

Presented to Senate Finance
Subcommittee on Education

Overview of the Division Consolidation Incentive in SB 800

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History of Budget Language

- Language on the division consolidation incentive in SB 800 as introduced (Item 139 A.4.c.1) is shown as an appendix.
- The original language was adopted at the 1982 Session effective with the 1982-84



January 24, 2013

History of Budget Language

- The original language allowed Basic Aid to be paid during the biennium to the consolidated division on the basis of a composite index (CI) determined by the BOE not less than the lowest CI of the individual divisions consolidating.



History of Budget Language

- The language has been amended several times in subsequent Sessions - key changes over the years include:
 - consolidations may include only the divisions themselves or the local governments;
 - the CI determined by the BOE must also not be higher than the highest CI of the divisions consolidating;



History of Budget Language

- **incentive provided for 5 years for consolidations of local governments;**
- **Gov. must approve the CI determined by the BOE prior to payment of state funds;**
- **annual reporting to SFC/HAC on the CI's approved;**



History of Budget Language

- **consolidation of local governments includes city to town status;**
- **incentive applies to all Direct Aid payments (not just SOQ) and interest rate on Literary Fund loans;**
- **lengthened the incentive from 5 to 15 years; and,**



History of Budget Language

- specified that the CI determined by the BOE be the lowest of the divisions consolidating.

Past Consolidations – Halifax/So. Boston

- South Boston City reverted to town status within Halifax Co. effective 7/1/95.
- Act provided for state funding using a CI not “...less than the lowest nor higher than the highest” approved by BOE and Gov.
- BOE and Gov. approved the lower Halifax CI of .2380 for funding (vs. the South Boston CI of .2752).

Past Consolidations – Halifax/So. Boston

- Initial state cost in FY96 was \$156,512; significantly higher later as state funding increased and incentive applied to all Direct Aid funding.
- Incentive duration was 5 years at the time, but amendments to the Code and Act during 2000-2002 lengthened it to 15 years so that Halifax received the lower CI from FY96-FY10.

Past Consolidations – Alleghany Co./Clifton Forge

- Clifton Forge City reverted to town status within Alleghany Co. effective 7/1/01.
- Act provided for state funding using a CI not “...less than the lowest nor higher than the highest” approved by BOE and Gov. and in effect for 15 years.
- BOE and Gov. approved a “blended” CI for funding of .3128, calculated by combining the respective data elements for Alleghany and Clifton Forge in the CI formula.
 - Fiscally neutral option at the time.

Past Consolidations – Alleghany Co./Clifton Forge

- Impact of the .3128 CI was a state savings of \$3,164 in FY02.
- Alleghany Co. later requested the BOE reconsider its earlier decision and the Board and Gov. subsequently approved the lower Clifton Forge CI of .2423 for funding effective FY05 (state cost of approx. \$350,000 per year).

Past Consolidations – Alleghany Co./Clifton Forge

- Act language was adopted making the effective year FY05 for the revised .2423 CI, so the 15-year incentive period is FY05-FY19.
- However, the 2012-14 CI calculated for Alleghany is lower at .2297; per the Act, Alleghany is funded on that CI for the current biennium.

Bedford Consolidation

- **Effective July 1, 2013, Bedford City will revert to town status within Bedford Co., resulting in consolidation of the respective school divisions.**
- **Per Item 139 A.4.c.1) in SB 800, the consolidated division is provided state funds based on the lower of the two CIs for a period of 15 years.**

Bedford Consolidation

- **2008 – Bedford City began reversion process to town status w/in Bedford Co.**
- **July 2012 – Comm. on Local Gov't. recommended approval.**
- **Sept. 2012 – City and Co. final approval.**
- **Dec. 2012 – approval by three-judge panel.**
- **Upon reversion on 7/1/13, the City school division is dissolved and the Co. school board responsible for public education countywide.**

Bedford Consolidation

- For FY14, the state cost of using Bedford City's CI to fund the consolidated division is \$6.2 million, which is funded in SB 800 as introduced.
 - Uses CI of .3132 instead of .4268 for state funding to Bedford Co.

Potential State Cost for Other Consolidations

- The FY14 state cost if the CI incentive is applied to three jointly-operated school divisions is \$4.4 million based on SB 800.
- It is not known what localities might pursue consolidation going forward.

Potential State Cost for Other Consolidations

- FY14 potential state cost of the incentive for jointly-op. divisions:

Jointly-Operating Divisions	FY14 Comp. Index (SB 800)	LOWER FY14 Comp. Index	Est. FY14 State Cost of Lower CI
Fairfax Co.	.6789	.6789	\$0
Fairfax City	.8000	.6789	\$2,424,356
Greensville Co.	.2174	.2174	\$0
Emporia City	.2594	.2174	\$305,636
James City Co.	.5628	.5628	\$0
Williamsburg City	.8000	.5628	\$1,688,657



Potential State Cost for Other Consolidations

- State cost of the incentive is driven by the size of the base of state funds (FY13 base for Bedford larger than FY96 base for Halifax), the size of ADM of the higher CI division, and the magnitude of difference in the CI's involved.



Potential State Cost for Other Consolidations

- Difference in CI and size of ADM impact cost:

Jointly-Operating Divisions	FY14 Comp. Index (SB 800)	CI Diff.	ADM of Div. Driving State Funds
Fairfax Co.	.6789	-.1211	
Fairfax City	.8000		3,035
Greensville Co.	.2174	-.0420	
Emporia City	.2594		1,033
James City Co.	.5628	-.2372	
Williamsburg City	.8000		1,047
Bedford City	.3132	-.1136	
Bedford Co.	.4268		9,326



Appendix

- The language on the division consolidation incentive is in Item 139 A.4.c.1) of SB 800 as introduced:

“c.1) In the event that two or more school divisions become one school division, whether by consolidation of only the school divisions or by consolidation of the local governments, which shall include the transition of a city to town status, all state payments from this item adjusted by the composite index of local ability to pay to such resulting division or interest rates on approved Literary Fund loans shall be made on the basis of a composite index established by the Board of Education, which shall equal the lowest composite index of any of the individual school divisions involved in such consolidation. In addition, the local share of state payments adjusted by the composite index shall also be based on the same lowest



Appendix

composite index of any of the individual school divisions involved in such consolidation. This index shall remain in effect for a period of fifteen years, unless a lower composite index is calculated for the combined division through the process for computing an index figure as set forth above. The Governor shall approve the composite index determined by the Board of Education prior to disbursement of funds under such index. The department shall report to the Chairmen of the House Appropriations and Senate Finance Committees the composite indices approved by the Governor and the board in the event this provision is implemented.

- 2) *In the case of the consolidation of Clifton Forge and Alleghany County school divisions, the fifteen year period for the application of a new composite index pursuant to paragraph c.1) above shall apply beginning with the fiscal year that starts on July 1, 2004.***



Appendix

- 3) *Pursuant to paragraph c.1) above, if the composite index of a consolidated school division is reduced during the course of the fifteen year period to a level that would entitle the school division to a lower interest rate for a Literary Fund loan than it received when the loan was originally released, the Board of Education shall reduce the interest rate of such loan for the remainder of the period of the loan. Such reduction shall be based on the interest rate that would apply at the time of such adjustment. This rate shall remain in effect for the duration of the loan and shall apply only to those years remaining to be paid.***

- 4) *In the case of the consolidation of Bedford County and Bedford City school divisions, the fifteen year period for the application of a new composite index pursuant to paragraph c.1) above shall apply beginning with the fiscal year that starts on July 1, 2013.***

