

Watts – HB 2198
Presentation to Joint Subcommittee on
Elementary & Secondary Education Funding
September 14, 2009

The Composite Index is based on 50% Adjusted Gross Income / 40% average Real Estate value / 10% Sales Tax collections as measured for each jurisdiction two years earlier.

1. 50% Adjusted Gross Income does not reflect local authority to raise revenue.
 - The Real Estate Tax is the principal way counties (and to a lesser extent cities) have to fund local needs. As communities age, the assessed house value is less and less reflective of the current income of many homeowners.
2. 50% Adjusted Gross Income is volatile.
 - Jurisdictions who were hardest hit by the Dot.com bust were further penalized by having their Composite Index increased reflecting the boom of two years earlier. In the current economy, jurisdictions who have sharp drops in employment may be similarly effected.
3. Cost to Compete is virtually negated by the effect of 50% Adjusted Gross Income.
 - Cost to Compete is supposed to be an adjustment for cost-of-living. The higher the Cost-of-Living, the higher the average Adjusted Gross Income. By running Cost to Compete through the Composite Index, my jurisdiction ends up with just 2% ; in contrast, State Police get over 22% when they are assigned to Northern Virginia.
4. J-LARC recommended Composite Index use Median not Average Real Estate Tax.
 - For jurisdictions with a wide-range of high and low income residents, high end values jack-up the average, which does not reflect the bulk of the residents ability-to-pay increases in real estate tax.
5. There is no longer a balance between Composite Index and Per Pupil support.
 - After Court decisions that no child's basic education should be undercut because they lived in a poor locality, Virginia struck a balance of essentially 50/50 for local/state funding. That is now 80/20 with much of the per pupil state funding coming from distribution of 1-cent of the state sales tax.
6. Need
 - Fairfax County has larger class sizes at every grade level from kindergarten through high school than all but 25% of the other school divisions in the Commonwealth. In addition, English is not the first language of over 11% of our students; we are in the midst of a growth spurt requiring constructing a classroom a day; and throughout the decade of the 1960's we also built a classroom a day all of which require major safety related renovations.
(FYI: Our FY2010 R.E. tax is \$1.04 and 54% of the County Budget goes to schools. 12% of our school comes through the SOQ and 6.9% through the state sales tax per pupil disbursement.)
7. Fairness
 - **Either change the Composite Index to reflect actual ability-to-pay based on the authority to tax given to cities and counties or equalize the authority to tax.**

HB 2198 reflects actual ability-to-pay based on local revenue from

- (i) car tax reimbursement,
- (ii) real estate values adjusted by the index for state employee pay differentials,
- (iii) median value of real estate,
- (iv) local retail sales tax,
- (v) personal property tax (principally on businesses),
- (vi) lodging tax,
- cigarette tax, and
- meals tax.

For each jurisdiction, actual revenue from these sources per school child is given twice as much weight as actual revenue per capita.

