

**Virginia's Budget Outlook**  
**Issues and Implications for Local Government**

Fiscal Analytics, Ltd.

November, 2017

# Despite FY 17 Surplus, GF Revenue Growth Has Been Historically Low

<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%
<i>2018 Forecast **</i>	<i>3.2%</i>

\*Does not include GF transfers

\*\* Due to FY 17 \$132 mil. surplus, only 2.7% growth needed to make current budget revenue forecast

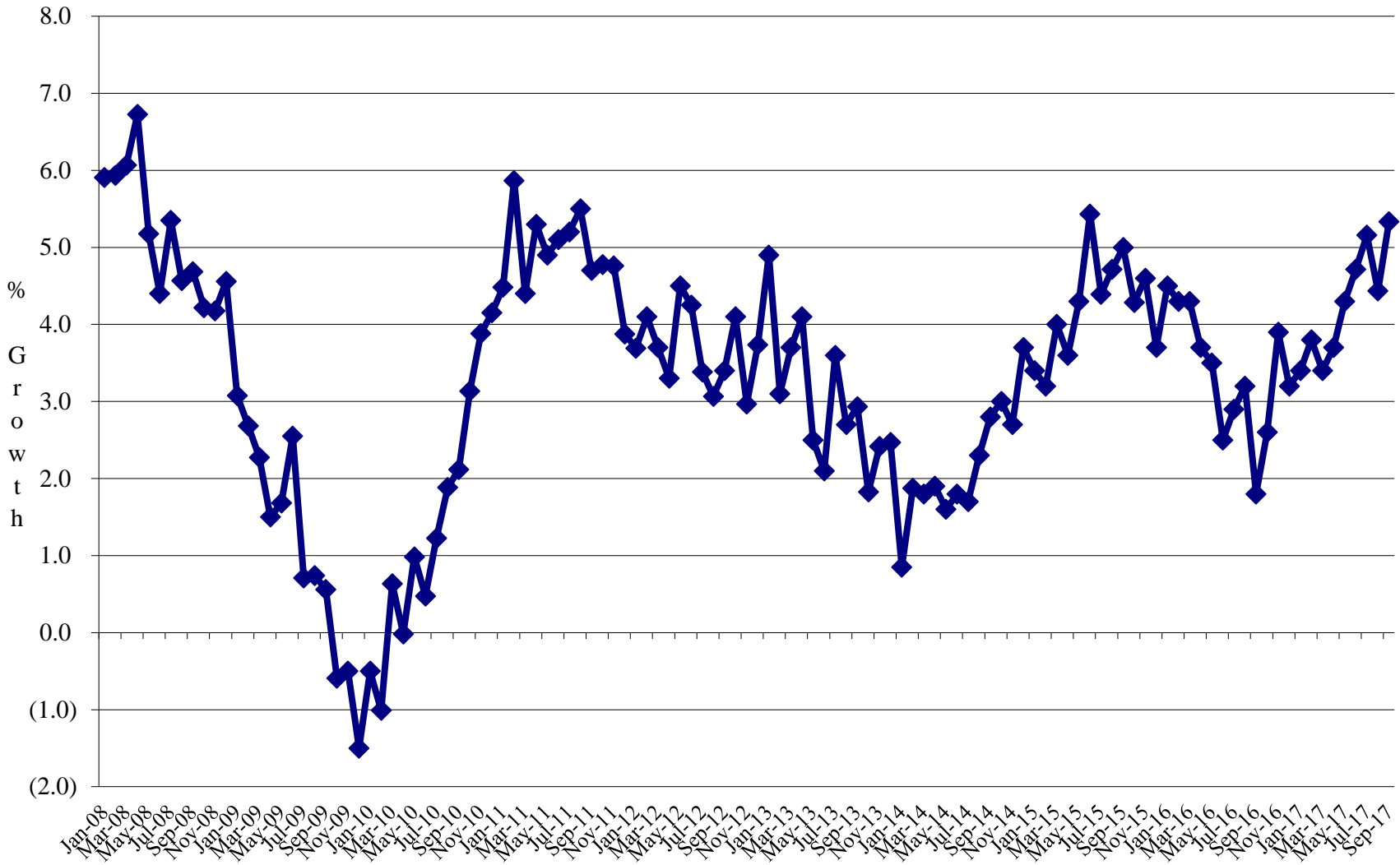
# 1<sup>ST</sup> Q GF Revenue Growth Encouraging

	<u>1st Q GF Growth</u>	<u>% of GF</u>
Withholding	4.0%	63.1%
Est Payments/Tax Dues	-1.5%	16.8%
Refunds	<u>10.3%</u>	<u>-10.1%</u>
Net Individual Income	2.9%	69.8%
Sales Taxes*	2.7%	18.0%
Corporate Income	27.9%	4.4%
Recordation	-2.3%	2.1%
All Other	<u>1.5%</u>	<u>5.8%</u>
Total GF Revenues	4.1%	100.0%

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

# Income Tax Withholding Growth is Improving

## 12 Mo. Moving Avg (% Growth)



# But 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 <b>Over \$1,000</b> per Week	\$84,956	1,708,653	3.7%	\$36,289,953,464	16.6%
Jobs Paying <b>Under \$1,000</b> 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).*

# How Did Last Year's Adopted Budget Balance the \$1.5B GF 2016-18 Shortfall With a \$132 Mil. Surplus?

## **Major Revenue Changes and Spending Reductions:**

- \$567.2 mil. Rainy Day Funds
- About \$400 mil. in increased revenues (incl. policy changes) and \$150 mil. in transfers
- \$150 mil. unspent agency appropriations
- \$128 mil. in captured capital balances
- \$146 mil. in additional lottery (\$52.4m), Literary (\$50m), and Virginia Health Care (\$44.5m) funds to offset GF.
- \$347.2 mil. eliminated contingent salary increases (\$134m for teachers)
- Targeted reductions including: higher education (\$56m), “technical” reductions in K-12 aid from lower sales tax (\$40m) and ADM (\$35m), reductions in economic development incentives (\$53m), and delayed women’s prison open (\$21m).

## **Major Increases :**

- \$247 mil. in Medicaid cost increases
- \$161 mil. in FY 2018 compensation adjustments (\$32m for teachers)
- \$86 mil. in Children Services Act mandatory funding
- \$32 mil. in new mental health funding

# Factors Shaping the 2018-20 Biennium Budget

- National and Virginia economic growth
- Possible Federal Actions – budget authorization and debt ceiling, children’s health insurance (CHIP) reauthorization?, tax reform impacts on Virginia
- Mandatory Spending – SOQ rebenchmarking, Medicaid growth, DOJ Settlement, debt service increases, employee health costs, CSA increases
- Priority Spending – reserve cash to increase state liquidity and preserve bond rating, employee and teacher compensation, economic development, mental health and STEP-VA CSB funding, higher education, water quality
- Transportation – Looming expiration of bond revenue for public transit funding and also pressing WMATA needs.

# Likely GF Revenue Growth Insufficient for New State Commitments

Est. Net New GF Revenue for 2018-20 Biennium (assumes 3%-4% growth)	\$1.4-2.0 B
Reserve 2017 Surplus	(\$136.6)
Remove 2018 Rainy Day one-time funding	(\$272.5)
Remove 2018 Tax Amnesty one-time funding	(\$90)
Medicaid Growth over next 3 years	(\$671)
2018-20 K-12 Rebenchmarking	(\$450)
Biennium Debt Service Increases	(\$80)
Net Available for All Other	(\$300) - \$300 Mil.

*Note: FY 2018 GF Rainy Day Fund requirements begin at 4.0%*



# Will Massive Move to Managed Care Provide Assumed Medicaid Savings?

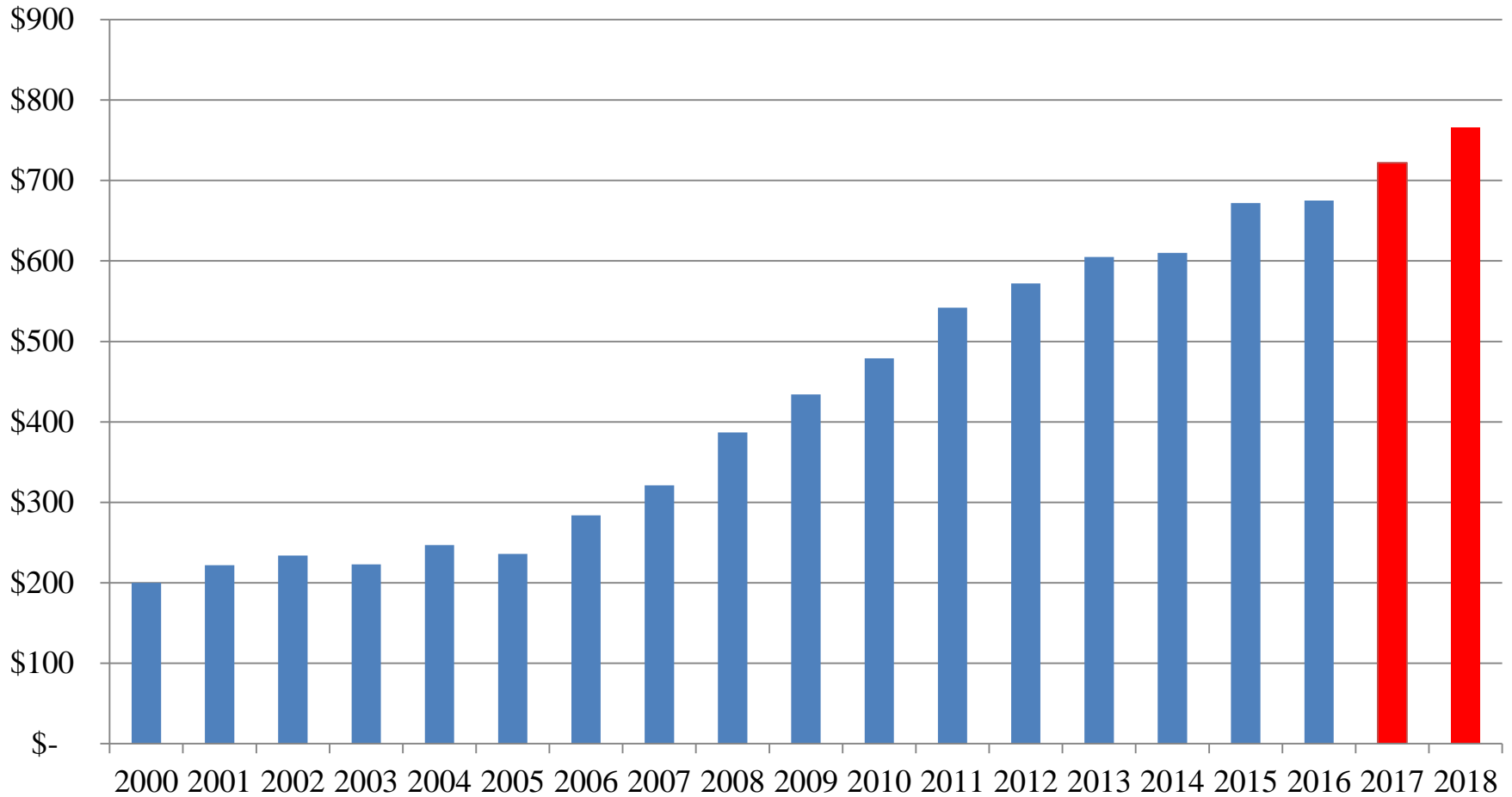
<u>Fiscal Years</u>	<u>Avg. GF Annual Growth</u>
2000-2009	8.8%
2010-2015	6.2%
2016	9.3%
2017	7.2%
<i>2018 Forecast*</i>	<i>6.5%</i>
<i>2019 Forecast*</i>	<i>2.3%</i>
<i>2020 Forecast*</i>	<i>3.4%</i>

\* Reflects massive 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.

# Steadily Rising Senior Population Ensures Medicaid 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%

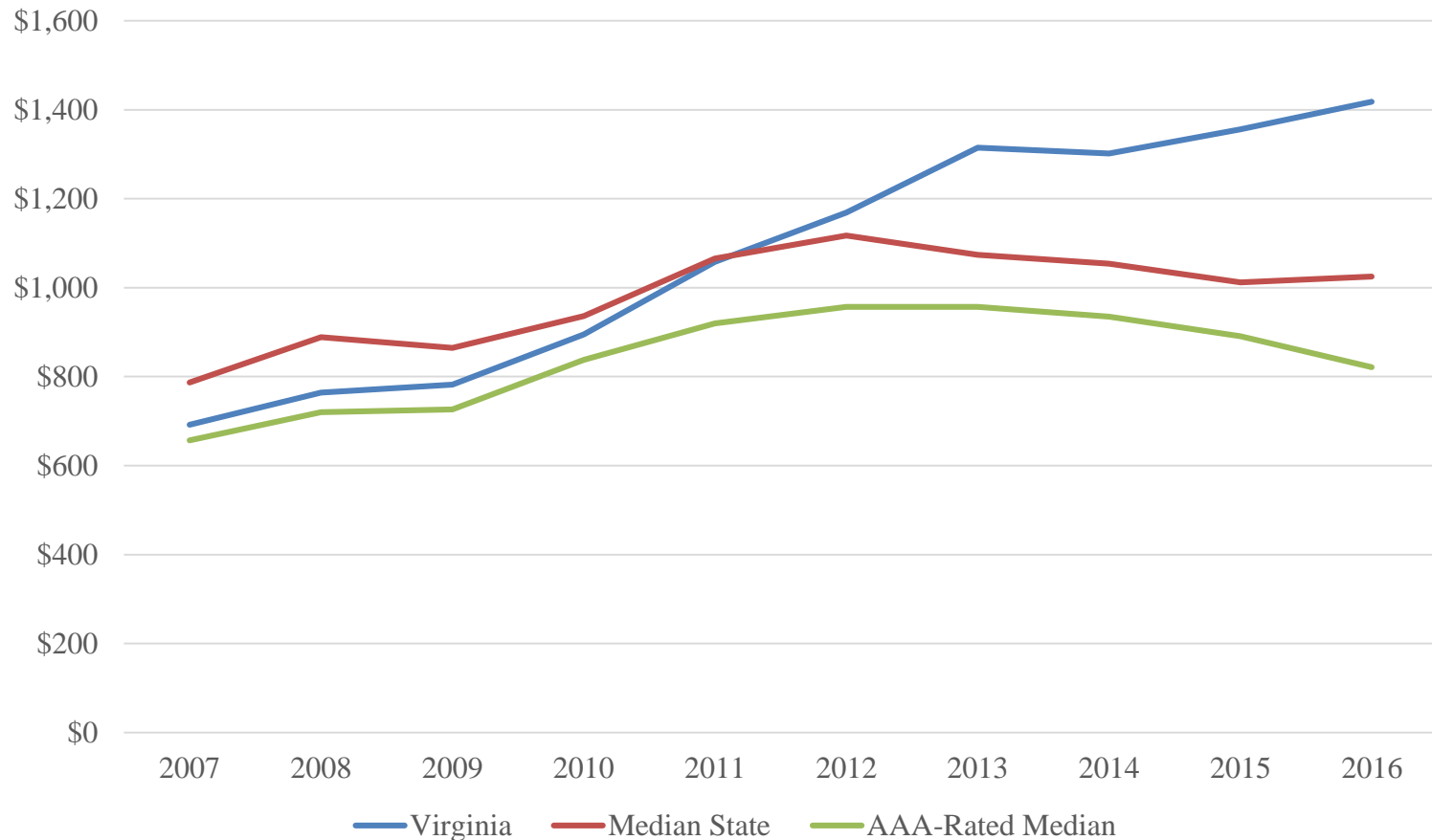
# Continued Growth in GF Debt Service (\$ Mil.)



*Note: \$3.8 bil. in authorized, but unissued GF tax supported debt (VPBA, VCBA) planned from FY 2017-22.*

# ...And Virginia Has Little Room for More Borrowing and Stay AAA-Rated

## Virginia Debt per Capita Compared to Other States



Source: Virginia Debt Capacity Advisory Board, Dec. 2016

Note: Current debt service payments already above self-imposed cap of 5% of GF + transportation revenues.

Any additional debt capacity is based on back-loaded 10 year average – currently about \$500 m per year.

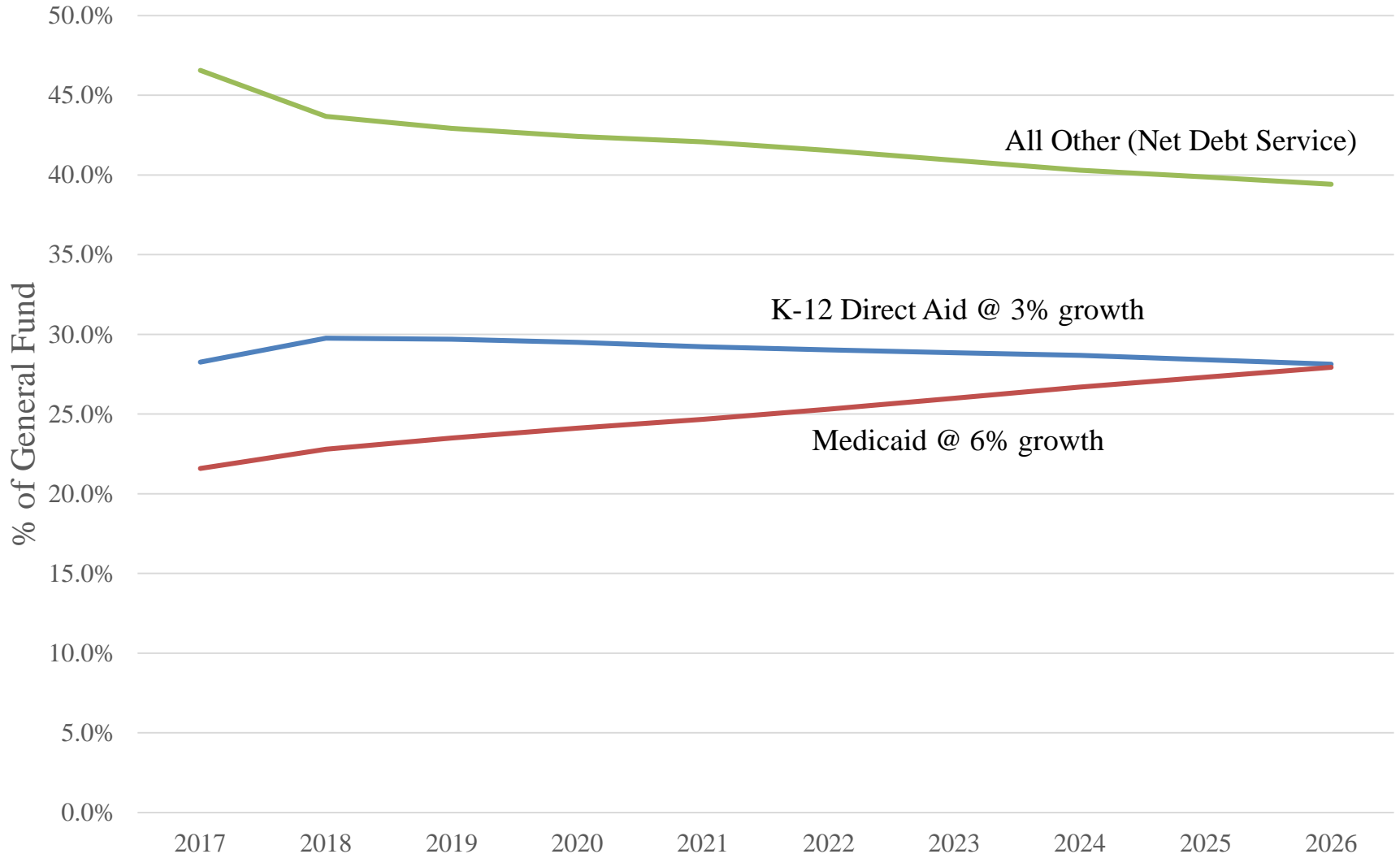
## General Fund Operating Appropriation Growth (\$ Mil.)

	<u>2001</u>	<u>2018</u>	<u>Growth</u>	<u>Annualized Compound Growth</u>
Medicaid (DMAS)	\$1,384.2	\$4,605.7	232.7%	7.3%
GF Debt Service	\$243.1	\$763.7	214.2%	7.0%
Behavioral Health	\$430.2	\$772.6	79.6%	3.5%
Other H&HS	\$648.9	\$1,059.0	63.2%	2.9%
<b>K-12 Public Education</b>	<b>\$3,942.4</b>	<b>\$6,030.0</b>	<b>53.0%</b>	<b>2.5%</b>
Public Safety/Comp Board	\$1,949.1	\$2,588.3	32.8%	1.7%
Higher Education	\$1,634.2	\$2,014.5	23.3%	1.2%
Natural Resources	\$152.1	\$128.5	-15.5%	-1.0%
All Other	<u>\$1,899.4</u>	<u>\$2,392.3</u>	<u>25.9%</u>	<u>1.4%</u>
<b>Total GF Operating</b>	<b>\$12,283.6</b>	<b>\$20,354.6</b>	<b>65.7%</b>	<b>3.0%</b>

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

# Are GF Spending Patterns Unsustainable?

(Assumes 3.4% Avg. Annual Revenue Growth)



# ...But Where Will Spending Change?

	GF Budget Accounting					Biennial Change
		2016 Session		2017 Session		
	<u>FY 16</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	
Legislative and Executive	107.7	115.5	115.5	115.7	119.4	4.1
Judicial Dept.	456.0	484.5	485.2	482.9	485.6	(1.2)
Administration/Comp Board	691.7	711.8	718.7	705.2	715.4	(9.9)
Treasury Board Debt Service	675.0	734.9	766.3	722.1	763.7	(15.4)
Other Finance/Technology	181.6	191.6	188.6	189.1	186.0	(5.1)
Rainy Day Fund	-	605.6	-	605.6	-	-
Car Tax Reimbursement	950.0	950.0	950.0	950.0	950.0	-
Commerce and Trade	197.0	203.8	217.3	188.3	205.6	(27.2)
Agriculture / Nat. Resources	174.7	237.7	172.2	234.2	163.7	(12.1)
K-12 Education/Central Office	5,576.0	5,900.0	6,190.6	5,735.6	6,088.5	(266.5)
Higher & Other Education	1,865.5	2,046.6	2,081.1	2,040.0	2,015.2	(72.5)
DMAS Medicaid	4,159.5	4,293.9	4,421.0	4,332.8	4,605.7	223.6
Other Health & Human Services	1,682.6	1,759.3	1,764.8	1,799.9	1,831.6	107.4
Public Safety & Veterans/HS	1,837.5	1,921.8	1,949.4	1,907.1	1,932.9	(31.2)
Transportation	69.1	41.0	41.0	41.0	41.0	-
Central Appropriations	334.8	139.5	223.0	63.5	214.9	(84.0)
Cash Reserve	-	-	-	-	35.0	35.0
Independent Agencies/Capital	143.2	12.0	0.3	2.2	0.3	(9.8)
Total GF Appropriations	19,102.0	20,349.5	20,285.0	20,115.2	20,354.6	(164.7)
GF Revenues/Transfers	19,119.3	19,481.2	20,230.3	19,210.6	19,835.4	(665.5)
Rainy Day Fund Withdrawal				294.7	272.5	567.2
Balances	932.1	946.2	(0.5)	736.3	128.2	(81.2)
Unreserved Balance	265.3	77.9	22.6	126.4	7.9	

## 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>
<b>Direct Aid to K-12</b>	<b>\$5,607.6</b>	<b>\$5,240.3</b>	<b>\$5,520.9</b>	<b>\$5,675.3</b>	<b>\$6,030.0</b>
<b>K-12 % of Total GF Appropriations</b>	<b>35.2%</b>	<b>29.6%</b>	<b>28.9%</b>	<b>28.2%</b>	<b>29.6%</b>
<b>Health and Human Services</b>	<b>888.4</b>	<b>791.7</b>	<b>867.5</b>	<b>926.0</b>	<b>951.5</b>
<i>CSA</i>	299.7	217.2	237.2	278.9	279.5
<i>Community MH/MR Services</i>	249.4	269.3	318.0	330.8	351.6
<i>Local Social Services Staff</i>	117.4	115.3	114.4	117.5	122.1
<i>Community Health Programs</i>	117.6	107.2	115.1	117.7	117.6
<i>Welfare Services and Programs</i>	104.3	82.7	82.8	81.1	80.7
<b>Public Safety</b>	<b>734.3</b>	<b>687.9</b>	<b>715.5</b>	<b>732.1</b>	<b>743.4</b>
<i>Local Sheriffs Offices</i>	406.1	411.3	436.0	447.2	457.0
<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	46.3	47.1
<b>Constitutional Officers</b>	<b>155.3</b>	<b>145.8</b>	<b>152.5</b>	<b>156.7</b>	<b>158.0</b>
<b>Dept. of Accounts Transfers</b>	<b>49.3</b>	<b>49.3</b>	<b>49.5</b>	<b>49.6</b>	<b>49.6</b>
<b>Car Tax</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>
<b>Aid-to-Locality Reduction</b>	<b>(50.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Local GF Aid</b>	<b>\$8,334.9</b>	<b>\$7,865.0</b>	<b>\$8,255.9</b>	<b>\$8,489.7</b>	<b>\$8,882.5</b>
<b>Total GF Appropriations</b>	<b>\$15,943.0</b>	<b>\$17,705.2</b>	<b>\$19,102.0</b>	<b>\$20,115.2</b>	<b>\$20,354.6</b>
<b>Local Aid % of Total GF</b>	<b>52.0%</b>	<b>44.1%</b>	<b>43.2%</b>	<b>42.2%</b>	<b>43.6%</b>

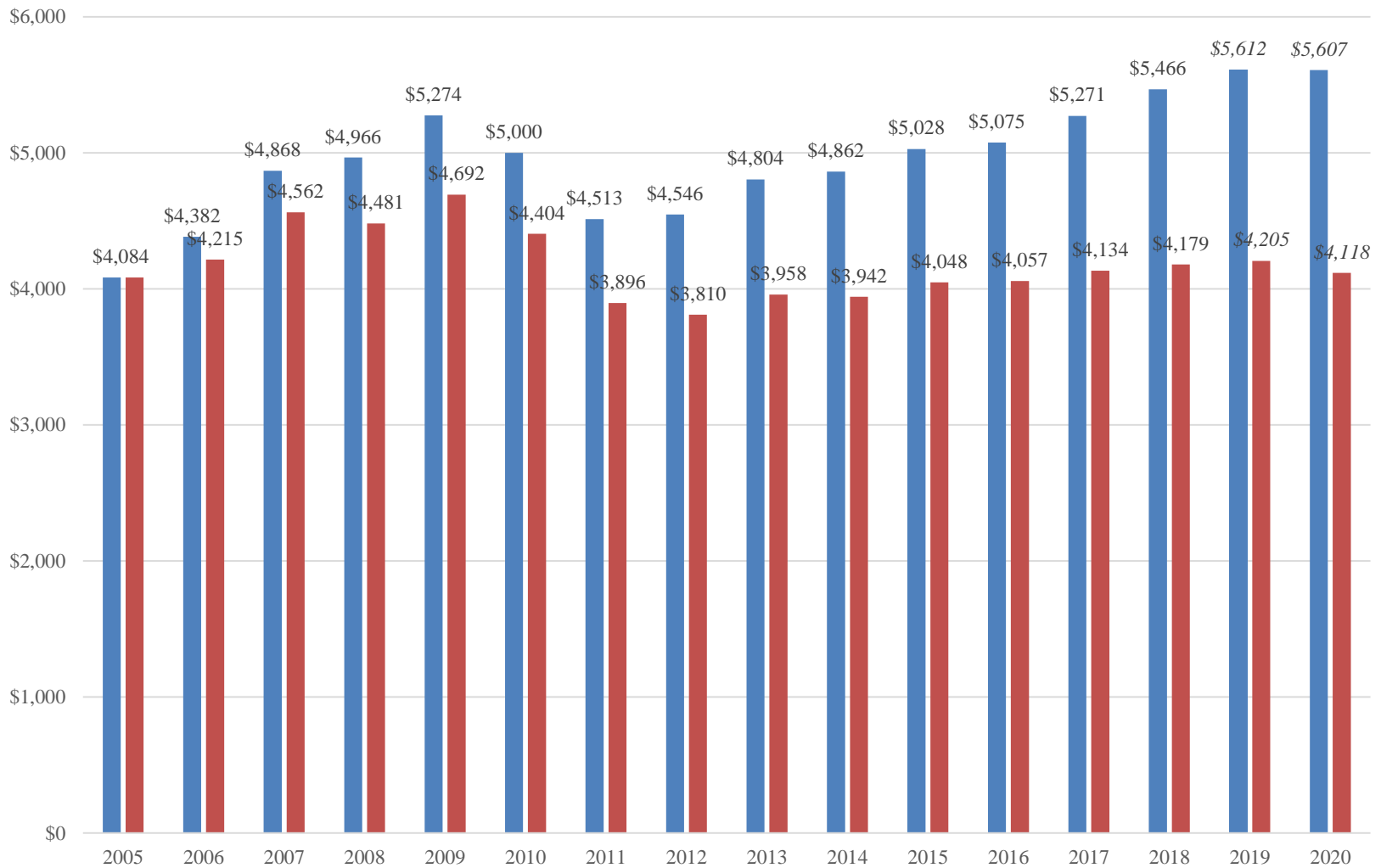


# Initial 2018-20 Biennium K-12 Rebenchmarking Increases State Funding by About 3 Percent

- FY 2019 = \$210.8 m; FY 2020 = \$232.6 m; Total = \$443.4 m  
(Net 25.4% non-participation for VA Pre-School Initiative, Not including VRS rate reduction from 16.32% to 15.68% )

<b>Major Cost Increases:</b>	<u>Biennial Cost</u> (\$ Mil)	<b>Major Cost Decreases:</b>	<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 (largest factor: substitute teachers up 9.3%)	\$161.3	3-Year Avg. FL Rates for CEP Schools	(\$21.0)
Health Care Premium (up 10%)	\$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	\$14.6		
Total Increases	\$525.7		

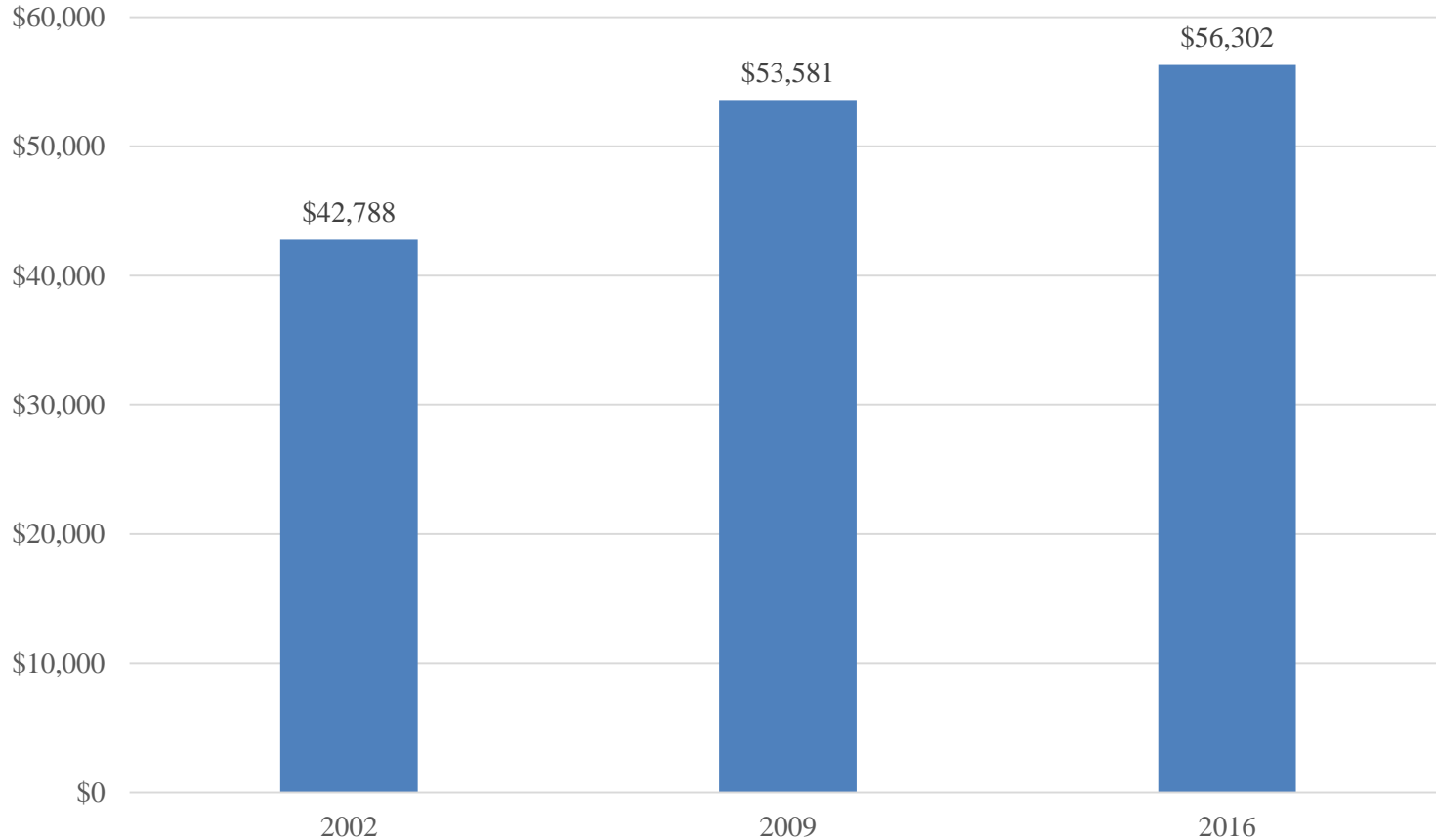
## Real State Per Pupil K-12 FY 18 Funding \$520 Below FY 09\* Nominal and Inflation-Adjusted Direct Aid (CPI \$2005)



\* 2018-20 funding levels assume initial \$211m and \$233m rebenchmarking amounts only and 2.0% inflation each year.

# 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 29<sup>th</sup> (*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.

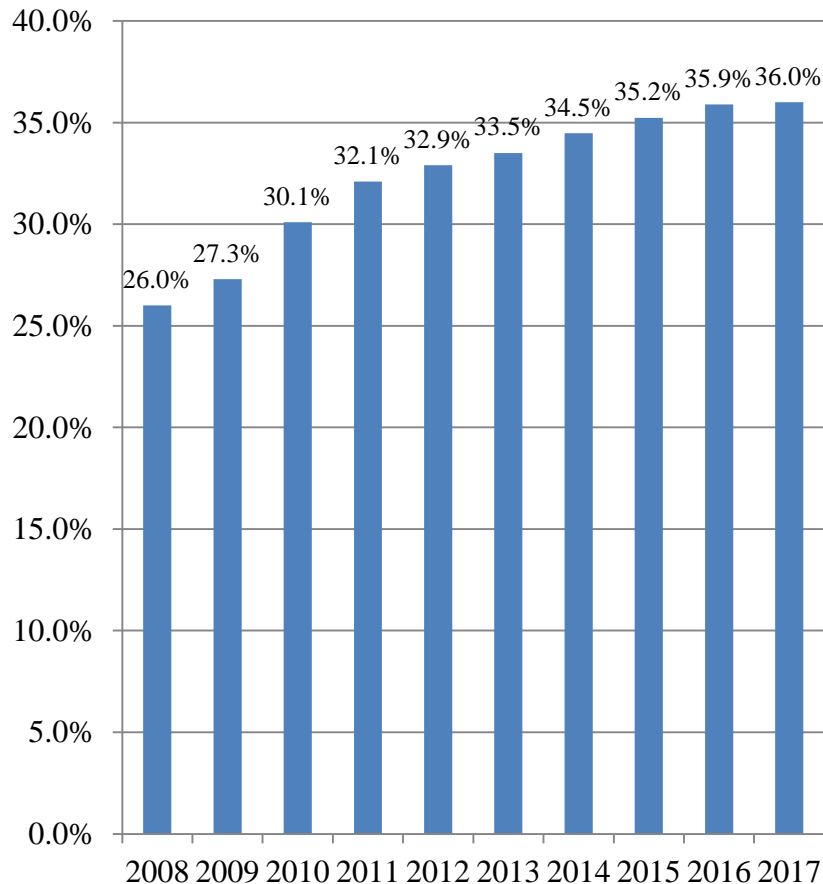
Divisions up to 25% Above RLE	16
Divisions Exceeding 25% to 75%	45
Divisions Exceeding 76% to 100%	30
Divisions Exceeding 100% RLE	43

# 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 recommended the following changes to the SOQ:
  - Restoring the funding of support positions using prevailing practices rather than the 2009 enacted support position cap (1 support per 4.17 SOQ funded teachers).
  - 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).
- New position standards would increase local match requirements for some localities.

# More Difficult and Diverse Student Population to Educate

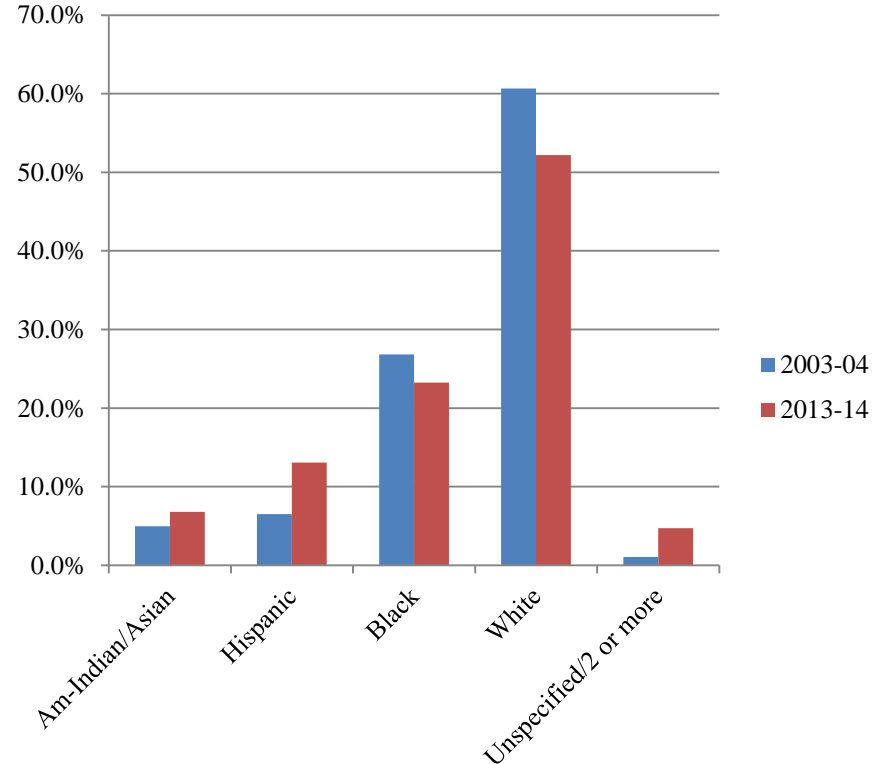
**% Free Lunch Students Growing**



Source: Virginia Dept. of Education

- 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](http://www.doe.virginia.gov/statistics_reports/school_report_card/index.shtml)

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

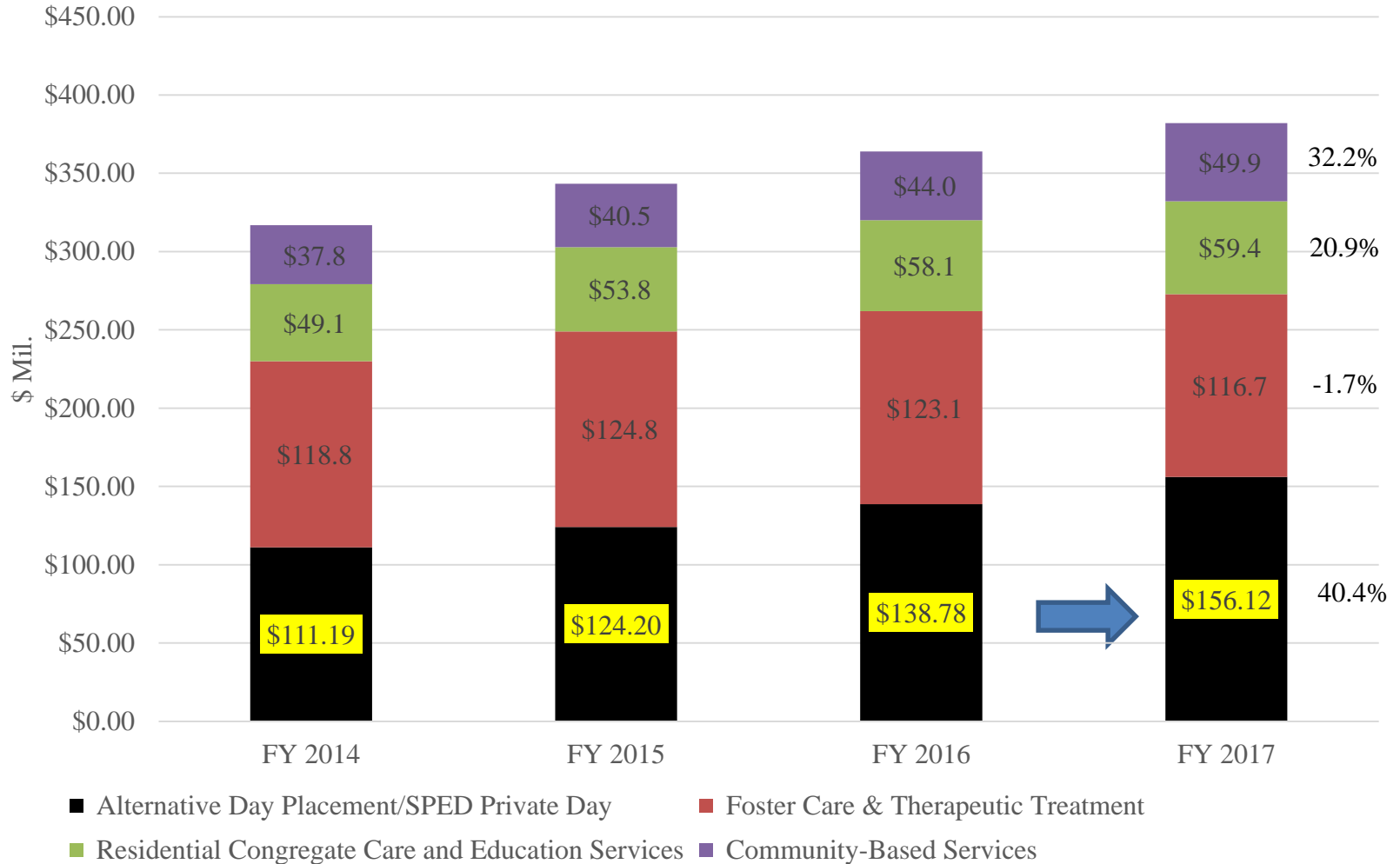
	State Appropriations (\$ Mil.)		
	<u>FY 2009</u>	<u>FY 2018</u>	<u>Growth</u>
SOQ Special Education	\$372.7	\$382.9	2.7%
Special Education Regional Tuition	\$64.2	\$87.6	36.4%
All Other Special Ed Programs	<u>\$39.1</u>	<u>\$43.8</u>	<u>12.0%</u>
Total State Special Education Funds	\$476.0	\$514.3	8.0%

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



# CSA Special Education Day Placement Costs Are Growing

## 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

- 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.
- State management of costs and rates.
- State proposal: Place appropriations with VDOE and more directly linked to local IEP team placements.
  - Change current local match rates to the local composite index rate?

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

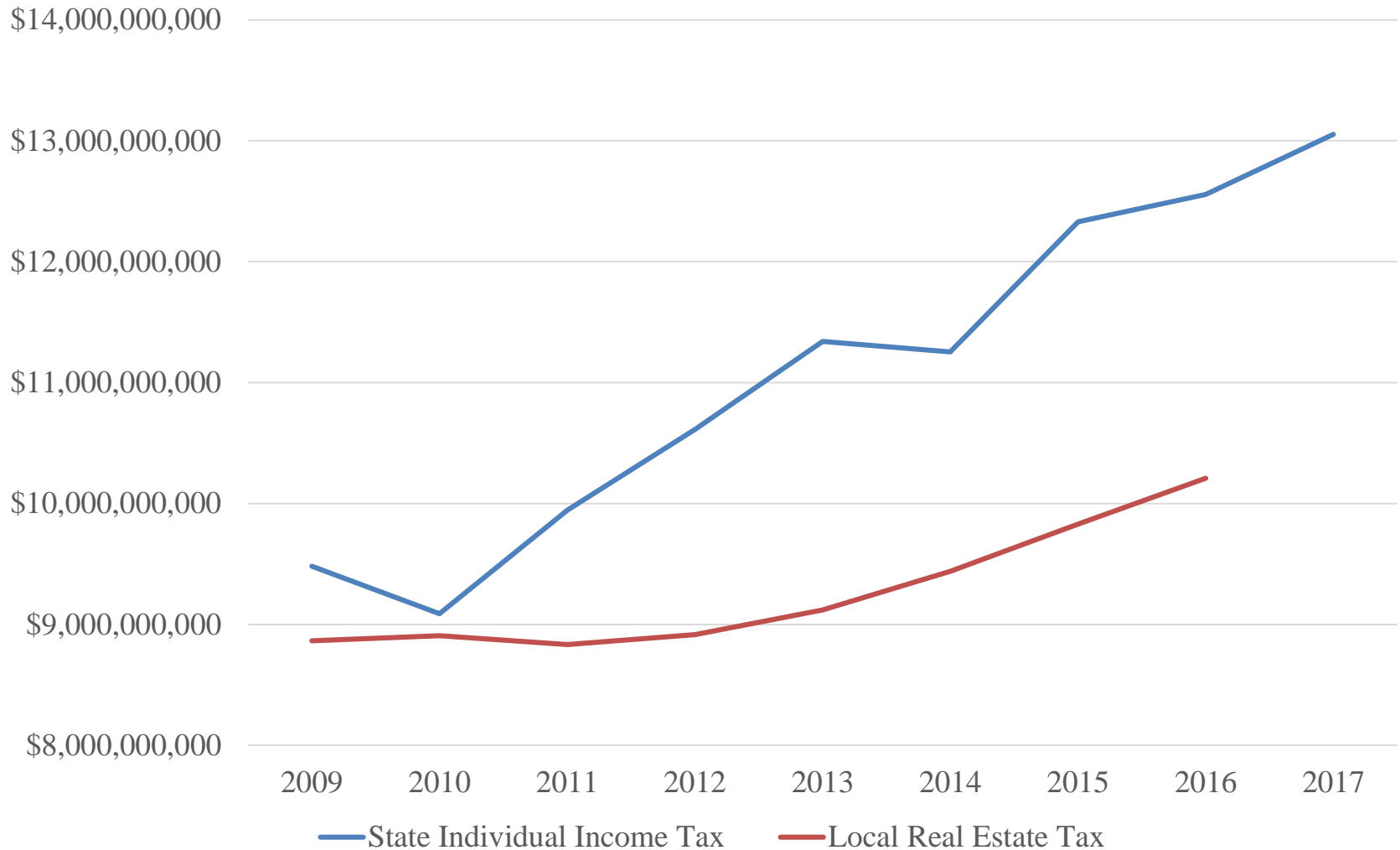
<b>FY 2009 - FY 2016 Growth Comparison</b>					
	<b>Locally-Generated Revenue</b>	<b>State/Federal Revenue for Localities</b>	<b>All Revenue for Localities</b>	<b>Population</b>	<b>Population /Inflation</b>
VA Cities*	11.8%	2.2%	7.8%	6.4%	18.1%
VA Counties	18.4%	11.8%	15.9%	7.3%	19.0%

\* *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>
<b>Cities</b>	<b>0.90</b>	<b>1.07</b>	<b>0.17</b>
<b>Counties</b>	<b>0.55</b>	<b>0.66</b>	<b>0.11</b>
<b>Towns</b>	<b>0.18</b>	<b>0.18</b>	<b>-</b>

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

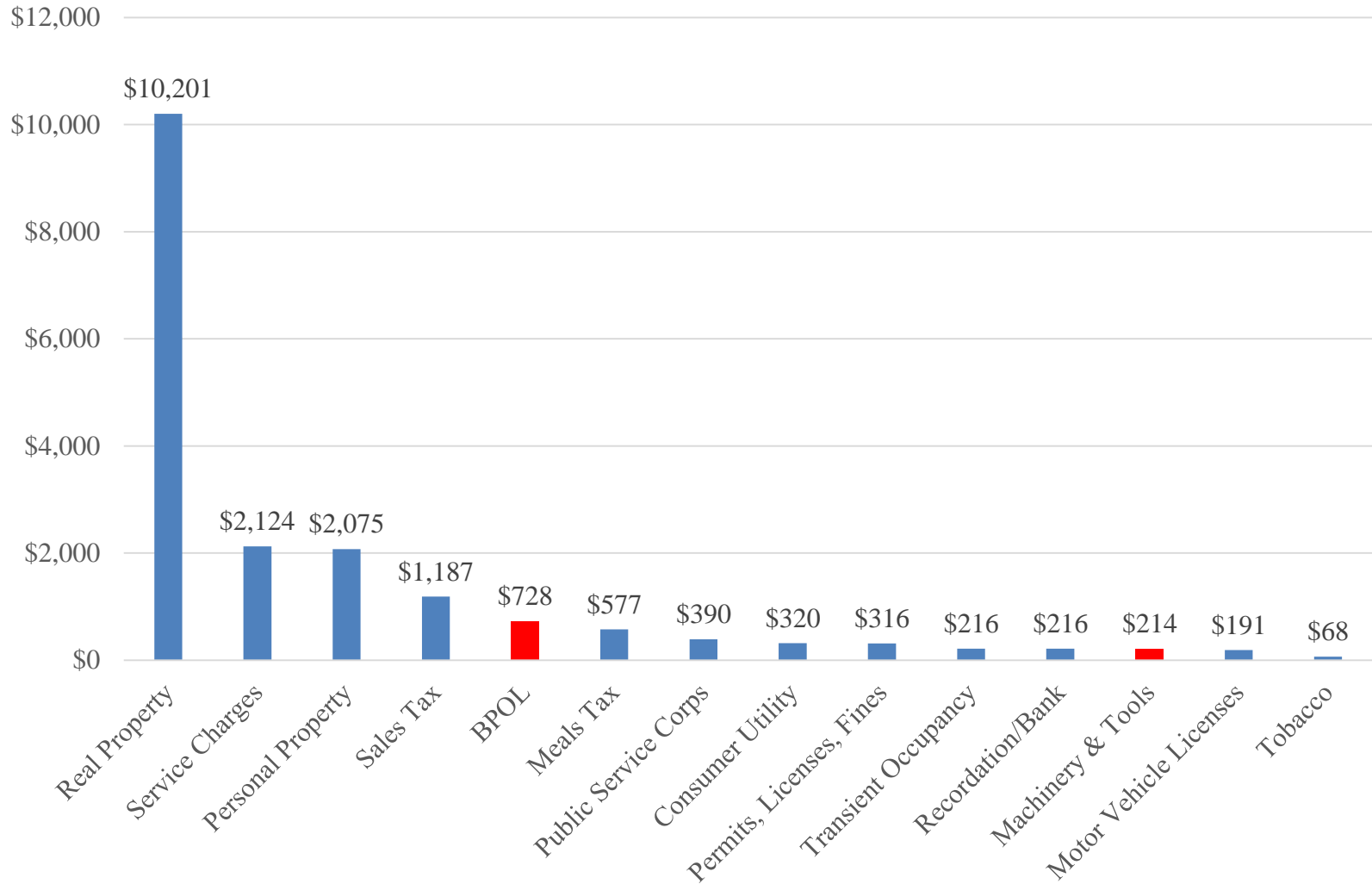
# Despite Local Fiscal Issues, the Burden of the State-Local Fiscal Partnership is on Localities

	<u>2012 JLARC Ranking</u>	<u>2017 JLARC Ranking</u>
Per capita personal income	8	11
State and local <i>taxes</i> as a percentage of personal income	43	44
Per capita state taxes	34	36
Per capita local taxes	13	15
<b>State Per Pupil Funding</b>	<b>35</b>	<b>38</b>
<b>State and Local Per Pupil Funding</b>	<b>17</b>	<b>26</b>
<b>Average Salary of Public School Teachers</b>	<b>28</b>	<b>29</b>

*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>
<b>Survey Totals</b>	<b>317,205</b>	<b>100.0%</b>	<b>\$577,379,446</b>	<b>100.0%</b>	<b>\$1,280</b>

\* 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

	<b>Total FY 2016 M&amp;T \$</b>	<b>Effective 1st Yr Tax Rate/\$100</b>		<b>M&amp;T as % of Total Local Revenue</b>	<b>Effective 1st Yr Tax Rate/\$100</b>
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 continued high growth in Medicaid and debt service could mean a continued degradation in state support for locally-administered state-mandated programs.
- The 2009-10 recession took a big bite out of K-12 education funding that has yet to be fully restored. Most other locally-mandated programs for health, welfare, public safety, etc., have been level funded or reduced 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?

- 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.
- 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.

# 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 some of 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

# 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			



# What Can State Government Do? 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 and critical mass.
- Focus state policy on obvious infrastructure issues:
  - Transportation bottlenecks and high 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.
- Start to capture the growing service economy with sales taxes.
- Create a level playing field by requiring internet sellers not collecting Virginia sales tax 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 Local *Structure* Options to Improve Efficiency

- Incentivize increased local and regional cooperation. For example, consider giving a county that does not oppose a city reversion to town status the ability to raise revenue similar to the city it incorporates.
  - Provide other incentives for regional cooperation, particularly for school consolidation.
- Create a new category of reversion called “dependent city” -- combining county-city school districts, but no town annexation authority.

# Provide More Tools Targeted to Critically Stressed Localities

- Challenged Schools and Teacher Recruitment
- Community Wealth Building/Workforce Development to Overcome Chronic Poverty
- Improve Tax Policy for Low-Income Taxpayers, e.g., higher threshold, indexed standard deduction, refundable EITC
- Economic Development Incentives Targeted to Critically Stressed Localities
  - Enterprise Zone Enhancements, Brownfield Funding
  - “Stressed Locality Strategic Opportunity Fund”: generate increased local revenue by incentivizing and accelerating anchor tenants, millennial attractions, and innovative businesses and technology with gap financing; increase business recruitment and collaborations; leverage other economic development funds.

# Appendix

# 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%