

Virginia's Budget Outlook
Issues and Implications for Local Government

Fiscal Analytics, Ltd.

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GF Revenue Growth Is Forecast to Modestly Increase in the 2018-20 Biennium

<u>Fiscal Years</u>	<u>Avg. Annual GF Growth*</u>
1990-1999	5.9%
2000-2008	5.7%
2009-2010	-5.0%
2011-2016	4.1%
2017	3.6%
2018	3.4%
2019	4.0%
2020	4.0%

*Does not include GF transfers

FY 2018 GF Revenue Growth Encouraging

	<u>5 Mo. GF Growth</u>	<u>% of GF</u>
Withholding	4.0%	63.1%
Est Payments/Tax Dues	1.0%	16.8%
Refunds	<u>6.1%</u>	<u>-10.1%</u>
Net Individual Income	3.6%	69.8%
Sales Taxes*	4.7%	18.0%
Corporate Income	57.8%	4.4%
Recordation	-2.4%	2.1%
All Other	<u>2.0%</u>	<u>5.8%</u>
Total GF Revenues	4.9%	100.0%

* 19.2% share of GF when including 0.375 cent sales tax transfer to the GF

Over Last 5 Years Lower Paying Jobs Have Been Growing Faster

	2017 Average Annual Pay	1st Q 2017 Employment	5-Year Growth	1st Q 2017 Total Wages	% Growth Over 2012
Total, All Industries	\$58,664	3,774,364	6.0%	\$55,355,076,327	17.4%
Jobs Paying Over \$1,000 per Week	\$84,956	1,708,653	3.7%	\$36,289,953,464	16.6%
Jobs Paying Under \$1,000 per Week	\$36,826	2,048,654	7.4%	\$18,861,161,569	18.0%

Source: Fiscal Analytics analysis of VEC Employment data (see Appendix for detail).

Other Unknowns Underlying the Introduced Budget

- Federal policy:
 - New tax law impact on Virginia?
 - Continued sequestration and federal defense spending?
 - Children’s health insurance (CHIP) reauthorization?
- Medicaid:
 - Will growth slow as forecast from a large expansion to managed care?
 - Will the GA adopt Medicaid expansion under the ACA and produce savings of \$421 million? GF savings associated with hospitals, Community Service Boards, and prison and jail inmates.
- Revenue reserve fund:
 - Will GA put \$427 million into the new reserve to help maintain credit ratings? \$282 million remaining in Rainy Day Fund.
- Transportation:
 - How will the GA deal with looming expiration of bond revenue for public transit funding and also pressing WMATA needs?

Governor's Introduced Budget

	GF Budget Accounting (\$ Mil.)						
	<u>2018 Caboose</u>	<u>FY 2019</u>	<u>Change from FY18</u>		<u>FY 2020</u>	<u>Change from FY19</u>	
			<u>\$</u>	<u>%</u>		<u>\$</u>	<u>%</u>
Legislative and Executive	\$119.4	\$123.7	\$4.3	3.6%	\$123.7	\$0.0	0.0%
Judicial Dept.	485.6	496.0	\$10.4	2.1%	496.0	\$0.0	0.0%
Administration/Comp Board	714.3	736.7	\$22.4	3.1%	739.6	\$2.9	0.4%
Treasury Board Debt Service	739.5	759.1	\$19.6	2.7%	807.6	\$48.5	6.4%
Other Finance/Technology	31.1	191.2	\$160.1	514.8%	189.8	-\$1.4	-0.7%
Rainy Day Fund Deposit	-	-	-	-	-	-	-
Car Tax Reimbursement	950.0	950.0	\$0.0	0.0%	950.0	\$0.0	0.0%
Commerce and Trade	203.5	208.9	\$5.4	2.7%	210.3	\$1.4	0.7%
Agriculture / Nat. Resources	163.7	191.9	\$28.2	17.2%	168.9	-\$23.0	-12.0%
K-12 Education/Central Office	6,031.2	6,297.5	\$266.3	4.4%	6,400.8	\$103.3	1.6%
Higher & Other Education	2,015.2	2,119.8	\$104.6	5.2%	2,148.6	\$28.8	1.4%
DMAS Medicaid	4,651.7	4,651.2	-\$0.5	0.0%	4,796.3	\$145.1	3.1%
Other Health & Human Services	1,847.1	1,949.5	\$102.4	5.5%	2,029.1	\$79.6	4.1%
Public Safety & Veterans/HS	1,938.0	2,030.8	\$92.8	4.8%	2,041.8	\$11.0	0.5%
Transportation	41.0	43.0	\$2.0	4.9%	43.0	\$0.0	0.0%
Central Appropriations	211.3	71.5	-\$139.8	-66.2%	188.6	\$117.1	163.8%
Cash Reserve	156.4	50.0	-\$106.4	-68.0%	220.7	\$170.7	341.4%
Independent Agencies/Capital	<u>0.3</u>	<u>10.4</u>	<u>\$10.1</u>	<u>NM</u>	<u>5.3</u>	<u>-\$5.1</u>	<u>-49.0%</u>
Total GF Appropriations	\$20,299.3	\$20,881.2	\$581.9	2.9%	\$21,560.1	\$678.9	3.3%
GF Revenues	19,328.2	20,096.5	\$768.3	4.0%	20,892.3	\$795.8	4.0%
Transfers	622.7	615.7	-\$7.0	-1.1%	625.8	\$10.1	1.6%
Rainy Day Fund Withdrawal	272.5	-			-		
Balances for Appropriation	201.6	22.0			(0.5)		
Unappropriated Balance		54.6			12.1		

Will Massive Move to Managed Care Provide Assumed Medicaid Savings?

<u>Fiscal Years</u>	<u>Avg. GF Annual Growth</u>
2000-2009	8.8%
2010-2015	6.2%
2016	9.3%
2017	7.2%
<i>2018 Forecast</i>	<i>6.5%</i>
<i>2019 Forecast*</i>	<i>2.3%</i>
<i>2020 Forecast*</i>	<i>3.4%</i>

* Reflects large expansion of managed care beginning 1/1/18, mostly in long-term care and behavioral health with *assumed* lower rates and continued low new eligibility.

2018-20 Medicaid Forecast Drivers

\$86 million increase in FY 2018 forecasted spending. The 2018-20 budget is increased \$583 million above FY 2018 base budget. Medicaid expansion assumes \$421 million in savings from hospitals, community service boards, and jails/prison populations.

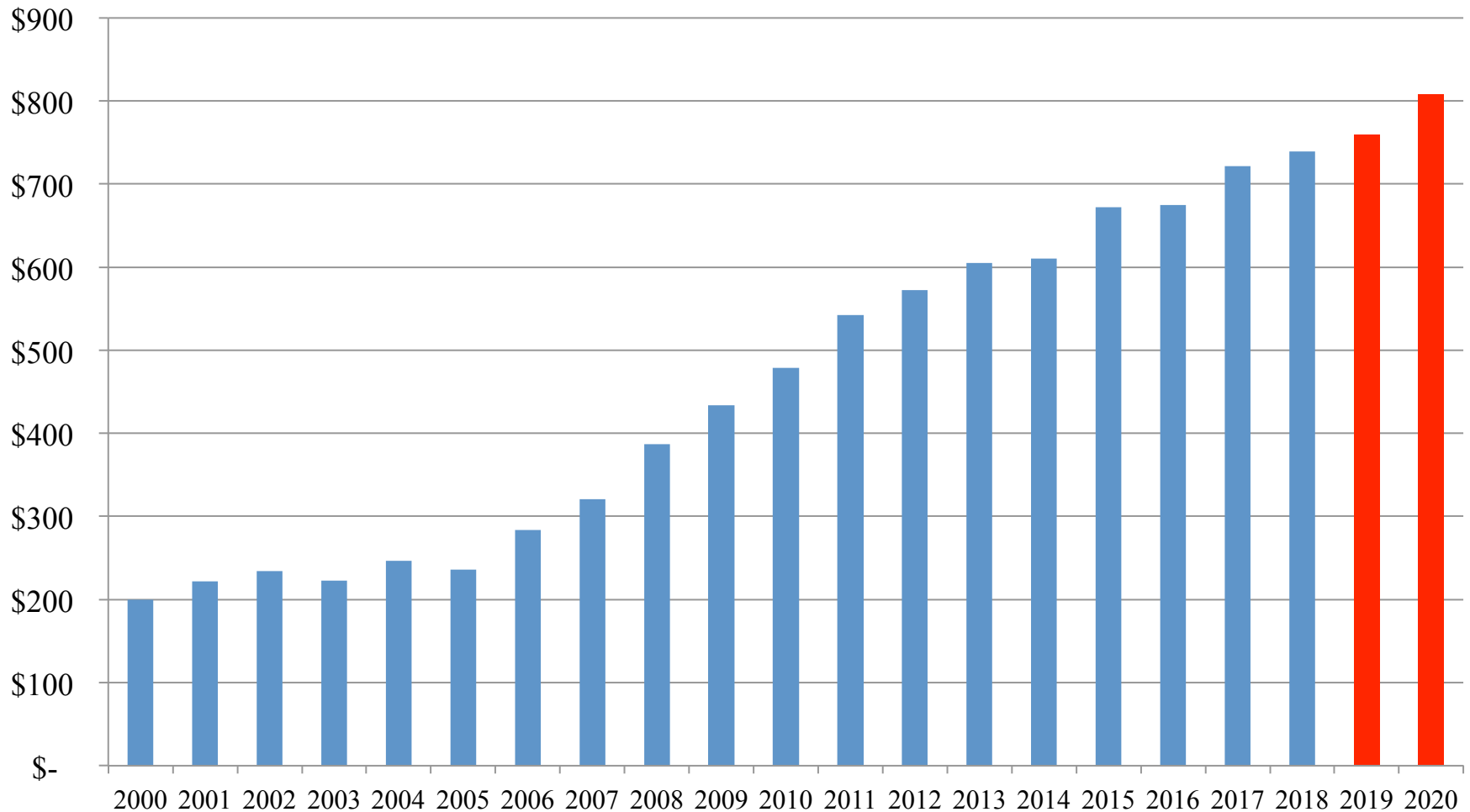
- Enrollment growth continuing at around 2.0%
- Managed care rate increases:
 - 2.5% in FY 2019 and 3.8% in FY 2020 for the Medallion program (existing managed care program)
 - 2.4% in FY 2019 and 3.5% in FY 2020 for CCC Plus (new managed care program)
- Hospital Inflation – 2.8% in FY 2019 and 3.0% in FY 2020
- Nursing Home Inflation – 2.9% in FY 2019 and 3.0% in FY 2020
- Behavioral Health Services Continue to Grow
- Medicare Premiums
 - Part D increase is 1.22% for 2018, 5% assumed in out-years for Parts A, B and D

Steadily Rising Senior Population Ensures Medicaid Enrollment Growth

	Total Projected VA Population	Pop. 65 years and over	% of Total Pop. Age 65 and Over	Pop. 85 years and over	% of Total Pop. Age 85 and Over
2010	8,001,024	976,937	12.2%	122,403	1.5%
2020	8,744,273	1,392,849	15.9%	149,399	1.7%
2030	9,546,958	1,803,403	18.9%	194,658	2.0%
2040	10,201,530	1,925,149	18.9%	283,507	2.8%

Source: Weldon Cooper Center, <http://www.coopercenter.org/demographics/national-population-projections>

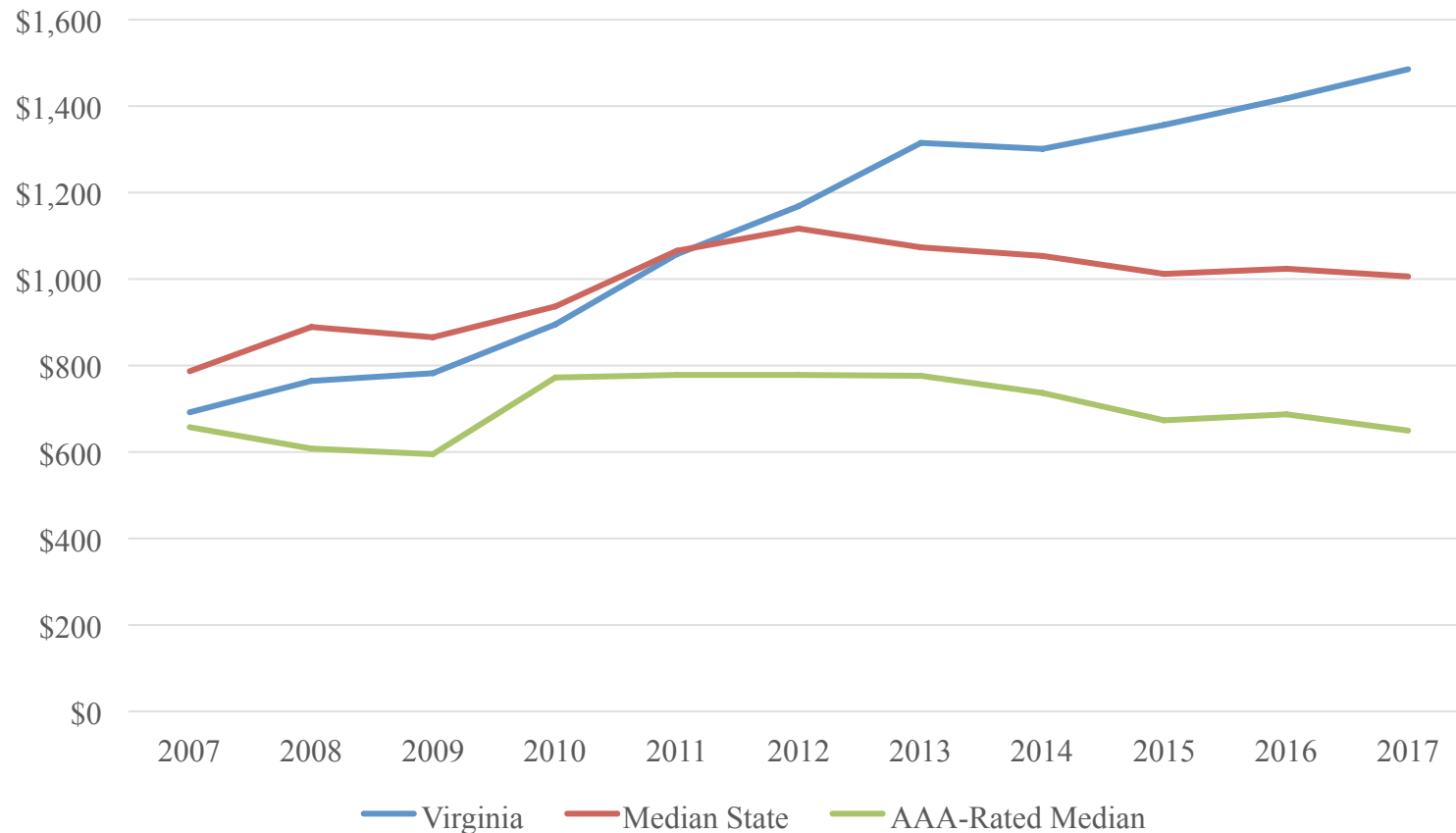
Continued Growth in GF Debt Service (\$ Mil.)



Note: Between fiscal years 2008 and 2017, the General Assembly collectively authorized \$12.13 billion of tax-supported debt. As of June 30, 2017 authorized and unissued debt amounted to \$5.7 billion, of which \$5 billion is for 9(d) projects (VPBA/VCBA).

...But Virginia Has Relatively Little Room for More Borrowing *

Virginia Debt per Capita Compared to Other States



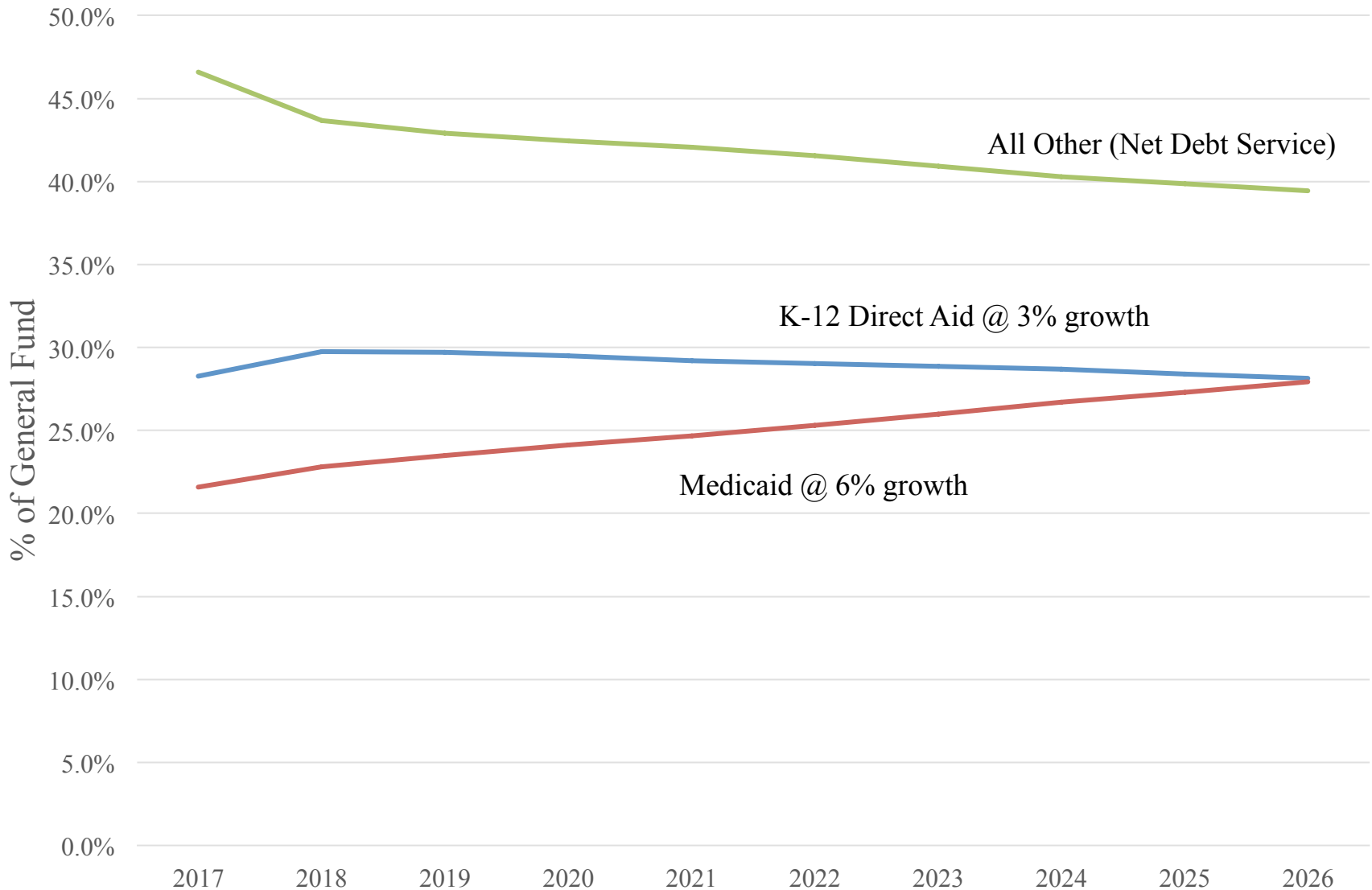
* Additional debt capacity based on self-imposed cap of 5% of GF + transportation revenues.
DCAC model assumes an average of \$580 mil. per year over next 10 years can be issued.
Source: Virginia Debt Capacity Advisory Board, Dec. 2017

General Fund Operating Appropriation Growth (\$ Mil.)

	<u>2001</u>	<u>2018</u>	<u>Growth</u>	Annualized Compound <u>Growth</u>
Medicaid (DMAS)	\$1,384.2	\$4,651.7	236.1%	7.4%
GF Debt Service	\$243.1	\$739.5	204.2%	6.8%
Behavioral Health	\$430.2	\$772.6	79.6%	3.5%
Other H&HS	\$648.9	\$1,059.0	63.2%	2.9%
K-12 Public Education	\$3,942.4	\$5,972.7	51.5%	2.5%
Public Safety/Comp Board	\$1,949.1	\$2,588.3	32.8%	1.7%
Higher Education	\$1,634.2	\$2,015.2	23.3%	1.2%
Natural Resources/Forest M	\$152.1	\$128.2	-15.7%	-1.0%
All Other	<u>\$1,899.4</u>	<u>\$2,372.1</u>	<u>24.9%</u>	<u>1.3%</u>
Total GF Operating	\$12,283.6	\$20,299.3	65.3%	3.0%

Note: Since 2001, the Consumer Price Index has averaged 2.0%.

GF Spending Programs and Policies Are Not Sustainable at 6% Medicaid Growth and 3-4% Revenue Growth



GF State Aid to Localities (\$ Mil.)

	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2018 (i)</u>	<u>FY 2019 (i)</u>	<u>FY 2020 (i)</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,972.7	\$6,236.5	\$6,339.4
K-12 % of Total GF Appropriations	35.2%	29.6%	29.4%	29.9%	29.4%
Health and Human Services	888.4	791.7	951.0	995.4	1,021.4
CSA	299.7	217.2	279.9	298.6	318.8
Community MH/SA Services	249.4	269.3	350.4	365.2	369.6
Local Social Services Staff	117.4	115.3	122.1	126.8	128.2
Community Health Programs	117.6	107.2	117.9	123.3	123.3
Welfare Services and Programs	104.3	82.7	80.7	81.5	81.5
Public Safety	734.3	687.9	740.0	758.3	768.0
Local Sheriffs Offices	406.1	411.3	453.6	464.4	465.9
Local Police Depts HB 599	197.3	172.4	178.0	184.5	191.7
Local Jail Per diem	80.1	59.4	61.3	61.7	62.7
Assistance for Juvenile Justice	50.8	44.8	47.1	47.7	47.7
Constitutional Officers	155.3	145.8	158.0	161.5	161.5
Dept. of Accounts Transfers	49.3	49.3	49.6	48.9	48.9
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	\$8,334.9	\$7,865.0	\$8,821.3	\$9,150.6	\$9,289.2
Total GF Appropriations	\$15,943.0	\$17,705.2	\$20,299.3	\$20,881.2	\$21,560.1
Local Aid % of Total GF	52.0%	44.1%	43.5%	43.8%	43.1%

K-12 Budget Changes of Interest to Localities

K-12 Direct Aid GF *biennium* spending increases (above base) primarily included:

- \$487.5 mil. GF for normal Standards of Quality re-benchmarking.
- \$42.7 mil. GF to update sales tax revenues for public education and \$5.2 million for sales tax distributions based on school-age population.
- \$80 mil. GF to offset decreased Literary Fund support for teacher retirement.
- \$51.3 mil. GF for the state share of a 2% salary increase starting December 1, 2019.
- \$11.5 mil. GF in FY 2019 for “no loss” funding in FY 2019 compared to FY 2018. This funding holds localities harmless that otherwise would lose state funding in FY 2019 relative to their FY 2018 allocations.
- \$7.7 mil. GF in FY 2020 for one full-time principal in every elementary school based on the Virginia Board of Education's recommendations to amend the Standards of Quality.
- \$7.1 mil. GF in FY 2020 for additional at-risk student funding based on numbers of free lunch students from a basic aid boost of 1-13% to 1-14% in FY 2020.

K-12 Direct Aid GF *biennium* spending reductions primarily included:

- \$80.4 million GF reduction due to increased Lottery proceeds projections.
- \$47.9 mil. GF reduction from Virginia Pre-school Initiative non-participation
- \$45 million reduction from a reduced teacher retirement rate - 16.32 percent to 15.68 percent
- \$5.5 mil. GF in savings from revised lower student enrollment projections
- \$1.7 mil. GF in savings from new LCI calculations.

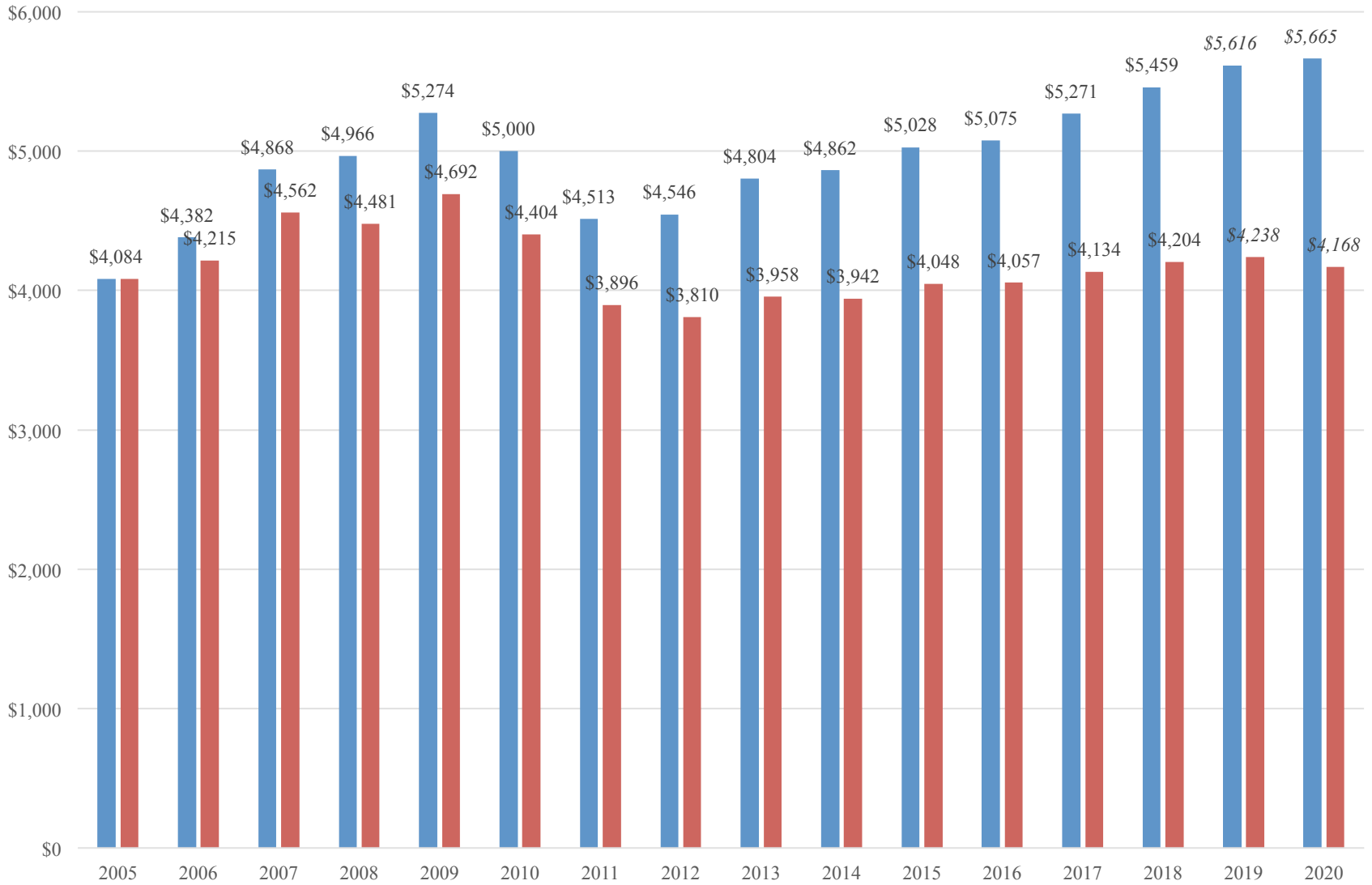
Initial 2018-20 Biennium K-12 Rebenchmarking

(Net of 25% non-participation for VA Pre-School Initiative)

- FY 2019 = \$210.8 m; FY 2020 = \$232.6 m; Total = \$443.4 m
 - Increases state funding by about 6 percent over the 2 years.

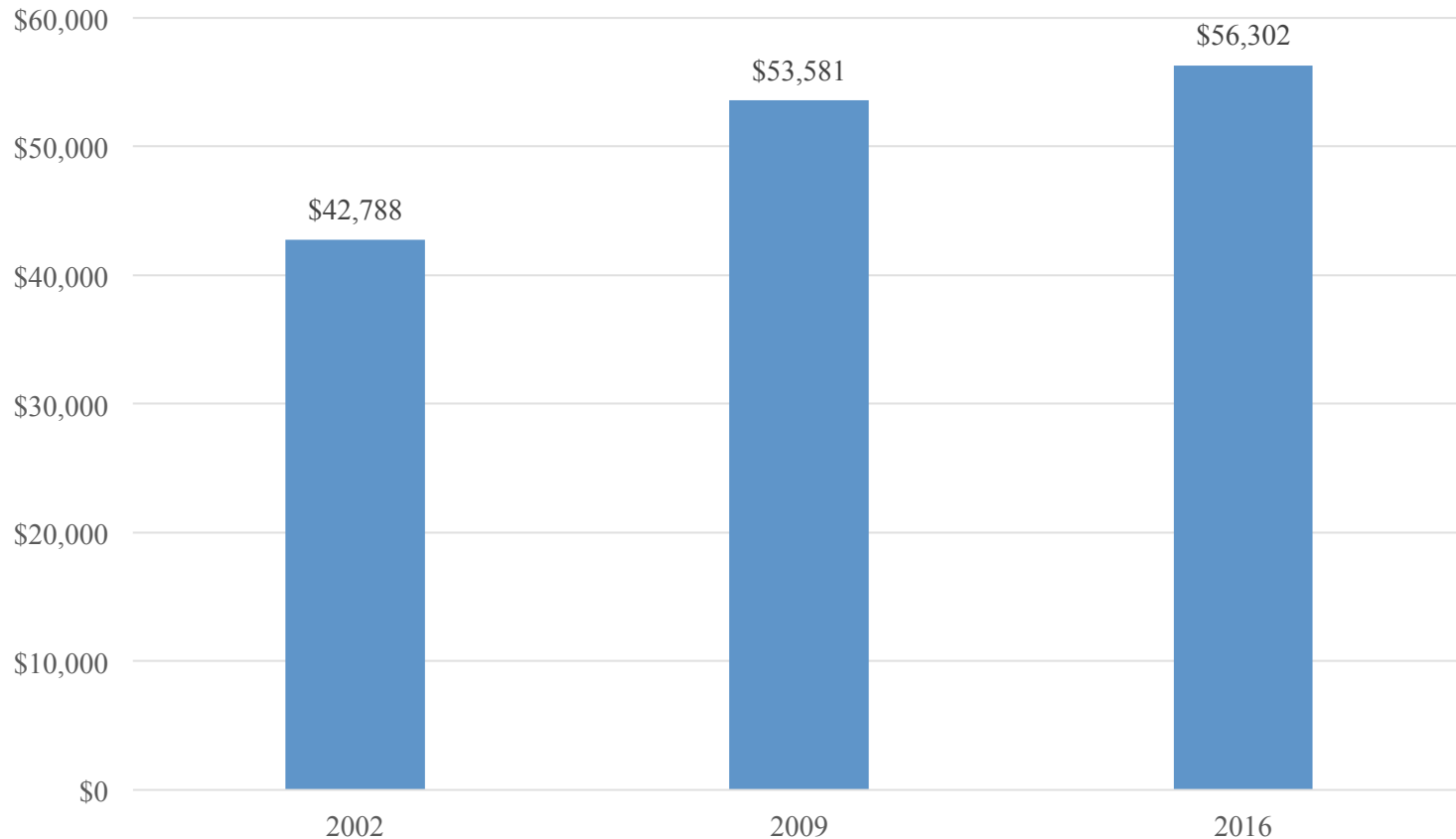
Major Cost Increases:	<u>Biennial Cost</u> (\$ Mil)	Major Cost Decreases:	<u>Biennial Cost</u> (\$ Mil)
Recognize Full Year Cost of 2.0% State Salary Increase and Instructional/Support Prevailing Costs	\$169.5	Pupil Transportation Costs	(\$24.1)
Non-personal Support Prevailing and Inflation Costs <i>(largest factor: substitute teachers up 9.3%)</i>	\$161.3	3-Year Avg. FL Rates for CEP Schools	(\$21.0)
Health Care Premium <i>(up 10%)</i>	\$58.0	Support Position Cap Ratio (4.27-1)	(\$18.9)
Update Lottery Accounts	\$43.7	Textbook Costs	(\$14.4)
Projected Enrollment Counts	\$38.4	Federal Revenue Deduct	(\$2.3)
ESL, CTE, Remedial Summer School, Categorical, Superintendents, School Board, Nurse Costs	\$22.7	Other	(\$1.7)
SOL Test Failure Rate Data	\$17.5	Total Decreases	(\$82.4)
Special Ed Child Counts	<u>\$14.6</u>		
Total Increases	\$525.7		

2018 Session Introduced Budget State Per Pupil K-12 Direct Aid (All Funds) Nominal and Inflation-Adjusted (CPI \$2005)



Instructional Pay Increases Have Slowed Considerably Since 2009

Average Salary - All Instructional Positions*



Source: Superintendent's Annual Report.

* All instructional positions include classroom teachers, guidance counselors, librarians, principals, and assistant principals.

Note: Average instructional pay would have been \$59,872 in 2016 if grown at the rate of the CPI from 2009.

State Standards of Quality Do Not Reflect True Costs for Local K-12 Divisions

- Only 136,000 out of 200,000 K-12 positions (68 percent) employed by local school divisions are recognized by the SOQ; many support positions and other support costs de-funded after 2009; the “linear weighted average” methodology underfunds teacher’s salaries; real-time costs not reflected in re-benchmarking.
 - Raising teacher salaries from 29th (*JLARC 2017*) to the national average and funding prevailing support costs requires an additional \$750 million GF/year.
- Localities on average spend about double, or \$3.9 bil. beyond state requirements to meet SOL and SOA requirement in FY 16. All 134 local school divisions exceeded Required Local Effort (RLE) in FY 16.

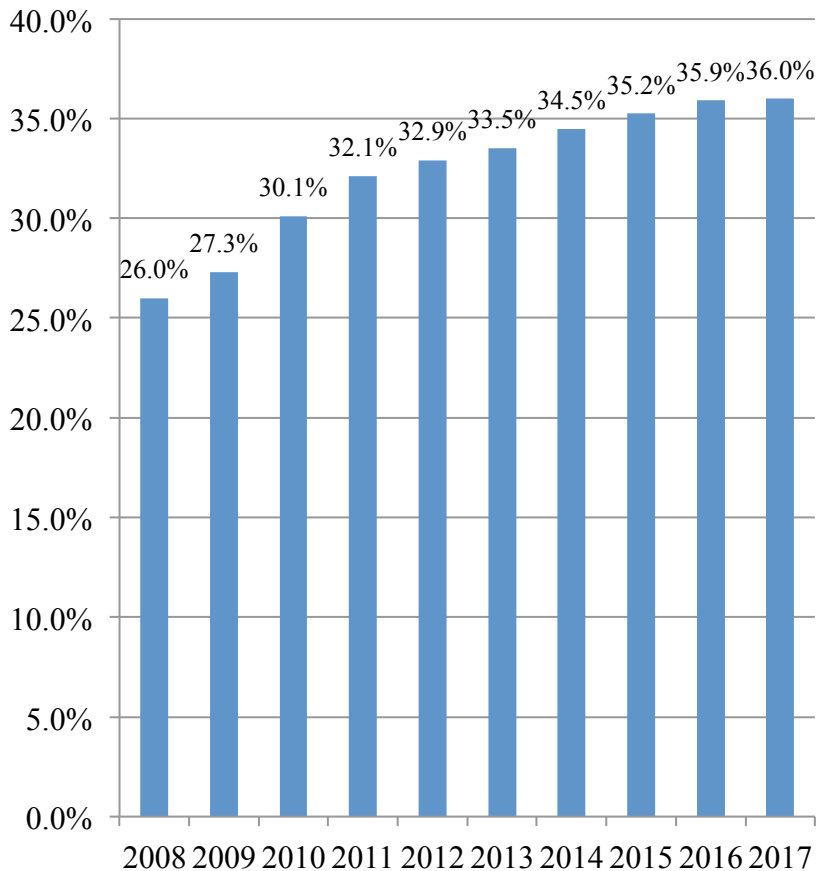
Divisions up to 25% Above RLE	16
Divisions Exceeding 25% to 75%	45
Divisions Exceeding 76% to 100%	30
Divisions Exceeding 100% RLE	43

Virginia Board of Education Recommends \$600 Mil./Year in Standards of Quality Upgrades

- In 2016, BOE recommended SOQ funding changes - first since the early 2000's. Examined where local practices overwhelmingly exceeded state recognized staffing practices.
- The Board of Education recommends the following changes to the SOQ:
 - Restoring the funding of support positions using prevailing practices rather than the 2009 enacted support position cap of 1 support per 4.27 SOQ funded teachers - \$340 million.
 - Require one school counselor for every 250 students in grades K-12 - \$82.4 million
 - Require one full-time assistant principal for every 400 students in grades K-12 - \$71.4 million
 - Require one full-time social worker for every 1,000 students - \$48.7 million
 - Require one full-time school psychologist for every 1,000 students - \$42.7 million
 - One full-time principal in each elementary school. 12 percent of schools have under 299 students and are only provided funding for a part-time principal - \$7.7 million (in Governor's introduced budget for FY 20)
 - Require one full-time school nurse for every 550 students - \$1.8 million
- New position standards would increase local match requirements for some localities.

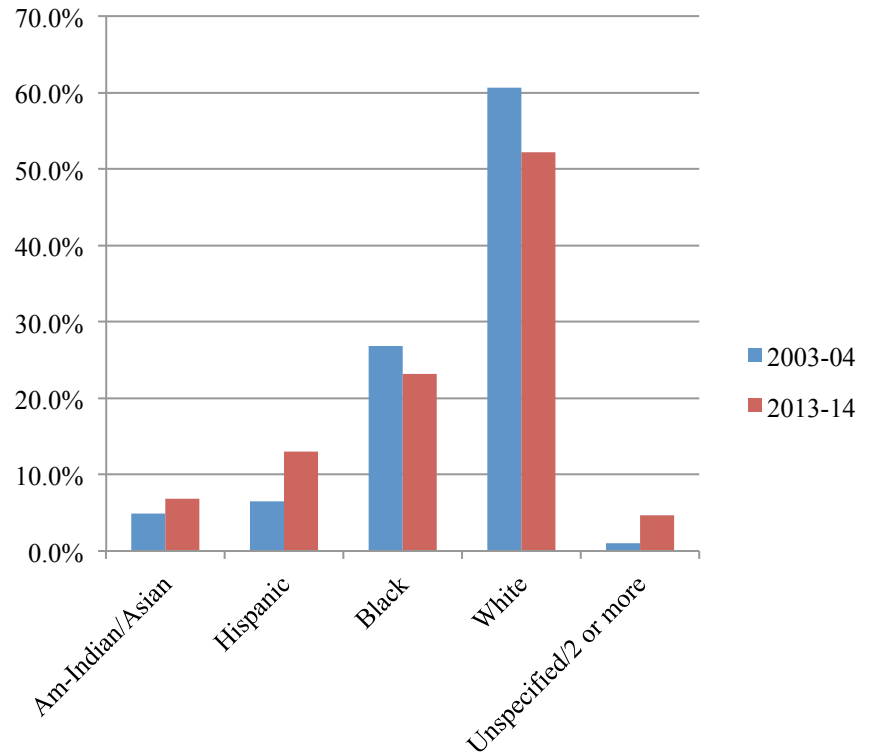
More Difficult and Diverse Student Population to Educate

% Free Lunch Students Growing



- Changing Demographics – ESL increased 63% over last 10 years

VA Public K-12 Student Population by Race



The Achievement Gap Persists

SOL Pass Rates (2016-17)

	<u>English</u>	<u>Math</u>	
Asian	91	93	
White	86	86	
Hispanic	71	71	
Black	67	66	
Economically Disadvantaged	67	68	
Limited English Proficiency	64	68	

Source: http://www.doe.virginia.gov/statistics_reports/school_report_card/index.shtml

How Has the State Funded Its Share of Special Education Costs (Mil. \$)?

	State Appropriations (\$ Mil.)		
	<u>FY 2009</u>	<u>FY 2018</u>	<u>Growth</u>
SOQ Special Education	\$372.7	\$382.9	2.7%
Special Education Regional Tuition	\$64.2	\$87.6	36.4%
All Other Special Ed Programs	<u>\$39.1</u>	<u>\$43.8</u>	<u>12.0%</u>
Total State Special Education Funds	\$476.0	\$514.3	8.0%

Note: Special Education child count rose 1.9% from 165,874 in FY 2009 to 168,943 in FY 2016.

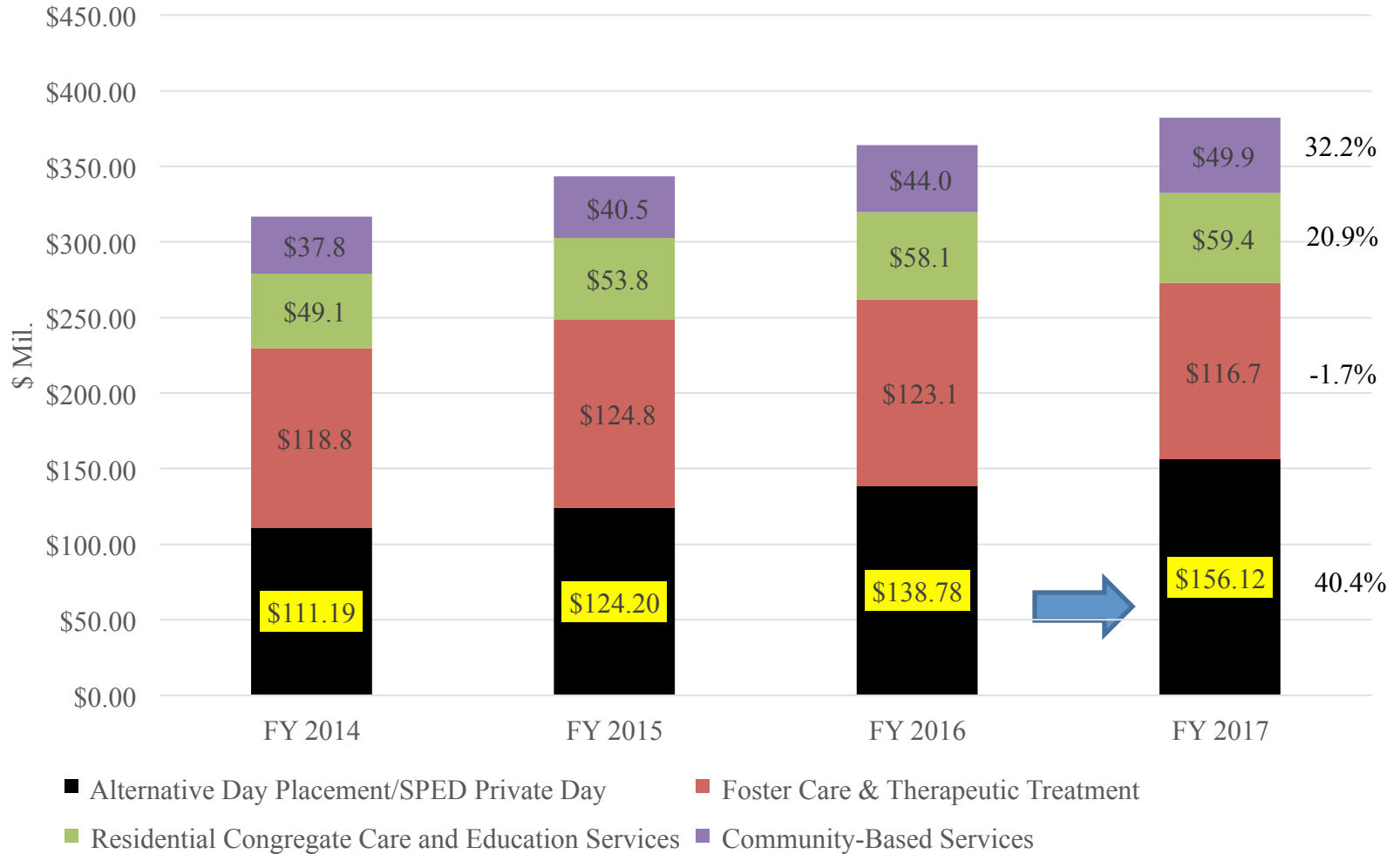
Health & Human Service

GF Budget Items of Interest to Localities

- \$54.2 million GF over the biennium to fund anticipated caseload and expenditure growth in the Children's Services Act (CSA) - the majority of which is attributed to an increase in special education private day programs.
 - The budget also provides \$250,000 for the Office of Children's Services to contract for a study on private day placement rates, to include a review of the adequacy of those rates and recommendations for implementing a rate-setting structure.
- \$45.0 mil. GF to add 825 Community Living (CL) and Family and Individual Supports (FIS) waiver slots as required by the Department of Justice Settlement Agreement.
- Provides \$6.9 mil. GF to transition individuals currently on the extraordinary barriers to discharge list at state mental health facilities into the community. These funds are phased in the first year.
- Provides \$11.8 mil. GF for staffing costs at Community Services Boards of complying with same-day access legislation passed last year - that requires CSBs to offer same-day access to behavioral health assessment services by July 1, 2019. Funding is currently for 18 CSBs. This amendment will provide the same support to the remaining 22 CSBs.
- Budget also assumes GF savings from CSB's of \$16.7 mil. FY 19 and \$25.0 mil. in FY 20 from serving uninsured population through Medicaid expansion.

CSA Special Education Day Placement Costs Are Growing

STATE CSA EXPENDITURE GROWTH



Special Education Day Placement Costs

	<u>FY 2014</u>	<u>FY 2017</u>	<u>% Growth</u>
Number Served	3,158	3,817	20.9%
Avg. Annual Cost per Child	\$34,437	\$41,088	19.3%

Special Education Day Placement Cost Containment Proposals

- Introduced budget provides \$250,000 for the Office of Children's Services to contract for a study on rates paid by localities to special education private day programs, to include a review of the adequacy of those rates and recommendations for implementing a rate-setting structure.
- Continue current funding methods and improve the system.
 - For example, use outcome measures to track the progress of children in private day placements; and enhance local school divisions' abilities to serve kids in their local schools such as better use of CSA wrap-around funds for behavioral aides.
- Place appropriations with VDOE and more directly linked to local IEP team placements?

Economic Development

GF Budget Items of Interest to Localities

- \$49 mil. GF for the GO Virginia Initiative to foster public-sector growth and job creation through state incentives for regional collaboration by business, education, and government.
- \$11 million GF to provide support for the Housing Trust Fund (No increase).
- \$7.5 mil. GF to establish the Virginia Grocery Investment Fund to encourage the development of supermarkets and other healthier food retail in underserved communities.
- \$4.0 mil. GF for the Virginia Telecommunication Initiative to enhance broadband infrastructure - \$1.5 million increase from the 2016-18 biennium.
- \$12.8 million GF per year for the Virginia Enterprise Zone Program (no increase).
- \$4.5 mil. GF for the Brownfields Rehabilitation program (No increase).
- \$3.0 mil. GF for the Removal of Derelict Structures Fund – a \$1.0 million decrease from the 2016-18 biennium.
- \$1.0 mil. GF for the Virginia Main Street Program (No increase).

Other GF Budget Items *of Interest to Localities*

- Language and funding have been included to support a 2% across-the-board salary increase effective December 1, 2019 for constitutional officers, regional jails and their employees provided that the governing body uses the added funding to support such salary increases; this increase mirrors the percentage and timing of a like salary increase proposed for state employees.
- \$6.6 mil. in FY19 and \$13.8 mil. in FY20 for increased state assistance to police departments (the HB 599 program).
- No increase in jail per diems; No performance or compression based increases are included for constitutional officers and their employees in FY19 or FY20; No additional funding to support qualified and unfunded new participation in approved career development programs; No additional funding or positions are included to address staffing standards, including law enforcement, court services, or jail overcrowding.
- \$22.5 mil. GF for the mandatory deposit to the Water Quality Improvement Fund (WQIF) associated with the FY 2017 year-end surplus. \$19.8 million is designated for Virginia cost-share programs and technical assistance provided through the Virginia Natural Resources Commitment Fund.

Transportation Budget Items *of Interest to Localities*

- Authorizes the sale of \$110M in FY 2020 to address the public transit fiscal cliff. The Department of Rail and Public Transportation states that debt service will be paid out of the Priority Transportation Fund, and that the debt authorization will not impact any planned projects.
- Provides \$150M in dedicated, on-going capital funding for WMATA to address state of good repair – Virginia’s share under the WMATA capital formula.
 - \$85M from existing NVRTA revenues.
 - \$65M from increasing the Grantor’s tax and Transient Occupancy tax and instituting a NOVA regional fuel tax floor.

Since Recession, Locality Resources Have Not Kept Pace with Inflation/Population Growth

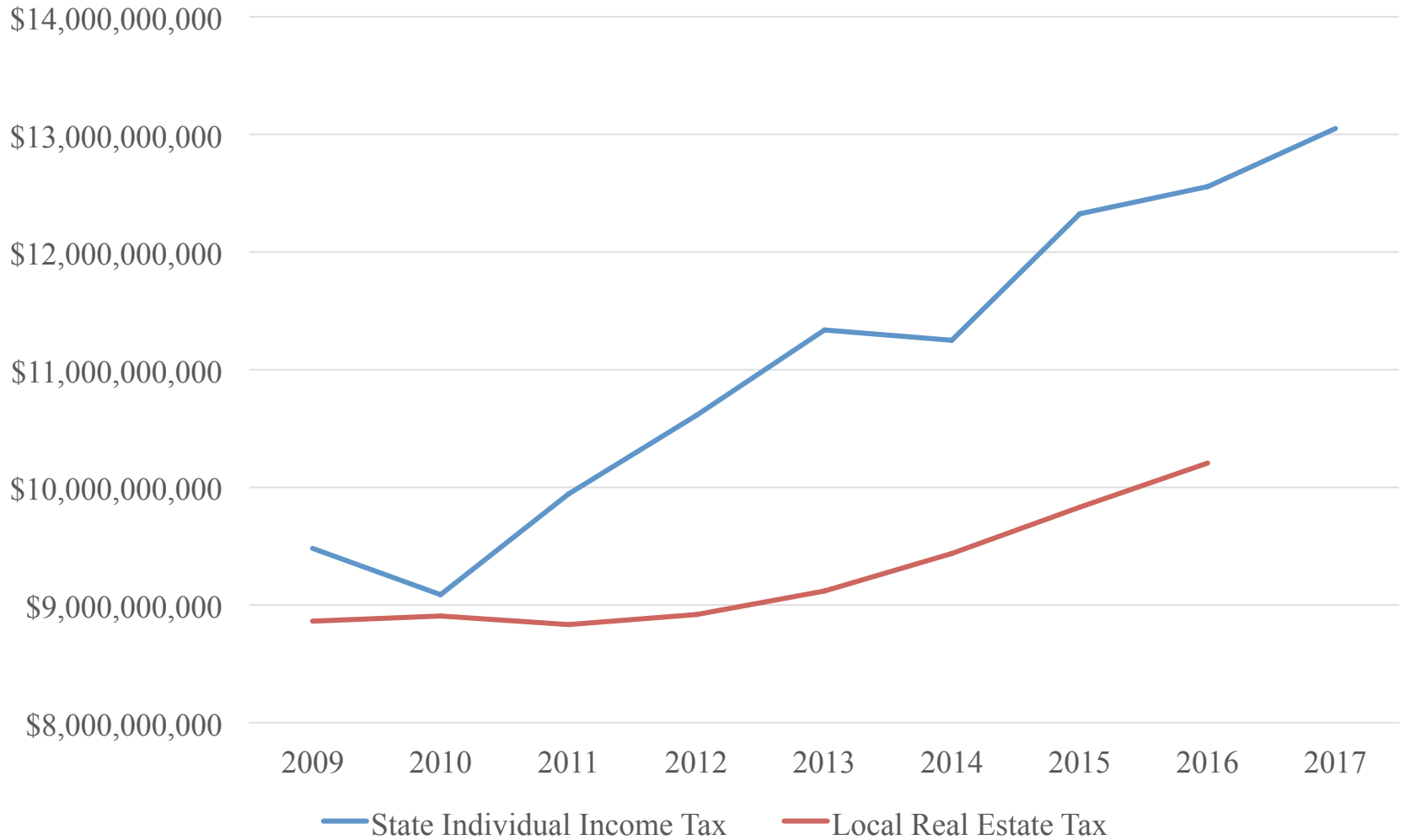
FY 2009 - FY 2016 Growth Comparison					
	Locally-Generated Revenue	State/Federal Revenue for Localities	All Revenue for Localities	Population	Population /Inflation
VA Cities*	11.8%	2.2%	7.8%	6.4%	18.1%
VA Counties	18.4%	11.8%	15.9%	7.3%	19.0%

* *Net of Cities of Richmond and Hopewell*

Note: Consumer Price Index from fiscal years 2009-16 = 11.7%

Sources: Virginia Auditor of Public Accounts Comparative Revenue and Expenditure Reports, U.S. Bureau of Labor Statistics

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



Even Slow Real Property Revenue Growth Has Required Sharply Rising Rates

Median Real Estate Tax Rates in Virginia Localities*

	<u>CY 2009</u>	<u>CY 2016</u>	<u>Change</u>
Cities	0.90	1.07	0.17
Counties	0.55	0.66	0.11
Towns	0.18	0.18	-

* Nominal rates per \$100 of assessed value. Source: Weldon Cooper Center, “Virginia Local Tax Rates”

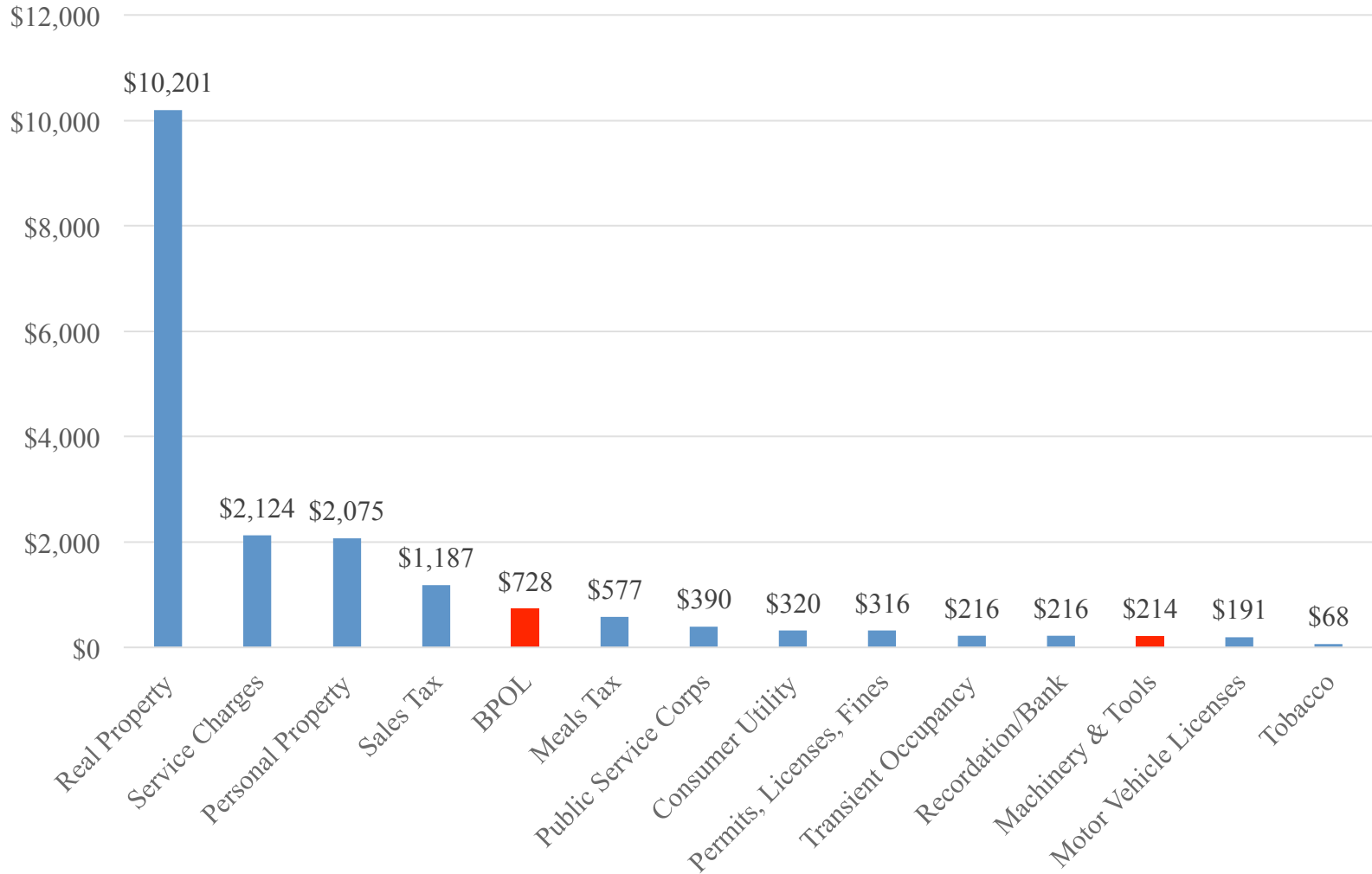
Despite Local Fiscal Issues, the Burden of the State-Local Fiscal Partnership is on Localities

	<u>2012 JLARC Ranking</u>	<u>2017 JLARC Ranking</u>
Per capita personal income	8	11
Per capita state taxes	34	36
Per capita local taxes	13	15
State Per Pupil Funding	35	38
State and Local Per Pupil Funding	17	26
Average Salary of Public School Teachers	28	29

Source: Virginia Compared to Other States, JLARC, 2012, 2017 Editions

Business Taxes Are Important Local Revenue Sources

Major Local Revenue Sources (\$ Mil. - FY 2016)



60 Percent of Business Licenses Pay Under \$100 per Year*

<u>Gross Receipts Level</u>	<u># of Licenses</u>	<u>Percent</u>	<u>\$ Amount</u>	<u>Percent</u>	<u>Avg per License</u>
Flat Fee only	74,888	23.6%	\$4,134,673	0.7%	\$55
\$0-\$100,000	117,469	37.0%	\$4,841,153	0.8%	\$41
\$100,001-200,000	29,165	9.2%	\$9,273,349	1.6%	\$318
\$200,001-500,000	35,989	11.3%	\$27,652,331	4.8%	\$768
\$500,001-5,000,000	50,616	16.0%	\$177,978,987	30.8%	\$3,516
\$5,000,001-25,000,000	7,622	2.4%	\$174,518,999	30.2%	\$22,897
Over \$25,000,000	<u>1,456</u>	<u>0.5%</u>	<u>\$178,979,953</u>	<u>31.0%</u>	<u>\$122,926</u>
Survey Totals	317,205	100.0%	\$577,379,446	100.0%	\$1,280

* Survey responses covered about 85% of total BPOL levies collected in FY 12.

Note: Mid-size low margin retail businesses (\$500k-\$5 mil.) pay about \$50 mil. in BPOL levies averaging \$2,800/yr.

M&T Taxes Are Concentrated in Localities

	Total FY 2016 M&T \$	Effective 1st Yr Tax Rate/\$100		M&T as % of Total Local Revenue	Effective 1st Yr Tax Rate/\$100
1 Newport News	\$20,312,830	\$1.25	1 Alleghany	23.20%	\$0.89
2 Richmond City*	12,838,347	\$2.07	2 Covington	19.10%	\$0.83
3 Rockingham	8,693,745	\$2.30	3 Giles	17.70%	\$1.06
4 Frederick	6,895,312	\$1.20	4 Buchanan	15.90%	\$1.56
5 Norfolk	6,063,521	\$1.70	5 Hopewell**	12.10%	\$0.76
6 Alleghany	5,876,975	\$0.89	6 Henry	9.10%	\$1.44
7 James City	5,792,203	\$1.00	7 Campbell	8.60%	\$0.81
8 Buchanan	5,697,213	\$1.56	8 Southampton	8.00%	\$1.92
9 Campbell	5,618,130	\$0.81	9 Rockingham	7.80%	\$2.30
10 Hopewell**	5,066,978	\$0.76	10 Botetourt	7.30%	\$0.90
11 Manassas	4,909,651	\$1.68	11 Sussex	7.00%	\$2.43
12 Lynchburg	4,731,874	\$0.90	12 Greensville	6.80%	\$0.80
13 Chesterfield	4,564,090	\$0.25	13 Pulaski	6.50%	\$0.72
14 Henry	4,468,853	\$1.44	14 Isle of Wight	5.90%	\$0.70
15 Isle of Wight	4,121,487	\$0.70	15 King William	5.60%	\$0.56
16 Giles	3,812,525	\$1.06	16 Amherst	5.50%	\$0.50
17 Augusta	3,649,048	\$0.40	17 Galax	4.90%	\$0.75
18 Botetourt	3,438,291	\$0.90	18 Newport News	4.80%	\$1.25
19 Pulaski	3,372,366	\$0.72	19 Frederick	4.70%	\$1.20
20 Bedford	3,114,881	\$1.20	20 Accomack	4.60%	\$1.67
21 Roanoke City	3,028,795	\$2.07	21 Manassas	4.50%	\$1.68
22 Salem	2,931,060	\$2.24	22 Augusta	4.20%	\$0.40
23 Covington	2,874,828	\$0.83	23 Washington	4.20%	\$1.55
24 Washington	2,821,283	\$1.55	24 Salem	4.20%	\$2.24
25 Chesapeake	2,803,960	\$0.63	25 Shenandoah	4.10%	\$1.73

* FY 2015, ** FY 2014

Summary

- Low growth in GF revenues and high growth in Medicaid and debt service has meant a continued degradation in state support for locally-administered state-mandated programs. Will Medicaid expenditures slow in 2018-20 biennium due to the move to managed care? Will Medicaid expansion be adopted and produce the estimated budget savings?
- The 2009-10 recession took a big bite out of K-12 education state funding that has yet to be fully restored. State funding for most other locally-mandated programs for health, welfare, public safety, etc., have not kept pace with inflation/demand since FY2009.
- Local revenues -- already straining to provide the state's critical services -- need modernization without hurting the locality revenue base.
- The state should either shoulder more funding responsibility or provide localities with much greater revenue generating capacity.

How is Local Fiscal Stress Currently Identified in Virginia?

- A good fiscal stress measure must be able to provide early identification of troubled locations, an accurate assessment of the degree of deterioration, and an indication of the fiscal policy solutions needed.
- Commission on Local Government (COLG) Fiscal Stress Index.
 - COLG index is a measure of relative tax effort and relative tax capacity against a benchmark of the state average. The assumption is that departure from the average for either high relative effort or low relative capacity, or both, is an indication of high fiscal stress.
- New “Financial Assessment Model” (FAM) being developed per state budget language by the Auditor of Public Accounts.
 - Monitored by GA Joint Subcommittee on Local Government Fiscal Stress
 - Still receiving input on model development by workgroup.
 - Current design really measures “financial stewardship” with high reliance on measures of debt and liquidity – not necessarily fiscal stress.

Improving the APA Assessment of Locality Financial Conditions

- Collect more information on the front-end and change FAM label to “Fiscal Conditions Model”. For example, incorporate the COLG Index or some similar elements, such as per capita personal income, into a Fiscal Conditions Model.
- Assign weights to ratios so as to address the FAM score over-reliance on measures of debt and liquidity.
- Group and compare scoring by peer locality.
- Create a “Dashboard” that reveals only Green (ok) and Orange (caution) to avoid yearly score comparisons.

Fiscal Stress (COLG) versus Fiscal Stewardship (FAM)

CLG Fiscal Stress Rank	2016 FAM Score	2009 RE Tax Revenues	2016 RE Tax Revenues	Growth FY09-16	VA GF Exceeds Local RE Growth?
<i>Virginia (Total GF)</i>		<i>\$14,315,100,000</i>	<i>\$18,040,100,000</i>	<i>26.0%</i>	
1 Emporia	75.3%	\$2,704,096	\$3,231,115	19.5%	Yes
2 Buena Vista	18.1%	\$3,337,299	\$3,982,630	19.3%	Yes
3 Petersburg	4.5%	\$23,651,270	\$25,523,837	7.9%	Yes
4 Martinsville	41.1%	\$6,887,656	\$6,609,824	-4.0%	Yes
5 Covington	35.6%	\$1,845,129	\$2,114,507	14.6	Yes
6 Galax	20.7%	\$2,306,898	\$3,413,186	48.0%	No
7 Lynchburg	35.2%	\$48,391,257	\$56,475,151	16.7%	Yes
8 Franklin City	34.9%	\$4,922,643	\$5,558,277	12.9%	Yes
9 Hopewell	N/A	\$12,829,945	N/A	-	N/A
10 Radford	35.2%	\$5,335,962	\$6,105,625	14.4%	Yes
11 Bristol	4.2%	\$9,593,966	\$12,246,361	27.6%	No
12 Portsmouth	49.0%	\$90,174,449	\$90,944,523	0.9%	Yes
13 Norfolk	20.7%	\$206,319,083	\$217,125,915	5.2%	Yes
14 Hampton	42.8%	\$121,510,087	\$135,302,923	11.4%	Yes
15 Norton	17.9%	\$1,601,572	\$2,062,943	28.8%	No
16 Newport News	25.6%	\$167,606,717	\$174,097,563	3.9%	Yes
17 Danville	76.8%	\$16,134,891	\$16,364,473	1.4%	Yes
18 Harisonburg	43.6%	\$20,253,878	\$28,256,206	39.5%	No
19 Roanoke City	21.4%	\$78,417,254	\$81,997,230	4.6%	Yes
20 Greensville County	51.7%	\$3,014,889	\$4,147,984	37.6%	No
21 Buchanan County	66.8%	\$7,624,465	\$9,260,576	21.5%	Yes
22 Lexington	72.4%	\$3,651,580	\$5,560,264	52.3%	No
23 Staunton	63.1%	\$16,500,114	\$16,974,204	2.9%	Yes
24 Smyth County	38.5%	\$7,422,198	\$10,624,941	43.2%	No
25 Sussex County	61.0%	\$4,221,374	\$4,633,591	9.8%	Yes
26 Richmond City	13.7%	\$222,174,092	N/A	-	N/A
27 Dickenson County	36.4%	\$5,658,058	\$7,709,242	36.3%	No
28 Waynesboro	51.9%	\$12,190,852	\$13,523,760	10.9%	Yes
29 Salem	45.3%	\$22,701,024	\$24,430,486	7.6%	Yes
30 Scott County	30.1%	\$7,057,811	\$8,094,350	14.7%	Yes

What Can State Government Do To Improve Economic Growth Prospects?

- Enact policies to close the skills gap:
 - Get serious about addressing the K-12 achievement gap; turn community colleges into career factories linked to industry/company needs; encourage a modern affordable Higher Ed curriculum and invest in research.
- Incentivize a more entrepreneurial economy:
 - Encourage more venture capital and gap financing - turning ideas into startups and helping successful companies grow.
 - Foster more human synergies to help provide critical mass.
- Focus state policy on obvious infrastructure issues:
 - Transportation bottlenecks and higher speed connections
 - Broadband and technology access
 - Providing cheap, abundant, clean energy

Modernize the State/Local Tax Base

- Reduce individual/corporate income and sales tax preferences.
- Better capture the growing service economy with sales taxes.
- Create a level tax playing field for internet and brick & mortar retailers.
 - If Congress won't require internet sellers to *collect* sales tax then require sellers to *inform* the purchaser and Tax Department for use tax payment purposes.
- Modernize the local communications sales tax for audio and video streaming services and prepaid calling services and raise the rate to current retail sales and use tax.
- Expand the 0.7 percent regional sales tax for transportation to other regions.
- Allow counties the same taxing authority *by ordinance* as cities for meals, tobacco, and transient occupancy taxes.

Provide More Tools to Address Stressed Localities

- Increase incentives for local and regional cooperation.
 - Continue enhancing “GO Virginia” funding.
- Address challenged schools and teacher recruitment.
- Provide Community Wealth Building/Workforce Development funds to overcome chronic poverty.
- Improve tax policy for low-income taxpayers.
- Better target economic development incentives to stressed localities.
 - Provide broadband access for all localities
 - Fully fund Enterprise Zone grants – no proration
 - Increase “Brownfield” assessment/remediation grants
 - Better target the “Governor’s Opportunity Fund”: accelerate anchor tenant developments, millennial attractions, and innovative businesses and technology with gap financing; increase business recruitment and collaborations; leverage other economic development funds.

Appendices

Understanding State Operating *Non*-General Funds

Non-General Fund Category	Major Examples	<u>FY 2007</u>	<u>FY 2018</u>	<u>% Growth</u>
Higher Ed Operating	Tuition and fees, university hospital revenue, federal funds for Hi ED	\$4,852.8	\$8,249.0	70%
Federal Trust	All federal funds received (e.g. medicaid), except those received by VDOT, VEC, and Hi Ed	\$4,871.6	\$8,395.9	72%
Commonwealth Transportation	Transportation taxes incl. federal \$, excluding tolls	\$3,928.5	\$5,591.8	42%
Trust and Agency	Unemployment insurance, tobacco settlement, lottery and literary funds earmarked to K-12	\$1,083.3	\$2,235.1	106%
Internal Service	DGS leasing office space, VITA providing IT services to other agencies, and DHRM administering state and local government employees' health plans	n/a	\$1,975.2	n/a
Dedicated Special Revenue	VA Health Care Fund, Safe Drinking Water Fund, Game Protection Fund, highway tolls, DMV fees, state park fees, solid waste fees, etc	\$638.2	\$1,900.2	198%
Special revenue	Revenues derived from restricted taxes and other special revenue sources, e.g. state ID health services	\$1,602.6	\$1,781.5	11%
Enterprise	ABC and lottery sales, prepaid tuition 529 plans	\$850.1	\$1,684.2	98%
Other Debt Service	Primarily Hi Ed student fees for dining, housing, athletics	\$234.4	\$337.5	44%
Total Non-General Funds		\$18,061.5	\$32,150.4	78%
General Fund		\$17,033.1	\$20,455.8	20%
Total		\$35,094.6	\$52,606.2	50%

Changes in Virginia Employment and Wages Over Last Five Years

	1st Q 2017 Weekly Wage	1st Q 2017 Employment	% Growth Over 2012	1st Q 2017 Total Wages	% Growth Over 2012
Total, All Industries	\$1,128	3,774,364	6.0%	\$55,355,076,327	17.4%
Management of Companies	\$3,215	72,464	-4.1%	\$3,028,660,397	21.5%
Finance and Insurance	\$2,209	137,107	10.0%	\$3,936,439,474	31.5%
Information	\$2,081	72,888	-5.3%	\$1,971,763,605	12.7%
Professional, Scientific, Technical	\$2,011	419,750	4.1%	\$10,973,823,630	14.1%
Utilities	\$1,894	18,323	-0.4%	\$451,246,349	15.9%
Wholesale Trade	\$1,536	109,026	-1.1%	\$2,177,484,834	9.3%
Public Administration	\$1,491	246,546	2.6%	\$4,777,846,299	15.1%
Mining, Quarrying, O&G Extraction	\$1,359	5,863	-36.5%	\$103,549,204	-34.5%
Manufacturing	\$1,160	242,184	0.9%	\$3,652,272,554	7.1%
Real Estate and Rental and Leasing	\$1,084	52,522	4.5%	\$740,431,656	22.9%
Construction	\$1,042	194,713	8.7%	\$2,637,894,858	26.2%
Transportation and Warehousing	\$1,030	137,267	14.6%	\$1,838,540,604	24.2%
Health Care and Social Assistance	\$922	485,670	10.1%	\$5,820,743,144	20.2%
Educational Services	\$856	366,138	0.1%	\$4,073,340,927	11.7%
Other Services	\$820	140,657	7.8%	\$1,500,303,575	20.5%
Administrative Support	\$799	229,680	14.3%	\$2,384,742,967	25.7%
Agriculture, Forestry, Hunt/Fishing	\$633	12,291	14.3%	\$101,089,983	34.5%
Retail Trade	\$555	416,579	2.6%	\$3,004,987,865	11.7%
Arts, Entertainment, Recreation	\$508	60,525	9.1%	\$399,450,147	16.8%
Accommodation, Food Services	\$360	337,114	13.2%	\$1,576,502,961	26.5%

2016 Fiscal Stewardship (FAM) Score VS. Fiscal Stress (COLG)

<u>City</u>	<u>FAM Score</u>	<u>City</u>	<u>FAM Score</u>
Bristol	4.20%	Martinsville	41.10%
Petersburg	4.50%	Hampton	42.80%
Richmond City	13.70%	Harrisonburg	43.60%
Norton	17.90%	Salem	45.30%
Buena Vista	18.10%	Portsmouth	49.00%
Galax	20.70%	Waynesboro	51.90%
Norfolk	20.70%	Manassas	51.90%
Roanoke City	21.40%	Falls Church	52.50%
Newport News	25.60%	Suffolk	60.30%
Fairfax City	25.80%	Charlottesville	62.50%
Colonial Beach	29.80%	Staunton	63.10%
Winchester	30.40%	Fredericksburg	63.70%
Colonial Heights	31.10%	Chesapeake	66.30%
Virginia Beach	33.00%	Lexington	72.40%
Franklin City	34.90%	West Point	73.60%
Lynchburg	35.20%	Emporia	75.30%
Radford	35.50%	Danville	76.80%
Covington	35.60%	Williamsburg	89.50%
Poquoson	35.70%	Hopewell	n/a
Alexandria	40.00%	Manassas Park	n/a

2016 Fiscal Stewardship (FAM*) Score VS. Fiscal Stress (COLG)

Locality Name	FAM Score	CLG Fiscal Stress Rank	Locality Name	FAM Score	CLG Fiscal Stress Rank
Richmond County	7.30%	80	Smyth	38.50%	24
Page	11.10%	62	Cumberland	38.70%	40
Northumberland	15.90%	123	Tazewell County	38.90%	37
Giles	16.50%	50	Gloucester	39.70%	90
Stafford	18.60%	112	Rappahannock	41.30%	125
Fairfax County	23.20%	129	Rockingham	42.00%	88
Loudoun	25.60%	128	James City	42.10%	116
Fauquier	26.70%	126	Shenandoah	42.80%	81
Roanoke County	28.10%	75	Culpeper County	43.00%	92
Southampton	28.30%	56	Essex	43.30%	82
Augusta	29.00%	96	Alleghany	43.50%	36
Scott	30.10%	30	York	43.60%	109
Lancaster	30.30%	118	Greene	45.10%	87
Warren	31.10%	95	Accomack	45.80%	66
Carroll	31.50%	31	Powhatan	47.90%	110
Prince William	32.10%	111	Henrico	48.20%	93
Spotsylvania	33.60%	105	Pulaski County	48.90%	41
Isle Of Wight	35.40%	100	Mathews	49.00%	113
Dickenson	36.40%	27	Patrick	49.90%	51
Russell	36.80%	38	Fluvanna	50.50%	98
Albemarle	37.50%	119	Clarke	51.50%	122
Montgomery	37.50%	43	Greensville	51.70%	20
Caroline	38.00%	74	King William	51.90%	91
Arlington	38.50%	132	Frederick	55.00%	99

*FAM = Financial Assessment Model

2016 Fiscal Stewardship (FAM) Score VS. Fiscal Stress (COLG)

Locality Name	FAM Score	CLG Fiscal Stress Rank	Locality Name	FAM Score	CLG Fiscal Stress Rank
Prince Edward	56.00%	42	Bedford County	68.30%	103
Northampton	56.00%	72	New Kent	70.40%	106
Floyd	56.40%	83	Middlesex	71.50%	107
Orange County	56.60%	94	King George	71.70%	108
Dinwiddie	56.80%	67	Chesterfield	72.10%	101
Hanover	57.20%	121	Brunswick	72.60%	49
Pittsylvania	58.80%	65	Craig	75.30%	79
Washington	58.90%	70	Mecklenburg	75.60%	54
Buckingham	59.00%	64	Grayson	75.80%	43
Sussex	61.00%	25	Bath	77.10%	130
Franklin County	61.40%	86	Bland	78.20%	57
Prince George	61.70%	77	Madison	78.70%	97
Halifax	62.40%	61	Goochland	78.80%	131
Amelia	62.70%	85	Charles City	79.60%	84
Lee	63.20%	31	Henry	79.70%	39
Botetourt	63.70%	102	Lunenburg	81.70%	47
Wise County	64.90%	47	Surry	86.70%	120
Campbell	65.20%	59	Louisa	87.00%	115
Amherst	65.20%	63	King & Queen	88.10%	76
Rockbridge	66.00%	73	Wythe	89.00%	51
Westmoreland	66.80%	89	Nelson	89.70%	104
Buchanan	66.80%	21	Highland	94.10%	117
Appomattox	68.00%	68	Nottoway	98.10%	45
Charlotte	68.20%	46			