



Virginia Association of Counties Summer Meeting

Review of the 2013 General Assembly Session and Revenue Update

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Virginia's Budget

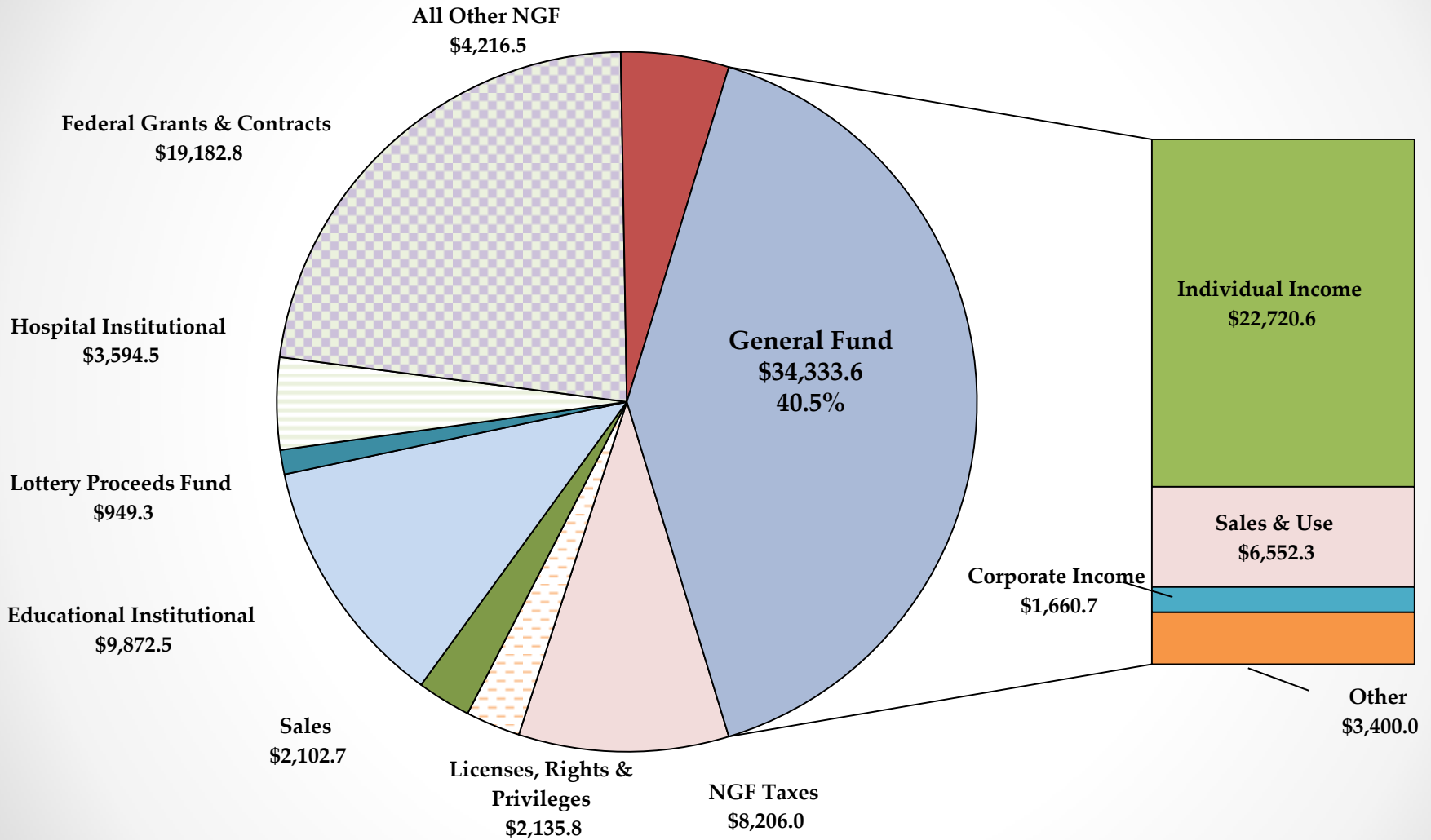
- Composition of Budget: Resources, Spending, and Budget Drivers
- A Look Back at the 2013 Session
- FY 2013 Year-End Close and FY 2012-2014 Budget
- Looking Ahead: Issues for the 2014 Session and Virginia's Next Biennium

Composition of Budget: Resources, Spending & Budget Drivers

FY 2012-14 Total Revenues = \$84.6 Billion

Chapter 806 (HB 1500, as Adopted)

(\$ in millions)



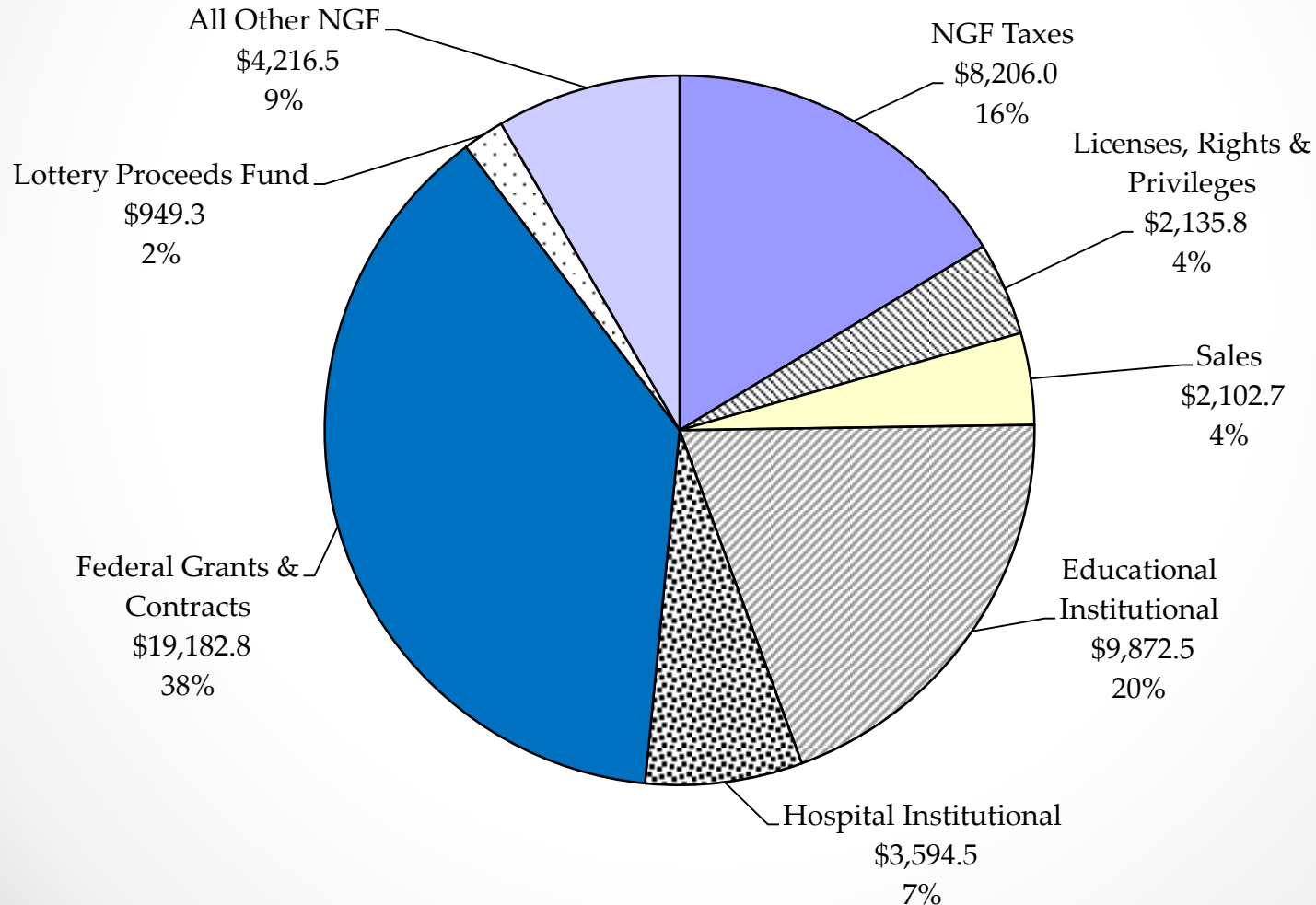
Nongeneral Fund Revenues

Federal grants account for almost 40% of all NGF revenue

FY 2012-14 Nongeneral Fund Revenues = \$50.3 Billion

Chapter 806 (HB 1500, as Adopted)

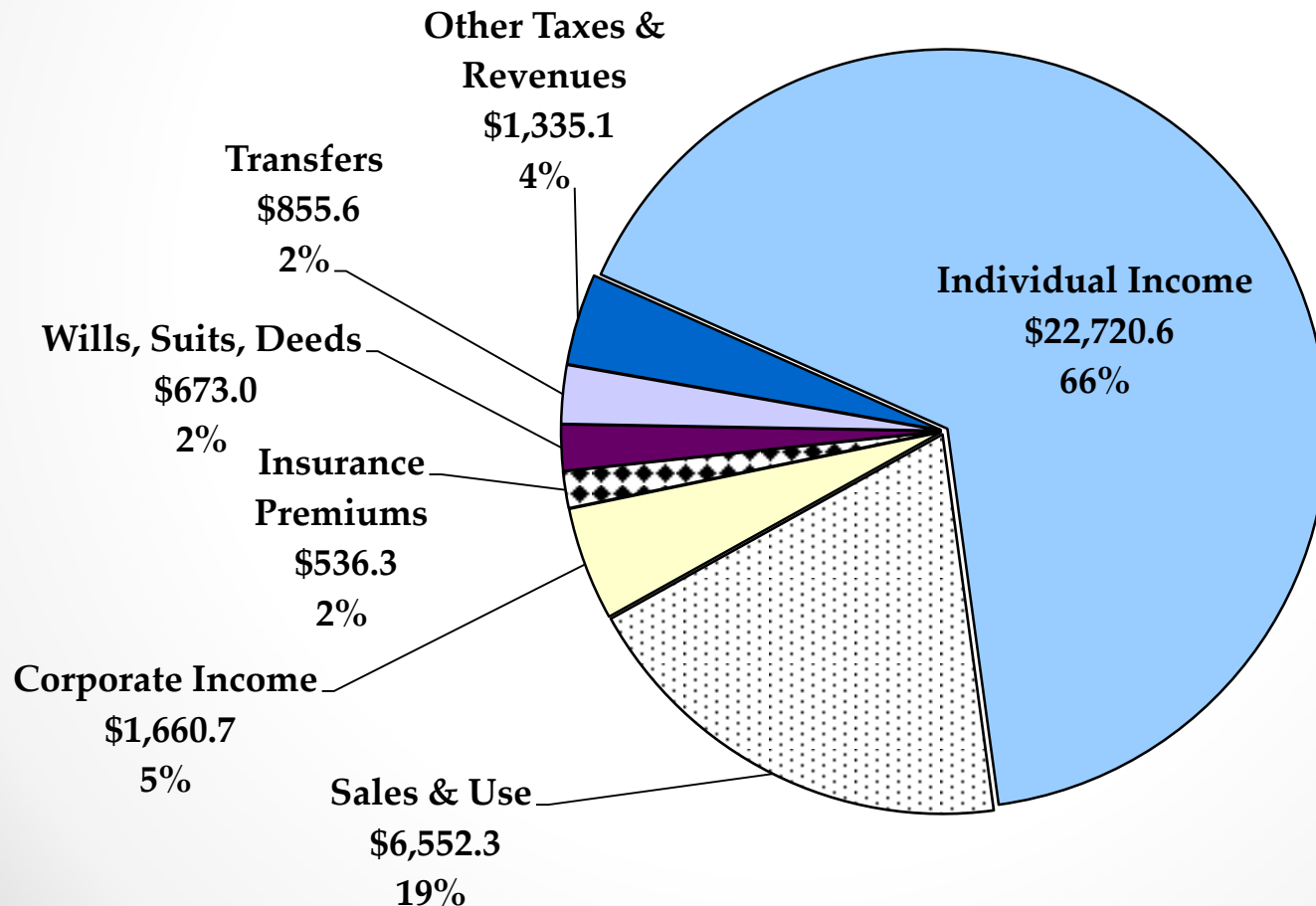
(\$ in millions)



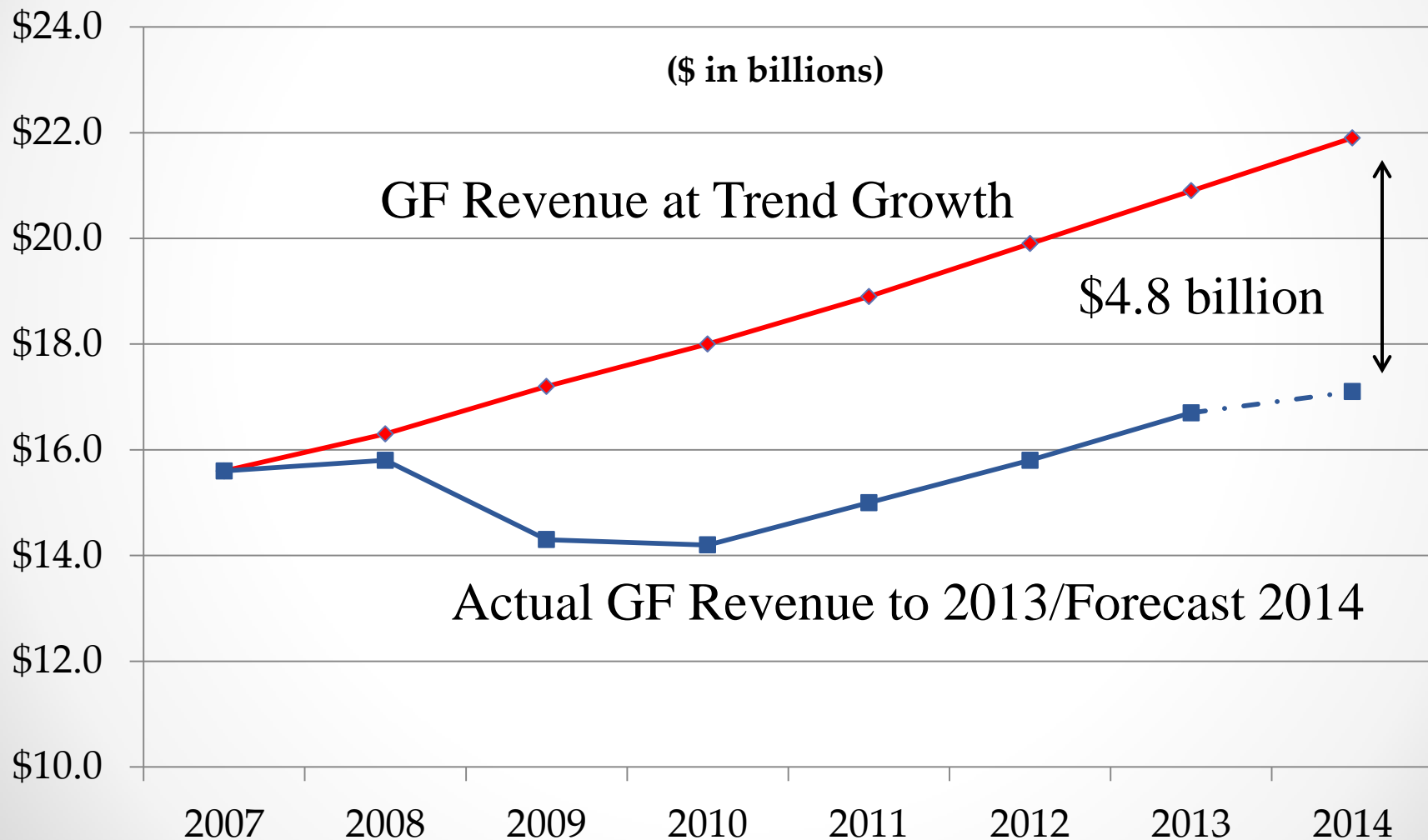
General Fund Revenues

Economic trends are important because employment, wage gains and consumer spending account for about 92% of all GF revenues

FY 2012-14 General Fund Revenues = \$34.3 Billion
(\$ in millions)



FY 13 GF Revenues 6% Above FY 2008 Levels

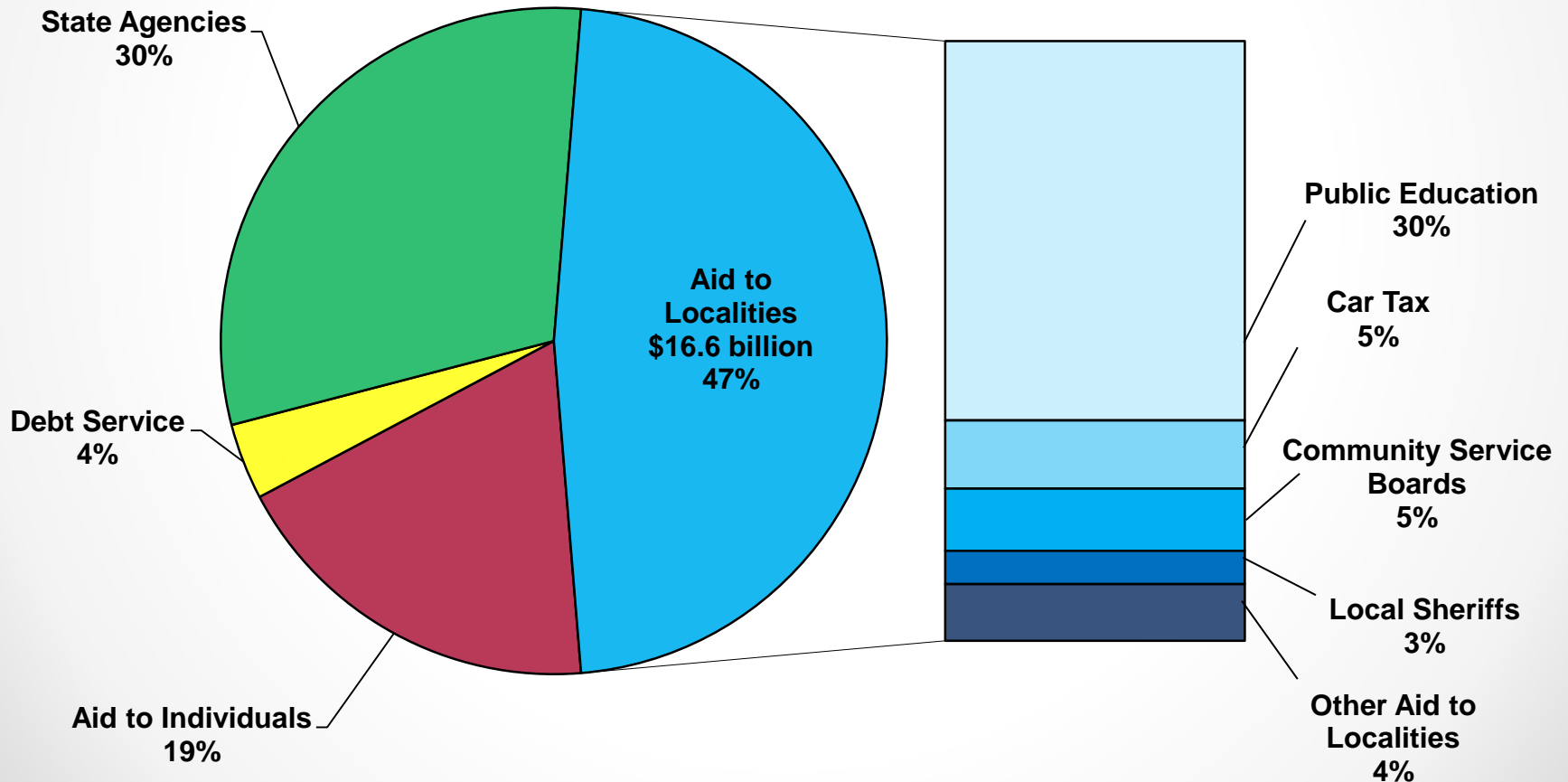


Almost Half of GF Budget Goes to Localities

2012-2014 GF Operating Budget = \$35.1 Billion

Chapter 806 (HB 1500, as Adopted)

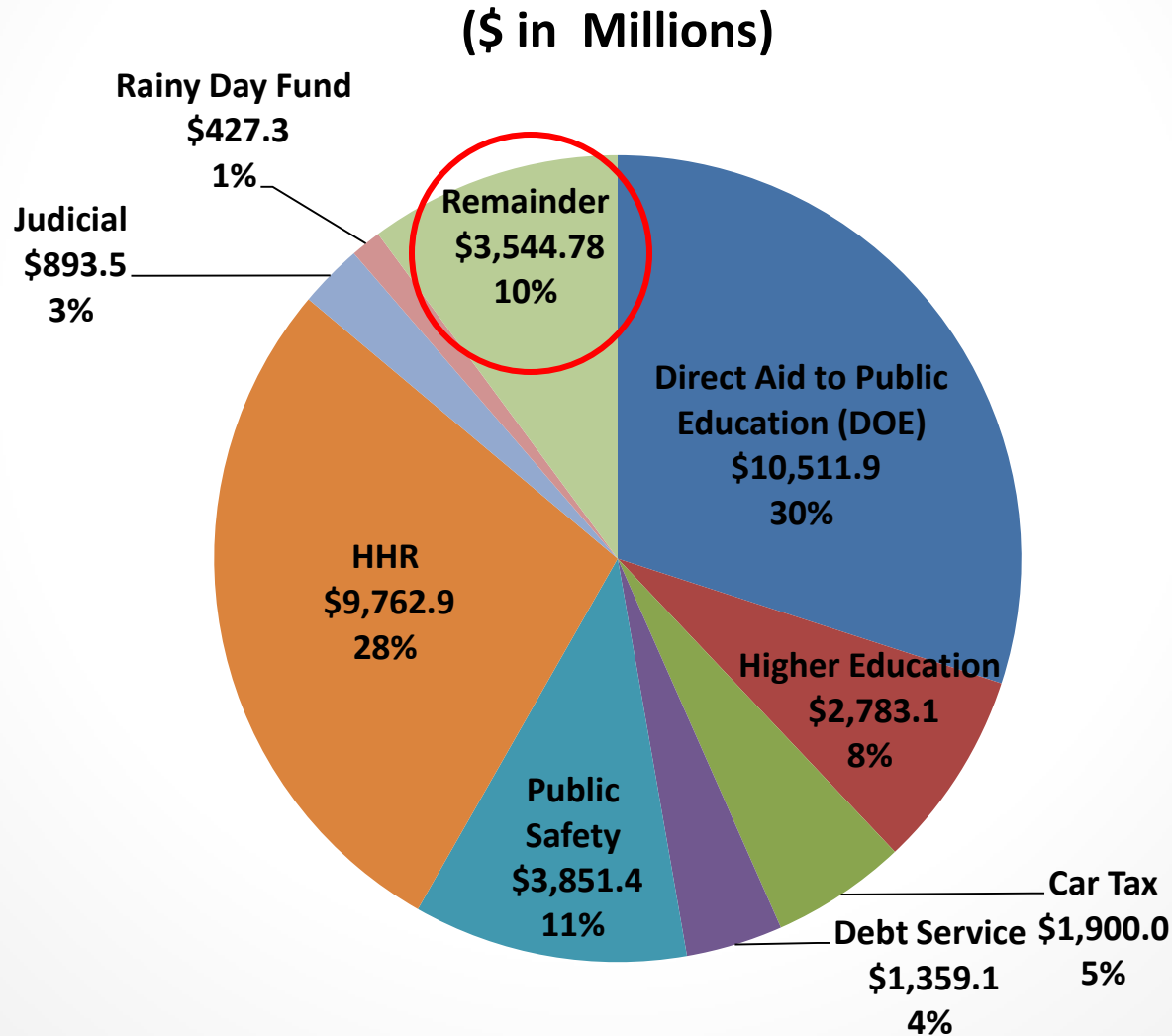
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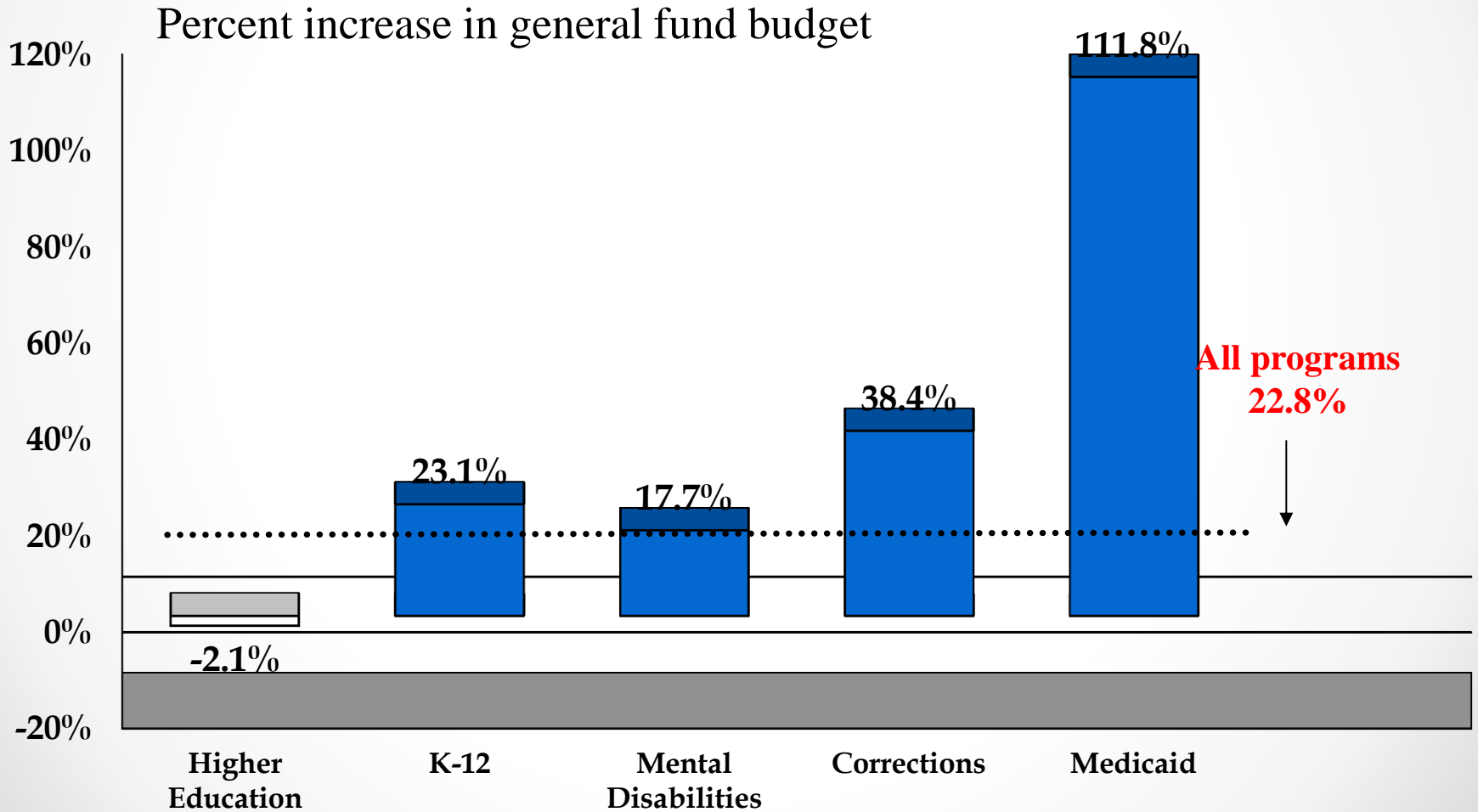
Where the Money Goes

Total Biennial GF Operating Expenses = \$35.0 B

66% of the GF Budget goes to Education and Health and Human Resources

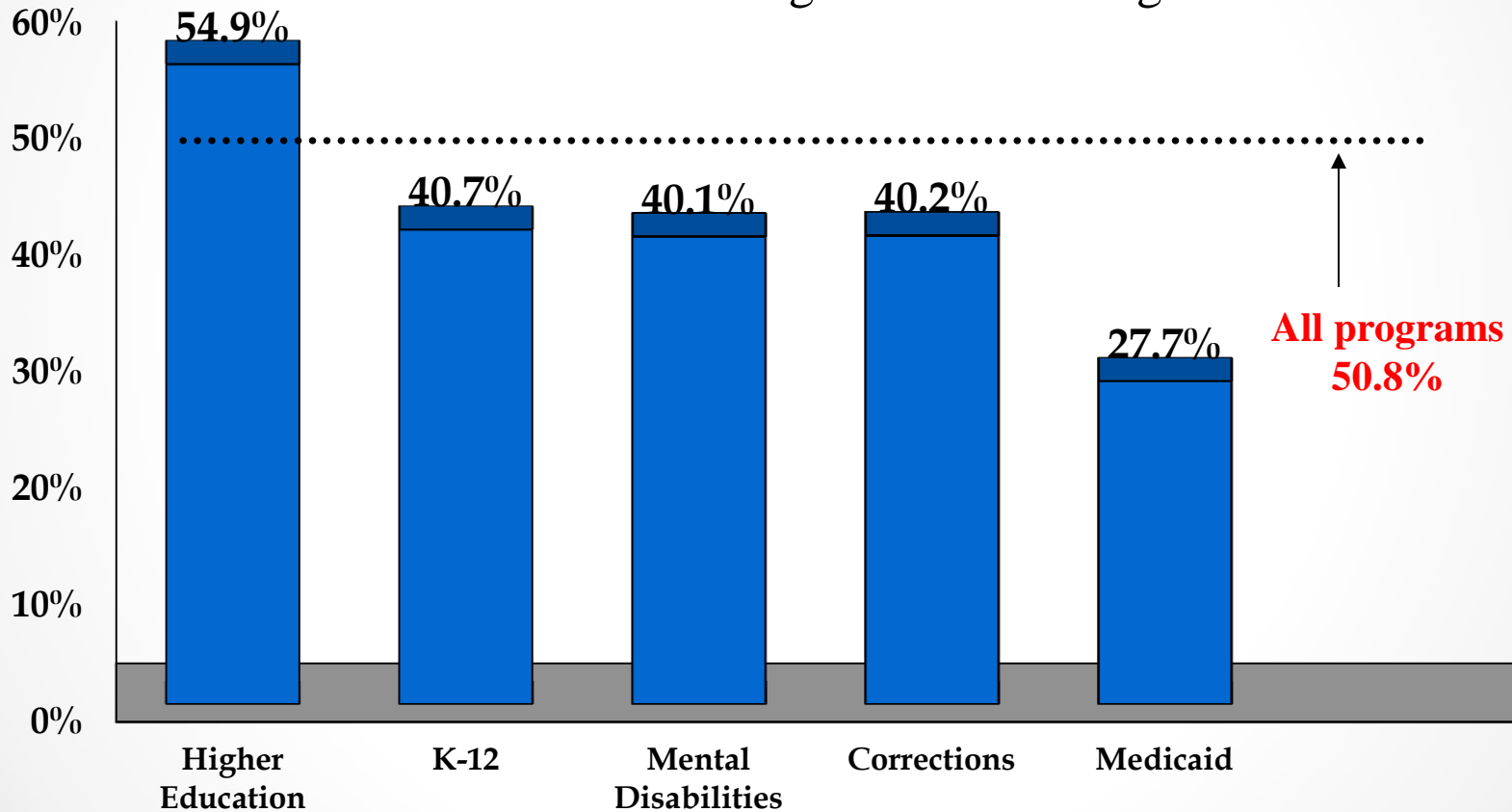


Major Budget Drivers: 1990-1995



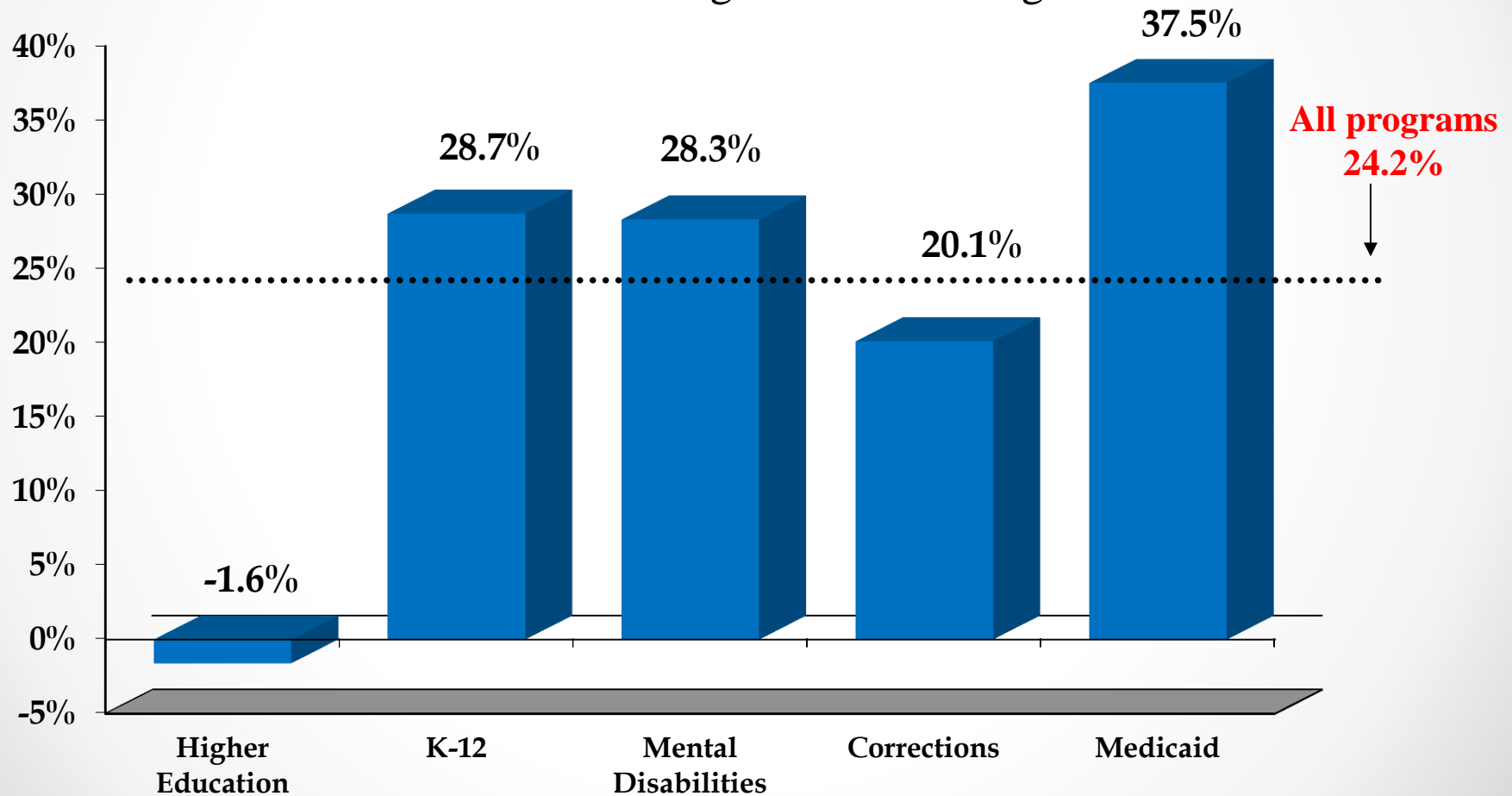
Major Budget Drivers: 1995-2000

Percent increase in general fund budget



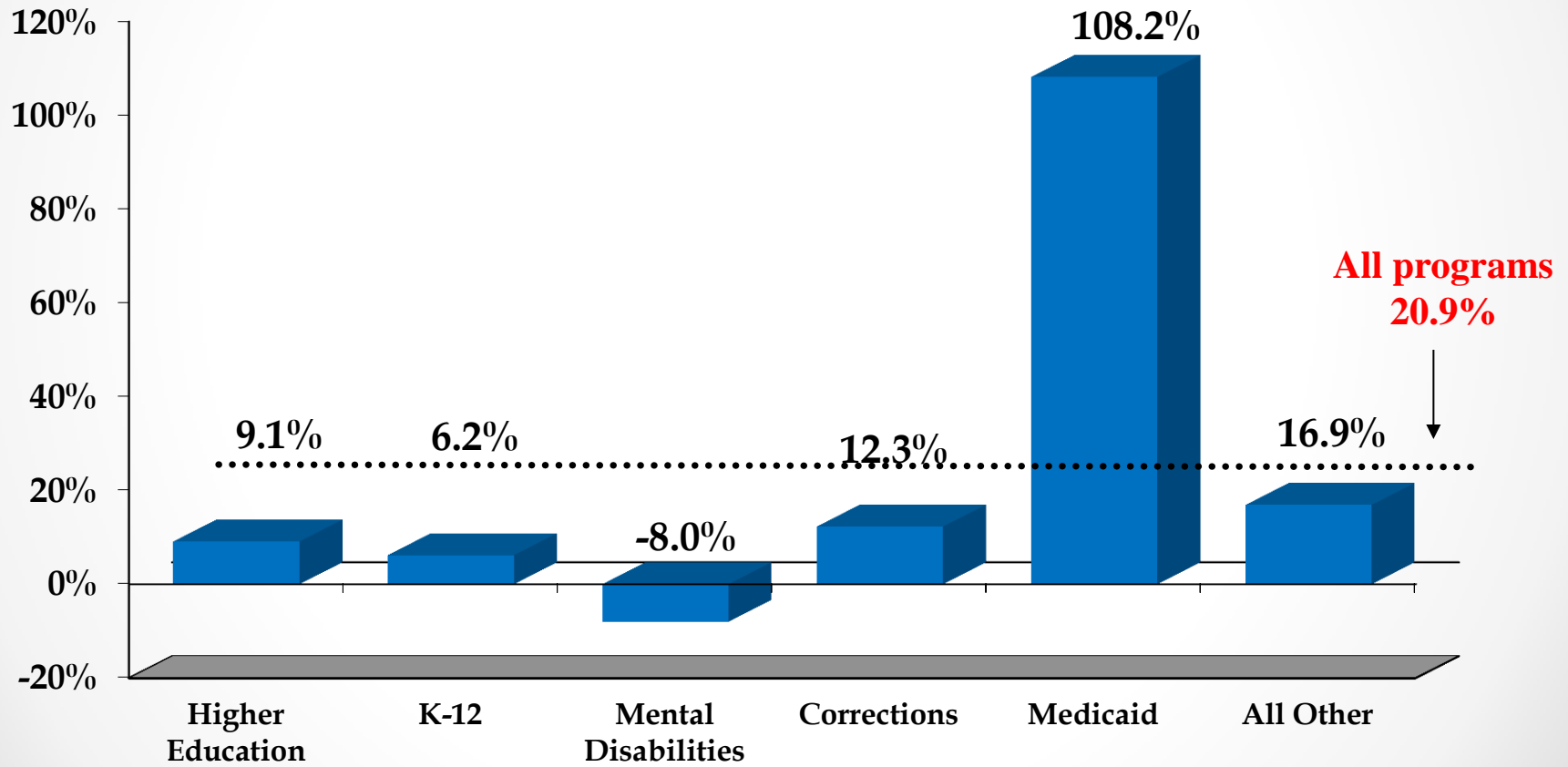
Major Budget Drivers: 2000-2005

Percent increase in general fund budget



Major Budget Drivers: 2005 - 2012

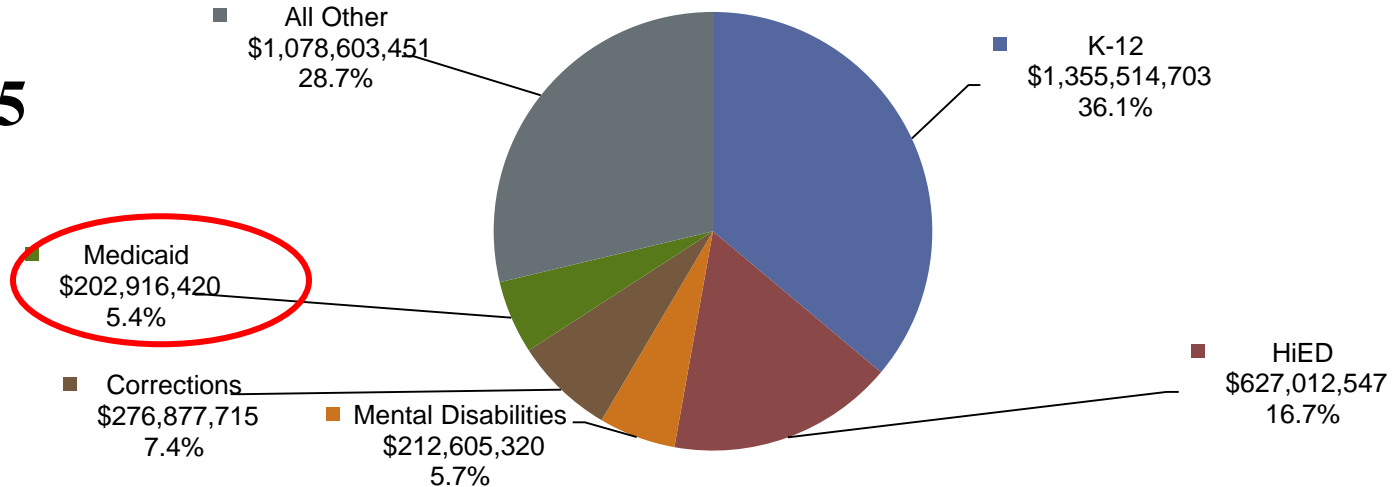
Percent increase in general fund budget



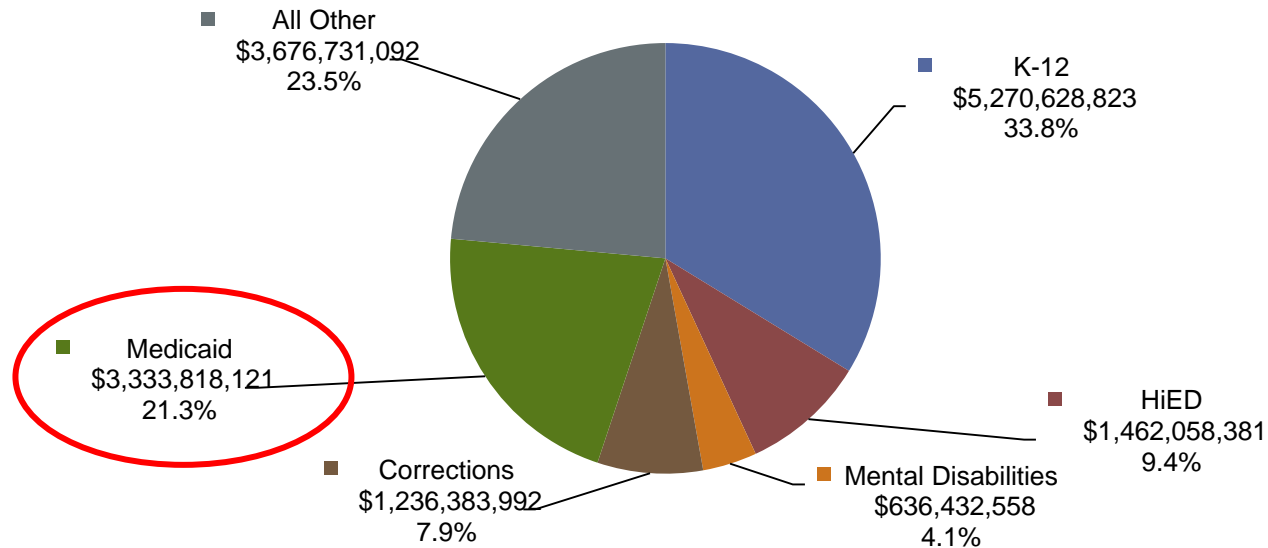
Data: 2005 (Chapter 951) compared to 2012 (Chapter 890)

Mandatory Programs Use Growing Share of Budget: Growth in Medicaid as Share of GF Budget

FY 1985



FY 2012



A Look Back at the 2013 Session

Highlights of 2013 Session

- 2013 was a “short” Session, meaning that no new budget was adopted, only amendments to the FY 2012-2014 biennial budget approved by the 2012 General Assembly
 - Blueprint already in place
 - Changes limited to addressing issues that had arisen since the 2012 Session
 - Allocated additional resources that became available because of revenue growth
 - Increase in resources was \$290.5 million
 - Net additional spending of \$280.5 million
 - Revised unappropriated balance of \$10.0 million

Key Budget Actions in the 2013 Session

- Maintain structural balance – use one-time funds for one-time activities
 - Elimination of local aid reversion account - 2012 General Assembly had reduced the \$50.0 million annual reversion to \$45.0 million in FY 2014, Governor and General Assembly eliminated the FY 14 amount entirely this year
 - Continue phasing-out the Accelerated Sales Tax Collection – Cap raised to \$48.5 million annual sales at an addition cost of \$20.0 million
- Set aside funding for upcoming Rainy Day Fund payments – nature of calculation means we face substantial payments for next few years
 - Governor set aside \$50.0 million for a reserve for the next biennium, General Assembly increased this to \$95.0 million in House budget and Conference Report

Key Budget Actions in the 2013 Session

- Provide compensation increases for all employees groups - state-supported local employees, faculty, and teachers and support staff
 - 2012 General Assembly had made a contingent appropriation for a 2% salary increase for state and state-supported local employees in FY 2014
 - 2013 General Assembly Added a compression adjustment of \$65 per year of service for state and increased state-supported local employees to 3%
 - Also expanded the 2% increase to apply to teachers and K-12 support personnel
- Provide additional state support for water quality infrastructure
 - Authorized \$221 million water quality bond fund to improve wastewater treatment plants (\$101 million), combined sewer overflows (\$75 million) and fund new urban stormwater investment program (\$35 million)

Major GF Adjustments in Chapter 806

(\$ in millions)	2012-14
Medicaid Utilization and Inflation	\$ 114.6
Reserve for FY 2014-16 Rainy Day Fund Deposits	95.0
Add'l FY 2014 Mandatory Rainy Day Fund Deposit	78.3
K-12 2% Salary Increase	70.3
State Employee Health Insurance	62.7
Eliminate Local Aid Reversion Account	45.0
Higher Education (Inc. Top Jobs, Faculty Salary Increase)	44.7
Salary Increase - Classified, Other State-Supported Local	32.9
Children's Health Insurance Utilization and Inflation	20.7
FAMIS Utilization and Inflation	20.2
DOC: Open North River Correctional Facility (Oct 2013)	18.0
Water Quality Improvement Fund Deposits	16.9
K-12 Cost of Competing Adjustment	9.4
250 Additional ID and DD Waiver Slots	7.7
Strategic Compensation Initiative for Teachers	7.5

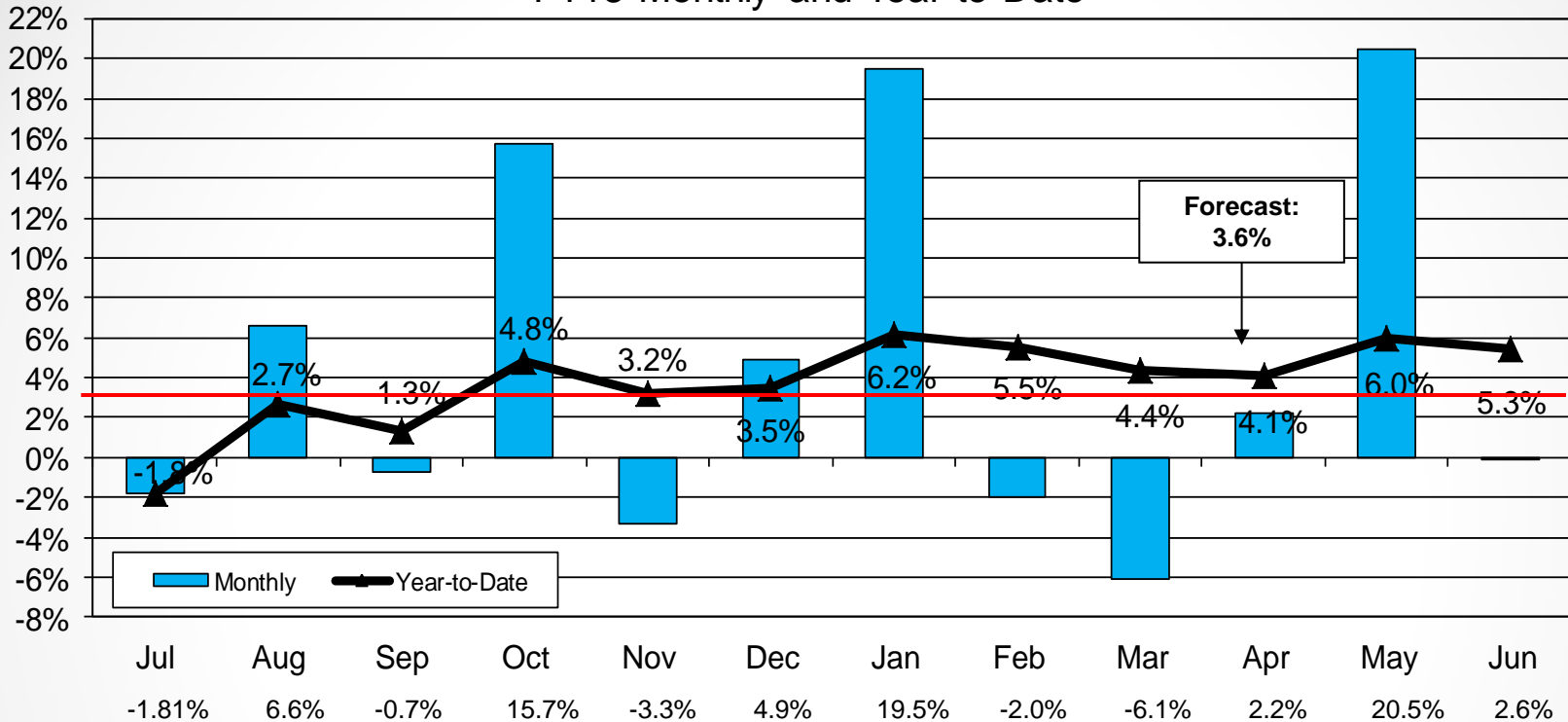
FY 2013 Year-End Close and the FY 2012-2014 Budget

FY 2013 Year-End Revenue Surplus and Agency Balances

- Next Monday Governor McDonnell will present the final FY 2013 year-end revenue and agency balance figures to the Joint Money Committees of the General Assembly
- Made a preliminary announcement in July reporting a general fund revenue surplus of \$261.9 million
- Uses of the revenue surplus as well as year-end agency balances will be detailed next Monday. Vast majority will be required for:
 - Rainy Day Fund: requirement for FY 2015 likely to be in the \$240 million range (offset by the \$95 million set aside as a reserve by the General Assembly this Session)
 - Mandatory deposits to the Water Quality Improvement Fund: Governor announced last week that the combined Part A and B deposits will be over \$31 million
 - Contingent deposit of \$20.0 million to the Federal Action Contingency Fund (FACT Fund)
 - Up to \$100 million for payment to the Virginia Retirement System proportionate to each plan's unfunded liability as a pre-payment for the GF ten-year payback of deferred contributions

Growth in Total General Fund Revenue Collections

FY13 Monthly and Year-to-Date



- Total general fund revenue collections exceeded the forecast by \$261.9 million in fiscal year 2013, a forecast variance of 1.6%
- GF collections totaled \$16.68 billion in FY 2013
 - Exceeded the pre-recessionary high in FY 2008 by 6%
 - Last year was first year that collections returned to FY 2008 levels
- Total general fund revenue collections (excluding transfers) rose 5.3%,
 - ahead of the revised annual forecast of 3.6% growth

FY 2013 Performance by Source

Majority of surplus generated by 3 of Virginia's smaller revenue sources

- Nonwithholding: \$290.0 million of surplus
 - Nonwithholding makes up 15% of total revenues and grew 19% percent in FY 2013
 - Historically tied to non-wage income and very volatile. Despite very robust year, remain below FY 2008's peak
- Tax Refunds: \$72.2 million of surplus
 - Refunds were down 3.7%, below the estimate of 0.7% growth
- Recordation Taxes: \$41.0 million ahead of forecast
 - Grew 17.2% in FY 2013, 12.2% ahead of annual forecast of 4.5%
- Insurance Premium Revenues: \$6.6 million of surplus
 - 2% of GF revenues, exceeded forecast of 1.1% growth by 2.6%
- All other revenues were \$20.3 million above expectations.

FY 2013 Performance by Source

Our 2 “bread and butter” sources fell short of the forecast by a combined \$144.0 million - a forecast variance of 1.1%

- Payroll Withholding: (\$115.0 million) below forecast
 - Collections of payroll withholding taxes make up 63% of GF revenue; grew 2.1% compared to forecast of 3.3%
- Sales Tax: (\$29.0 million) below forecast
 - Makes up 20% of total revenues
 - Most closely related to current economic activity
- These two sources are the best indicators of current economic activity in the Commonwealth
- Estimates are directly tied to the economic outlook for jobs and wage income
- Slowdown in withholding and sales tax collections over the last 5 months of 2013 suggests federal sequestration is having an impact in Virginia
- Also declining were Corporate Income Tax collections which were (\$23.8 million) behind forecast
 - Makes up 5% of revenues – one of most volatile sources
 - Declined 7.3% compared to forecast of 4.5% decline

FY 2013 Performance Suggests Restraint in FY 2014

- While total FY 2013 GF revenues performed better than expected, tax collections continue to grow at below-trend levels
- Of even greater concerns, the underperformance of our 2 largest sources
 - Great uncertainty exists regarding the resolution of federal budgetary and tax policy actions. Virginia especially vulnerable to reductions in federal spending in both the defense and non-defense sectors
 - Already seeing continued weakness in the job market based on caution – makes bump in income tax collections unlikely
- Forecast for FY 2014 included in the adopted budget assumes modest growth of 4.2%
 - When tax policy changes and technical adjustments are included, the projected growth rate is 3.8% for FY 2014
- However, because the FY 2013 collections exceeded the forecast by \$261.9 million, that amount ripples through to FY 2014 and then is adjusted for the new growth rates
 - Based on the current forecast (as included in Chapter 806) FY 2014 will have to grow only about 2.2% to meet the appropriated expenditures
 - This rate compares to the 3.8% forecast assumption prior to accounting for FY 2013 actuals

Virginia's Performance Reflects National Trends

- Virginia's FY 2013 revenue growth mirrored that of the nation
- The National Conference of State Legislatures reports that all state general fund revenues grew by 5.3% - the exact same growth rate experienced in Virginia
 - This rate was notably strong and outpaced projections in most states
 - Most states attributed the growth to taxpayers pushing income tax into TY 2012 to avoid anticipated increases in federal tax rates
- But a slowdown is anticipated in FY 2014 with projected revenue growth at 1.3% nationally
- At the same time, major programs are projected to push expenditures in those categories higher, averaging 5.9% for Medicaid, 5.1% for higher education, 2.5% for corrections and 2.4% for K-12 education

**Looking Ahead:
Issues for the 2014 Session and
Virginia's Next Biennium**

2014 Session Will Develop New Biennial Budget

- Each year, two groups – the Joint Advisory Board of Economists and the Governor's Advisory Council on Revenue Estimates meet respectively, in October and November, to review Virginia's revenue performance and the national and local economic forecast
 - The guidance provided by these groups is incorporated into the Governor's budget recommendations in December
- This coming Session the General Assembly will consider a final round of amendments to the budget adopted for the FY 2012-2014 biennium in the "caboose bill" as well as the out-going Governor's proposal for the FY 2014-2016 biennium
- In December, the general fund revenue forecast will be finalized and Governor McDonnell's proposals will be presented to the Joint Money Committees on December 16th
- The new Governor and the General Assembly will have the opportunity to propose their own amendments to the outgoing Governor's proposal in January

Majority of New Revenue in FY 2014-16 Biennium Likely to be Required to Finance a Small Number of Mandatory Programs

■ VRS Contributions

- Pension reform legislation adopted by the 2012 General Assembly includes a mandatory phase-in schedule to ensure we fully fund the VRS Board-certified rates by 2018
 - Based on the phase-in schedule, VRS projects the FY 2015 teacher rate will increase almost 3%, and the state plan will increase by about 4%
 - Anticipate that increased contribution rates for state's share of major pension plans could exceed \$200 million each year
- GASB has changed standards for reporting for pension plans
 - Requires the use of a closed amortization period
 - Standards will require mark to market valuation – asset smoothing no longer may be used for financial reporting

Majority of New Revenue in FY 2014-16 Biennium Likely to be Required to Finance a Small Number of Mandatory Programs

- Medicaid Utilization and Inflation Forecast
 - DMAS will release its forecast in mid-November
 - Medicaid cost increases were considered “modest” in current biennial budget, yet still increased by more than \$650 million
 - On average, annual Medicaid expenditures have grown more than 9% annually in Virginia since 2000
 - GF share of program this year is \$4.1 billion

- K-12 Re-benchmarking
 - DOE has not released any data for the rebenchmarking – expect it to be released in September
 - Like Medicaid, past practice would suggest re-benchmarking will require a minimum of several hundred million per year

2014 Session – Flexibility Will Continue to Be Limited

- Expect continuation of below-trend revenue growth
 - State highly dependent on income tax as primary revenue source – job outlook not anticipated to improve dramatically and withholding tax collections will remain below trend levels
- Virginia reflects national trends but more heavily influenced by federal issues
- Unknown impact of Federal Budget Control Act of 2011 and other federal actions on Virginia
 - Continued dysfunction and uncertainty surrounding Congressional action
 - While dire job loss projections for Virginia appear to have been overstated to date, delays in implementing cuts may only have shifted the impacts into the next biennium
 - Debt Ceiling Cliff Awaits - although ceiling reached in mid-May, the Department of Treasury has used “extraordinary measures” to avoid breaching the limit but will have to increase the current ceiling this fall
 - Changes to Sequestration? Could see renewed discussion in the fall on either changing the current sequester by exempting certain programs or eliminating the sequester altogether with a “grand bargain”