

# Virginia's Revenue and Budget Outlook

Fiscal Analytics, Ltd  
VACO Finance Committee  
August 17, 2013

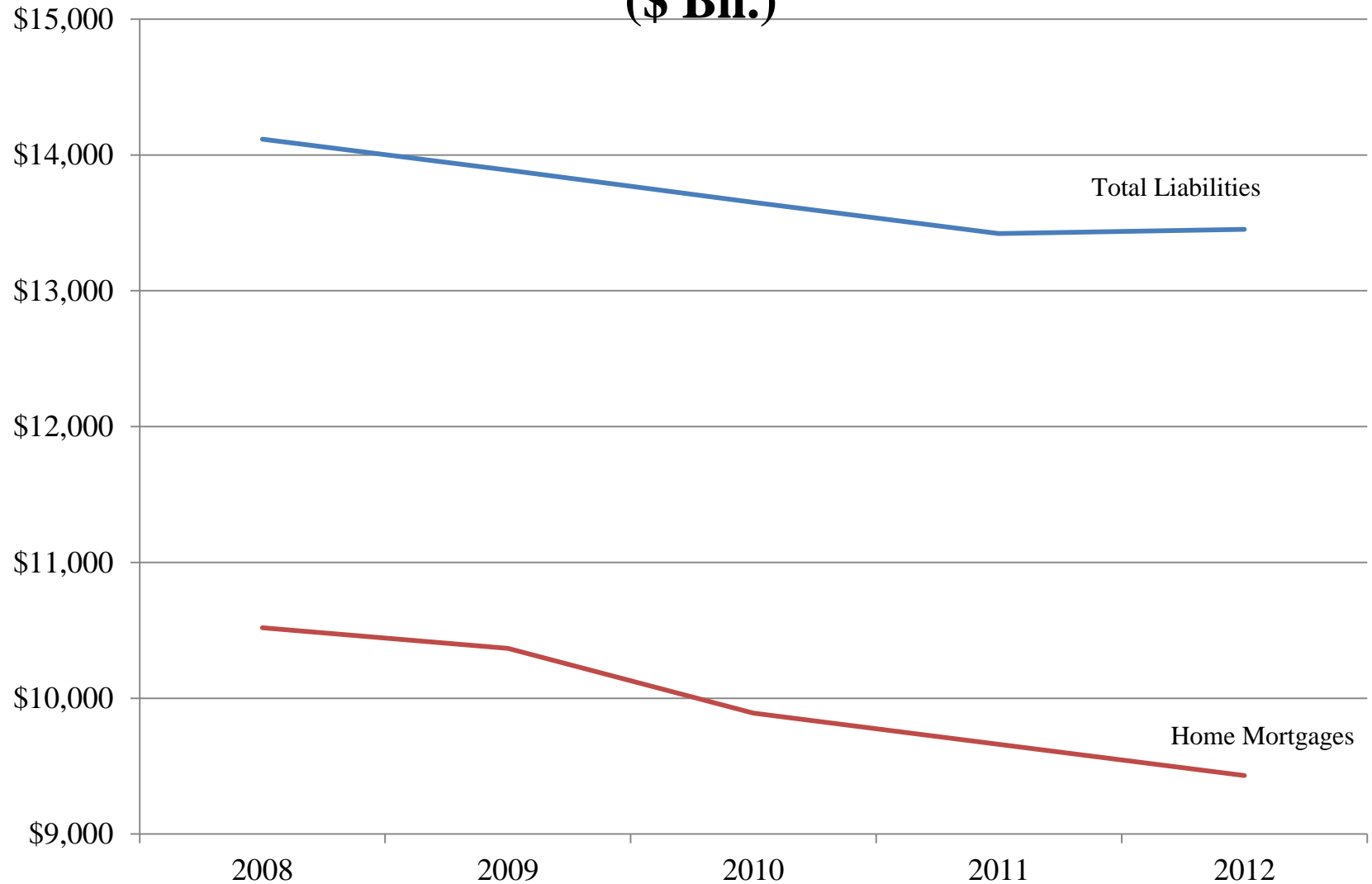
# National Economic Outlook

- National economy should continue to improve.
  - Consumer balance sheets improving
  - Strong corporate balance sheets
  - Slow but steady job growth
  - Improving housing, auto markets
  - Rapidly improving U.S. energy supply
  - Accommodative monetary policy
  - Strong stock market
  - Near-term federal fiscal drag, but declining deficit

# Virginia Economic Outlook

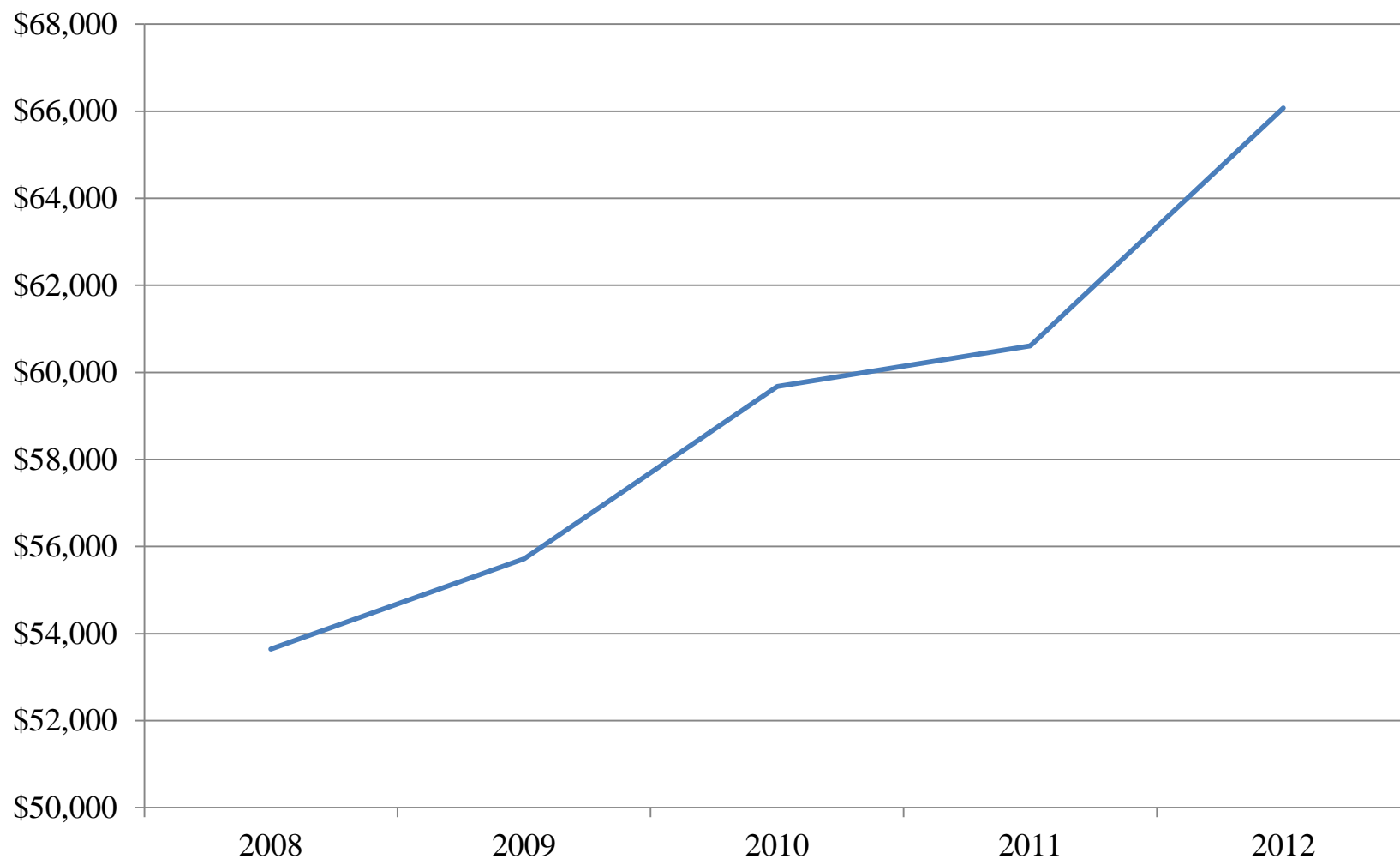
- Virginia economy growing modestly, although lagging national growth trends.
  - Declining VA unemployment.
  - VA housing and auto markets improving.
  - Number of high income taxpayers returning to pre-recession levels.
  - General fund revenue exceeded FY 13 conservative budget forecast by \$262 million: 5.3% growth instead of 3.6% forecasted.
  - Increased FY 2013 GF revenue has positive implications for FY 2014 and 2014-16 biennium budgets.
  - However, VA sales, payrolls, wages, and personal income growth is concerning - slower than the nation likely due to the slowdown in federal spending.
  - Locality benefits from state revenue increases will be muted by Rainy Day fund, VRS, debt service, and Medicaid requirements.
  - Local revenue sources only beginning to recover.

# U.S. Household Liabilities Are Decreasing (\$ Bil.)

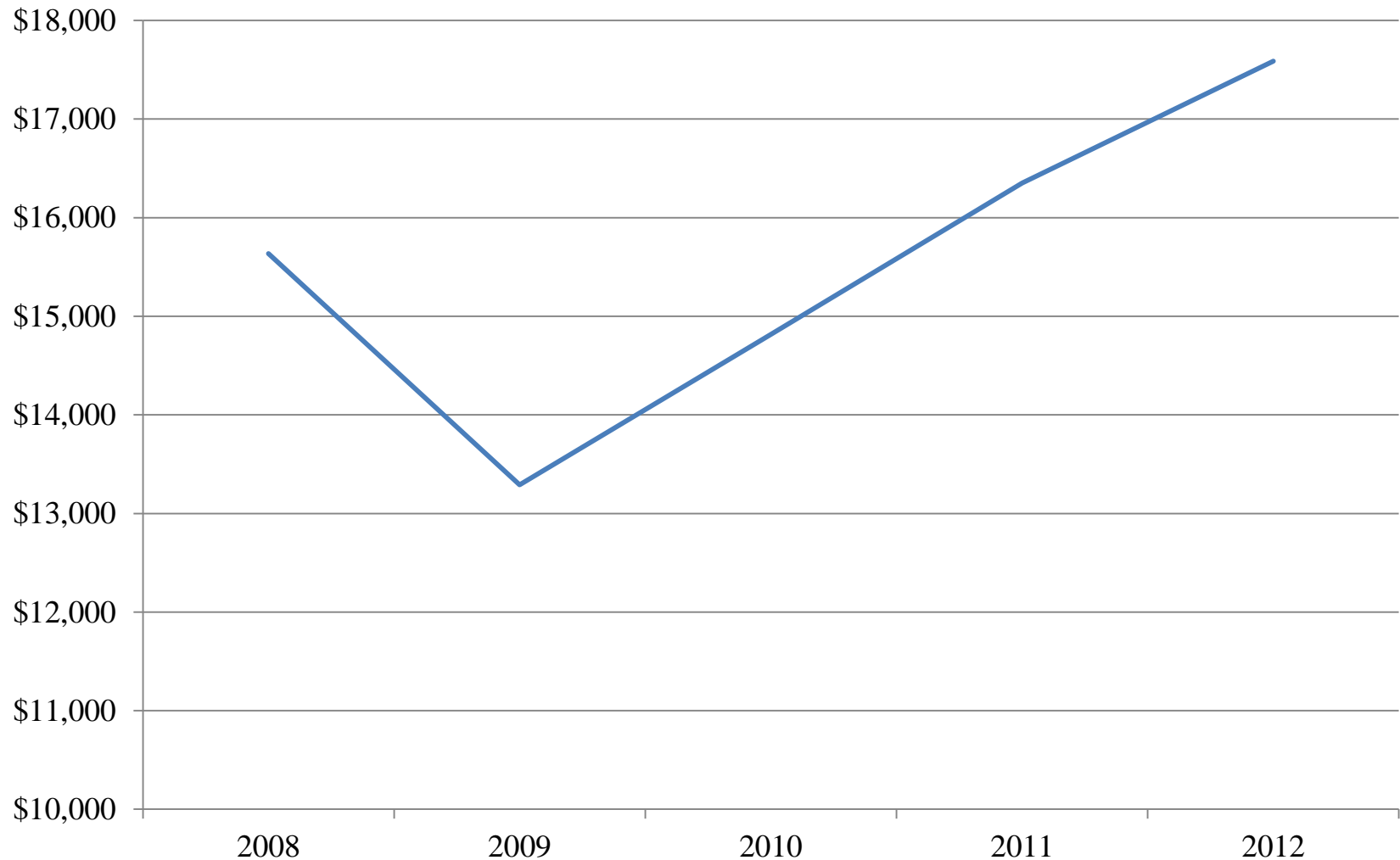


Source: <http://www.federalreserve.gov/releases/z1/current/z1r-5.pdf>

## **...And U.S. Household Net Worth Is Increasing (\$ Bil.)**

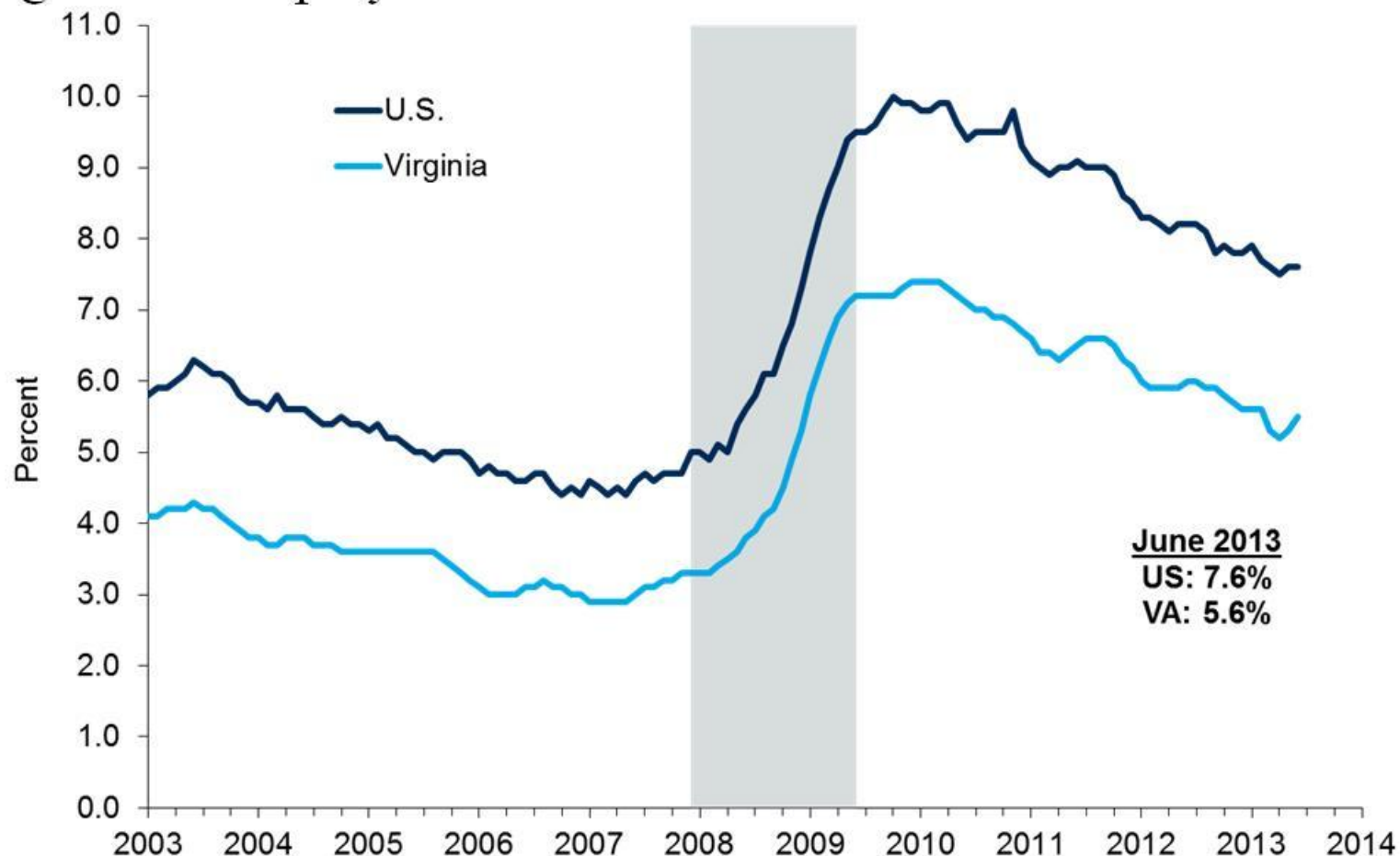


## Non-Financial Corporate Net Worth Has More than Recovered from Recession Lows (\$ Bil.)



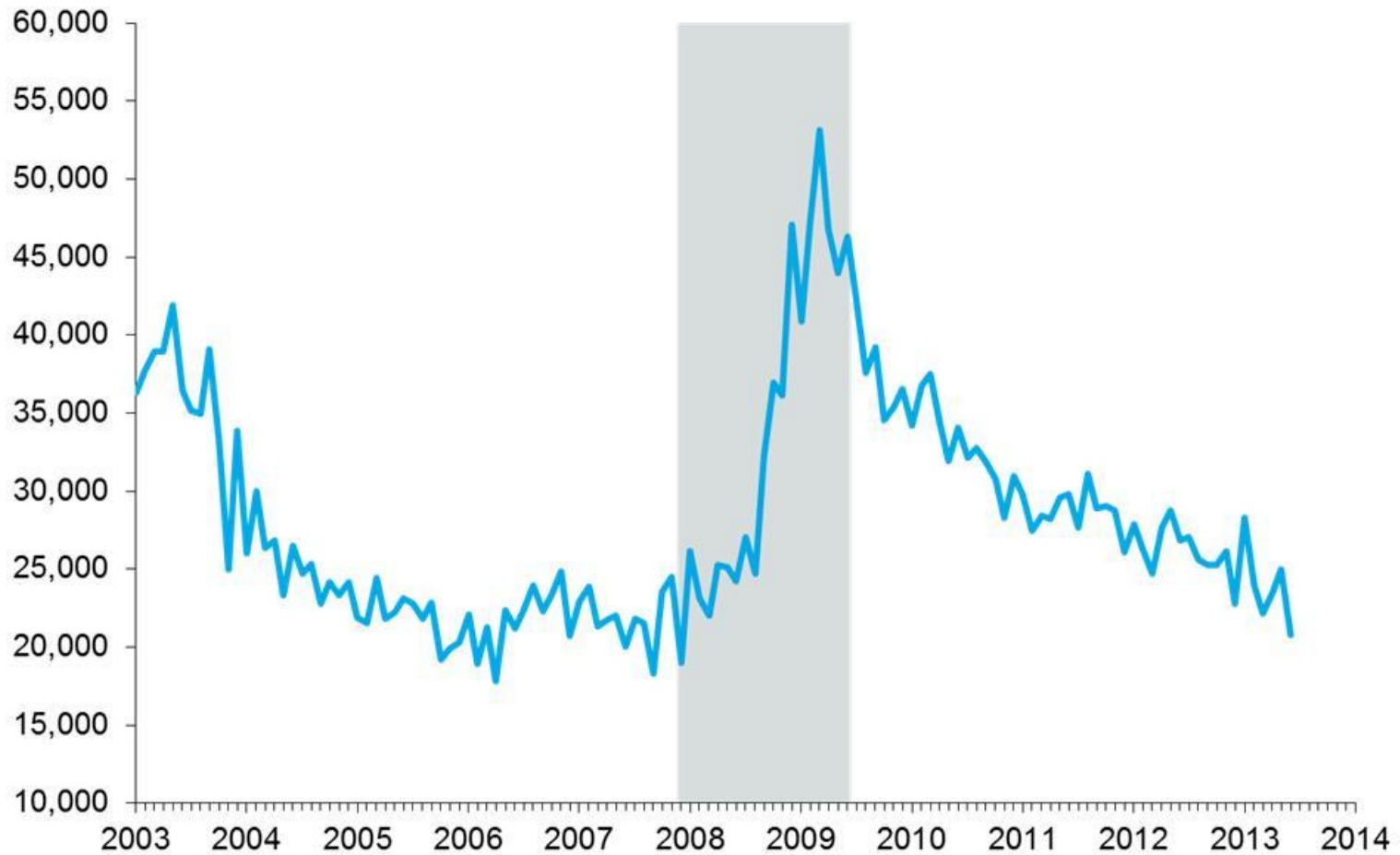
# Virginia has a Substantially Lower Unemployment Rate than U.S. Average

## Virginia Unemployment Rate



Source: Bureau of Labor Statistics/Haver Analytics

# Virginia Unemployment Claims Continue to Decline

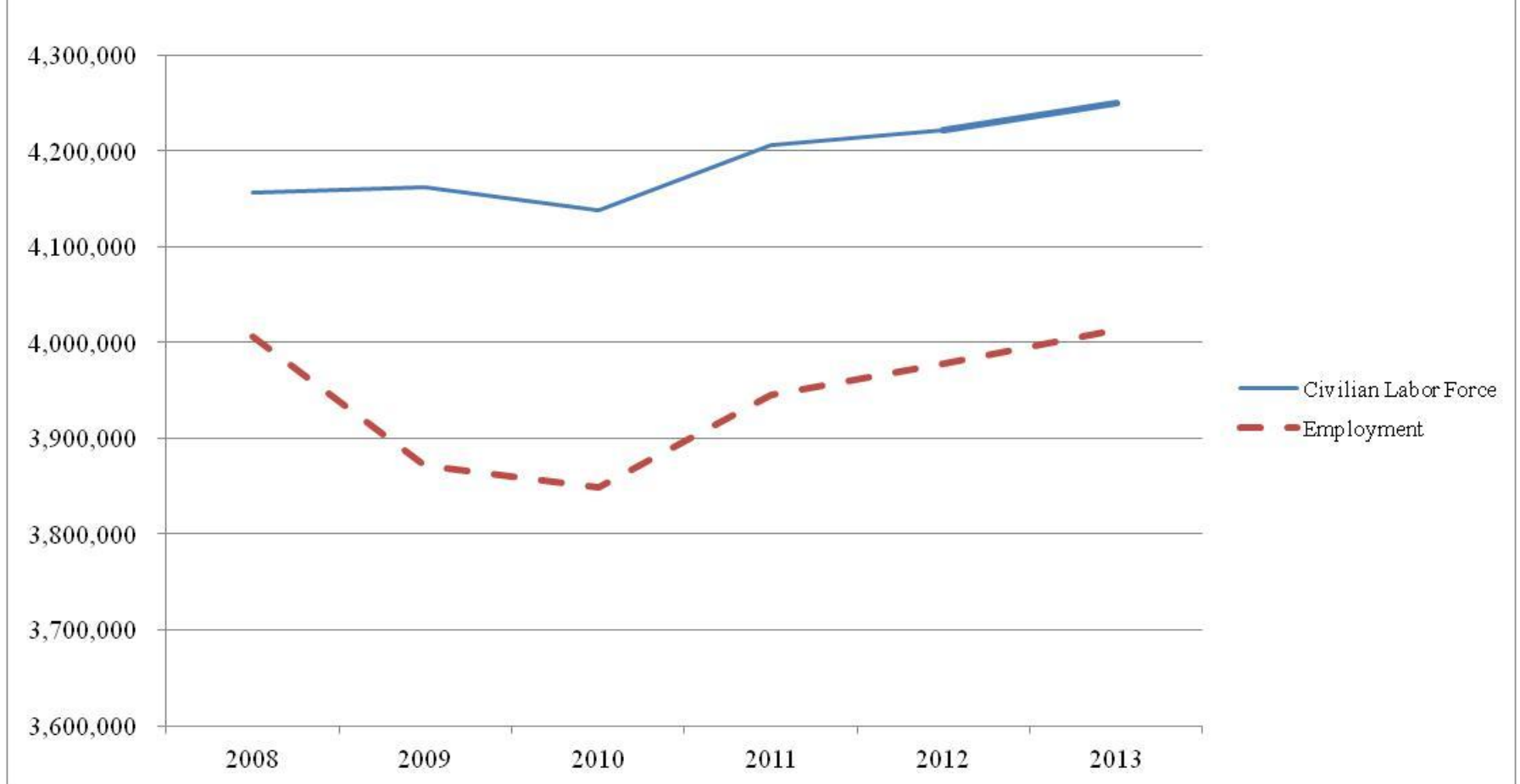


Source: Bureau of Labor Statistics/Haver Analytics



# Virginia Has Mostly Recovered Its Job Losses

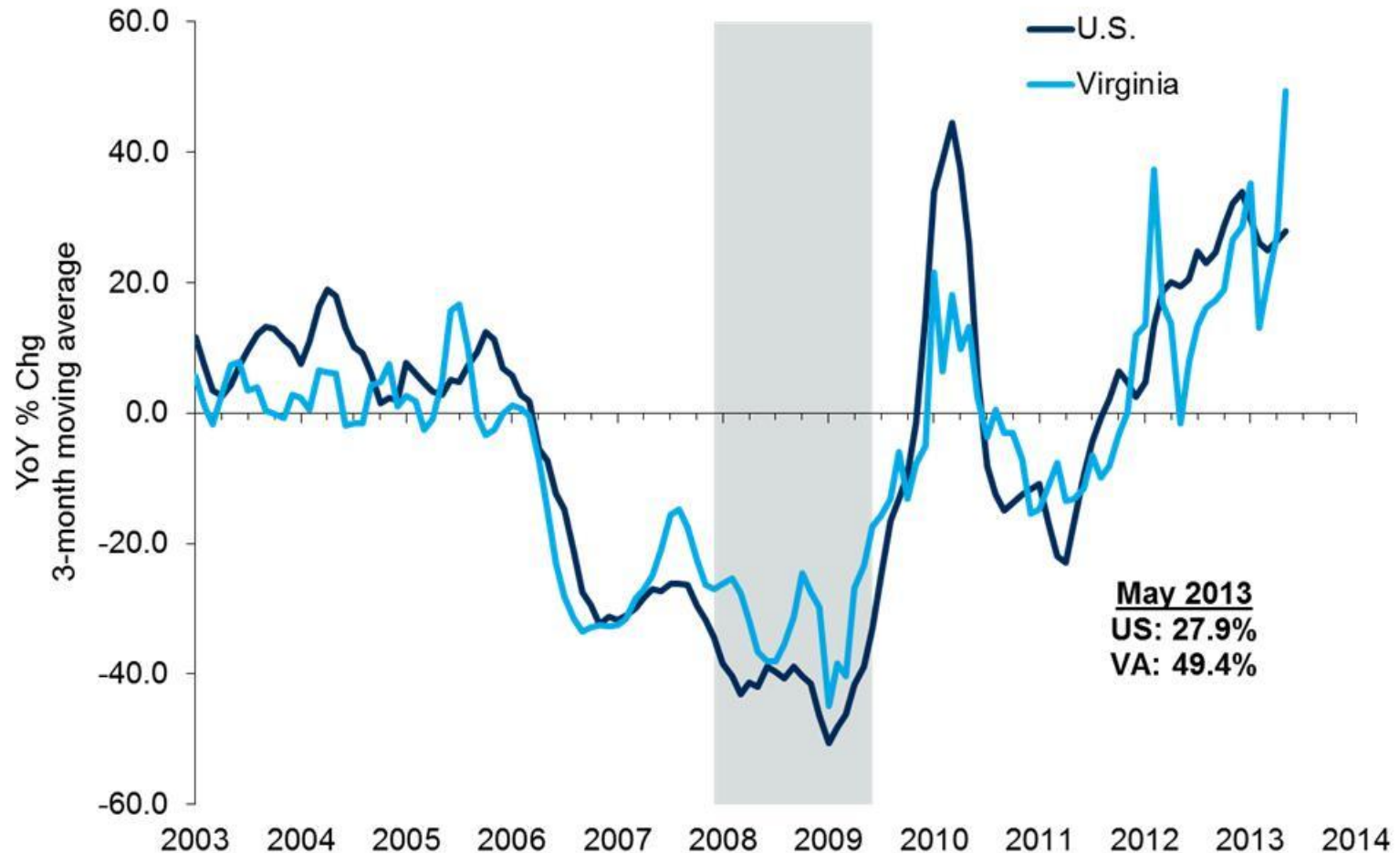
## Virginia Labor Force and Employment



# Housing Is Recovering

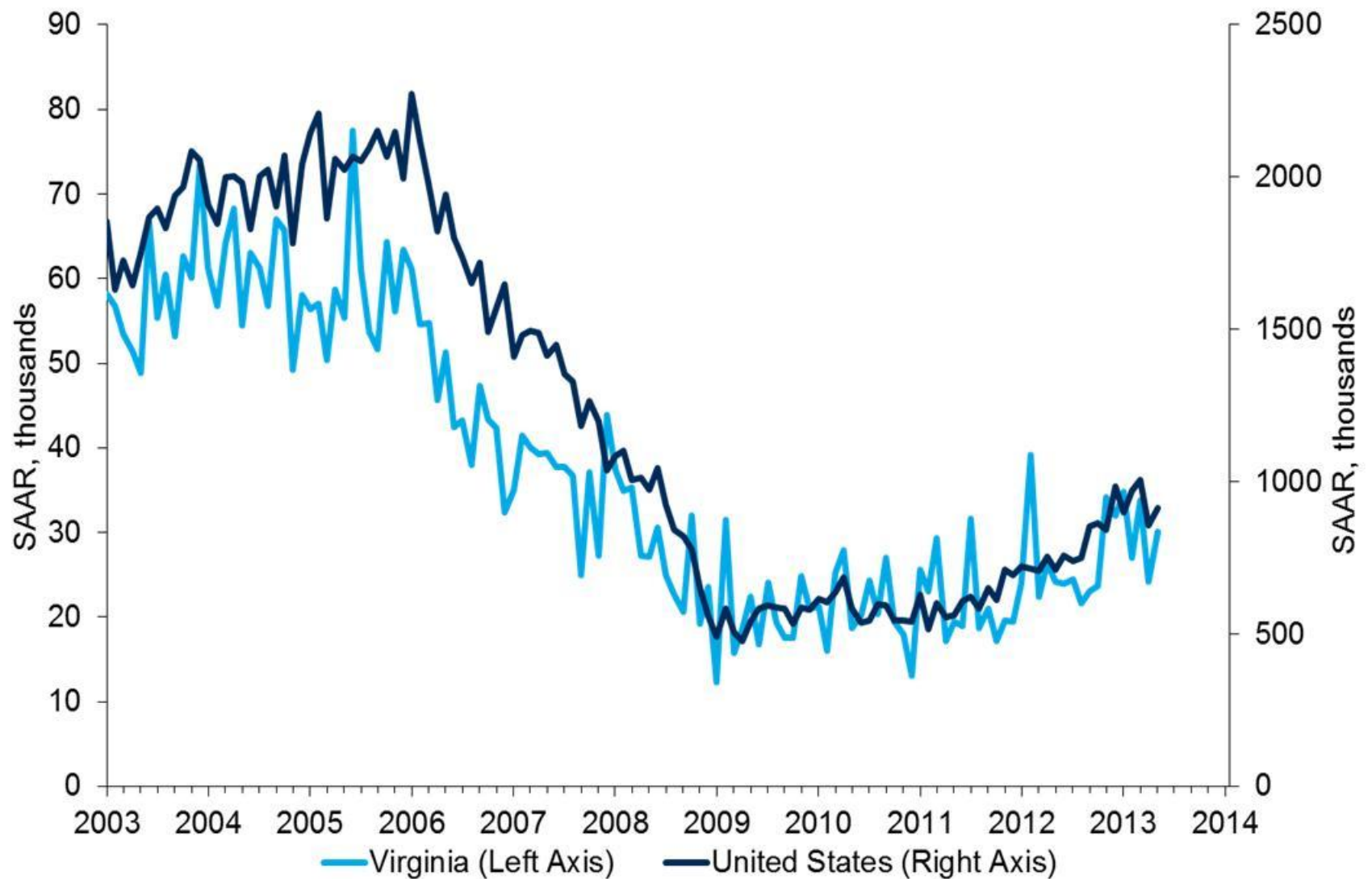
## Building Permits

Single-Family Homes



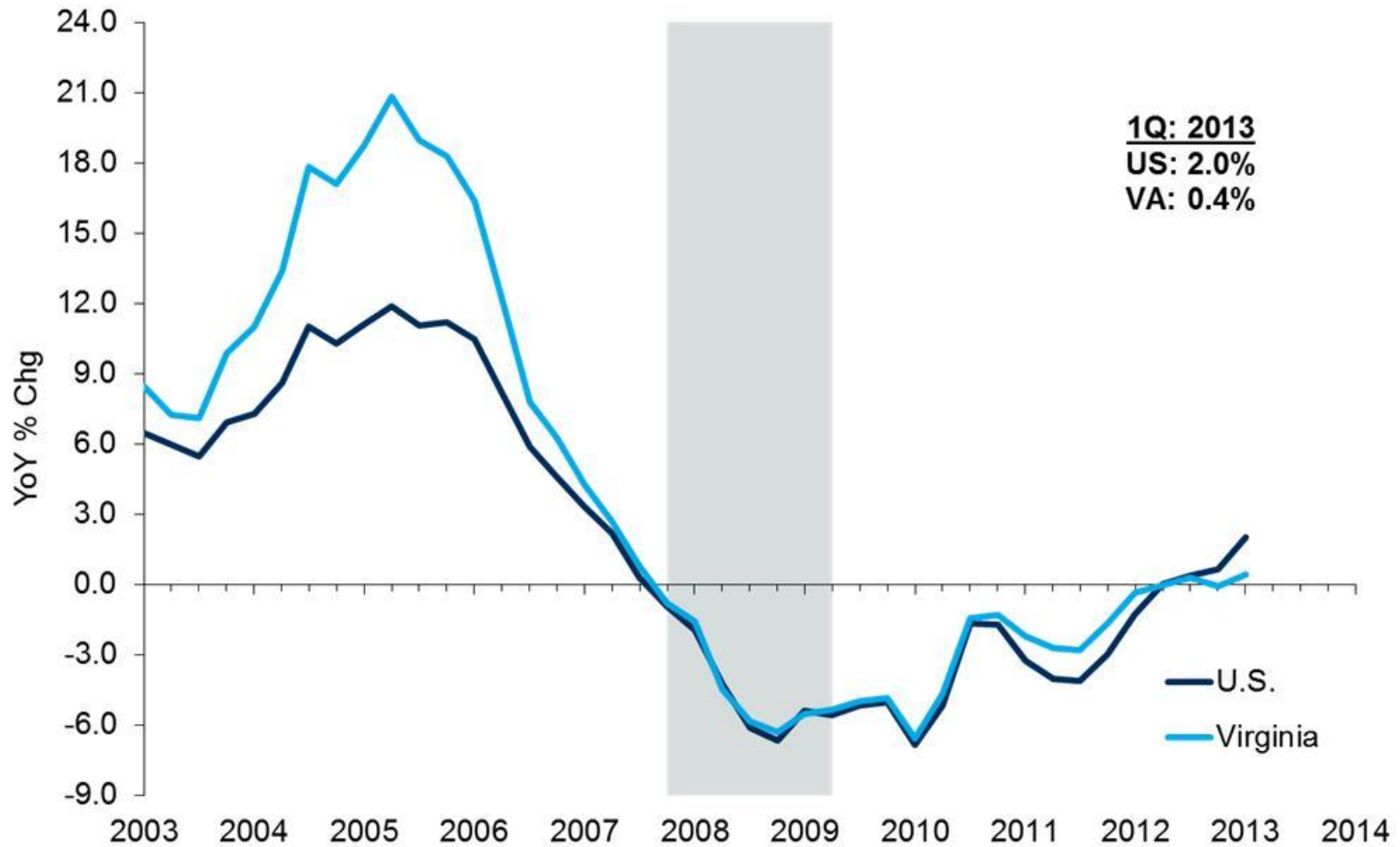
Source: U.S. Census Bureau/Haver Analytics

# Housing Starts



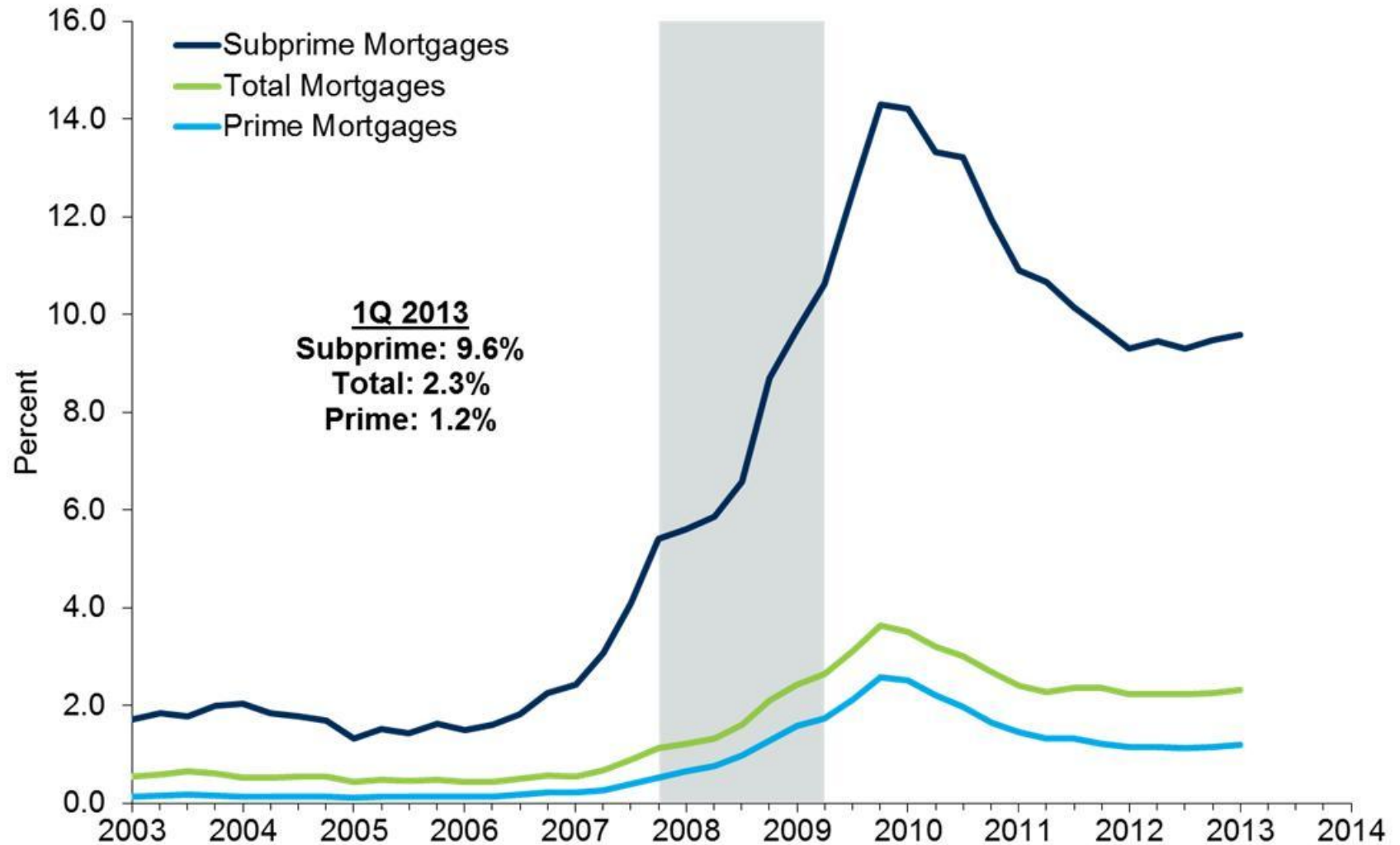
Source: Bank of Tokyo-Mitsubishi UFJ/Haver Analytics

# House Price Index—FHFA



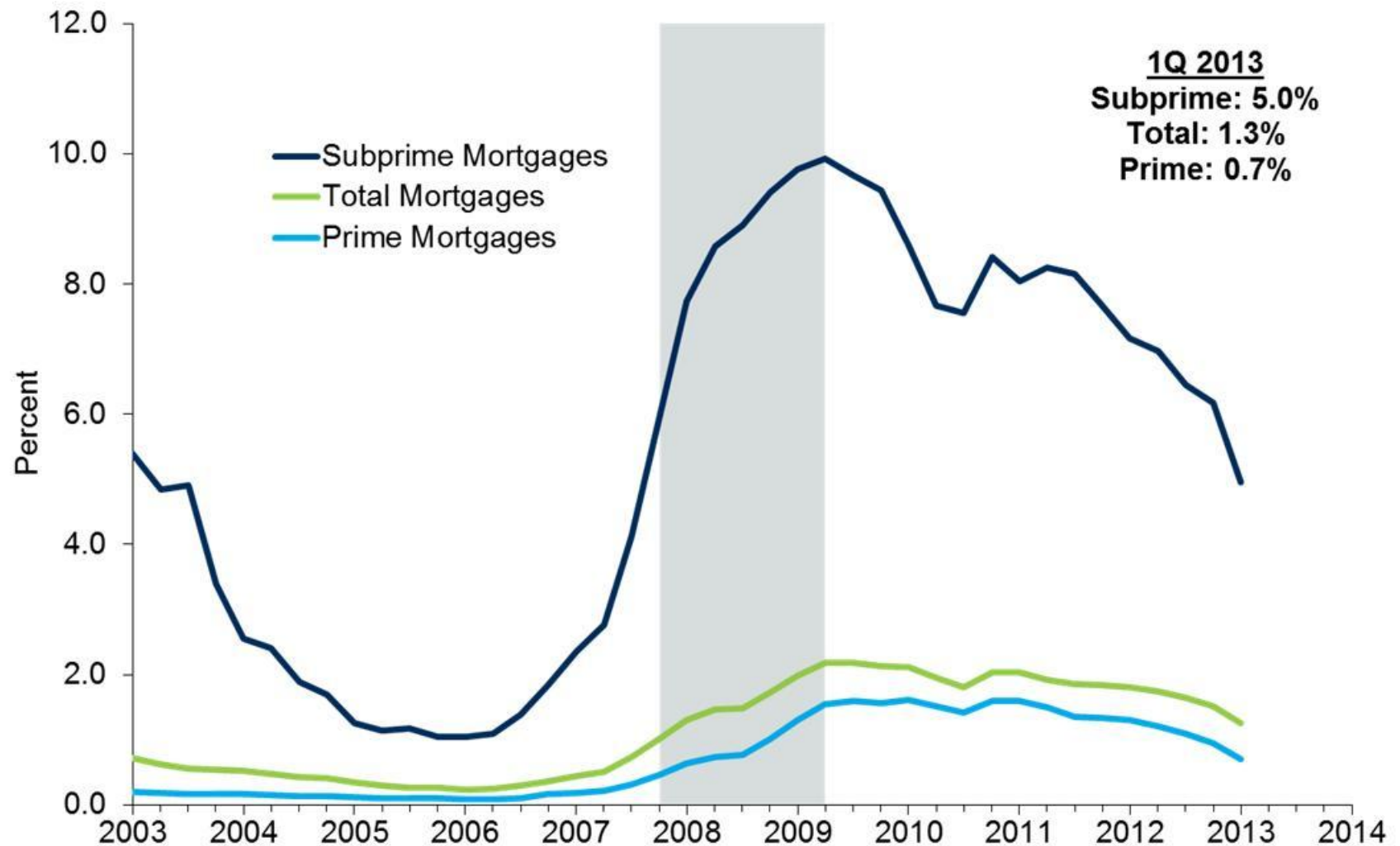
# Virginia Mortgage Delinquency Rate

90+ Day Delinquent



Source: Mortgage Bankers Association/Haver Analytics

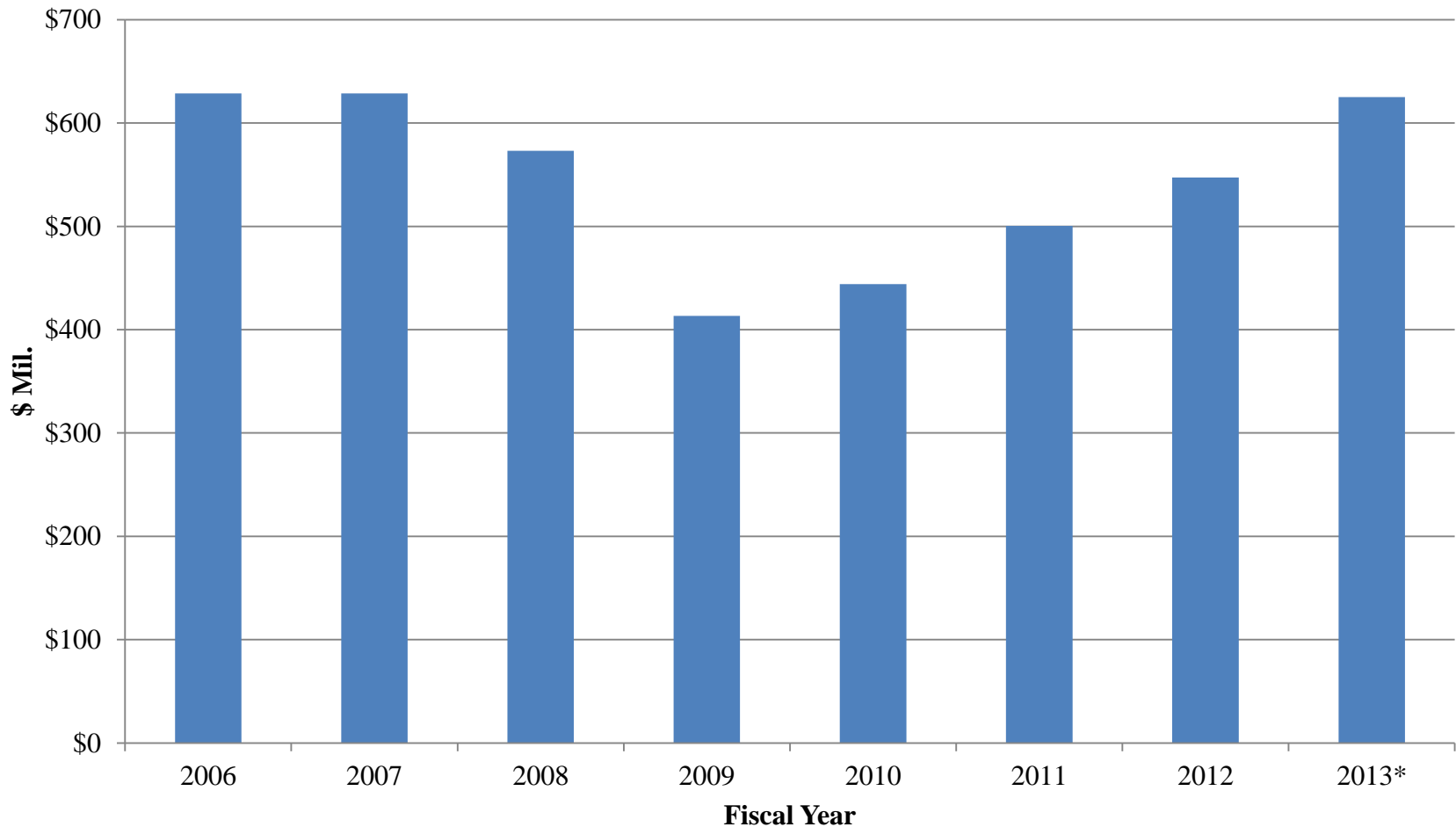
# Virginia Foreclosure Inventory Rate



Source: Mortgage Bankers Association/Haver Analytics

# Auto Sales Are Recovering

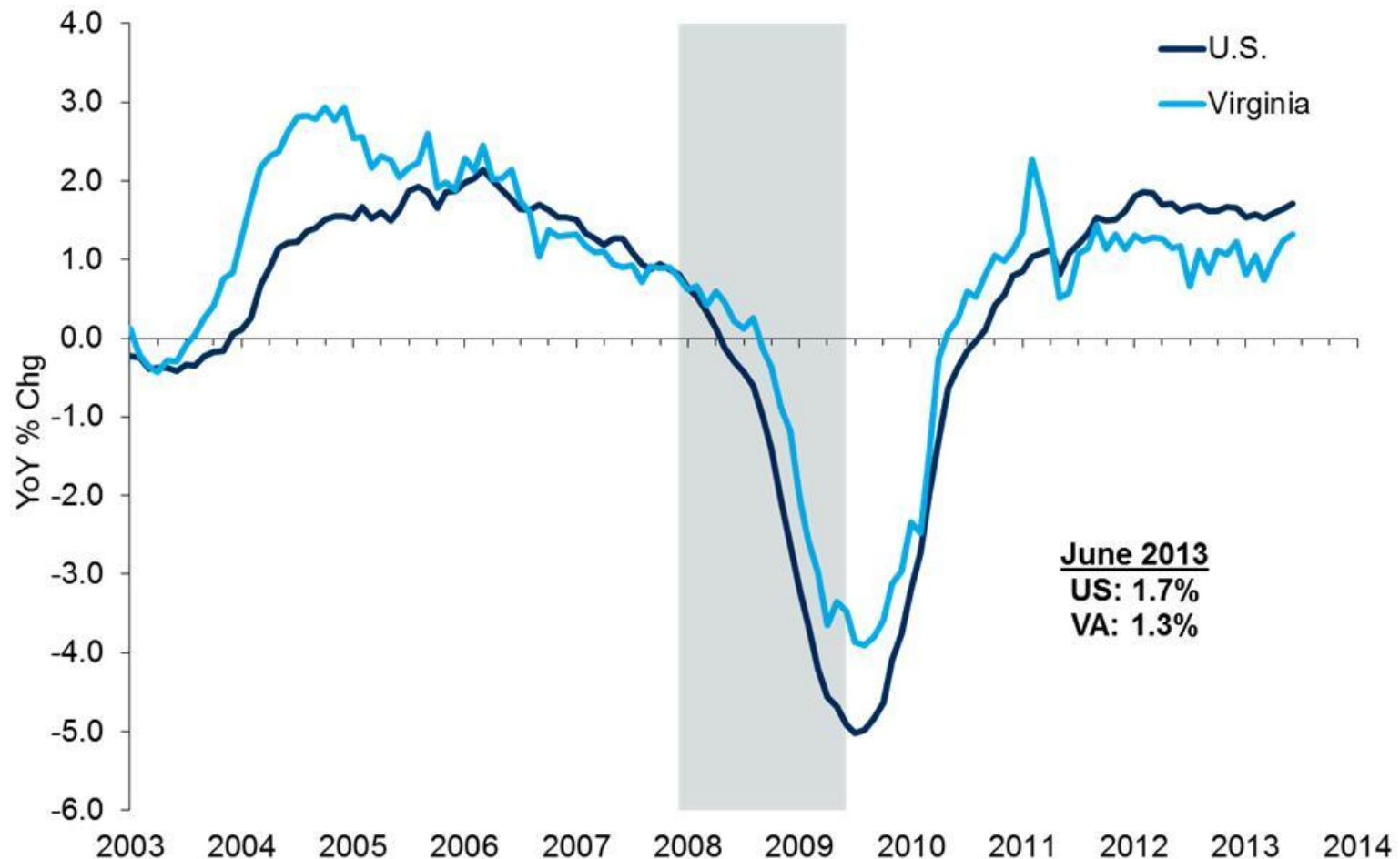
## VA Motor Vehicle Sales Tax Collections



\* Est. based on 11 months of actual collections

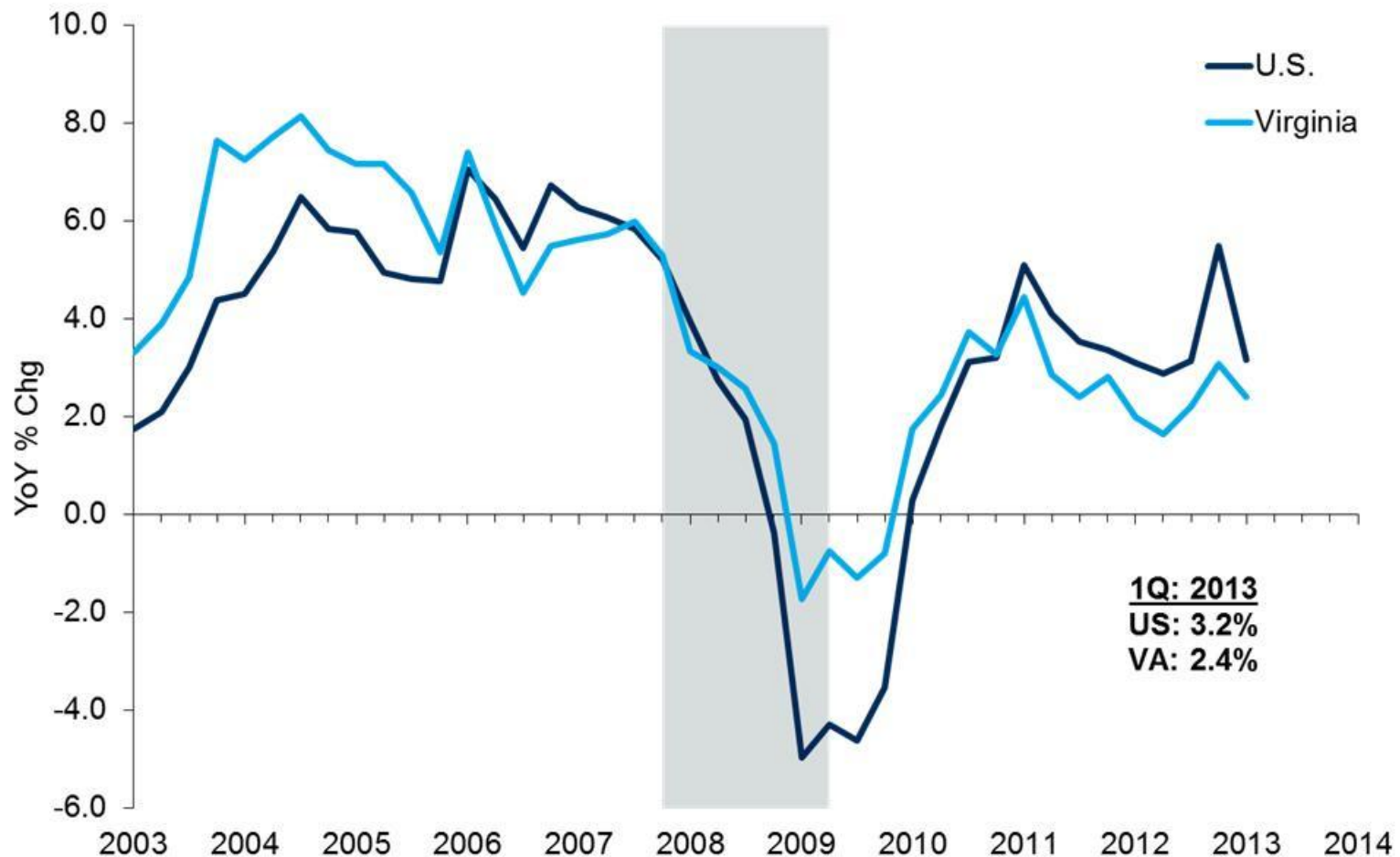


# ...But VA Employment Growth Has Lagged U.S. Growth Since 2011

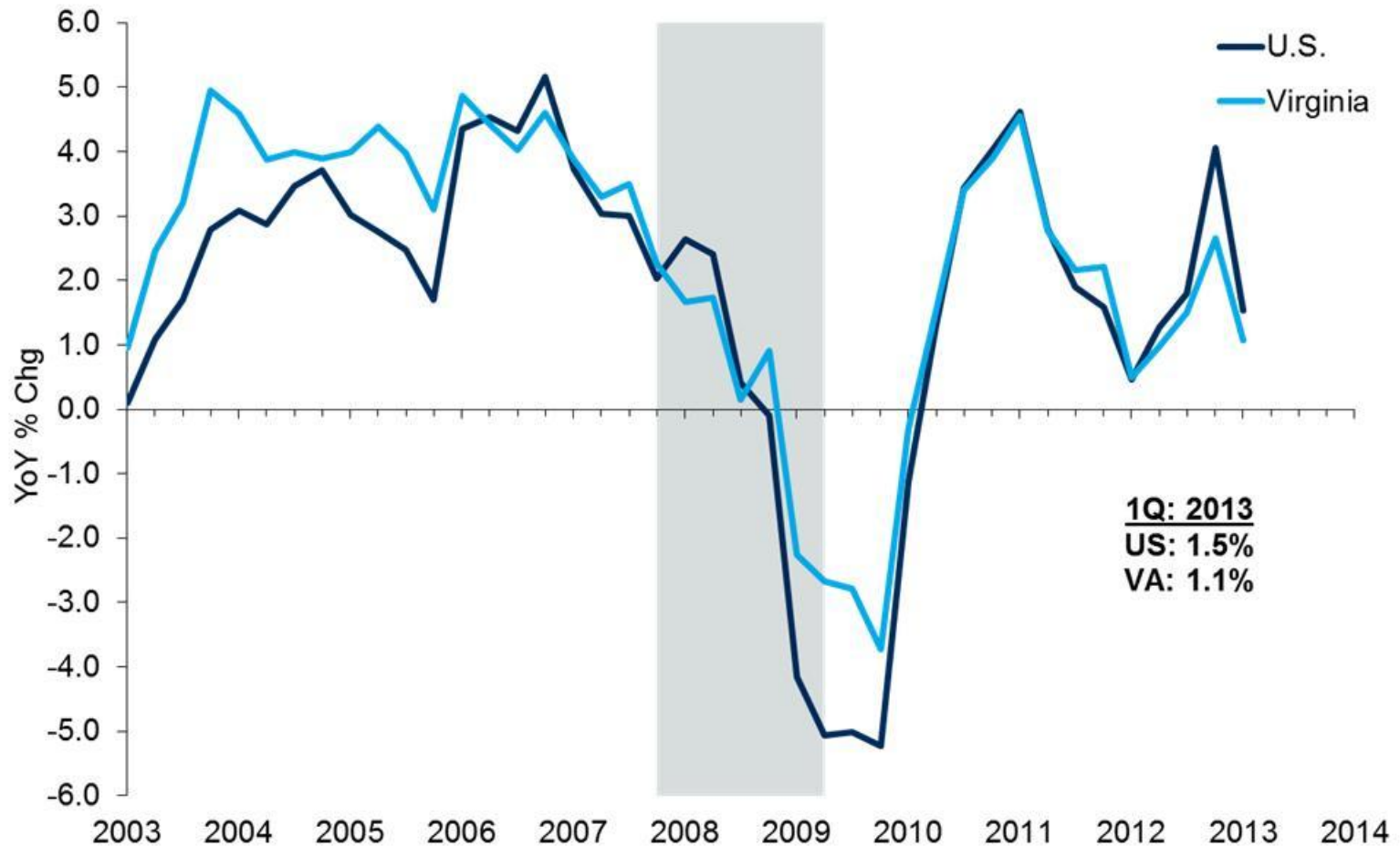




# Virginia Wage and Salary Growth Also Slower Than U.S.



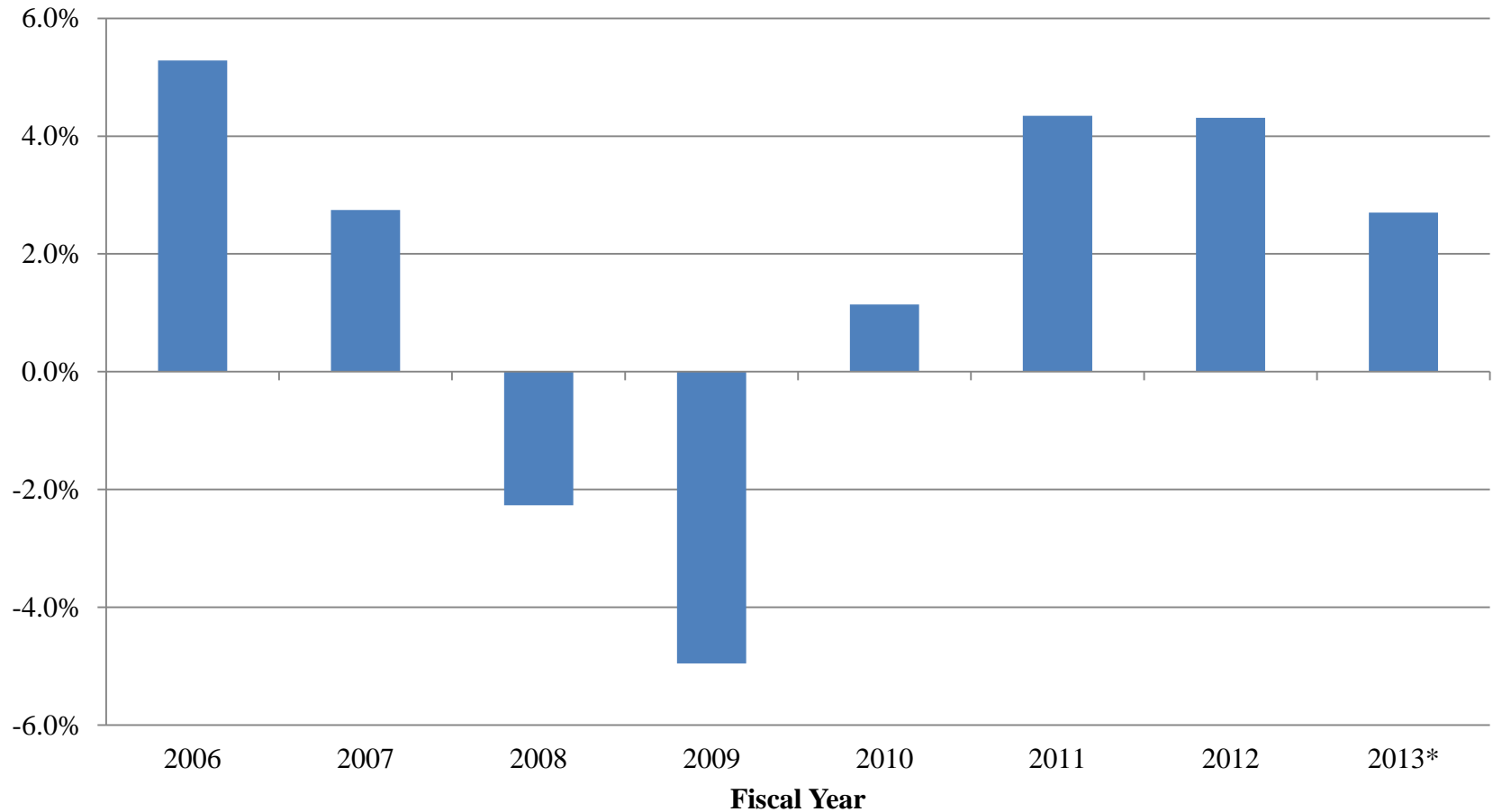
# ...And Also Virginia Personal Income



Source: Bureau of Economic Analysis/Haver Analytics

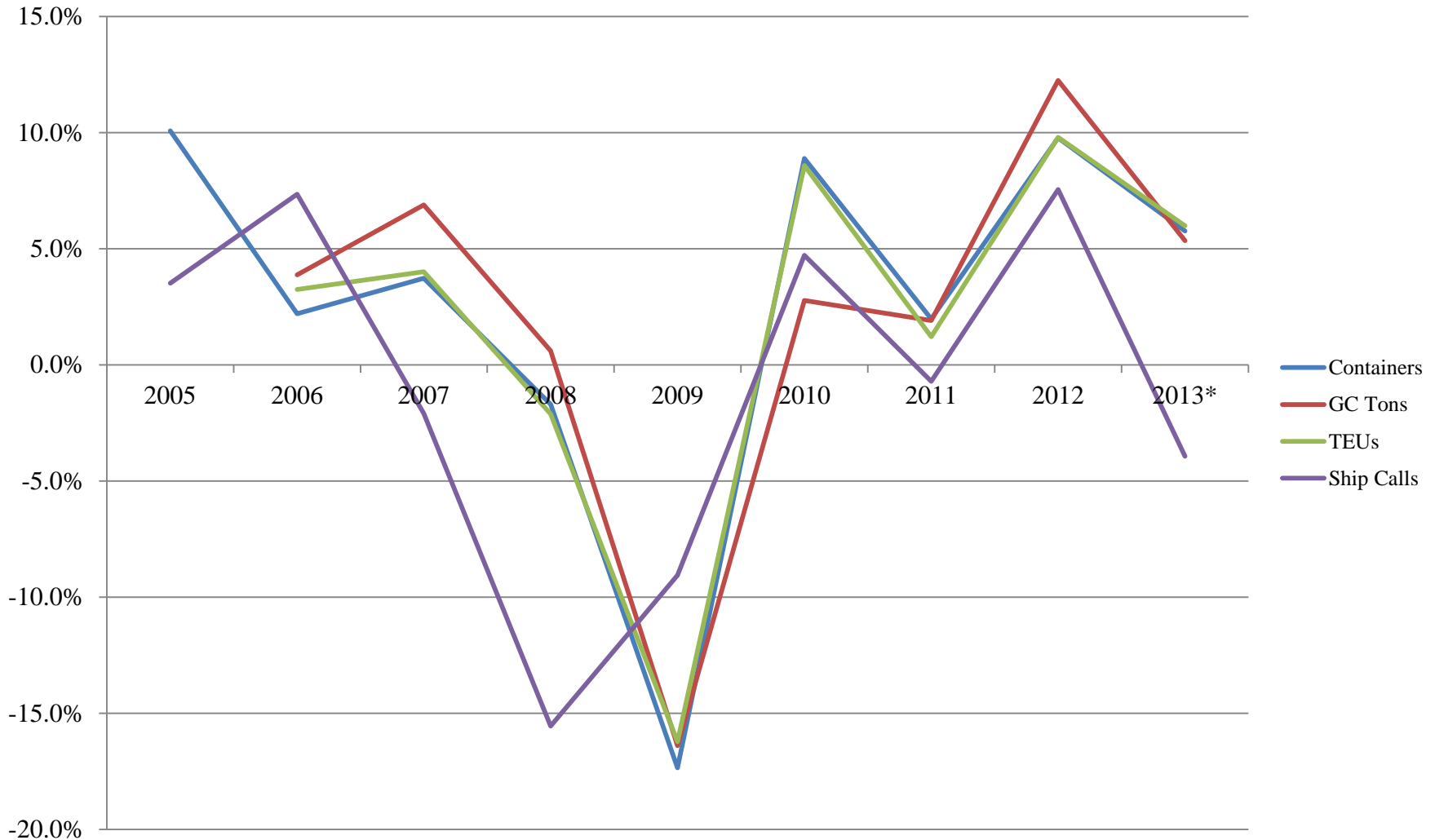
# Local Option Sales Tax Collections Slowed in First Four Months of 2013

## Local Option Sales Tax Growth



\* Jan-Apr. 2013

# Port of Virginia Shipments Rebounded Post-Recession, But Growth Slowing in 2013



\* 2013 thru June

Source: Virginia Port Authority

# Federal Expenditures Are Slowing

## Federal Budget Outlays Through July (\$ Bil.)

<u>Category</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>% Change</u>
Defense-Military	540	507	(6.7)
Social Security	633	667	5.4
Medicare (net of receipts)	386	413	3.0
Medicaid	208	220	5.7
Unemployment Insurance	82	62	(24.4)
Net Interest on Debt	222	216	(2.4)
Net Outlays to GSE's	5	(82)	n.m.
All Other	<u>907</u>	<u>889</u>	<u>(2.8)</u>
<b>Total</b>	<b>2,983</b>	<b>2,893</b>	<b>(3.8)</b>

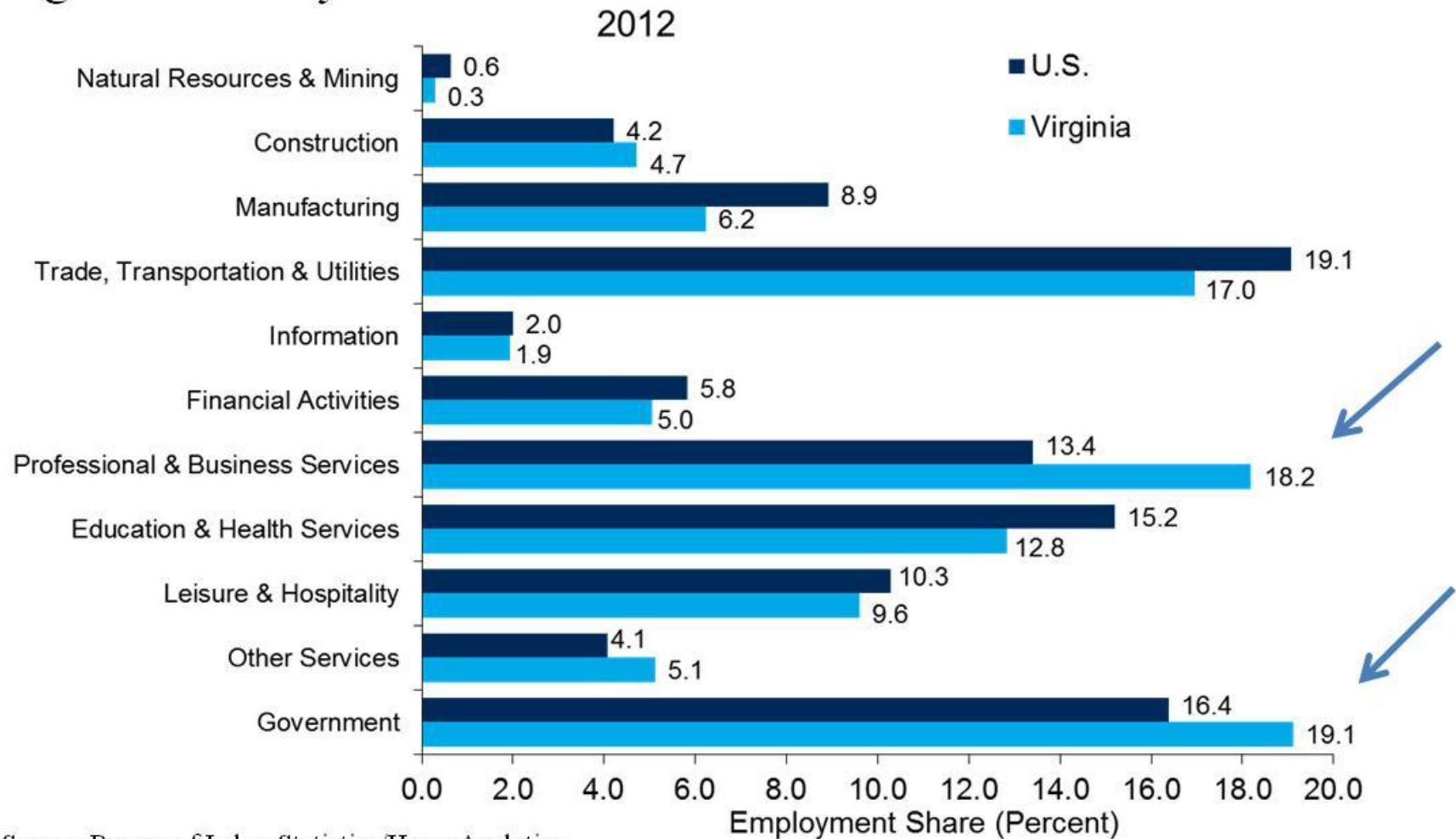
Federal outlays averaged 6% growth from 2002-2012

Federal receipts averaged 3% growth from 2002-2012

Source: Congressional Budget Office, Monthly Budget Review, July 2013

# Virginia Relies to a Greater Degree on Federal Spending in Government and Professional Services

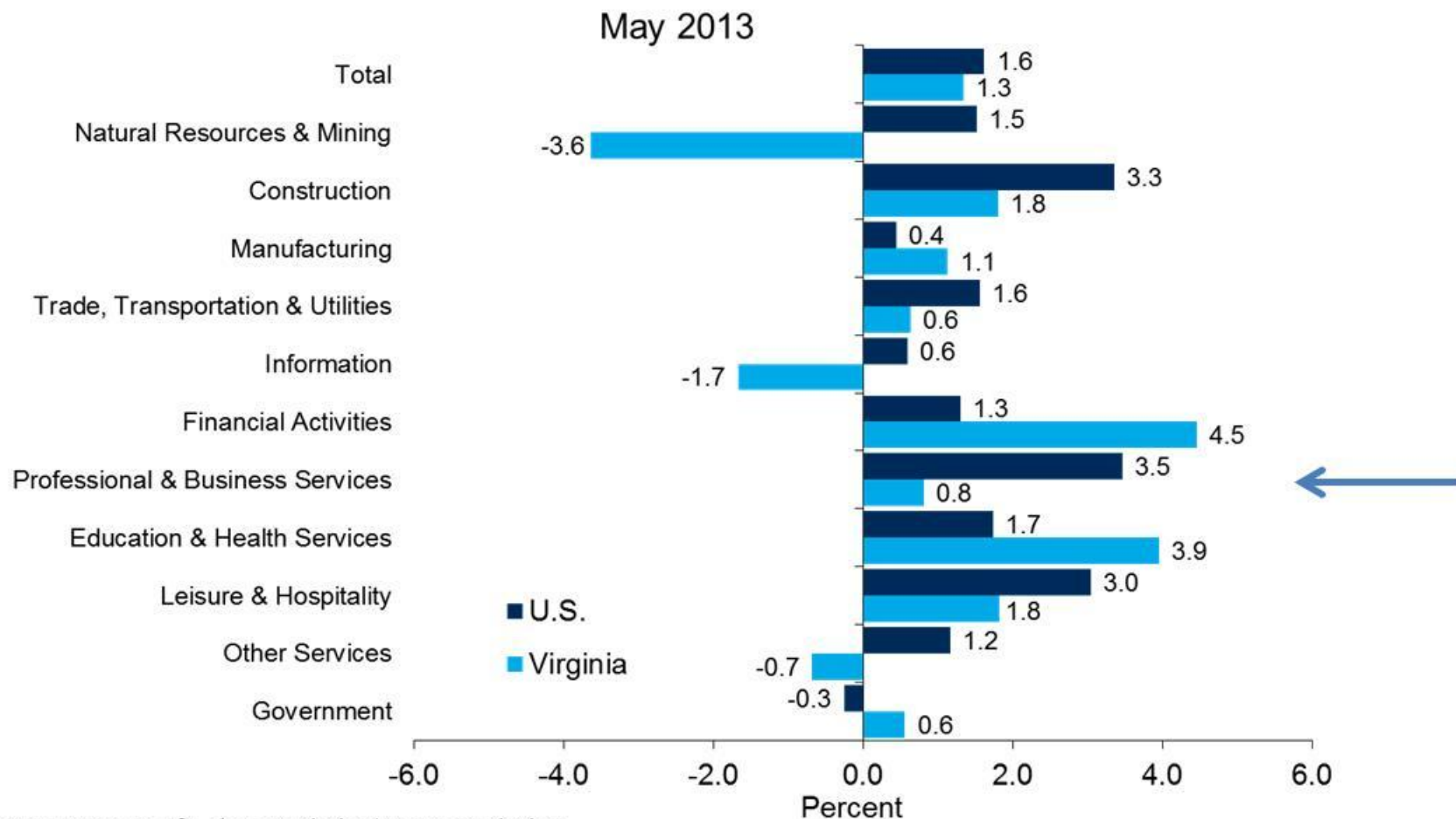
## Virginia Industry Structure



# ...And Professional and Business Service Growth Is Slowing

## Virginia Industry Growth

Percent Change in Employment from a Year Ago, NSA



Source: Bureau of Labor Statistics/Haver Analytics

# Actual FY 2013 General Fund Revenues Exceeded the Forecast by \$262 Million

## Preliminary Actual FY 2013 General Fund Revenues (\$ Mil.)

	<b>FY 2012 <u>Actual</u></b>	<b>FY 2013 <u>Estimate</u></b>	<b>FY 2013 <u>Actual</u></b>	<b><u>Forecast Difference</u></b>
Individual Income	\$10,612.8	\$11,092.6	\$11,345.1	\$252.5
Sales Taxes	\$3,121.5	\$3,248.8	\$3,219.8	-\$29.0
Corporate Income	\$859.9	\$820.9	\$797.1	-\$23.8
Recordation	\$322.1	\$336.5	\$377.5	\$41.0
All Other GF	<u>\$930.4</u>	<u>\$922.2</u>	<u>\$943.4</u>	<u>\$21.2</u>
Total GF Revenues	\$15,846.7	\$16,421.0	\$16,682.9	\$261.9

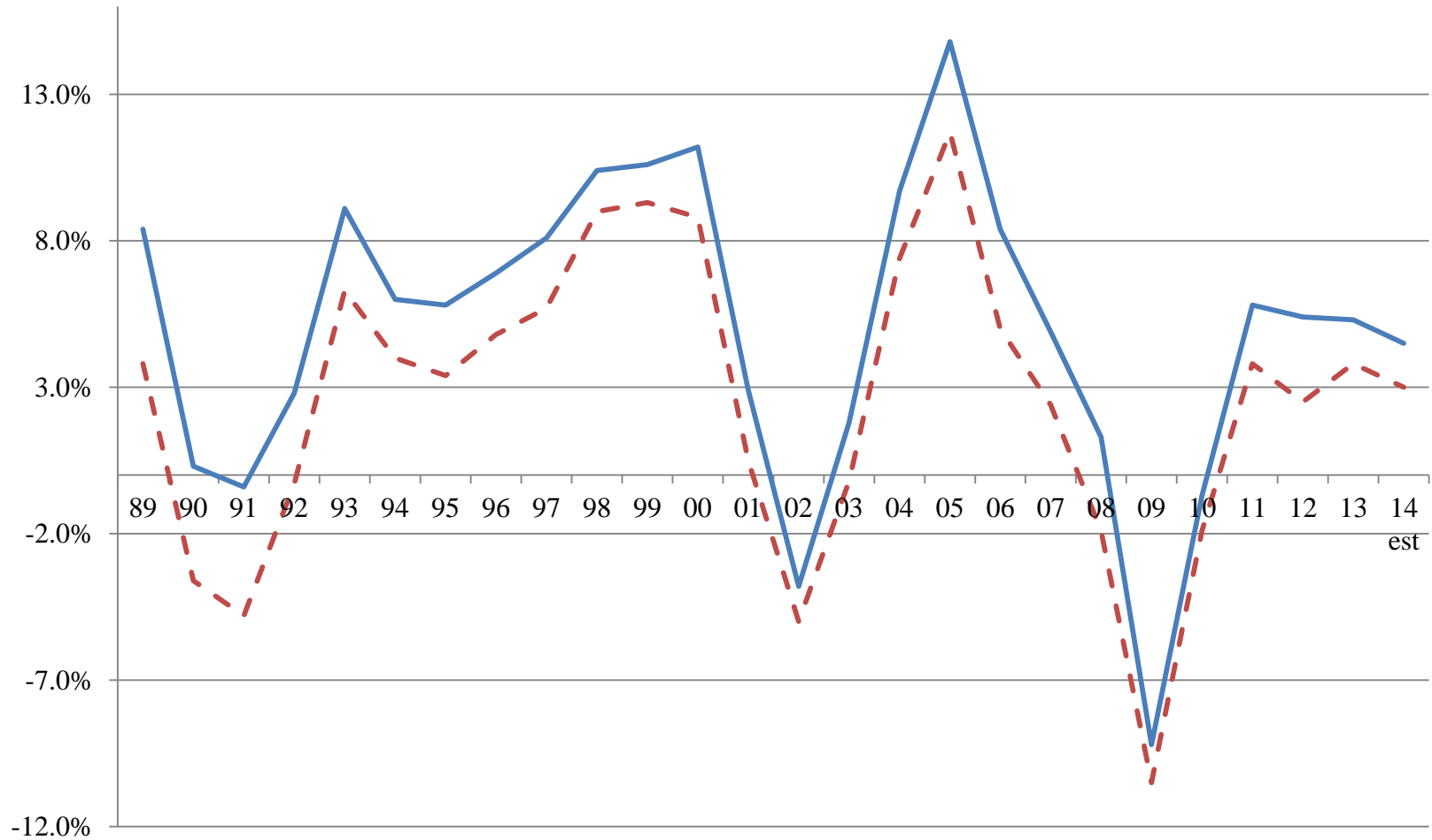


# Income Tax Non-Withholding and Recordation Taxes Responsible for Revenue Surplus

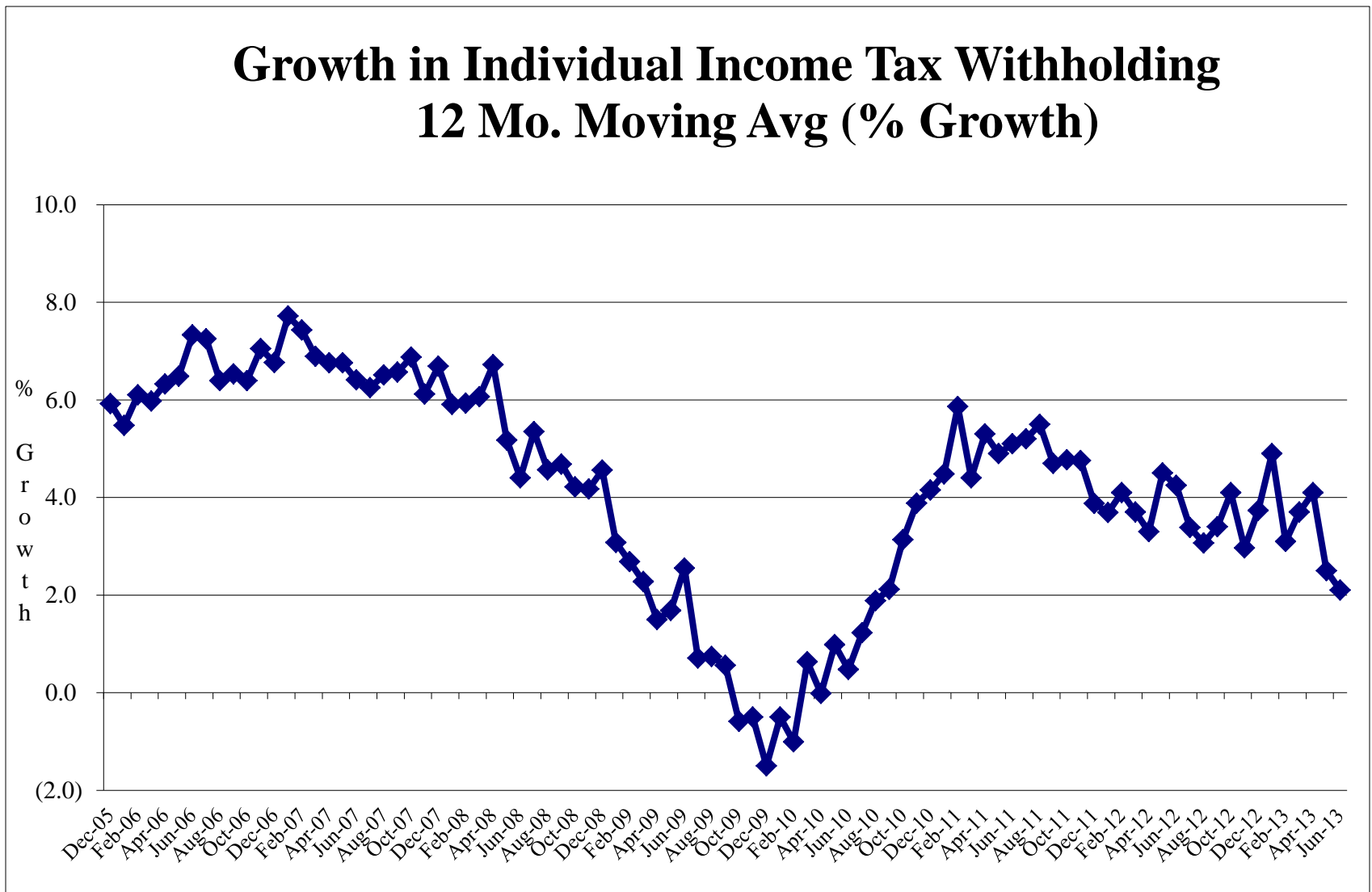
- Income tax non-withholding and refunds were \$362 million above forecast.
  - **Reasons:** strong stock market gains and income front-loaded into tax year 2012 due to tax changes for 2013.
- Recordation taxes were \$41 million above forecast – growing 17.2 %.
- Income tax withholding was \$115 million below forecast – increasing only 2.1% versus 3.3% forecast.
- Sales and use taxes were \$29 million below forecast – growing 3.2% .
- Corporate income taxes \$24 million below forecast – minus 4.5 percent growth.

# Recovery Comparatively Weak

## Nominal and Real General Fund Revenue Growth

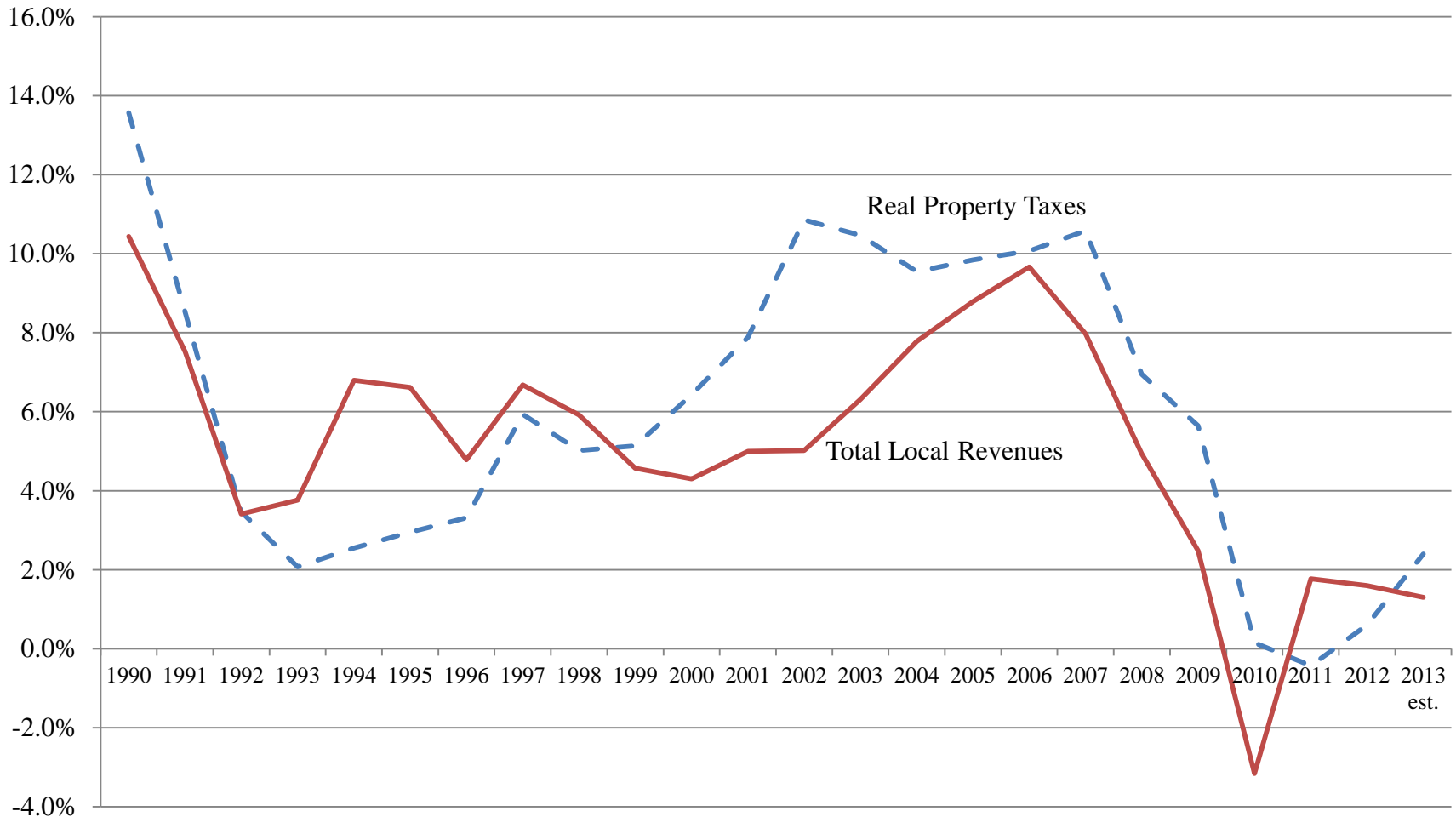


# Declining Income Tax Withholding Growth



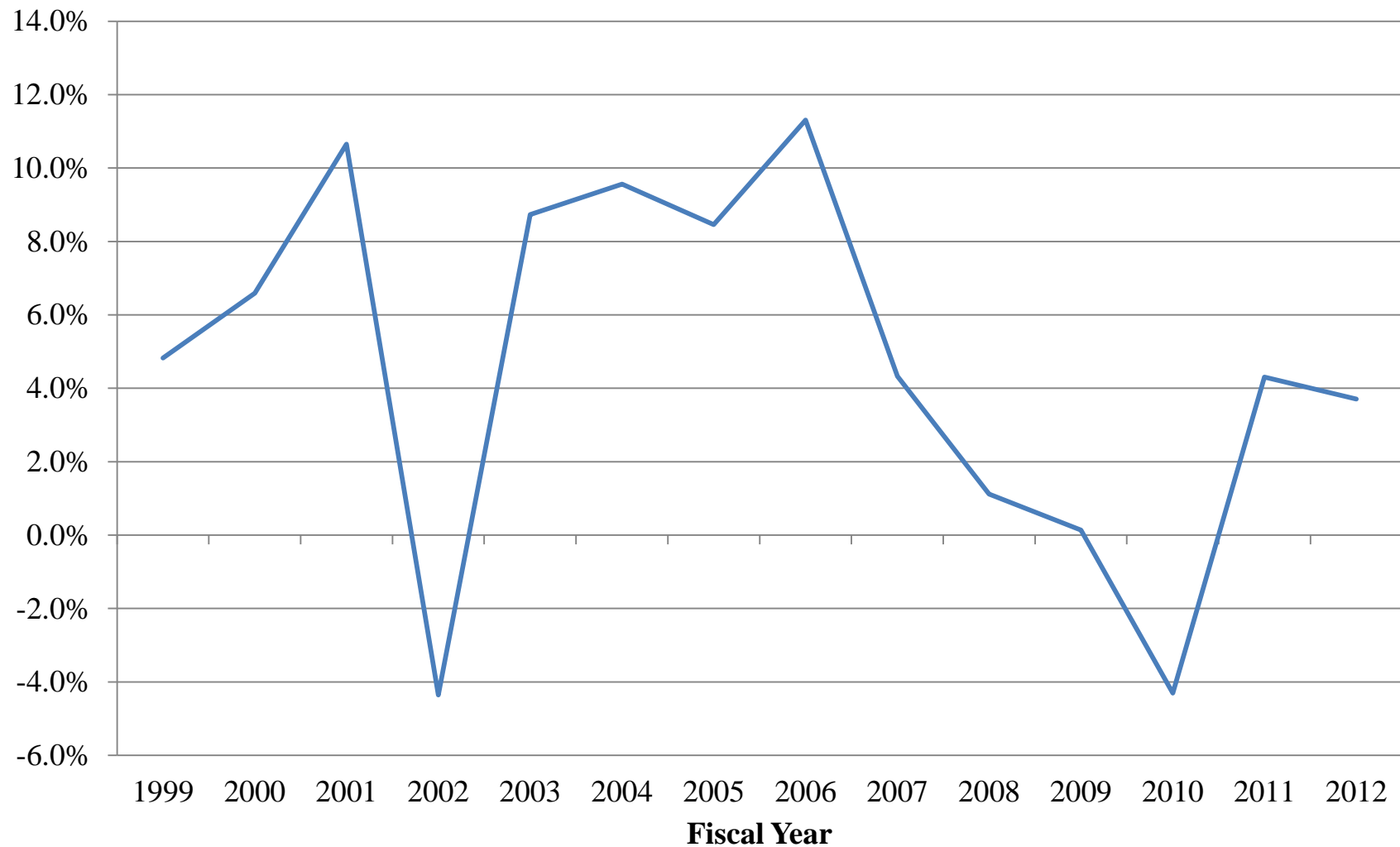
# Local Revenues Only Beginning to Recover

## Local Revenue Growth Trends



Source: 1990-2012, Auditor of Public Accounts  
FY 13 estimates from VML/VACO 2012 Fiscal Survey

## **BPOL Revenue Growth Also Sensitive to the Economy (Annual % Growth)**



# Additional General Funds During 2013 Session Used Primarily for Rainy Day Fund

	2012 Adopted Budget		2013 Adopted Budget		<u>GF Change</u>	<i>Notes</i>
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>		
Legislative and Executive Dept's	95.8	95.8	97.2	103.2	8.8	
Judicial Dept.	421.8	421.7	423.1	424.2	3.8	
Compensation Board	607.2	606.8	613.5	610.5	10.0	<i>Increased 1st year jail per diems</i>
Treasury Board GF Debt Service	616.6	649.3	607.7	613.6	(44.6)	<i>Re-financings at lower rates</i>
Admin. / Tech., Other Finance	199.8	198.1	201.4	205.6	9.1	
<b>Rainy Day Fund</b>	<b>132.7</b>	<b>166.4</b>	<b>132.7</b>	<b>339.6</b>	<b>173.2</b>	<b><i>Includes \$95 mil. for 2014-16</i></b>
Car Tax Reimbursement	950.0	950.0	950.0	950.0	-	
Commerce and Trade	172.9	175.5	170.8	182.7	5.1	
Agriculture / Nat. Resources	230.0	137.5	247.8	144.0	24.3	<i>\$16.9 mil. in balances for WQIF</i>
<b>K-12 Direct Aid</b>	<b>5,240.6</b>	<b>5,268.3</b>	<b>5,172.2</b>	<b>5,342.5</b>	<b>5.8</b>	<b><i>Doesn't include \$30 mil. lottery est.</i></b>
Higher & Other Education	1,773.7	1,791.9	1,770.1	1,834.4	38.9	
Medicaid (DMAS)	3,523.8	3,690.5	3,402.0	3,690.7	(121.6)	
Other Health & Human Services	1,580.0	1,523.0	1,551.5	1,548.7	(2.8)	<b><i>CSA reduced \$51.5 mil.</i></b>
Public Safety & Veterans/HS	1,699.3	1,680.3	1,700.4	1,702.1	22.9	<i>Opening prison in Grayson</i>
Transportation	41.0	41.0	41.0	42.0	1.0	<i>Does not incl. \$49 m sales tax to TTF</i>
Central Appropriations	35.2	105.9	34.5	251.0	144.4	<b><i>\$45m ATL, empl health &amp; compen.</i></b>
Independent Agencies	-	-	0.2	1.2	1.4	
Capital	<u>20.3</u>	<u>-</u>	<u>20.1</u>	<u>-</u>	<u>(0.2)</u>	
<b>Total GF Appropriations</b>	<b>\$17,340.7</b>	<b>\$17,502.0</b>	<b>\$17,136.2</b>	<b>\$17,986.0</b>	<b>\$279.5</b>	

# Local Aid Appropriations Declining as a Percent of the General Fund

## State GF Aid for Locally-Administered Programs

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>
GF Direct Aid to K-12	\$5,607.6	\$4,769.8	\$4,713.3	\$4,891.2	\$5,172.2	\$5,342.5
Health and Human Services	\$888.4	\$878.7	\$816.8	\$827.2	\$818.9	\$791.8
Public Safety	\$734.3	\$556.8	\$686.0	\$667.7	\$684.0	\$678.4
<i>HB 599 (Aid-to-Police)</i>	<i>\$197.3</i>	<i>\$180.8</i>	<i>\$178.7</i>	<i>\$172.4</i>	<i>\$172.4</i>	<i>\$172.4</i>
Constitutional Officers	\$155.3	\$142.2	\$144.2	\$143.8	\$143.5	\$145.8
Car Tax	\$950.0	\$950.0	\$950.0	\$950.0	\$950.0	\$950.0
Aid-to-Locality Reduction	<u>(\$50.0)</u>	<u>(\$50.0)</u>	<u>(\$60.0)</u>	<u>(\$60.0)</u>	<u>(\$50.0)</u>	<u>\$0.0</u>
<b>Total Local GF Aid</b>	<b>\$8,285.6</b>	<b>\$7,247.5</b>	<b>\$7,250.3</b>	<b>\$7,419.9</b>	<b>\$7,718.6</b>	<b>\$7,908.5</b>
<b>Total GF Appropriations</b>	<b>\$15,943.0</b>	<b>\$14,787.2</b>	<b>\$15,457.4</b>	<b>\$16,556.9</b>	<b>\$17,136.2</b>	<b>\$17,986.0</b>
<b>% Local GF Aid</b>	<b>52.0%</b>	<b>49.0%</b>	<b>46.9%</b>	<b>44.8%</b>	<b>45.0%</b>	<b>44.0%</b>

# **FY 2013 Revenue Surplus Already Spent**

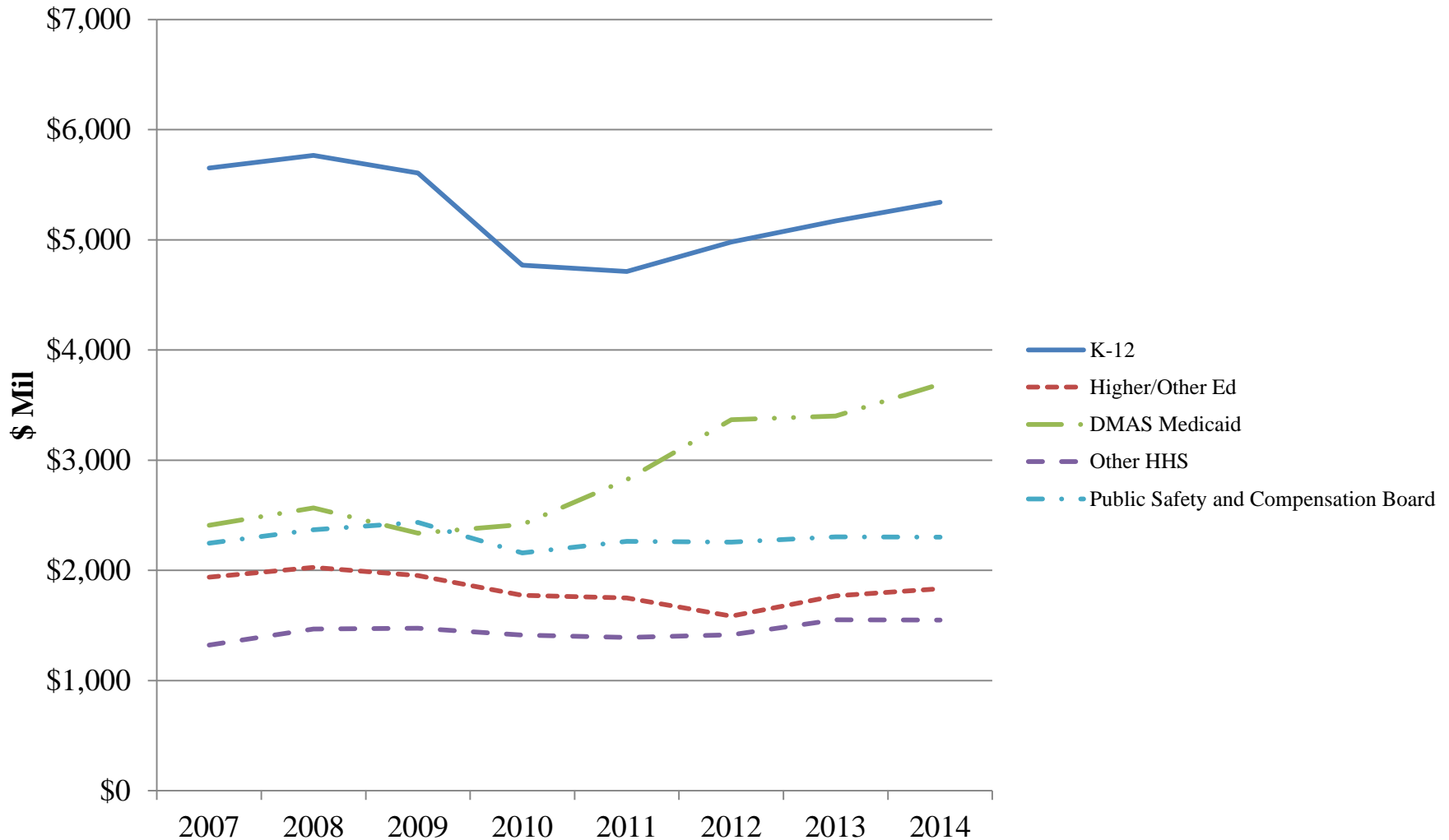
- Rainy Day Fund Reserve Requirements
- Water Quality Improvement Fund Requirement
- \$100 million VRS Deposit
- \$20 million FACT Fund Reserve



# 2014-16 Revenue Outlook

- Reasonable to expect at least an additional \$2.2 billion in general fund balances from FY 2014, revenues, and transfers (assuming modest 4 percent revenue growth) above the approximately \$36.0 billion GF base budget for the 2014-16 biennium.

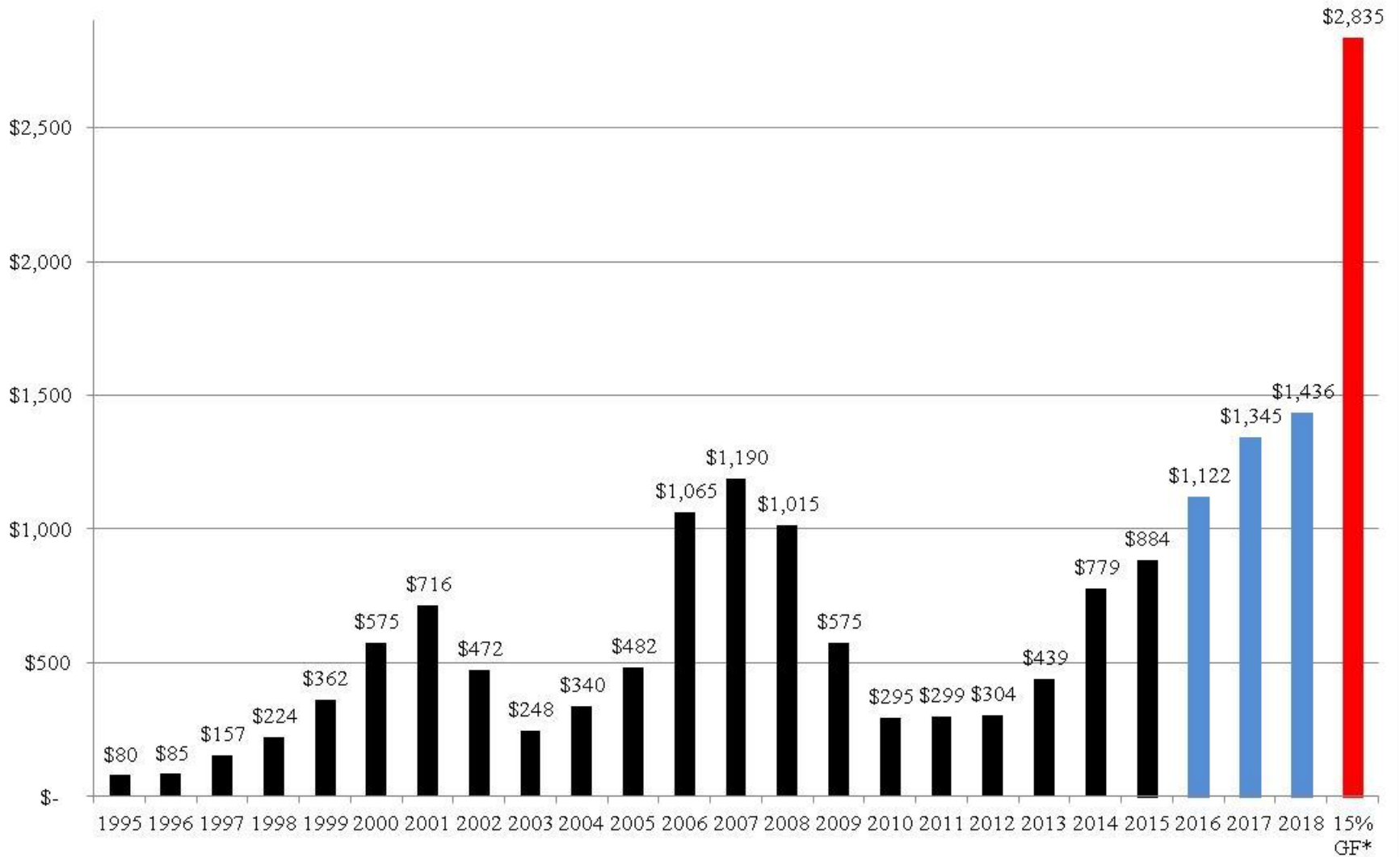
# Trends in Major Budget Categories (General Fund Appropriations)



# 2014-16 State Budget Pressures

- Education re-benchmarking and higher ADM (\$500 mil.?)
- Medicaid cost increases (\$450 mil. assuming 6% cost increases)
- Rainy Day Fund Requirements (\$300 mil.)
- Rising VRS Rates (\$280 mil.)
- GF debt service increases (\$100 mil.)
- Mental health needs and DOJ settlement costs
- Increasing state employee health insurance costs
- State employee and teacher salary increases
- Other public education enhancements
- Full year new prison costs
- Cash for capital needs due to limited debt capacity
- Higher VITA contract rates?

# Revenue Stabilization Fund



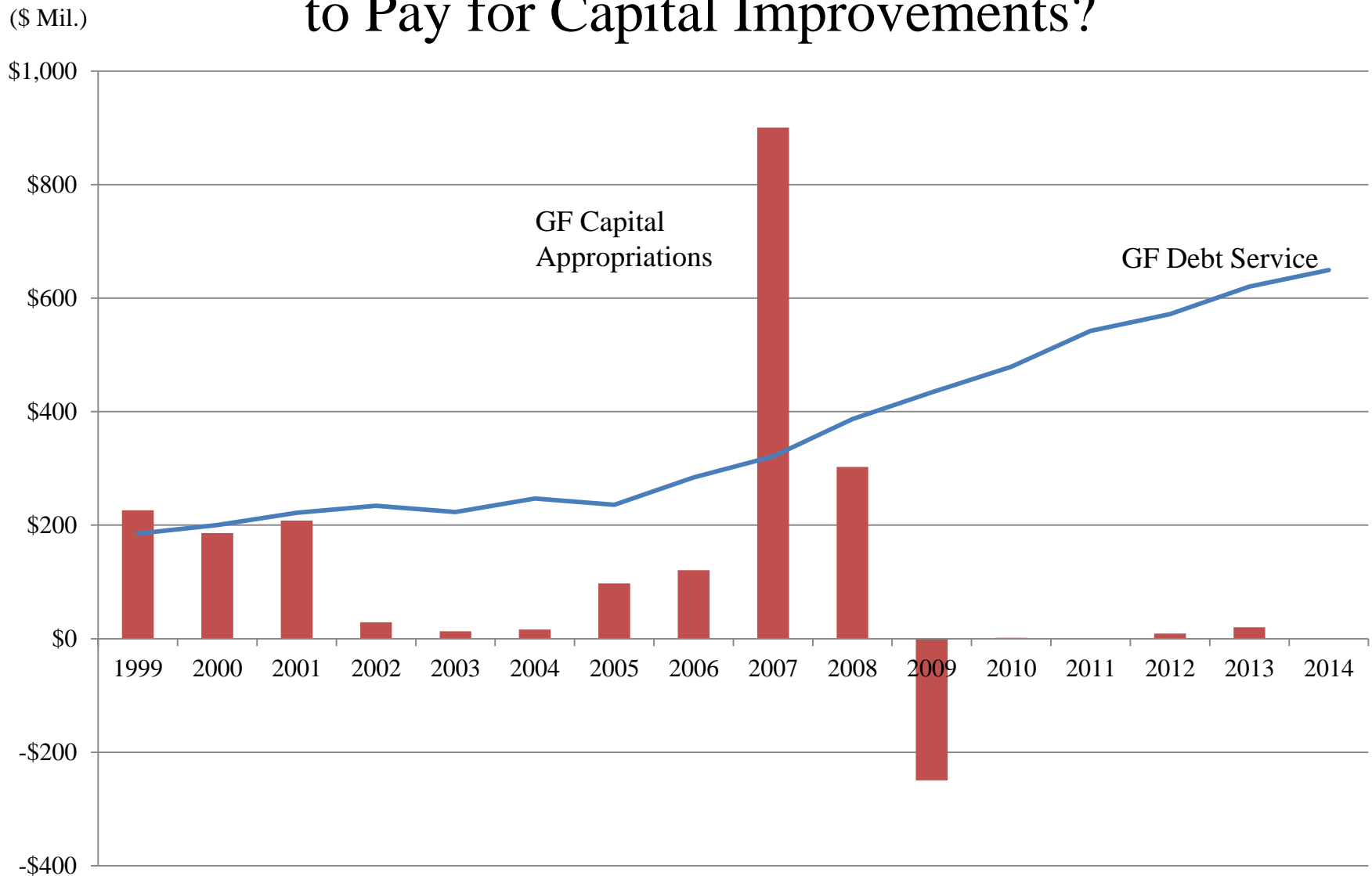
\* RDF deposits and maximum calculated on individual and corporate income taxes and sales tax

# Retirement Rates Will Continue Rising

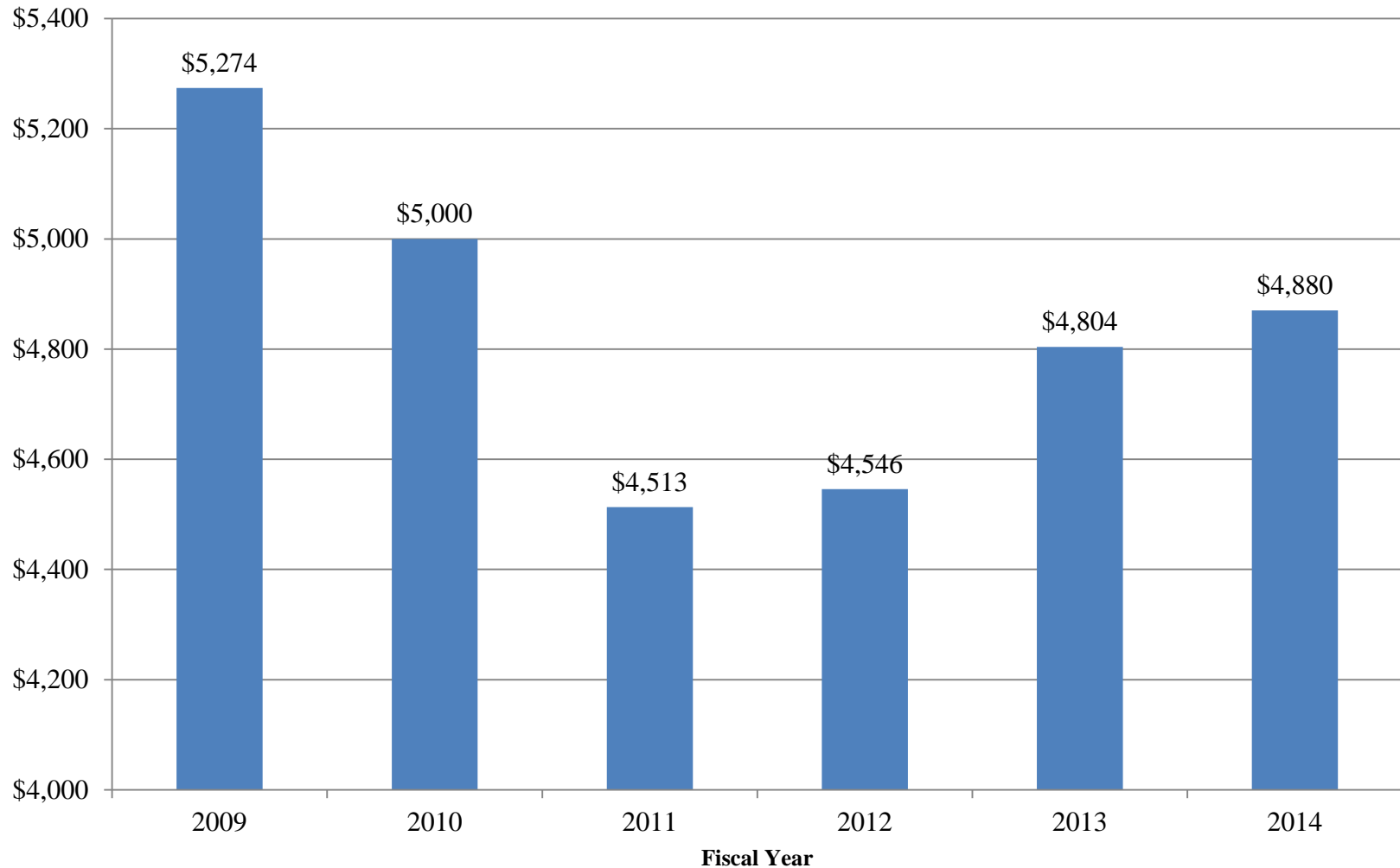
	<i><b>FY 2012-14 Adopted Rates</b></i>	<b>Projected 2014-16 Rates *</b>	<b>Salary Base</b>	<b>% State GF</b>	<b>Est. Additional GF Needed \$ Mil./yr</b>
<b>State</b>	8.76%	12.3%	\$3.5 bil.	50%	\$62
<b>Teachers</b>	11.66%	14.8%	\$7.2 bil.	35%	<u>\$79</u>
					\$141

\* 11.8% FY 2013 investment return,  
80% phase-in schedule assumed

# Will Virginia Start Using GF Cash to Pay for Capital Improvements?



## **Per Pupil State Education Funding Well Below FY 09 Peak (All Appropriated Funds)**



Includes GF, lottery profits, miscellaneous NGF, and state appropriated federal stimulus funds

# Conclusion

- Although nominal state support for locally-provided programs should increase in the 2014-16 biennium, state support will probably continue to decline as a percent share of the total general fund.