

February 1, 2010

The Honorable Robert F. McDonnell
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd Floor
1111 East Broad Street
Richmond, Virginia 23219

Dear Governor McDonnell:

As Northern Virginia business organizations, we are very concerned about the provision in Governor Kaine's budget proposal for FY2010-2012 that freezes the FY 2011 Local Composite Index (LCI). In addition to the significant impact on local school funding for many of Northern Virginia's localities, we believe the arbitrary freezing of this long established school funding formula interjects tremendous uncertainty into the school funding process while raising new questions about fairness and trust as it relates to the use of funding formulas to distribute state funds across the Commonwealth.

We respectfully request that you submit a budget amendment rejecting the LCI freeze for FY11 proposed in former Governor Kaine's introduced budget.

Freezing the LCI for FY11 is not good public policy. Residential and commercial property values are a key driver of the LCI formula. Our localities have been hit with double digit reductions in taxable property values in both real property categories, significantly reducing their revenues absent a substantial tax rate increase. This is a loss of local revenues at a time when state funding to localities is also reduced as the state suffers its own revenue reduction. If the LCI is frozen in FY11, the counties of Fairfax, Loudoun and Prince William collectively will lose \$118 million in state funding even as they add 8,897 new students to their systems. At the same time, school divisions benefiting under this proposal will receive an additional \$114 million while collectively educating nearly 2,300 fewer children. There is no logic or fairness in reducing revenues to localities whose school systems are growing in favor of school systems losing students. The unprecedented proposal to freeze the LCI formula is a breach of trust to the families and businesses of Northern Virginia.

As you know, the LCI is the measure used to determine the state and local shares of K-12 education costs, and is based on data derived from local sources of revenue (adjusted gross income, taxable retail sales, and true value of real property). The LCI is routinely updated every two years to reflect fluctuations in each locality's tax revenue base. Several Northern Virginia localities have seen a significant loss in their tax base recently, particularly in real property values, and thus have a decreased "ability to pay" for K-12 education. Specifically, Fairfax County's LCI is scheduled to drop in the 2010-2012 biennium from .7650 to .7126, while Loudoun County drops from .6708 to .5854, and Prince William County drops from .4437 to .4036. Arlington County and Alexandria fall under a statutory cap and thus remain at .8000.

This change in the LCI is part of the routine distribution of education funding that occurs every two years, reflecting fluctuations in each localities tax base. Consequently, every biennium, some localities gain state funding while others receive less. By relying on an agreed upon formula, the state avoids the divisiveness of pitting school divisions against each other. While imperfect, the LCI has been the Commonwealth's accepted measure of local ability to pay for K-12 education for many years.

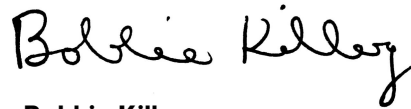
We hope you will act on this issue expeditiously by rejecting the LCI freeze for FY11. The proposal to freeze the composite index has thrown great uncertainty into the school funding process, leaving Northern Virginia and a significant number of other localities throughout the Commonwealth scrambling to adjust for potentially

massive and last minute changes. At the same time, we are concerned that the impact of the LCI freeze will harm the state's long term economic competitiveness and job growth potential by undermining the quality of education in the region that powers Virginia's economy. Ultimately, this will lead to lower state tax revenues overall. The long term health of Virginia's schools is critical to the Commonwealth's global competitiveness and our continued success in attracting new and expanding companies to Virginia. Freezing the LCI funding formula in FY11 is bad public policy for the Commonwealth of Virginia and bad for business.

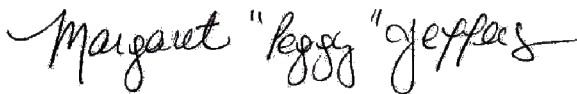
Thank you for your consideration.



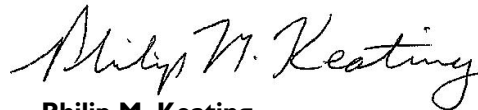
Donna Morea
Chair
Northern Virginia Technology Council



Bobbie Kilberg
President & CEO
Northern Virginia Technology Council



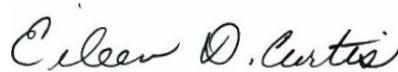
Margaret "Peggy" Jeffers
Executive Vice President
Apartment & Office Building Association
Of Metropolitan Washington



Philip M. Keating
Chairman of the Board
Arlington Chamber of Commerce



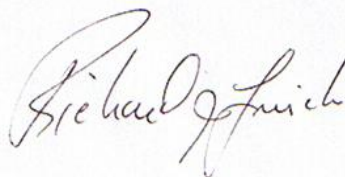
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Stuart Mendelsohn
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Chief Operating Officer & Interim CEO
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