

VIRGINIA:

BEFORE THE COMMISSION ON LOCAL GOVERNMENT

IN THE MATTER OF THE NOTICE OF THE)
CITY OF MARTINSVILLE'S INTENTION TO)
PETITION FOR AN ORDER GRANTING IT)
TOWN STATUS WITHIN HENRY COUNTY)

**HENRY COUNTY'S RESPONSE TO THE NOTICE OF THE CITY OF
MARTINSVILLE'S INTENTION TO PETITION FOR AN ORDER GRANTING IT
TOWN STATUS WITHIN HENRY COUNTY**

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Pursuant to Virginia Code § 15.2-2907, 1 VAC § 50-20-180(D), and the review procedures of the Commission on Local Government (“Commission”), Henry County files this Response to the Notice of the City of Martinsville’s Intention to Petition for an Order Granting it Town Status within Henry County (“Notice”). The City of Martinsville provided Henry County with a copy of its Notice in accordance with Virginia Code § 15.2-2907 and 1 VAC § 50-20-180(C). This Response addresses matters relevant to Martinsville’s proposed reversion under Virginia Code §§ 15.2-4105 and 15.2-4106 and 1 VAC § 50-20-601.

I. INTRODUCTION

A. Summary of County’s Position. Henry County does not oppose the City of Martinsville’s reversion to town status as a general proposition. It does, however, object to the manner in which Martinsville proposes to revert. As proposed, Martinsville’s change from city to town status (i) will substantially impair Henry County’s ability to meet the service needs of its population; (ii) will result in a substantially inequitable sharing of the resources and liabilities of Martinsville and Henry County; (iii) is not, in the balance of equities, in the best interests of the City, the County, the Commonwealth, and the people of the City or County; and (iv) is not in the best interests of the Commonwealth in promoting strong and viable units of government. Va. Code § 15.2-4106(A).

Henry County and Martinsville face many of the same economic and demographic headwinds. Both localities suffer from aging and declining populations (including declining school-age populations), elevated unemployment compared to the rest of the state, declining incomes, and general fiscal stress. See Notice at 47-66. These common characteristics make Martinsville and Henry County viable candidates for consolidation, but they also require changes to the City's proposed reversion plan to ensure reversion is carried out in an equitable manner.

The primary flaw with the Martinsville's proposal is its failure to provide the County with sufficient assets to carry out the services the City proposes to transfer to the County. The City also seemingly asks the County to compensate it for those assets that it does propose to transfer to the County. See Notice at 69-70, ¶¶ 6-7. Reversion will bring additional revenues to the County, but those revenues will be inadequate to offset the significant additional expenses the County will incur meeting its new service obligations. The County will have to cover that operating deficit with tax increases. The City's proposed reversion also will require the County to procure additional assets to allow it to meet its new service obligations and incur additional capital, personnel and other expenses associated with those obligations. Simply put, the City's reversion plan will exacerbate the County's stressed fiscal condition. Then, to compound the County's situation, Martinsville makes it clear it ultimately intends to pursue annexation, a step that will further deplete the County's resources. See Notice at 53.

Adjustments must be made to Martinsville's proposal to satisfy the requirements of Virginia Code § 15.2-4106. First, Martinsville must grant to the County, at no cost, all of the assets the City currently uses to provide the services that will be transferred to the County post-reversion. Martinsville would have no need for the vast majority of those assets once it transfers the related services to the County. Allowing the Town of Martinsville to retain those assets

would effectively grant it a windfall at the expense of the County and its taxpayers.¹ To mitigate the potential short-term negative fiscal impacts of reversion on the County, Martinsville must maintain funding for certain local and regional organizations and initiatives for at least ten years. Residual fund balances maintained by the City schools also must be transferred to the County. To minimize the long-term fiscal impact on the County, revenue sharing agreements between the City and County must be voided. Lastly, the Commission should require the City to compensate the County to offset the significant one-time expenses the County will incur as a result of reversion.

Henry County currently stands in a slightly better economic and fiscal position than Martinsville. As proposed by Martinsville, however, reversion will improve Martinsville's condition at the expense of Henry County – a result that runs counter to the requirements for reversion set out in Virginia Code § 15.2-4106. By making the modifications contained in this Response, the parties can complete reversion in a manner that complies with those requirements.

B. Henry County Public Service Authority. Martinsville repeatedly refers to the Henry County Public Service Authority (“PSA”) throughout its Notice. Notice at 9, 23-24, 33, 43-45, 70-71. Martinsville's attempt to involve the PSA in its reversion is improper. The PSA is a separate legal entity created pursuant to Virginia Code § 15.2-5100 *et seq.* It is not a County department. It owns its own property, employs its own employees, provides water and sewer services to parts of the County, and is responsible for setting the rates it charges for those services. Crucially, unlike the City's utility departments, the County does not control the use of

¹ City taxpayers have already paid for these assets. The County will need these assets to provide those same taxpayers with the same services post-reversion. The needed assets should follow the taxpayers to the County so they do not have to pay for replacement assets as County taxpayers.

the PSA's revenues. The PSA's revenues are used exclusively to fund PSA projects; they are not used to support the County or the County's budget.

The PSA is not a local government to which notice of the City's intent to revert was required to be given, and indeed no such notice was given to the PSA. Va. Code § 15.2-2907(A); 1 VAC § 50-20-180(C); Notice at 5-6. Likewise, the PSA would not be a necessary party in any subsequent judicial proceeding related to reversion. Va. Code § 15.2-4103 ("In any proceedings instituted under the provisions of this chapter, the adjoining county shall be made party to the case. Any qualified voter or property owner of the city or adjoining county may by petition become party to the proceedings."). Other interested parties, including political subdivisions such as the PSA, *may* intervene in the judicial proceeding, but they are not required to do so, nor can they be compelled to do so. *Id.* § 15.2-4104.

Whatever disputes the City and PSA may have must be resolved in another forum. The City has already filed suit against the PSA. The Commission should not consider evidence concerning the PSA in its evaluation of Martinsville's proposed reversion.

C. Certification. Pursuant to 1 VAC § 50-20-180(D), Henry County provides additional data, exhibits, documents and other materials to address the elements relevant to the proposed reversion under 1 VAC § 50-20-601. In accordance with 1 VAC § 50-20-390(L), Henry County certifies that all the data, exhibits, documents and other materials submitted to the Commission are true and correct to the best of Henry County's knowledge.

D. Henry County's Designated Contact. Henry County's designated contact for the Commission in this matter is:

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E. Service. In accordance with 1 VAC § 50-20-390(M) and instructions from J. David Conmy, Local Government Policy Administrator with the Department of Housing and Community Development, Henry County is submitting four hard copies and a digital copy of this Response to Mr. Conmy and Commission staff, one hard copy of this Response to each member of the Commission other than Mr. Reynolds, and one hard copy and one digital copy of this Response to the City's representatives.

F. Negotiation. Significant changes are needed to Martinsville's plan for reversion. Henry County stands ready to engage in a constructive dialogue with Martinsville to achieve its reversion to town status in a mutually-beneficial manner.

II. A BRIEF HISTORY OF HENRY COUNTY²

Records indicate that as far back as 1670, settlers pushing west from the Jamestown Settlement spent time in, and mapped the area that presently comprises, Henry County. The General Assembly authorized the construction of Fort Trial in present-day Henry County in 1756 as part of its effort to protect citizens from Native American uprisings. The fort later was used to

² This brief history is drawn from the following sources: Martinsville Bulletin, 100th Anniversary Edition, June 4, 1989; "Our Proud Heritage, A Pictorial History of Martinsville and Henry County," published by Bassett Printing Company, 1969; "Yesterday and Today, A Look at Life in Martinsville-Henry County," published by Bassett Printing Company, 1979; and Henry County's Records. These materials are not being provided at this time, but copies can be supplied upon the Commission's request.

protect locals during the French and Indian War. According to records of that era, George Washington was not fond of Fort Trial, noting that it was in an “out of the way place.”

The General Assembly officially formed Henry County from parts of Pittsylvania County in 1777. The County initially was named “Patrick Henry County” because its namesake visited the area frequently, owned property in the area, and lived in the County from 1779 to 1784.

In 1785, part of the northern sector of Patrick Henry County was combined with part of Bedford County to form Franklin County. In 1791, what remained of Patrick Henry County was separated into two counties – Patrick County and Henry County. The borders of Henry County have remained unchanged since that time. That same year, the General Assembly directed that 50 acres surrounding the Henry County Courthouse be designated as the “Town of Martinsville.” The Town was named for Revolutionary War military leader Joseph Martin. Martinsville remained a town until 1928, when a court order established the City of Martinsville.

Henry County’s economic foundation initially was built on agriculture. As the industrial revolution spread, so did changes to that economic landscape. Henry County developed a strong foundation in furniture manufacturing, becoming home to prominent manufacturers like Bassett Furniture, Hooker Furniture and Stanley Furniture. The textile industry also developed a sizable presence in Henry County. DuPont opened a nylon plant in the 1940s that eventually employed more than 5,000 people. Henry County also was home to such textile giants as Tultex, Bassett-Walker, and Pannill Knitting. During the 1960s and 70s, locals used to brag that if you owned a dining room table or a sweatshirt, odds were that both were made here in Henry County.

Unfortunately, federal laws that made it economically advantageous to manufacture furniture and textiles overseas had a tremendous negative impact on Henry County (and Martinsville). Plant closures began to pile up towards the end of the 20th Century. The textile

companies went away completely, and only Bassett and Hooker survived among the furniture companies. Henry County had the dubious honor of going more than three years in a row with double-digit unemployment.

Henry County has worked hard to resurrect its economy by diversifying its manufacturing base and emphasizing its natural amenities, such as the Smith River. Yet, it still faces significant economic and demographic hurdles. The pandemic-induced economic crisis has, of course, exacerbated the County's economic situation as it has done in other localities.

III. RELEVANT DATA AND EVIDENCE UNDER 1 VAC § 50-20-601

Martinsville submitted data and other evidence concerning twenty of the twenty-one items enumerated in 1 VAC § 50-20-601. See Notice at 12-36. Henry County will limit its discussion to those items where it either takes issue with Martinsville's data or evidence or believes additional data or evidence is needed for the Commission's consideration.

1. The maps submitted by Martinsville appear to provide much of the information requested in 1 VAC § 50-20-601(1). See Notice at 12, Exs. A, B, and C. In addition, the U.S. Census Bureau, Governmental Unit Reference Map (2019): Henry County, VA, linked to the City's Notice (<https://tinyurl.com/t5ru816>) identifies the one incorporated town in the County, Ridgeway. It also identifies unincorporated communities in the County, such as Oak Level, Bassett, Stanleytown, Collinsville, Fieldale, Laurel Park, Chatmoss, Horsepasture, and Sandy Level.

Attached to this Response is a map of the County that identifies major highways, schools, parks, major public facilities, industrial parks, and bodies of water in the County. See Henry Cnty. Admin., Henry County Facilities Map, attached as Ex. 1.

2. The past, estimated current, and projected future population figures for the City and the County from the Weldon-Cooper Center appear to comply with 1 VAC § 50-20-601(2). See Notice at 12-13, Tbl. 1.³ The figures project a steady decline in population for both localities.

3. Attached to this Response is a series of maps that identify the current zoning in Henry County, including the current zoning of properties surrounding the City of Martinsville. See Henry Cnty. Dep't of Planning, Zoning and Inspections, Henry County Zoning Maps, collectively attached as Ex. 2. The maps highlight the business, industrial and residential classifications around the Martinsville city limits and along the U.S. Route 220 corridor that runs north and south through the County, as well as the agricultural uses that are prevalent in the remainder of the County. Id. Also attached to this Response is a table that shows both the acreage and percentage of land currently devoted to the County's various zoning categories. See Henry Cnty. Dep't of Planning, Zoning and Inspections, Henry County Zoning Table, attached as Ex. 3.

4. Martinsville's evidence concerning school-age population (5 to 19 years old) and enrollment contains some outdated information. See Notice at 13-14, Tbl. 2. Henry County provides the following data and evidence to supplement the City's information:

³ The City's FY2019 Comprehensive Annual Financial Report ("City FY19 CAFR") shows slightly different population figures. See City FY19 CAFR at 192, Tbl. 18 (<https://tinyurl.com/wqfkd2z>). For example, it shows a 2019 City population of 13,422, compared 12,793 stated in the City's Notice. Notice at 13, Tbl. 1. The County's FY2019 Comprehensive Annual Financial Report ("County FY19 CAFR") also shows slightly different figures for the County. County FY19 CAFR at 149, Tbl. 5 (<https://tinyurl.com/uwbgjxz>).

a. School-age population.

i. Martinsville’s school-age population in 2019 totaled 2,673, not 2,419 as stated in the City’s Notice.

ii. Henry County’s school-age population in 2019 was 8,808, not 8,473.

See Demographics Research Group, Weldon Cooper Center, School-Age Population Estimates, available at the “Data Table” link on the following webpage <https://demographics.coopercenter.org/school-age-population-estimates> (last accessed November 28, 2020).

Future school-age population projections can be calculated using age cohort population data from the Demographic Research Group of the Weldon Cooper Center.

i. Martinsville’s projected school-age population in 2020 was 2,260. Its projected school age population in 2030 is 1,926 (a decrease of 15%). The projections average an annual decline of 33 school age residents in the City.

ii. Henry County’s projected school-age population in 2020 was 8,444. Its projected school age population in 2030 is 7,327 (a decrease of 13%). These projections average an annual decline of 112 school-age residents in the County

See Demographics Research Group, Weldon Cooper Center, Population Projections by Age and Sex for Virginia and its Localities, 2020-2040 (June 2017), available at the “Age and Sex” link on the following webpage <https://demographics.coopercenter.org/virginia-population-projections> (last accessed November 15, 2020).

Based on the foregoing data, school-age population projections from 2019 through 2026 are as follows:

Year	Henry County Public Schools	Martinsville Public Schools
2019	8,808	2,673
2020	8,444	2,260
2021	8,332	2,227
2022	8,220	2,194
2023	8,108	2,161
2024	7,996	2,128
2025	7,884	2,095
2026	7,772	2,062

As these figures demonstrate, the school-age populations in both the County and City are projected to experience steady declines.

b. Fall Enrollment.

i. Martinsville’s Fall Enrollment was 1,930 in 2019-2020 and 1,881 in 2020-2021.

ii. Henry County’s Fall Enrollment was 7,381 in 2019-2020 and 7,130 in 2020-2021.

See Virginia Dep’t of Educ., Fall Membership, available at the “Fall Membership Reports” link on the following webpage:

https://www.doe.virginia.gov/statistics_reports/enrollment/index.shtml (last accessed November 24, 2020).⁴

⁴ These 2019-2020 and 2020-2021 enrollment figures and the figures for prior years contained in Table 2 of the City’s Notice include pre-kindergarten students.

The County obtained updated enrollment projections from the Weldon Cooper Center, which prepared three projections for each locality based on different COVID-19 scenarios. The first scenario assumes that students who were projected to enroll this past fall, but did not enroll, do not enroll in the future. The second scenario assumes that half of the students who were projected to enroll this past fall, but did not enroll, will enroll next fall. The third scenario assumes that all students who were projected to enroll this past fall, but did not enroll, will enroll next fall. For the City, the decline in enrollment between 2020-2021 and 2025-2026 projects to range from 229 students (13%) to 249 students (14%). For the County, the decline over the same period projects to range from 202 students (3%) to 360 students (5%). See Demographics Research Group, Weldon Cooper Center, Enrollment Projections for Martinsville and Henry County, attached as Ex. 4.⁵ Like school-age population, fall enrollment is projected to decline over the next several years in both the City and County.

5. The assessed values contained in the City’s Notice appear to comply with the requirements of 1 VAC § 50-20-601(5). See Notice at 14-15, Tbls. 3 and 4. Martinsville’s assessed values generally have stabilized following a period of decline, while Henry County’s assessed values have been increasing.

6. The property and nonproperty tax rates contained in the City’s Notice appear to comply with the requirements of 1 VAC § 50-20-601(6), with the notable exception of the water utility information on page 23 of the Notice. See Notice at 15-27, Tbls. 5, 6, 7, and 8. As discussed above, the PSA is not a party to this matter and its inclusion in the Notice is improper. See supra at 3-4. Further, the information in the water utility column is not a “nonproperty tax rate.” It is the rate that customers pay for water. See Henry County Public Service Authority

⁵ The Demographic Research Group does not include pre-kindergarten students in its projections.

Rules and Regulations § 3-02 (noting rates residential users pay for water)

(https://www.henrycountyva.gov/content/uploads/PDF/PSA/2014_PSA_Documents/psa_rules_and_regulations_2018.pdf).

7. The Virginia Administrative Code requires the submission of total revenue collections for the City and the County for the current year and for the preceding ten years. 1 VAC § 50-20-601(7). The reported revenue is to include property taxes, nonproperty taxes, nontax revenues, and intergovernmental aid. Id. The City embedded a table in its Notice that includes only property tax collections and intergovernmental aid. See Notice at 27, Tbl. 9; Martinsville FY2010 Comprehensive Annual Financial Report (“City FY10 CAFR”) 149, Tbl. 9 (<https://tinyurl.com/s6kg3ba>); City FY19 CAFR at 186, Tbl. 13; Henry County FY2010 Comprehensive Annual Financial Report (“County FY10 CAFR”) 65, Tbl. 1, and 68, Tbl. 4 (<https://tinyurl.com/wbah8wg>); County FY19 CAFR at 145, Tbl. 1, and 148, Tbl. 4.

The County supplements the City’s revenue information with the following data:

a. Martinsville Revenues.

Martinsville’s total governmental revenues are as follows:

	General Property Taxes	Other Local Taxes	Other Revenues ⁶	Additional Revenues ⁷	Intergovernmental Aid ⁸	Total Revenue
2009	\$9,305,221	\$6,854,602	\$3,132,406	\$956,960	\$32,395,165	\$52,644,354
2010	\$9,080,208	\$6,345,922	\$3,277,053	\$1,035,886	\$30,483,967	\$50,223,036
2011	\$8,941,108	\$6,794,798	\$3,591,638	\$1,050,123	\$29,100,064	\$49,477,731
2012	\$8,622,900	\$6,621,038	\$3,530,549	\$1,146,361	\$29,940,214	\$49,861,062
2013	\$8,760,993	\$6,680,403	\$3,043,901	\$1,259,159	\$30,977,137	\$50,721,593
2014	\$8,683,569	\$6,917,566	\$3,326,011	\$1,205,264	\$32,430,831	\$52,563,241
2015	\$9,083,158	\$6,768,313	\$3,612,453	\$1,014,003	\$31,020,085	\$51,498,012
2016	\$8,745,402	\$7,005,652	\$4,957,737	\$1,748,917	\$29,184,559	\$51,642,267
2017	\$8,877,122	\$7,121,375	\$5,663,047	\$1,354,042	\$28,622,045	\$51,637,631
2018	\$9,180,279	\$7,376,919	\$6,087,374	\$1,353,698	\$29,491,786	\$53,490,056
2019	\$9,136,565	\$7,554,516	\$6,279,885	\$1,478,750	\$29,703,012	\$54,152,728

City FY10 CAFR at 141, Tbl. 5; City FY19 CAFR at 178-79, Tbl. 7; Shawver Analysis, Item 7.

⁶ Other revenues include permits, privilege fees and regulatory licenses, fines and forfeitures, revenue from use of money and property, charges for services, miscellaneous and recovered costs as listed in Table 7 of the City FY19 CAFR and Table 5 of the City FY10 CAFR.

⁷ For FY2009 through FY2018, additional revenues consist of School Board revenue from the use of money and property, charges for services, miscellaneous, and recovered costs. Additional school revenues for FY2009 through FY2018 were calculated by Ann Harrity Shawver, CPA, PLLC (“Shawver”) using each year’s CAFR. See Ann Harrity Shawver, CPA, PLLC Analysis (“Shawver Analysis”), attached as Ex. 5, Item 7. For FY2019, additional revenue includes the above-referenced school revenues plus City insurance recoveries. See City FY19 CAFR at 36, Ex. 4 (insurance recoveries totaling \$171,197), 146, Ex. 30 (additional school revenue totaling \$1,307,553). Net transfers from funds are not included in additional revenues in the table, but they are listed in Item 7 of the Shawver analysis.

⁸ The City’s intergovernmental aid is not contained on a single table in the CAFRs. For FY2019, for example, the figures must be calculated from Exhibit 30 (page 146) and Table 7 (page 179). Shawver calculated the City’s intergovernmental aid for each other fiscal year using each year’s CAFR. See Shawver Analysis, Item 7. The County’s calculation for FY2009 excluded the communications tax which is considered intergovernmental aid. The County’s calculation for FY2019 is slightly different than the City’s calculation. The County’s figures for the years other than FY2009 and FY2019 match the City’s figures. Id.

Martinsville also derives significant nontax revenues from its business-type activities:

	Electric Fund	Water Fund	Sewer Fund	Refuse Collection Fund	Grants and Contributions	Total
2009	\$16,728,961	\$3,216,234	\$3,876,929	\$1,431,649	\$0	\$25,253,773
2010	\$16,624,330	\$2,912,964	\$3,763,519	\$1,698,501	\$0	\$24,999,314
2011	\$17,549,813	\$3,090,420	\$3,611,687	\$1,651,673	\$0	\$25,903,593
2012	\$17,005,502	\$3,108,345	\$4,036,668	\$1,678,419	\$1,878,298	\$27,707,232
2013	\$16,737,265	\$3,223,717	\$3,917,792	\$1,599,297	\$0	\$25,478,071
2014	\$17,196,837	\$3,268,689	\$3,840,429	\$2,080,731	\$15,894	\$26,402,580
2015	\$17,630,862	\$3,301,837	\$3,929,737	\$2,199,089	\$0	\$27,061,525
2016	\$17,770,846	\$3,284,234	\$4,226,823	\$2,232,517	\$0	\$27,514,420
2017	\$18,680,678	\$3,602,775	\$4,255,883	\$2,280,710	\$0	\$28,820,046
2018	\$18,787,334	\$3,497,724	\$4,269,547	\$2,237,742	\$0	\$28,792,347
2019	\$19,245,478	\$3,537,366	\$4,314,029	\$2,244,328	\$1,000,000	\$30,341,201

City FY10 CAFR at 136, Tbl. 2; City FY19 CAFR at 171, Tbl. 2.⁹

The City's governmental revenues have been stable over time, while its business-type activity revenues have been increasing.

⁹ The City routinely uses funds from business-type activities to support its general fund. See City of Martinsville FY2021 Budget Presentation 19, 45 (https://www.martinsville-va.gov/content/martinsville-va/uploads/PDF/budget/fy21_budget_presentation_may26_final.pdf).

b. Henry County Revenues.

Henry County's total revenues are as follows:

	General Property Taxes	Other Local Taxes	Other Revenues ¹⁰	Intergovernmental Aid	Total Revenue
2009	\$21,673,232	\$11,342,729	\$7,780,449	\$78,266,772	\$119,063,182
2010	\$21,654,940	\$11,222,729	\$8,943,743	\$73,978,745	\$115,800,157
2011	\$21,018,605	\$11,478,570	\$7,780,886	\$75,507,581	\$115,785,642
2012	\$21,323,023	\$11,428,075	\$8,591,968	\$73,962,487	\$115,305,553
2013	\$22,057,534	\$11,423,797	\$8,439,159	\$72,004,445	\$113,924,935
2014	\$23,277,658	\$11,449,845	\$8,077,046	\$71,996,224	\$114,800,773
2015	\$23,871,330	\$12,004,009	\$7,403,732	\$75,295,664	\$118,574,735
2016	\$24,025,389	\$12,219,982	\$7,386,907	\$76,880,284	\$120,512,562
2017	\$24,344,550	\$12,323,201	\$6,921,257	\$79,495,294	\$123,084,302
2018	\$26,741,835	\$12,571,940	\$7,707,230	\$84,189,168	\$131,210,173
2019	\$28,230,794	\$13,397,099	\$9,758,384	\$86,049,792	\$137,436,069

County FY10 CAFR at 65, Tbl.1; County FY19 CAFR at 145, Tbl. 1; Shawver Analysis, Item 7.

8. Following reversion, the City proposes that Henry County assume full responsibility for the following services/functions within Martinsville: Public Education; Judicial Administration; Commissioner of the Revenue; Treasurer; Board of Elections/General Registrar; Social Services; Health Services; and Mental Health Services. Notice at 27-28, 36-42.

Public Education. The County will assume full responsibility for public education of Martinsville's school-aged population following reversion. The consolidated Henry

¹⁰ Other revenues include permits, privilege fees and regulatory licenses, fines and forfeitures, revenue from use of money and property, charges for services, miscellaneous and recovered costs as listed in Table 1 of the County FY19 CAFR and Table 1 of the County FY10 CAFR.

County Public Schools will educate the 7,130 students enrolled in the County as of the Fall 2020 and the 1,881 students enrolled in the City as of the fall 2020.

Judicial Administration. The County likewise will assume full responsibility for providing the residents of Martinsville with Circuit, General District and Juvenile and Domestic Relations Courts, a Clerk's office for each court, a Commonwealth's Attorney, a Sheriff, jails operated by the Sheriff, and a probation office.¹¹ The County will provide these court-related services for the entire population of Martinsville. These services will be combined with the similar services the County already offers its residents.

Commissioner of the Revenue and Treasurer. The functions of Martinsville's Commissioner of the Revenue and Treasurer will be consolidated with the similar functions currently performed by the Henry County Commissioner and Treasurer. These services will be provided to the entire population of Martinsville.

Elections. The Henry County Board of Elections and Registrar will assume responsibility for registering voters and conducting elections for the voting age residents of Martinsville following reversion.

Social Services and Health Services. Currently, the City and County jointly offer Social Services and Health Services to their citizens. The County will assume full responsibility for these services following reversion. Children's Services Act ("CSA") obligations in Martinsville will transfer to the County. CSA costs are escalating at an alarming rate.

See Shawver Analysis, Children's Services Act Trends. The County also will lose the City's contribution to the cost of maintaining the Social Services and Health Department

¹¹ The City aggregates these services under the category of Judicial Administration. Notice at 38-39.

facilities. Social Services currently are supervised by a board comprised of six members from the County and three members from the City. The City will lose its right to appoint any members to the Social Services board following reversion. See Notice at 41.

Mental Health Services. The City and County provide regionalized Mental Health Services through the Piedmont Regional Community Services Board in collaboration with Franklin County and Patrick County. The County will be responsible for funding these Mental Health Services on behalf of County and Martinsville following reversion.

The following data shows the amounts the City has spent or expects to spend on the aforementioned services being transferred to the County. The County expects to spend this amount and more to provide these same services within Martinsville.

	FY2019 Original Budget	FY2019 Actual	FY2021 Original Budget
Contribution to School Board Component Unit	\$6,427,640	\$6,144,512	\$6,045,015
Judicial Administration	\$2,428,351	\$2,401,821	\$2,778,903
Sheriff/Corrections/ Probation	\$3,318,655	\$3,473,582	\$3,983,723
Commissioner of the Revenue	\$456,898	\$448,763	\$473,670
Assessor	\$8,740	\$6,948	\$9,590
Treasurer	\$307,907	\$299,753	\$366,534
Board of Elections	\$148,591	\$122,133	\$159,813
Contribution to Regional Social Services Board	\$397,099	\$349,886	\$473,917
Children’s Services Act	\$200,000	\$622,748 ¹²	\$300,000

¹² This disparity between budgeted and actual CSA expenditures highlights the spiraling costs that Henry County will have to absorb.

	FY2019 Original Budget	FY2019 Actual	FY2021 Original Budget
Contribution to Local Health Department	\$198,401	\$198,401	\$198,401
Mental Health Services	\$58,125	\$58,125	\$58,125
HDSS Maintenance	\$31,358	\$26,764	\$33,922
Totals	\$13,981,765	\$14,153,436	\$14,881,613

City FY19 CAFR at 160-65, Sch. 2; Robinson, Farmer, Cox Assocs., Evaluation – Prospective Financial Impact (“RFC Study”) Tbls. 1, 3, and 6 (<https://tinyurl.com/u33n5p5>); City of Martinsville FY2021 Adopted Budget (“City FY21 Adopted Budget”) 20-22 (Commissioner and Treasurer), 31-32 (Electoral Board and Registrar), 32-39 (Judicial Administration), 45-49 (Sheriff/Corrections/Probation), 71-73 (Social Services, Health Services, Mental Health Services, HDSS Maintenance, Children’s Services Act, Schools) (https://www.martinsville-va.gov/content/martinsville-va/uploads/fy21_city_of_martinsville_adopted_budget.pdf).

As an initial matter, taking on expanded operations and new employees will require that the County incur significant one-time expenses. As noted by Robinson, Farmer, Cox Associates, its estimates do not account for capital expenditures, facilities, and additional office space that the County will need. See RFC Study at 4. The County believes it must be given facilities and assets currently used by the City to perform the transferred services. See supra at 1-3. Even if those assets are conveyed to the County, the County still will incur expenses upfitting and modifying those facilities and its own facilities to accommodate new staff and operations. If the City’s assets were not to not be conveyed to the County, then the County’s costs would increase exponentially as it would have to acquire additional facilities. Furthermore, across all levels of operations there will be expenses associated with on-boarding former City and new County

employees. These onboarding costs will include administrative, management and human resources costs, procurement costs, information technology costs, and costs for supplies and equipment, among others. Even assuming the City transfers to the County, at no cost, all of the facilities and assets the City currently uses for the transferred services, the County projects that its one-time costs will total \$1,310,000. See Shawver Analysis, Item 8.

There also will be additional recurring expenses to the County. Even after the one-time onboarding costs for new employees and facilities, there will be ongoing administrative costs associated with the larger workforce and asset base. These recurring costs will be reflected in increased expenses in areas like human resources, information technology, procurement, finance, legal, contractual services, facilities repair and maintenance, and salary and benefit equalization to bring compensation and benefits for former City employees in line with County compensation. There may be some efficiencies from the elimination of duplicative positions following reversion, but these recurring expenses will more than off-set those efficiencies.

Further, the services enumerated by the City are not the universe of services that the County will have to provide for Martinsville residents post-reversion. Martinsville residents will have access to the County's solid waste facilities. While the City plans to retain its curbside solid waste pickup, there will be a marginal increase in expenses for the County by providing these services to Martinsville residents. Likewise, there will be a marginal increase in expenses from providing Martinsville residents with access to the County's parks and recreation programs. An increase is expected with emergency medical services as well, where the County responded to 145 calls in the City in FY2020 and expects those calls to increase following reversion. Similar marginal costs for items such as planning and community development and educational initiatives also are expected to transfer to the County. All told, the County estimates that these

additional recurring expenses will add at least an additional \$441,488 in the initial year of reversion and ensuing years. See Shawver Analysis, Item 8.

Henry County also will incur additional recurring school expenses totaling \$16,692,310 to provide public education in Martinsville. The County anticipates receiving intergovernmental aid and other local revenues to cover those expenses. See Shawver Analysis, Item 8.

In sum, Henry County will see an increase in recurring expenses of at least \$31,287,234¹³ during the initial year following reversion and ensuing years. Henry County also will incur one-time expenses in the estimated amount of \$1,310,000 in the initial year of reversion. This latter figure would increase dramatically if the County were deprived of the assets the City currently uses to provide the transferred services.

Henry County agrees with the City that Henry County's assumption of these services will result in "higher quality services" to Martinsville's residents. Notice at 10. Henry County has no objection to providing these services within Martinsville following reversion, provided the Commission, and ultimately the Court, implement the modifications Henry County proposes to the City's reversion plan.

9. Martinsville will continue to provide solid waste collection, sewer, police, fire, emergency medical services, building inspections, public works, parks and recreation, library, airport, and planning and zoning, among other services. Notice at 42-46. Though not expressly referenced in the Notice, presumably the City will continue to provide electric and water service in line with its business-type activities.

¹³ This figure includes the \$14,153,436 the City actually spent on the transferred services in FY2019, the \$441,488 in projected additional recurring expenses, and the \$16,692,310 in public education expenses.

10. Despite the comprehensive services Martinsville proposes to transfer to Henry County, Martinsville proposes to convey only the following five school buildings related to those services to Henry County:

- a. Clearview Elementary School, with an assessed value of \$1,152,400;
- b. Martinsville High School, with an assessed value of \$16,411,600;
- c. Albert Harris Elementary School, with an assessed value of \$9,052,600;
- d. Martinsville Middle School, with an assessed value of \$7,275,000; and
- e. Old Gym, with an assessed value of \$317,000.

Notice at 28, Tbl. 10.

Martinsville proposes to retain numerous facilities associated with the services that are being transferred to Henry County. Martinsville proposes to retain facilities associated with Public Education, Judicial Administration, Constitutional Officers, Election Services, Social Services, and Health and Mental Health Services, among others. See Notice at 28-32. Martinsville will not provide any of these services following reversion, however.

Given the service obligations Martinsville proposes to transfer to Henry County, the facilities proposed for transfer are insufficient. The City should transfer to the County all facilities currently utilized in the provision of services that are being transferred to the County. The additional facilities that must be transferred to the County in order for the County to meet its additional service obligations include the following:

Public Education.

- a. Patrick Henry Elementary School, which has an assessed value of \$ 2,014,000.¹⁴
There is outstanding debt attributable to the building totaling \$1,079,998.
- b. Druid Hills Elementary School, which currently houses the City School Board offices. It has an assessed value of \$1,880,100. There is no outstanding debt attributable to the building.

Notice at 29, Tbl. 11; City of Martinsville, 2019 Reassessment Book-Exempt (“Reassessment Book”) 33-34 (Jan. 2, 2019) (<https://tinyurl.com/yxqfda62>).

Courts, Treasurer, Commissioner of the Revenue, General Registrar.

- a. The Municipal Building located at 55 West Church Street. The building currently houses the Courts, Clerk’s offices, Treasurer, Commissioner of the Revenue, Board of Elections, and General Registrar. Upon information and belief, Martinsville plans to move many of its municipal operations from the Municipal Building to another building located in Uptown Martinsville. To the extent Martinsville needs to continue to use some space in the current Municipal Building until its new town hall is open, arrangements can be made for such continued use. The Municipal Building has an assessed value of \$3,065,200 and an insured value of \$11,451,000. There is no outstanding debt attributable to the building.

Notice at 29, Tbl. 11; Reassessment Book at 20; VACORP Insured Values, attached as Ex. F to Notice (“Insured Values”), 1.

¹⁴ The City referred only to the fair market values of buildings, not including land, in its Notice. See Notice at 28. Henry County employs the same methodology throughout its Response.

Sheriff and Jail.

- a. The Sheriff's Office located at 13 Moss Street. It has an assessed value of \$286,700 and an insured value of \$1,403,500. There is no outstanding debt attributable to the building.

Notice at 30, Tbl. 11; Reassessment Book at 23; Insured Values at 3.

- b. The Jail located at 55 Church Street. It has an insured value of \$1,319,000.¹⁵ There is no outstanding debt attributable to the Jail.

Notice at 29, Tbl. 11; Insured Values at 1.

- c. The Jail Annex and Prison Farm located at 300 Clearview Drive. Combined, the buildings have an aggregate assessed value of \$303,900 and an aggregate insured value of \$1,248,523. There is no outstanding debt attributable to the Jail Annex or the Prison Farm.

Notice at 29, Tbl. 11; Reassessment Book at 25; Insured Values at 1.¹⁶

Social Services

- a. The City's interest in the jointly-owned Social Services Building located at 20 Progress Drive. Martinsville presently owns 34% of the building. The assessed value of the building is 1,927,500. There currently is no outstanding debt attributable to the building.

Reassessment Book at 13.

¹⁵ The Jail does not appear to have a separate entry in the Reassessment Book.

¹⁶ The Notice and Insured Values report list five separate parcels for the Jail Annex and Prison Farm. Notice at 29, Tbl. 11 and Ex. F. The City/County GIS system aggregates the facility to a single parcel. See GIS Property Card for Jail Annex and Prison Farm, attached as Ex. 6.

Health Department

- a. The City's interest in the jointly-owned Health Center located at 295 Commonwealth Boulevard. Martinsville presently owns 34% of the building. The assessed value of the building is \$409,400. There currently is no outstanding debt attributable to the building.

Reassessment Book at 28.

The City proposes to retain a full or partial interest in the above facilities that are valued at a minimum of \$11,205,800 using the City's assessed and insured values. These facilities are essential to the services the City proposes to transfer to the County. Failing to provide those facilities to the County while at the same time transferring the related services amounts to an inequitable sharing of resources and liabilities in contravention of Virginia Code § 15.2-4106.

11. The City's information concerning its debt appears to comply with the requirements of 1 VAC § 50-20-601(11).

12. Henry County agrees that no City debt should transfer to the County. Otherwise, the reference to the PSA is inappropriate for the reasons set forth above. See supra at 3-4. Furthermore, any alleged liability of the PSA, which is disputed and currently in litigation, would not be a County obligation, and it is not proper for the Commission's consideration in this proceeding. Finally, item 12 requests information related to any indebtedness the City proposes to transfer to the County, so any discussion of County indebtedness or third-party liabilities is irrelevant.

13. Relying on FY2019 budget figures, the City estimates that the County will derive an additional \$28,714,997 in revenue following reversion. See RFC Study at 2, Tbls. 1, 2, and

8.¹⁷ It is apparent that all of these additional revenues will not be derived from “within the municipality,” as requested by 1 VAC § 50-20-601(13). The RFC Study includes \$20,477,374 of new County revenue that appears to derive from state and federal sources. See RFC Study, Tbl. 2. Since additional intergovernmental aid is requested under item 14, also including it here leaves the wrong impression about how much new revenue the County will receive following reversion. Deducting state and federal aid, RFC’s analysis shows a revenue increase to the County of approximately \$8,237,623 from local sources.

The RFC Study relied on data derived from the City’s FY2019 budget. Henry County has employed an analysis that relies upon actual revenues and expenditures as reflected in the City’s FY19 CAFR. (The most recently available published financial report as of this Response.) The County estimates that it will derive the following additional revenue for its general fund from within Martinsville during the initial year following reversion (Year 1) and the five ensuing years (Years 2 through 6):

	Tax Revenue	Nontax Revenue	Total Revenue
Year 1	\$6,666,081	\$1,598,051	\$8,264,132
Year 2	\$6,701,935	\$1,638,898	\$8,340,833
Year 3	\$6,825,474	\$1,680,861	\$8,506,335
Year 4	\$6,991,870	\$1,723,973	\$8,715,843
Year 5	\$7,175,971	\$1,768,265	\$8,944,236
Year 6	\$7,364,999	\$1,813,774	\$9,178,773

Shawver Analysis, Item 13.

¹⁷ The City’s Notice refers to table 10 of the RFC Study. Notice at 33. There is no table 10 in the materials linked to the Notice, however.

14. Item 14 from 1 VAC § 50-20-601 requests an estimate of the additional intergovernmental aid the County will receive as a result of the City’s proposed reversion. The County projects it will receive the following additional intergovernmental aid:

Year 1	\$20,475,595
Year 2	\$21,089,309
Year 3	\$21,712,674
Year 4	\$22,350,676
Year 5	\$22,991,418
Year 6	\$23,621,783

Shawver Analysis, Item 14.

15. The following table demonstrates the net aggregate fiscal impact of the proposed reversion on Henry County during the initial year following reversion and during each of the ensuing five years. Using the expenditure data from item 8 and the revenue data from items 13 and 14, the County projects a substantial deficit each year.

Year 1	(\$2,547,507)
Year 2	(\$2,651,637)
Year 3	(\$2,729,666)
Year 4	(\$2,814,000)
Year 5	(\$2,923,855)
Year 6	(\$3,056,421)

Shawver Analysis, Item 15.

The City’s methodology assumes a \$31,602,895 increase in the revenue budget in the year of reversion and a corresponding increase in the expenditure budget that year of

\$31,423,252. Notice at 33. Contrary to the RFC Study cited for Item 13, which estimated a \$1.9 million deficit for the County in the year of reversion, the City now estimates, without explanation, that the County will experience a \$179,643 surplus in the first year of reversion. See Notice at 33; RFC Study at 2 and Tbl. 1.

The County's estimate of net aggregate fiscal impact is extrapolated from actual revenue and expenditure figures from FY2019. The City's estimate of net aggregate fiscal impact is based on budgeted figures from FY2021. While both methodologies have pros and cons, the County submits that actual figures provide a truer picture of the impact of reversion on the two localities. FY2019 actual data is the most recently available audited data. As a baseline, it provides a more objective evaluation of the impact of reversion. FY2019 figures also provide a snapshot of revenues and expenditures before the COVID-19 pandemic. Relying on FY2021 original budget may overemphasize the effect of the pandemic on revenues and expenditures.

16. The County's revenues post-reversion will be insufficient to cover the County's increased expenditures post-reversion. The County projects a \$2,547,507 deficit in the initial year following reversion, not including the anticipated one-time costs associated with reversion. That deficit will increase in the ensuing five years thereafter. Each penny of real property tax will generate \$333,889 of revenue at a 95% collection rate. Thus, if the County used solely real property taxes to cover the deficit, it would have to raise its real property tax rate by \$0.08 to \$0.63 per \$100 of value. Shawver Analysis, Item 16.

17. The County estimates that the City revenues will decrease by \$28,735,060 in the year following reversion, while its expenditures will fall by \$31,777,314. The net aggregate fiscal impact of the proposed reversion on Martinsville during the initial year following reversion will be a surplus of \$3,042,254. Shawver Analysis, Item 17. Changes to Martinsville's revenues

and expenditures in the ensuing years would not depend on reversion. All Martinsville revenues and expenditures in the ensuing years will be unrelated to the services, expenses and revenues transferred to the County as of the effective date of reversion.

18. Based on the surplus identified in item 17, the County estimates that the City could reduce its real property tax rate by \$0.51 per \$100 of value. Each penny of reduction would increase the Town's revenue by \$59,988 at a 95% collection rate. Shawver Analysis, Item 18.

19. As discussed below, the placement of additional service obligations on Henry County without providing sufficient assets and resources for Henry County to meet its new obligations would impair Henry County's strength and viability as a unit of government. As such, reversion, in the manner proposed by the City, would be inconsistent with the declared policies of the Commonwealth of Virginia.

20. Henry County's proposed terms and conditions are set out below and incorporated herein by reference.

21. The County is prepared to respond to any additional data elements the Commission considers to be relevant to Martinsville's proposed reversion.

IV. IMPACT OF REVERSION

A. IMPACT ON THE COUNTY AND ITS CITIZENS

Martinsville's renewed interest in reversion "has arisen out of budgetary concerns, driven largely by a declining population and dwindling tax base." Notice at 8. Martinsville acknowledges, however, that Henry County suffers from these same economic and demographic headwinds that confront the City. *Id.* at 54-66 (discussing common negative economic and demographic trends that affect both localities).

Henry County’s population, including its school age population, is declining. The Weldon Cooper Center population data included in the City’s Notice estimates that Henry County’s population declined 6% from 2010 to 2020. See id. at 12-13, Tbl. 1. The same data projects a 17.5% reduction in the County’s population over the next 20 years. Id. Collectively, Martinsville and Henry County project to suffer “a loss of about a quarter of the population of [both localities], over the thirty-year period from 2010 to 2040.” Id. at 55.

Projections show that the declining populations in the two localities also are aging.

Henry County										
	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
2020	2,609	3,119	3,890	4,285	4,225	3,472	3,226	2,516	1,706	1,504
2030	2,559	2,559	2,721	3,165	3,876	3,841	3,647	2,572	2,020	1,808
2040	2,197	2,507	2,693	2,620	2,736	2,875	3,365	2,816	2,270	1,969
Martinsville										
	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85+
2020	815	716	954	1,005	1,099	816	695	457	353	369
2030	823	597	772	634	885	869	871	540	407	307
2040	659	536	777	528	715	556	705	569	506	319

See Demographics Research Group, Weldon Cooper Center, Population Projections by Age and Sex for Virginia and its Localities, 2020-2040 (June 2017), available at the “Age and Sex” link on the following webpage <https://demographics.coopercenter.org/virginia-population-projections>) (last accessed November 20, 2020). This trend will lead to reduced revenue and increased demand for certain services. Reversion will not reverse these trends for either community.

The County projects that its school-age population will decline by 12% from the 2018-19 school year through the 2025-26 school year. See supra § III, Item 4. Projected fall enrollment

also is declining. From the 2014-15 school year to 2020-2021, fall enrollment in the County has declined 4% from 7,428 to 7,130. See Notice at 13, Tbl. 2; supra § III, Item 4. Based on this year’s fall enrollment, the Demographics Research Group of the Weldon Cooper Center projects that fall enrollment will decline an additional 3% to 5% over the next five years. The declining enrollment will reduce the amount of state aid that Henry County will receive for public education. And there is not a significant disparity between the City’s and the County’s Local Composite Index (“LCI”) that would offset this decline in state funding even if the County were allowed to use the City’s LCI following reversion.¹⁸

The City confirms the negative economic trends that confront both Martinsville and Henry County. Notice at 58-66. The City points out, and the County agrees, that “the economies of Martinsville and Henry County are in significant need of assistance.” Id. at 58.

The County will not rehash the City’s data. It will merely note its agreement that:

- a. Total and per capita adjusted gross income levels have been declining for both communities, id. at 58-60;
- b. Employment has decreased and unemployment increased in both communities, id. at 60-62;
- c. Retail sales have been stagnate or declining in both communities, id. at 63-65; and
- d. Populations in poverty and requiring government assistance have been increasing in both communities, id. at 65-66.

¹⁸ Henry County’s current local composite index score is .2253. Martinsville’s score is .2185. See Virginia Dep’t of Educ., Composite Index of Local Ability to Pay (2020-2022), available at https://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/ (last visited November 20, 2020).

Presumably in an effort to draw a distinction between the City and County amidst this negative economic data, the City discusses the respective fiscal stress indicators for the two localities. See Notice at 48-51 (discussing Comm’n on Local Gov’t, Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia’s Cities and Counties FY 2017 (July 2019)) (<https://tinyurl.com/tvebaxy>). The City seemingly contends that the County stands in a superior position as the localities approach reversion. Id. Since that report was issued, however, Henry County’s fiscal stress score has risen from 101.66 to 102.55, and its rank for fiscal stress has fallen from 46 to 32, moving it closer to the high fiscal stress category. See Comm’n on Local Gov’t, Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia’s Cities and Counties FY 2018 6 (July 2020) (“2018 Fiscal Stress Report”). (<https://www.dhcd.virginia.gov/sites/default/files/Docx/clg/fiscal-stress/fiscal-stress-report.pdf>). The City contends that counties generally have a greater fiscal ability to meet the service needs of the population than cities. Notice at 49. It must be noted, however, that Henry County has the seventh highest fiscal stress score of all Virginia counties. 2018 Fiscal Stress Report at 6.

In the wake of the COVID-19 pandemic, the Department of Housing and Community Development conducted a local vulnerability analysis of Virginia localities. See Dep’t of Hous. and Cmty. Dev., Report on Local Vulnerability Analysis (July 2020) (<https://www.dhcd.virginia.gov/sites/default/files/Docx/clg/fiscal-stress/local-vulnerability-report.pdf>). It studied the impact of COVID-19 on local taxes most impacted by the virus (e.g., sales and use, transient occupancy, and meals) and local employment. Id. at 5. The impact of COVID-19 on the two communities is similar. See id. at 12, Tbl. 2 (Local Tax Revenue Dependence), and 14, Tbl. 3 (Local Economic Vulnerability). Both communities are dependent on taxes likely to be impacted by COVID-19 and are vulnerable to suffering job losses on

account of the pandemic. When local tax dependence and economic vulnerability are combined with fiscal stress, both communities are classified as “above average” for composite local vulnerability. Id. at 16, Tbl. 4.

This data confirms that Martinsville and Henry County enter reversion in a similar posture. Reversion will send them in different directions, however. The County is being asked to take on myriad service obligations and their related expenses. Henry County will become responsible for providing the following services within the new town: Public Education; Judicial Administration; Commissioner of the Revenue; Treasurer; Board of Elections/General Registrar; Social Services; Health Services; and Mental Health Services. All in, the County will spend \$31,287,234 in recurring expenses in the initial year following reversion to meet its new service obligations. That figure will increase to \$35,856,977 by the sixth year following reversion. The County also will incur substantial one-time expenditures following reversion, mostly to acquire, modify and upfit facilities and assets needed to provide the transferred services. Shawver Analysis, Item 8.

One of the few benefits to the County of reversion will be the ability to derive additional revenues from within the new town. Primarily, the revenues will come from property taxes. See Notice at 47. That benefit will be mitigated over time as the assessed values of property within Martinsville are not appreciating. See Notice at 14, Tbl. 3. Reversion will not reverse that trend. Similarly, while new taxpayers will come into the County, they are an aging population, often characterized by increasing levels of poverty, unemployment, fixed incomes, and a reliance on government assistance. Reversion will not reverse those trends either. The County will steadfastly provide its new residents with high quality services following reversion, but the taxes derived from the Town will fall well short of offsetting the costs of those new services.

Reversion will not, as the City claims, result in “a relatively small disparity in the increase of its expenditures relative to revenues.” Notice at 51. The County estimates additional revenues from the Town will equal only \$8,264,132 in the initial year of reversion. It also will receive additional intergovernmental aid of \$20,475,595 that first year. See supra § III, Items 13 and 14. Despite the increased revenue, the deficit between revenues and expenditures will be \$2,547,507. See supra § III, Item 15. The County will have to implement tax increases to cover this projected operating deficit. It would take over a 14% increase in real property taxes to cover that difference (from \$0.55 to \$0.63). In addition, the County stands to lose substantial anticipated revenue as a result of reversion. The County anticipated revenue of approximately \$1 million per year to house inmates in the County’s new jail. The County planned to use that money to fund the facility. That anticipated revenue stream may now disappear because the County may will have to use its excess space for inmates formerly held by the City.

Martinsville also makes it clear that it will pursue annexation as soon as possible following reversion. Notice at 53. There is a two-year moratorium on annexation following reversion. Va. Code § 15.2-4117. While annexation is not technically part of the reversion process, its eventual impact on the County should not be discounted. It is appropriate for the Commission to consider the impact of annexation when fashioning proposed terms and conditions to mitigate the harm reversion will cause to the County.

That Henry County may be in a slightly better fiscal condition than Martinsville does not mean that it is in a condition to absorb Martinsville on the terms and conditions proposed in the City’s Notice without significant negative consequences. Martinsville proposes to revert in a manner that improvidently places too much of the economic burden of reversion on the County. The City proposes to retain significant assets that Henry County will need to provide the services

being transferred to it post-reversion. As for the assets it proposes to convey to the County, the City requests that the County be permitted to use them “on a basis that will fairly recognize the value of Martinsville’s interest in such facilities.” Notice at 69-70, ¶¶ 6, 7. “Government seldom has sufficient resources to provide all it would like to give its citizens” Lucy v. County of Albemarle, 258 Va. 118, 123 (1999). Reversion on the City’s terms will exacerbate this predicament for the County. Reversion on these proposed terms, with insufficient resources to provide new services and compensation to the City for those limited resources that are transferred, will substantially impair Henry County’s ability to meet the service needs of its population (both current and future); will result in a substantially inequitable sharing of the resources and liabilities of Martinsville and Henry County; and is not, in the balance of equities, in the best interests of the county and its people. In addition, placing such a burden on Henry County will harm the County’s strength and viability as a unit of government and, therefore, is contrary to the Commonwealth’s interests.

Based on the fiscal stress metric, Henry County’s need for improved terms and conditions is at least as acute, if not more so, than counties that previously have experienced reversion. Henry County’s fiscal stress score is 102.55 (rank 32 of 133). 2018 Fiscal Stress Report at 6. Its per capita revenue capacity ranked tenth most stressed in the Commonwealth. Id. at 12. Its revenue effort is 0.7513. Id. at 18. Relying on more favorable 2017 data, the City projects that Henry County’s revenue effort would increase to .8305 following reversion. Notice at 51, Tbl. 16. By comparison, Halifax County had similar above-average fiscal stress, but its revenue effort in 1989-1990, as it was entering reversion, was 0.5554. Comm’n on Local Gov’t, Report on the City of South Boston-County of Halifax Reversion Issue 11, App’x F, Tbl. 3 (Jan. 1992) (<https://tinyurl.com/rzhdj9n>). Its per capita revenue capacity was ranked 23. Id. at App’x F, Tbl.

1. Halifax's hypothetical post-reversion revenue effort was 0.6492. Id. at App'x F, Tbl. 4. Alleghany, too, was characterized by above average fiscal stress. Comm'n on Local Gov't, Report on the City of Clifton Forge-County of Alleghany Voluntary Settlement Agreement 14 (Oct. 2000) (<https://tinyurl.com/u4kjf7v>). It had a superior revenue capacity than Henry County, ranking 75th in the Commonwealth. Id. at App'x F, Tbl. 1. Bedford County, of course, was in a far more favorable condition. It was characterized by below average fiscal stress. Comm'n on Local Gov't, Report on the City of Bedford-County of Bedford Voluntary Settlement Agreement 8-9 (July 2012) (<https://tunyurl.com/tnes6su>). Prior to reversion, its revenue effort was 0.5380. Id. at App'x F, Tbl. 2. Its hypothetical post-reversion revenue effort was projected to be 0.5531. Id. at App'x E, Tbl. 2.

Reversion, if it is to occur, must be carried out in a manner that will lessen the deleterious impact on the County so that it can meet its new service obligations. To accomplish this objective, the following changes need to be made to the City's proposal:

1. The facilities identified in the response to Item 10 must be conveyed to the County at no cost to the County. See supra § III, Item 10. The City will not be providing many, if any, services related to these facilities, and the County will need them when it takes over these services.¹⁹ Requiring the County to incur the cost of acquiring replacement facilities when the City's facilities are available constitutes an inequitable sharing of resources and liabilities and will substantially impair the County's ability to meet the service needs of its population. Further, Martinsville taxpayers have already paid for these facilities. They should not be required to pay for replacement facilities

¹⁹ The one exception is portions of the Municipal Building. As noted above, arrangements can be made to permit the town to retain space in the Municipal Building until its new facility is operational, or longer if necessary.

simply to keep the same services they have been receiving. Finally, to permit the City to retain these facilities under these circumstances would permit a windfall to the City in the value of the buildings. In essence, these assets should be viewed as the City's capital contribution to joining the County.

2. The City proposes to transfer school buses to the County. See Notice at 70.

While conveying those buses is certainly necessary, it is not sufficient. For services that are being transferred to Henry County, the City must provide to the County, at no cost, all personal property, assets and resources currently used by Martinsville in the provision of those services. That would include, without limitation:

- a. School buses (Table 21 (page 196) of the City FY19 CAFR indicates the City School Board had 32 buses);
- b. School vehicles (Table 21 (page 196) of the City FY19 CAFR indicates the City School Board had 29 other vehicles);
- c. Sheriff's vehicles (Table 21 (page 196) of the City FY19 CAFR indicates the Sheriff had 16 patrol units and 12 other vehicles);
- d. Other vehicles associated with services being transferred to the County;
- e. Voting machines;
- f. Sherriff's law enforcement equipment;
- g. Furniture in facilities being transferred to County;
- h. Fixtures in facilities being transferred to County; and
- i. Equipment in facilities being transferred to County.

3. To minimize the risk of any short-term increase in the County's financial obligations, other than the service-related expenses being transferred in this reversion, the

City should be required to maintain funding for ten years for the following local and regional organizations and initiatives (in amounts required by any applicable agreement but no less than the FY2021 budgeted expenditure):

- a. Martinsville Henry County 911 Communications Center, \$479,053 (City FY21 Adopted Budget at 71);
 - b. Blue Ridge Regional Library, \$295,308 (City FY21 Adopted Budget at 71);
 - c. Martinsville Henry County Economic Development Corporation (“EDC”), \$100,000 (City FY21 Adopted Budget at 71) (which funds must continue to flow through the EDC to the County)²⁰;
 - d. Martinsville Henry County Chamber’s Partnership for Economic Growth, \$60,000 (City FY21 Adopted Budget at 70); and
 - e. Blue Ridge Regional Airport, \$9,000 (City FY21 Adopted Budget at 71).
4. The City and County have three revenue sharing agreements related to the development of the Patriot Centre and Commonwealth Crossing industrial parks. To minimize the risk of any long-term impairment of the County’s ability to meet its financial and service obligations resulting from reversion, those three agreements must be voided.
5. The Commission should require the City to make a single or multiple payments to the County to offset the significant one-time expenses the County will incur as a result of reversion.

²⁰ If the revenue sharing agreement related to the Commonwealth Crossing Business Centre is voided, then this annual payment could be eliminated as well.

With these modifications, and the other proposed terms and conditions addressed below, reversion can be implemented in a manner that complies with the requirements of Virginia Code § 15.2-4106.

B. IMPACT ON THE CITY AND ITS CITIZENS

Through reversion, Martinsville hopes to achieve “a substantial reduction in operational expenses as a town.” Notice at 10. Martinsville will reduce its operational expenses by transferring service obligations, and related expenses, to Henry County. See supra § III, Item 17. Without reversion, Martinsville expressed concern that its “current mode of operations would result in a reduction of services and programs and an increase in the tax burden on the people of Martinsville.” Notice at 9-10.

Reversion will be a benefit to the Martinsville. The RFC Study indicates that the Town will be able to balance its budget while using its fund balance less frequently, making fewer transfers from its enterprise funds, and reducing its real property taxes considerably. RFC Study at 2-3, Tbls. 1, 2, and 8. Martinsville’s fiscal outlook will improve considerably after reversion. Under these circumstances, the loss of the assets enumerated above, without receiving compensation, will not harm the City.

It is less clear what the citizens of Martinsville will gain from reversion. The non-economic costs to Martinsville’s citizens are significant. Martinsville’s proposed reversion will result in the loss of civic independence and diminished civic pride, loss of an independent school system and a separate court system, and loss of municipal constitutional officers. Upon sacrificing these elements of an independent city, the citizens of Martinsville might expect that they will derive a significant reduction in taxes. That is not the case, however. In fact, Martinsville concedes that its citizens will pay at least the same total local taxes as they pay now.

Notice at 35. The County projects that Town residents will actually pay a higher overall local tax rate. See supra § III, Item 18.

C. IMPACT ON THE COMMONWEALTH'S INTERESTS

The Commonwealth certainly has an interest in promoting strong and viable units of government. Va. Code § 15.2-4106(A)(6). Indeed, the policy of the Commonwealth and the reason for which the Commission was created is to “help ensure that *all* of its localities are maintained as viable communities in which their citizens can live.” Va. Code § 15.2-2900 (emphasis added). “The Commonwealth also has an interest in encouraging improved fiscal conditions for its local governments.” Comm’n on Local Gov’t, Report on Local Government Consolidation Incentives 7 (Nov. 24, 2015) (<https://tinyurl.com/yx3gvu85>).

Yet, the City’s proposal for reversion will improve the City’s condition at the expense of the County. Contrary to the Commonwealth’s interest in promoting strong and viable units of government, the City’s proposal charts a course of increased financial hardship for the County. It will jeopardize the County’s ability to meet the meet the service needs of its population, including its new residents from Martinsville. By transferring significant service obligations to Henry County without adequate resources to carry out those services, Martinsville’s reversion, as proposed, stands a greater chance of diminishing Henry County’s fiscal condition than it does of elevating Martinsville’s condition. The recent trend in fiscal stress that carried from the 46th most stress community to the 32rd most stressed will continue, and indeed it will be exacerbated by an eventual annexation that reduces the County’s tax base.

By allowing Henry County to avoid considerable upfront capital and other expenses, the modifications to the reversion plan set out in this Response will permit reversion to move

forward in a manner that is consistent with the Commonwealth's interest in strong and viable local government units.

V. TERMS AND CONDITIONS FOR IMPROVED REVERSION PLAN

The following terms and conditions are offered pursuant to Virginia Code § 15.2-4106 to allow for a fair and equitable reversion of Martinsville from city to town status:

1. The Henry County Board of Supervisors shall determine, in its sole discretion, how to reapportion election districts to provide representation to Martinsville's residents, limited only by applicable federal and state constitutional and statutory law.

2. The Henry County Board of Supervisors shall determine, in its sole discretion, whether and how to incorporate former employees of the City of Martinsville into Henry County following reversion.

3. The Constitutional officers in Henry County shall determine, in their sole discretion, whether and how to incorporate former employees of the City of Martinsville's Constitutional officers into their respective offices following reversion.

4. The Henry County School Board shall determine, in its sole discretion, how to apportion students among the schools of the newly consolidated Henry County Public Schools.

5. The Henry County School Board shall determine, in its sole discretion, whether and how to incorporate former employees of the Martinsville School Board into the Henry County Public Schools following reversion.

6. The City shall provide to the County, at no cost, all facilities enumerated in Section III, Item 10 above and all other facilities that are used in the provision of services that are being transferred to the County. Except for the foregoing, the City and County shall retain title to any and all real property they owned prior to reversion.

7. For services enumerated above in Section III, Item 8 that are being transferred to Henry County, the City shall provide to the County, at no cost, all personal property, assets and resources currently used by Martinsville in the provision of those services, including without limitation, the vehicles, furniture, fixtures, and equipment referenced above. See supra at 36. Except for the foregoing, the City and County shall retain title to any and all personal property they owned prior to reversion.

8. The City shall be solely responsible for the satisfaction of any and all debt it had prior to reversion, even if an asset securing payment of such debt has been transferred to the County.

9. For a period of ten years following the effective date of reversion, Martinsville shall pay the greater of the FY2021 budgeted expenditure or the amount due under any applicable agreement for the following regional and local organizations and initiatives: (i) Martinsville Henry County 911 Communications Center (\$479,053); (ii) Blue Ridge Regional Library (\$295,308); (iii) Martinsville Henry County Economic Development Corporation (\$100,000) (which funds will flow through to the County); (iv) Martinsville Henry County Chamber's Partnership for Economic Growth (\$60,000); and (v) Blue Ridge Regional Airport (\$9,000).

10. Revenue sharing agreements among the City of Martinsville, Henry County, and the Henry County Industrial Development Authority dated April 30, 2002, September 25, 2007, and August 31, 2009, concerning Patriot Centre Industrial Park, Beaver Creek Industrial Park and Commonwealth Crossing Business Centre shall be voided.

11. The June 1988 agreement between the City of Martinsville and Henry County concerning the joint 911 dispatch center shall remain in effect following reversion and the Town of Martinsville shall be substituted for the City of Martinsville as a party to the agreement.

12. The September 22, 2015 agreement between the City of Martinsville and Henry County concerning solid waste disposal shall remain in effect following reversion and the Town of Martinsville shall be substituted for the City of Martinsville as a party to the agreement.

13. The October 1, 2011, Facility Costs Agreement among the City of Martinsville, Henry County, and the Henry-Martinsville Department of Social Services shall be dissolved (presuming the City's 34% interest in the building is conveyed to the County at no cost).

14. All school grant funds retained by the City of Martinsville School Board upon the date reversion takes effect shall be transferred to the Henry County School Board.

15. The City shall convey to the County, at no cost, all licenses, permits, privileges, copyrights, and other rights associated with the services and/or assets being conveyed to the County.

16. The Commission should impose such other terms and conditions as it deems just and proper to achieve the requirements of Virginia Code § 15.2-4106, including without limitation, requiring the City to make a payment or payments to the County to offset the substantial one-time expenses the County will incur as a result of reversion.

VI. CONCLUSION

The County respectfully requests the Commission make findings of fact and recommendations consistent with this Response to the City's Notice. If the Commission recommends the City of Martinsville be permitted to transition from city status to town status, then the County respectfully submits the Commission must also recommend that the County's

proposed terms and conditions be imposed upon the City. In the alternative, the County respectfully submits the Commission must recommend that the City's reversion request be denied.

Respectfully submitted,

HENRY COUNTY, VIRGINIA

By: /s/ Jeremy E. Carroll
Of Counsel

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VII. INDEX OF CITED SOURCES

A. EXHIBITS

1. Henry Cnty. Admin., Henry County Facilities Map
2. Henry Cnty. Dep't of Planning, Zoning and Inspections, Henry County Zoning Maps
3. Henry Cnty. Dep't of Planning, Zoning and Inspections, Henry County Zoning Table
4. Demographics Research Group, Weldon Cooper Center, Enrollment Projections for Martinsville and Henry County
5. Ann Harrity Shawver, CPA, PLLC, Analysis, Items 7, 8, and 13-18, and Children's Service Act Trends
6. GIS Property Card for Jail Annex and Prison Farm

B. OTHER CITED MATERIALS²¹

1. U.S. Census Bureau, Governmental Unit Reference Map (2019): Henry County, VA
<https://tinyurl.com/t5ru816>
2. City of Martinsville FY2019 Comprehensive Annual Financial Report
<https://tinyurl.com/wqfkd2z>
3. Henry County FY2019 Comprehensive Annual Financial Report
<https://tinyurl.com/uwbjxjz>
4. Henry County Public Service Authority Rules and Regulations
https://www.henrycountyva.gov/content/uploads/PDF/PSA/2014_PSA_Documents/psa_rules_and_regulations_2018.pdf
5. City of Martinsville FY2010 Comprehensive Annual Financial Report
<https://tinyurl.com/s6kg3ba>
6. Henry County FY2010 Comprehensive Annual Financial Report
<https://tinyurl.com/wbah8wg>
7. City of Martinsville FY2021 Budget Presentation
https://www.martinsville-va.gov/content/martinsville-va/uploads/PDF/budget/fy21_budget_presentation_may26_final.pdf

²¹ Copies of these materials are provided on the included thumb drive. Links to these documents on-line also are included.

8. Robinson, Farmer, Cox Assocs., Evaluation – Prospective Financial Impact
<https://tinyurl.com/u33n5p5>
9. City of Martinsville FY2021 Adopted Budget
https://www.martinsville-va.gov/content/martinsville-va/uploads/fy21_city_of_martinsville_adopted_budget.pdf);
10. City of Martinsville, 2019 Reassessment Book-Exempt (Jan. 2, 2019)
<https://tinyurl.com/yxqfda62>
11. Commission on Local Government, Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia’s Cities and Counties FY 2017 (July 2019)
<https://tinyurl.com/tvebaxy>
12. Commission on Local Government, Report on Comparative Revenue Capacity, Revenue Effort, and Fiscal Stress of Virginia’s Cities and Counties FY 2018 (July 2020)
<https://www.dhcd.virginia.gov/sites/default/files/Docx/clg/fiscal-stress/fiscal-stress-report.pdf>
13. Department of Housing and Community Development, Report on Local Vulnerability Analysis (July 2020)
<https://www.dhcd.virginia.gov/sites/default/files/Docx/clg/fiscal-stress/local-vulnerability-report.pdf>
14. Commission on Local Government, Report on the City of South Boston-County of Halifax Reversion Issue (Jan. 1992)
<https://tinyurl.com/rzhdj9n>
15. Commission on Local Government, Report on the City of Clifton Forge-County of Alleghany Voluntary Settlement Agreement (Oct. 2000).
<https://tinyurl.com/u4kjf7v>
16. Commission on Local Government, Report on the City of Bedford-County of Bedford Voluntary Settlement Agreement (July 2012)
<https://tinyurl.com/tnes6su>
17. Commission on Local Government, Report on Local Government Consolidation Incentives (Nov. 24, 2015)
<https://tinyurl.com/yx3gvu85>

C. LINKS

1. Demographics Research Group, Weldon Cooper Center, School-Age Population Estimates, available at the “Data Table” link on the following webpage:
<https://demographics.coopercenter.org/school-age-population-estimates>

2. Demographics Research Group, Weldon Cooper Center, Population Projections by Age and Sex for Virginia and its Localities, 2020-2040 (June 2017), available at the “Age and Sex” link on the following webpage:
<https://demographics.coopercenter.org/virginia-population-projections>)
3. Virginia Dep’t of Educ., Fall Membership, available at the “Fall Membership Reports” link on the following webpage:
https://www.doe.virginia.gov/statistics_reports/enrollment/index.shtml
4. Virginia Dep’t of Educ., Composite Index of Local Ability to Pay (2020-2022), available at:
https://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/

VIII. ANNOTATED INDEX OF RESPONSE

I. Introduction

An overview of the County’s Response.

II. A Brief History of Henry County

Brief narrative description of the history of the County.

III. Relevant Data and Evidence Under 1 VAC § 50-20-601

Detailed discussion on the items required under 1 VAC § 50-20-601, including data and evidence from various cited sources.

IV. Impact of Reversion

A. Impact on the County and its Citizens

A discussion of the impact reversion will have on the County and its citizens, including a discussion on why the City’s proposed plan for reversion fails to meet the requirements of Virginia Code § 15.2-4106 and changes that need to be made in order for the plan to comply with the requirements of that code section.

B. Impact on the City and its Citizens

A brief discussion of the impact reversion will have on the City and its citizens.

C. Impact on the Commonwealth’s Interests

A discussion of the impact reversion will have on the Commonwealth’s interests, including a discussion on why the City’s proposed plan for reversion fails to meet the

requirements of Virginia Code § 15.2-4106 and changes that need to be made for the plan to comply with the requirements of the code section.

V. Terms and Conditions for Improved Reversion Plan

Description of terms and conditions the County respectfully submits must be imposed for reversion to take place in a manner that complies with Virginia Code § 15.2-4106.

VI. Conclusion

The relief the County requests from this process.

VII. Index of Cited Sources

The list of the sources of data and evidence relied upon by the County. Exhibits are attached to this Response. Voluminous resources are included on the attached thumb drive. Links are provided to data only available online.