House Bills Relating to the Composite Index of Local Ability-to-Pay

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Kent C. Dickey
Deputy Superintendent for Finance and Operations

VIRGINIA DEPARTMENT OF EDUCATION

House Bills Reviewed:

- **HB 421 (Delegate Watts)**
- **HB 468 (Delegate Albo)**
- **HB 873 (Delegate Rust)**

HB 421 as Introduced

- **Establishes a new methodology for calculating the composite index of local ability-to-pay using five "wealth" indicators:**
  - **Tangible personal property tax relief reimbursement**
  - **Total value of real estate adjusted by cost-of-competing**
  - **Local 1% sales tax revenue**
  - **Assessed value of personal property taxed by locality**
  - **Revenue collected from lodging, cigarette, and meals taxes.**
- **As introduced, HB 421 does not assign any weights to the five wealth indicators used, so the five calculated ratios for each division (based on the local to statewide values) were added without applying weighting percentages:**
  - **Ratio 1 + Ratio 2 + Ratio 3 + Ratio 4 + Ratio 5**

HB 421 as Introduced

- **The current composite index methodology assigns the following weights to the three wealth indicators used:**
  - **0.50 x True Value of Property**
  - **0.40 x Adjusted Gross Income**
  - **0.10 x Taxable Retail Sales**
- **By not weighting the wealth indicators, HB 421 results in composite indices that exceed the 0.8000 cap for all but four divisions.**
- **Currently, only 10 divisions have a 0.8000 composite index.**
- **The estimated state savings from using the HB 421 composite index methodology, as introduced, is approximately $2.8 billion in both fiscal year 2013 and fiscal year 2014.**

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HB 421 *(with Weights Applied)*

- **For purposes of illustrating the fiscal impact of applying weights to the wealth indicators in HB 421, as introduced, the Department of Education assigned each of the five wealth indicators used in HB 421 an equal weighting of 0.20.**

- **The estimated state fiscal impact from applying equal 0.20 weights to the five wealth indicators in HB 421 is a state savings of approximately $8.3 million in fiscal year 2013 and $5.5 million in fiscal year 2014. The funding impacts vary across divisions.**

HB 421 *(with Weights Applied)*

- **Compared to the composite index used in HB30 (2012-14 Budget Bill), using equal weights of 0.20 for each of the five wealth indicators results in a lower composite index for 83 school divisions and a higher composite index for 48 divisions. Five school divisions' composite indices would remain unchanged.**
- **A significant impact from applying these weights to HB 421 comes from including the revenue collected from lodging, cigarette, and meals taxes.**
- **34 of the 41 cities and towns have lodging, cigarette, and meals tax values that are greater than the statewide average.**

HB 421 *(with Weights Applied)*

- **Conversely, only 9 of the of the 95 counties have lodging, cigarette, and meals tax values that are greater than the statewide average.**
- **Consequently, weighting the wealth indicators in HB 421 <u>increases</u> state funds to <u>counties and towns</u> by approximately $284.9 million in fiscal year 2013 and $286.9 million in fiscal year 2014.**
- **Weighting the wealth indicators in HB 421 <u>decreases</u> state funds to <u>cities</u> by approximately $294.4 million in fiscal year 2013 and $293.6 million in fiscal year 2014.**
- **Overall, the estimated state share of savings resulting from weighting HB 421 is approximately $13.8 million for the biennium based on HB30.**

HB 468

- HB 468 uses the same three wealth indicators recognized by the current composite index formula.
  - True Value of Property
  - Adjusted Gross Income
  - Taxable Retail Sales
- However, it proposes using a five-year average of each wealth indicator, rather than one year of data.
- It also proposes reducing the current composite index cap of 0.8000 by 0.0200 each fiscal year, until a new cap of 0.6000 is reached.

HB 468

- Under the current methodology, the composite index is updated once every two years. For purposes of this fiscal impact, DOE used the data available from the last five composite index calculations; or each of the last 5 odd years.

- For the 2012-2014 biennium, the estimated state share of savings to reduce the composite index cap from 0.8000 to 0.7800 in fiscal year 2014 based on a five-year average of each wealth indicator is approximately $48.4 million based on HB 30 as introduced.

HB 468

- When fully implemented, HB 468 lowers the composite index cap to 0.6000.
- Based on a composite index cap of 0.6000, the estimated state share of cost is $181.3 million for fiscal year 2013 and $181.8 million for fiscal year 2014 based on HB 30 as introduced.
- Similar to other state funding formulas, such as the Standards of Quality Prevention, Intervention and Remediation program, the use of multiple years' worth of data could mitigate the fluctuations that arise from the use of one years' worth of data.

HB 873

- **Lowers the maximum composite index from 0.8000 to 0.5000 over the course of six biennia in 0.0500 increments, beginning in the 2014-2016 biennium.**

- **HB 873 references that *"(iii) at no time shall the minimum Composite Index of 0.2000 be raised.*"**

- **Currently, no minimum composite index exists. Based on the 2012-2014 composite index calculation, 3 divisions have composite indices below 0.2000**

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HB 873

- For purposes of this fiscal impact, DOE assumed that this bill would establish a minimum composite index requirement of 0.2000.
- The composite indices of Lee County, Scott County, and Buena Vista City were raised to 0.2000.
- For the 2014-2016 biennium, the maximum composite index would be reduced from .8000 to 0.7500.
- Using HB 30 as a proxy, the estimated state share of cost to fund the composite index cap of 0.7500 is approximately $14.6 million in fiscal year 2013 and $14.9 million in fiscal year 2014. This cost is somewhat offset by the minimum 0.2000 composite index assumed.

HB 873

- **When final implementation of HB 873 occurs in the 2024-2026 biennium, the maximum composite index would be reduced from 0.8000 to 0.5000.**
- **Using HB 30 as a proxy, the estimated state share of cost to fund the composite index cap of 0.5000 is approximately $357.2 million in fiscal year 2013 and $363.0 million in fiscal year 2014.**