

Revised Local Composite Index

FY 2018-2019 Budget Work Session #1



State – Local Shares of Costs

- The General Assembly is responsible for apportioning the cost of the SOQ programs between the state and localities.
- Most state funding for school divisions is equalized or adjusted for local ability to pay education costs.
- Local ability to pay is determined by the Composite Index of Local Ability-to-pay formula.
- The composite index is used to determine each division's state and local shares of cost for the Standards of Quality (SOQ) and other Direct Aid programs.

Composite Index Formula

- The General Assembly establishes the composite index formula in the Appropriation Act.
- The formula uses three indicators to estimate "ability-to-pay" for each locality:
 - ✓ True value of real property in the locality (weighted 50%)
 - ✓ Va. adjusted gross income in the locality (weighted 40%)
 - ✓ Taxable retail sales in the locality (weighted 10%)
- To account for varying sizes of localities, each indicator is expressed on a per capita basis (using local population & weighted 1/3) and on a per pupil basis (using student enrollment & weighted 2/3).
- The index value for each locality is the proportion of local values in the formula relative to the overall state averages.

Composite Index Formula

- Each index is adjusted to establish across all divisions an overall local share of 45 percent and an overall state share of 55 percent.
- The formula is recomputed each biennium using recent data available – the indices for 2018-2020 are based on **2015** data.
- The index value represents the local share of costs (inverse is state share) – for example, an index of 0.7500 = 75% local share / 25% state share.



Composite Index of Local Ability-to-Pay Formula

ADM Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local ADM}}}{\frac{\text{State True Value of Property}}{\text{State ADM}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}}}{\frac{\text{State Adjusted Gross Income}}{\text{State ADM}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}}}{\frac{\text{State Taxable Retail Sales}}{\text{State ADM}}} \right]$$

Population Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local Population}}}{\frac{\text{State True Value of Property}}{\text{State Population}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}}}{\frac{\text{State Adjusted Gross Income}}{\text{State Population}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}}}{\frac{\text{State Taxable Retail Sales}}{\text{State Population}}} \right]$$

Local Composite Index =

$$((.6667 \times \text{ADM Component}) + (.3333 \times \text{Population Component})) \times 0.45 \text{ (average local share)}$$

Revised Composite Index Formula for Pulaski County

- Pulaski's Local Composite Index for the 2016-2018 biennium has been 0.3105
- The revised Local Composite Index for Pulaski for 2018-2020 is 0.3192
- The variance between these two numbers is +0.0087.

Comparison With Surrounding Localities

Locality	2016-2018	2018-2020	LCI Variance
<i>Pulaski</i>	<i>0.3105</i>	<i>0.3192</i>	<i>+0.0087</i>
Bland	0.3002	0.3070	+0.0068
Carroll	0.2722	0.2727	+0.0005
Floyd	0.3402	0.3337	(0.0065)
Giles	0.2740	0.2779	+0.0039
Montgomery	0.3832	0.3920	+0.0088
Radford	0.2512	0.2429	(0.0083)
Wythe	0.3122	0.3146	+0.0024
Roanoke County	0.3587	0.3620	+0.0033
Salem	0.3704	0.3715	+0.0011

Trend Analysis of LCI Formula Components

True Value of Real Estate Component

- The true value of real estate is estimated by the Virginia Department of Taxation as part of an annual real property Assessment/Sales Ratio Study.
- The Study estimates the existing assessment/sales ratio for each locality by comparing assessed values to the selling prices of bona fide sales of real property.
- A locality's total fair market value of real estate, divided by its assessment/sales ratio, produces an estimate of the locality's true value of real estate.

True Value of Real Estate Component

- The base year for the 2016-2018 LCI was 2013 and the 2018-2020 uses 2015 as the base year.
- In 2013, the total fair market value of real estate reported for Pulaski was \$2,861,663,700. In 2015, the total fair market value of real estate was reported as \$2,667,240,300 for a decrease of (6.79%).
- However, in 2013, the median assessment/sales ratio was 107.07% and in 2015 it had decreased to 94.82%.

True Value of Real Estate Component

- When the fair market value of real estate is divided by the median assessment/sales ratios, it resulted in an increase in true value of real estate from 2013 to 2015.
- 2013: $\$2,861,663,700 / 1.0707 = \$2,671,954,902$
- 2015: $\$2,667,240,300 / .9482 = \$2,812,951,171$
- In addition, the true value of public service corporations (\$142,372,983) is added for a Total Estimated True Value of \$2,955,324,154.
- True value also does not account for tax relief and tax deferral programs (i.e. land use) that are in place for each locality.

Impact of Revised Local Composite Index

- The financial impact of the higher LCI on Pulaski will be a decreased share of state funding for the 2018-2020 biennium.
- The amount of state revenue loss may be somewhat mitigated by the SOQ rebenchmarking that will occur for the next biennium.
- The projected state revenue loss cannot be known at this time until the Governor's proposed biennial budget is released in December along with local calculation tools by the VDOE Budget Office.