

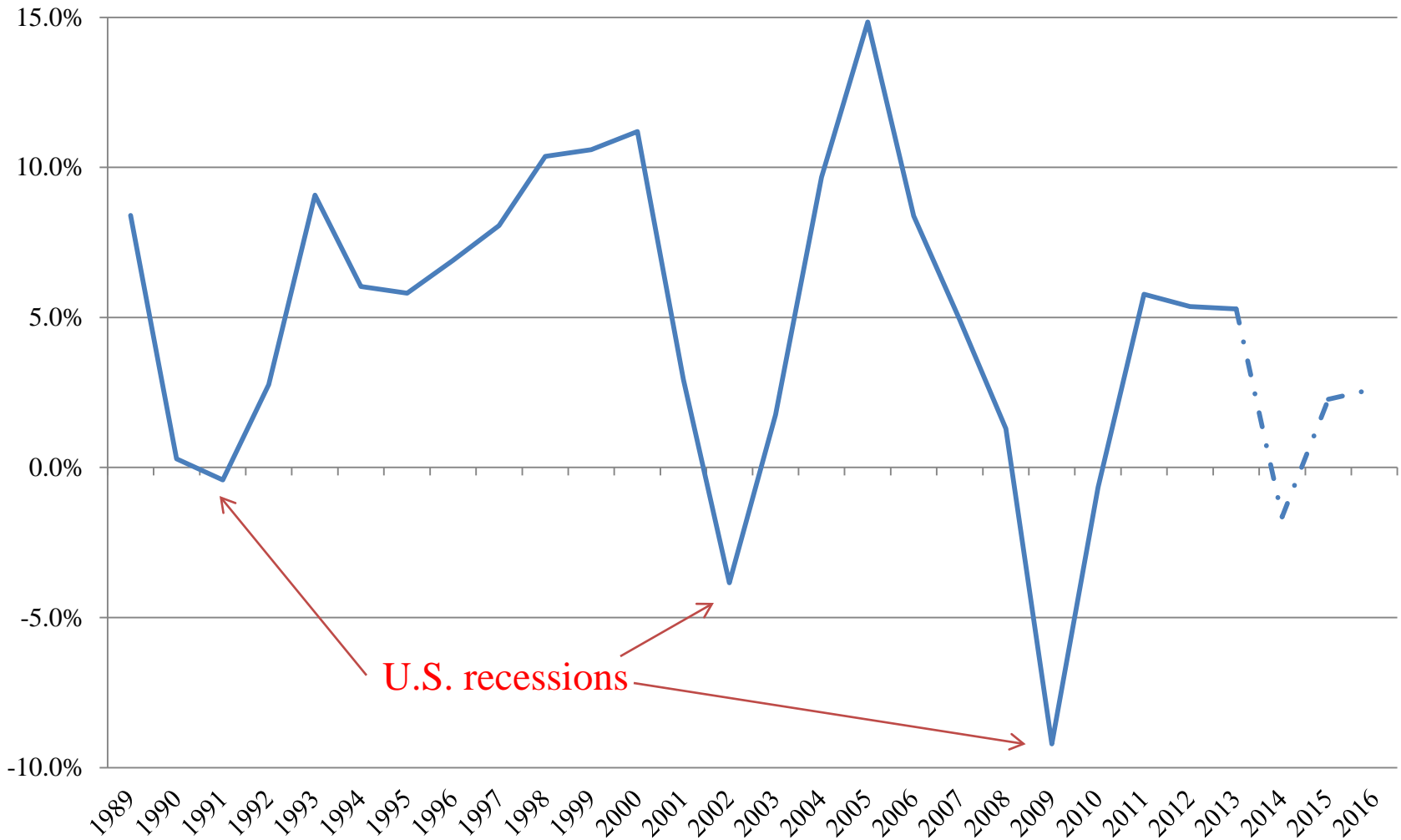
State Economic and Budget Trends Impact on Local Governments

Virginia Association of Counties

Fiscal Analytics, Ltd.

August 14, 2014

Virginia GF Revenue Now Expected to Decline 1.6% in FY 2014*



* \$439 mil. shortfall expected from adopted budget forecast



Expect 2014-16 Budget Modifications to Exceed Anticipated \$1.55 Bil. Shortfall

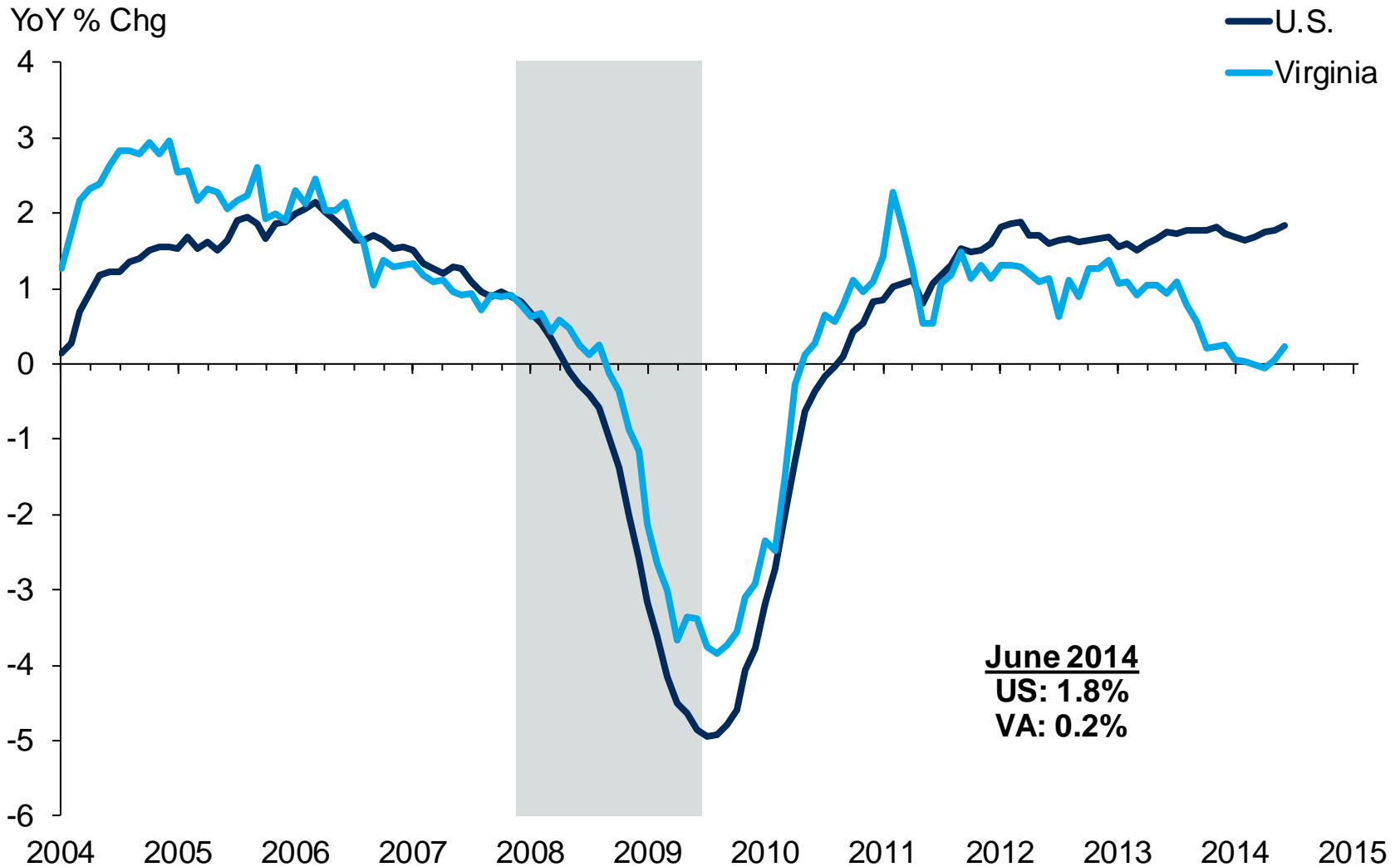
- GF revenue growth contracted in FY 2014 for the first time without a national recession. FY 2014 GF revenue budget shortfall \$439 mil. (\$89 mil. lower than the \$350 mil. shortfall anticipated in June).
 - Non-withholding income tax payments were the primary reason for the missed forecast.
 - Lower FY 14 GF revenue base will carry over into the 2014-16 biennium.
- Re-forecast of GF revenues will likely further reduce payroll withholding growth expectations.
 - Withholding forecast will likely be lowered from about 4 percent growth to 2-2.5 percent annual growth in the 2014-16 biennium.

Despite 5 Years of U.S. Economic Recovery, Federal Cutbacks Are Hurting Virginia's Economic Recovery

- In 2010, federal spending (\$137 B total; \$58B DoD) contributed approximately one-third of Virginia's gross state product (\$424 B).
 - VA ranked #2 in total per capita federal spending and #1 in per capita DoD spending in 2010.
- From CY 2000-10 federal spending in VA grew 107% versus 60% in total Virginia's gross state product.
- In federal fiscal year 2013, federal spending* grew only 0.7 percent, with military spending declining 7.2 percent. Thru April FFY 2014, total spending* has declined 0.5% with defense spending declining 5.3 percent.
- Chmura Economics recently reported the DoD spent a total of \$41.4 billion on direct operations and contracts in Virginia in 2013, down from \$54.8 billion in 2012.

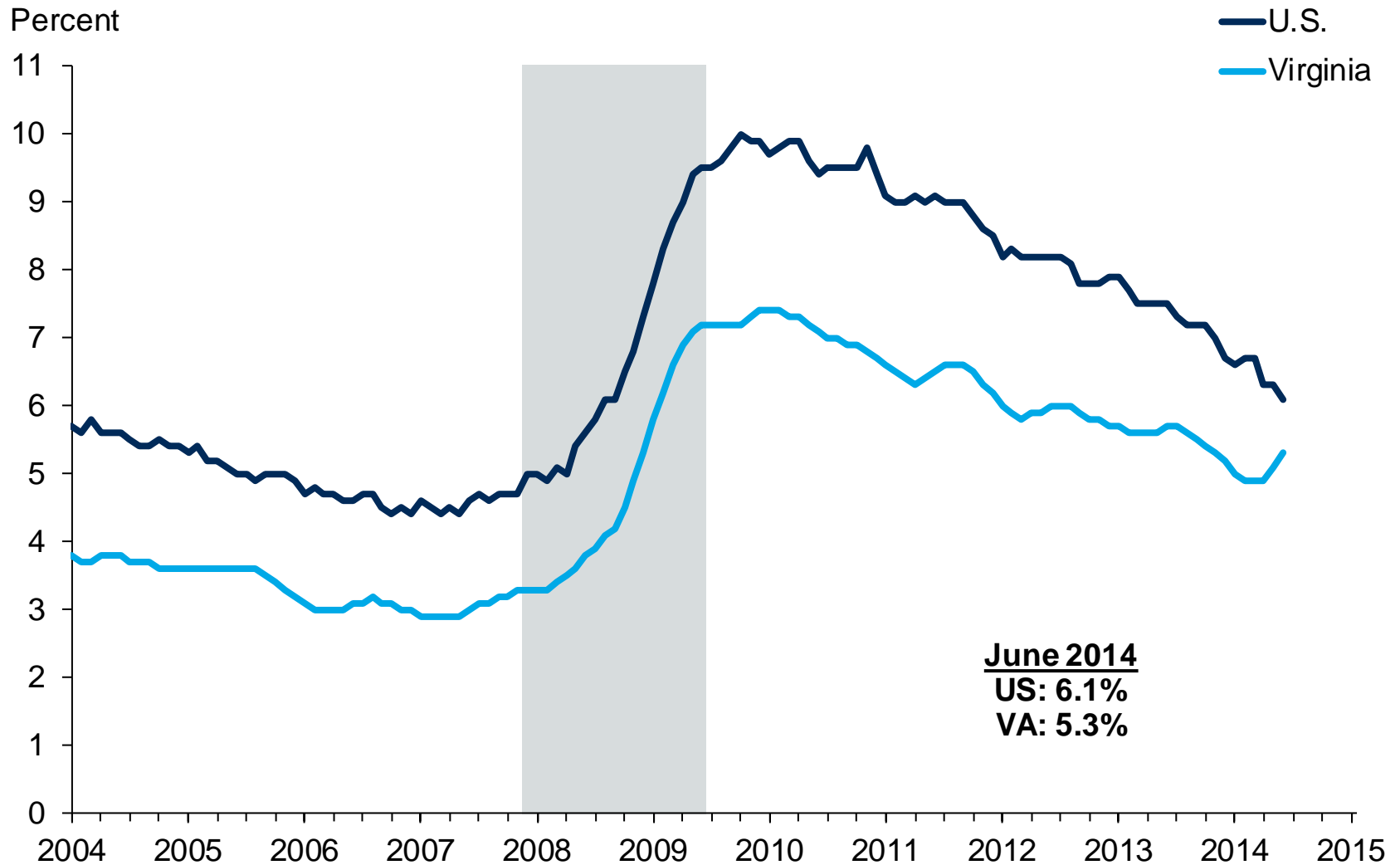
* Not including interest on debt and GSE payments.

Virginia Payroll Employment



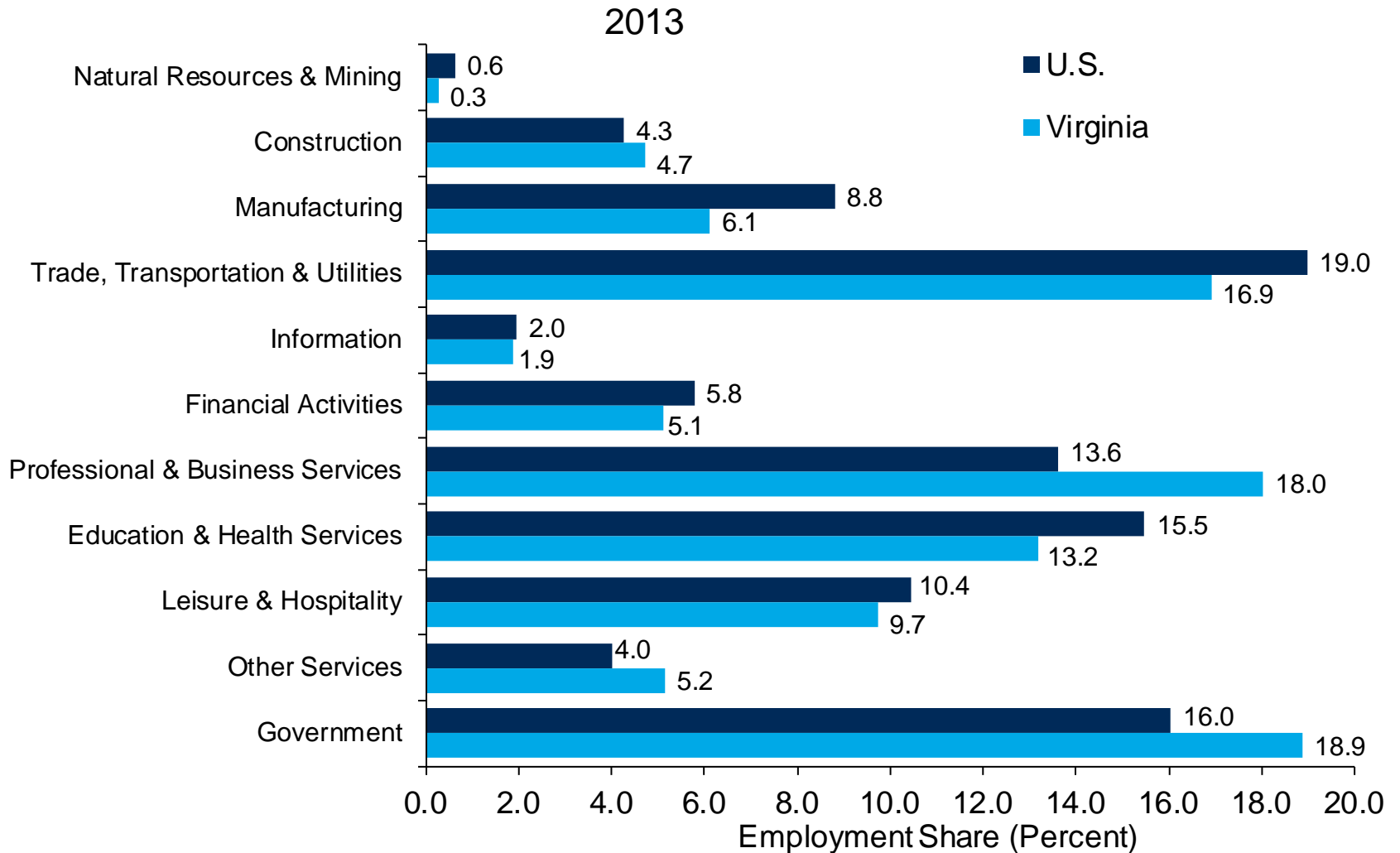
Source: Bureau of Labor Statistics/Haver Analytics

Virginia Unemployment Increased in June



Source: Bureau of Labor Statistics/Haver Analytics

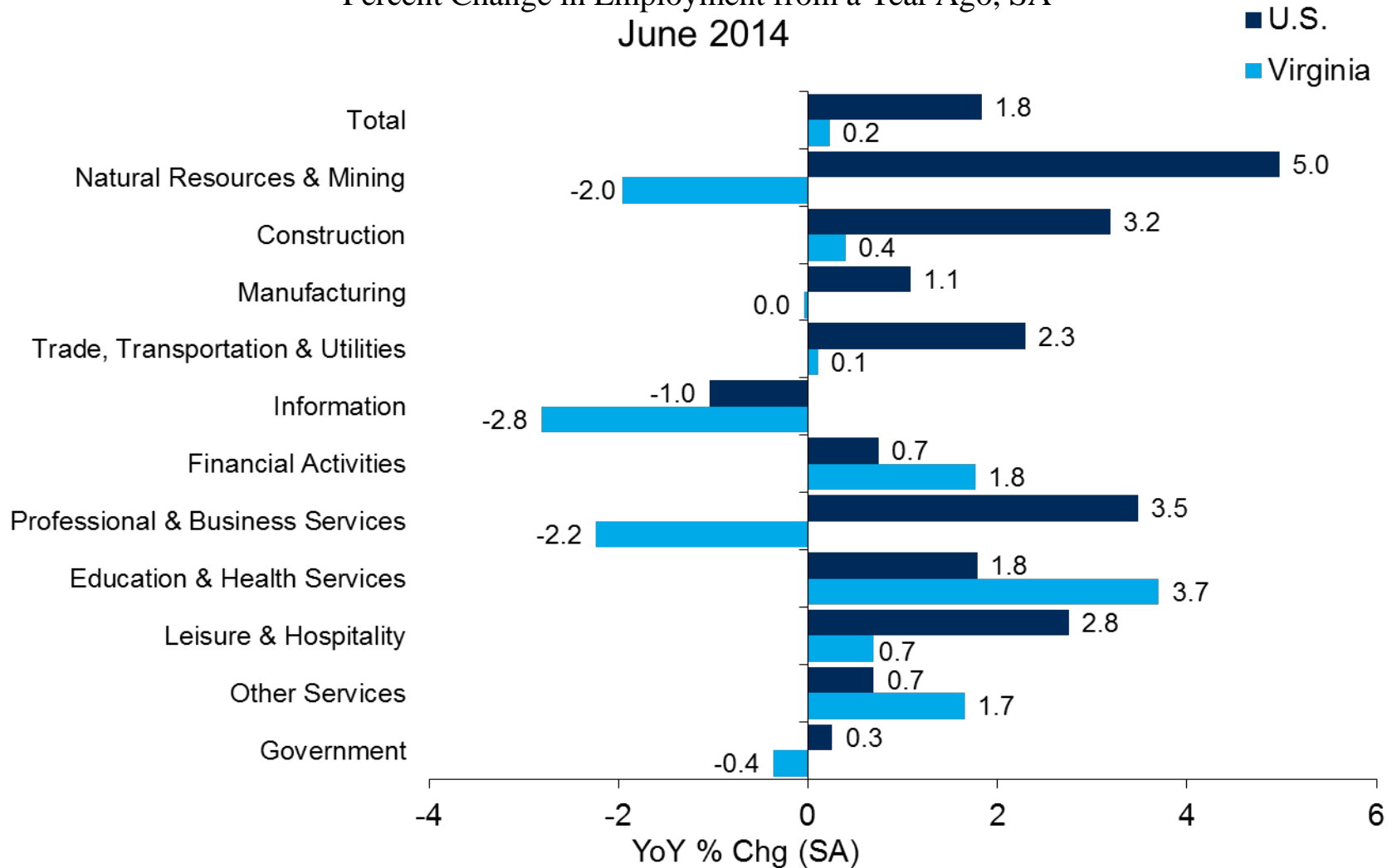
Virginia Has a Much Higher Percentage of Professional and Business Service Jobs Than the Nation



Source: Bureau of Labor Statistics/Haver Analytics

Federal Cutbacks Have Resulted in Low Job Growth in High-Paying Jobs

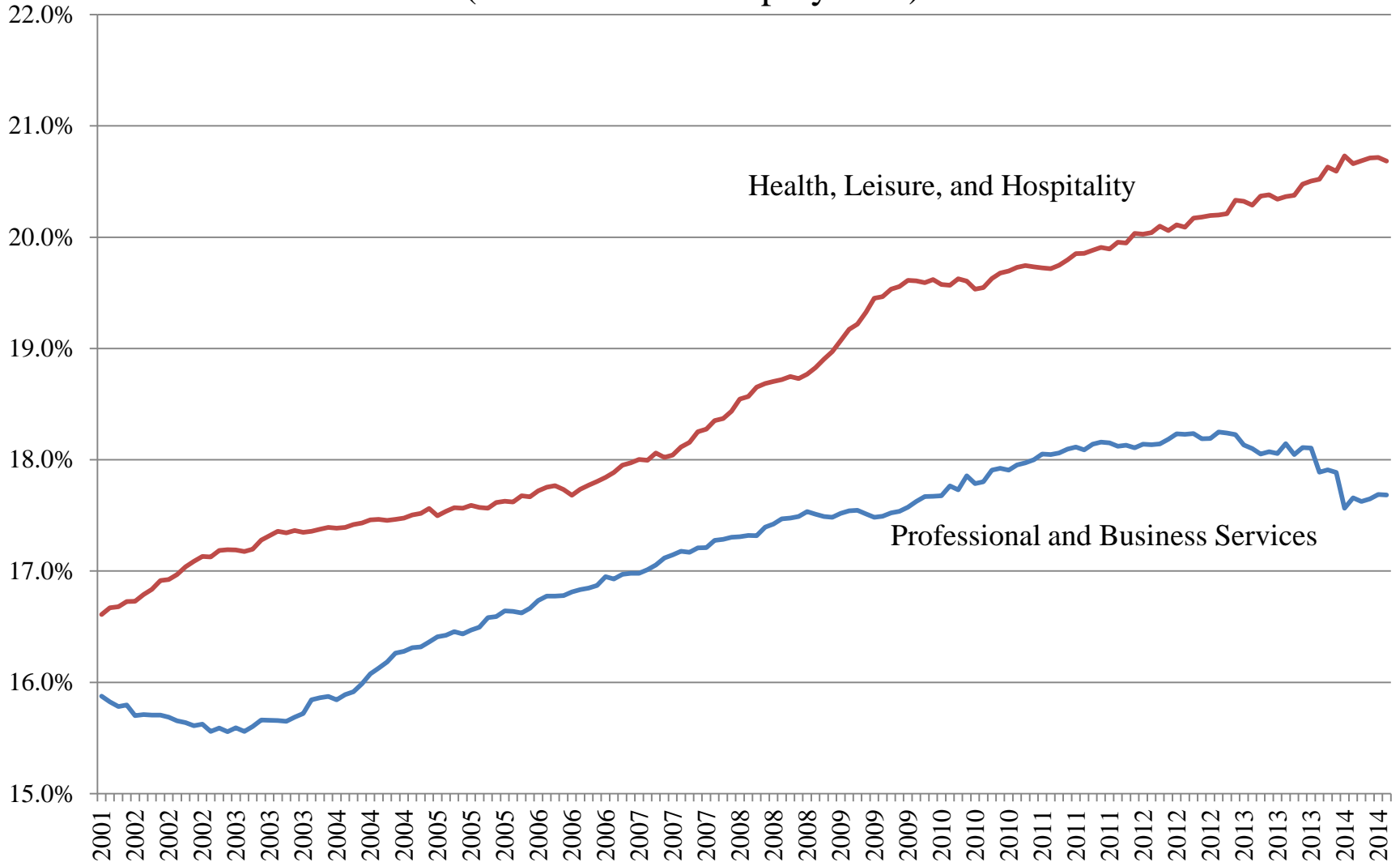
Percent Change in Employment from a Year Ago, SA
June 2014



Source: Bureau of Labor Statistics/Haver Analytics

Virginia's Replacement of High Paying With Low Paying Jobs Helps Explain Slow Growth in Wages and Tax Revenues

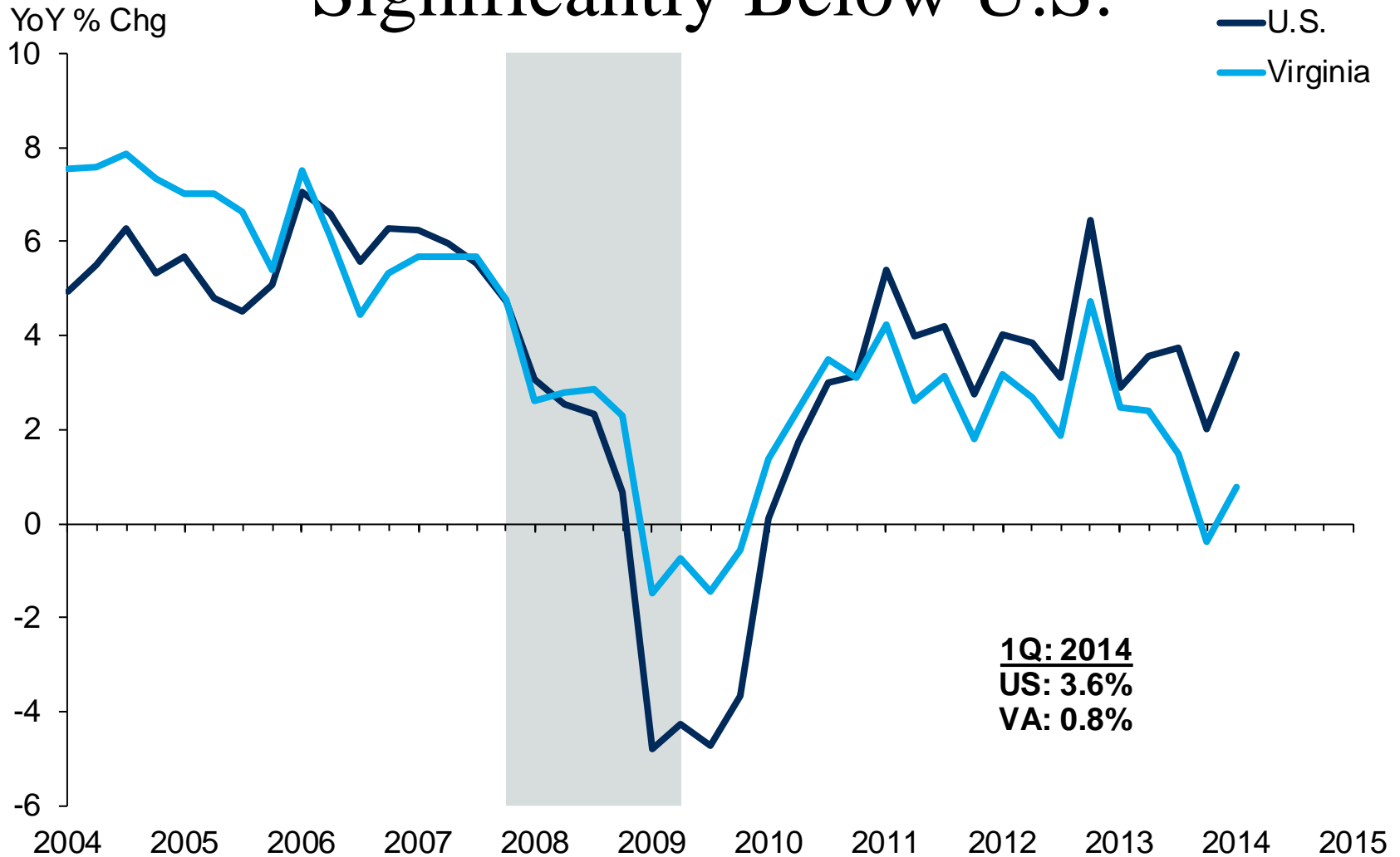
(% of Total VA Employment)



High Paying Business and Professional Jobs Generate Significant Tax Revenue

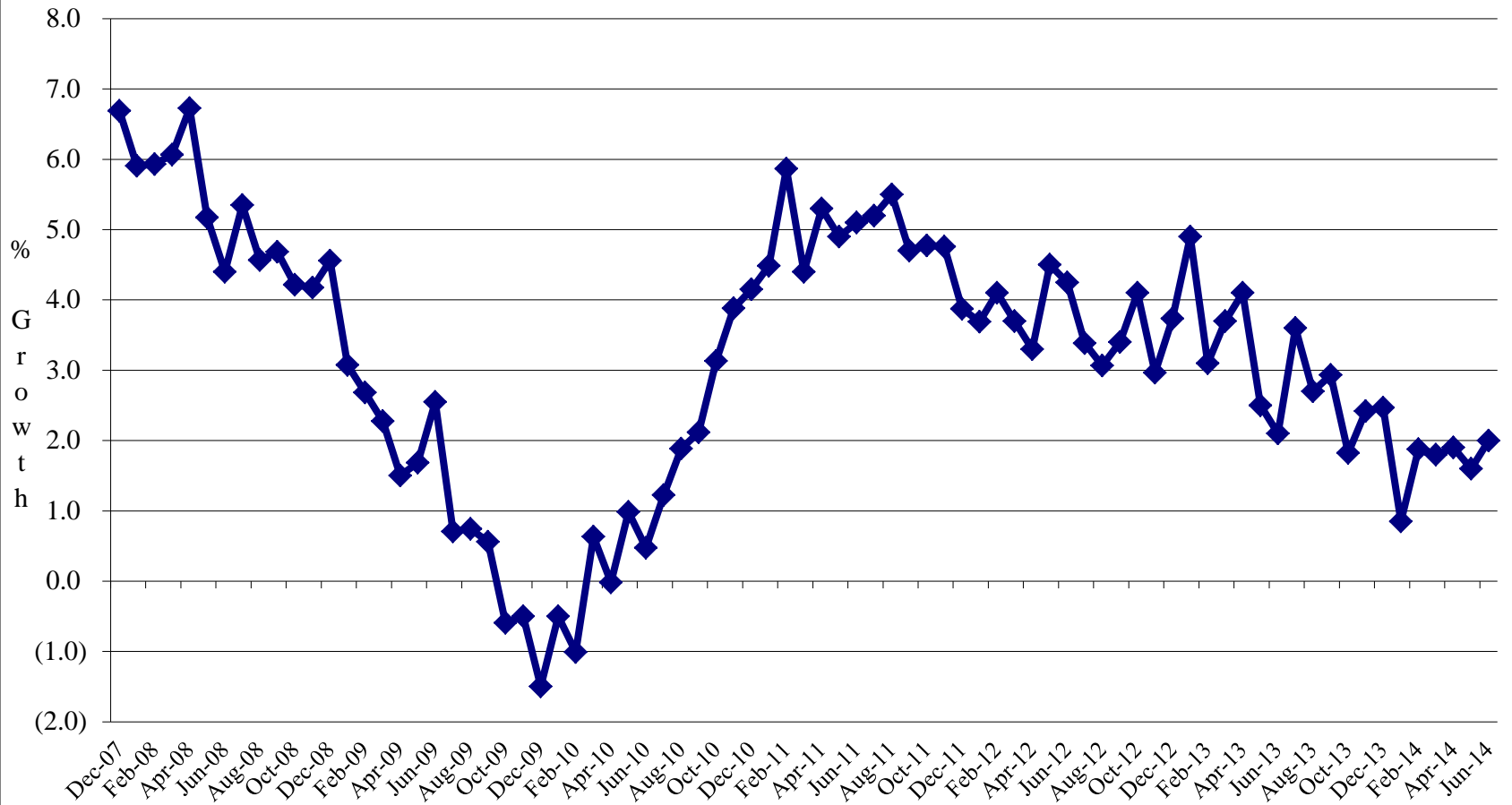
	3rd Q 2013
	<u>Avg. Weekly Wage</u>
Management of Companies and Enterprises	\$1,860
Professional, Scientific, and Technical Servi	\$1,785
Information	\$1,491
Finance and Insurance	\$1,402
Wholesale Trade	\$1,366
Utilities	\$1,359
Public Administration	\$1,343
Mining, Quarrying, and Oil and Gas Extraction	\$1,213
Manufacturing	\$1,034
Transportation and Warehousing	\$934
Construction	\$924
Real Estate and Rental and Leasing	\$893
Health Care and Social Assistance	\$878
Educational Services	\$820
Other Services (except Public Administration)	\$728
Unclassified establishments	\$726
Administrative, Support and Waste Manageme	\$699
Agriculture, Forestry, Fishing and Hunting	\$542
Retail Trade	\$509
Arts, Entertainment, and Recreation	\$426
Accommodation and Food Services	\$332

Virginia Wages and Salary Growth Significantly Below U.S.

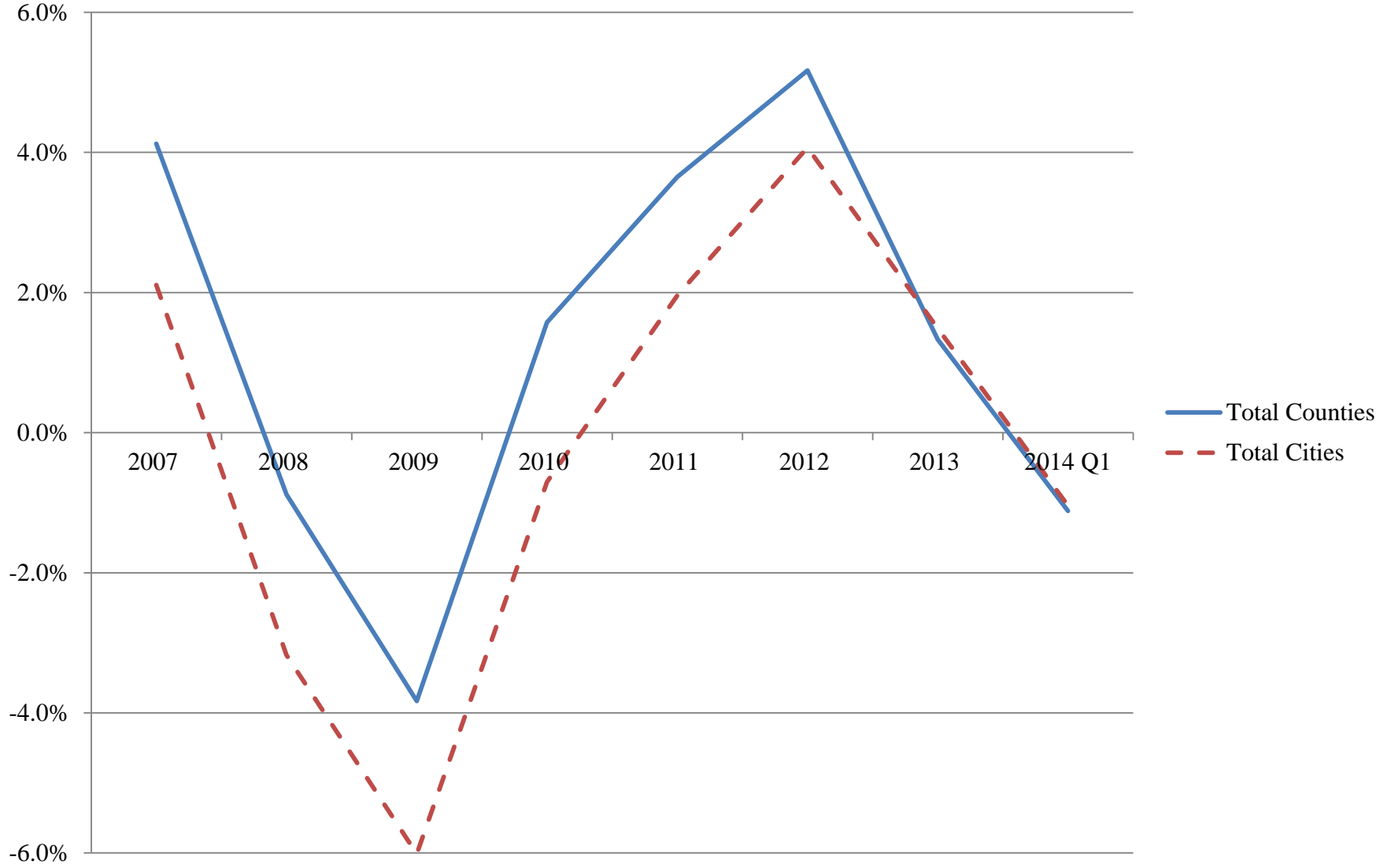


Source: Bureau of Economic Analysis/Haver Analytics

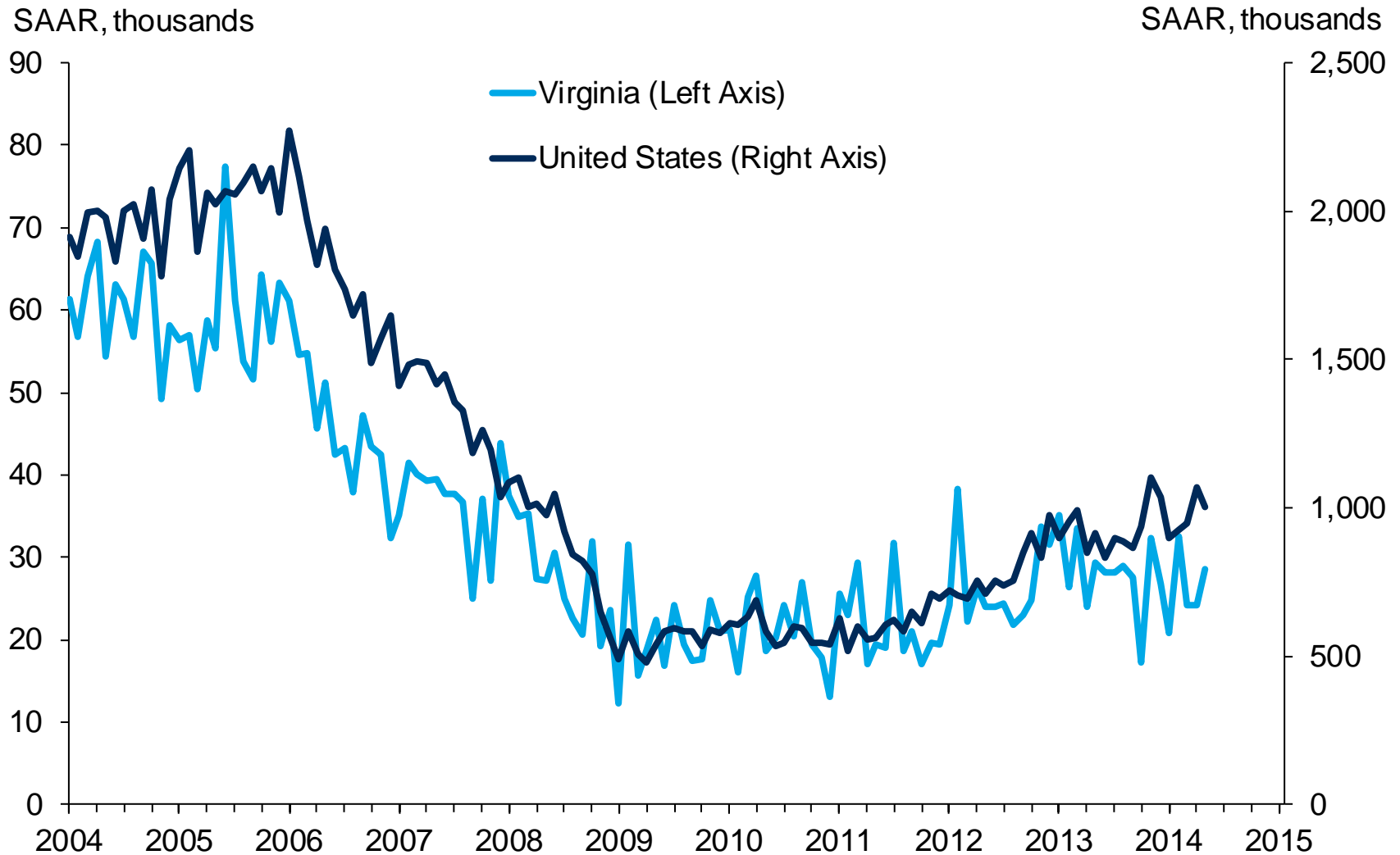
Slowing Growth in Individual Income Tax Withholding 12 Mo. Moving Avg (% Growth)



VA Taxable Sales Growth Has Gone Negative

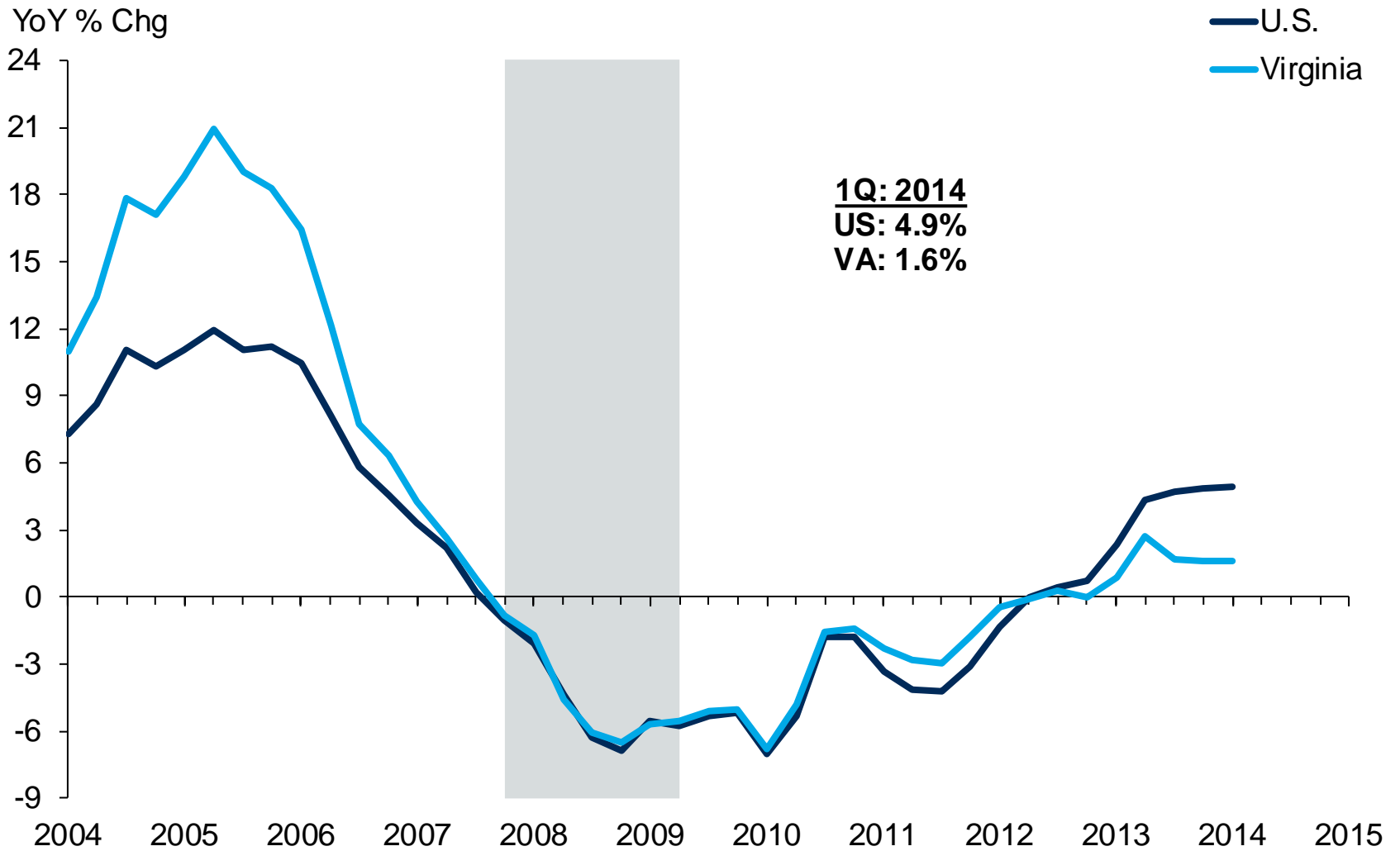


Virginia Housing Starts Stuck in Low Gear



Source: Bank of Tokyo-Mitsubishi UFJ/Haver Analytics

...And VA Prices Growing Slower Than U.S. Avg. House Price Index—FHFA



Source: Federal Housing Finance Agency/Haver Analytics

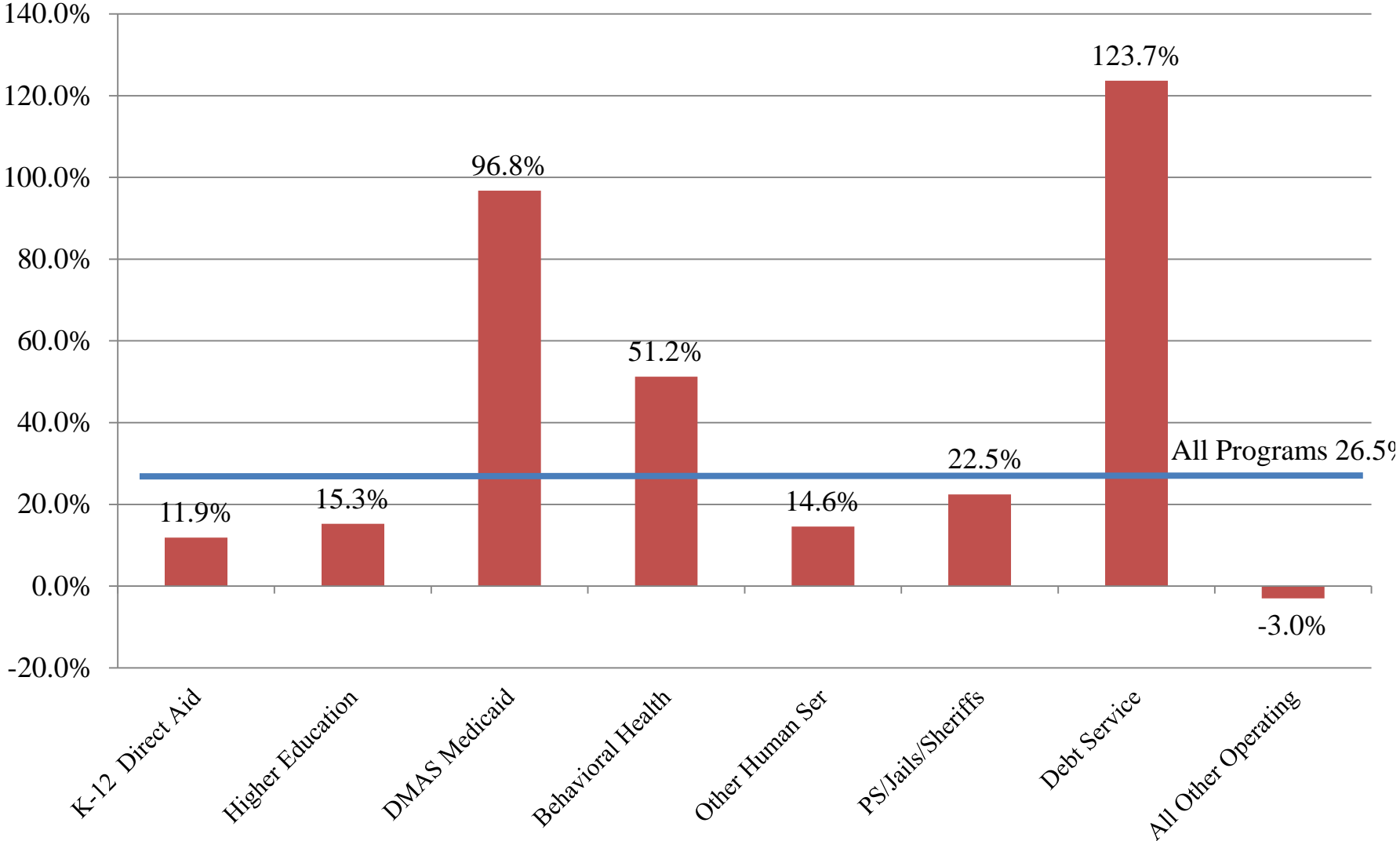
2014-16 Adopted GF Budget Anticipates \$1.55 B Shortfall

2014 Session Enrolled Budget (\$ Mil.)

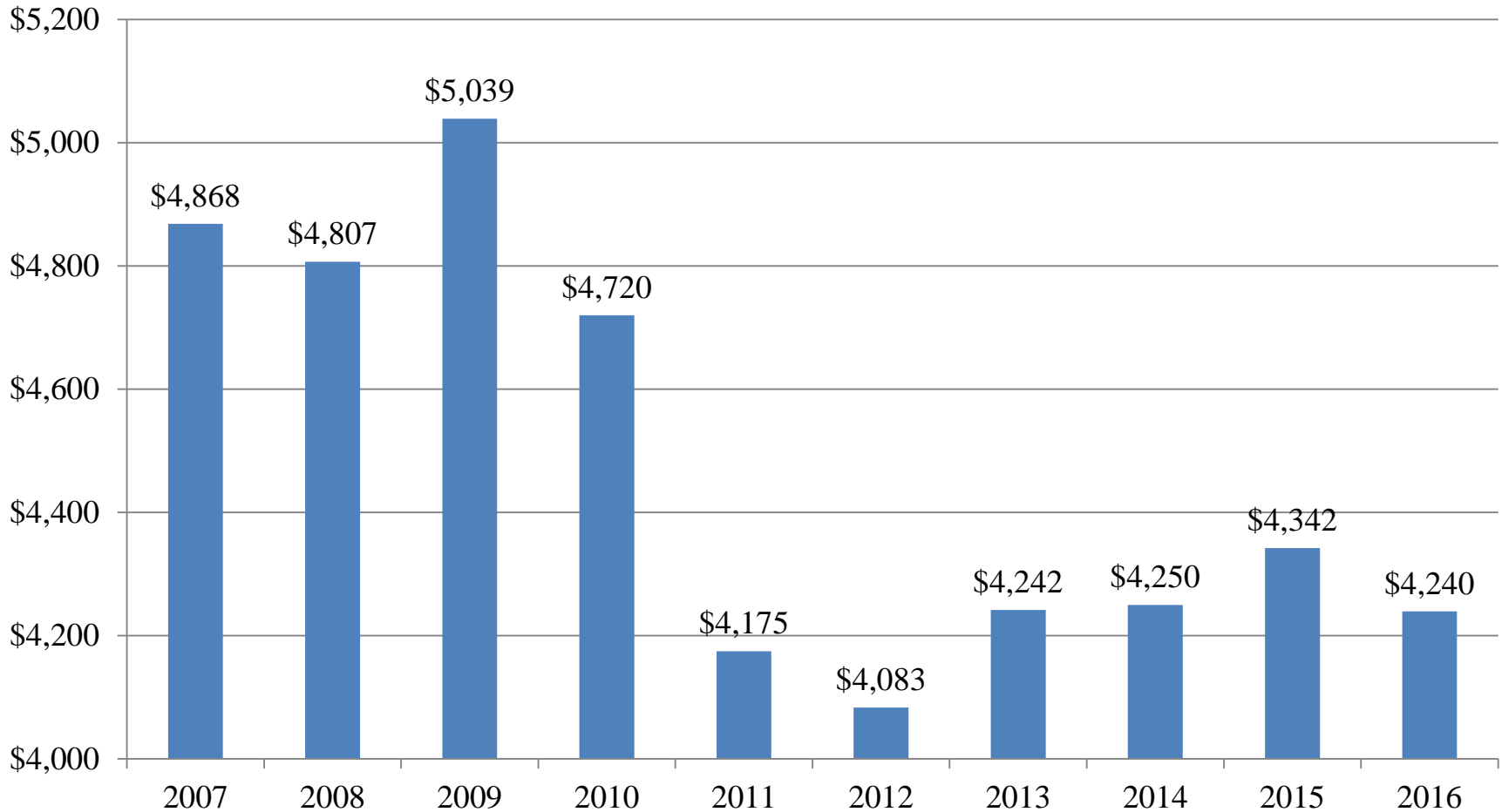
	FY 2014 Adopted Budget	FY 2015	FY 2016	FY 15 Change from FY 14
Legislative and Executive Dept's	\$103.2	\$109.0	\$107.2	\$5.8
Judicial Dept.	425.2	436.4	435.5	11.2
Administration/Comp Board	654.1	675.7	679.1	21.6
Treasury Board GF Debt Service	608.5	682.5	724.0	74.0
Other Finance/Technology	171.9	179.4	181.2	7.5
Rainy Day Fund	339.6	243.2	-	(96.4)
Car Tax Reimbursement	950.0	950.0	950.0	-
Commerce and Trade	183.3	166.5	179.1	(16.8)
Agriculture / Nat. Resources	144.0	182.7	152.4	38.7
K-12 Education/Central Office	5,292.7	5,549.7	5,641.7	257.0
Higher & Other Education	1,782.1	1,858.0	1,858.8	76.0
DMAS Medicaid	3,519.8	3,877.1	4,043.1	357.3
Other Health & Human Services	1,541.5	1,649.2	1,620.9	107.7
Public Safety & Veterans/HS	1,699.0	1,792.0	1,799.8	93.0
Transportation	42.0	13.2	69.1	(28.9)
Central Appropriations*	247.2	112.7	167.5	(134.5)
Independent Agencies/Capital	<u>1.2</u>	<u>1.4</u>	<u>1.2</u>	<u>0.2</u>
Total GF Appropriations	\$17,705.3	\$18,478.7	\$18,610.6	\$773.4
Available Balance to Spend	879.7	276.0	6.2	
GF Resources**	16,954.1	18,484.1	18,616.4	
Unspent Balance***	128.6	5.4	5.8	
* Net of Included Reserve		\$480.0	\$362.5	\$842.5
** Anticipated revenue shortfalls	(\$350.0)	(\$600.0)	(\$600.0)	(\$1,550.0)
** Rainy Day Fund		\$470.0	\$ 237.5	\$707.5

Local Priorities Losing Ground

Major GF Budget Drivers FY 2006-16

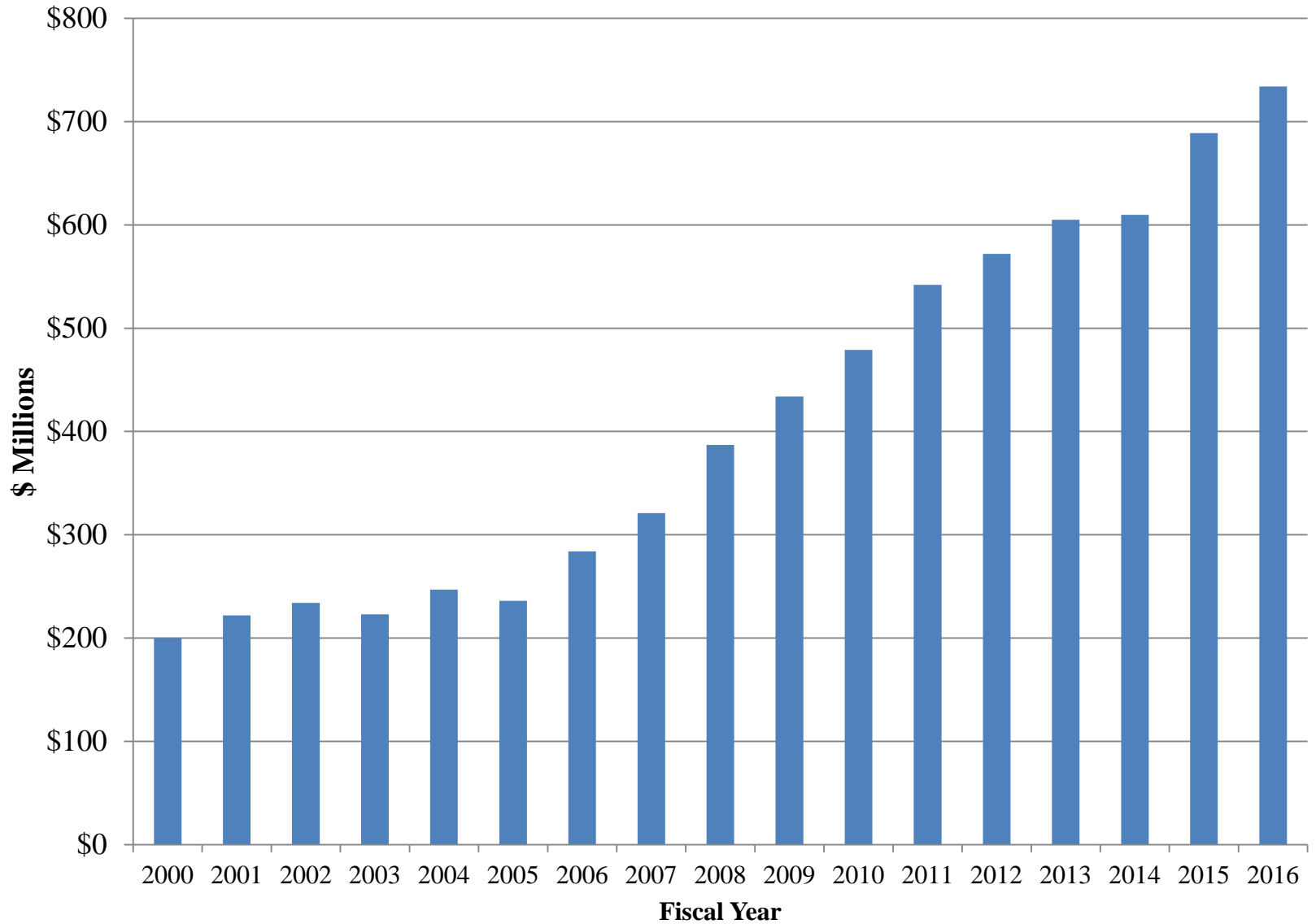


Inflation-Adjusted State Per Pupil K-12 Funding Reveals Even Larger Declines in State Aid (2007 \$ - All State Appropriated Funds)



Includes GF, lottery profits, miscellaneous NGF, and state appropriated federal stimulus funds *adjusted by the CPI*

State GF Debt Service Growing Rapidly



Relative State Aid to Localities Still Declining in Adopted Budget

GF/Lottery State Funding for Localities

	<u>2008-10</u>	<u>2010-12</u>	<u>2012-14</u>	<u>2014-16 (a)</u>
Direct Aid to K-12	\$11,248.0	\$10,550.7	\$11,444.9	\$12,196.0
Health and Human Services	\$1,767.1	\$1,639.5	\$1,610.6	\$1,638.6
Public Safety	\$1,291.1	\$1,356.0	\$1,367.1	\$1,402.0
<i>HB 599 Aid to Police</i>	\$378.1	\$351.1	\$344.8	\$344.8
Constitutional Officers	\$297.5	\$288.0	\$289.3	\$304.9
Car Tax	\$1,900.0	\$1,900.0	\$1,900.0	\$1,900.0
Recordation/Rolling Stock/TVA	\$94.9	\$96.6	\$98.7	\$98.7
Aid-to-Locality Reduction	<u>(\$100.0)</u>	<u>(\$120.0)</u>	<u>(\$50.0)</u>	<u>\$0.0</u>
<i>Total Local Aid GF + Lottery</i>	<i>\$16,498.6</i>	<i>\$15,710.8</i>	<i>\$16,660.6</i>	<i>\$17,540.2</i>
Total GF + Lottery Appropriations	\$31,600.8	\$32,922.6	\$35,861.4	\$38,124.3
<i>Direct Aid to K-12 % of Total GF/Lottery</i>	<i>35.6%</i>	<i>32.0%</i>	<i>31.9%</i>	<i>32.0%</i>
<i>Total Local Aid % of Total GF/Lottery</i>	<i>52.2%</i>	<i>47.7%</i>	<i>46.5%</i>	<i>46.0%</i>

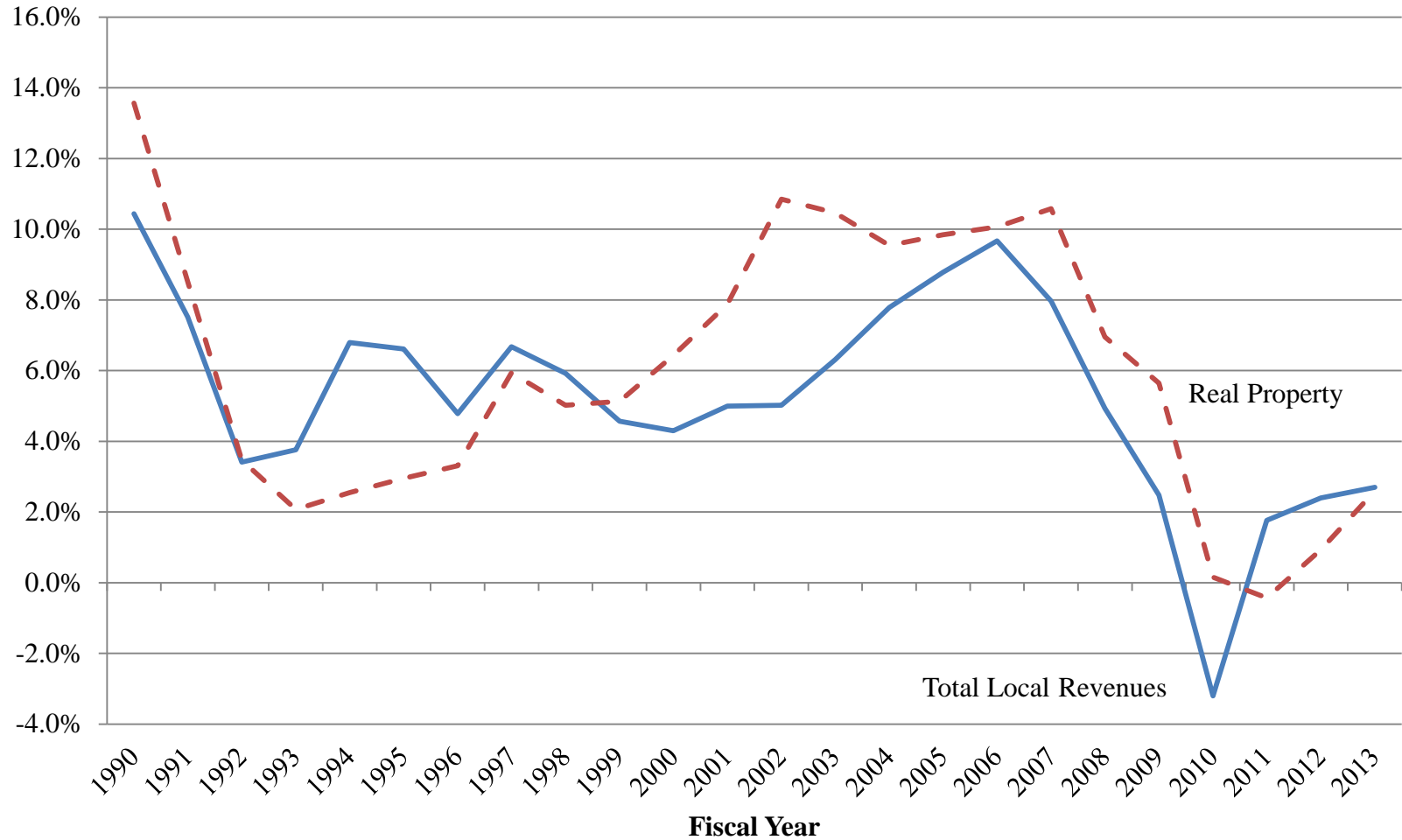
Headwinds Remain for Increasing State Support for Local-Administered Programs

- How will the Virginia economy replace the loss of high paying business and professional jobs? Will highly paid professionals transition to new industries?
- Medicaid program continuing to grow faster than GF revenues.
- Expect rising VRS rates for teachers and all state-supported employees. 2014-16 biennium VRS teacher rates rose 24 percent from 11.66% to 14.5%. Expect rates of 15.5% in 2016-18 budget and 17% in 2018-20 budget as full phase-in of rates is completed.
- State incurs more GF debt service due to lack of a pay-as-you-go capital program. Lower revenues will impact new debt capacity.
- More general funds for transportation scheduled.



Local Revenues Only Beginning to Grow

Local Revenue Trends





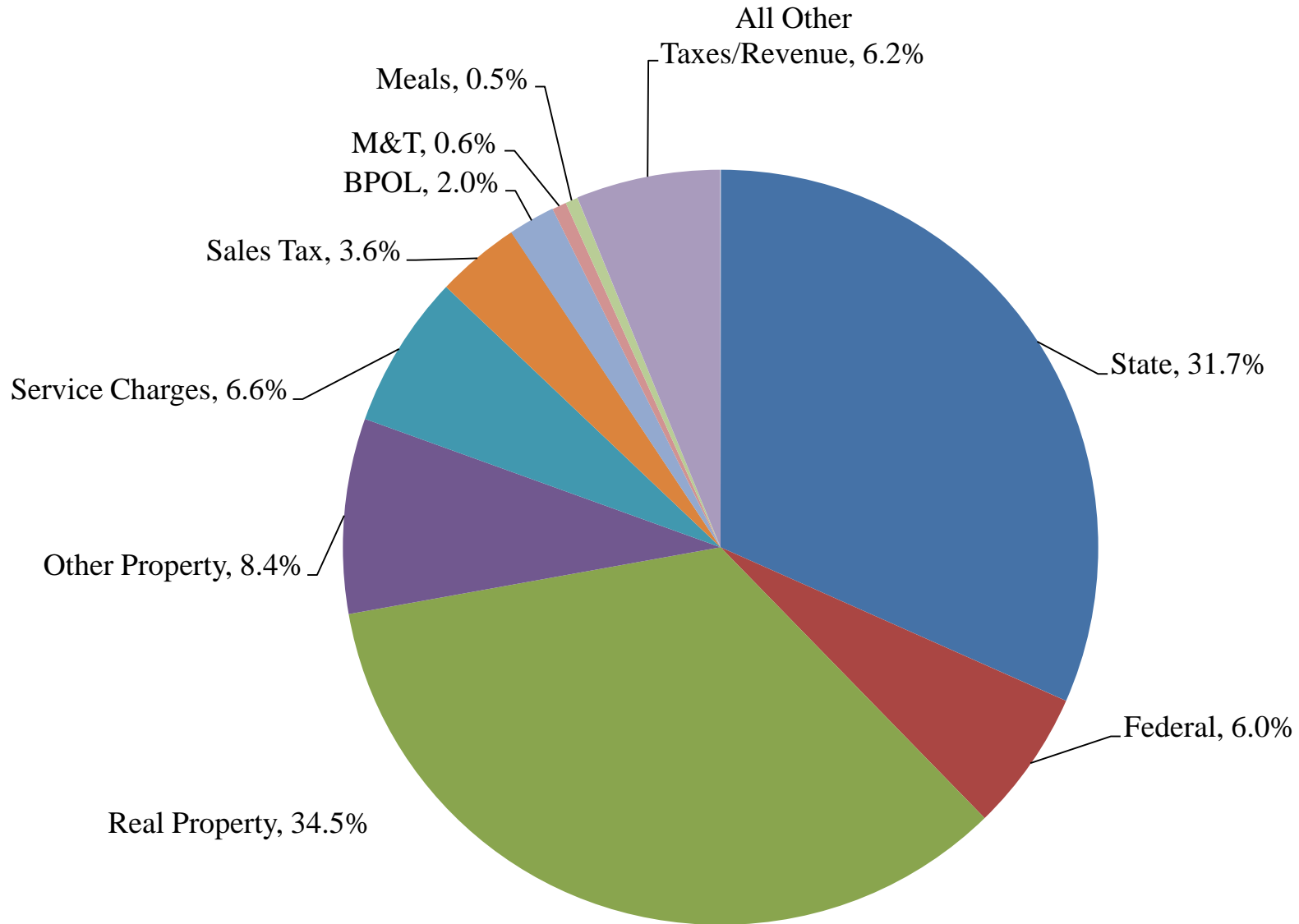
Tough Choices Continued for Local Budgets in FY 2014

* 44 localities responding to VML/VACO survey	Top 3 FY 14 Local Budget Balancing Actions
Delay or Cancel Capital or Equipment Purchases	21
Increase tax rates or fees*	14
Drawdown Reserves or Balances	13
Other Targeted Budget Cuts	13
Reduce Employee Benefits	9
Eliminate Vacancies or Positions	8
Salary or Hiring Freezes	7
Renegotiate Debt	6
One-time/Other	5
K-12 Education Cuts	5
Early Retirement Incentives	3
Across-the-Board Budget Cuts	1

* 11 of 44 localities increased RE tax rates - 8 at rate greater than equalization

Source: Results from VML/VACO 2013 fiscal survey

FY 2013 Sources of Revenue for Virginia Counties (\$18.94 Bil.)



Virginia Is a Wealthy, Relatively Low Tax State, With Higher Reliance on Locality Taxes

	<u>State Rank</u>
Per capita personal income	8
State and local taxes as a percentage of personal income	43
Per capita state taxes	32
Per capita local taxes	14
Individual income taxes as a percentage of state and local tax revenue	7
Per capita state and local debt outstanding	28

Virginia Spending Rankings Reflect Tax Policies

	<u>State Rank</u>
State Per Pupil Funding Pre-K-12	38
State and Local Per Pupil Funding	21
Average Salary of Public School Teachers	29
Per Capita Medicaid Expenditures	46
In-State Tuition and Fees at Public 4-Year Institutions	13
State Corrections Expenditures per Offender	13

Source: Virginia Compared to Other States, JLARC, 2013 Edition