

Where Is Virginia's Economy and Budget Headed?

Presentation to
Virginia Association of Counties
Fiscal Analytics, Ltd.
November 14, 2016

2016-18 GF Appropriation Prospects Are Based on Available Revenues

- \$279 million FY 2016 GF revenue shortfall. 1.7% actual growth vs 3.2 percent forecast. Shortfall affects 2016-18 budget.
 - Income tax withholding grew 2.4% versus 4.1% forecast
 - Non-withholding grew 0.9% versus 1.9% forecast.
 - Sales tax grew 1.9% versus 4.1% forecast
- New interim revenue forecast of 1.7% in FY 17 (3.2% previously) and 3.6% in FY 18 (3.8% previously).
- \$861 million shortfall for FY 2017 (incl. the FY 2016 shortfall) and a \$654 million shortfall for FY 2018 currently forecasted. Forecasts updated in December.
- \$125.1 million in state employee, state-supported local employee and teacher salary increases cancelled as required by law. Another \$221 million in contingent salary increases are cancelled for FY 2018.
- Use of Rainy Day Funds (\$392 mil. FY 17 and \$216 mil. FY 18) will also be available to help cover shortfall.
- Governor has announced plan to address FY 2017 shortfall. Without an increase in revenues, expect balancing FY 2018 budget to be more painful.

GF Revenue Growth is Lower than Past

<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 Interim Forecast	1.7%
2018 Interim Forecast	3.6%

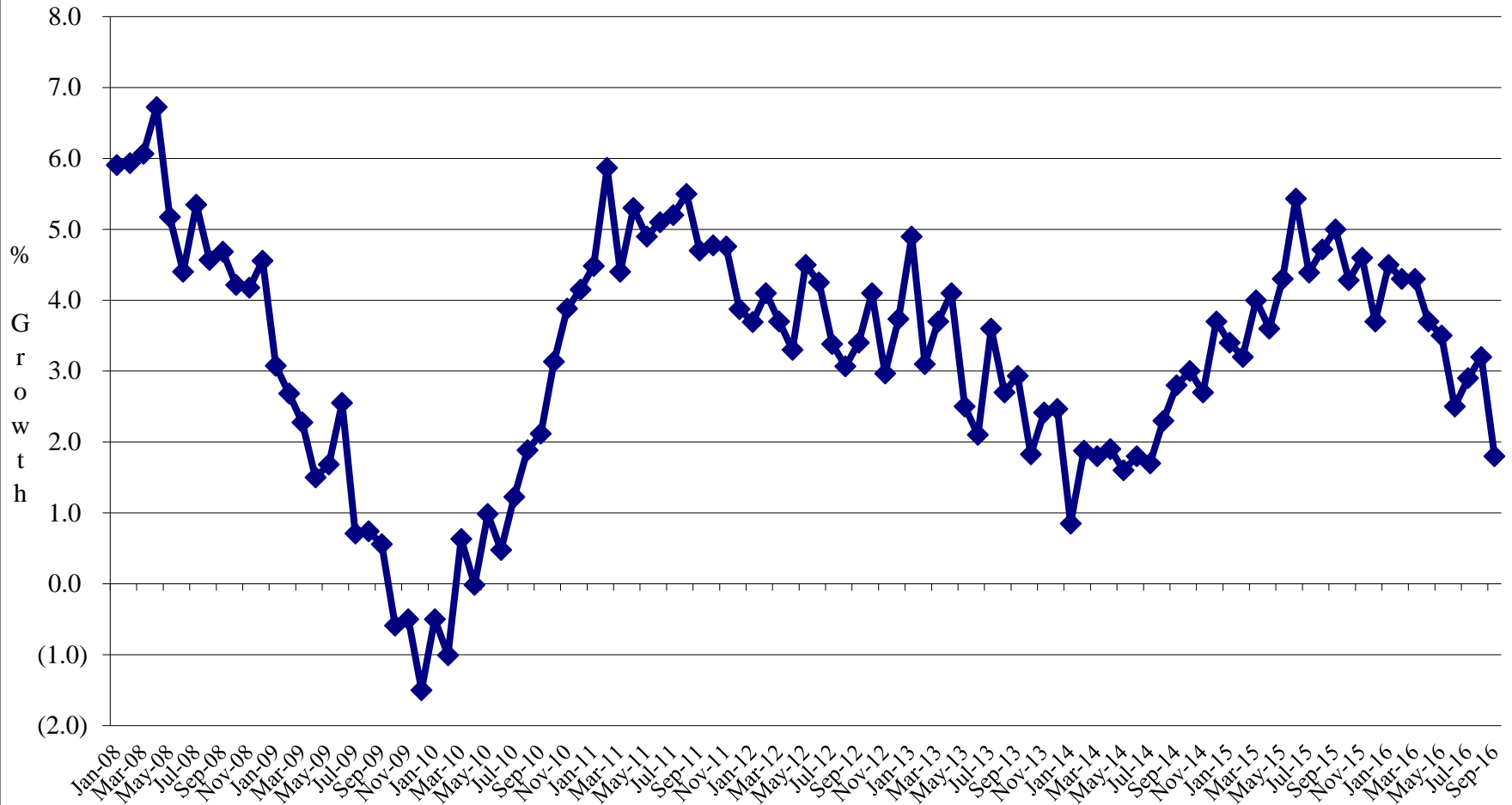
* Does not include GF transfers

1st Q GF Revenue Collections, Better Than Forecast, But Still Inconclusive

<u>GF Revenue Sources</u>	<u>1st Q Collections</u>	<u>FY 2017 Forecast</u>
Individual Income Tax (70% of GF)	3.9%	1.8%
<i>Withholding</i>	3.0%	4.1%
<i>Non-Withholding</i>	-0.2%	-1.2%
Sales Tax (18% of GF)*	0.2%	3.7%
Corporate Income Tax (4% of GF)	5.1%	-3.0%
Total GF	3.6%	1.7%
* Adjusted for the accelerated sales tax program in June		

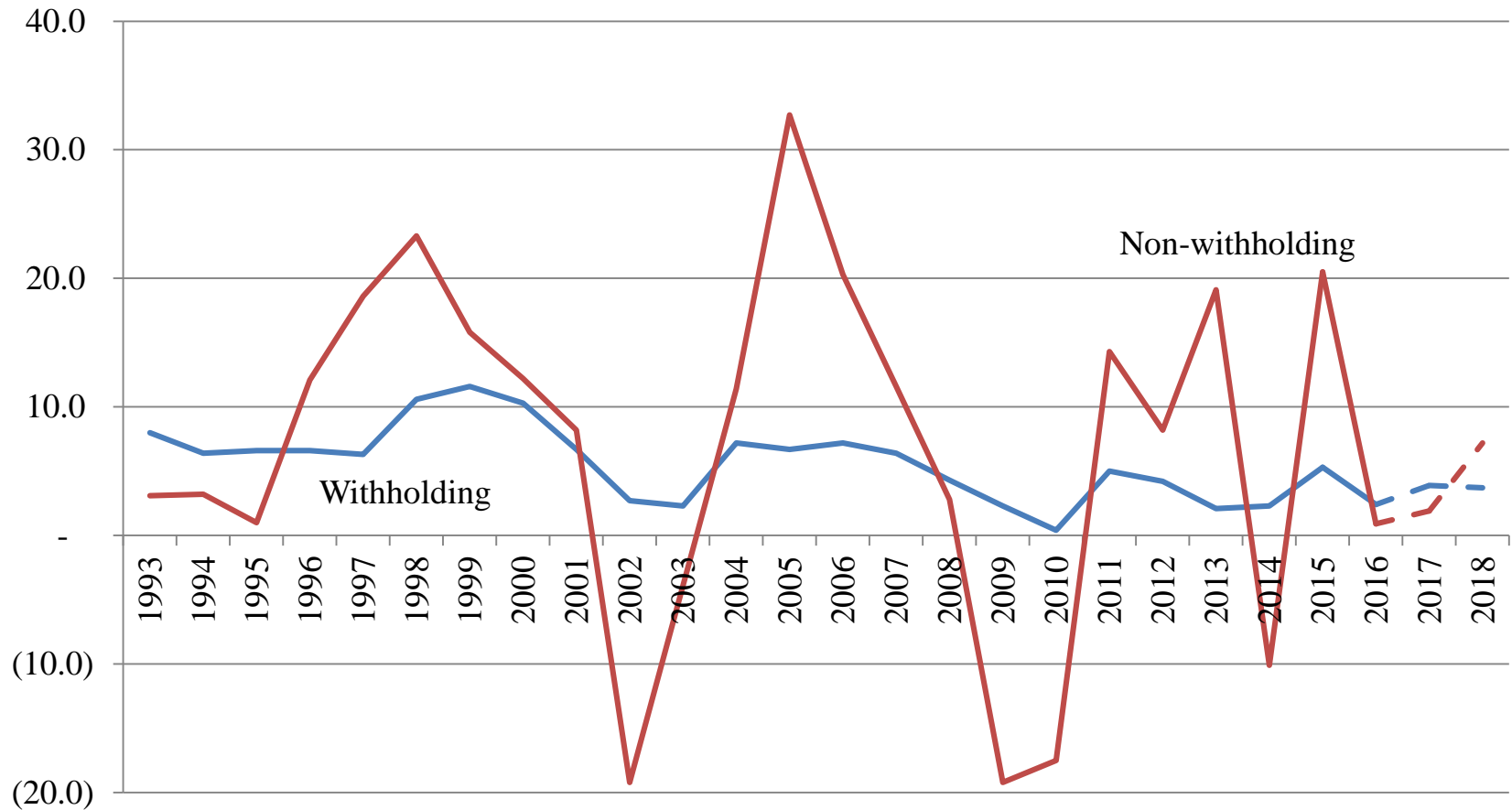
Income Tax Withholding Drives GF Revenue Growth

12 Mo. Moving Avg (% Growth)



Income Tax Non-Withholding Revenues Are More Volatile, Amplifying Economic Changes and Making Revenue Forecasting Difficult

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



Note: Non-W % of total GF revenues: 15.4% in FY 14; 17.1% in FY 15, 17.0% in FY 16

Where Will GF Budget Cuts Take Place?

	2016 Session Adopted GF Budget (\$ Mil.)			
	FY 16 Budget	FY 17 Budget	FY 18 Budget	Above FY 16 Budget X 2
Legislative and Executive	107.7	115.5	115.5	15.5
Judicial Dept.	456.0	484.5	485.2	57.7
Administration/Compensation Board	691.7	711.8	718.6	47.0
Treasury Board Debt Service	675.0	734.9	766.3	151.2
Other Finance/Technology	181.6	191.6	188.6	16.9
Rainy Day Fund	-	605.6	0.0	605.6
Car Tax Reimbursement	950.0	950.0	950.0	-
Commerce and Trade	197.0	203.9	217.3	27.1
Agriculture / Nat. Resources	174.7	237.7	172.2	60.5
K-12 Education/Central Office	5,576.0	5,900.0	6,190.6	938.6
Higher & Other Education	1,865.5	2,046.7	2,081.1	396.8
DMAS Medicaid	4,159.5	4,280.4	4,405.1	366.5
Other Health & Human Services	1,682.6	1,772.7	1,780.7	188.2
Public Safety & Veterans/HS	1,837.5	1,921.8	1,949.4	196.2
Transportation	69.1	41.0	41.0	(56.2)
Central Appropriations	334.8	139.6	223.0	(307.0)
Independent Agencies/Capital	<u>143.2</u>	<u>12.0</u>	<u>0.3</u>	<u>(274.1)</u>
Total GF Appropriations	\$19,102.0	\$20,349.7	\$20,284.9	2,430.6
GF Resources (Revenues + Transfers)	\$19,119.3	\$19,481.2	\$20,230.3	
Balances	\$932.1	\$946.2	-\$0.5	
Unreserved Balance	\$265.3	\$77.7	\$22.6	

Governor's Plan to Balance FY 2017

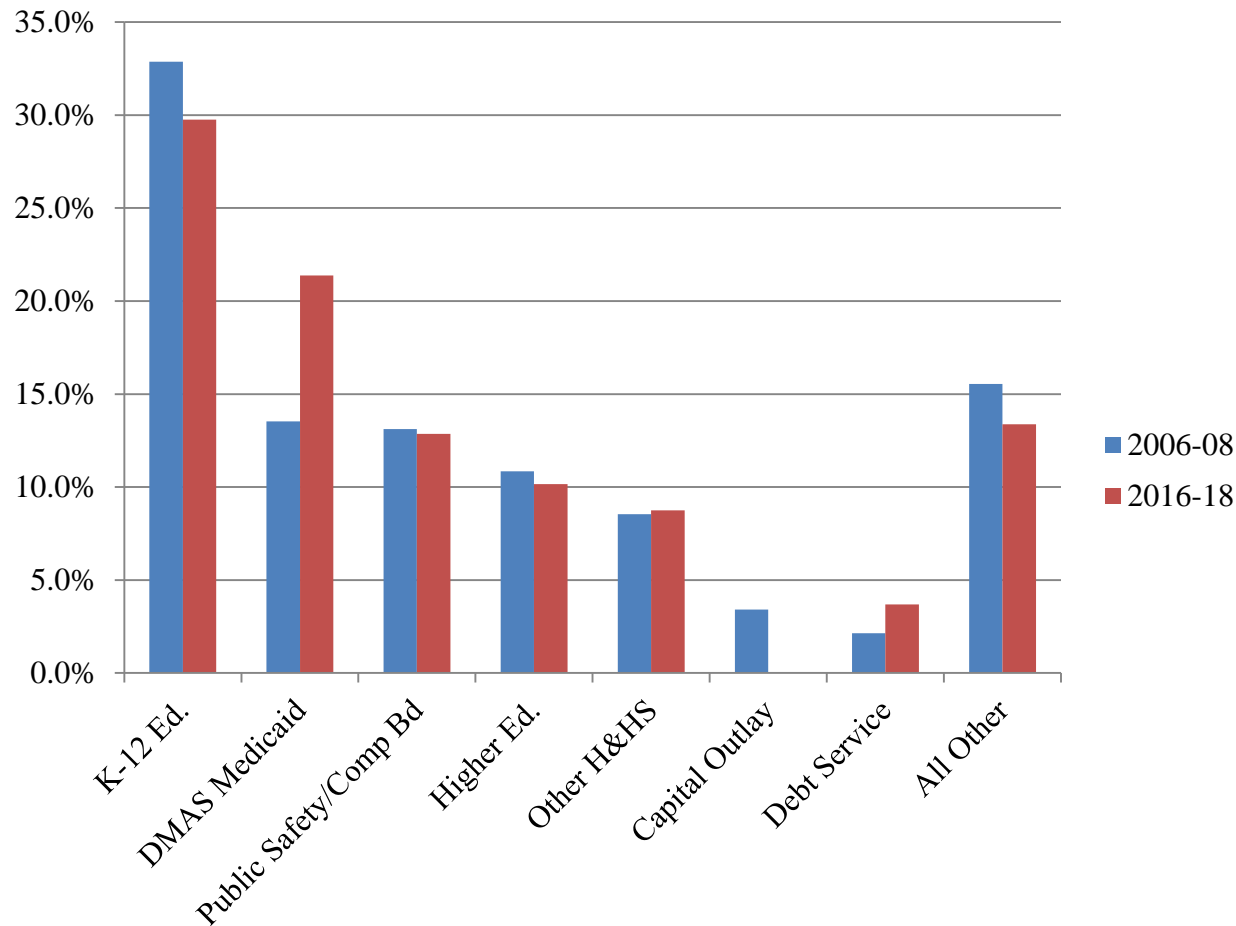
<u>Strategies to Address Shortfall</u>	<u>FY 2017 Savings (\$Mil.)</u>
Remove Pay Increases (\$49.0 mil. for teacher pay)	\$125.1
Transfers from Rainy Day Fund	\$392.3
Revert FY 2016 Unexpended Balances	\$66.8
Restore Accelerated Sales Tax on Dealers	\$35.1
Draw Down FY 17 Balance Forward to FY 18	\$70.0
Use Additional Lottery Funds for K-12	\$41.8
Capture Reduced Sales Tax Revenue Est. for K-12 School-Age Pop. Distribution	\$12.0
Use Additional Literary Funds for Teacher Retirement	\$25.0
Transfer VRS Payments and other NGF from Higher Ed	\$28.8
Other Agency Savings and NGF Transfers	<u>\$73.0</u>
Total Saving Strategies	\$875.1

FY 2018 Budget Balancing More Painful Without Additional Revenue Growth

- ✓ FY 18 \$654 mil. revenue shortfall, increased by loss of \$70 mil. FY 17 balance forward used in Governor's plan, offset by \$221 mil. contingent salary increase and \$216 mil. RDF drawdown.
- One-time balances/NGF will not be available to solve FY 2018 budget imbalance.
- Additional Lottery and Literary Funds may not be available.
- Additional accelerated sales taxes would require painful choices. FY17 proposal restores dealers from \$2.5 mil. to \$10 mil. in sales.
- Additional spending requirements not currently in budget are likely.
 - Medicaid spending is now expected to increase \$281 mil. above the 2016-18 adopted budget.
 - Sum sufficient request for CSA is \$24 mil. in FY 17 and \$35 mil. in FY 18.
 - Additional funding for State Police pay and STARS telecommunications equipment (\$12 mil.).
 - New mental health funding requests from the "Deeds" Commission.

Slow Revenues Combined With Growing Medicaid and Debt Service Are Squeezing Rest of State Budget

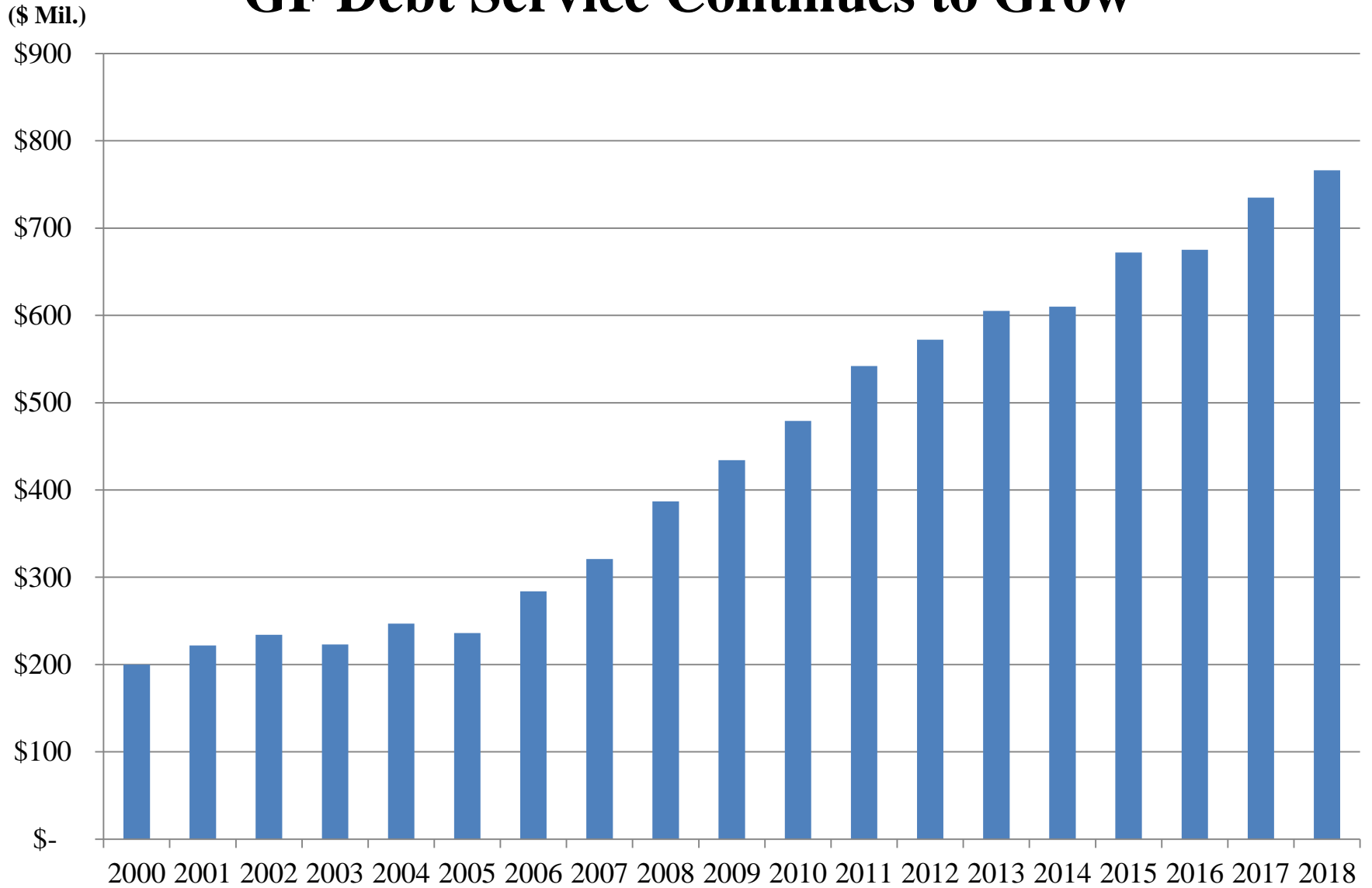
Change in Share of State GF Appropriations 2006-08 to 2016-18 Bienniums



Medicaid Spending Forecast Increasing by \$281 Mil. in 2016-18

<u>Fiscal Years</u>	<u>Avg. Annual Growth</u>	
2000-2009	8.8%	
2010-2015	6.2%	
2016	9.3%	
<i>2017 Forecast</i>	3.8%	7.4%
<i>2018 Forecast</i>	2.9%	4.3%

GF Debt Service Continues to Grow



Significant Budget Issues for Counties

- **Increased funding pressures on school divisions:** “During the last ten years, the total student population has increased by only six percent, while economically disadvantaged students increased 39 percent; English Learners increased by 63 percent; students identified with autism increased by 222 percent; and students identified in the other health impairments disability category increased by 26 percent. These demographic trends call attention to the increasing pressures that school divisions are facing to provide the supports needed to ensure success for all students.” <Excerpted from VA Board of Education Final Review of Recommendations to Revise the Standards of Quality, October 26, 2016.>
- **Increased CSA Pool Fund expenditures:** Biggest unfunded issue for Health and Human Services -- \$23.7 mil. in FY 2017 and \$34.9 mil. GF in FY 2018 mainly to cover rapidly increasing special education private day placements through CSA. In addition, CSA may propose to transfer funding and oversight for private educational services to the Department of Education to ostensibly provide alignment of decision making authority with financial oversight and responsibility and consolidate those activities within the Department of Education and the local educational agencies. CSA believes this would reduce overall expenditures and produce a more “appropriate” system in which decision-making, oversight and funding are more closely aligned. Localities fear the loss of CSA sum-sufficient provisions and the shifting of financial burdens to local governments.
- **Reduced sales tax revenues** resulting in lower: local option revenues, regional transportation revenues, and lower K-12 distributions for school-age population.

Significant Budget Issues for Counties

- **Public safety funding not adequate.**
 - Aid to Police Departments (\$63 mil. for 9 counties) not at statutory levels.
 - Few funded pay increases since 2009 for Constitutional officers and deputy sheriff's.
 - Inadequate jail per diems (state paid 59% of jail operating costs in FY98 and 40% in FY15) and mental health/substance abuse funding for jails.
 - Community-based juvenile justice reform efforts need funding.
- **“Deeds Commission” studying mental health needs. Recommendations include:**
 - ✓ Standardized screening of jail inmates for mental illness and better jail discharge planning and increased alternatives to transportation by law enforcement of individuals subject to Emergency Custody or Temporary Detention Orders. (A June 2015 state census found just over 7,000 people in Virginia jails known or suspected to have a mental illness.)
 - ✓ \$10 million GF request to increase number of permanent supportive housing units for individuals with mental illness; Amending the state Housing Trust Fund to require spending 20 percent on permanent supportive housing, and temporary rental assistance; studying strategies for housing individuals with serious mental illness and financing housing costs through Medicaid reimbursement.
 - ✓ \$12 million to provide same-day access to services, and \$4 million for outpatient mental health and substance abuse services at CSBs.

GF State Aid to Localities (\$ Mil.)

	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,520.9	\$5,838.9	\$6,131.9
K-12 % of Total GF Appropriations	35.2%	29.6%	28.9%	28.7%	30.2%
Health and Human Services	888.4	791.7	867.5	883.4	886.6
<i>CSA</i>	299.7	217.2	237.2	235.9	235.0
<i>Community MH/MR Services</i>	249.4	269.3	318.0	331.1	335.4
<i>Local Social Services Staff</i>	117.4	115.3	114.4	117.5	117.5
<i>Community Health Programs</i>	117.6	107.2	115.1	117.8	117.6
<i>Welfare Services and Programs</i>	104.3	82.7	82.8	81.1	81.1
Public Safety	734.3	687.9	715.5	737.5	744.4
<i>Local Sheriffs Offices</i>	406.1	411.3	436.0	451.8	458.0
<i>Local Police Depts HB 599</i>	197.3	172.4	172.4	178.0	178.0
<i>Local Jail Per diem</i>	80.1	59.4	61.4	60.6	61.3
<i>Assistance for Juvenile Justice</i>	50.8	44.8	45.7	47.1	47.1
Constitutional Officers	155.3	145.8	152.5	157.5	158.3
Dept. of Accounts Transfers	49.3	49.3	49.5	49.6	49.6
Car Tax	950.0	950.0	950.0	950.0	950.0
Aid-to-Locality Reduction	(50.0)	-	-	-	-
Total Local GF Aid	\$8,334.9	\$7,865.0	\$8,255.9	\$8,616.9	\$8,920.8
Total GF Appropriations	\$15,943.0	\$17,705.2	\$19,102.0	\$20,349.5	\$20,285.0
Local Aid % of Total GF	52.0%	44.1%	43.2%	42.3%	44.0%

2016 Session State Per Pupil K-12 Direct Aid Funding Nominal and Inflation-Adjusted (CPI \$2005)

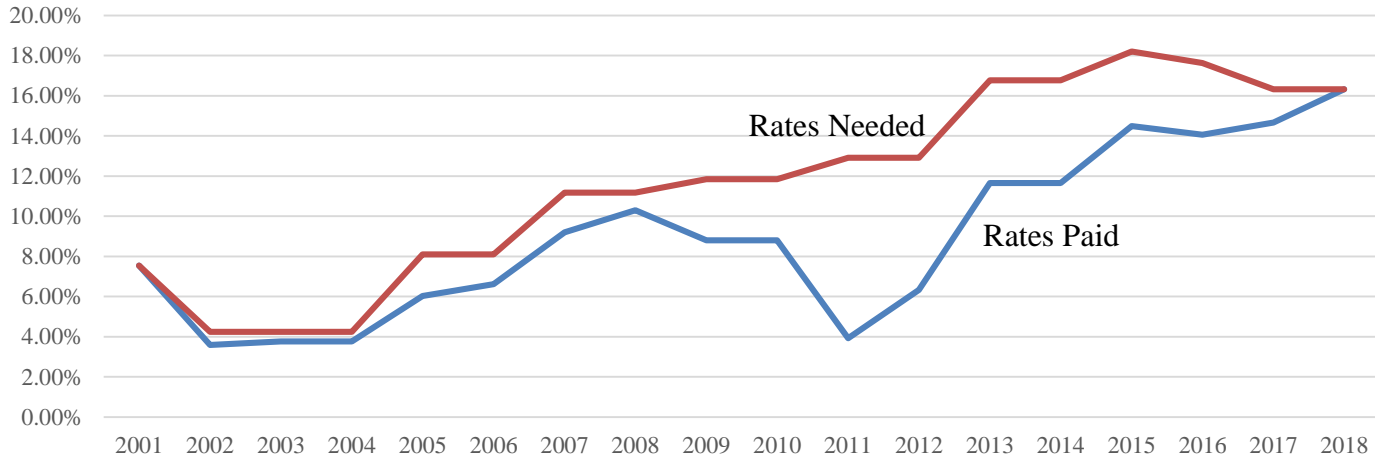


Virginia Board of Education Recommends \$600 Million in Standards of Quality Upgrades

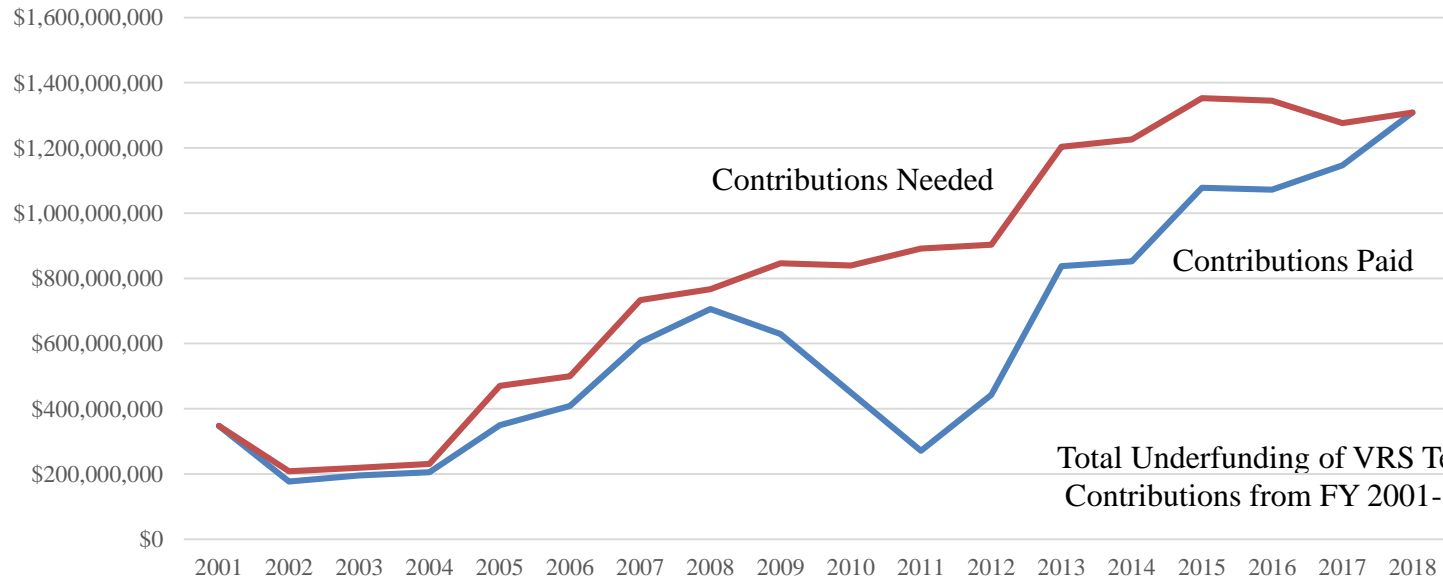
- First BOE recommended SOQ funding changes since the early 2000's.
- Examined where local practices exceed state recognized staffing practices.
- The Board of Education recommends the following changes to the SOQ:
 - A staffing ratio of 1 to 400 students for assistant principals.
 - One full-time principal in each elementary school. 12 percent of schools have under 299 students and are only provided funding for a part-time principal.
 - Staffing ratios for school counselors (1 to 250); school psychologists (1 to 1,000); school nurses (1 to 1,000); and school social workers (1 to 1,000).
 - Restoring the funding of support positions using prevailing practices rather than the support position cap (1 support per 4.17 SOQ funded teachers) put in place in 2009.

FY 2018 Is the First Time in Many Years VRS Rates Will Be Fully Funded

VRS Teacher Rates Needed Vs. Paid



VRS Teacher Contributions Needed Vs. Paid (\$ Mil.)



Literary Fund Is Largely Used for Teacher Retirement

Sources & Uses of Literary Fund												
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Revenue Sources:												
Loan Payments to Literary Fund and Interest	\$42.8	\$40.0	\$38.7	\$38.7	\$43.0	\$33.2	\$48.5	\$40.6	\$35.4	\$21.8	\$20.2	\$19.2
All Other *	\$177.6	\$190.0	\$199.5	\$202.0	\$158.1	\$160.3	\$161.5	\$160.6	\$393.8	\$324.9	\$198.7	\$192.8
TOTAL Revenue	\$220.4	\$230.0	\$238.2	\$240.7	\$201.1	\$193.5	\$210.0	\$201.2	\$429.2	\$346.7	\$218.9	\$212.0
Spending Allocations:												
Teacher Retirement	\$116.0	\$124.9	\$228.7	\$195.0	\$139.6	\$130.1	\$140.1	\$144.4	\$375.7	\$165.2	\$165.2	\$155.2
Tech Equipment Debt Service	\$62.6	\$63.6	\$64.5	\$65.3	\$63.5	\$62.7	\$60.7	\$60.1	\$60.6	\$62.5	\$64.7	\$68.1
School Security Debt Service								\$1.3	\$2.4	\$3.7	\$4.9	\$6.2
Interest Rate Subsidy	\$7.6	\$16.4	\$11.1	\$3.1	\$0.8	\$2.1	\$0.4	\$0.7	\$0.1	\$1.2	\$0.0	\$0.0
School Construction Loans**										\$52.9	\$0.0	\$0.0
TOTAL Allocations	\$186.2	\$204.9	\$304.3	\$263.4	\$203.9	\$194.9	\$201.2	\$206.5	\$438.8	\$285.6	\$234.8	\$229.5

* Incl. special one-time payment of \$193 m in FY 15

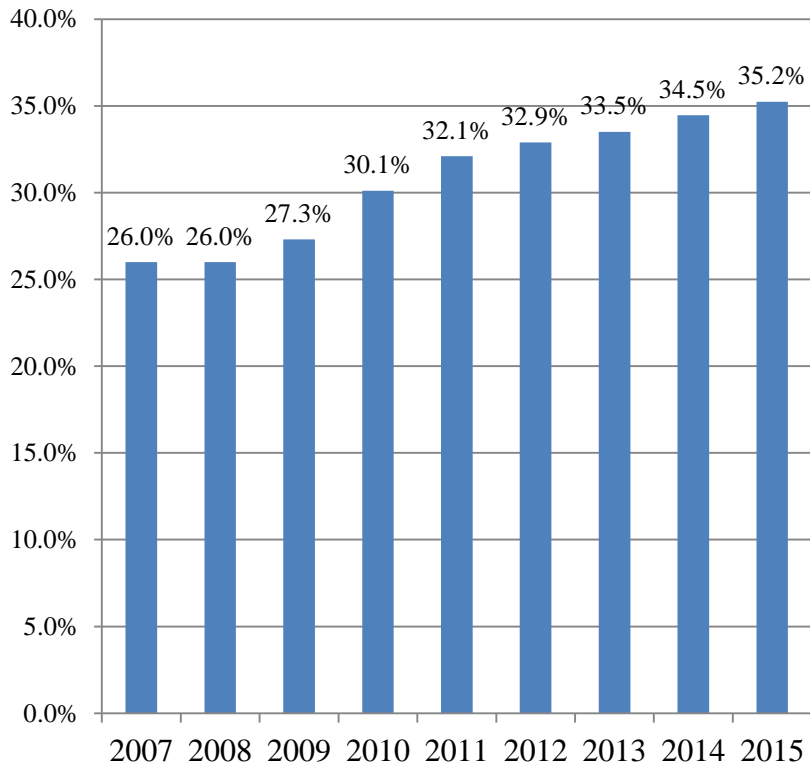
** Loans may be made from available balances

1. Revenues come from criminal fines, fees and forfeitures, unclaimed and escheated property, unclaimed lottery winnings and repayments of prior Literary Fund loans. A principal balance of \$80 million must be maintained in order for other Fund money to be used for teacher retirement fund.

More Difficult and Diverse Student Population to Educate

- 163,000 Special Ed Students (13%)
 - More At-Risk Students

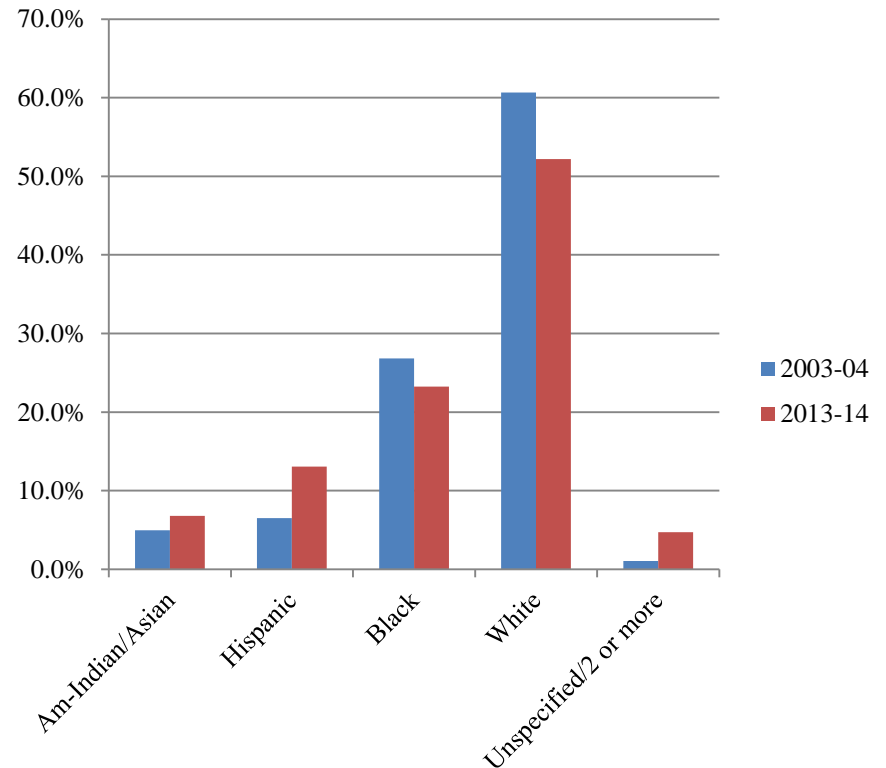
Percentage of Free Lunch Students in VA



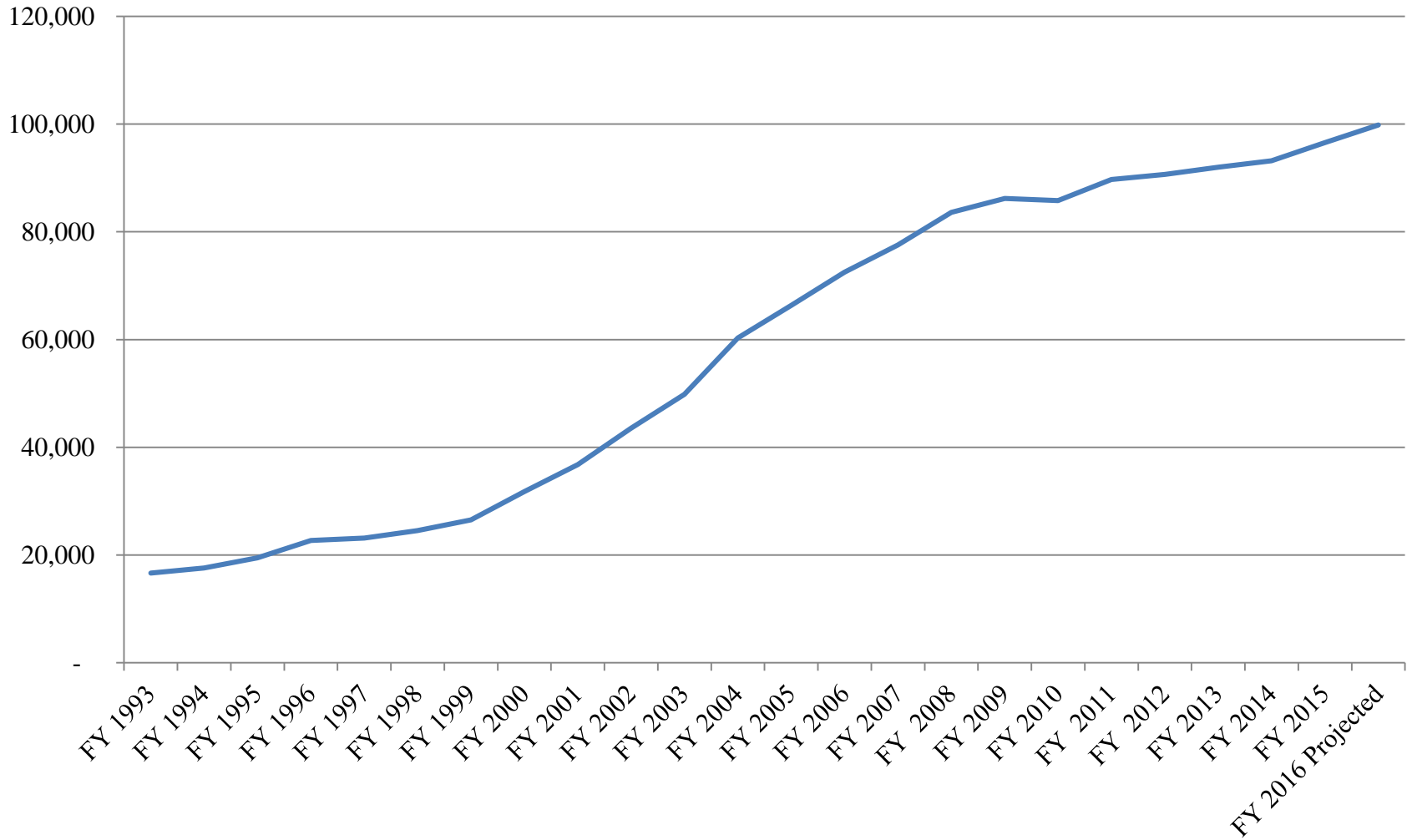
Source: Virginia Dept. of Education

- Changing Student Demographics

VA Public K-12 Student Population by Race



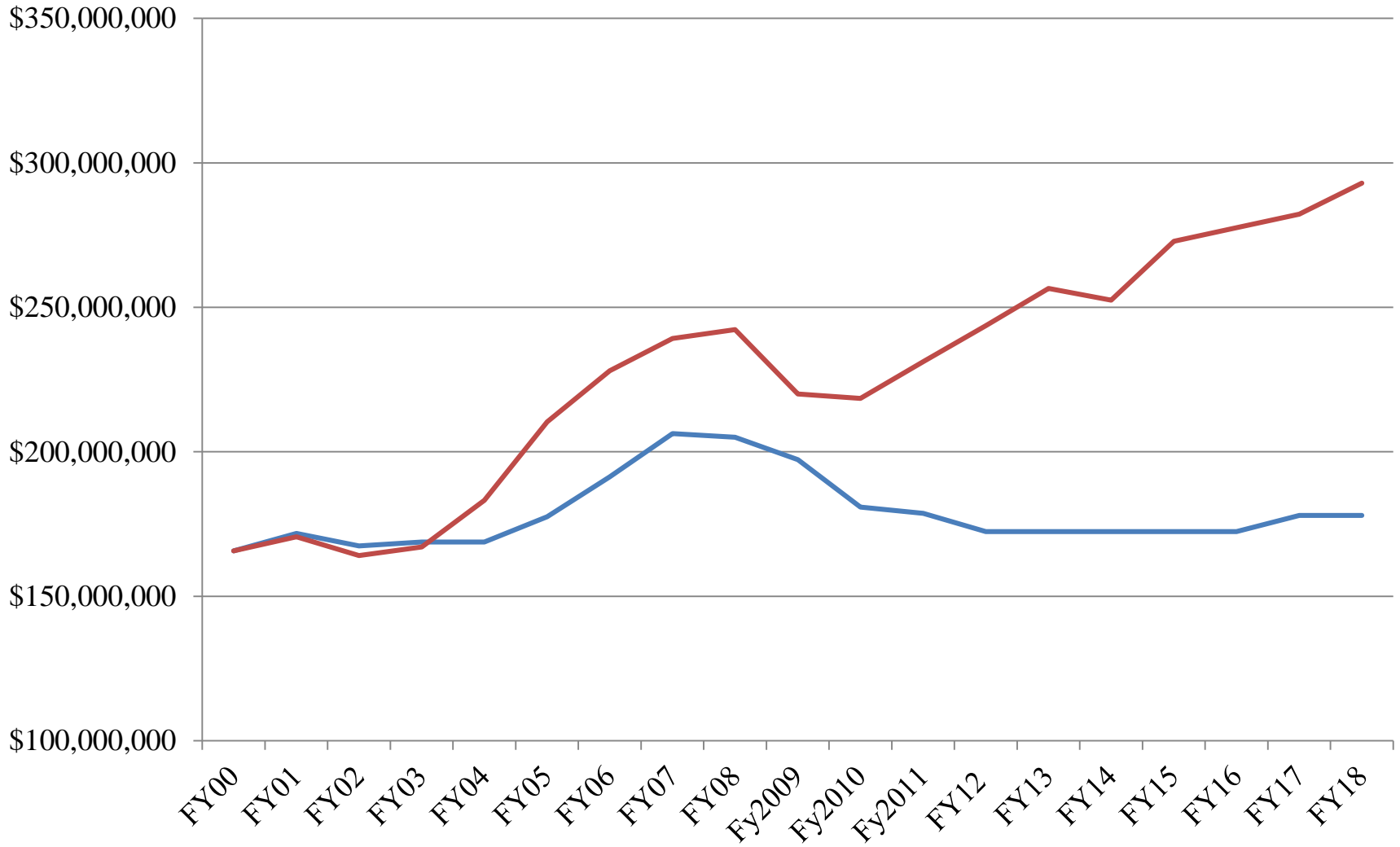
Rising Numbers of English as a Second Language Students (Currently 8% Statewide; 18% PD8)



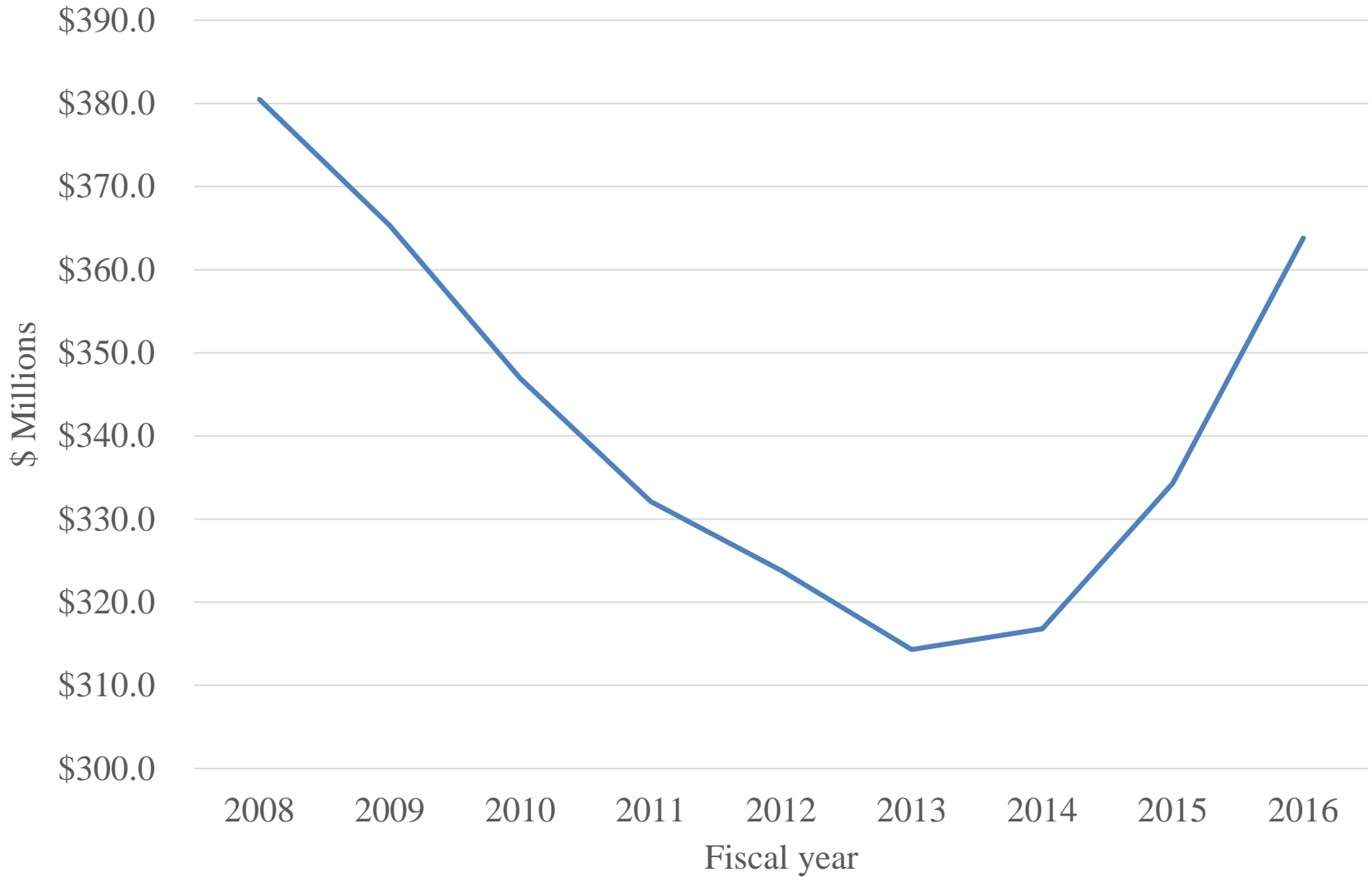
Source: Virginia Dept. of Education

Aid to Police Departments Lags Statutory Funding Levels

Actual vs Growth in GF Revenues Since FY 2000 (Statute)



Total CSA Expenditures Rising Again



Note: From FY 2014-16, out of \$46 mil. increase in CSA expenditures, \$28 mil. has been for SPED private day placements.

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

FY 2009 - FY 2015 VA Locality Revenue Growth

	<u>Locally-Generated</u>	<u>State Sources</u>	<u>All Revenue</u>	<u>Growth in Population/Inflation</u>
All Localities	12.0%	6.6%	9.6%	16.8%

Note: CPI from fiscal years 2009-15 = 10.6%

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

Slow State Income Tax Growth Has Still 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 2015</u>	<u>Change</u>
Cities	0.90	1.06	0.16
Counties	0.55	0.65	0.10
Towns	0.18	0.18	-

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

In Contrast, the State Has Reduced Its GF Tax Base by \$2 Bil.

	<u>Enacted/Amended</u>	<u>FY 2016</u>
Car Tax Reimbursement	1997, 2003	(\$950)
Impose lower 2.5% Sales Tax on Food	2004	(\$556)
Age Subtraction (net of 2004 means testing)	1994 and 2004	(\$292)
Low Income Tax Relief, increase filing thresholds, exemptions, etc.	2000, 2004, and 2007	(\$203)
1/3 Insurance Premiums to Transportation	2007	(\$150)
Estate Tax Repeal	2009	(\$140)
0.1% sales tax diversion to transportation	2013	(\$101)
Land Preservation Tax Credit	2003	(\$100)
Historic Rehab Tax Credit	1999	(\$76)
Corp. double weighting sales and single sales factor	1999, 2009	(\$74)
Sales tax exemption for data centers	2010/2011	(\$51)
Sales tax exemption for non-prescription drugs	1990	(\$39)
Subtraction for military wages and unemployment benefits	1999	(\$37)
Coalfield Employment Tax Credits	2000	(\$34)
All Other Tax Reductions Since 1999	1999-2014	(\$121)
State GF Tax Reductions since 1994		(\$2,924)
Add 1/2 percent sales tax on non-food items	2004	\$500
Recordation Tax Increase (net of 3 cents to transp.)	2004/2007	\$150
Tobacco Tax Increase (Va Health Care Fund)	2004	\$146
Close 2 Corp. Tax Loopholes/Eliminate ST Exem for Pub. Svc. Co.	2004	\$143
Sales Tax Presence in Virginia Amazon	2012	\$22
Sales tax on satellite TV equipment	2014	<u>\$10</u>
State Tax Increases since 1994		\$971
Net Annual State Tax Changes		(\$1,953)

Source: Senate Finance Committee Retreat, Revenue Outlook, Nov. 19, 2015

Localities Need Help With Their Finances

- **Balancing the state budget on the backs of local government.**
 - Re-writing the K-12 Standards of Quality when state revenues decline (e.g., support position cap)
 - Adding K-12 responsibilities without additional funding
 - Routinely substituting Lottery and Literary 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, CSA, community-based health and welfare services).
 - Ending distributions of ABC Profits and Wine Taxes to localities in 2009.
- **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, changing assessment presumption of correct by court)
 - 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 without replacement
- **Modernize local revenue sources**
 - Communications sales tax (not capturing revenues from a changing industry as promised, (e.g., pre-paid wireless, streaming services)
 - No sales taxes on internet sales, and growing services sector
 - Equal taxing authority between cities and counties for meals, transient occupancy, tobacco, and admissions taxes.

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

	<u>2012 JLARC Ranking</u>	<u>2015 JLARC Ranking</u>
Per capita personal income	8	10
State and local <i>taxes</i> as a percentage of personal income	43	45
Per capita state taxes	34	36
Per capita local taxes	13	15
State Per Pupil Funding	35	41
State and Local Per Pupil Funding	17	26
Average Salary of Public School Teachers	28	35

Source: Virginia Compared to Other States, JLARC, 2012, 2015 Editions

Reasons for Recent Slowing Virginia Revenue Growth

- “Business and professional services” jobs are showing slower wage gains.
 - More retiring workers replaced with lower paid jobs and younger workers.
 - More lower paid administrative positions.
- Decline in labor force participation – retiring “baby boomers”
- Continuing slowdown in defense spending particularly hurts Virginia. DoD Virginia contracts declined 30% from 2011-15.

U.S. Defense Spending (CBO Data)		
	\$ Bil.	Change
FFY 2011	678	
FFY 2012	651	-4.0%
FFY 2013	608	-6.6%
FFY 2014	578	-4.9%
FFY 2015	563	-2.8%
FFY 2016	564	

Professional/Business and Education/Health Services Now Fuel Virginia's Job Growth

	March 2016 Employment	2006-16 Employment Growth	Avg. hours Worked	Avg. Hourly Wage	Avg. Weekly Wage
Professional and Business Services	709,200	14.2%	37.1	\$36.13	\$1,340
Trade, Transportation, and Utilities	662,900	1.5%	33.2	\$20.33	\$675
Education and Health Services	525,700	28.9%	34.8	\$25.76	\$896
Leisure and Hospitality	382,000	16.9%	26.2	\$13.19	\$345
Manufacturing	229,900	-20.6%	40.9	\$22.09	\$903
Other Services	201,200	11.6%	32.7	\$27.40	\$896
Finance	200,400	3.5%	39.1	\$26.34	\$1,030
Construction	178,900	-27.5%	37.7	\$25.58	\$964

About Half of the 50 Largest Employers in Virginia are Government-Related (3rd Q 2015)

Rank	Employer	Ownership	Industry
1	U.S. Department of Defense	Federal Government	National Security and International Affairs
2	Wal Mart	Private	General Merchandise Stores
3	Sentara Healthcare *	Private	Hospitals
4	Fairfax County Public Schools	Local Government	Educational Services
5	Huntington Ingalls Industries, Inc.*	Private	Transportation Equipment Manufacturing
6	Food Lion	Private	Food and Beverage Stores
7	County of Fairfax	Local Government	Executive, Legislative, and Other General Government
8	Postal Service	Federal Government	Postal Service
9	HCA Virginia Health System*	Private	Hospitals
10	U.S. Department of Homeland Defense	Federal Government	Administration of Economic Programs
11	Inova Health System *	Private	Hospitals
12	University of Virginia	State Government	Educational Services
13	Capital One Bank	Private	Credit Intermediation and Related Activities
14	Prince William County Schools	Local Government	Educational Services
15	Loudoun County Schools	Local Government	Educational Services
16	City of Virginia Beach Schools	Local Government	Educational Services
17	Virginia Commonwealth University	State Government	Educational Services
18	U.S. Department of Commerce	Federal Government	Administration of Economic Programs
19	Virginia Tech University	State Government	Educational Services
20	Lowes' Home Centers, Inc.	Private	Building Material and Garden Equipment and Supplies
21	Kroger	Private	Food and Beverage Stores
22	Riverside Regional Medical Center *	Private	Hospitals
23	Target Corp	Private	General Merchandise Stores
24	MCV Hospital	State Government	Hospitals

Rank	Employer	Ownership	Industry
25	U.S. Department of Veterans Affairs	Federal Government	Administration of Human Resource Programs
26	Booz, Allen and Hamilton*	Private	Professional, Scientific, and Technical Services
27	The Home Depot	Private	Building Material and Garden Equipment and Supplies
28	University of Virginia Medical Center	State Government	Hospitals
29	Bon Secours Richmond Health System *	Private	Hospitals
30	City of Virginia Beach	Local Government	Executive, Legislative, and Other General Government
31	Chesterfield County School Board	Local Government	Educational Services
32	VDOT	State Government	Heavy and Civil Engineering Construction
33	Henrico County Schools	Local Government	Educational Services
34	Wells Fargo Bank NA	Private	Credit Intermediation and Related Activities
35	Anthem	Private	Insurance Carriers and Related Activities
36	Anteon Corporation (Gen. Dynamics)*	Private	Professional, Scientific, and Technical Services
37	Roanoke Memorial Community Hospital*	Private	Hospitals
38	U.P.S.	Private	Couriers and Messengers
39	Centra Health*	Private	Hospitals
40	George Mason University	State Government	Educational Services
41	Northrop Grumman Corporation*	Private	Computer and Electronic Product Manufacturing
42	Dominion Virginia Power	Private	Utilities
43	GEICO, Government Employees Insurance	Private	Insurance Carriers and Related Activities
44	Navy Federal Credit Union	Private	Credit Intermediation and Related Activities
45	Norfolk City School Board	Local Government	Educational Services
46	Chesapeake City Public School Board	Local Government	Educational Services
47	Arlington County School Board	Local Government	Educational Services
48	United Airlines Inc	Private	Air Transportation
49	City of Norfolk	Local Government	Executive, Legislative, and Other General Government
50	Giant Food	Private	Food and Beverage Stores

* Has significant public funding

Fastest Growing Companies in VA

IT/Software and Government Service Providers Dominate

Inc. Magazine 2014/15 Virginia List of 5,000 Fastest Growing Private Companies in America

<u>Industry Type</u>	<u>Year 2014</u>	<u>Year 2015</u>
IT Services/Software	84	80
Government Services	81	88
Business Products & Services	19	20
Construction, Engineering, Manufacturing	14	13
Financial Services, Insurance	13	12
Advertising & Marketing	12	9
Real Estate	8	6
Health	8	8
Telecommunications	7	5
Security	N/A	8
All Other	<u>31</u>	<u>26</u>
Total	277	275

Is Slower Growth the New Normal?

- Has globalization permanently reduced inflation? Harder to improve productivity in an economy with an increasing service sector.
- Is innovation slowing, or is a new innovation wave just beginning?
 - Are air conditioning and indoor plumbing, etc. more important economically than genome sequencing, instant communication, phone apps, etc.
- Rising income inequality has reduced the share of economic gains going to the middle and working classes and with it their disposable income and purchasing power.
- Growth in educational attainment as measured by years of schooling completed has slowed. In addition, the quality of primary and secondary education has become more stratified and the cost of higher education has increased. Such trends in education are contributors to growing income inequality.
- Baby boomers are reaching traditional retirement age, reducing the number of hours worked per person. In addition, labor force participation among people who have not yet reached retirement age has dropped.
- All levels of government face mounting debt, in large measure due to the aging of the population, as spending on “entitlement” programs such as Social Security and Medicare increases and pension obligations to public-sector employees grow.

Slower Growing Working Age Population Could Impact Virginia's Future Growth

	Total Projected VA Population	Population Age 25-64	% of Total Pop. Age 25-64	Pop. 65 years and over	% of Total Pop. Age 65 and Over
2014	8,326,289	4,480,907	53.8%	1,146,886	13.8%
2020	8,811,512	4,655,363	52.8%	1,359,168	15.4%
2030	9,645,281	4,836,080	50.1%	1,767,340	18.3%

Are Younger Generation Spending Decisions Changing the Economic Outlook?

Life Decisions Millennials Are Putting Off:

- Living on their own
- Getting a credit card
- Marriage
- Having children
- Buying a house
- Millennials buy experiences rather than goods

What Can Virginia Do to Improve Its Economy?

- Encourage an approach to economic development that helps turn ideas into start-ups and expansion and also keeps successful companies here. *Help successful companies sustain growth.*
- Encourage risk capital formation and connections to allies across the state. *Virginia is weak in venture capital and new patent creation.*
- Build workforce capabilities – turn community colleges into career factories linked to industry/company needs.
- Use “Go Virginia” and other policies to help create regional centers of expertise assembled through businesses, school, and government agencies that leverage existing skill sets.
- Create more development-ready sites with public/private and regional partnerships. *VA has very few large, development-ready sites.*
- Purge duplicative regulations and encourage investment in technology and automation to better compete worldwide.
- Build on Virginia’s competitive advantages.

Build on Virginia's Advantages

- Location and Unparalleled Deep Water Port
- Proximity to D.C. – A World Power Center
 - E.G., Cyber Security Leadership, Internet/Cloud Computing Hub
- Economic Benefits of Military Concentration
- Maintain Competitive Energy Prices
- Leverage Renowned Higher Education System