

**A State Budget Opportunity to
Alleviate Local Fiscal Stress**

VML/VACO Finance Forum

Fiscal Analytics, Ltd.

January 6, 2020

Opportunities in the New 2020-22 State Biennium Budget

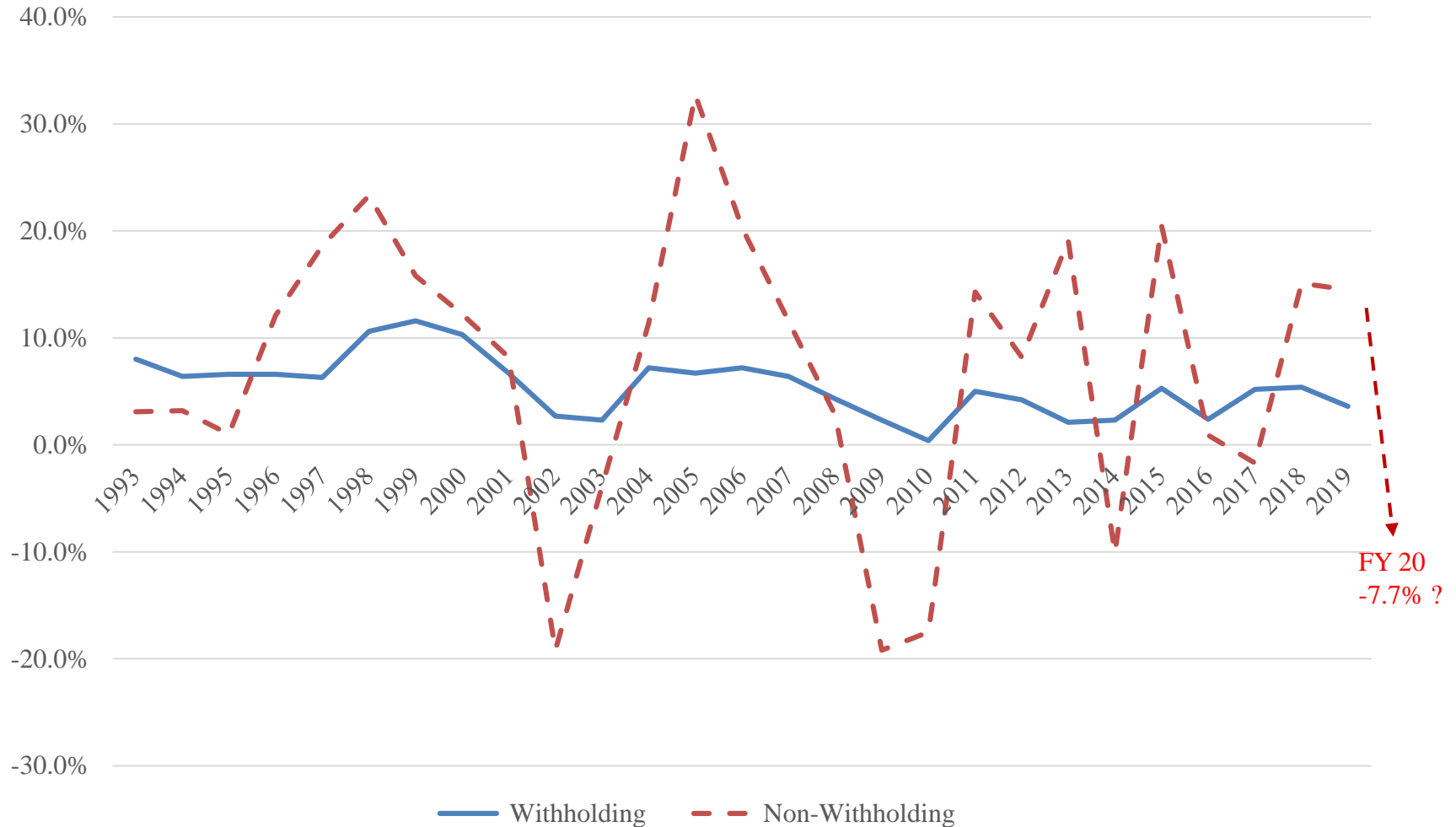
- New General Assembly leadership has a unique opportunity to help alleviate local fiscal stress:
 - FY 20 GF resources forecast to grow only 1.8% even with an improving FY 20 economic outlook, growing federal spending, and historic stock market growth. Net recent federal/state tax reforms also boost GF revenues.
 - Proposed \$1.9 bil. in total GF reserves (8% of GF) include \$1.3 bil. in *discretionary* GF reserves.
 - \$700 mil. in one-time FY 20 expenditures leaves structural balance for 2020-22 biennium.
 - \$200 mil. in “uncommitted” GF appropriations in introduced budget.
 - \$211 mil. (GF) reduction in GF Medicaid forecast for FY 20
 - Higher debt capacity also available

FY 2020 Revenue Forecast Appears Conservative

- *Introduced* expectations for FY 20 GF revenue growth are a modest 1.9%, even with a sound economy and the largest sources -- income tax withholding (4.7%) and sales taxes (6.0%) performing above trend.
 - Robust sales tax growth in FY 20 is the result of the new law requiring internet sellers to collect sales tax. Don't expect such high growth to continue into next biennium.
 - New federal budget through next year significantly increases defense/discretionary spending
- The wild card is income tax non-withholding (16.4% of the GF revenue forecast). FY 20 forecast expects *negative* 7.7% growth. This estimate is on the back of two very strong years of growth in both FY 18 (15.1%) and FY 19 (14.5%).
 - Approximately 55 percent of non-withholding is collected in Apr-Jun. Significant changes in taxpayer behavior this spring from recent federal and state tax changes could occur.
 - However, the stock market is up nearly 30 percent in 2019 and the possibility of strong capital gains could boost tax revenues above forecast.
- Underscoring the possibility of better FY 20 revenue growth is November YTD growth is 8.5 percent and XMAS sales appeared to be relatively strong.
- GF revenues could *decline* 1.7 percent the rest of the fiscal year and still make the introduced budget forecast of 1.9 percent.

Will Non-Withholding Income Tax Receipts Plummet as Forecast in FY 2020?

Annual % Growth Rate in Withholding and Non-Withholding Income Tax



Will FY 2020 GF Revenue Forecast Go Up?

	<u>FY 2020 Forecast</u>	<u>Forecast % Change</u>	<u>Growth Through November</u>	<u>Remaining Growth Needed for Forecast</u>
<i>Withholding</i>	\$13,591.9	4.7%	5.1%	4.4%
<i>Estimated Pay/Tax Dues</i>	\$3,669.6	-7.7%	20.3%	-13.9%
<i>Refunds</i>	<u>(\$1,976.6)</u>	<u>13.7%</u>	<u>12.3%</u>	<u>14.0%</u>
Net Individual Income	\$15,284.9	0.4%	6.7%	-3.2%
Sales Taxes	\$3,794.5	6.0%	8.8%	4.4%
Corporate Income	\$964.5	2.2%	28.3%	-6.3%
Recordation	\$437.6	13.2%	29.6%	1.8%
Insurance	\$409.1	7.1%	n/a	n/a
All Other Revenues	<u>\$813.9</u>	<u>3.2%</u>	<u>13.4%</u>	<u>-2.2%</u>
Total GF Revenues	\$21,704.5	1.9%	8.5%	-1.7%

Introduced 2020-22 Budget Has Healthy Revenue and Appropriation Growth

- GF resources available are forecast to rise 7.8 percent in the 2020-22 biennium over the 2018-20 biennium.
- General fund appropriations are expected to rise 9.1 percent in 2020-22.
 - Appropriations are budgeted to increase more than revenues because carryforward balances were not spent in the 2018-20 biennium.
 - Increasing revenues allow new debt capacity (from DCAC model) to increase from \$671 mil. to \$765 mil. per year.

	HB 29 Caboose	Introduced		
	<u>2018-20 Biennium</u>	<u>2020-22 Biennium</u>	<u>Change</u>	<u>% Change</u>
Balances	\$1,199,301,635	\$682,633,987	-\$516,667,648	-43.1%
Revenues	\$42,233,167,750	\$46,218,458,897	\$3,985,291,147	9.4%
Transfers	\$1,305,771,738	\$1,315,416,378	\$9,644,640	0.7%
Total GF	\$44,738,241,123	\$48,216,509,262	\$3,478,268,139	7.8%
GF Appropriations	\$44,175,244,379	\$48,202,803,233	\$4,027,558,854	9.1%

Revenues and Reserves in the 2020-22 *Introduced* Budget

- Assumes **additional GF revenues available for appropriation of \$3,478.3 mil.** in 2020-22 biennium versus the 2018-20 budget. \$48,216.5 mil. in 2020-22 biennium GF revenues includes:
 - \$682.6 mil. in unspent balances (primarily FY 19 surplus put into reserves/WQIF)
 - \$46,218.5 mil. in forecasted GF revenues
 - \$1,315.4 in transfers.
 - Revenue/Transfer growth of 4.3% in FY 21 and 3.6% in FY 22
- **Equals \$2.7 bil. GF in 2020-22 appropriations above FY 2020 base.**
- \$95 mil. to RDF deposits and \$300 mil. to FY 22 revenue reserve
- \$200 mil. in “uncommitted” appropriations
- Proposing \$250 mil. in additional tobacco tax (30c per pack increase) to health care and \$125 mil. from “games of skill” proposed revenue to K-12.
- Transportation tax changes also proposed.

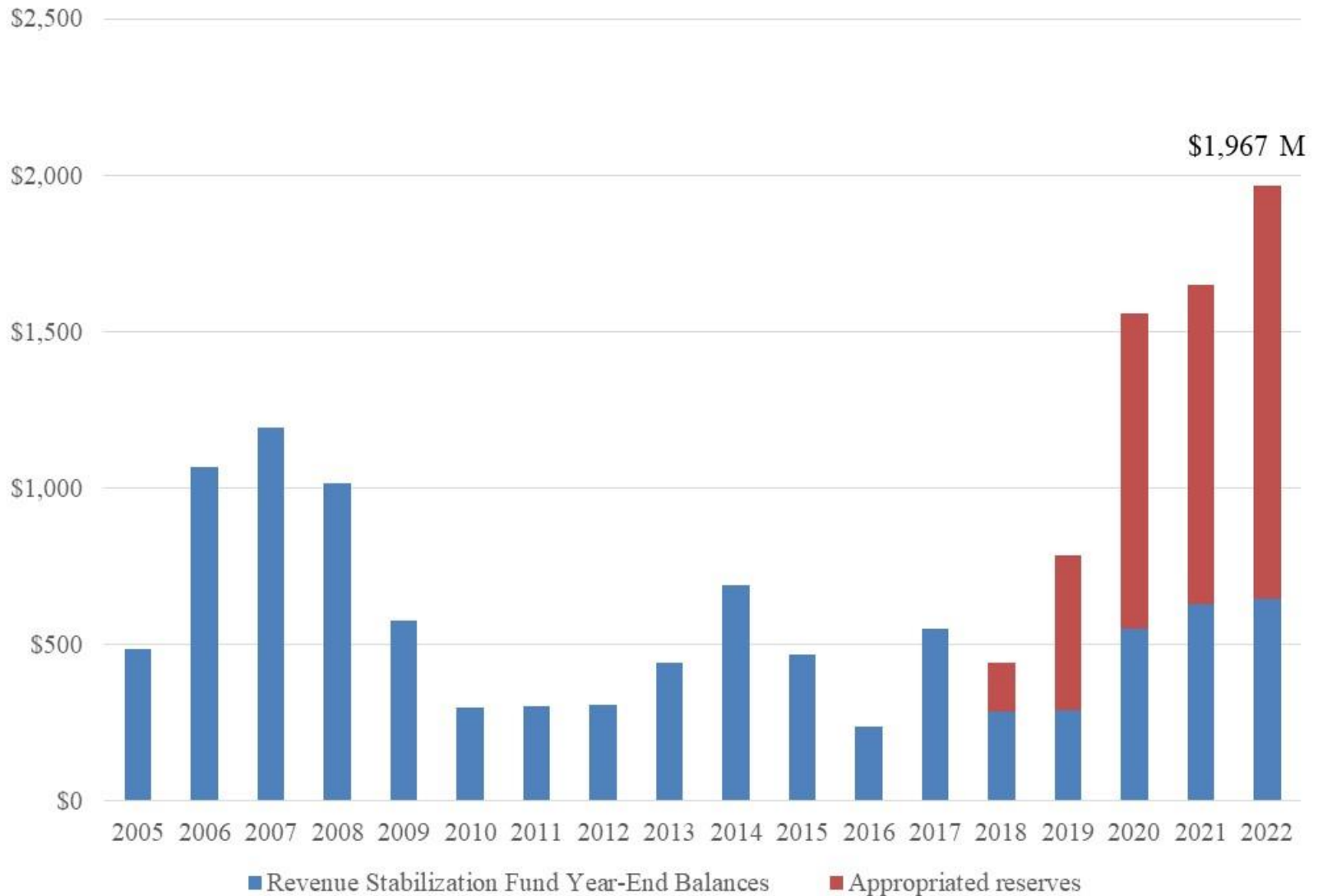
Normal GF Growth Expected in FY 2020-22

	<u>FY 2020</u>	<u>% Change</u>	<u>FY 2021</u>	<u>% Change</u>	<u>FY 2022</u>	<u>% Change</u>
<i>Withholding</i>	\$13,591.9	4.7%	\$14,118.0	3.9%	\$14,676.4	4.0%
<i>Estimated Pay/Tax Dues</i>	\$3,669.6	-7.7%	\$4,106.1	11.9%	\$4,301.4	4.8%
<i>Refunds</i>	<u>(\$1,976.6)</u>	<u>13.7%</u>	<u>(\$2,059.9)</u>	<u>4.2%</u>	<u>(\$2,137.4)</u>	<u>3.8%</u>
Net Individual Income	\$15,284.9	0.4%	\$16,164.2	5.8%	\$16,840.4	4.2%
Sales Taxes, incl Transfers	\$4,210.6	6.0%	\$4,319.9	2.6%	\$4,389.3	1.6%
Corporate Income	\$964.5	2.2%	\$1,019.2	5.7%	\$1,132.6	11.1%
Recordation	\$437.6	13.2%	\$388.1	-11.3%	\$357.0	-8.0%
Insurance	\$409.1	7.1%	\$420.1	2.7%	\$437.1	4.0%
All Other Revenues	\$813.9	3.2%	\$804.5	-1.2%	\$806.7	0.3%
Other Transfers	<u>\$250.6</u>	<u>-5.6%</u>	<u>\$225.7</u>	<u>-9.9%</u>	<u>\$229.1</u>	<u>1.5%</u>
Total GF Revenues	\$22,371.2	1.8%	\$23,341.7	4.3%	\$24,192.2	3.6%
<i>Lottery Profits</i>	\$628.8	-0.6%	\$616.2	-2.0%	\$622.3	1.0%

Federal Tax Reform Impacts Should Boost General Fund Revenues

	Estimated Revenue Impact (\$ Mil.)			
TCJA Impact:	<u>FY 19</u>	<u>FY 20</u>	<u>FY 21</u>	<u>FY 22</u>
Individual Income	\$466	\$444	\$467	\$493
State Tax Reform:				
\$110 S/\$220M Refund	(\$431)	n/a	n/a	n/a
50% Standard Deduction Increase, Unlimited Property Tax Deduction,	\$0	(\$415)	(\$277)	(\$284)
International GILTI and 20% Net Interest Deduction	(\$11)	(\$23)	(\$24)	(\$26)
Deconform Pease Limitation		\$108	\$73	\$76
Individual Remaining for GF	\$24	\$113	\$239	\$259
Business and International	<u>\$51</u>	<u>\$144</u>	<u>\$163</u>	<u>\$280</u>
Estimated TJCA Total for GF	\$76	\$257	\$402	\$539

State GF Proposed Reserves (\$ Mil.)



Proposed Non-General Fund Changes

- Lottery per pupil flexible K-12 allocation is backfilled with \$125.0 million from “Games of Skill” revenue from new legislation/regulations still forthcoming.
- Proposal to increase tobacco taxes by 30 cents per pack and other tobacco products tax to 20% of manufacturer’s sales price provide \$250 mil. per year in new revenue for health care.

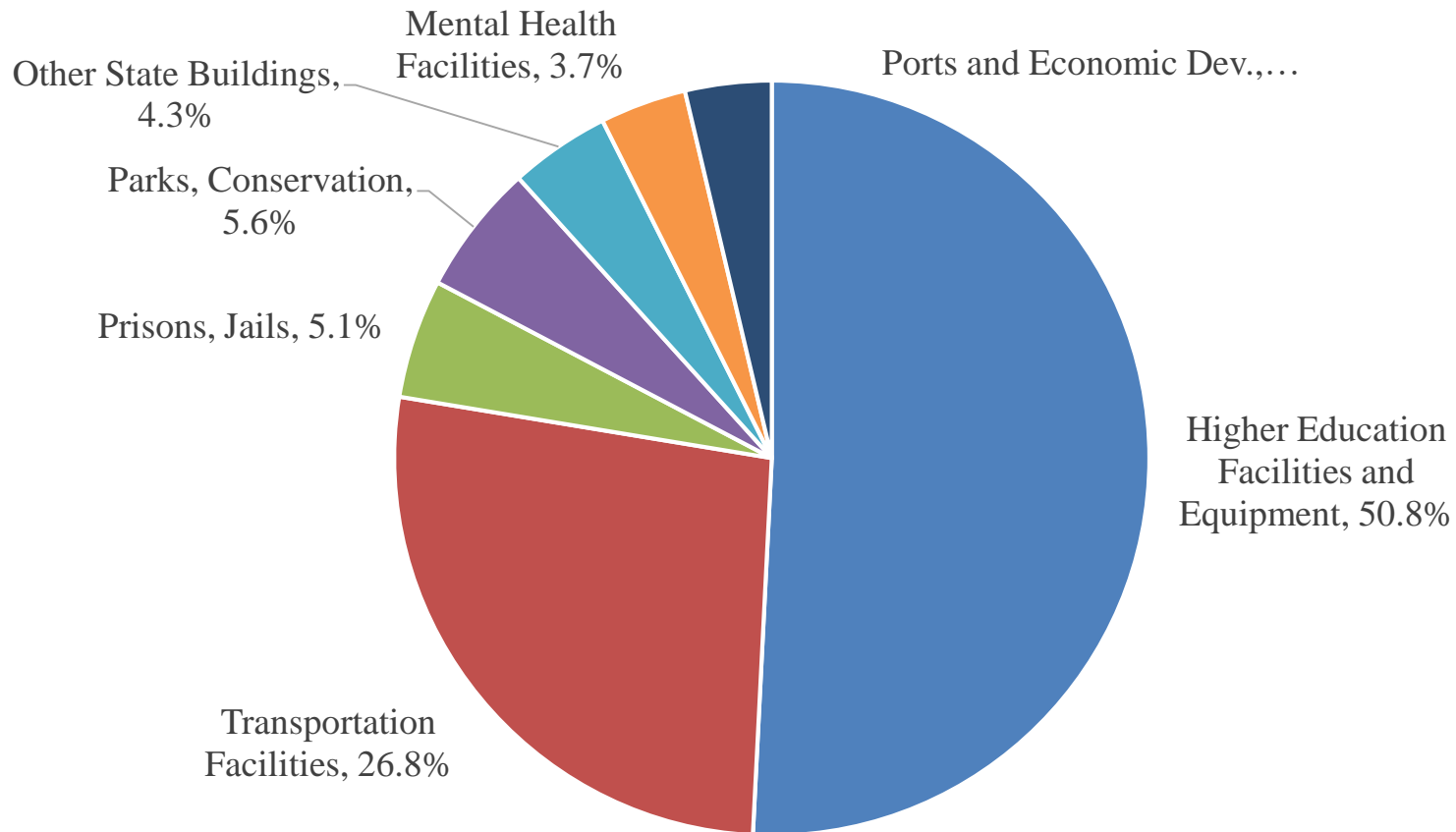
Transportation proposals:

- 4 cent per gallon gas tax increase for three years, then indexed to inflation
- Eliminate \$20 annual vehicle inspections
- Reduce DMV registration fees by half
- Relieve GF from paying \$40 mil. per year Route 58 debt service

S&P: Top 10 Management Characteristics Of Highly Rated Credits In U.S. Public Finance

1. An established "rainy day"/budget stabilization reserve. **Moody's** gives its highest rating in this category to states with **reserves above 8%**, with a formal process or demonstrated track record of restoring the reserve following depletion.
2. Regular economic and revenue updates to identify shortfalls early.
3. Prioritized spending plans and established contingency plans for operating budgets.
4. A formalized capital improvement plan in order to assess future infrastructure requirements.
5. **Long-term planning for all liabilities of a government, including pension obligations, OPEB and other contingent obligations and comprehensive assessment of future budgetary risks. S&P believes that local government fiscal difficulties can increase and become a funding challenge for the state.**
6. A formal debt management policy in place to evaluate future debt profile.
7. A pay-as-you-go financing strategy as part of the operating and capital budget.
8. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget.
9. Effective management and information systems.
10. A well-defined and coordinated economic development strategy.

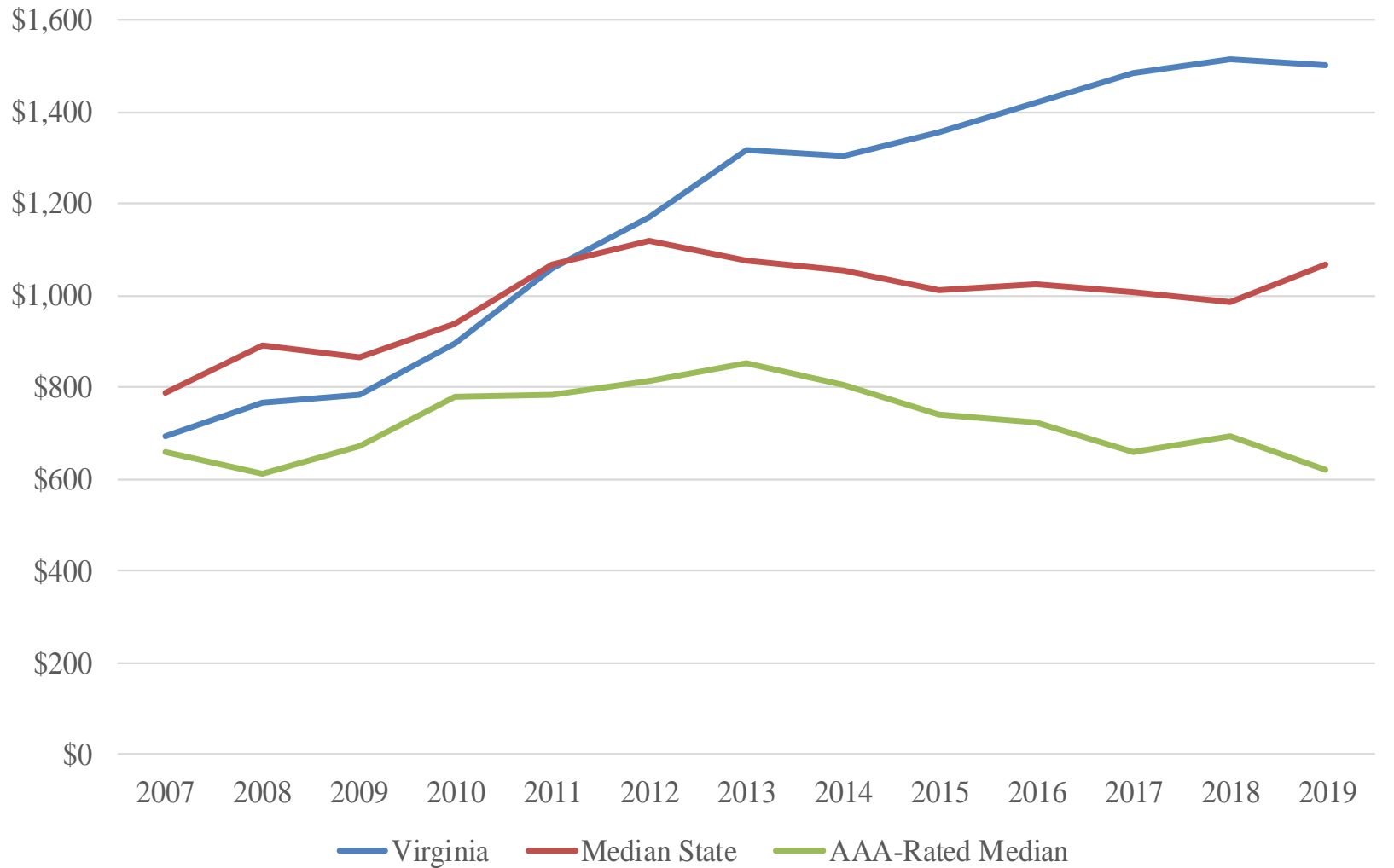
FY 2010-19 Tax-Supported Debt Issued - \$11.0 Bil.



\$5.0 bil. in currently authorized, but unissued debt. Governor proposing \$2.6 bil. in new debt authorization. DCAC increases 10 year avg annual capacity from \$671 mil. to \$765 mil. in new debt and still keep debt service under 5% of blended revenues (with 2 years of average capacity in reserve).

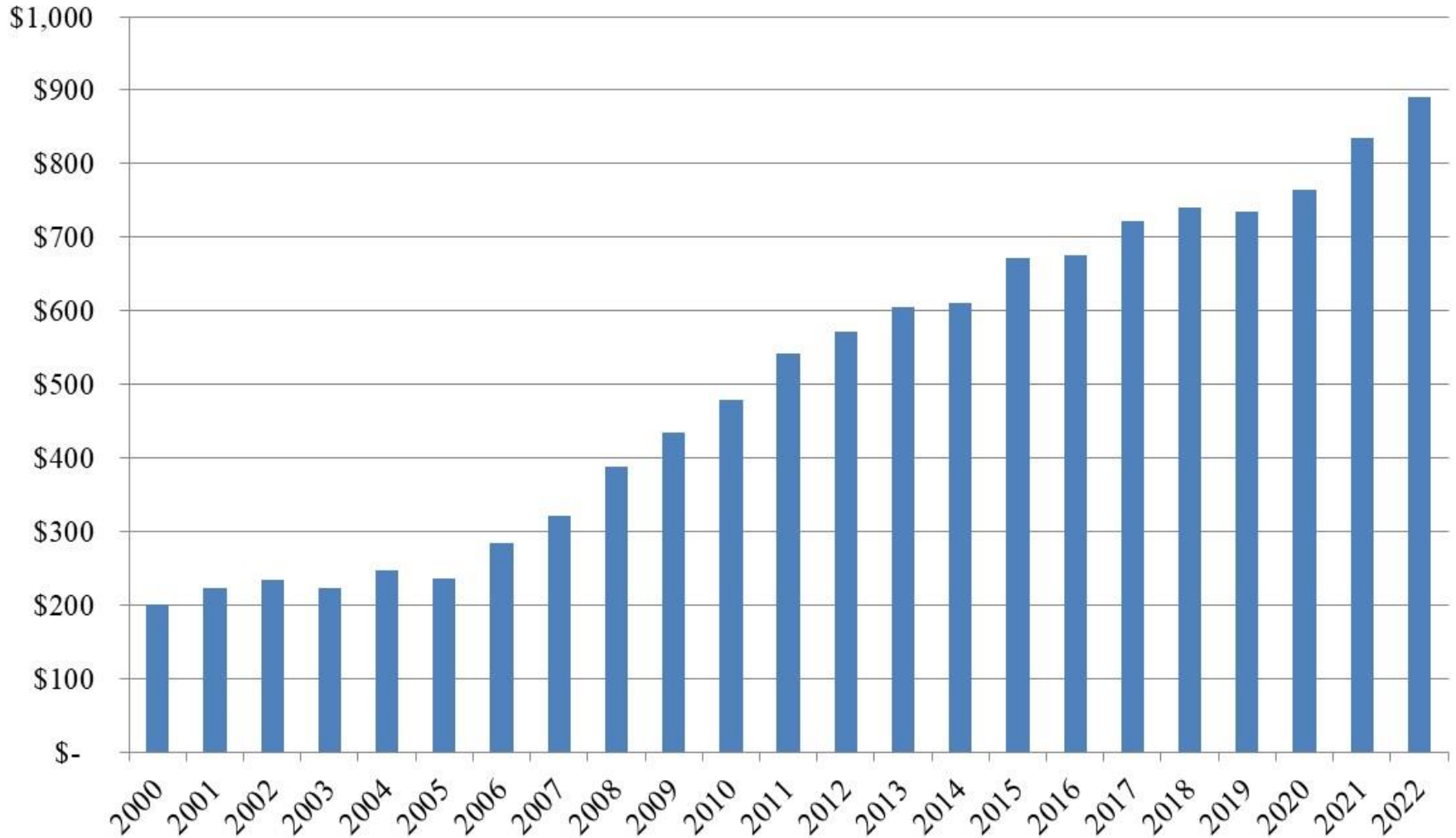
Source: Debt Capacity Advisory Committee Report to the Governor, Dec. 19, 2019

Virginia Debt per Capita Compared to Other States



Source: Debt Capacity Advisory Committee Report to the Governor, Dec. 18, 2019

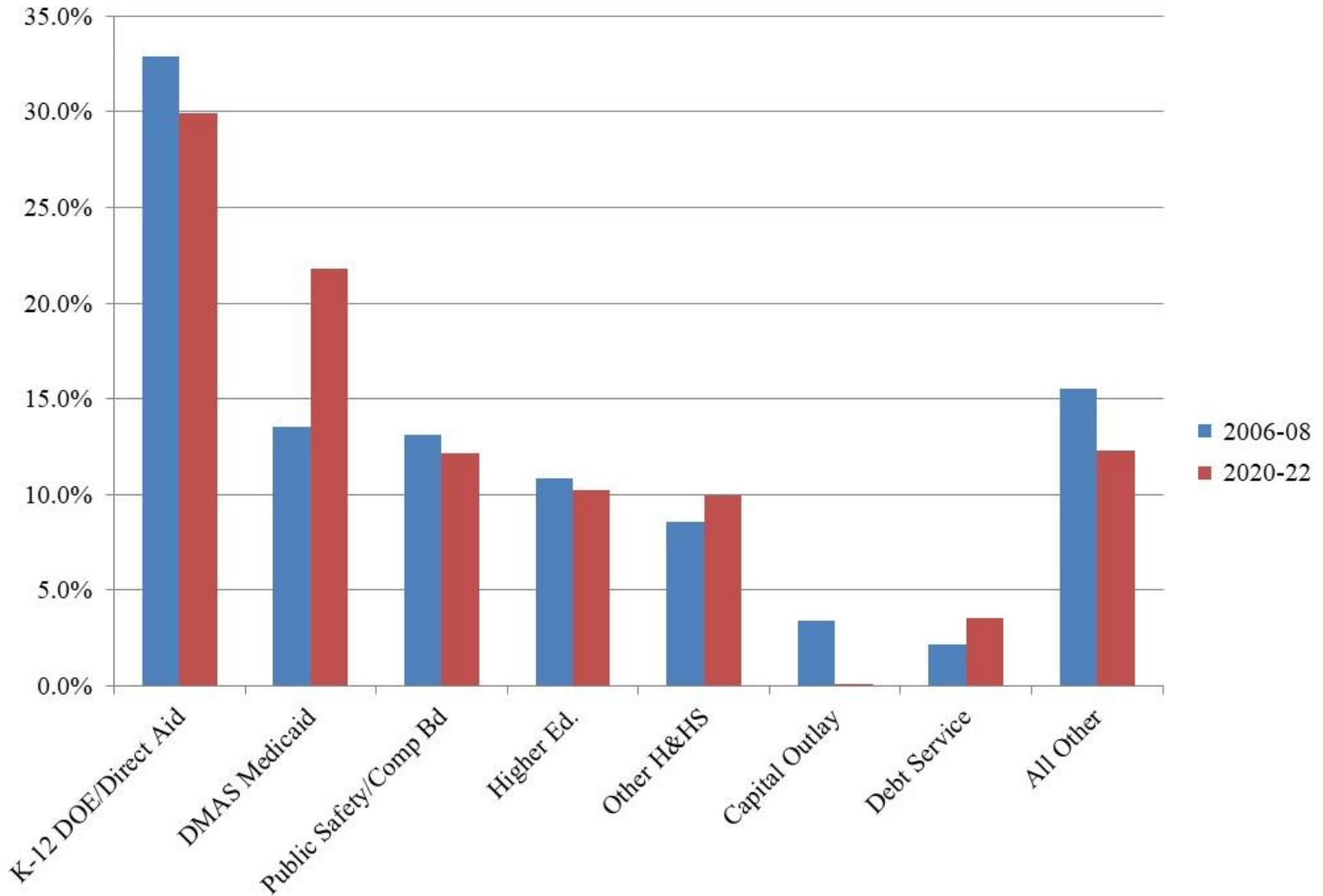
GF Debt Service Growth Resuming (\$ Mil.)



Budget Choices Reflected in Introduced Budget

	Intro	Intro	Change	Intro	Change
	<u>FY 2020</u>	<u>FY 2021</u>	<u>Over Prior Yr.</u>	<u>FY 2022</u>	<u>Over Prior Yr.</u>
Legislative and Executive	\$134.3	\$140.9	\$6.6	\$140.9	\$0.0
Judicial Dept.	\$511.8	\$527.8	\$16.0	\$531.6	\$3.8
Administration/Comp Board	\$740.1	\$784.3	\$44.2	\$787.6	\$3.3
Treasury Board Debt Service	\$764.9	\$834.2	\$69.3	\$890.3	\$56.1
Other Finance	\$182.1	\$166.2	(\$15.9)	\$166.3	\$0.1
Rainy Day Fund Deposit	\$262.9	\$77.4	(\$185.5)	\$17.5	(\$59.9)
Car Tax Reimbursement	\$950.0	\$950.0	\$0.0	\$950.0	\$0.0
Commerce and Trade	\$309.3	\$377.1	\$67.8	\$366.6	(\$10.5)
Agriculture / Nat. Resources	\$256.5	\$279.0	\$22.5	\$271.2	(\$7.8)
K-12 Education/DOE	\$6,612.2	\$7,052.7	\$440.5	\$7,382.1	\$329.4
Higher & Other Education	\$2,274.0	\$2,453.9	\$179.9	\$2,473.8	\$19.9
DMAS Medicaid	\$4,732.6	\$5,087.4	\$354.8	\$5,422.5	\$335.1
Other Health & Human Services	\$2,083.5	\$2,359.6	\$276.1	\$2,432.6	\$73.0
Public Safety & Veterans/HS	\$2,084.8	\$2,240.6	\$155.8	\$2,239.0	(\$1.6)
Transportation	\$41.0	\$1.0	(\$40.0)	\$1.0	\$0.0
Central Appropriations	\$293.6	\$207.0	(\$86.6)	\$254.3	\$47.3
Cash Reserve	\$493.6	\$0.0	(\$493.6)	\$300.0	\$300.0
Independent Agencies/Capital	<u>\$3.3</u>	<u>\$29.8</u>	<u>\$26.5</u>	<u>\$6.8</u>	<u>(\$23.0)</u>
Total GF Appropriations	\$22,730.5	\$23,568.9	\$838.4	\$24,634.1	\$1,065.2
Percent Change		3.7%		4.5%	

Change in Share of State General Fund Appropriations 2006-08 to the 2020-22 Biennium



Major Proposed K-12 Education Changes

(\$1.2 Bil. Increase Over FY 20 Base Budget)

- \$743 mil. GF in re-benchmarking changes including changes in enrollment, composite index data, sales tax, lottery proceeds, and prevailing cost data.
- \$65 mil. GF for changes in the employer contribution rates for teacher retirement from 15.68 percent to 16.62 percent (as a result of lowering the investment rate assumption from 7.0% to 6.75%).
- \$145 million GF to increase salaries for funded SOQ instructional and support positions by 3.0 percent, effective July 1, 2021.
- Adds \$140 mil. GF to increase the “At-Risk Add-On” for educationally at-risk students with a basic aid boost up to 25 percent in FY 2022 (based on the concentration of free-lunch children).
- Provides \$99 mil. GF to lower the school counselor standard to one per 250 students in grades kindergarten through 12.
- Provides \$85 mil. GF to increase the Virginia Preschool Initiative (VPI) per pupil allocation to \$6,959 in FY 2021 and to \$7,655 in FY 2022, provide additional support for students on waitlists, and create a pilot program for at-risk three-year-olds.
- Provides \$25 mil. GF in additional ESL support.
- Add \$10 mil. GF to the school breakfast and lunch programs.
- Adds \$5 mil. GF for “no loss” funding to ensure no locality receives less than FY 20.
- Assumes \$125 mil. NGF for per pupil allocation payments to local school divisions from projected “Games of Skill” revenues.

Most Board of Education SOQ Policy Proposals (About \$850 M/Yr.) Were Not Funded

- **Consolidated At-Risk Add-on/Prevention-Remediation Fund in SOQ (\$131M)**
 - **BOE: Significant additional funding provided for new positions or teacher compensation to support at-risk students (not proposed by Governor).**
- **Increase ESL Teacher ratios depending on student proficiency levels (\$27m)**
- **School Counselors (\$88m) - Reaffirm 2016 recommendation of 1 to 250 students. 2019 GA partially funded recommendation.**
- Reaffirm 2016 recommendation to eliminate Support Position cap (\$372m minus “Specialized Student Support Personnel” item)
- Specialized Student Support Personnel (\$100m) - Employ at least 4 specialized student support positions per 1,000 students (social workers, psychologists, nurses)
- Teacher Leaders/Mentors (\$102m) - One per 15 teachers with 2 year’s experience and 1 per 50 with 3 or more years experience - 20% state prevailing salary boost.
- Elementary School Principals (\$8m) - Reaffirm 2016 recommendation to employ principal even under 300 students.
- Assistant Principals (\$84m)- Reaffirm 2016 recommendation to employ Assistant Principals for each 400 students.
- Reading Specialists (\$37m)
- Workbase Learning Coordinators and Reading Specialists (\$1m).
- Principal Mentor Programs (\$1m)

Using a Reduced VRS Discount Rate of 6.75% Has Budget Implications

	<u>Fiscal Year 2020</u>	<u>Fiscal Year 2021</u>			Current
Plan	7.0% Rate	7.0% Rate	6.75% Rate	Difference	Funded Status
State Employees	13.52%	13.12%	14.46%	1.34%	75.5%
SPORS	24.88%	23.88%	26.26%	2.38%	
VaLORS	21.61%	20.19%	21.88%	1.69%	
JRS	34.39%	27.76%	29.84%	2.08%	
Teachers	15.68%	15.00%	16.62%	1.62%	74.7%
Employer Contributions:					
General Fund	\$892,433,000	\$875,484,000	\$965,911,000	\$90,427,000	
Non- General Fund	\$1,125,674,000	\$1,112,072,000	\$1,229,994,000	\$117,922,000	

Source: VRS presentation to the Senate Finance Committee, Oct. 22, 2019

2020-22 Medicaid Spending Includes Additional \$690 Mil. in GF, Plus \$241 Mil. in New Tobacco Tax Revenues

<u>Fiscal Years</u>	<u>GF Annual Growth</u>
2000-2009	8.8%
2010-2015	6.2%
2016	9.3%
2017	7.2%
2018	5.5%
2019	4.8%
<i>2020 Forecast*</i>	<i>-1.8%</i>
<i>2021 Forecast</i>	<i>7.6%</i>
<i>2022 Forecast</i>	<i>5.9%</i>

* GF (incl. Health Care Fund) growth rate influenced by shift of certain individuals to lower Medicaid state expansion rate

Other Major H&HS Spending Proposals

(Increases over FY 20 Base Budget)

- \$149 mil. to fund inflation and utilization For FAMIS and the Children’s Health Insurance Programs and to reflect the decrease from 76.5 percent to 65 percent in FY 21 federal matching funds.
- \$56.6 million to continue the implementation of STEP-VA by adding funds for outpatient services, veterans services, peer support services, mobile crisis teams, and a hotline.
- \$49.8 million GF and \$15.9 million NGF for local departments of social services to hire staff and create prevention services departments in response to the federal Family First Prevention Services Act (FFPSA).
- Provides \$42 mil. GF for 1,135 new developmental disability waiver slots.
- Provides \$6.6 million GF in FY 20, \$18 million GF in FY 21, and \$26 million GF in FY 22 to fund Children’s Services Act program growth.
- Addresses caseload growth in Part C/Early Intervention services by providing \$1.2 million GF in FY 2020, \$2.5 million GF in FY 2021, and \$3.9 million GF in FY 2022
- Provides \$20 mil. GF to support the temporary expansion of Catawba Hospital by 56 beds.
- Provides \$20 mil. GF to address overcrowding issues at state facilities by increasing the availability of community-based services for individuals determined clinically ready for discharge, with \$2.5 million each year available for the acquisition or development of clinically appropriate housing options.
- Increases provider payment rates for services delivered through the Developmental Disability (DD) waivers.
- Provides funding and authority to establish and implement changes to service definitions, prior authorization and utilization review criteria, provider qualifications, and reimbursement rates for select Medicaid behavioral health services.
- \$146.0 million for a health reinsurance program in central appropriations

Other Major Introduced Spending

(Increases over FY 20 Base Budget)

Finance

- \$2.6 bil. in new debt authorization authority to: 1) Maintain, construct and renovate state infrastructure and facilities; 2) Supplement shortfalls in earlier capital projects; 3) Build local water-related infrastructure projects; 4) Address equipment needs; and 5) Fund public-private partnerships
- \$171.7 million for increased GF debt service on bonds issued by the Virginia Public Building Authority and the Virginia College Building Authority.
- \$94.9 million for actual and projected mandatory deposits to the Revenue Stabilization Fund.
- \$300 mil. in FY 2022 voluntary reserve deposits.

Commerce and Trade

- \$56.0 million for deposit to the Virginia Housing Trust Fund bringing state support for the trust fund to \$30.0 million in FY 2021 and \$40.0 million in FY 2022.
- \$32.0 million to support the Virginia Telecommunication Initiative (VATI) bringing state support for the program to \$35.0 million in each year.
- \$16.0 million to meet the requirements of the Advanced Shipbuilding Production Facility Grant Program.
- \$10.0 million to establish a clean energy financing program consisting of a revolving loan fund and a loan loss reserve fund to support public and private sector projects.
- Provides \$6.6 mil. for an Eviction Prevention and Diversion Pilot Program.

Other Major Introduced Spending

(Increases over FY 20 Base Budget)

Natural Resources

- \$367 in new bond authorizations for:
 - \$182 million for the Stormwater Local Assistance Fund (SLAF)
 - \$120 million for the Water Quality Improvement Fund (WQIF) for publicly-owned treatment works
 - \$65 million for the City of Alexandria's combined sewer overflow (CSO) control project
 - \$10 million to accelerate oyster reef restoration
- \$47.0 mil. GF for the mandatory deposit to the Water Quality Improvement Fund (WQIF) associated with the FY 2019 year-end surplus.
- \$41.8 million for a supplemental deposit to the WQIF, including \$39.6 mil. designated for the Virginia Natural Resources Commitment Fund, of which \$35 mil. is for implementation of Agricultural Best Management Practices (BMP) and \$4.6 million is for the Soil and Water Conservation Districts to assist in the implementation of the BMPs.
- \$31.0 million for deposit to the Virginia Land Conservation Fund bringing total funding to \$20.0 million each year.
- \$20.0 million to support the Dam Safety, Flood Prevention, and Protection Assistance Fund.
- \$11.7 million to support positions, equipment, and contractual activities in air and water monitoring and compliance programs.

Other Major Introduced Spending

(Increases over FY 20 Base Budget)

Public Safety

- \$27.6 million to expand treatment of Hepatitis-C-positive offenders in correctional facilities.
- \$14.7 million for the Department of Corrections to address recruitment, retention, and salary compression issues by raising salaries of correctional officers, sergeants, captains, lieutenants, and majors.
- \$12.9 million general fund and 21 positions to implement an electronic healthcare records system in state correctional facilities. This funding will be added to \$7.0 million of existing base funding in DOC and \$6.0 million transferred from base funding in Central Appropriations.
- \$11.9 million for pilot collaborations between the Department of Corrections and two university healthcare systems (UVA and VCU) to provide services for state-responsible offenders.
- \$9.5 million for the Department of Corrections to cover projected increases in offender medical care costs.

Judicial

- \$9.5 million to support 59 additional public defenders to address high caseload demands in offices across the Commonwealth.
- \$5.6 million to fund an additional 60 district court clerk positions to address workload demands in courts across the Commonwealth.
- \$5.4 million to cover the costs of opening and operating a public defender's office in Prince William County. This is partial start-up funding to support 35 positions, including support staff.
- \$4.5 million to fund the anticipated cost increases associated with providing constitutionally mandated legal defense for indigent persons accused of crimes (Criminal Fund) in General District Courts.
- \$4.5 million to fund the anticipated cost increases associated with providing constitutionally mandated legal defense for indigent persons accused of crimes (Criminal Fund) in Juvenile and Domestic Relations District Courts.

Other Major Introduced Spending

(Increases over FY 20 Base Budget)

Administration

- \$5.6 million to fund salary increases for regional jail officers consistent with those received by deputy sheriffs during the 2018 Special Session to equalize the pay grade for all entry level correctional officers in local and regional jails.
- \$5.0 million to fully fund the reimbursement of general registrar and electoral board salaries to localities.
- \$4.9 million to annualize the cost of operating the Prince William/Manassas Adult Detention Center jail expansion project. The expansion was approved in Chapter 665, 2015 Acts of Assembly.
- \$3.8 million to adjust salaries of circuit court clerks to address pay equity with that of the district court clerk positions.
- \$2.8 million to fund 25% of unfunded Assistant Commonwealth's Attorneys and support staff standards. This amendment will provide 29 positions to address workload/body camera demands across various offices in the Commonwealth according to the staffing standards of the Compensation Board.

Other Major Introduced Spending

(Increases over FY 20 Base Budget)

Higher Education

- \$145.1 million to implement the “G3” program, which provides the full cost of tuition, fees, and books for students with a family income less than 400 percent of the federal poverty line enrolled in select pathways at two-year colleges.
- \$45.4 million for need-based financial aid for in-state undergraduate students spread to each of the institutions of higher education by separate amendments.
- \$22.0 million to support in-state enrollment growth and increases in transfer students at Old Dominion University.
- \$22.0 million to support in-state enrollment growth and increases in transfer students at George Mason University.
- \$15.0 million to support cancer research at Massey Cancer Center.

Central Appropriations

- \$200.0 million for uncommitted contingencies that may arise over the biennium.
- \$146.0 million for a reinsurance program intended to stabilize the rates and premiums for health insurance policies in the individual market and providing greater financial certainty to consumers of health insurance in the Commonwealth.
- \$66.6 million for the employer share of state employee health insurance premiums.
- \$32.2 million for the changes in employer contribution rates for state employee retirement. Funding is provided for the full contribution rates certified by the Virginia Retirement System Board based on the June 30, 2019, Virginia Retirement System valuation for 2021 and 2022.
- \$30.4 million for the continuation of the Commonwealth's commitment to the Tech Talent Pipeline Fund (Amazon HQ).

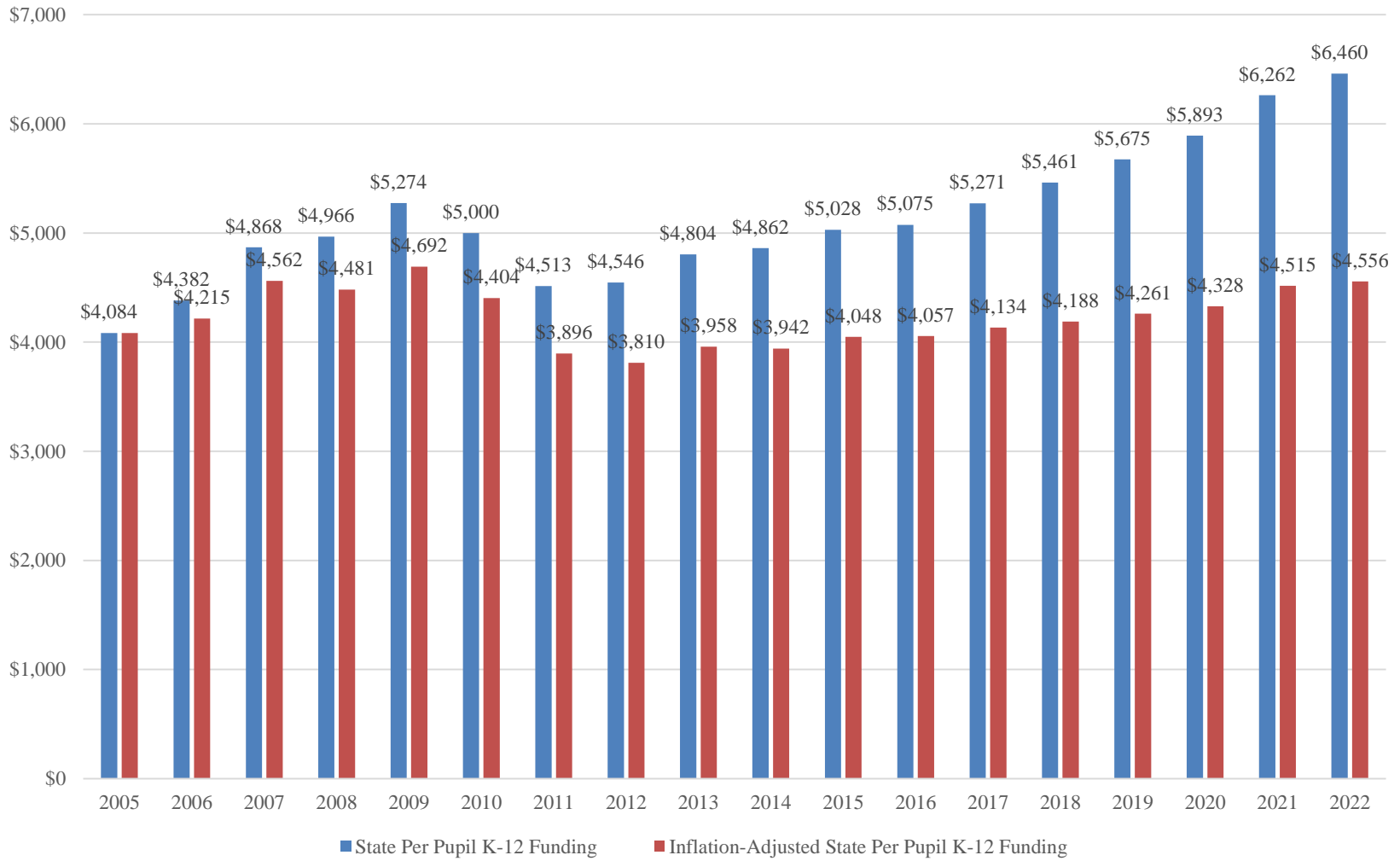
Significant Items Not Included in the Introduced Budget

- State Employee Salary Increases
 - State Employees (Excluding College Faculty) 1%/yr. = \$26.0 mil.
 - State Supported Local Employees 1%/yr. = \$10.0 mil.
 - College Faculty 1%/yr. = \$10.0 mil.
- FY 21 SOQ K-12 Positions Salary 1% Increase = \$48.3 mil.
- No Funding Increases for State Aid to Local Police Departments
 - Grow at rate of GF revenues = \$8.0 mil. FY 21 and \$16.0 mil. FY22
- Full Funding of Constitutional Officer Standards
- No Increases in Jail per Diems

Localities' Reduced Share of GF Has Stabilized

GF State Aid to Localities (\$ Mil.)					
	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2020 (i)</u>	<u>FY 2021 (i)</u>	<u>FY 2022 (i)</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$6,547.7	\$6,971.5	\$7,304.4
K-12 % of Total GF Appropriations	35.2%	29.6%	28.8%	29.6%	29.7%
Health and Human Services	888.4	791.7	1,054.5	1,146.1	1,175.4
<i>CSA</i>	299.7	217.2	309.3	321.0	328.7
<i>Community MH/SA Services</i>	249.4	269.3	412.9	440.9	461.2
<i>Local Social Services Staff</i>	117.4	115.3	125.4	163.0	163.0
<i>Community Health Programs</i>	117.6	107.2	125.1	142.5	143.8
<i>Welfare Services and Programs</i>	104.3	82.7	81.8	78.7	78.7
Public Safety	734.3	687.9	763.8	789.1	791.7
<i>Local Sheriffs Offices</i>	406.1	411.3	465.3	489.5	492.1
<i>Local Police Depts HB 599</i>	197.3	172.4	191.7	191.7	191.7
<i>Local Jail Per diem</i>	80.1	59.4	59.1	59.1	59.1
<i>Assistance for Juvenile Justice</i>	50.8	44.8	47.7	48.8	48.8
Econ. Dev/Housing/Libraries/Envir.	54.6	55.9	121.8	156.3	166.3
Constitutional Officers	155.3	145.8	163.2	174.2	175.4
Dept. of Accounts Transfers	49.3	49.3	48.9	27.9	27.9
Car Tax	950.0	950.0	950.0	950.0	950.0
Aid-to-Locality Reduction	<u>(50.0)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Local GF Aid	\$8,389.5	\$7,920.9	\$9,649.9	\$10,215.1	\$10,591.1
Total GF Appropriations	\$15,943.0	\$17,705.2	\$22,730.5	\$23,568.9	\$24,634.1
Local Aid % of Total GF	52.0%	44.1%	42.5%	43.3%	43.0%

Introduced Budget State Per Pupil K-12 Direct Aid Funding
While Beginning to Rise, FY22 Real \$ Still \$136/Pupil Less Than FY09
Inflation-Adjusted (CPI \$2005)

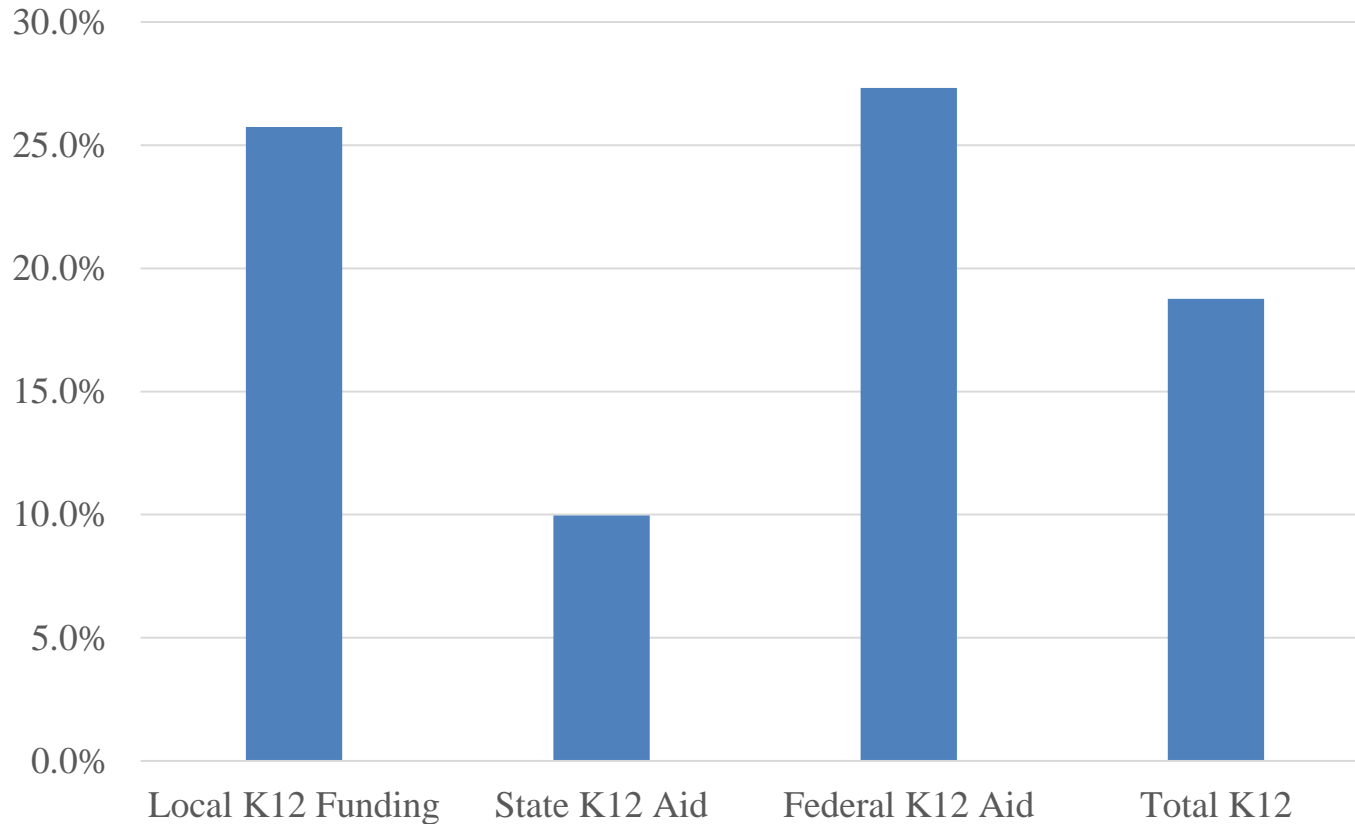


Includes \$50 mil. in FY 21 and \$75 mil. in FY 22 “Games of Skill” revenue

Source: Virginia DOE - http://www.doe.virginia.gov/school_finance/budget/calc_tools/index.shtml

Local K-12 Expenditures Have Grown Much Faster Than State K-12 Aid Since FY 2009

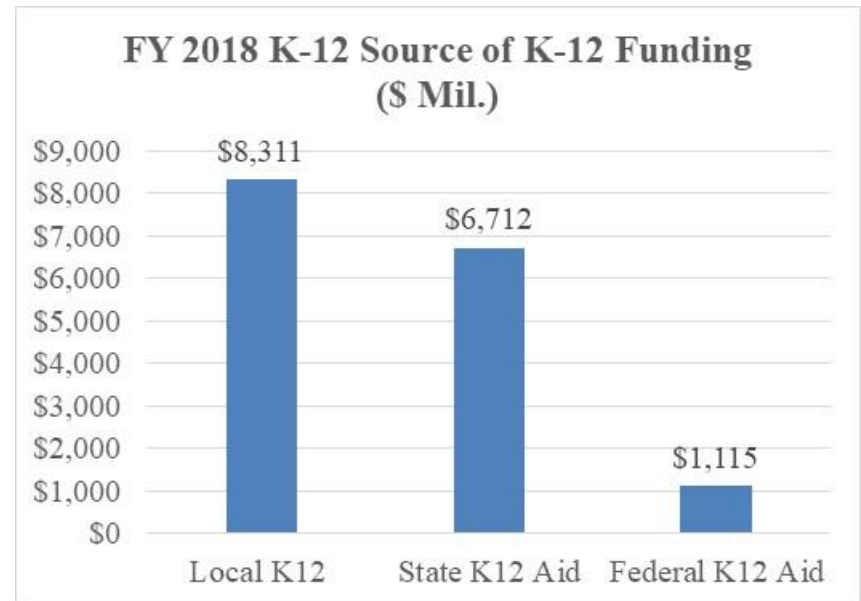
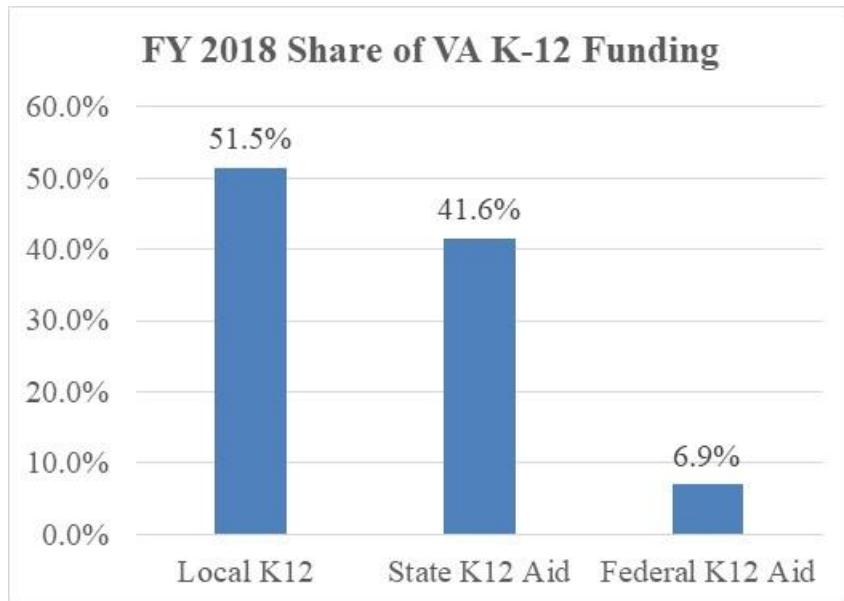
FY 2009-18 Growth in VA K-12 Operating Funding



Source: DOE Superintendents Annual Reports

http://www.doe.virginia.gov/statistics_reports/supts_annual_report/index.shtml

Local Government Is the Largest Source of K-12 Operating Funding in Virginia

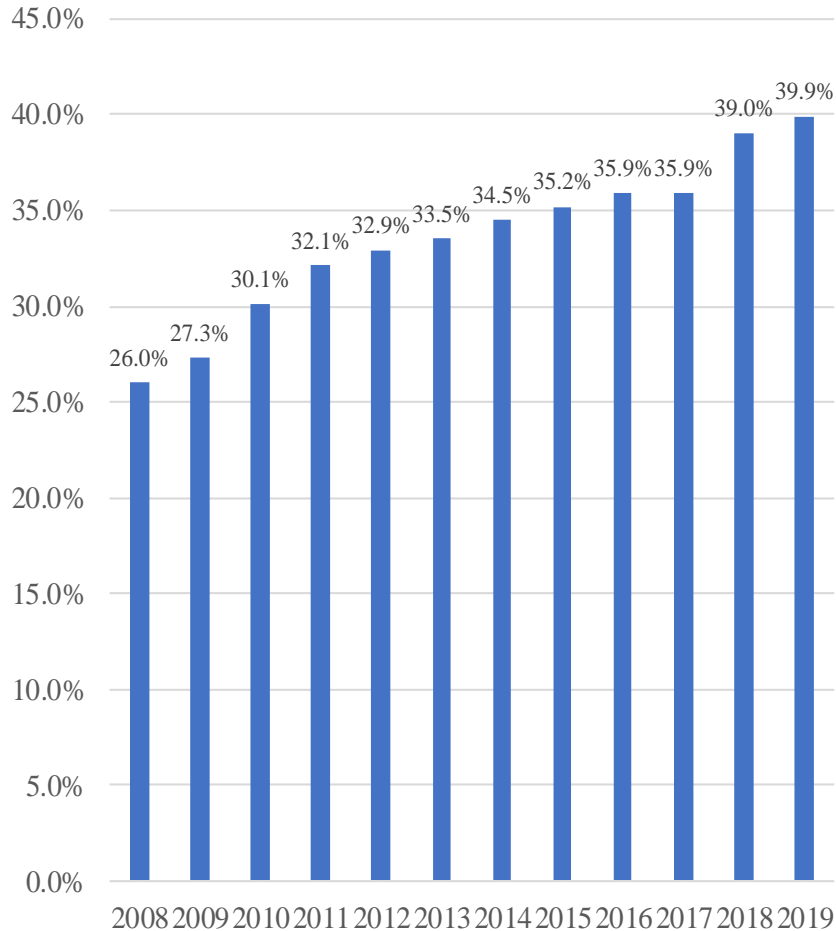


Source: DOE Superintendents Annual Reports

http://www.doe.virginia.gov/statistics_reports/supts_annual_report/index.shtml

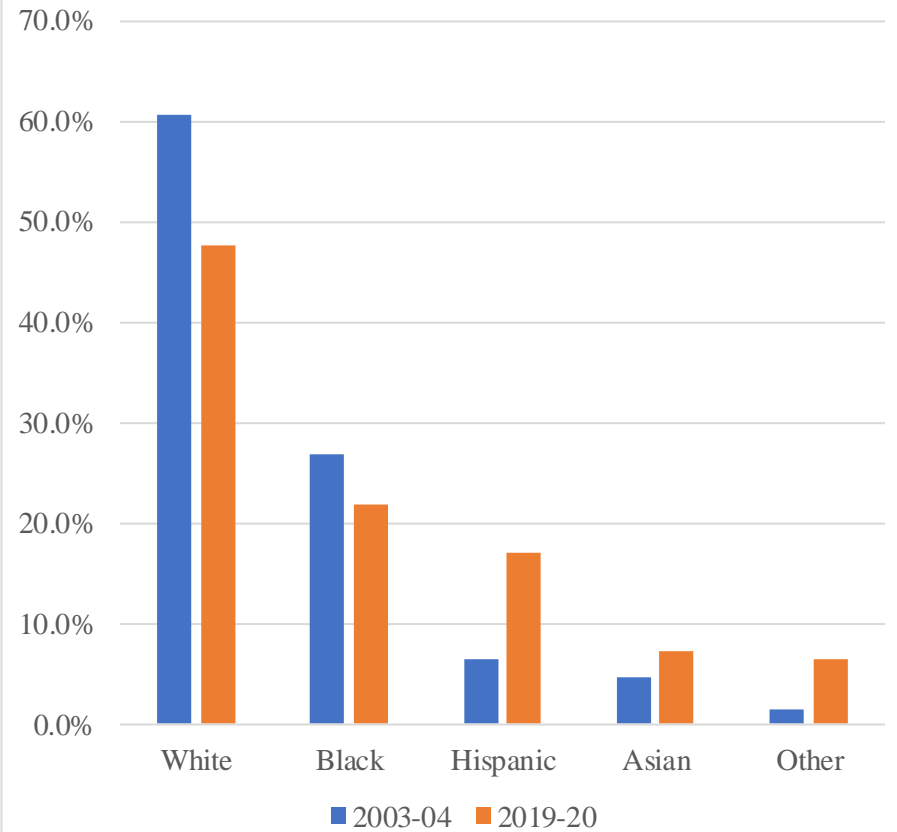
More Diverse Student Population to Educate

% Free Lunch Students Growing



- Hispanic/Asian/Other Increased by 167% From SY 2004-20

VA Public K-12 Student Population by Race



FY 2019 Virginia Public School Construction and Renovation Costs (\$ Mil.)			
	<u>Number</u>	<u>Cost</u>	<u>Avg. Cost</u>
New Elementary Schools	5	\$157.0	\$31.4
New Middle Schools	4	\$198.0	\$49.5
New High Schools	2	\$218.7	\$109.4
New Combined or Other	1	\$81.5	\$81.5
Additions/Renovations	<u>40</u>	<u>\$425.4</u>	\$10.6
Total	57	\$1,080.6 mil.	

Source: http://www.doe.virginia.gov/support/facility_construction/school_construction/costs/

Note: While a few Literary Fund loans have been issued over the last year, most projects and interest rate subsidies have been on hold since the 2008 recession. Existing Priority List projects are old and most have already used other financing mechanisms. In the 2019 Session, the General Assembly provided \$5 million for a VPSA interest rate subsidy program guidelines being developed) and \$30 million for a Literary Fund loan program in fiscal year 2020 for projects that are on the Board of Education's First Priority Waiting List. If funding is available, projects on the Second Priority List can be addressed. Maximum Literary Fund loan is \$7.5 mil.

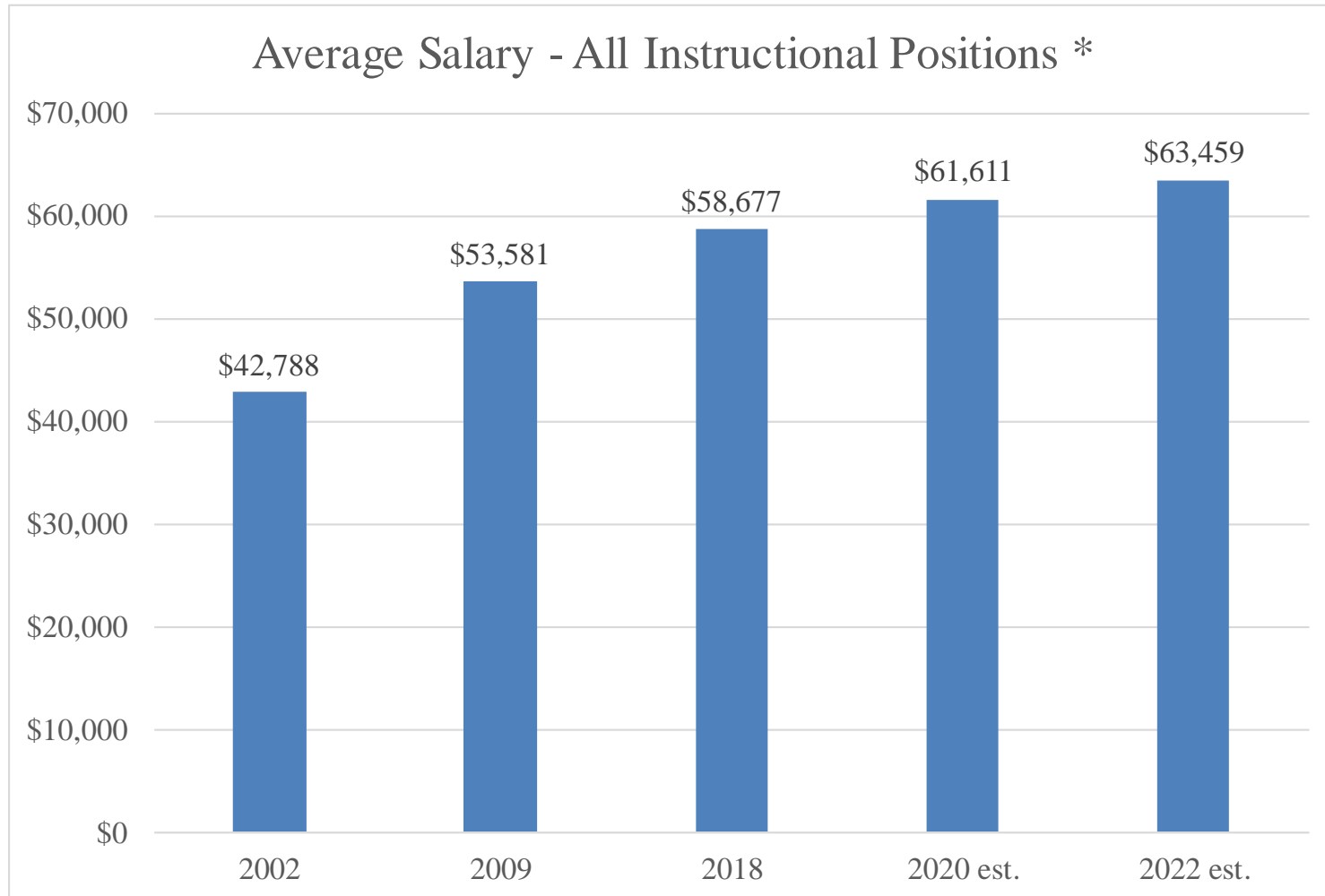
Previous State Grants for School Construction Costs

- From fiscal years 1999-02, \$55.0 million per year was allocated for financial assistance for public school facilities. Funding reduced to \$27.5 million per year from fiscal years 2003-09.
 - Distributed based on “floor” funding of \$100,000 for each school division, with remainder of funds based on the division's proportion of enrollment weighted by the composite index.
 - Funds only for nonrecurring expenditures: school construction, additions and renovations, infrastructure, site acquisition, technology, and other expenditures related to modernizing classroom equipment, payments to escrow accounts, school safety equipment or renovations, and debt service payments on school projects completed during the last ten years.
- Direct school construction funding ended in FY 2010.

State-Funded Teacher Salary Increases Have Not Kept Pace With Inflation

Fiscal Year	State-Funded Salary % <u>Increase</u>	Compound State Salary <u>Increase</u>	Compound CPI <u>Growth</u>
2009	0.0%	0.0%	1.4%
2010	2.0%	2.0%	2.4%
2011	0.0%	2.0%	4.5%
2012	0.0%	2.0%	7.5%
2013	0.0%	2.0%	9.3%
2014	2.0%	4.0%	11.1%
2015	0.0%	4.0%	11.8%
2016	1.5%	5.6%	12.6%
2017	0.0%	5.6%	14.8%
2018	2.0%	7.7%	17.3%
2019	0.0%	7.7%	19.8%
2020	5.0%	13.1%	22.4%
2021	0.0%	13.1%	24.6%
2022	3.0%	16.5%	27.3%

Instructional Pay Increases Have Slowed Since FY 2009



Source: Superintendent's Annual Report.

* All instructional positions (109,272 in FY 18) include classroom teachers, guidance counselors, librarians, principals, and assistant principals.

Note: Average instructional pay would have been \$61,979 in FY18 and \$67,285 in FY22, if grown at the rate of inflation since FY09.

NEA Average Instructional Salaries by State vs Zillow Median Home Value Index

Rank	State	NEA AVG Instructional Salary - 2018	Rank	State	Zillow Home Value Index
	United States	\$62,760		U.S. Average	\$243,225
1	New York	\$84,384	1	Hawaii	\$636,451
2	California	\$80,680	2	District of Columbia	\$626,911
3	Massachusetts	\$80,357	3	California	\$554,886
4	Rhode Island	\$76,887	4	Massachusetts	\$422,856
5	Washington D.C.	\$76,486	5	Washington	\$409,228
6	Alaska	\$74,977	6	Colorado	\$397,820
7	Connecticut	\$74,517	7	Oregon	\$361,970
8	New Jersey	\$74,457	8	Utah	\$348,376
9	Maryland	\$73,572	9	New Jersey	\$335,607
10	Minnesota	\$69,461	10	New York	\$321,934
11	Pennsylvania	\$69,303	11	Maryland	\$308,041
12	Oregon	\$66,552	12	Nevada	\$301,753
13	Illinois	\$65,721	13	Alaska	\$300,889
14	Delaware	\$65,125	14	Rhode Island	\$300,808
15	Michigan	\$61,911	15	New Hampshire	\$290,163
16	Vermont	\$61,294	16	Idaho	\$285,982
17	Ohio	\$61,167	17	Virginia	\$285,229
18	Indiana	\$61,082	18	Montana	\$277,801
19	Wyoming	\$60,485	19	Arizona	\$268,765
20	Washington	\$60,005	20	Minnesota	\$256,857
21	Iowa	\$59,505	21	Connecticut	\$255,555
22	Georgia	\$59,185	22	Vermont	\$254,234
23	New Hampshire	\$57,883	23	Delaware	\$254,108

24	Hawaii	\$57,866	24	Wyoming	\$250,890
25	Utah	\$57,854	25	Florida	\$245,169
26	Nevada	\$57,761	26	Maine	\$242,316
27	Montana	\$57,338	27	North Dakota	\$235,012
28	Texas	\$56,736	28	Texas	\$207,301
29	Colorado	\$56,010	29	South Dakota	\$205,567
30	Wisconsin	\$55,726	30	New Mexico	\$203,675
31	Kentucky	\$55,610	31	Illinois	\$202,675
32	North Dakota	\$55,242	32	North Carolina	\$202,215
33	Nebraska	\$54,377	33	Wisconsin	\$202,029
34	Virginia	\$54,122	34	Georgia	\$201,294
35	Maine	\$54,071	35	Pennsylvania	\$194,603
36	Tennessee	\$53,295	36	Tennessee	\$185,922
37	South Carolina	\$53,094	37	South Carolina	\$185,749
38	Louisiana	\$52,876	38	Nebraska	\$175,884
39	Alabama	\$52,285	39	Michigan	\$173,277
40	Arkansas	\$51,791	40	Louisiana	\$166,565
41	Missouri	\$51,647	41	Missouri	\$162,464
42	Idaho	\$51,475	42	Indiana	\$155,640
43	North Carolina	\$51,231	43	Iowa	\$152,885
44	Kansas	\$50,295	44	Kansas	\$150,657
45	New Mexico	\$49,634	45	Ohio	\$150,374
46	South Dakota	\$49,277	46	Kentucky	\$146,871
47	Arizona	\$48,723	47	Alabama	\$138,975
48	Florida	\$48,526	48	Oklahoma	\$128,934
49	Oklahoma	\$48,431	49	Arkansas	\$128,101
50	West Virginia	\$47,390	50	Mississippi	\$126,502
51	Mississippi	\$45,497	51	West Virginia	\$108,236

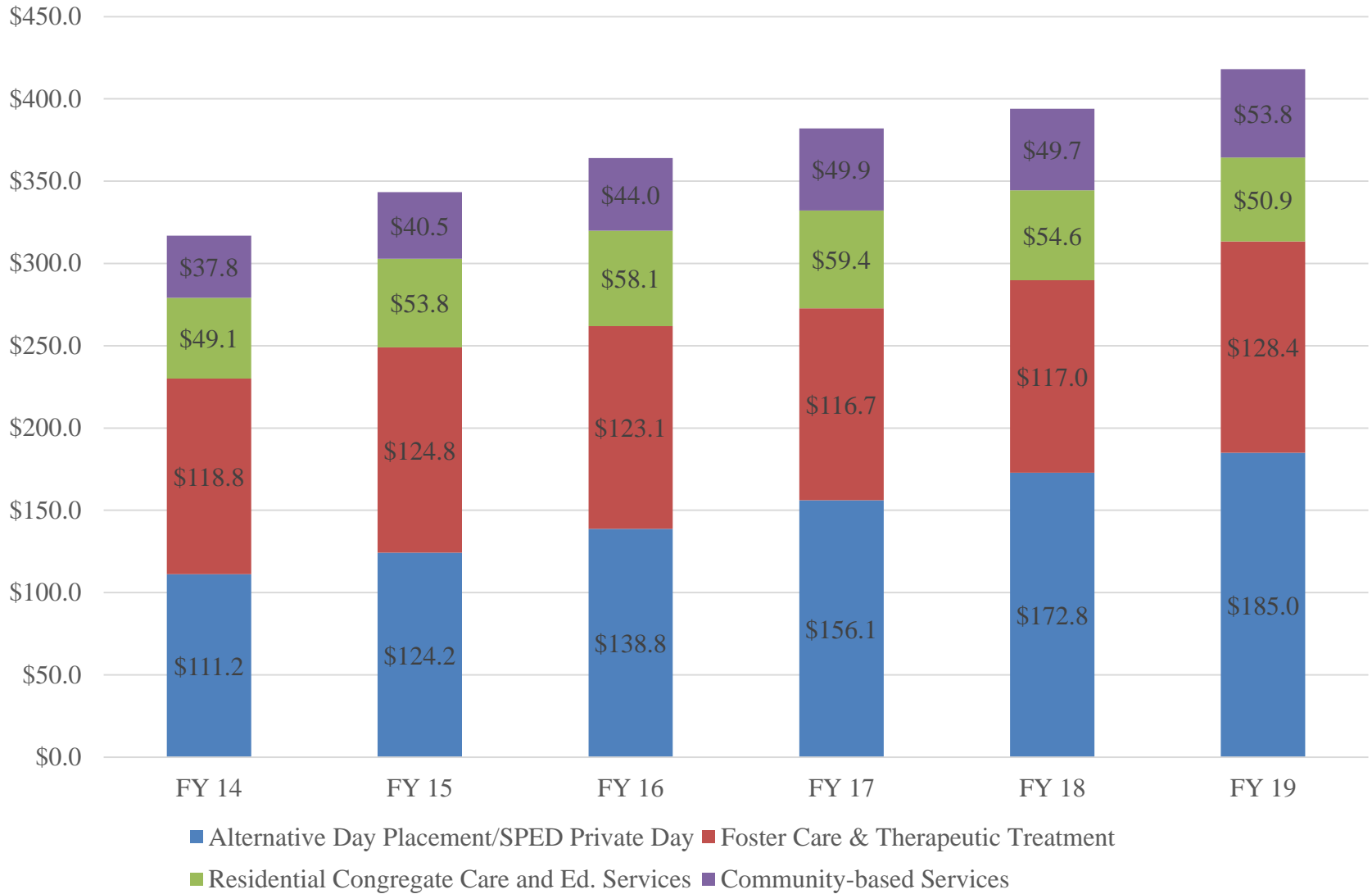
Note: Removing PD 8 (NoVa) - similar to Maryland instructional pay - would reduce VA state average about \$6,000, ranking Virginia in the bottom 5 states.

State Aid for Local Law Enforcement Has Not Kept Pace With State Police or Local Expenditure Growth

Comparison of Law Enforcement Expenditures in Virginia (\$Mil.)

	<u>FY2000</u>	<u>FY2009</u>	<u>FY2022</u>	<u>% Growth FY 2000-09</u>	<u>% Growth FY 2009-22</u>	<u>% Growth FY 2000-22</u>
Actual State Aid to Police (HB 599)	\$165.8	\$197.3	\$191.7	19.0%	-2.8%	15.7%
<i>HB 599 Distribution If By Statute</i>	<i>\$165.8</i>	<i>\$220.0</i>	<i>\$359.1</i>	<i>32.7%</i>	<i>63.2%</i>	<i>116.6%</i>
State GF Aid to Local Sheriffs	\$282.8	\$406.1	\$492.1	43.6%	21.2%	74.0%
State Police Appropriations	\$177.9	\$295.7	\$392.8	66.2%	32.8%	120.8%
Local Law Enforcement Expend.*	\$935.4	\$1,670.2	\$1,908.4	78.6%	14.3%	104.0%
<i>* Thru FY 2018</i>						

CHILD SERVICES ACT EXPENDITURE GROWTH



Urban Street Maintenance Aid Needs a Revenue Infusion Similar to Secondary Road Maintenance Since 2013

	State Funding Growth Comparison			
	<u>2000-08</u>	<u>2008-13</u>	<u>2013-19</u>	<u>2000-19</u>
Total Urban Street Maintenance Payments	52.5%	15.6%	18.6%	75.2%
Total Urban Street Maintenance Payments per Lane-Mile	36.0%	12.1%	18.3%	73.5%
Total Secondary Maintenance Expenditures	37.6%	7.4%	50.0%	121.7%
Total Secondary Maintenance Expenditures Per Lane-Mile	33.8%	6.4%	47.3%	109.6%

State Transportation Revenue Growth Has Slowed Since 2013 Tax Increase Phase-in (\$ million)

<u>Fiscal Year</u>	<u>Motor Fuels</u>	<u>Vehicle Sales</u>	<u>Licenses</u>	<u>State Sales</u>	<u>Total CTF*</u>	<u>% Growth</u>
2010	\$830	\$444	\$230	\$491	\$2,305	
2011	\$844	\$501	\$238	\$477	\$2,369	2.8%
2012	\$833	\$547	\$236	\$503	\$2,438	2.9%
2013	\$822	\$589	\$246	\$521	\$2,494	2.3%
2014	\$660	\$789	\$249	\$823	\$2,806	12.5%
2015	\$723	\$855	\$245	\$995	\$3,137	11.8%
2016	\$861	\$919	\$253	\$1,001	\$3,356	7.0%
2017	\$872	\$958	\$260	\$1,020	\$3,452	2.9%
2018	\$857	\$944	\$259	\$1,044	\$3,457	0.1%
2019	\$857	\$979	\$266	\$1,088	\$3,555	2.8%

**Commonwealth Transportation Fund*

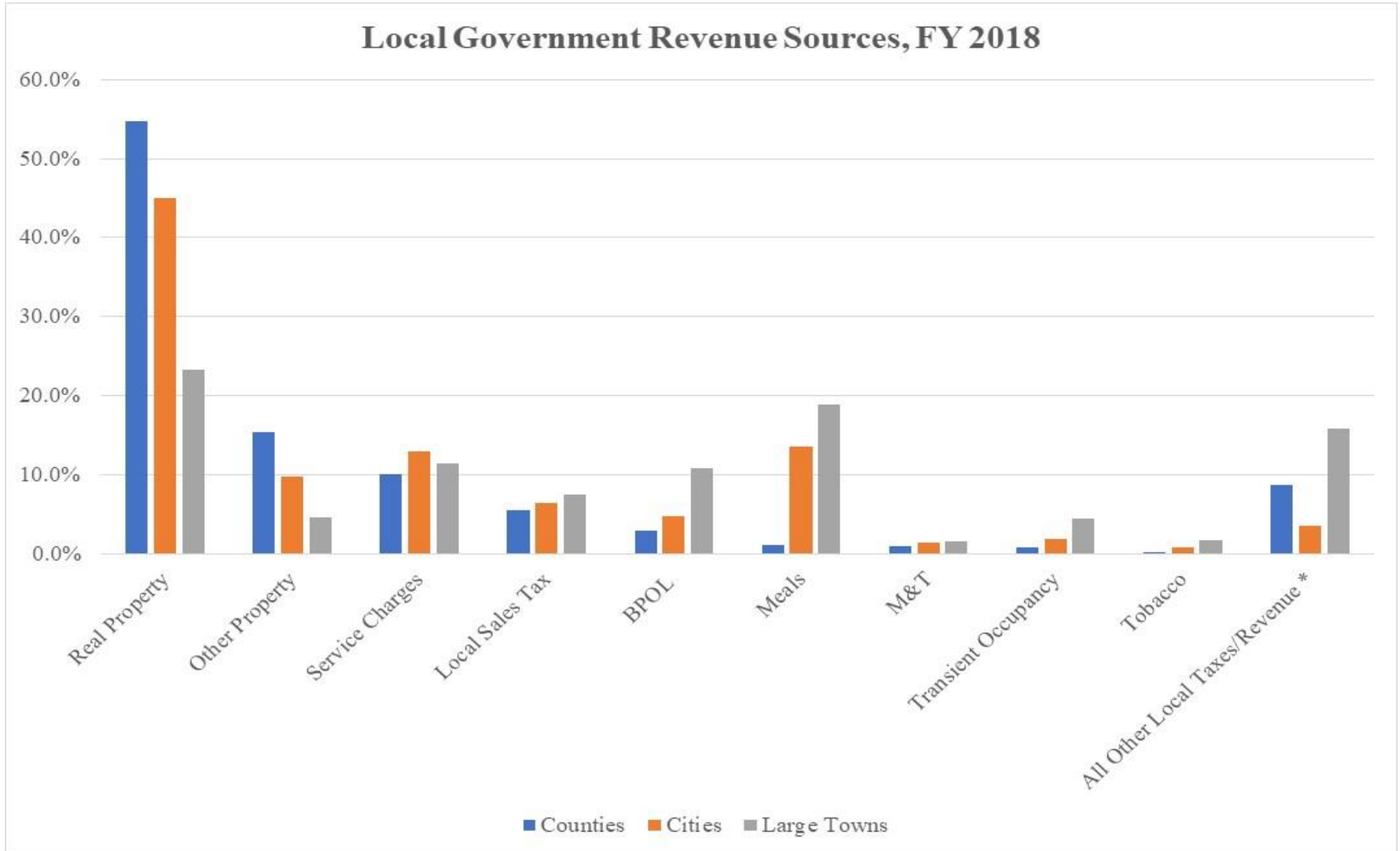
What Can the State Do to Help Alleviate Local Fiscal Stress?

- Equalize local taxing authority for counties with respect to meals taxes, transient occupancy, tobacco and admission taxes.
- Fund the Board of Education Standards of Quality recommendations or increase the state's 55% share of SOQ responsibility.
- Use future GF surpluses to help alleviate the VRS teacher retirement unfunded liabilities/rates and local school construction/renovation needs.
- Encourage small school division consolidation efficiencies using temporary state funding for salary equalization, early retirement incentives, and capital/renovation improvement funding.
- Increase the State Aid to Police Departments (HB 599) up to the levels prescribed by statute.
- Recognize age, complexity, and usage urban street maintenance needs.
- Increase jail per diems to recognize substance abuse and mental health costs.
- Help relieve Child Service Act local funding requirements.
- Provide full funding of constitutional officer staffing standards.
- More economic development incentives geared to stressed localities.

Stop State Incursions Into Local Finances

- **Balancing the state budget on the backs of local government.**
 - Re-writing the K-12 Standards of Quality when state revenues decline
 - Adding K-12 responsibilities without additional funding
 - Routinely substituting lottery funds for K-12 general funds
 - Requiring local governments to write checks back to the state.
 - Not delivering promised funding (e.g., statutory-based HB 599 Aid to Police)
 - Underfunding state mandated-locally provided services (jails, constitutional officers, community-based health and welfare services).
- **Shifting state responsibilities to local government**
 - Mandating employee benefits, such as VRS and OPEB, but requiring local government to pay most of the bill.
 - Shifting Line of Duty Act responsibility to locals and increasing benefits
- **Eroding local revenue sources**
 - Car tax reimbursement (limiting usefulness as a revenue source)
 - Real estate assessment appeals (e.g, attempts to alter assessment presumption of correctness)
 - Fines and Fees (remanding a portion to the state)
 - Real property tax exemptions (disabled veterans; surviving spouses; first responders killed in line of duty being considered)
 - Annual attempts to eliminate or limit BPOL, Machinery and Tools taxes
- **Not modernizing local revenue sources**
 - Communications sales tax (not capturing revenues from a changing industry as promised, (e.g., pre-paid wireless, streaming services)
 - Equal taxing authority between cities and counties
 - No sales taxes on services

Counties Have a Greater Reliance on Property Taxes, Particularly Less on Meals



* Major "Other local taxes/revenue" includes consumer utility, motor vehicle licenses, recordation, bank stock, permits, fines, interest, rentals and sales

Real Property Revenue Growth Has Required Sharply Rising Rates

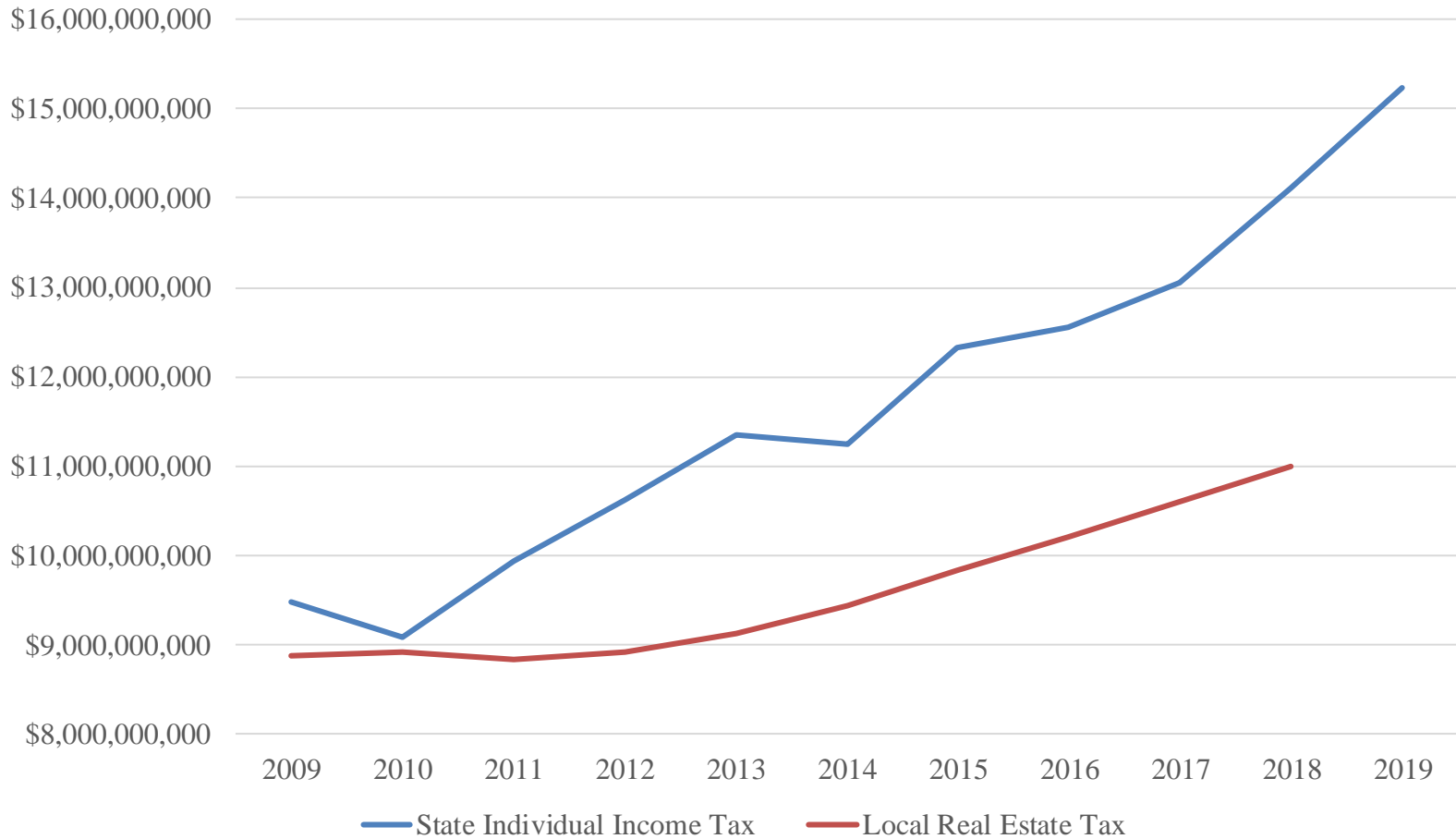
Median Real Property Tax Rates in Virginia Localities

	<u>CY 2009</u>	<u>CY 2018</u>	<u>Change</u>
Cities	0.90	1.09	0.19
Counties	0.55	0.69	0.14
Towns	0.18	0.17	-0.01

Note: From FY 2009-18 real property tax revenue grew 16.2% in cities and 26.4% for counties

Source: Weldon Cooper Center, "Virginia Local Tax Rates", 2009 and 2018

State Income Tax Growth Has Significantly Exceeded Local Real Estate Tax Growth Since Recession



*Note: FY 2019 state income tax grew 7.9%; local property tax growth not yet available.
Median local property tax rates increased 19 cents in cities and 14 cents in counties since 2009*

Consider Increasing Sales Tax Revenue to Localities

	<u>Rate</u>
General Fund Unrestricted	2.025%
Direct Public Education	1.375%
<i>By School-Age Population</i>	<i>1.125%</i>
<i>By SOQ Composite Index</i>	<i>0.250%</i>
Transportation	0.900%
<i>HMOF</i>	<i>0.669%</i>
<i>Airports</i>	<i>0.012%</i>
<i>Ports</i>	<i>0.021%</i>
<i>Public Transit</i>	<i>0.149%</i>
<i>Intercity Rail</i>	<i>0.050%</i>
Total State Add'l Annual Sales Tax at 4.3%	
Local Gov't Unrestricted	1.00%
Total Add'l Sales Tax at 5.3%	5.30%
Regional 0.7% Sales Tax for Transp.	0.70%
<i>Northern VA (32.4% of state)</i>	
<i>Hampton Roads (19.5% of state)</i>	
Historic Triangle 1.0%	1.00%

Note: Halifax Co. recently succeeded raising local sales tax rate by 1% for K-12 school construction/renovation. Other localities are trying to follow.