

DRAFT MINUTES

**Regular Meeting
Commission on Local Government
10:00 a.m., September 8, 2008
First Floor Board Room
The Jackson Center
501 North Second Street
Richmond, Virginia**

Members Present

Frances M. Parsons, Chairman
Vola T. Lawson, Vice Chairman
Harold H. Bannister, Jr.
Elmer C. Hodge, Jr.

Members Absent

Kathleen K. Seefeldt

Staff Present

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

Call to Order

The Chairman called the meeting to order at 10:06 a.m. on September 8, 2008 in the First Floor Board Room of the Department of Housing and Community Development (DHCD) at the Jackson Center in Richmond, Virginia.

Mrs. Parsons announced that, on August 20, 2008, Governor Kaine appointed Elmer C. Hodge, Jr., of Vinton to serve John Kines' unexpired term on the Commission on Local Government. Mrs. Parsons welcomed Mr. Hodge to the Commission. She indicated that, most recently, he served as the Roanoke County Administrator and that he spent more than twenty years in Roanoke County government prior to his recent

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 2

retirement. In addition, she noted that, prior to joining Roanoke County, Mr. Hodge worked for Chesterfield County for ten years, and, for the last five of those years, he served as the Assistant County Administrator.

Mrs. Parsons then noted that Mr. Kines would arrive at 11:00 AM for the presentation of a commending resolution, which was adopted at the July 14 Commission meeting.

I. County of Montgomery – Town of Christiansburg Revenue and Economic Growth-Sharing Agreement

A. Preliminary Staff Comment

Ms. Williams began by stating that, because Mrs. Parsons owns property in Montgomery County, she will not be participating in the discussions regarding the Commission's upcoming review of the proposed agreement. [See Va. Code § 15.2-2906 – Disqualification of Commissioners]. Mrs. Parsons then took a seat in the audience, and Mrs. Lawson, Vice Chairman, assumed the chair.

Ms. Williams indicated that, on July 17, the Commission received a Joint Submission by Montgomery County and the Town of Christiansburg requesting the Commission's review of a proposed joint economic development and growth sharing agreement.

Ms. Williams explained that the proposed agreement was negotiated pursuant to Va. Code § 15.2-1301 relating to voluntary economic growth-sharing agreements. Ms. Williams also stated that this will be a case of first impression for the Commission. Ms. Williams indicated that, according to their original submission, Mr. Martin M. McMahan, Montgomery County Attorney, and Mr. Jim H. Guynn, Christiansburg Town

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 3

Attorney, were designated by their respective local governments to serve as the principal contacts with the Commission. Ms. Williams stated that she received an email this morning indicating that Mr. Lance Terpenney, Christiansburg Town Manager, will be replacing Mr. Guynn as the town's principal contact with the Commission.

Ms. Williams stated that, on July 21, Commission staff sent a letter to Messrs. McMahan and Guynn acknowledging receipt of their joint submission and advising them that the Commission's next regular meeting was scheduled for 10:00 a.m. on September 8 in Richmond. Ms. Williams further indicated that, in the letter, she requested that both the County and Town be represented at the meeting to assist the Commission with this matter.

Ms. Williams explained that, on August 1, subsequent to Commission members' and staff's review of the initial submission by the parties, Commission staff sent a letter requesting additional information regarding the proposed agreement from the county and town. In that letter, Ms. Williams asked the parties, if possible, to provide the additional information by September 2. Ms. Williams stated that, on August 11, Mr. McMahan indicated via email that he would not be available to attend the meeting today.

Ms. Williams stated that, on September 2, Mr. McMahan indicated via email that the parties to the agreement planned to express mail the additional information requested by Friday, September 5. Ms. Williams indicated that she solicited and received via email "avoid" dates for Mr. McMahan with respect to the Commission's anticipated oral presentations, site tour and possible public hearing in Christiansburg; at that time, he

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 4

indicated that there would be no representative from Montgomery County at today's meeting.

Ms. Williams stated that, this morning, she received an email from Mr. Guynn indicating that there would be no representative from Christiansburg at today's meeting and that Mr. Lance Terpenney, Town Manager, should be the Commission's point of contact. Ms. Williams indicated that Mr. Terpenney responded immediately to her request for his "avoid" dates and that Mr. Guynn indicated that he will see to it that the Town Council adopts a resolution at their next meeting, which designates Mr. Terpenney as the town's contact to the Commission.

Consequently, the Commission did not receive comments by representatives of Montgomery County or Christiansburg at this meeting. Ms. Williams then announced that the parties' joint response to the Commission's request for additional information had just arrived by express mail.

Mr. Bannister then asked whether the parties had provided notice of the joint submission requesting the Commission's review to the localities surrounding Christiansburg and Montgomery County. Ms. Williams verified that, according to their original submission, the parties to the proposed agreement provided such notice to the City of Radford, the Town of Blacksburg and the Counties of Floyd, Giles, Pulaski, Craig and Roanoke.

B. Commission Deliberation and Action

1. Establishment of Tentative Review Schedule

Ms. Williams explained that, unlike other mandatory reviews by the Commission, neither the *Code of Virginia* nor the Commission's regulations specifically requires that the Commission hold a public hearing as part of its review of agreements that are negotiated under Va. Code § 15.2-1301 (such as the one proposed by Montgomery County and Christiansburg) nor do they specify a timeframe in which a final report is to be issued. Ms. Williams opined that oral presentations by the parties and a tour of the affected area would provide the opportunity for members to acquire information that would be helpful to the Commission in their review of the proposed agreement. Ms. Williams also suggested that a goal of issuing a final report within six months of a complete filing by the parties seemed reasonable. Ms. Williams noted that, in the proposed agreement, the parties indicate that they will each hold a public hearing subsequent to the Commission's review.

Mrs. Lawson indicated her preference for a public hearing in connection with this matter. After a brief discussion, the members agreed to hold a public hearing in Montgomery County in addition to oral presentations and a tour of the affected area. Ms. Williams then indicated that the following dates are available for the Commission to hold its meetings in Montgomery County: Friday, October 17; Thursday, October 23; Friday, October 24; Monday, November 17; Tuesday, November 18; and Wednesday, November 19. After some discussion, the members decided to schedule the public hearing at 7:00 p.m. on Monday, November 17; a tour of the affected area at 9:00 a.m. on

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 6

Tuesday, November 18; and oral presentations by the parties, limited to one-hour each, at 10:30 a.m. on Tuesday, November 18.

Ms. Williams reminded the members that their next regular meeting is currently scheduled for Monday, November 10 in Richmond. After a brief discussion, the members decided instead to hold their next regular meeting at 12:00 Noon on Monday, November 17 in Montgomery County. Mr. Hodge made a motion that the above-described schedule be adopted; such motion was seconded by Mr. Bannister and approved.

Once the members finished their business regarding the Commission's review of the proposed agreement, Mrs. Parsons resumed the chair.

II. Model Public Participation Guidelines

A. Staff Presentation

Ms. Williams called the Commission's attention to the model public participation guidelines as well as the Commission's current public participation guidelines, which were mailed to the members in advance of the meeting. Ms. Williams explained the goal of creating more consistency among state agencies with regard to their public participation guidelines (PPG). Ms. Williams indicated that the model guidelines are broad enough to cover any circumstances contemplated in the Commission's current PPG. Next, Ms. Williams briefly reviewed the differences between the model PPG and the current PPG.

B. Commission Deliberation and Action

After a brief discussion, Mrs. Lawson made a motion that the Commission adopt the model public participation guidelines; such motion was seconded by Mr. Bannister and unanimously approved by the Commission.

III. Administration

A. Approval of Minutes of Regular Meeting of July 14, 2008

Mrs. Lawson made a motion that the minutes of the Commission's regular meeting of July 14, 2008 be approved; such motion was seconded by Mr. Bannister, and the Commission unanimously approved the minutes without amendment.

B. Public Comment Period

Mrs. Parsons 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 August 2008

Referencing an internally produced financial statement that encompassed expenditures through the end of August 2008, Ms. Williams stated that the financial report covered 16.67 percent of Fiscal Year 2009 (FY09) and that Commission non-personnel expenditures for that two-month period represented 4.99% of the total amount budgeted for the fiscal year. Ms. Williams noted that a transfer of \$19,960 to the Commission's budgeted amount for personnel expenditures for FY09 is forthcoming. The members accepted the report for filing. Ms. Williams added that state agencies are required to prepare budget reduction plans for additional reductions in FY09 and FY10

and submit them to the Department of Planning and Budget by September 26. These plans must be for 5%, 10% and 15% reduction scenarios.

D. Local Government Policy Manager's Report

1. Staff Activities and Reports

Ms. Williams indicated that she attended the Virginia Association of Planning District Commissions (VAPDC) Summer Conference in Virginia Beach on July 17-18, at which time she provided the annual DHCD update in Director Bill Shelton's absence. In addition, Ms. Williams indicated that she moderated one of the panels at the Foreclosure Community Impact Summit, which was held on July 23 in Richmond.

Ms. Williams stated that, since the last Commission meeting, she completed updates to the portions of the DHCD Strategic Plan and Service Area Plan relevant to the Commission's and staff's responsibilities. Ms. Williams proudly announced that Commission staff exceeded its performance measure relating to technical assistance contacts in FY08. Ms. Williams indicated that Commission staff provided 166 responses to technical assistance requests, which exceeded their goal of 135. Ms. Williams added that the goal for FY09 was increased to 150.

Ms. Williams next stated that Mr. Bolster will make a presentation to the Joint Subcommittee Studying Development and Land Use Tools (SJR 70/HJR 178) on September 11 and that she will make a presentation on Intergovernmental Relations to the town section at the Virginia Municipal League's Annual Conference on October 20.

Ms. Williams indicated that the Planning District Commissions' (PDCs) annual reports were due to DHCD on September 1. She indicated that, to date, she has received

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 9

annual reports from 19 of the 21 PDCs. Mr. Bannister inquired as to which PDCs had not submitted their annual reports, and Ms. Williams indicated that she has heard from but not yet received reports from the Rappahannock-Rapidan Regional Commission and the Richmond Regional PDC. Ms. Williams explained that, once annual reports are received, contracts for FY09 are executed and first payments are processed. She also noted that PDC funding was reduced by 1.5% in the Governor's August reduction plan. Finally, Ms. Williams stated that she will be preparing DHCD's biennial report on the PDCs to the Governor and General Assembly, which is due on October 1.

Ms. Williams reminded members that the cash proffer surveys are due from the localities on September 30 and that Mr. Bolster will present the draft annual report on the utilization of cash proffers at the November meeting. Mr. Bolster indicated that, to date, he has received about 70 percent of the surveys.

Next, Ms. Williams indicated that representatives from a number of localities have requested usernames and passwords in order to access the Commission's new SharePoint site. She reminded members that the new site will permit localities to post fiscal impact information regarding mandates that are under assessment, and the state agencies administering the mandates will have access to this information for their assessment purposes. Ms. Williams indicated that some localities and agencies have found the site difficult to use and that Mr. Bolster has had to work with them on an individual basis to try and resolve their problems. Ms. Williams indicated that state agencies are now in the process of reviewing the abstracts on the mandates for which

they are responsible and that she anticipates that Mr. Bolster will present the next version of the catalog to the Commission at either the November or January regular meeting.

2. Fiscal Stress Index

Ms. Williams reminded the Commission of their request that staff prepare letters for the members' signatures to send to any jurisdictions that failed to submit the financial data required under Va. Code § 15.2-2510 to the Auditor of Public Accounts by this time. Ms. Williams indicated that two counties – Smyth and Wise – still have not submitted their data, which was due on November 30, 2007. Ms. Williams then presented draft letters for the Commission's consideration. Mrs. Lawson suggested several changes to the text of the letters and asked that they be addressed to the chief elected officer in each county. Mrs. Lawson also asked that the Auditor of Public Accounts, the county administrator and the county finance director be copied on the correspondence. Ms. Williams subsequently made the changes, and the members signed the letters. Ms. Williams indicated that Mrs. Seefeldt authorized Ms. Williams to sign the letter on her behalf.

3. Potential Interlocal Issues

Ms. Williams provided a brief update on potential interlocal issues and called members' attention to several newspaper articles of interest that were provided to members in advance of the meeting and as handouts.

4. Meeting Per Diem

Ms. Williams stated that, in accordance with the Commission's policy on compensation and reimbursement, per diem will be paid to Mrs. Parsons and Mr. Hodge

for September 7, 2008 and to all members present for their service to the Commonwealth on September 8, 2008.

IV. Presentation of Commending Resolution to John G. Kines, Jr.

Mrs. Parsons presented a resolution, adopted by the Commission on July 18, 2008, to Mr. John Kines recognizing his significant contributions as a member of the Commission from January 2003 until May 2008. Mr. Kines expressed his appreciation for the resolution as well as for the opportunity to serve on the Commission.

V. Local Source Revenue Profile of Virginia's Counties and Cities, FY 1989 – 2006

A. Staff Presentation

1. Introduction

Mr. Ziony stated that, addressing the Virginia context, the present report examines the performance of county and city governments in generating own-source revenue from property taxes, non-property taxes, and diverse non-tax funding mechanisms between FY1989 and FY2006. He indicated that, during the early years of that time span, the Commonwealth's localities were buffeted by severe recessionary forces.

Mr. Ziony noted that the downturn in the private-sector economy, while complicating the budgetary process for numerous local officials in FY1991 and, to a markedly greater extent, in FY1992, cast lingering shadows across the realm of public finance throughout FY1993 as well. Mr. Ziony stated that, by the end of FY1994, the fiscal health of many county and city governments had improved to a significant degree.

Mr. Ziony went on to say that the data of this report, particularly the statistics covering the FY1998-2002 interval, establish that various jurisdictions continued to face

the pressure of expenditure demands in a financial environment characterized by much uncertainty with respect to tax and non-tax revenue growth. Further, Mr. Ziony explained that, for a number of counties and cities, the challenges of fiscal management proved especially burdensome during the last quarter of FY2001 and the full span of FY2002, as local officials confronted a statewide recession that was magnified in Northern Virginia by the economic ripple effects of the “9/11” assault on the Pentagon.

Mr. Ziony commented that, over the next four fiscal years, the revenue-generating performance of most localities registered the impact of renewed strength in the business and household sectors of the economy but that, even so, the annual process of budgetary development and oversight, always subject to unanticipated events, remained a formidable task across county and city governments.

2. Background Considerations

Mr. Ziony stated that, in the Commission’s usage, the construct of own-source (or indigenous) revenue exclusively denotes the collections which a particular county or city engenders through fiscal instruments promulgated under its own authority. In sum, Mr. Ziony indicated that this term does not embrace intergovernmental transfer payments received by the designated jurisdiction from federal and state entities or from other localities.

Mr. Ziony stated that property tax revenues encompass any receipts yielded by jurisdictional taxes on real estate, personal property, public service corporation property, machinery and tools, and merchants’ capital. He further explained that “real property” and “personal property” tax revenues, as classified by the Auditor of Public Accounts,

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 13

denote the local proceeds from sources other than public service corporations (e.g., privately-owned utilities and common carriers). Mr. Ziony added that, to the extent that the latter enterprises generate real estate and personal property tax collections for a given county or city government, such amounts are discretely categorized by the State Auditor's office under the rubric of "public service corporation" payments, even though the designated receipts do not qualify as conceptually independent revenues.

Mr. Ziony explained that non-property tax revenues embrace, for example, amounts yielded by local levies on general retail sales, gross business receipts, consumer utility payments, restaurant food purchases, and hotel room rentals. He stated that, whatever the fiscal importance of the foregoing levies, the annual non-property tax collections of the various local governments also capture any proceeds associated with franchise license, motor vehicle license, bank stock, recordation and probate, tobacco, admission and amusement, natural resource, motor fuel, and emergency telephone service impositions. Mr. Ziony noted that Virginia's localities are no longer authorized to collect the "E-911" tax because the legal foundation of this revenue source expired on January 1, 2007. However, Mr. Ziony explained, the latter date fell six months beyond the end point of the chronological range considered in the present report.

Mr. Ziony indicated that non-tax revenues stem from such funding sources as permit and license fees, fines and forfeitures, property sales and rentals, and service charges, and he explained that, in the strictest sense, the midpoint (or median) locality is a hypothetical jurisdiction, not an actual entity. With respect to a numerically ordered

series of 134 case scores, Mr. Ziony stated that the quantitative location of this theoretical place falls halfway between the 67th and 68th values.

3. Table 4.6: Technical Dimensions

Mr. Ziony explained that Table 4.6 displays the results of a multiple regression exercise utilizing (a) natural logarithmic transformations of three economic variables (i.e., per capita measures of taxable property valuation, adjusted gross income, and taxable retail sales) and (b) a “dummy” numeric indicator for jurisdictional class that is founded upon scores of 1 and 0 assigned, respectively, to cities and counties. With regard to a particular fiscal year, Mr. Ziony stated that each cell statistic across the columns labeled (1) through (4) reflects an unstandardized regression coefficient and denotes the average amount of change in per capita own-source revenue stemming from a specified increase in a given explanatory factor when the effects of the other “causal” dimensions are held statistically constant for the 134 jurisdictional cases.

Mr. Ziony indicated that, on an annual basis, column (5) in Table 4.6 shows adjusted coefficients of multiple determination, each of which indicates the proportion of variation in per capita local-source revenue that can be attributed to the joint predictive power of the several explanatory measures.

4. Table 4.6: Findings

Mr. Ziony explained that, notwithstanding the revenue volatility experienced by many local governments over the FY1989-2006 time frame, major aspects of the own-source funding environment were highly stable for Virginia’s counties and cities across each fiscal period. On this point, Mr. Ziony stated that compelling evidence can be found

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 15

in Table 4.6, which documents the combined and separate effects of four explanatory variables upon per capita indigenous collections at the local level throughout the 18-year span under review.

He explained that, during any given period of that interval, approximately four-fifths (between 78.51% and 84.55%) of the total variation in per capita revenue across counties and cities reflected the aggregate impact of jurisdictional class distinctions coupled with inter-local differences in the per capita magnitudes of taxable property valuation, adjusted gross income, and taxable retail sales. Further, Mr. Ziony stated that the annual data in Table 4.6 show that the per capita tax and non-tax receipts of cities appreciably exceeded, as a rule, the corresponding collections of counties, with the average margins of inter-group disparity registering at minimum and maximum levels of \$273.56 and \$665.61 over the course of FY1989 and FY2006, respectively.

Mr. Ziony explained that, in large measure, this cleavage pattern derived from the generally broader range, greater volume, and/or higher unit costs of public service rendition shouldered by cities relative to counties. He explained that, beyond the fiscal importance of the jurisdictional class indicator, the tabular evidence reveals that taxable property valuation markedly surpassed the remaining economic variables as a determinant of revenue productivity at the local level from one budgetary period to the next.

Mr. Ziony stated that, among the 134 jurisdictions, according to the yearly statistical profile, every increment of 1% in per capita property values generated, on the average, additional per capita receipts varying between \$3.91 (the FY1989 figure) and

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 16

\$8.05 (the FY2006 amount). He further explained that, with respect to adjusted gross income, an increase of 1% in the per capita magnitude of that resource-base measure produced an average expansion of tax and non-tax collections ranging from \$2.83 per capita (the FY1989 statistic) to \$4.46 per capita (the FY2005 margin).

As for the dimension of taxable retail sales, Mr. Ziony noted that local government revenue, on the average, climbed at per capita levels between \$0.57 (the FY1993 return) and \$1.78 (the FY2006 yield) in response to each percentage-point increment in the per capita size of this commercial indicator.

Mr. Ziony commented that the foregoing evidence, as supported by the balance of the data in Table 4.6, reinforces the conventional wisdom that jurisdictional property values constituted the principal economic foundation of county and city revenue systems during the FY1989-2006 interval.

B. Commission Action and Deliberation

Mr. Ziony responded to members' questions, and, after a brief discussion, Mrs. Lawson made a motion that the Commission accept the report; such motion was seconded by Mr. Bannister and unanimously approved by the Commission.

VI. Scheduling of Meetings

The Commission confirmed that its next regular meeting will take place on Monday, November 17, 2008 at a location to be determined in Montgomery County.

Minutes
Regular Meeting
10:00 a.m., September 8, 2008
Page 17

VIII. Adjournment

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

Frances M. Parsons
Chairman

Susan B. Williams
Local Government Policy Manager