

**Department of Planning and Budget  
2007 Fiscal Impact Statement**

1. **Bill Number** SB1243

**House of Origin**     Introduced     Substitute     Engrossed

**Second House**     In Committee     Substitute     Enrolled

2. **Patron**        Herring

3. **Committee**    Education and Health

4. **Title**            Composite index of ability to pay.

5. **Summary/Purpose:** Authorizes each locality whose K through 12 student membership growth has exceeded five percent for any two of the three most recently ended years to elect to have its composite index of local ability to pay reduced by 10 percent for the current year. The locality would receive its state share of basic aid based on the reduced composite index, and the additional amount required for the state share for basic aid would be paid from general fund dollars of the Commonwealth that are not otherwise designated for public education.

6. **Fiscal Impact Estimates are:** See Item 8.

7. **Budget amendment necessary:** Yes.

8. **Fiscal implications:** This legislation requires that school divisions experiencing September 30<sup>th</sup> fall membership growth exceeding five percent in any two of the three most recently ended years be given the option for a ten percent reduction to the composite index for that locality in the current year. Essentially, this legislation would provide additional funding to qualifying school divisions. The method proposed in the bill for calculating eligibility for this reduction necessitates that it be calculated on an annual basis. A school division could experience a five percent growth in fall membership in one of the two most recent years, which would make it ineligible for a reduction in the current year but the division could become eligible next year if it experiences another year of five percent growth.

This legislation creates an unknown liability in out years because school divisions that do not qualify this year could become eligible next year. In addition, due to the requirement that eligibility be calculated using September 30<sup>th</sup> fall membership for the current year, qualifying school divisions would not receive the additional funds until passage of a state budget in the spring of the current fiscal year, leaving only a few months to spend the money.

Currently, only one school division (Loudoun) qualifies for the reduction. Loudoun has experienced five percent growth in September 30<sup>th</sup> fall membership in each of the past two years, making it eligible for the reduction in both fiscal years 2007 and 2008. As a result, the Department of Education estimates that this legislation would result in an additional general fund cost of \$16.1 million in FY 2007 and \$17.2 million in FY 2008. In addition, there are

six school divisions, excluding Loudoun, that have experienced one year of five percent growth in September 30<sup>th</sup> fall membership in one of the past two years. If any or all of these school divisions experience a five percent growth in fall membership based on the September 30, 2007, data collection, they would become eligible for the reduction in FY 2008, resulting in an additional general fund cost to the Commonwealth. This cost cannot be estimated at this time because it is unknown which school divisions, if any, will become eligible for the reduction.

These cost estimates reflect the increased state share for Basic Aid only based on the reduced composite index for the eligible division; all other accounts were held at the amounts included in the Governor's Amended Budget (HB 1650/SB 750).

All estimates assume that the increased Basic Aid appropriation for eligible school divisions was from general funds, and thus does not reflect any transfers from lottery.

**9. Specific agency or political subdivisions affected:** Direct Aid to Public Education, local school divisions.

**10. Technical amendment necessary:** No.

**11. Other comments:** None.

**Date:** 1/15/07 / SHD

**Document:** G:\FIS\2007 Session\SB1243.doc