

## Department of Planning and Budget 2016 Fiscal Impact Statement

1. **Bill Number:** HB191

**House of Origin**     Introduced     Substitute     Engrossed  
**Second House**     In Committee     Substitute     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:** Requires, for the purpose of determining the state and local shares of basic aid funding, that the composite index of local ability-to-pay or "local composite index" utilize the use value of all applicable real estate (i) devoted to agricultural use, horticultural use, forest use, and open-space use in each locality that has adopted an ordinance by which it provides for the use valuation and taxation of such real estate and (ii) 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 139.

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

8. **Fiscal Implications:** The proposed legislation seeks to alter the input data used to compute the local composite index (LCI). If enacted, land use values would replace the true value of property in the LCI formula. The proposed legislation would require corresponding budget amendments, as the appropriation act requires use of "true values", as reported by the Department of Taxation, to compute composite indices.

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.

There is likely to be a state impact resulting from this legislation, but the impact is variable. If enacted, the Department of Education estimates an additional state cost of \$136,660 in FY17 and an estimated state savings of \$293,103 in FY18. The impact will be primarily at the local level, with the magnitude directly correlated to the size of the school division and the change in each division's local property value relative to the revised statewide average based on

using land use values. 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. Utilizing land use values in the LCI formula results in both positive and negative funding distribution changes at the division level.

The impact to the Department of Education would be minimal and can be absorbed within existing resources. Regardless of which data point is used, the Department of Taxation would continue to provide the input data, and the Department of Education would follow the same steps to compute the indices. The Department of Education Budget Office would need to update all relevant publications to reflect the change in input data.

**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.