

**Department of Planning and Budget
2012 Fiscal Impact Statement**

1. Bill Number: HB468

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: Albo

3. Committee: Appropriations

4. Title: Public school funding; LCI calculation.

5. Summary: Public school funding; LCI calculation. Requires the Department of Education to adjust its calculation of the composite index of local ability-to- pay for public education by (i) reducing the maximum LCI of 0.80 by 0.02 each year for a period of 10 years and (ii) using the average of true value of real property, adjusted gross income, taxable retail sales, average daily membership, and total population over the preceding five-year period in calculating the LCI.

6. Budget Amendment Necessary: Yes. If the methodology for the composite index calculation is modified and capped pursuant to this legislation, the budgeted values contained in Item 139 of House Bill 30 (HB 30) would need to be revised accordingly.

7. Fiscal Impact Estimates: Preliminary. See item 8.

8. Fiscal Implications: This legislation proposes to lower the cap on composite index values for localities from .8000 to .6000 over a period of ten years, and also modifies the current methodology to use a five-year average for each data input rather than one year.

Some of the data elements used to develop the composite index are generally collected every other year, not annually. As a result, the five-year averages used to develop this estimate were based on the previous five rebenchmarking data points. Base year data from the 2004, 2006, 2008, 2010, and 2012 rebenchmarking periods were used as a proxy for the previous five years, since the data for each of the previous five years was not readily available.

Pursuant to the legislation, the composite index values for each division were recalculated using the five-year averages for each data input and then the cap was lowered beginning in fiscal year 2014 from .8000 to .7800. These actions resulted in a state savings of approximately \$48.4 million in fiscal year 2014, based on the Governor's introduced budget (HB 30). The reason this resulted in a savings is because using a five-year average for the data inputs more than offset the cost of lowering the cap. This would only occur in the first few years of the 10-year period to reduce the cap to .6000. After the first few years, this legislation would result in a significant cost to the state.

An estimate was also developed to demonstrate the ultimate fiscal impact of this bill based on the final composite index cap of .6000. This estimate was based on the same assumptions listed above, but capped the composite index at .6200 and .6000 in fiscal years 2013 and 2014 as proxies for the final two years of the 10-year period. The estimated state cost to reduce the composite index cap to .6200 is \$140.1 million in fiscal year 2013 and \$181.8 million to reduce the cap to .6000 in fiscal year 2014, based on the Governor's introduced budget (HB30).

- 9. Specific Agency or Political Subdivisions Affected:** Department of Taxation, Department of Education, local governments, and local school divisions.
- 10. Technical Amendment Necessary:** Yes. The bill clearly stipulates that the phased reduction in the composite index cap should begin in fiscal year 2014 but no such date is referenced in the second provision regarding the use of a five-year average for each of the data inputs in the composite index calculation.
- 11. Other Comments:** Some of the data required to enact this legislation is currently unavailable and would need to be collected by the Department of Taxation, as well as local governments and school divisions. The cost associated with these changes has not yet been identified.

Date: 1/17/2012

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