

Department of Planning and Budget
2026 General Assembly Session
State Fiscal Impact Statement

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ORIGINAL

Bill Number: HB1101

Patron: Hodges

Bill Title: Department of Education; local composite index school funding formula; data center revenue.

Bill Summary: Requires the Department of Education, in coordination with the Department of Taxation, no later than December 1, 2026, to revise the local composite index school funding formula to include as a factor in the calculation of required local effort any local revenue generated by any data center, as defined in relevant law, in the local school division, including real property taxes and business personal property taxes attributable to the operation of any such center, while also ensuring that no local school division that does not have such a data center is disadvantaged by any such revision. The bill requires the Department to submit such revised formula to the General Assembly no later than December 1, 2026, for approval pursuant to the general appropriation act enacted during any regular or special session during the 2026 calendar year before utilizing and making calculations according to the formula and provide that if the General Assembly grants such approval, the Department of Education shall apply such revised formula effective beginning with the 2028-2030 biennium.

Budget Amendment Necessary: No

Items Impacted: None

Explanation: There is no anticipated state fiscal impact to develop a revised formula as required by the bill. Any fiscal impact from implementation of the revised formula in future biennia is indeterminate. Any impact to local school divisions is indeterminate.

Fiscal Summary: See below.

Fiscal Analysis: This bill directs the Department of Education (DOE), in coordination with the Department of Taxation, to develop a revised formula for the composite index of local ability-to-pay. DOE can support the work to develop this formula with existing agency resources.

The Department of Taxation (TAX) can absorb any impact to work with DOE to develop a revised funding formula. In order to develop the funding formula, TAX would need to request that local governments provide the necessary data related to local revenue generated by data centers. Section 58.1-3, Code of Virginia, generally prohibits state and local tax officials from divulging tax information except as expressly authorized by law. TAX recommends an amendment to this bill to authorize localities to furnish the required data to TAX and to share such data with DOE.

The calculation of the local composite index is completed once biennially during the rebenchmarking process. The earliest that any requirements related to rebenchmarking calculations could be implemented is during the 2027 rebenchmarking process for the 2028-2030 biennium, which aligns with the direction in the bill. The

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calculation of the local composite index is directed in budget language, so a budget language amendment would be necessary to implement any revised formula once approved. The bill directs DOE to submit a formula by December 1, 2026; therefore, a budget amendment is not necessary in the current session and would be required to implement the change during the 2027 session or a later session of the General Assembly.

Any impact to state funding provided through Direct Aid to Public education in the 2028-2030 biennium is indeterminate and would depend on the actual funding formula developed, approval by the General Assembly, and additional rebenchmarking data for the 2028-2030 biennium. If the local composite index is revised, individual local school divisions may experience a change in their local composite index based on the updated calculations, and therefore, may experience a change in the amount of state funding provided through Direct Aid to Public Education.

Additionally, any change to local composite index calculations will impact divisions' local effort and local match requirements since a division's composite index determines the split between state and local responsibility for education costs. Local school divisions would have to provide the local share required to match any additional state funds received based on each division's updated local composite index. The actual fiscal impact to local school divisions in future biennia is indeterminate at this time.

Other: The bill directs that DOE submit a revised funding formula by December 1, 2026, for approval in the appropriation act enacted during the 2026 calendar year. It is likely that any revised formula would have to be approved by an appropriation act enacted during the 2027 calendar year.