

Virginia's Fiscal Situation

Virginia Association of Counties

Fiscal Analytics, Ltd.

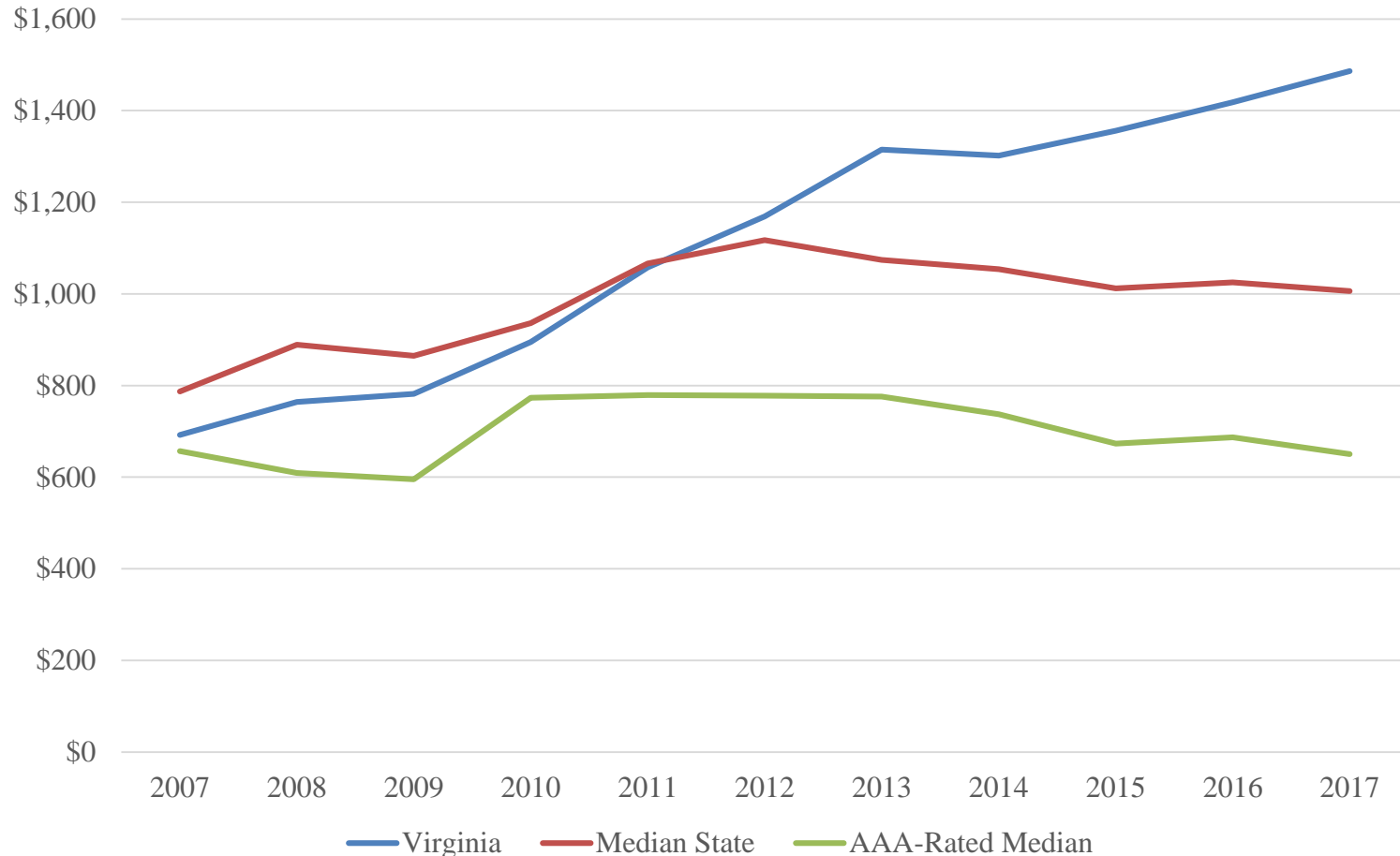
August 16, 2018

2018-20 State Budget Framework

- 2018-20 biennium Medicaid expenditure growth *forecasted* to be the lowest in decades due to shift to more managed care and Medicaid expansion savings.
 - Medicaid expansion saves estimated \$371 mil. by reducing GF for: 1) indigent care and FAMIS pregnant women; 2) state-funded behavioral health services; and 3) incarcerated population health care.
 - Provider tax covers hospital direct cost of expanded coverage, plus increasing Medicaid reimbursement rates to level of Medicare rates. *No physician rate increase.*
- The administration and GA prioritized reserving the \$552 million FY 18 surplus to increase liquidity and preserve state AAA debt rating.
 - Most of the surplus was due to one-time non-withholding income tax revenues.
 - 2018-20 budget already assumes \$60 mil. per year additional withholding revenue, limiting upward revenue adjustments.
 - Virginia currently benefitting from an improving economy and increased federal spending - particularly defense.
- Tax reform will dominate revenue discussions in the 2019 Session.
 - Policymakers may approach federal tax reform impacts on Virginia as temporary. Federal tax reform impacts in tax year 2018 will yield estimated \$500 million in state revenue. Ongoing revenues depend on GA actions in 2019 Session.
 - Additional sales tax revenue likely from *Wayfair* decision on internet sales. One issue - Virginia has to determine how to how to minimize “undue burden”.

Virginia Has High Debt per Capita for a AAA-Rated State

Virginia Debt per Capita Compared to Other States



** Additional debt capacity based on self-imposed cap of 5% of GF + transportation revenues.
DCAC model assumes an average of \$580 mil. per year over next 10 years can be issued.
Source: Virginia Debt Capacity Advisory Committee, Dec. 2017*

2018 Session Adopted State GF Budget (\$ Mil.)

	GF Budget Accounting (\$ Mil.)						
	<u>2018 Caboose</u>	<u>FY 2019</u>	<u>Change from FY18</u>		<u>FY 2020</u>	<u>Change from FY19</u>	
			<u>\$</u>	<u>%</u>		<u>\$</u>	<u>%</u>
Legislative and Executive	\$119.4	\$129.5	\$10.1	8.5%	\$129.4	-\$0.1	-0.1%
Judicial Dept.	485.6	495.7	\$10.1	2.1%	505.1	\$9.4	1.9%
Administration/Comp Board	714.3	738.0	\$23.7	3.3%	740.2	\$2.2	0.3%
Treasury Board Debt Service	739.5	759.1	\$19.6	2.7%	807.6	\$48.5	6.4%
Other Finance	187.5	184.2	-\$3.3	-1.8%	179.4	-\$4.8	-2.6%
Rainy Day Fund Deposit	-	-	-	-	-	-	-
Car Tax Reimbursement	950.0	950.0	\$0.0	0.0%	950.0	\$0.0	0.0%
Commerce and Trade	203.5	225.7	\$22.2	10.9%	230.1	\$4.4	1.9%
Agriculture / Nat. Resources	163.7	213.4	\$49.7	30.4%	173.8	-\$39.6	-18.6%
K-12 Education/Central Office	6,021.5	6,334.4	\$312.9	5.2%	6,512.6	\$178.2	2.8%
Higher & Other Education	2,015.2	2,109.2	\$94.0	4.7%	2,176.8	\$67.6	3.2%
DMAS Medicaid	4,651.4	4,693.0	\$41.6	0.9%	4,775.5	\$82.5	1.8%
Other Health & Human Services	1,850.6	1,954.7	\$104.1	5.6%	2,046.0	\$91.3	4.7%
Public Safety & Veterans/HS	1,938.0	2,035.8	\$97.8	5.0%	2,041.0	\$5.2	0.3%
Transportation	41.0	41.0	\$0.0	0.0%	41.0	\$0.0	0.0%
Central Appropriations	212.0	81.3	-\$130.7	-61.7%	288.8	\$207.5	255.2%
Cash Reserve	156.4	45.0	-\$111.4	-71.2%	45.0	\$0.0	0.0%
Independent Agencies/Capital	0.3	0.3	\$0.0	NM	0.2	-\$0.1	-33.3%
Total GF Appropriations	\$20,449.9	\$20,990.3	\$540.4	2.6%	\$21,642.5	\$652.2	3.1%
GF Revenues	19,328.2	20,173.7	\$845.5	4.4%	20,976.2	\$802.5	4.0%
Transfers	625.3	621.0	-\$4.3	-0.7%	631.0	\$10.0	1.6%
Rainy Day Fund Withdrawal	272.5	-			-		
Balances for Appropriation	212.2	22.0			(0.5)		
Unappropriated Balance		38.6			2.8		

Note: Includes Medicaid expansion savings of \$371 million

General Fund Operating Appropriation Growth (\$ Mil.)

	<u>2001</u>	<u>2019</u>	<u>Growth</u>	<u>Annualized Compound Growth</u>
Medicaid (DMAS)	\$1,384.2	\$4,693.0	239.0%	7.0%
GF Debt Service	\$243.1	\$759.1	212.3%	6.5%
Behavioral Health	\$430.2	\$822.8	91.3%	3.7%
Other H&HS	\$648.9	\$1,131.9	74.4%	3.1%
Direct Aid to K-12 Education	\$3,942.4	\$6,273.1	59.1%	2.6%
Public Safety/Comp Board	\$1,949.1	\$2,705.5	38.8%	1.8%
Higher Education	\$1,634.2	\$2,108.6	29.0%	1.4%
Natural Resources/Forest M	\$152.1	\$175.8	15.6%	0.8%
All Other	<u>\$1,899.4</u>	<u>\$2,320.5</u>	<u>22.2%</u>	<u>1.1%</u>
Total GF Operating	\$12,283.6	\$20,990.3	70.9%	3.0%

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

GF State Aid to Localities (\$ Mil.)

	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,963.0	\$6,273.1	\$6,451.3
K-12 % of Total GF Appropriations	35.2%	29.6%	29.2%	29.9%	29.8%
Health and Human Services	888.4	791.7	951.0	1,003.4	1,034.4
<i>CSA</i>	299.7	217.2	279.9	298.6	308.5
<i>Community MH/SA Services</i>	249.4	269.3	350.4	371.0	392.7
<i>Local Social Services Staff</i>	117.4	115.3	122.1	126.8	128.2
<i>Community Health Programs</i>	117.6	107.2	117.9	125.5	123.5
<i>Welfare Services and Programs</i>	104.3	82.7	80.7	81.5	81.5
Public Safety	734.3	687.9	738.8	758.4	768.2
<i>Local Sheriffs Offices</i>	406.1	411.3	452.4	464.5	466.1
<i>Local Police Depts HB 599</i>	197.3	172.4	178.0	184.5	191.7
<i>Local Jail Per diem</i>	80.1	59.4	61.3	61.7	62.7
<i>Assistance for Juvenile Justice</i>	50.8	44.8	47.1	47.7	47.7
Constitutional Officers	155.3	145.8	158.0	161.5	161.5
Dept. of Accounts Transfers	49.3	49.3	49.6	48.9	48.9
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	\$8,810.4	\$9,195.3	\$9,414.3
Total GF Appropriations	\$15,943.0	\$17,705.2	\$20,449.9	\$20,990.3	\$21,642.5
Local Aid % of Total GF	52.0%	44.1%	43.1%	43.8%	43.5%

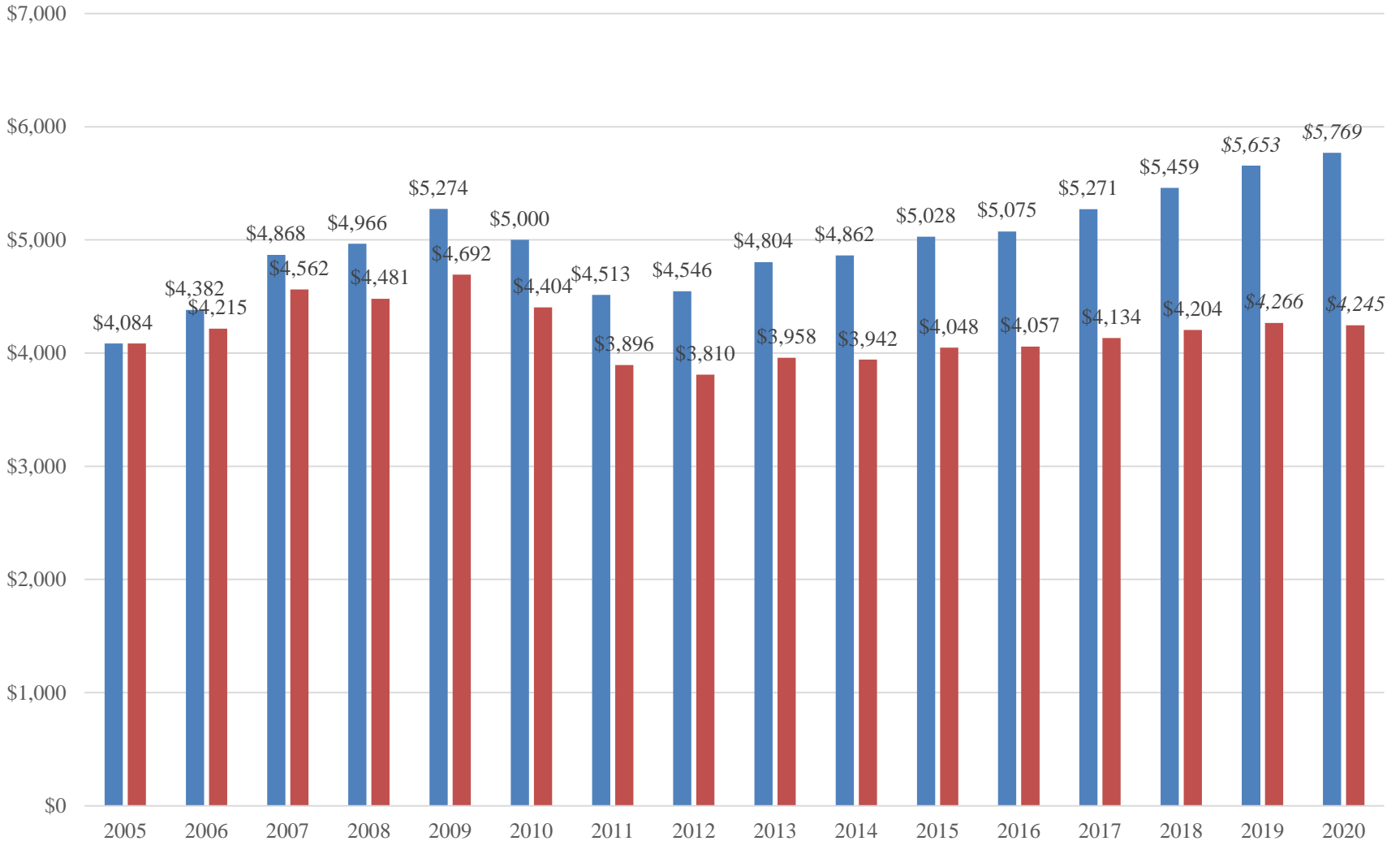
Major 2018-20 K-12 Budget Changes

- Standards of Quality re-benchmarking basically funded inflation.
- \$131.3 mil. GF for the state share of a 3% salary increase starting July 1, 2019. *Localities will need to provide about 60% of total cost.*
- \$80 mil. GF to offset decreased Literary Fund support for teacher retirement.
- \$62.4 mil. GF and \$17.6 mil. in lottery funds to increase flexible lottery per pupil distributions to 40 percent of total lottery funds.
- \$9.9 mil. GF to the Virginia Pre-School Initiative enhancements, including increasing per pupil payments from \$6,125 to \$6,326 and helping with professional development and finding teachers in hard-to-staff schools.
- \$7.1 mil. GF in FY 2020 for additional at-risk student funding based on numbers of free lunch students from a basic aid boost of 1-13% to 1-14% in FY 2020.
- \$6.1 mil. GF for school division enrollment declines of over 5% over last 5 years and less than 10,000 students
- \$1.5 mil. for Master Teacher Residency programs for urban school divisions.
- \$45 million *reduction* from reduced teacher retirement and OPEB rates - 16.32% to 15.68%
 - VRS funded status for teachers has increased from a low of 62% in FY 2013 to 74% in FY 2019

Real \$ State K-12 Funding Over \$400 per Pupil Less than FY 09

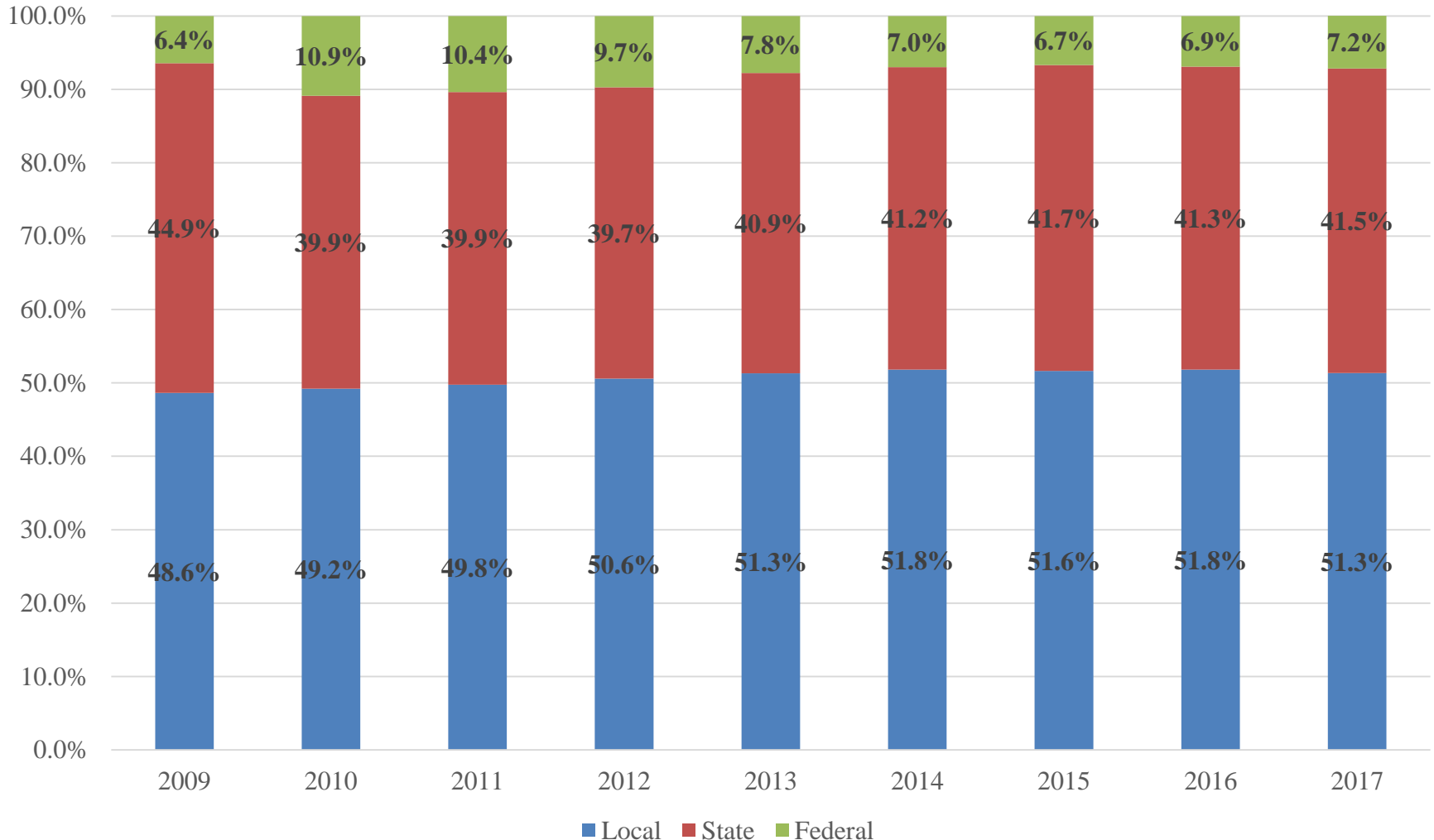
2018 Session State Per Pupil K-12 Direct Aid - All Funds

Nominal and Inflation-Adjusted (CPI \$2005)



Localities Have Increased Their Share of K-12 Expenditures

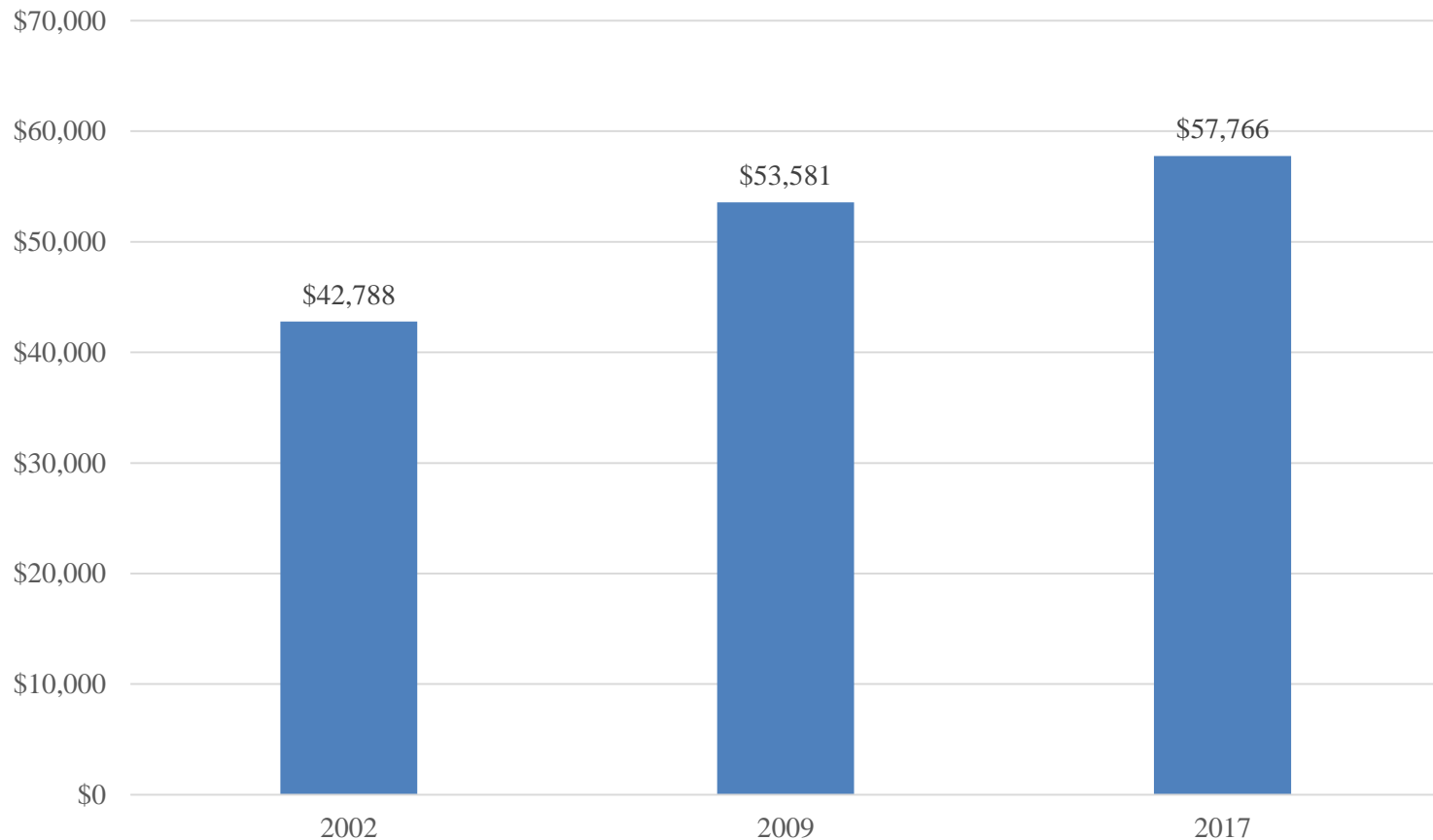
Share of Virginia K-12 Operating Expenditures



Source: Superintendent's Annual Report, Table 15

Instructional Pay Increases Have Slowed Considerably Since FY 2009

Average VA 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 \$62,000 in 2017 if grown at the rate of VA wage inflation since FY2009.

	AVERAGE SALARY OF INSTRUCTIONAL STAFF					
	2015 (\$)	RANK (2015)	2016 (\$)	RANK (2016)	CHANGE (2015-16)	RANK (2015-16)
<i>United States</i>	59,377	-	60,205	-	1.4%	-
New York	79,301	1	79,767	1	0.6%	36
District of Columbia	75,490	2	77,623	2	2.8%	7
California	74,090	4	77,179	3	4.2%	1
Massachusetts	75,398	3	76,981	4	2.1%	18
Rhode Island	72,017	6	73,631	5	2.2%	16
New Jersey	72,220	5	73,044	6	1.1%	29
Connecticut	71,709	7	72,013	7	0.4%	41
Maryland	69,312	8	70,279	8	1.4%	25
Alaska	69,149	9	67,590	9	-2.3%	51
Pennsylvania	66,271	10	67,012	10	1.1%	31
Minnesota	64,517	11	66,157	11	2.5%	12
Delaware	62,646	12	64,193	12	2.5%	13
Oregon	62,518	13	63,551	13	1.7%	21
Michigan	61,978	14	62,028	14	0.1%	46
Illinois	61,083	15	61,342	15	0.4%	39
Nevada	59,362	18	60,883	16	2.6%	11
Wyoming	59,531	16	60,328	17	1.3%	26
Hawaii	59,457	17	59,855	18	0.7%	35
Vermont	57,642	19	58,901	19	2.2%	17
Louisiana	56,417	20	58,729	20	4.1%	2
Wisconsin	56,394	21	58,485	21	3.7%	5
Iowa	55,933	24	56,995	22	1.9%	20
Georgia	55,927	25	56,814	23	1.6%	24
New Hampshire	55,986	22	56,616	24	1.1%	30
Washington	55,946	23	56,089	25	0.3%	44
Ohio	53,662	28	55,749	26	3.9%	4
Utah	54,057	26	55,316	27	2.3%	15
Texas	53,853	27	55,126	28	2.4%	14
Kentucky*	53,578	29	54,663	29	2.0%	19
Montana	52,966	30	54,385	30	2.7%	10
North Dakota	52,128	32	53,678	31	3.0%	6

	AVERAGE SALARY OF INSTRUCTIONAL STAFF (continued)					
	2015 (\$)	RANK (2015)	2016 (\$)	RANK (2016)	CHANGE (2015-16)	RANK (2015-16)
Virginia	52,601	31	52,995	32	0.7%	34
Maine	51,572	33	52,394	33	1.6%	23
Arkansas	50,851	36	51,515	34	1.3%	27
Nebraska	50,677	37	51,514	35	1.7%	22
South Carolina	51,043	34	51,508	36	0.9%	33
Indiana	50,984	35	50,715	37	-0.5%	50
Florida	50,476	39	50,690	38	0.4%	40
Alabama	50,594	38	50,513	39	-0.2%	48
Tennessee	50,175	40	50,462	40	0.6%	37
Missouri	49,638	41	50,232	41	1.2%	28
New Mexico	48,556	43	49,030	42	1.0%	32
Idaho	47,606	46	48,882	43	2.7%	9
Kansas	48,716	42	48,837	44	0.2%	45
West Virginia*	47,919	44	48,173	45	0.5%	38
North Carolina*	47,792	45	47,941	46	0.3%	43
Oklahoma*	47,301	48	47,326	47	0.1%	47
Arizona*	47,456	47	47,218	48	-0.5%	49
Colorado*	44,421	49	46,155	49	3.9%	3
Mississippi	44,057	50	44,196	50	0.3%	42
South Dakota	42,595	51	43,765	51	2.7%	8
Source: NEA Research						

Note: Removing PD 8 (NoVa) - similar to Maryland instructional pay - would reduce VA state average about \$6,000, ranking Virginia in the bottom 5 states.

* States with recent teacher strikes

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 29th (*JLARC 2018*) 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

Other Budget Changes Important to Local Government

- Increases Go Virginia by \$5,000,000 in FY 19 (to \$29.5 mil. GF) and \$10,000,000 in FY 20 (\$34.5 mil. GF) in FY 20.
- Increases Aid to Police Departments from \$178.0 mil. to \$184.5 mil. in FY 19 and \$191.7 mil. in FY 20.
- Saves \$10.3 million from CSA in FY 20 to reflect a two percent rate increase cap on private day special education rates. Also directs the Office of Children's Services along with the Department of Education to facilitate a workgroup with stakeholders to develop outcome measures to assess students' progress in private day placements.
- Increases funding for STEP-VA same day access and CSB primary care screening and begins phasing in an expansion outpatient mental health and substance abuse services and funds an expansion of detoxification services in FY 20 at Community Services Boards and Behavioral Health
- Provides \$3,000,000 each year from TANF funds for a second round of grants for community employment and training programs designed to move low-income individuals out of poverty
- Adds \$2.0 million from the general fund each year (\$4 mil./year total) to the Virginia Telecommunication Initiative to support the extension of broadband networks by the private sector in unserved areas.
- Adds \$20.0 million GF in the first year for the Stormwater Local Assistance Fund.
- Provides a two percent salary increase for state-supported local officials on July 1, 2019.
- Increases the Enterprise Zone Grant program by \$685,533 each year to \$13.5 million to reduce RPIG proration.
- Directs a working group to investigate how body worn cameras impact the workloads experienced by Commonwealth's Attorneys offices.
- Transfers \$2.0 mil. each year from the Communications Sales and Use Tax to the state general fund.

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

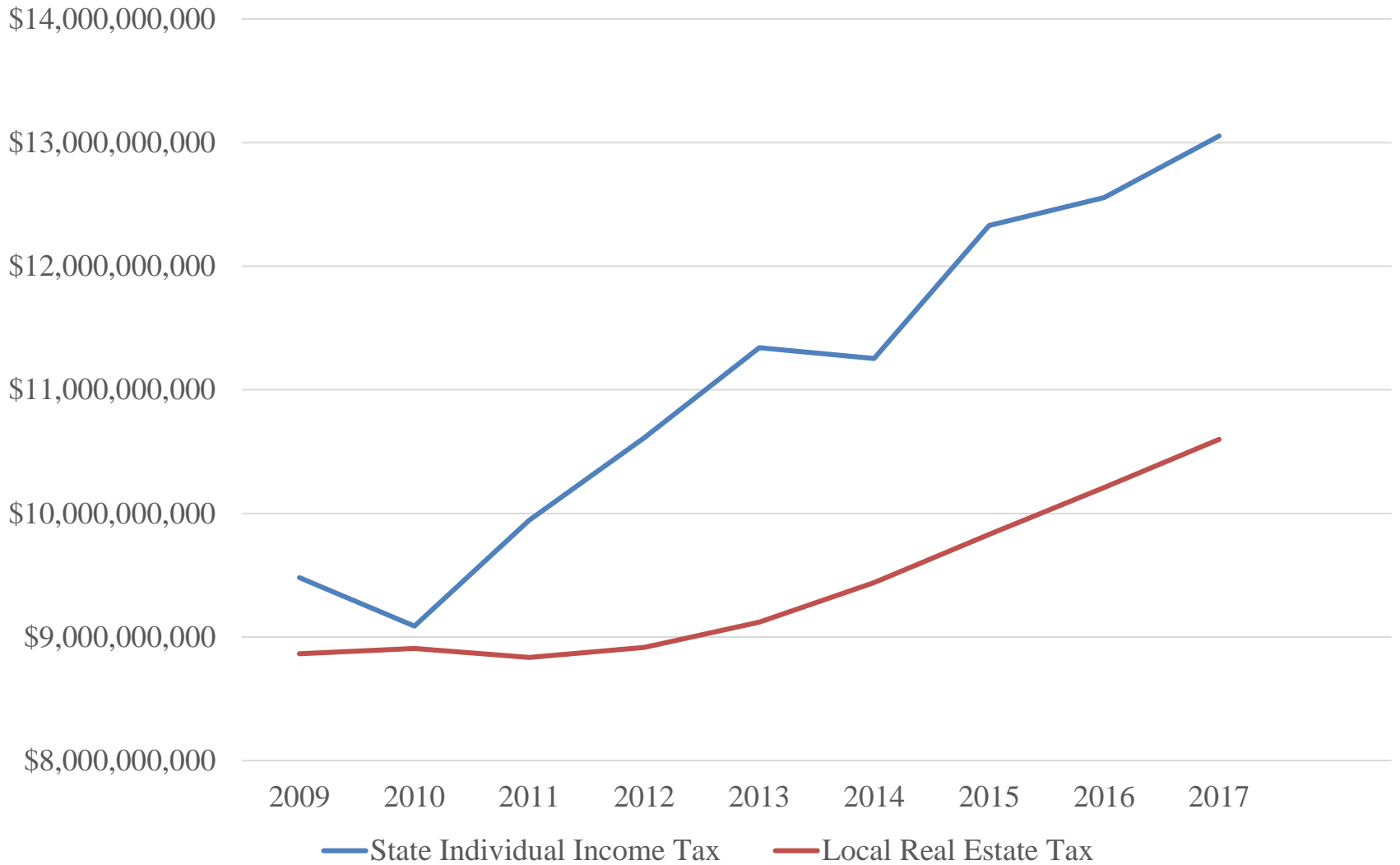
FY 2009 - FY 2017 Growth Comparison					
	Locally-Generated Revenue	State/Federal Revenue for Localities	All Revenue for Localities	Population	Population +Inflation
VA Cities*	15.0%	6.3%	11.3%	3.5%	17.1%
VA Counties	24.6%	16.2%	21.4%	7.3%	20.9%

** Net of Emporia, Hopewell, and Manassas Park City - missing FY 2017 APA data*

Note: Growth in consumer price index (CPI) from fiscal years 2009-17 = 13.6%

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

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 Property Tax Rates in Virginia Localities

	<u>CY 2009</u>	<u>CY 2017</u>	<u>Change</u>
Cities	0.90	1.07	0.17
Counties	0.55	0.67	0.12
Towns	0.18	0.18	-

Note: From FY 2009-17 real property taxes grew 13.3% in cities and 22.8% for counties

Source: Weldon Cooper Center, "Virginia Local Tax Rates", 2009 and 2017

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

	<u>2012 JLARC Ranking</u>	<u>2018 JLARC Ranking</u>
Per capita personal income	8	12
Per capita state taxes	34	33
Per capita local taxes	13	16
State Per Pupil Funding	35	40
State and Local Per Pupil Funding	17	24
Average Salary of Public School Teachers	28	29

Source: Virginia Compared to Other States, JLARC, 2012, 2018 Editions

Federal Tax Policy Changes Offer Chance for Additional Virginia Revenues

- The Tax Cuts and Jobs Act is the most substantial federal tax legislation since 1986.
- Certain provisions, such as rate and bracket changes, have no Virginia impact.
- Many provisions do have a Virginia revenue impact. Individual income tax changes are temporary – lasting thru tax year 2024. Business provision changes are permanent.
- Do not expect a Virginia tax reform special session in 2018. Therefore, tax year 2018 revenue impacts of possibly \$500 mil. or more will flow to Virginia coffers.
- Expect Virginia tax reform to be debated in the 2019 Session.
- Localities may find it harder to raise local property tax rates with the new federal tax law SALT caps on itemized deductions and reduced allowable mortgage interest deduction.

Federal Tax Cuts and Jobs Act of 2017

Individual Provisions Increasing Revenues:	Business Provisions Increasing Revenues:
Increase in Federal Standard Deduction	Interest Deduction Limitation to 30% of AGI
State and Local Tax Itemized Deduction Cap	NOL Limited to 80% of Taxable Income
Decrease in Mortgage Interest Deduction	New Amortization of Research Expenses in 2022
Limitation on Losses for Noncorporate Taxpayers	Repeals Domestic Production Activities Deduction
	Some Employer Fringe Benefit Deductions Disallowed
	Repeal of Certain Like-Kind Exchanges
Individual Provisions Decreasing Revenues:	Business Provisions Decreasing Revenues:
Medical Expenses Deduction	Increases IRC 179 Expensing to \$1 mil.
Repeal High Income Limit on Itemized Deductions	Simplified accounting rules for small businesses

Federal Tax Reform Interim Update*

Impact on the Decision to Either Itemize or Take the Standard Deduction

Virginia		Itemized Deduction Number of Returns		Standard Deduction Number of Returns		Number Switching from Itemized to Standard
Adjusted Gross Income		(Prior Law)	(New Law)	(Prior Law)	(New Law)	
< 0	25,000	232,957	77,651	893,850	1,049,156	155,306
25,000	50,000	172,199	94,442	620,794	698,551	77,757
50,000	75,000	209,331	127,340	289,086	371,077	81,991
75,000	100,000	204,205	125,902	151,932	230,235	78,303
100,000	125,000	182,734	105,273	71,134	148,595	77,461
125,000	150,000	143,671	89,384	27,874	82,160	54,286
150,000	175,000	106,783	71,504	12,158	47,438	35,280
175,000	200,000	77,565	54,641	5,782	28,705	22,923
200,000	250,000	100,557	73,970	4,218	30,805	26,587
250,000	500,000	120,865	93,769	1,549	28,646	27,097
500,000	1,000,000	25,235	21,024	350	4,561	4,211
1,000,000	> 1,000,000	10,533	9,468	275	1,340	1,065
TOTALS		1,586,635	944,368	2,079,002	2,721,269	642,267

* Sec. of Finance Aubrey Lane presentation to the Senate Finance Committee 5/14/18

Maryland Estimate from Federal Tax Changes a Good Proxy for Virginia

		\$ Millions	
	<u>Rate</u>	<u>FY 2019</u>	<u>FY 2020</u>
State Personal Income Tax	2.0-5.75%	\$403.9	\$315.9
State Sales Tax	6.00%	\$31.1	\$24.5
Corporate Income Tax	8.25%	\$76.6	\$58.9
Maryland General Fund Revenue Total		\$511.6	\$399.3
Local Income Tax	1.25 - 3.2%	\$251.8	\$190.6

Source: http://finances.marylandtaxes.gov/static_files/revenue/federalimpact/60_Day_Report_HR_Memo_2018%20.pdf

South Dakota v. Wayfair

- *On June 21, 2018 the U.S. Supreme Court* held that states may require out-of-state sellers to collect sales tax, even if the seller does not have a physical presence in the taxing state.
- Did not rule on undue burden aspect of 1992 *Quill* decision.
 - South Dakota law exempts companies under \$100,000 revenue and less than 200 transactions from collection requirements.
 - Virginia not a member of “Streamlined Sales Tax” project” that requires numerous simplification and uniformity requirements states must adopt to remove or reduce the undue burdens on all sellers.
- In 2017, GAO estimated that in 2017 states lost over \$13 billion in uncollected sales taxes.
 - Basis for \$300 million Virginia estimate.
 - Amount likely smaller now. Since Amazon began collecting sales taxes in 2017, other large internet sellers have begun to collect the sales tax in Virginia.

Analysis of Possible VA Additional Internet Sales Tax Revenue		
<i>Est. Additional Taxable Sales Subject to Tax*</i>	<i>\$5,000,000,000</i>	
	Rate	% of Total Va Taxable Sales
General Fund Unrestricted (2.025%)	2.025%	\$101,250,000
Direct Public Education (1.375%)		
<i>By School-Age Population (1.125%)</i>	1.125%	\$56,250,000
<i>By SOQ Composite Index (0.25%)</i>	0.250%	\$12,500,000
Transportation (0.9%)		
<i>Highway Maintenance and Operating</i>	0.669%	\$33,425,000
<i>Airports</i>	0.012%	\$600,000
<i>Ports</i>	0.021%	\$1,050,000
<i>Intercity Rail</i>	0.050%	\$2,500,000
<i>Public Transit</i>	0.149%	\$7,425,000
Total <u>State</u> Add'l Annual Sales Tax at 4.3%	4.300%	\$215,000,000
Local Government Add'l Unrestricted	1.000%	\$50,000,000
Regional Transportation 0.7% Sales Tax	0.700%	\$18,157,287
<i>Northern VA (32.4% of state)</i>		\$11,325,874
<i>Hampton Roads (19.5% of state)</i>		\$6,831,413
* Equals 4.7% of \$107 billion in 2017 total VA taxable sales		

Summary

- The 2009-10 recession took a big bite out of state funding for localities, particularly K-12 funding. Relatively low growth in GF revenues and high growth in Medicaid and debt service since has meant state support for locally-administered state-mandated programs has yet to be restored.
 - Will the current economic expansion last long enough to restore state funding to local programs?
 - What will state tax reform look like and will it leave additional revenues in the state budget?
- Will Medicaid expenditures slow as expected in 2018-20 biennium due to more managed care? Will Medicaid expansion produce the estimated budget savings. Will expansion increase out-year expenditures?
- Local revenues -- already straining to provide the state's critical services -- need modernization without hurting the local revenue base.
- The state should shoulder more funding responsibility, provide localities with greater revenue generating capacity, and better target stressed localities with state assistance.

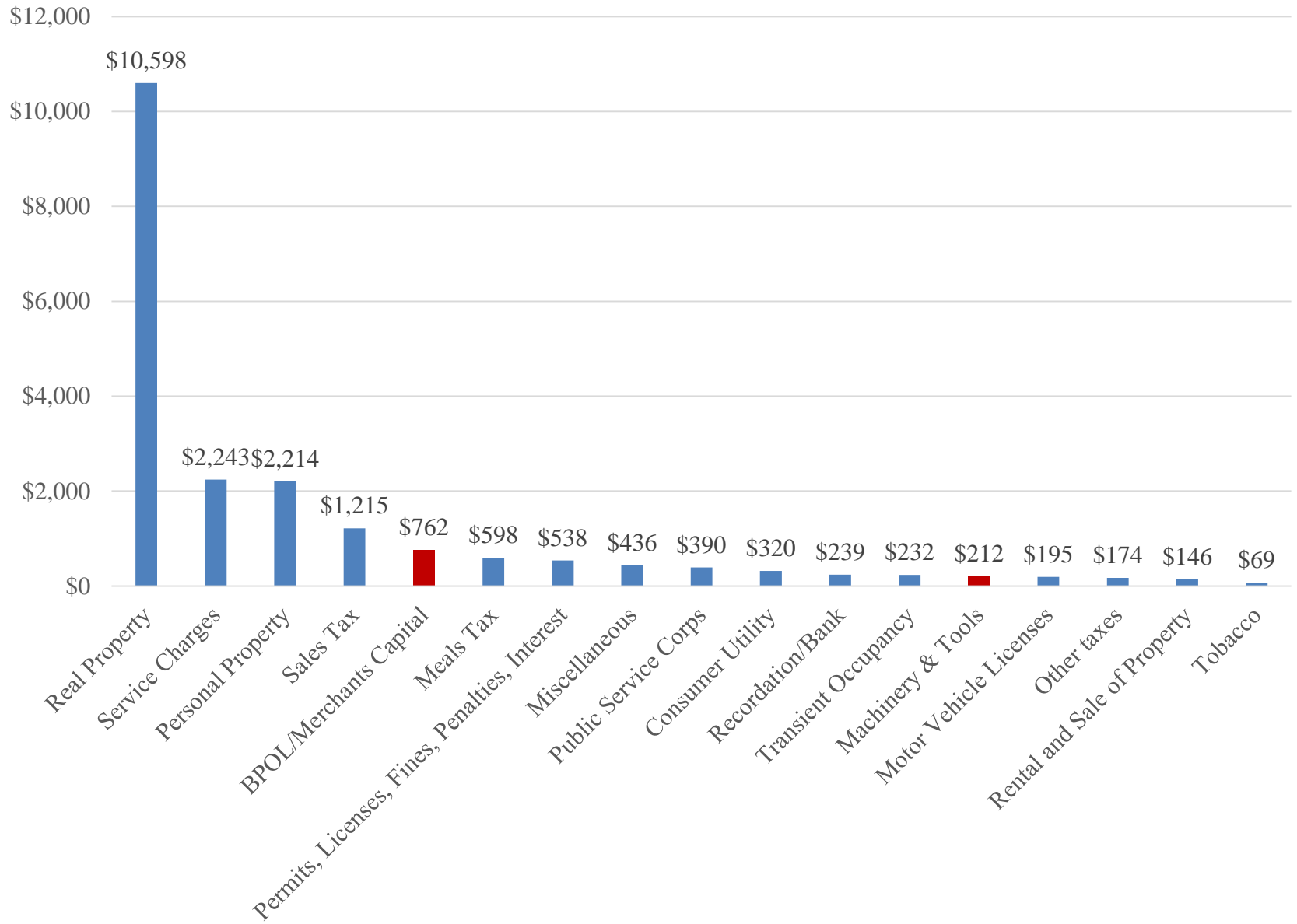
Appendices

General Assembly Usually Cuts Taxes When Times Are Good

	<u>Enacted/Amended</u>	<u>FY 2018 \$M est.</u>
Car Tax Reimbursement	1997, 2003	(\$950)
Impose lower 2.5% Sales Tax on Food	2004	(575)
Age Subtraction (net of 2004 means testing)	1994 and 2004	(294)
Low Income Tax Relief, increase filing thresholds, exemptions, etc.	2000, 2004, and 2007	(203)
1/3 Insurance Premiums to Transportation	2007	(162)
Estate Tax Repeal	2009	(140)
100 basis pt Sales Tax Diversion to Transportation	2013	(101)
Land Preservation Tax Credit	2003	(78)
Historic Rehab Tax Credit	1999	(76)
Corp. double weighting sales and single sales factor	1999, 2009	(59)
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	1990-2017	(121)
State GF Tax Reductions since 1994		(\$2,920)
Add 1/2 percent sales tax on non-food items	2004	\$515
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 State Tax Change Since 1994		(\$1,949)

Source: Senate Finance Committee Retreat, Revenue Outlook, Nov. 19 , 2015; Va Dept. of Taxation

Major Local Revenue Sources (\$ Mil. - FY 2017)



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>
Survey Totals	317,205	100.0%	\$577,379,446	100.0%	\$1,280

* 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

	Total FY 2016 M&T \$	Effective 1st Yr Tax Rate/\$100		M&T as % of Total Local Revenue	Effective 1st Yr Tax Rate/\$100
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

Understanding State Operating *Non*-General Funds

Non-General Fund Category	Major Examples	<u>FY 2007</u>	<u>FY 2018</u>	<u>% Growth</u>
Higher Ed Operating	Tuition and fees, university hospital revenue, federal funds for Hi ED	\$4,852.8	\$8,249.0	70%
Federal Trust	All federal funds received (e.g. medicaid), except those received by VDOT, VEC, and Hi Ed	\$4,871.6	\$8,395.9	72%
Commonwealth Transportation	Transportation taxes incl. federal \$, excluding tolls	\$3,928.5	\$5,591.8	42%
Trust and Agency	Unemployment insurance, tobacco settlement, lottery and literary funds earmarked to K-12	\$1,083.3	\$2,235.1	106%
Internal Service	DGS leasing office space, VITA providing IT services to other agencies, and DHRM administering state and local government employees' health plans	n/a	\$1,975.2	n/a
Dedicated Special Revenue	VA Health Care Fund, Safe Drinking Water Fund, Game Protection Fund, highway tolls, DMV fees, state park fees, solid waste fees, etc	\$638.2	\$1,900.2	198%
Special revenue	Revenues derived from restricted taxes and other special revenue sources, e.g. state ID health services	\$1,602.6	\$1,781.5	11%
Enterprise	ABC and lottery sales, prepaid tuition 529 plans	\$850.1	\$1,684.2	98%
Other Debt Service	Primarily Hi Ed student fees for dining, housing, athletics	\$234.4	\$337.5	44%
Total Non-General Funds		\$18,061.5	\$32,150.4	78%
General Fund		\$17,033.1	\$20,455.8	20%
Total		\$35,094.6	\$52,606.2	50%