for town school divisions</i>
Buena Vista – Rockbridge County	$11.21 + 0 = 11.21$	$111.21 - 99.27 = 11.94$	$11.21 + 11.94 = 23.15$
Martinsville – Henry County	$10.79 + 3.61 = 14.4$	$110.79 - 103.61 = 7.18$	$14.4 + 0 = 21.58$
Petersburg – Dinwiddie County	$12.57 + 0.58 = 13.15$	$112.57 - 100.58 = 11.99$	$13.15 + 11.99 = 25.14$
*Colonial Beach – Westmoreland County	$0.0448 + 0 = 0.0448$	$0.4633 - 0.352 = 0.1113$	$(0.0448 + 0.1113) * 100 = 15.61$

3. Next, determine the cash amount of the incentive.
 - a. Determine which locality has the lower Average Daily Membership (ADM). *DOE Data.*
 - b. For the locality with the lower ADM, determine the State Share of Basic Aid. *DOE Data.*
 - c. Multiply the Final Incentive Factor from Step 2c by the State Share of Basic Aid. The maximum ADM that this factor can be applied to is 2,500.

Examples:

	Step 3a ADM	Step 3b State Share of Basic Aid	Final Incentive Factor	Step 3c Total Annual Incentive Amount (Final Incentive Factor x State Share of Basic Aid)
Buena Vista	1,000	\$3,711,587	23.15%	\$859,232
Rockbridge County	2,546			
Martinsville	2,165	\$7,317,809	21.58%	\$1,579,183
Henry County	7,048			
Petersburg	3,913	\$12,183,050	25.14%	\$1,956,822 (would be \$3,062,818, but ADM cap of 2,500 applies)
Dinwiddie County	4,374			
Colonial Beach	517	\$1,634,309	15.61%	\$255,115
Westmoreland County	1,594			

The outcomes of various combinations of localities are shown in [Appendix B](#), compared to the incentive that was offered prior to 2015. A graphic depiction of the calculation of the ‘Final Incentive Factor’ is included in [Appendix C](#). Please note, due to rounding, some total annual incentive amounts in the above example may be slightly different than what appears in the Appendices.

5. Provide incentives for joint contracting of school services as a first step toward full consolidation.

The same incentives that were discussed previously for school division consolidation for a five-year period should also be extended to joint contracts for school services among two school divisions for a three year period. For purposes of this section, a joint contract is where two divisions are generally fully operationally consolidated through an agreement between the two entities. Should two such school divisions later determine it would be appropriate to fully consolidate, they would then qualify for an additional two year incentive, provided that they have consolidated within 15 years from entering into the contract. For school divisions that have already entered into a joint contract, if they seek full consolidation, they should be entitled to the incentive as well for a period of 2 years subject to the 15-year provision discussed in the previous sentence.

As noted previously, in recent times, only three reversions have succeeded, and those were circumstances where joint contracts already existed between the county and city to provide school services. Based on recent consolidation and reversion efforts, the fear of a loss of local identity – which is closely tied to the schools that serve the area – has been a political barrier from consolidation, even when localities involved are facing severe financial challenges. Entering into a joint contract with another school division to provide educational services retains two distinct school boards and superintendents, while consolidating the rest of the school division’s functions. This arrangement allows school boards to retain control though the contract – for instance, to ensure that a small city does not lose its high school as the result of consolidation. At the same time, it allows small school divisions to enjoy the efficiencies and broader course offerings that are enjoyed by a larger school division.

Acknowledgements

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Appendix A

Budget Item #107 of the 2015 Appropriations Act

ITEM 107.		Item Details(\$)		Appropriations(\$)	
		First Year FY2015	Second Year FY2016	First Year FY2015	Second Year FY2016
Department of Housing and Community Development (165)					
107.	Governmental Affairs Services (70100).....			\$340,390	\$340,444
	Intergovernmental Relations (70101).....	\$340,390	\$340,444		
	Fund Sources: General.....	\$340,390	\$340,444		

Authority: Title 15.2, Subtitle III, Code of Virginia.

It is the Commonwealth's goal to encourage amicable consolidations that improve local fiscal sustainability and, when possible, realize state or local savings and local service improvements. Therefore, the Commission on Local Government shall develop a process to determine an appropriate calculation for additional state funds for future local consolidations. The Commission's recommendations shall be submitted to the Governor and Chairmen of the House Appropriations and Senate Finance Committees no later than December 1, 2015. The amount of additional funding for local consolidation should be based primarily on the projected cost of consolidation. The length of time additional funding is provided should be based primarily on the complexity and length of time necessary for the consolidation. The process should be developed in coordination with the Department of Education and State Board of Education with input from other stakeholders.

Appendix B

Examples & Comparisons of Former Incentive to Proposed Incentive

The following series of tables portray various potential reversion/consolidation scenarios between adjacent localities. The localities listed are based on those cities in the Commonwealth eligible for reversion to town status per § 15.2-4100. In some cases, cities are listed more than once because of their adjacency to multiple counties. The first table provides information on the localities' most recent Fiscal Stress Score, Local Composite Index, and Average Daily Membership (ADM) sorted alphabetically by city/town. The second table compares the former special funding incentive to the proposed incentive recommended by the Commission on Local Government sorted from largest proposed funding amount to the lowest. The third and fourth tables compare the former and proposed incentives on a per ADM basis and as a percent of State Basic Aid to the smaller school division with both sorted from largest to smallest.

Cities Eligible for Reversion and Towns Operating School Divisions and Surrounding Counties:
Fiscal Stress Score, Local Composite Index of Ability to Pay, and Average Daily Membership

City/Town	Fiscal Stress Score	Local Composite Index	Avg. Daily Membership	County	Fiscal Stress Score	Local Composite Index	Avg. Daily Membership
Bristol	110.88	0.3085	2181.2	Washington	99.61	0.3813	7058.76
Buena Vista	111.21	0.1756	1000.35	Rockbridge	99.27	0.474	2545.6
Charlottesville	106.46	0.6683	4004.35	Albemarle	91.83	0.6506	13273.32
Colonial Beach	0.00	0.352	517.1	Westmoreland	97.24	0.4633	1594.4
Colonial Heights	104.11	0.4323	2800	Chesterfield	96.55	0.3496	59088.8
Colonial Heights	104.11	0.4323	2800	Prince George	98.30	0.243	6277.6
Covington	112.81	0.2818	928.9	Alleghany	104.44	0.2423	2258.75
Danville	108.90	0.2649	5965.2	Pittsylvania	100.90	0.2507	8902.3
Emporia	114.22	0.2495	1045.8	Greensville	105.79	0.2259	1359.1
Fairfax city	87.84	0.8	3156.7	Fairfax	84.91	0.6807	178005
Falls Church	81.79	0.8	2410.9	Fairfax	84.91	0.6807	178005
Falls Church	81.79	0.8	2410.9	Arlington	83.57	0.8	23447
Franklin city	110.60	0.2978	1102.1	Isle of Wight	95.62	0.4195	5420.6
Franklin city	110.60	0.2978	1102.1	Southampton	101.58	0.2878	2607.3
Fredericksburg	102.45	0.6135	3250.4	Stafford	92.79	0.3412	27149.7
Fredericksburg	102.45	0.6135	3250.4	Spotsylvania	95.50	0.3555	23309
Galax	110.65	0.2738	1311.9	Grayson	102.12	0.3461	1705.2
Galax	110.65	0.2738	1311.9	Carroll	105.12	0.2696	3704.75
Harrisonburg	108.21	0.4009	5255.15	Rockingham	97.34	0.3702	11279.7
Hopewell	110.64	0.2298	4004.6	Chesterfield	96.55	0.3496	59088.8
Hopewell	110.64	0.2298	4004.6	Prince George	98.30	0.243	6277.6
Lexington	108.04	0.451	639.05	Rockbridge	99.27	0.474	2545.6
Manassas city	99.69	0.3662	7130.2	Prince William	92.78	0.3822	83683.45
Manassas Park	102.13	0.2683	3236.1	Prince William	92.78	0.3822	83683.45
Martinsville	110.79	0.2222	2164.7	Henry	103.61	0.2408	7047.9
Norton	107.11	0.3102	816.25	Wise	103.96	0.2538	5791.65
Petersburg	112.57	0.2475	3912.7	Chesterfield	96.55	0.3496	59088.8
Petersburg	112.57	0.2475	3912.7	Prince George	98.30	0.243	6277.6
Petersburg	112.57	0.2475	3912.7	Dinwiddie	100.58	0.2882	4374.15
Poquoson	92.79	0.3895	2084.5	York	93.54	0.4026	12546.9
Radford	111.55	0.2675	1602.65	Montgomery	101.97	0.3866	9438.4
Radford	111.55	0.2675	1602.65	Pulaski	103.40	0.3113	4284.8
Salem	106.37	0.3695	3770	Roanoke	99.61	0.3704	13926.25
Staunton	106.03	0.3923	2586.5	Augusta	96.23	0.3545	10168.1
Waynesboro	105.50	0.3493	3075.9	Augusta	96.23	0.3545	10168.1
West Point	0.00	0.2581	780.3	King William	97.59	0.3196	2182
Williamsburg	101.48	0.8	951.05	James City	92.74	0.5632	10134.1
Williamsburg	101.48	0.8	951.05	York	93.54	0.4026	12546.9
Winchester	104.30	0.4376	4128.15	Frederick	95.92	0.3719	13013.05

Cities Eligible for Reversion and Towns Operating School Divisions:
Total Potential Incentives for Consolidation

City/Town	County	Former Incentive	Proposed Incentive
Petersburg	Chesterfield	\$ 26,407,796	\$ 2,225,531.05
Petersburg	Prince George	\$ 72,855	\$ 2,089,305.82
Hopewell	Chesterfield	\$ 30,985,837	\$ 2,000,742.01
Petersburg	Dinwiddie	\$ 815,123	\$ 1,956,972.74
Hopewell	Prince George	\$ 394,600	\$ 1,859,161.00
Martinsville	Henry	\$ 564,771	\$ 1,579,183.25
Bristol	Washington	\$ 2,183,618	\$ 1,388,310.73
Danville	Pittsylvania	\$ 352,235	\$ 1,360,272.53
Harrisonburg	Rockingham	\$ 722,048	\$ 1,278,970.58
Radford	Montgomery	\$ 4,981,181	\$ 1,173,066.15
Radford	Pulaski	\$ 839,829	\$ 1,173,066.15
Emporia	Greensville	\$ 114,280	\$ 1,033,566.45
Waynesboro	Augusta	\$ 233,239	\$ 995,363.42
Manassas Park	Prince William	\$ 44,502,550	\$ 991,086.97
Staunton	Augusta	\$ 402,775	\$ 990,759.65
Galax	Grayson	\$ 649,994	\$ 901,914.69
Galax	Carroll	\$ 24,489	\$ 901,914.69
Salem	Roanoke	\$ 55,217	\$ 896,588.93
Buena Vista	Rockbridge	\$ 3,879,783	\$ 859,232.51
Franklin city	Isle of Wight	\$ 2,992,020	\$ 837,002.97
Winchester	Frederick	\$ 1,177,712	\$ 774,146.10
Covington	Alleghany	\$ 164,762	\$ 767,512.65
Charlottesville	Albemarle	\$ 310,411	\$ 765,938.67
West Point	King William	\$ 653,947	\$ 761,117.00
Colonial Heights	Chesterfield	\$ 985,267	\$ 704,726.02
Franklin city	Southampton	\$ 46,598	\$ 693,685.03
Colonial Heights	Prince George	\$ 2,255,273	\$ 599,047.31
Fredericksburg	Stafford	\$ 4,186,836	\$ 553,522.38
Fredericksburg	Spotsylvania	\$ 3,966,962	\$ 429,654.03
Norton	Wise	\$ 205,158	\$ 356,805.19
Lexington	Rockbridge	\$ 299,045	\$ 272,748.31
Colonial Beach	Westmoreland	\$ 1,022,598	\$ 255,125.00
Williamsburg	James City	\$ 998,940	\$ 86,226.03
Williamsburg	York	\$ 1,676,430	\$ 79,476.44
Fairfax city	Fairfax	\$ 1,824,968	\$ -
Falls Church	Fairfax	\$ 1,336,246	\$ -
Falls Church	Arlington	\$ -	\$ -
Manassas city	Prince William	\$ 6,251,456	\$ -
Poquoson	York	\$ 755,972	\$ -

Cities Eligible for Reversion and Towns Operating School Divisions:
Potential Incentive per Student

City/Town	County	Former Incentive/ADM	Proposed Incentive/ADM
Emporia	Greensville	\$ 109	\$ 988
West Point	King William	\$ 838	\$ 975
Buena Vista	Rockbridge	\$ 3,878	\$ 859
Covington	Alleghany	\$ 177	\$ 826
Franklin city	Isle of Wight	\$ 2,715	\$ 759
Radford	Montgomery	\$ 3,108	\$ 732
Radford	Pulaski	\$ 524	\$ 732
Martinsville	Henry	\$ 261	\$ 730
Galax	Grayson	\$ 495	\$ 687
Galax	Carroll	\$ 19	\$ 687
Bristol	Washington	\$ 1,001	\$ 636
Franklin city	Southampton	\$ 42	\$ 629
Petersburg	Chesterfield	\$ 6,749	\$ 569
Petersburg	Prince George	\$ 19	\$ 534
Petersburg	Dinwiddie	\$ 208	\$ 500
Hopewell	Chesterfield	\$ 7,738	\$ 500
Colonial Beach	Westmoreland	\$ 1,978	\$ 493
Hopewell	Prince George	\$ 99	\$ 464
Norton	Wise	\$ 251	\$ 437
Lexington	Rockbridge	\$ 468	\$ 427
Staunton	Augusta	\$ 156	\$ 383
Waynesboro	Augusta	\$ 76	\$ 324
Manassas Park	Prince William	\$ 13,752	\$ 306
Colonial Heights	Chesterfield	\$ 352	\$ 252
Harrisonburg	Rockingham	\$ 137	\$ 243
Salem	Roanoke	\$ 15	\$ 238
Danville	Pittsylvania	\$ 59	\$ 228
Colonial Heights	Prince George	\$ 805	\$ 214
Charlottesville	Albemarle	\$ 78	\$ 191
Winchester	Frederick	\$ 285	\$ 188
Fredericksburg	Stafford	\$ 1,288	\$ 170
Fredericksburg	Spotsylvania	\$ 1,220	\$ 132
Williamsburg	James City	\$ 1,050	\$ 91
Williamsburg	York	\$ 1,763	\$ 84
Fairfax city	Fairfax	\$ 578	\$ -
Falls Church	Fairfax	\$ 554	\$ -
Falls Church	Arlington	\$ -	\$ -
Manassas city	Prince William	\$ 877	\$ -
Poquoson	York	\$ 363	\$ -

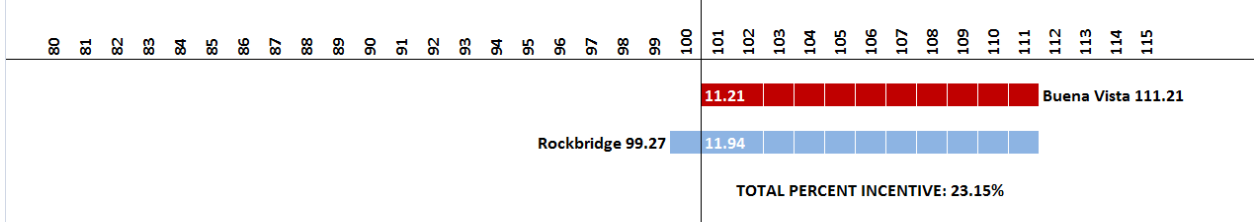
Cities Eligible for Reversion and Towns Operating School Divisions:
Potential Incentive as a Percent of Existing State Share of Basic Aid for Education

City/Town	County	Former Incentive as % of State Basic Aid Payment to smaller division	Proposed Incentive as % of State Basic Aid Payment to smaller division
Emporia	Greenville	3%	28%
West Point	King William	24%	28%
Covington	Alleghany	5%	26%
Franklin city	Isle of Wight	91%	26%
Buena Vista	Rockbridge	105%	23%
Radford	Montgomery	98%	23%
Radford	Pulaski	17%	23%
Bristol	Washington	35%	22%
Martinsville	Henry	8%	22%
Galax	Grayson	15%	21%
Galax	Carroll	1%	21%
Franklin city	Southampton	1%	21%
Petersburg	Chesterfield	217%	18%
Petersburg	Prince George	1%	17%
Lexington	Rockbridge	18%	17%
Petersburg	Dinwiddie	7%	16%
Colonial Beach	Westmoreland	63%	16%
Hopewell	Chesterfield	239%	15%
Staunton	Augusta	6%	15%
Hopewell	Prince George	3%	14%
Norton	Wise	8%	14%
Charlottesville	Albemarle	5%	13%
Waynesboro	Augusta	3%	12%
Colonial Heights	Chesterfield	15%	10%
Williamsburg	James City	118%	10%
Williamsburg	York	199%	9%
Fredericksburg	Stafford	70%	9%
Harrisonburg	Rockingham	5%	9%
Manassas Park	Prince William	398%	9%
Colonial Heights	Prince George	33%	9%
Salem	Roanoke	1%	9%
Winchester	Frederick	12%	8%
Danville	Pittsylvania	2%	7%
Fredericksburg	Spotsylvania	67%	7%
Fairfax city	Fairfax	60%	0%
Falls Church	Fairfax	60%	0%
Falls Church	Arlington	0%	0%
Manassas city	Prince William	30%	0%
Poquoson	York	14%	0%

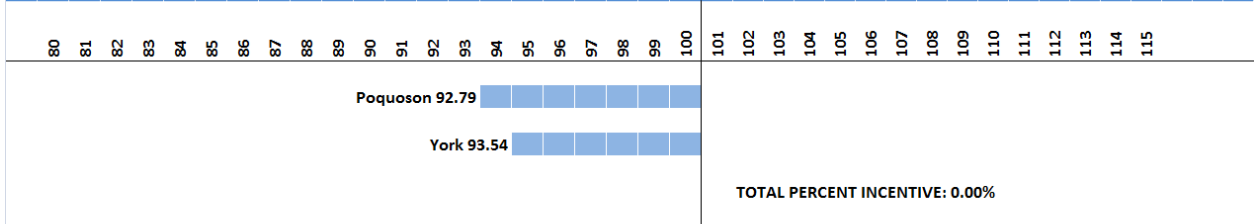
Appendix C

Graphic Depiction for Calculation of Proposed Incentive Factor

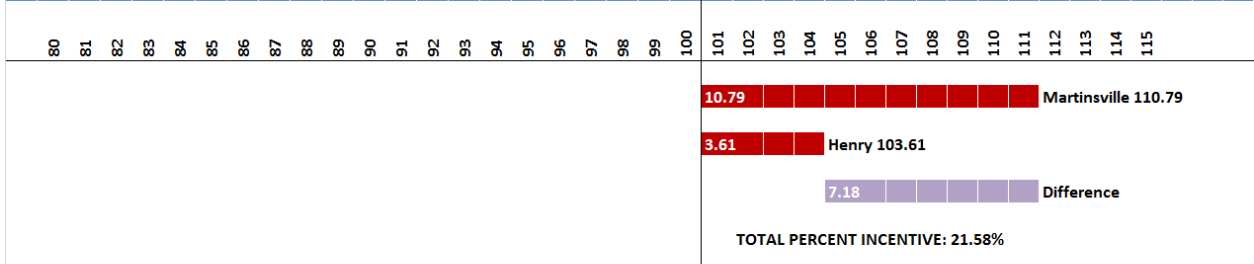
Buena Vista and Rockbridge County



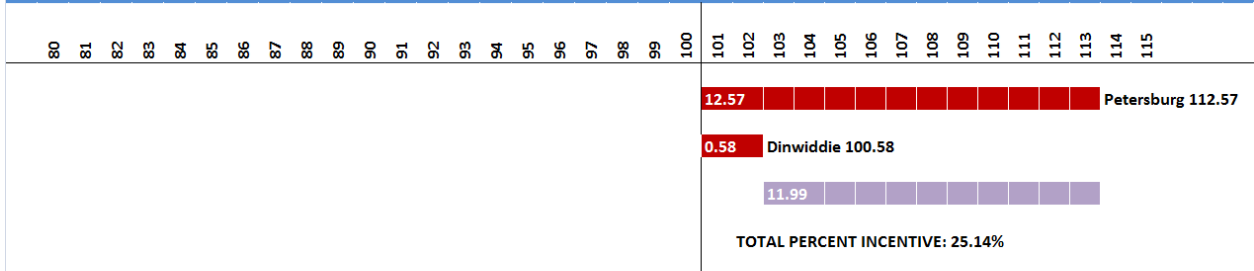
Poquoson and York County



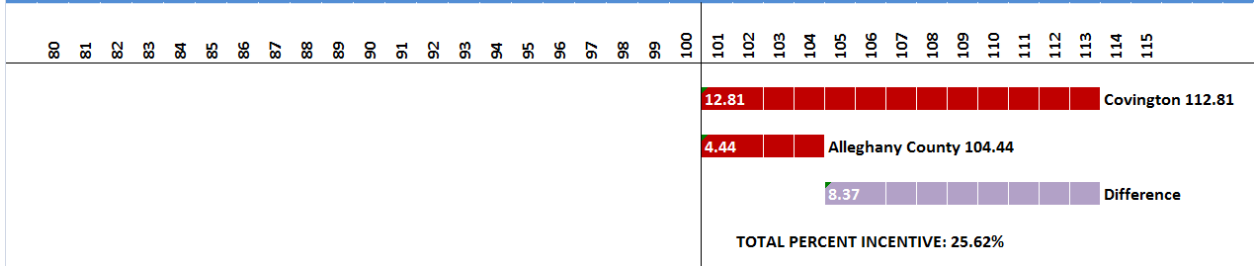
Martinsville and Henry County



Petersburg and Dinwiddie County



Covington and Alleghany County



Emporia and Greenville County

