

## Department of Planning and Budget 2015 Fiscal Impact Statement

**1. Bill Number:** HB1514

<b>House of Origin</b>	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
<b>Second House</b>	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron:** Minchew

**3. Committee:** Education

**4. Title:** Composite index of local ability-to-pay; use value of real estate in certain localities.

- 5. Summary:** The proposed legislation would require, for the purpose of determining the state and local shares of basic aid funding, that the local composite index (LCI) formula utilize the use value of all applicable real estate which has been placed by a locality in a use value program. The LCI measures a locality's ability to pay for the cost of public education and determines the share of the cost that a locality must contribute. Currently, the LCI formula utilizes fair market value, along with adjusted gross income and taxable retail sales.

The bill would apply to land devoted to agricultural use, horticultural use, forest use, and open-space use in each locality that has adopted an ordinance to provide for the use value assessment and taxation of certain real estate. In addition, the bill would apply to all applicable real estate used in agricultural and forestal production within an agricultural district, forestal district, agricultural and forestal district, or agricultural and forestal district of local significance in each locality that provides for the use valuation and taxation of such real estate, regardless of whether it has adopted a local land-use plan or local ordinance for such valuation and taxation.

**6. Budget Amendment Necessary:** Yes, Item 136.

**7. Fiscal Impact Estimates:** Preliminary. See Item 8.

- 8. Fiscal Implications:** Local governments do not specifically report the use values of land in use value programs to the Department of Taxation. Existing reports include the fair market value of land and the fair market value of taxable land. This fiscal impact assumes that the fair market value of taxable land represents the assessed value of land in use value programs.

Using this data from the Department of Taxation, the Department of Education calculated a total true value of real estate for each locality in Virginia based on use values. This value replaced the fair market value in the current LCI calculation, and impacts the LCI value for most divisions. The revised composite index was then applied to every school division.

The changes to the LCI for FY 2016 would create an overall state general fund cost increase of \$1.9 million. Individual localities would have increases or decreases, depending on how

the LCI change impacted the amount of their required local share. Since the LCI is a measure of a locality's ability to pay for the cost of public education, utilizing the use value will lower the property values in the participating localities and reduce their required share. Urban localities and rural localities which minimally participate in a use value program would see their local match amount rise, since the LCI is based on each locality's share of the total state value.

Seventy divisions would see a decrease in their LCI value (resulting in increased state funds), and 58 divisions would see an off-setting increase (resulting in decreased state funds).

The LCI is recalculated at the beginning of each biennium. For the FY2016-2018 biennium, the LCI will be based on different land values than were used to determine the FY2016 fiscal impact. Therefore, the fiscal impact in future years cannot be determined at this time.

**9. Specific Agency or Political Subdivisions Affected:** Department of Education, Department of Taxation, local school divisions

**10. Technical Amendment Necessary:** None.

**11. Other Comments:** While the bill notes that the adjusted composite index should be applied to basic aid funding, this fiscal impact is based on all state K-12 funding that is distributed based on the LCI.

**Date:** 1/23/2015 dpb/smc

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