



FY 2018 Recommended Budget Budget Question

Board Question #: 38

BUDGET QUESTION: How does the local composite index (LCI) work? Does offering incentives for economic development impact the composite index?

RESPONSE: Attached is information concerning the calculation of the LCI which is calculated as an indicator of a locality's ability to pay education costs associated with the Standards of Quality (SOQs) and is the way the State allocates the funding it has available for education purposes among the various localities of Virginia. The LCI measures the locality relative to statewide figures for true value of real property (50% weight), adjusted gross income (40% weight), taxable retail sales (10% weight), average daily membership (ADM¹), and population. Each locality's index is adjusted to maintain an overall average statewide local share of 45% and an overall average state share of 55%.

Please note that the true value of real property is estimated by the Virginia Department of Taxation (DOT) as part of annual Assessment/Sales Ratio studies. The DOT calculates true value of real estate by dividing a locality's full assessed value by its assessment/sales ratio based on a sample of sales. True value does not account for tax relief and tax deferral programs (i.e. land use) that are in place in the localities as the LCI is meant to gauge the locality's ability to pay regardless of the choices it makes to offer land use and tax relief programs.

Attachment A is a display of the calculation provided by the Virginia Department of Education.

Attachment B shows the calculation for Spotsylvania for the 2016 – 2018 biennium during which the LCI is 0.3617, meaning that Spotsylvania's share of the costs of the SOQs is 36.17%. The 2016 – 2018 calculation uses data from 2013 for all variables except ADM. This calculation uses the March 2014 ADM.

Offering incentives does not impact the composite index calculation itself. However, in concept, if a locality chooses to offer programs such as tax relief for the elderly and disabled, land use programs, veteran's exemptions, economic development incentives, and the like, those programs decrease the funding that, all else being equal, would otherwise be available to fund the locality's share of SOQs and other public expenditures. Those are choices that the locality makes.

For FY 2018, the estimated revenue that will not be received as a result of tax relief and deferral programs is as follows:

¹ ADM is calculated by the aggregate membership of all students during the school year divided by the number of days school is in session. ADM is different than enrollment.

FY 2018 Recommended Budget
Budget Question

Program	Revenue Not Received
Tax Relief for the Elderly & Disabled	\$1,090,709
Tax Deferrals (Land Use)	\$3,307,815
Veterans Exemptions	\$761,016
Total Deferrals/Exemptions	\$5,159,540

Additionally, incentive payments to be made to the mall, LIDL and other previously approved entities are expected at \$645,000 in FY 2018. The County does not incentivize real estate taxes, so none of the \$400,000 incentives anticipated to be due LIDL in FY 2018 are incentives tied to real estate.

COMPOSITE INDEX OF LOCAL ABILITY-TO-PAY FORMULA

Average Daily Membership (ADM) Component =

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

Population Component =

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

Final Composite Index =

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

088 - SPOTSYLVANIA		Division Number:				
Calculation of the 2016-2018 Composite Index for SPOTSYLVANIA		088				
Step 1 -- Calculation of the 2016-2018 Average Daily Membership Composite Index:						
$.5 \left[\frac{\text{Local True Values}}{\text{Local ADM}} \right] + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}} \right] + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}} \right]$		ADM Composite Index				
$.5 \left[\frac{\text{Statewide Total of Local True Values}}{\text{Total State ADM}} \right] + .4 \left[\frac{\text{Total State Adjusted Gross Income}}{\text{Total State ADM}} \right] + .1 \left[\frac{\text{Total Taxable Retail Sales}}{\text{Total State ADM}} \right]$		ADM Composite Index				
$.5 \left[\frac{\$15,361,805,574}{23,290} \right] + .4 \left[\frac{\$3,484,814,446}{23,290} \right] + .1 \left[\frac{\$1,475,776,919}{23,290} \right]$		ADM Composite Index				
$.5 \left[\frac{\$1,127,030,638,361}{1,229,334} \right] + .4 \left[\frac{\$244,849,986,081}{1,229,334} \right] + .1 \left[\frac{\$94,581,217,350}{1,229,334} \right]$		ADM Composite Index				
$.5 \left[\frac{\$659,599}{\$916,782} \right] + .4 \left[\frac{\$149,629}{\$199,173} \right] + .1 \left[\frac{\$63,366}{\$76,937} \right]$		ADM Composite Index				
$.5 \left[.7195 \right] + .4 \left[.7513 \right] + .1 \left[.8236 \right]$		ADM Composite Index				
.3598	+	.3005	+	.0824	=	.7427
Step 2 -- Calculation of the 2016-2018 Per Capita Composite Index:						
$.5 \left[\frac{\text{Local True Values}}{\text{Local Population}} \right] + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}} \right] + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}} \right]$		Per Capita Composite Index				
$.5 \left[\frac{\text{Total Local True Values}}{\text{State Population}} \right] + .4 \left[\frac{\text{Total State Adjusted Gross Income}}{\text{State Population}} \right] + .1 \left[\frac{\text{Total Taxable Retail Sales}}{\text{State Population}} \right]$		Per Capita Composite Index				
$.5 \left[\frac{\$15,361,805,574}{125,555} \right] + .4 \left[\frac{\$3,484,814,446}{125,555} \right] + .1 \left[\frac{\$1,475,776,919}{125,555} \right]$		Per Capita Composite Index				
$.5 \left[\frac{\$1,127,030,638,361}{8,260,405} \right] + .4 \left[\frac{\$244,849,986,081}{8,260,405} \right] + .1 \left[\frac{\$94,581,217,350}{8,260,405} \right]$		Per Capita Composite Index				
$.5 \left[\frac{\$122,351}{\$136,438} \right] + .4 \left[\frac{\$27,755}{\$29,641} \right] + .1 \left[\frac{\$11,754}{\$11,450} \right]$		Per Capita Composite Index				
$.5 \left[.8968 \right] + .4 \left[.9364 \right] + .1 \left[1.0266 \right]$		Per Capita Composite Index				
.4484	+	.3746	+	.1027	=	.9257

Step 3 -- Combining of the Two 2016-2018 Indices of Ability-to-Pay:

$$(.6667 \times \text{ADM Composite Index}) + (.3333 \times \text{Per Capita Composite Index}) = \text{Local Composite Index}$$

$$(.6667 \times .7427) + (.3333 \times .9257) = \text{Local Composite Index}$$

$$.4952 + .3085 = \text{Local Composite Index}$$

Step 4 -- Final Composite Index (adjusted for nominal state/local shares)

$$(.4952) \times 0.45 = \mathbf{.3617}$$

Input Data:	
Source Data Used in the Calculation:	
School Division:	SPOTSYLVANIA
Local True Value of Property	\$15,361,805,574
Local AGI	\$3,484,814,446
Local Taxable Sales	\$1,475,776,919
Local ADM	23,290
Local Population	125,555
State True Value of Property	\$1,127,030,638,361
State AGI	\$244,849,986,081
State Taxable Sales	\$94,581,217,350
State ADM	1,229,334
State Population	8,260,405

EXCEPTIONS:

*Please note the following exceptions to the standard composite index calculation as specified in the appropriation act (see actual appropriation act language under the tab labeled "Appropriation Act Language"):

1) For those divisions in which three percent or more of the adjusted gross income is derived from individuals who are not residents of Virginia, the Department of Education shall compute the composite index for such localities by using adjusted gross income data which exclude nonresident income. School divisions are no longer required to submit a certification form requesting the exclusion of nonresident AGI.

2) Any division with a calculated composite index that exceeds .8000 is considered as having an index of .8000;

3) Under hold harmless provisions addressing the consolidation of school divisions contained in the appropriation act and Section 15.2-1302, *Code of Virginia*, the composite indices to be used for funding in the 2016-2018 biennium for the following divisions are:

Alleghany County: .2423 (the index approved effective July 1, 2004); the 2016-2018 composite index for Alleghany County calculated based on the data elements from base-year 2013 is shown above as .2567. This lower composite index of .2423 will be used for Alleghany County.

Bedford County: .3132 (the index approved effective July 1, 2013); the 2016-2018 composite index for Bedford County calculated based on the data elements from base-year 2013 is shown above as .4127. This lower composite index of .3132 will be used for Bedford County.