

## Department of Planning and Budget

### 2022 Fiscal Impact Statement

**1. Bill Number:** HB1164

<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:** Runion

**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 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 137 of HB/SB 30.

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

**8. Fiscal Implications:** Item 137.A.4.a. of HB/SB 30, 2022 General Assembly Session, prescribes the methodology for calculating the Composite Index of Local Ability-to-Pay, or local composite index (LCI). As prescribed, the Department of Education (DOE) calculates LCI using three indicators of a locality's ability to pay: 1) true value of real property, 2) adjusted gross income, and 3) taxable retail sales. This bill would replace the true value of real property with the use value of real estate, as applicable. To change the LCI formula, a corresponding budget amendment is necessary.

The Department of Education estimates an additional state cost of \$7.7 million in FY 2023 and \$6.8 million in FY 2024 to replace the true value of real estate with the use value of all applicable real estate. The fiscal impact to individual school divisions varies depending on the variance between a locality's true value of real property and its land use value of real property. DOE's estimated net increase in state cost reflects an increase in state funding to counties of approximately \$28.5 million in FY 2023 and \$26.9 million in FY 2024, and a reduction in state funding to cities and towns of approximately \$20.7 million in FY 2023 and \$20.1 million in FY 2024.

Additionally, the LCI changes would impact divisions' local effort and local match requirements since a division's LCI determines the split between state and local responsibility for education costs.

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

**10. Technical Amendment Necessary:** No

**11. Other Comments:** None