

Virginia's Budget Choices

VML/VACO Finance Forum

Fiscal Analytics, Ltd.

January 8, 2019

Additional Revenues

in the Governor's 2018-20 *Introduced Budget*

Assumes **additional GF revenues available for appropriation of \$2,167.5 mil.** in 2018-20 biennium versus current adopted budget. Includes:

- \$577.4 mil. in unspent balances (primarily FY 18 surplus put into reserves/WQIF)
- \$548.6 mil. in new economic forecast revenues and transfers.
 - Growth of 3.0% in FY 19 and 3.7% in FY 20
- \$1,205.3 mil. in federal income tax conformity GF revenues
- \$82.5 mil. in new GF internet sales tax (plus \$10.3 mil. K-12 transfers)
- *Less proposed tax policy*: \$216.3 mil. in refundable EITC; \$27.2 mil. in reduced accelerated sales tax collections (over \$10 mil. dealers); \$3.4 misc.
- Including net federal tax policy revenues, growth increases to 5.7% in FY 19 and 3.0% in FY 20.

Note: Non-withholding revenue “collar” limited to 10 year average of GF (15.89%). Reduces forecast by \$207 mil. in FY 19 and \$214 mil. in FY 20. Collar is not applied to income taxes resulting from federal tax reform.

YTD FY 2019 Revenues Support an Upward Revision to GF Forecast

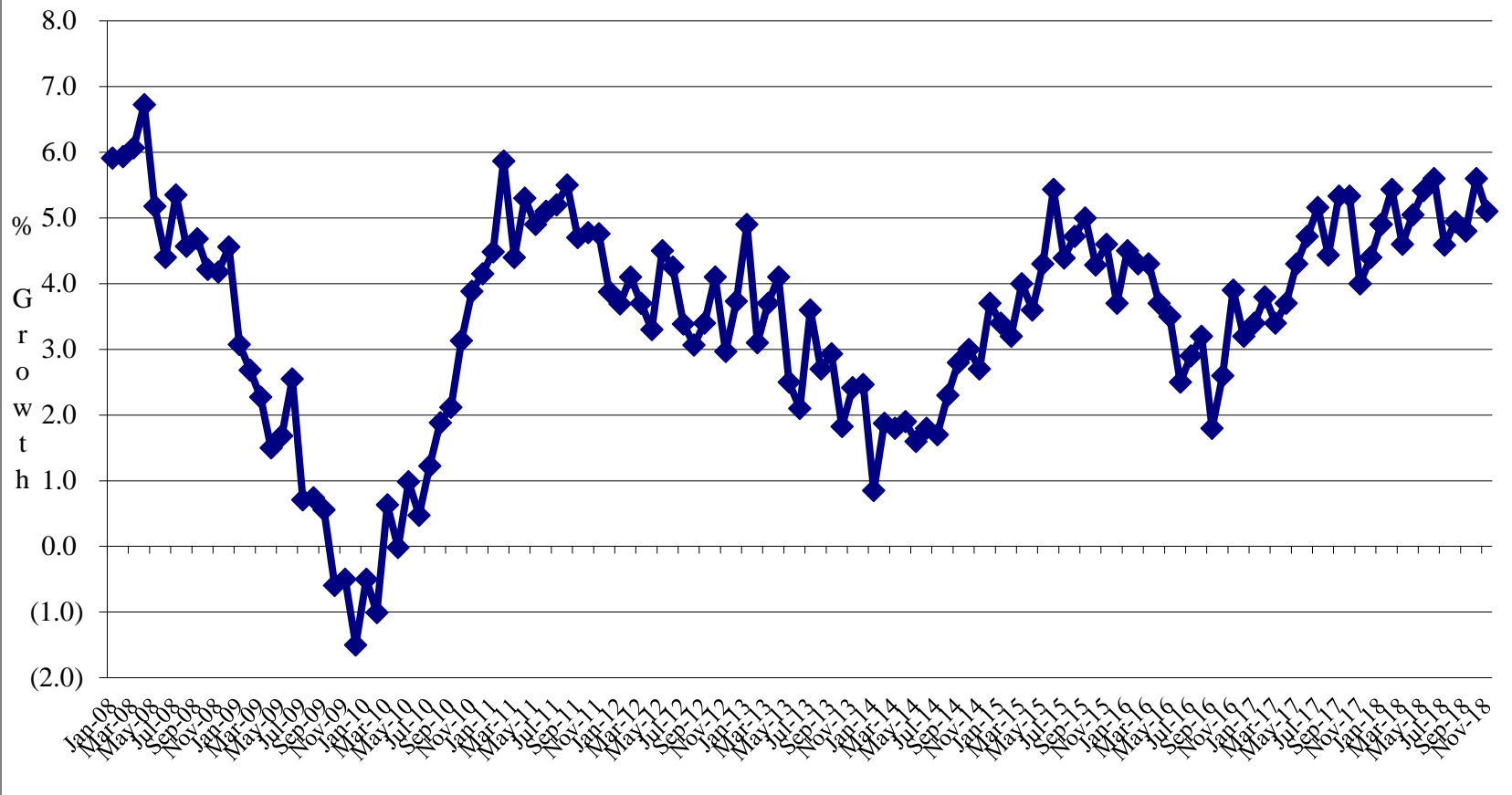
	<u>% of GF</u>	<u>Actual FY 2018</u>	<u>Official FY 2019</u>	<u>% Change Needed</u>	<u>Nov. YTD Actual</u>
<i>Withholding</i>	63.1%	\$12,540.5	\$12,870.2	2.6%	3.0%
<i>Est. Payments/Tax Dues</i>	16.8%	\$3,472.9	\$3,368.3	-3.0%	12.2%
<i>Refunds</i>	<u>-10.1%</u>	<u>-\$1,907.6</u>	<u>-\$2,054.7</u>	<u>7.7%</u>	<u>6.1%</u>
Net Individual Income	69.8%	\$14,105.8	\$14,183.8	0.6%	3.9%
Sales Taxes*	18.0%	\$3,838.4	\$3,934.0	2.5%	4.1%
Corporate Income	4.4%	\$861.9	\$912.0	5.8%	-14.2%
Recordation	2.1%	\$394.9	\$407.2	3.1%	-6.0%
Total GF Revenues*	100.0%	\$20,509.0	\$20,794.7	1.4%	3.4%

* Includes GF transfers

Virginia Income Tax Withholding Has Accelerated

(Even Though Withholding Tables Have Yet to Be Adjusted)

12 Mo. Moving Avg Income Tax Withholding Growth Now About 5 Percent



Significant Revenues Accrue to Virginia From Federal Tax Reform (TCJA) *If No State Tax Policy Changes (\$ million)*

By Source:	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>
Individual Provisions*	\$532.1	\$443.8	\$466.7	\$492.5	\$520.0	\$546.1
Business Provisions	\$29.4	\$114.6	\$181.5	\$300.3	\$417.2	\$398.2
International Provisions	<u>\$32.6</u>	<u>\$62.7</u>	<u>\$5.5</u>	<u>\$5.8</u>	<u>\$6.0</u>	<u>\$6.3</u>
Total	\$594.2	\$611.1	\$653.7	\$798.6	\$943.2	\$950.6
By Expiration Date:						
Temporary*	\$517.3	\$433.6	\$455.7	\$480.4	\$506.8	\$532.5
Permanent	\$76.9	\$177.5	\$198.0	\$318.3	\$436.4	\$418.1
* Most individual provisions are temporary and expire in 2025. FY 2019 includes tax year 2018 revenues						

Source: Aubrey Lane Presentation to Joint Money Committees, August 19, 2018

Estimate of Additional Internet Sales Tax Revenue

Est. Additional Sales Subject to Sales Tax		\$2,750,000,000
Est. Additional Sales Tax Revenue		\$156,355,727
		Additional Tax
	<u>Rate</u>	<u>Revenue</u>
General Fund Unrestricted	2.025%	\$55,687,500
Direct Public Education	1.375%	\$37,812,500
<i>By School-Age Population</i>	<i>1.125%</i>	<i>\$30,937,500</i>
<i>By SOQ Composite Index</i>	<i>0.250%</i>	<i>\$6,875,000</i>
Transportation	0.900%	\$24,750,000
<i>HMOF</i>	<i>0.669%</i>	<i>\$18,383,750</i>
<i>Airports</i>	<i>0.012%</i>	<i>\$330,000</i>
<i>Ports</i>	<i>0.021%</i>	<i>\$577,500</i>
<i>Public Transit</i>	<i>0.149%</i>	<i>\$4,083,750</i>
<i>Intercity Rail</i>	<i>0.050%</i>	<i>\$1,375,000</i>
Total State Add'l Annual Sales Tax at 4.3%		\$118,250,000
Local Gov't Unrestricted	1.00%	\$27,500,000
Total Add'l Sales Tax at 5.3%	5.30%	\$145,750,000
Regional 0.7% Sales Tax for Transp.	0.70%	\$9,986,508
<i>Northern VA (32.4% of state)</i>		<i>\$6,229,231</i>
<i>Hampton Roads (19.5% of state)</i>		<i>\$3,757,277</i>
Historic Triangle 1.0%	1.00%	\$619,219

Introduced Revenue Forecast Includes Impacts from Federal Tax Reform

	<u>% of GF</u>	<u>Actual FY 2018</u>	<u>Intro Budget FY 2019</u>	<u>Forecast % Growth</u>
Withholding	60.0%	\$12,540.5	\$13,013.9	3.8%
Est. Payments/Tax Dues	18.5%	\$3,472.9	\$4,001.0	15.2%
Refunds	<u>-9.1%</u>	<u>-\$1,907.6</u>	<u>-\$1,969.7</u>	<u>3.3%</u>
Net Individual Income	69.4%	\$14,105.8	\$15,045.2	6.7%
Sales Taxes*	18.4%	\$3,838.4	\$3,981.1	3.7%
Corporate Income	4.2%	\$861.9	\$910.5	5.6%
Recordation	1.7%	\$394.9	\$368.6	-6.7%
All Other GF	<u>6.3%</u>	<u>\$1,308.0</u>	<u>\$1,367.3</u>	<u>4.5%</u>
Total GF Revenues	100.0%	\$20,509.0	\$21,672.7	5.7%

* Includes K-12 sales tax transfers to GF

New Biennial GF Revenues Are Substantial In the *Introduced* Budget

	<u>2018-20 Biennium</u>		<u>Change</u>
	<u>Current Official</u>	<u>Intro Budget</u>	
Withholding	\$26,238.7	\$26,553.6	\$314.9
Estimated Pay/Tax Dues**	\$7,003.3	\$8,118.1	\$1,114.8
Refunds	<u>(\$4,202.0)</u>	<u>(\$4,247.0)</u>	<u>(\$45.0)</u>
Net Individual Income	\$29,040.0	\$30,424.7	\$1,384.7
Sales Taxes*	\$7,954.4	\$8,121.5	\$167.1
Corporate Income	\$1,838.4	\$1,954.0	\$115.6
Recordation	\$814.4	\$737.2	(\$77.2)
All Other GF	<u>\$2,754.7</u>	<u>\$2,754.6</u>	<u>(\$0.1)</u>
Total GF Revenues*	\$42,401.9	\$43,992.0	\$1,590.1

* Includes K-12 sales tax transfers to GF

** Bulk of tax reform revenues are in estimated payments/tax dues

GA Decisions Concerning Tax Reform Will Have Major Impact on Budget

TCJA* Estimated Impact on VA Residents Decision to Claim Standard or Itemized Deductions

Virginia AGI	Itemized Deductions		Standard Deductions		Est. # Switching from Itemized to Standard
	Prior Law #	New Law #	Prior Law #	New Law #	
Under \$25,000	36,628	16,621	1,084,917	1,104,917	20,007
\$25,000-50,000	167,870	94,367	623,312	696,815	73,503
\$50,000-100,000	415,069	253,656	445,016	606,429	161,413
\$100,000-150,000	326,266	194,420	99,259	231,104	131,845
\$150,000-500,000	406,543	294,317	23,966	136,191	112,225
Over \$500,000	<u>36,126</u>	<u>30,760</u>	<u>675</u>	<u>6,041</u>	<u>5,366</u>
Totals	1,388,502	884,141	2,277,145	2,781,497	504,359

* The Tax Cuts and Jobs Act of 2017

Source: Secretary Lane presentation to Joint Money Committees, August 19, 2018

Chainbridge Software, LLC, Fairfax, VA July 27, 2018

Relative Share of Virginia Tax Liability Increases for Low/Middle Income Taxpayers

Change in Virginia Income Tax Liability, Virginia Residents (\$ million)

	% of Tax Returns	Baseline	% of Total Tax Liability	New Law	% of Total Tax Liability	\$ Change
Under \$25,000	30.5%	\$165.5	1.36%	\$178.60	1.43%	\$13.1
\$25,000-50,000	21.5%	\$866.9	7.12%	\$899.90	7.19%	\$33.0
\$50,000-150,000	35.2%	\$4,453.4	36.55%	\$4,602.00	36.76%	\$148.6
\$150,000-500,000	11.7%	\$4,504.8	36.97%	\$4,594.90	36.71%	\$90.1
Over \$500,000	<u>1.0%</u>	<u>\$2,193.5</u>	<u>18.00%</u>	<u>\$2,242.40</u>	<u>17.91%</u>	<u>\$48.9</u>
Totals	100.0%	\$12,184.1	100.00%	\$12,517.80	100.00%	\$333.7

Relative Share of Combined Tax Liability Increases for High Income VA Residents

Combined Change in Virginia and Federal Income Tax Liability (\$ million)

	% of Tax Returns	Baseline	% of Total Tax Liability	New Law	% of Total Tax Liability	\$ Change
Under \$25,000	30.5%	\$405.5	0.74%	\$389.70	0.76%	(\$15.8)
\$25,000-50,000	21.5%	\$2,377.4	4.31%	\$2,159.10	4.19%	(\$218.3)
\$50,000-150,000	35.2%	\$16,396.9	29.74%	\$14,615.70	28.39%	(\$1,781.2)
\$150,000-500,000	11.7%	\$21,038.4	38.16%	\$20,116.60	39.07%	(\$921.8)
Over \$500,000	<u>1.0%</u>	<u>\$14,912.0</u>	<u>27.05%</u>	<u>\$14,202.70</u>	<u>27.59%</u>	(\$709.3)
Totals	100.0%	\$55,130.2	100.00%	\$51,483.80	100.00%	(\$3,646.4)

Note: Derived from Chainbridge Software analysis of combined federal/state impact Secretary Lane presentation to Joint Money Committees, August 19, 2018

Review of Budget Pressures/Options for 2019 Session

- Fund mandatory spending items.
 - Medicaid under-forecast, federal disallowance of funds for Catawba and Piedmont geriatric hospitals, VITA settlement, Micron incentives
- Increase reserves and liquidity?
 - GF growth over 4.1% triggers reserves/deposits to RDF.
- Modify Virginia's tax code and return revenue in response to federal changes? Individual tax changes expire after 2024.
- Budget one-time spending (such as capital/VRS) to maintain future flexibility?
- Respond to budget pressures by keeping additional revenue—particularly for K-12 and mental health?

Major Spending Choices in the Introduced Budget

- \$1,052.2 mil. in revenue reserve and RDF (including most of FY 18 surplus)
- \$462.5 mil. to cover Medicaid reforecast of utilization and inflation
- Tax expenditures of \$216.3 mil. in refundable EITC; \$27.2 mil. in reduced accelerated sales tax collections
- **K-12 Education: \$230 mil. increase in direct aid K-12 funding (including \$70 mil. in new lottery funding)**
 - \$87.6 mil. to increase teacher salaries by 2% (to 5%) July 1, 2019
 - \$80 mil. to the Literary Fund for school construction loans
 - \$36 mil. for school counselors to begin phase-in from 1:500 to 1:250
 - \$35 mil. to increase At-risk Add-on from 14% to 16% max. (Lottery)
 - \$35 mil. for additional Lottery Supplement (Lottery)
 - \$14.4 mil. in additional internet sales tax revenue and \$10.9 mil. in revised sales tax forecast.
 - \$9.7 mil. to continue VPI+ program without federal funds
 - *Save GF* by revising enrollments down: overall students - \$55.2; Special Education Regional Tuition - \$12.5 mil.; and Remedial Summer and ESL - \$6.1 mil.

Major Introduced Spending (Cont'd)

Natural Resources

- \$73.8 mil. for required deposit to the Water Quality Improvement Fund (from the FY 18 surplus) and \$35 mil. in additional WQIF funding.
- \$50 mil. for Stormwater Local Assistance Funding
- \$11 mil. for the Virginia Land Conservation Foundation

Transportation

- \$75 mil. for Transportation Infrastructure Bank

Commerce and Trade

- \$46 mil. to expand the state broadband initiative
- \$20 mil. for Business Ready Sites program
- \$19 mil. for the Housing Trust Fund
- \$10 mil for energy efficiency and renewable energy loans

Health and Human Services

- \$11.8 mil estimated *reduction* for Child Services Act needs
- \$9.0 mil. for CSB's to provide additional crisis services
- \$2.5 mil. to continue jail mental health pilots
- \$1.6 mil. for naloxone kits to reverse opioid overdoses

Other

- \$40.2 mil. for state employee 1 percent bonus effective Dec. 1, 2019
- \$5.9 mil. for presidential primary in FY 20.
- Eliminates \$2.0 mil. transfer from local CSUT Trust Fund to GF

Governor's Proposed Plan to Match Spending to One-time *Potential* Revenues Subject to Future General Assembly Approval

Governor's Long-Range GF Spending Plan (\$ Mil.)							
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>Total</u>
Est. One-time Revenue	\$517.3	\$433.6	\$455.7	\$480.4	\$506.8	\$532.5	\$2,926.3
Refundable EITC	\$10.3	\$206.0	\$212.9	\$220.0	\$226.6	\$233.8	\$1,109.6
Water Quality - SLAF		\$50.0	\$50.0	\$50.0	\$50.0	\$50.0	\$250.0
Water Quality - BMP	\$20.0	\$15.0	\$80.5	\$80.5	\$80.5	\$80.5	\$357.0
Land Conservation	\$5.5	\$5.5					\$11.0
Broadband		\$46.0	\$46.0	\$46.0	\$46.0	\$46.0	\$230.0
Accelerated Sales Tax		\$27.2					\$27.2
Revenue Reserve	<u>\$479.1</u>	<u>\$50.0</u>	<u>\$64.5</u>	<u>\$74.5</u>	<u>\$74.5</u>	<u>\$74.5</u>	<u>\$817.1</u>
Subtotal	\$514.9	\$399.7	\$453.9	\$471.0	\$477.6	\$484.8	\$2,801.9
Balance	\$2.4	\$33.9	\$1.8	\$9.4	\$29.2	\$47.7	\$124.4

Source: Dan Timberlake presentation to Joint Money Committees, August 19, 2018

Changes Proposed in the Introduced GF Budget (\$ Mil.)

	Adopted	Intro		Adopted	Intro		Biennium
	FY 2019	FY 2019	Change	FY 2020	FY 2020	Change	Change
Legislative and Executive	\$129.5	\$131.0	\$1.5	\$129.4	\$129.4	-	\$1.5
Judicial Dept.	495.7	495.7	-	505.1	508.6	3.5	3.5
Administration/Comp Board	738.0	736.7	(1.3)	740.2	738.8	(1.4)	(2.7)
Treasury Board Debt Service	759.1	735.2	(23.9)	807.6	776.4	(31.2)	(55.1)
Other Finance	184.2	183.7	(0.5)	179.4	179.5	0.1	(0.4)
Rainy Day Fund Deposit	-	-	-	-	262.9	262.9	262.9
Car Tax Reimbursement	950.0	950.0	-	950.0	950.0	-	-
Commerce and Trade	225.7	269.5	43.8	230.1	284.4	54.3	98.1
Agriculture / Nat. Resources	213.4	239.0	25.6	173.8	323.4	149.6	175.2
K-12 Education/Central Office	6,334.4	6,382.0	47.6	6,512.6	6,625.1	112.5	160.1
Higher & Other Education	2,109.2	2,109.4	0.2	2,176.8	2,215.0	38.2	38.4
DMAS Medicaid	4,693.0	4,875.3	182.3	4,775.5	5,023.1	247.6	429.9
Other Health & Human Services	1,954.7	1,944.9	(9.8)	2,046.0	2,103.8	57.8	48.0
Public Safety & Veterans/HS	2,035.8	2,044.3	8.5	2,041.0	2,075.3	34.3	42.8
Transportation	41.0	116.0	75.0	41.0	41.0	-	75.0
Central Appropriations	81.3	96.6	15.3	288.8	317.6	28.8	44.1
Cash Reserve	45.0	784.8	739.8	45.0	95.5	50.5	790.3
Independent Agencies/Capital	0.3	33.9	33.6	0.2	0.2	-	33.6
Total GF Appropriations	\$20,990.3	\$22,128.0	\$1,137.7	\$21,642.5	\$22,650.0	1,007.5	\$2,145.2

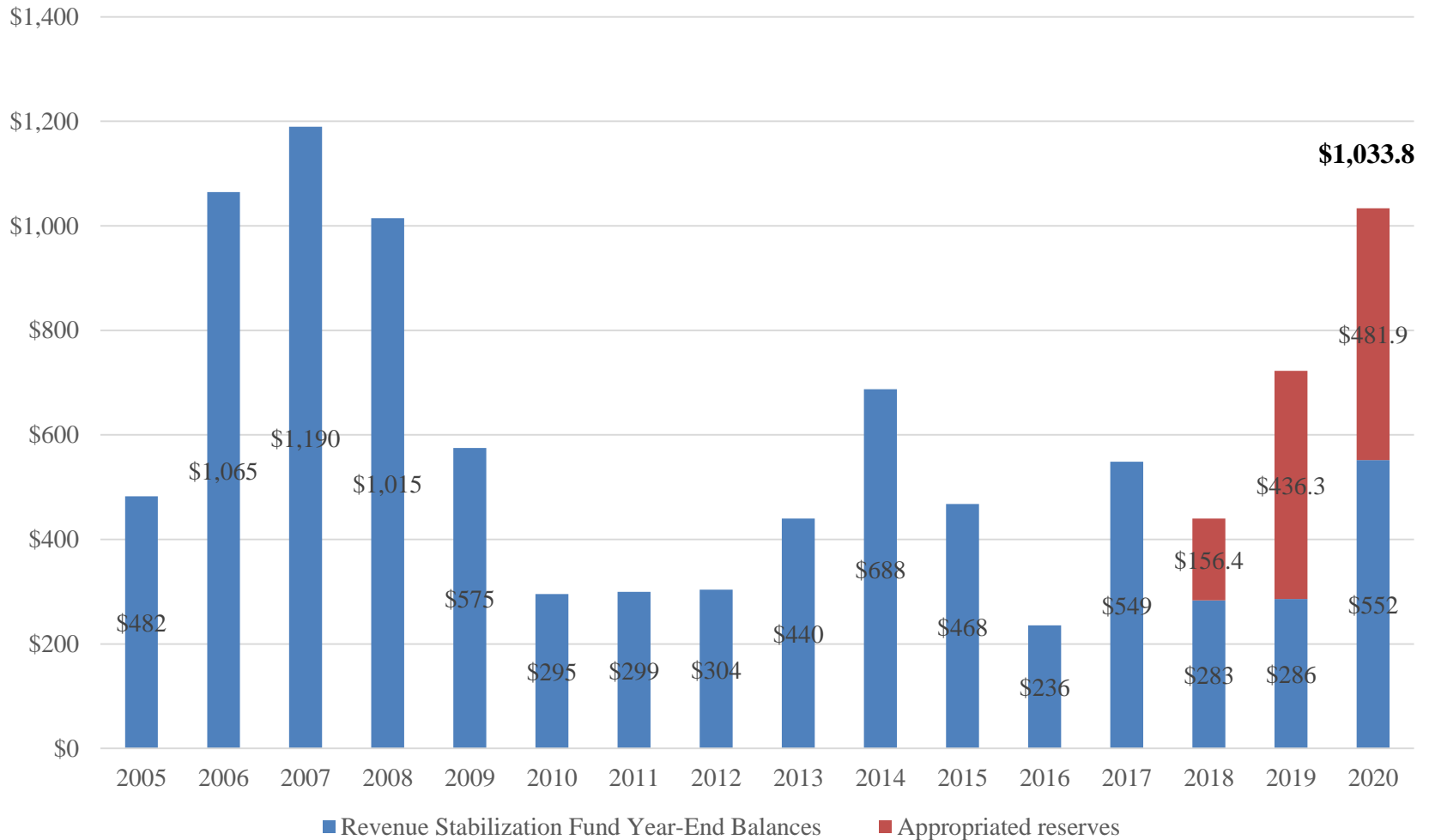
Note: Proposed spending includes balance forward from FY 2018; Assumes unappropriated balance of \$24.8 mil.

Localities Continue to Get a Declining Share of GF

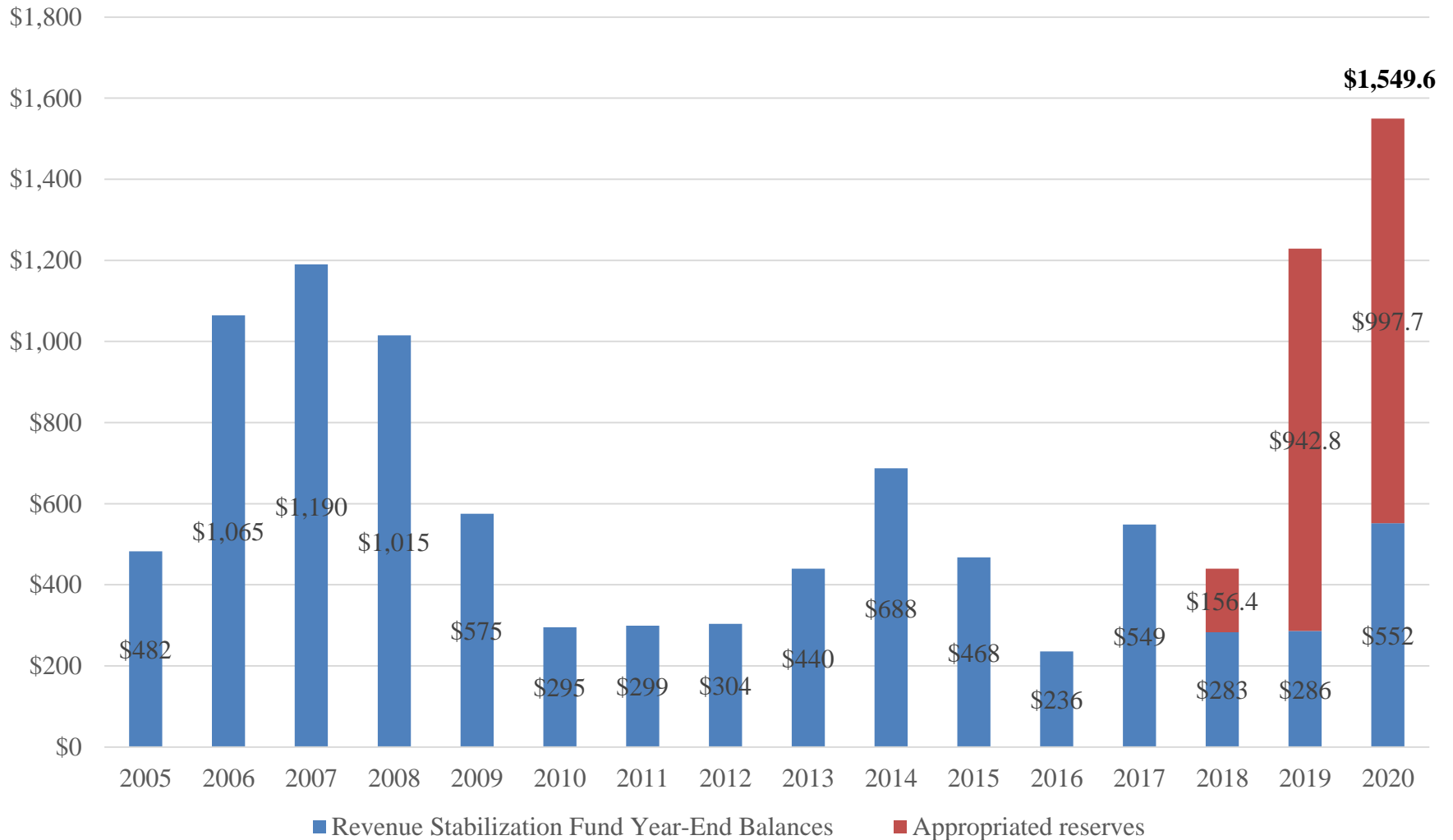
GF State Aid to Localities (\$ Mil.)

	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2018</u>	<u>FY 2019 (i)</u>	<u>FY 2020 (i)</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,963.0	\$6,320.1	\$6,559.2
K-12 % of Total GF Appropriations	35.2%	29.6%	29.2%	28.6%	29.0%
Health and Human Services	888.4	791.7	951.0	1,000.7	1,041.9
CSA	299.7	217.2	279.9	292.7	302.6
Community MH/SA Services	249.4	269.3	350.4	371.4	409.7
Local Social Services Staff	117.4	115.3	122.1	124.6	124.6
Community Health Programs	117.6	107.2	117.9	130.5	123.5
Welfare Services and Programs	104.3	82.7	80.7	81.5	81.5
Public Safety	734.3	687.9	738.8	755.4	763.8
Local Sheriffs Offices	406.1	411.3	452.4	464.5	465.3
Local Police Depts HB 599	197.3	172.4	178.0	184.5	191.7
Local Jail Per diem	80.1	59.4	61.3	58.7	59.1
Assistance for Juvenile Justice	50.8	44.8	47.1	47.7	47.7
Constitutional Officers	155.3	145.8	158.0	161.5	162.2
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	\$9,236.6	\$9,526.0
Total GF Appropriations	\$15,943.0	\$17,705.2	\$20,449.9	\$22,094.5	\$22,650.2
Local Aid % of Total GF	52.0%	44.1%	43.1%	41.8%	42.1%

Currently Planned State Reserves Total Over \$1 Billion (4.8% of GF)



Introduced Budget Increases Reserves by an Additional \$516 mil. (6.8% of GF)



Medicaid Preventing Other Priority Spending General Fund Operating Appropriation Growth (\$ Mil.)

	<u>2001</u>	<u>Intro 2019</u>	<u>\$ Growth</u>	<u>Annualized Compound Growth</u>
Medicaid (DMAS)	\$1,384.2	\$4,875.3	\$3,491.1	7.2%
GF Debt Service	\$243.1	\$735.2	\$492.1	6.3%
Behavioral Health	\$430.2	\$824.9	\$394.7	3.7%
Other H&HS	\$648.9	\$1,120.0	\$471.1	3.1%
K-12 Direct Aid	\$3,942.4	\$6,320.1	\$2,377.7	2.7%
Public Safety/Comp Board	\$1,949.1	\$2,711.0	\$761.9	1.8%
Natural Resources/Forest M	\$152.1	\$201.4	\$49.3	1.6%
Higher Education	\$1,634.2	\$2,108.7	\$474.5	1.4%
All Other	<u>\$1,899.4</u>	<u>\$3,197.9</u>	<u>\$1,298.5</u>	<u>2.9%</u>
Total GF Operating	\$12,283.6	\$22,094.5	\$9,810.9	3.3%

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

Medicaid Managed Care Didn't Provide Savings As Expected

<u>Fiscal Years</u>	<u>Average GF Annual Growth</u>
2000-2009	8.8%
2010-2015	6.2%
2016	9.3%
2017	7.2%
2018	5.5%
2019 Forecast	-2.3% 6.2% (7.6% w/o expansion)
2020 Forecast	-3.4% 2.6% (5.6% w/o expansion)

Steadily Rising Senior Population Ensures Medicaid Growth

	Total Projected VA Population	Population 65 years and over	% of Total Population Age 65 and Over	Population 85 years and over	% of Total Population 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%

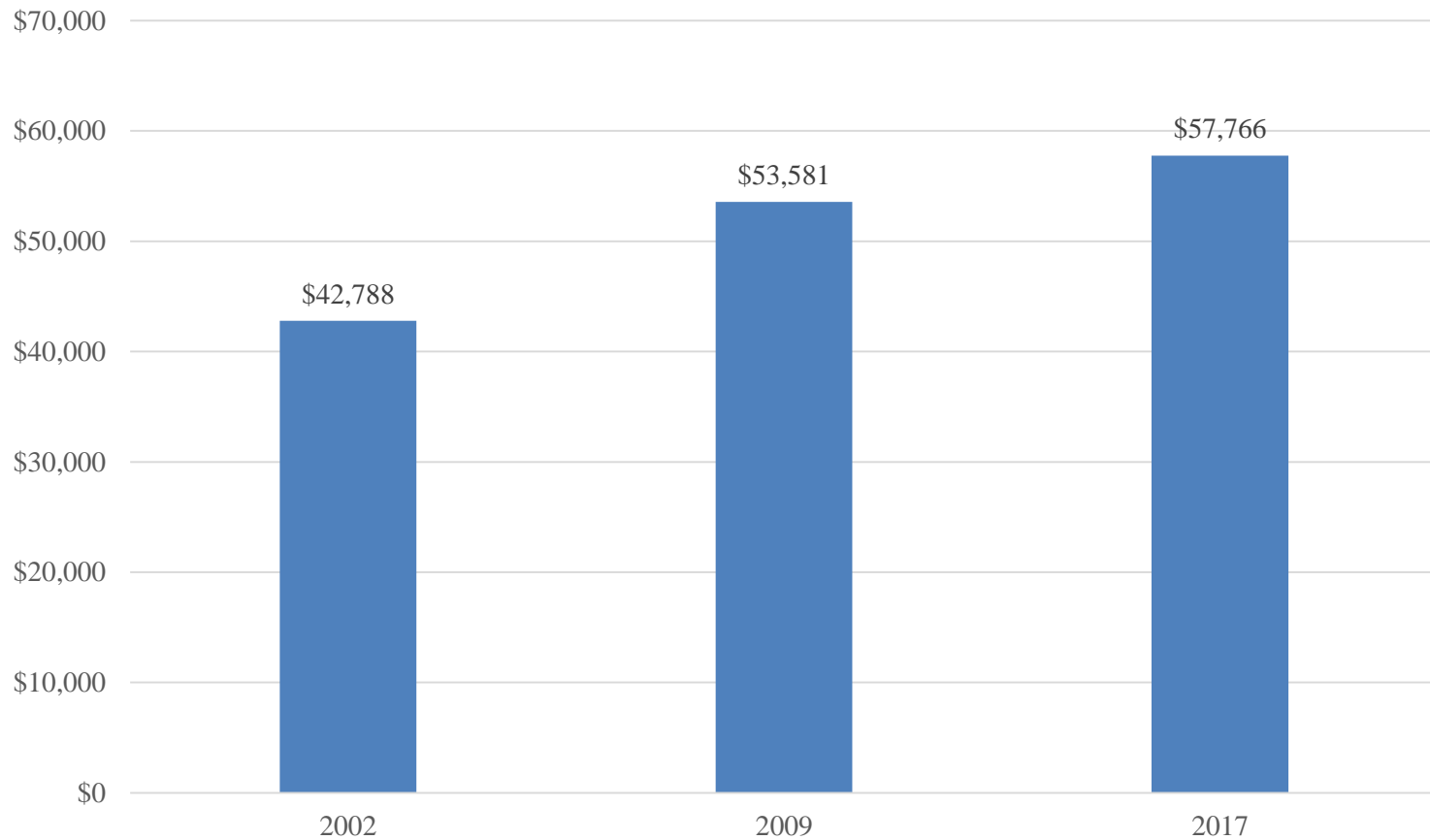
Source: Weldon Cooper Center, <http://www.coopercenter.org/demographics/national-population-projections>

Adopted 2018-20 K-12 Budget Changes Were Minor

- 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

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.

NEA Average Teacher Salaries by State vs Zillow Median Home Value Index

Rank		NEA AVG Teacher Salary - 2016	Rank		Zillow Home Value Index
	United States	\$60,205		United States	\$216,700
1	New York	\$79,767	1	Hawaii	\$615,000
2	Washington D.C.	\$77,623	2	Washington D.C.	\$567,400
3	California	\$77,179	3	California	\$539,400
4	Massachusetts	\$76,981	4	Massachusetts	\$395,300
5	Rhode Island	\$73,631	5	Washington	\$370,700
6	New Jersey	\$73,044	6	Colorado	\$364,600
7	Connecticut	\$72,013	7	Oregon	\$334,100
8	Maryland	\$70,279	8	New Jersey	\$316,500
9	Alaska	\$67,590	9	Utah	\$310,800
10	Pennsylvania	\$67,012	10	Alaska	\$307,600
11	Minnesota	\$66,157	11	Maryland	\$282,500
12	Delaware	\$64,193	12	New York	\$280,000
13	Oregon	\$63,551	13	Nevada	\$275,200
14	Michigan	\$62,028	14	Rhode Island	\$273,500
15	Illinois	\$61,342	15	New Hampshire	\$264,400
16	Nevada	\$60,883	16	Virginia	\$250,700
17	Wyoming	\$60,328	17	Arizona	\$240,300
18	Hawaii	\$59,855	18	Connecticut	\$238,600
19	Vermont	\$58,901	19	Idaho	\$232,400
20	Louisiana	\$58,729	20	Delaware	\$231,200
21	Wisconsin	\$58,485	21	Minnesota	\$225,100
22	Iowa	\$56,995	22	Montana	\$225,100
23	Georgia	\$56,814	23	Florida	\$224,600

24	New Hampshire	\$56,616	24	Maine	\$222,000
25	Washington	\$56,089	25	Wyoming	\$219,800
26	Ohio	\$55,749	26	North Dakota	\$202,100
27	Utah	\$55,316	27	Vermont	\$195,400
28	Texas	\$55,126	28	New Mexico	\$186,600
29	Kentucky	\$54,663	29	Texas	\$185,800
30	Montana	\$54,385	30	South Dakota	\$181,800
31	North Dakota	\$53,678	31	Wisconsin	\$177,700
32	Virginia	\$52,995	32	Georgia	\$175,500
33	Maine	\$52,394	33	Illinois	\$174,300
34	Arkansas	\$51,515	34	North Carolina	\$173,500
35	Nebraska	\$51,514	35	Pennsylvania	\$168,500
36	South Carolina	\$51,508	36	South Carolina	\$158,800
37	Indiana	\$50,715	37	Tennessee	\$158,400
38	Florida	\$50,690	38	Nebraska	\$157,800
39	Alabama	\$50,513	39	Missouri	\$153,000
40	Tennessee	\$50,462	40	Louisiana	\$145,300
41	Missouri	\$50,232	41	Michigan	\$143,100
42	New Mexico	\$49,030	42	Kentucky	\$138,800
43	Idaho	\$48,882	43	Iowa	\$138,500
44	Kansas	\$48,837	44	Kansas	\$134,200
45	West Virginia	\$48,173	45	Indiana	\$133,700
46	North Carolina	\$47,941	46	Ohio	\$132,900
47	Oklahoma	\$47,326	47	Alabama	\$126,600
48	Arizona	\$47,218	48	Mississippi	\$122,500
49	Colorado	\$46,155	49	Arkansas	\$121,800
50	Mississippi	\$44,196	50	Oklahoma	\$119,300
51	South Dakota	\$43,765	51	West Virginia	\$95,300

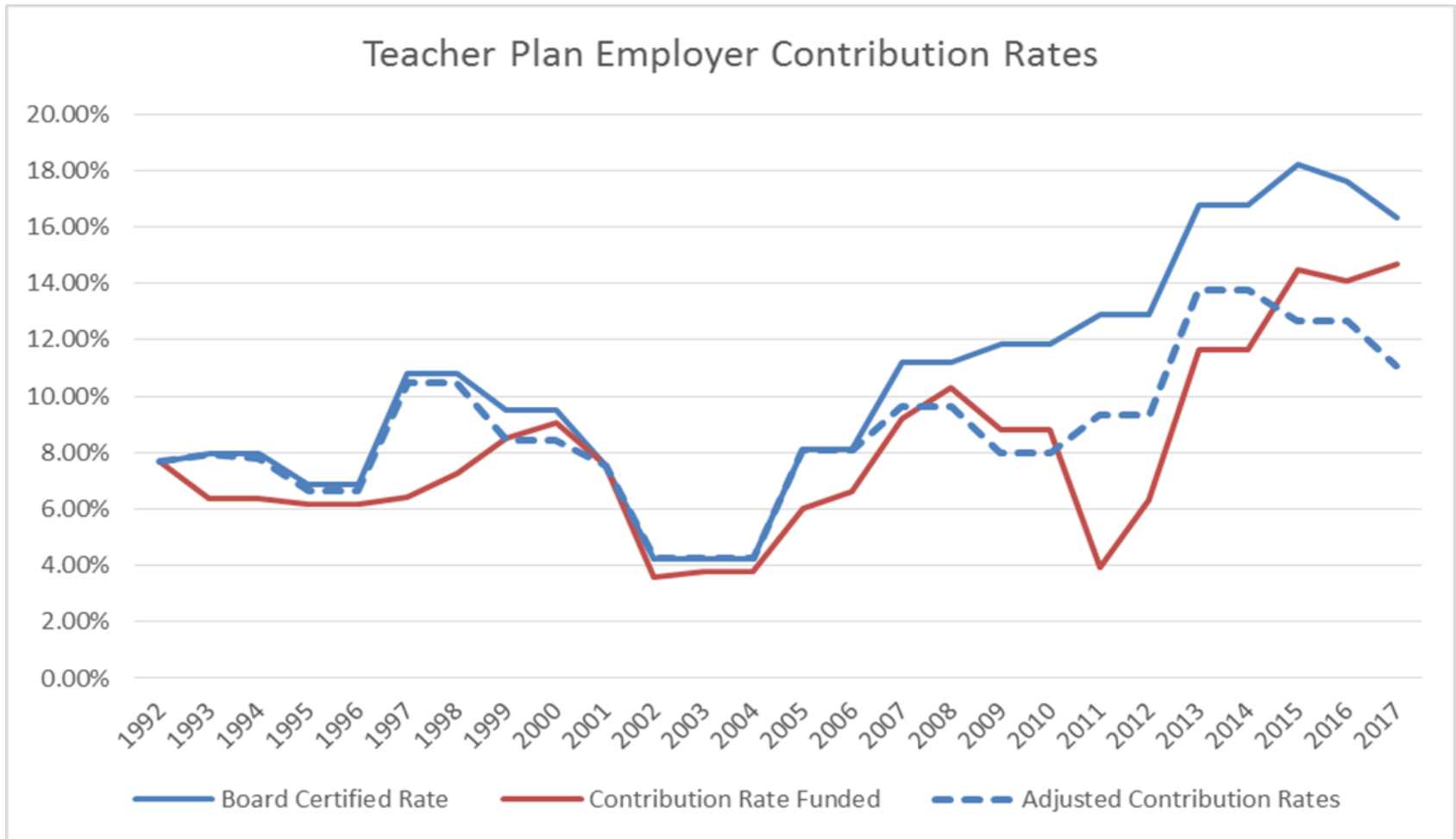
Note: Removing PD 8 (NoVa) - similar to Maryland instructional pay - would reduce VA state average about \$6,000, ranking Virginia in the bottom 5 states.

**State-funded Salary Increases Provided to School Divisions, FY
1996 - FY 2020**

		<i>Salary Increase per Appropriation Act</i>		
Fiscal Year	Appropriation Act	State Funded Percentage Increase	Effective Date	Effective Annual Percentage Increase
1996	Chapter 1056	2.25%	December 1, 1995	1.31%
1997	Chapter 889	1.75%	January 1, 1997	0.88%
1998	Chapter 889	4.00%	January 1, 1998	2.00%
1999	Chapter 935	2.25%	January 1, 1999	1.13%
2000	Chapter 935	6.00%	January 4, 2000	2.95%
2001	Chapter 814	2.40%	December 1, 2000	1.40%
*2002	Chapter 814	0.00%	n/a	0.00%
2003	Chapter 943	0.00%	n/a	0.00%
2004	Chapter 943	2.25%	January 1, 2004	1.13%
2005	Chapter 951	0.00%	n/a	0.00%
2006	Chapter 951	3.00%	December 1, 2005	1.75%
2007	Chapter 847	4.00%	December 1, 2006	2.33%
2008	Chapter 847	3.00%	December 1, 2007	1.75%
2009	Chapter 879	0.00%	n/a	0.00%
2010	Chapter 879	2.00%	July 1, 2009	2.00%
2011	Chapter 2	0.00%	n/a	0.00%
2012	Chapter 2	0.00%	n/a	0.00%
2013	Chapter 1	0.00%	n/a	0.00%
2014	Chapter 1	2.00%	August 1, 2013	1.83%
2015	Chapter 665	0.00%	n/a	0.00%
2016	Chapter 665	1.50%	August 16, 2015	1.31%
2017	Chapter 836	0.00%	n/a	0.00%
2018	Chapter 1	2.00%	February 15, 2018	0.75%
2019	Chapter 2	0.00%	n/a	0.00%
2020	Chapter 2	3.00%	July 1, 2019	3.00%

***No new increase provided in FY 2002, but funding was provided to continue the FY 2001 increase in FY 2002.**

Impact of VRS Underfunding – Teacher Plan



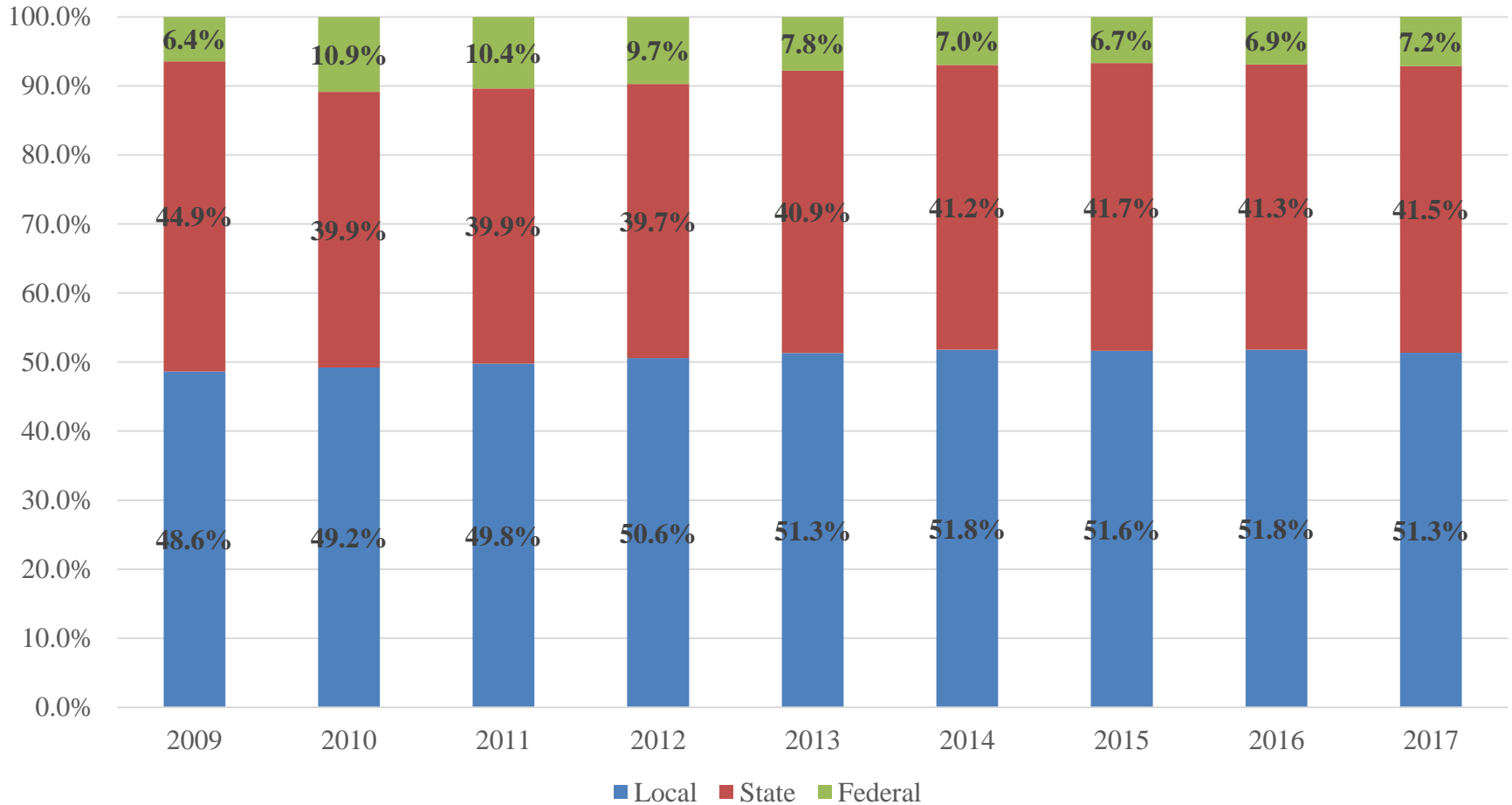
- If the Teacher plan had received 100% of the required contributions since 1993, the employer rates today would be approximately 11.90% versus the actual 16.32%.
- The funded status as of June 30, 2016 was 70.6%. With full funding of rates the funded status would be approximately 86.1%.
- Teacher contribution rates were funded at VRS Board certified actuarial determined rate in fiscal year 2018.

2019 *Introduced* State Per Pupil K-12 Direct Aid Funding While Beginning to Rise, FY 20 Still \$374/Pupil Less Than FY 09 Nominal and Inflation-Adjusted (CPI \$2005)

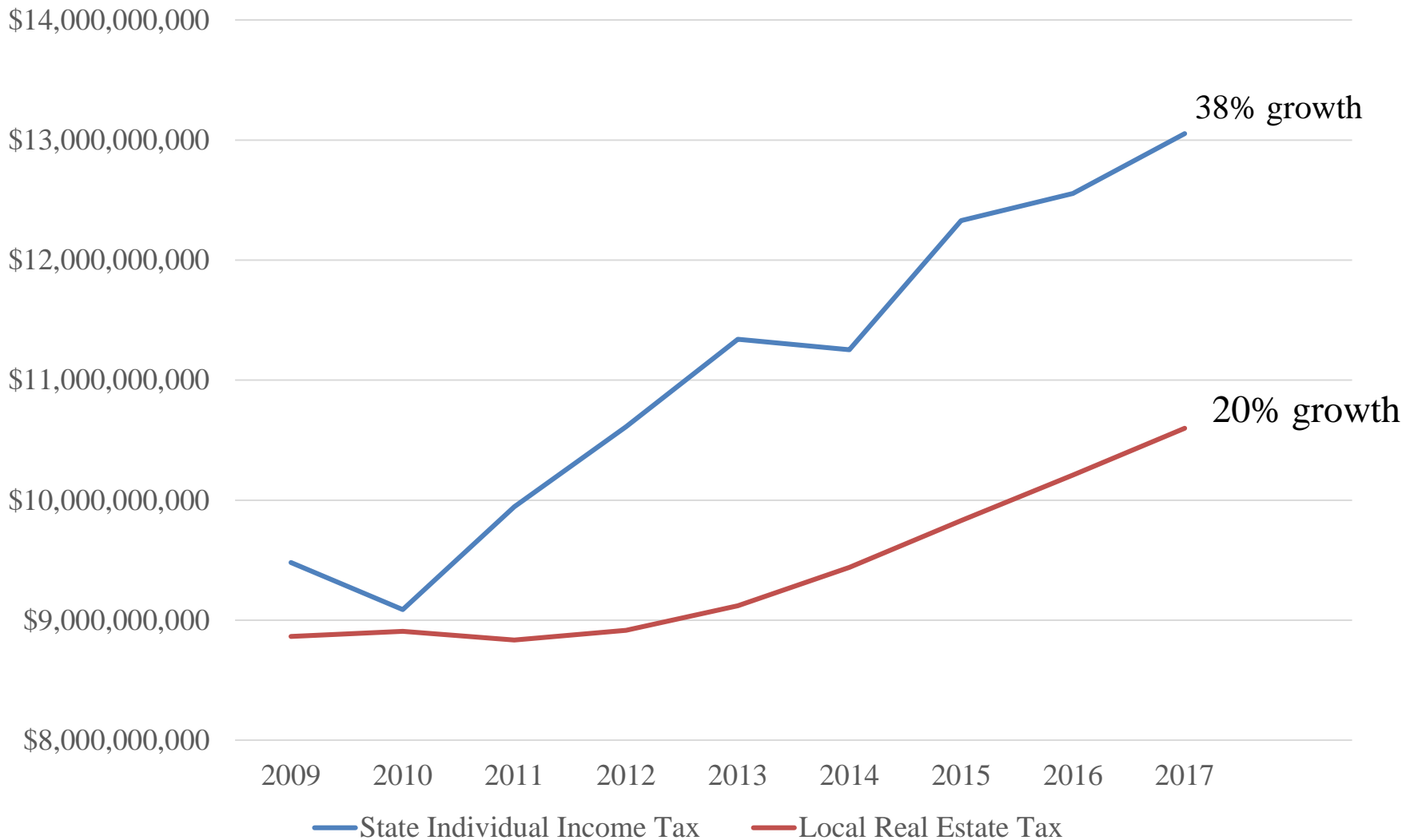


Localities Have Increased Their Share of K-12 Expenditures

Share of Virginia K-12 Operating Expenditures



State Income Tax Growth Has Significantly Exceeded Local Real Estate Tax Growth Since 2009 Despite Rate Hikes



*Note: FY 2018 state income tax grew 8.1%; local property tax growth not yet available.
Median local property tax rates increased 17 cents in cities and 12 cents in counties since 2009*

Virginia Public School Construction and Renovation Costs From 2013-2017					
	<u>Number</u>	<u>Cost</u>	<u>Avg. Cost/School</u>	<u>Sq. Feet</u>	<u>Cost/Sq Ft.</u>
New Elementary Schools	22	\$450,158,034	\$20,461,729	2,094,665	\$215
New Middle Schools	8	\$273,672,113	\$34,209,014	1,192,914	\$229
New High Schools	8	\$473,784,482	\$59,223,060	1,515,484	\$313
New Combined or Other	6	\$235,566,159	\$39,261,027	992,977	\$237
Additions/Renovations	<u>219</u>	<u>\$1,197,693,347</u>	<u>\$5,468,919</u>	<u>8,494,960</u>	<u>\$141</u>
Total	263	\$2,630,874,135	\$10,003,324	14,291,000	\$184

Source: http://www.doe.virginia.gov/support/facility_construction/school_construction/costs/

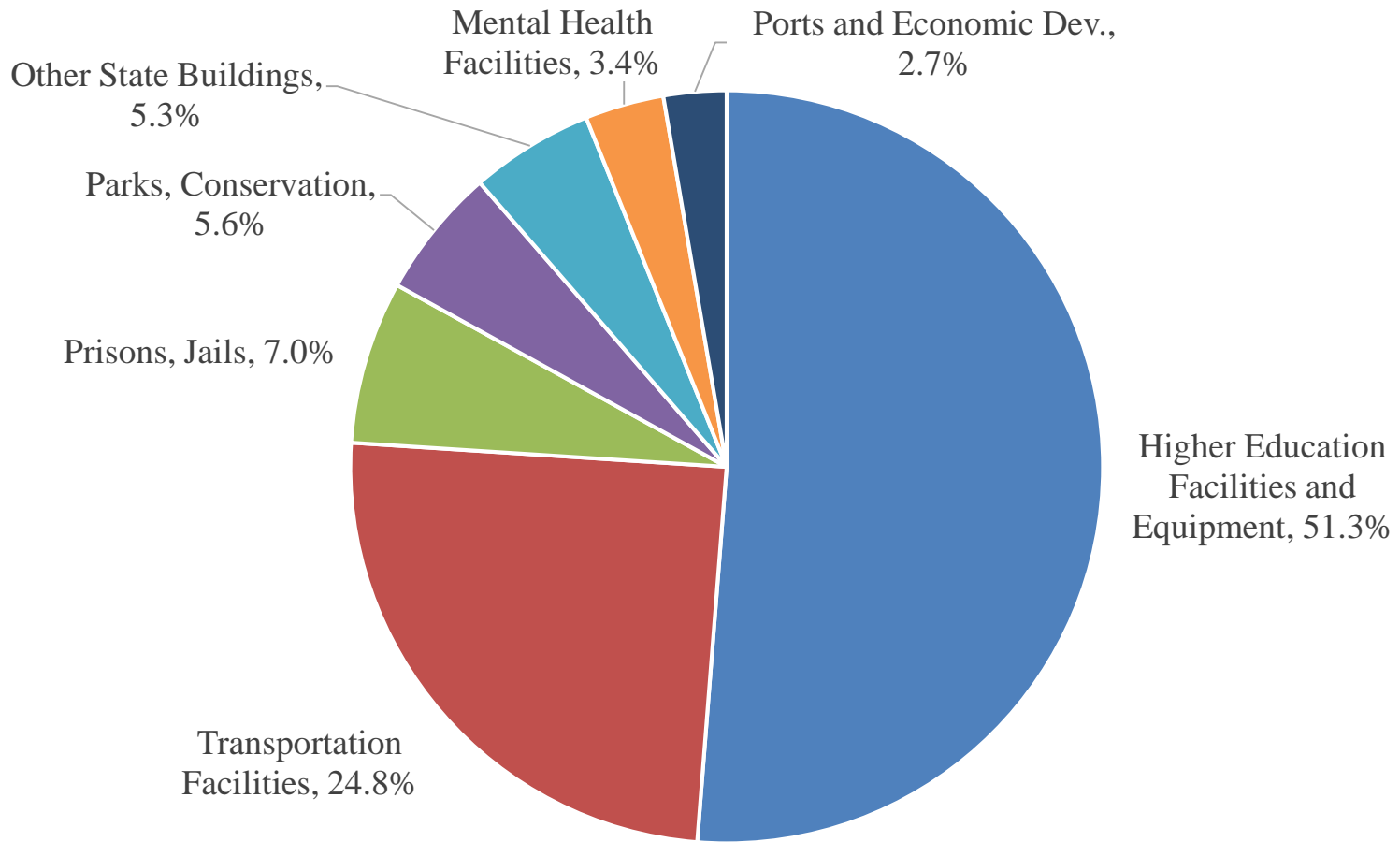
Previous State Grants for School Construction Costs

- From fiscal years 1999-02, \$55.0 million per year was allocated for the for financial assistance for public school facilities. Funding reduced to \$27.5 million per year from fiscal years 2003-09.
 - Distributed based on “floor” funding of \$100,000 for each school division, with remainder of funds based on the division's proportion of enrollment weighted by the composite index.
 - Funds only for nonrecurring expenditures: school construction, additions and renovations, infrastructure, site acquisition, technology, and other expenditures related to modernizing classroom equipment, payments to escrow accounts, school safety equipment or renovations, and debt service payments on school projects completed during the last ten years.
- Direct school construction funding ended in FY 2010.

Current Lottery Proceeds Flexible Funding

- From 1999 to 2010, Lottery proceeds were allocated for state incentive payments for “at least 50 percent non-recurring” costs.
- **Beginning in FY 2017**, the state began allocating lottery funds through a ‘flexible’ funding program distributed on a per pupil basis that school divisions are permitted to spend for either recurring or **nonrecurring** expenses. No local match required.
- In the *introduced* 2018-20 biennium budget, flexible Lottery distributions in FY 2019 are increased by \$18.5 mil. to \$253.2 mil. and in FY 2020 by \$16.2 mil. to \$255.5 mil.
 - About 40 percent of total lottery proceeds.

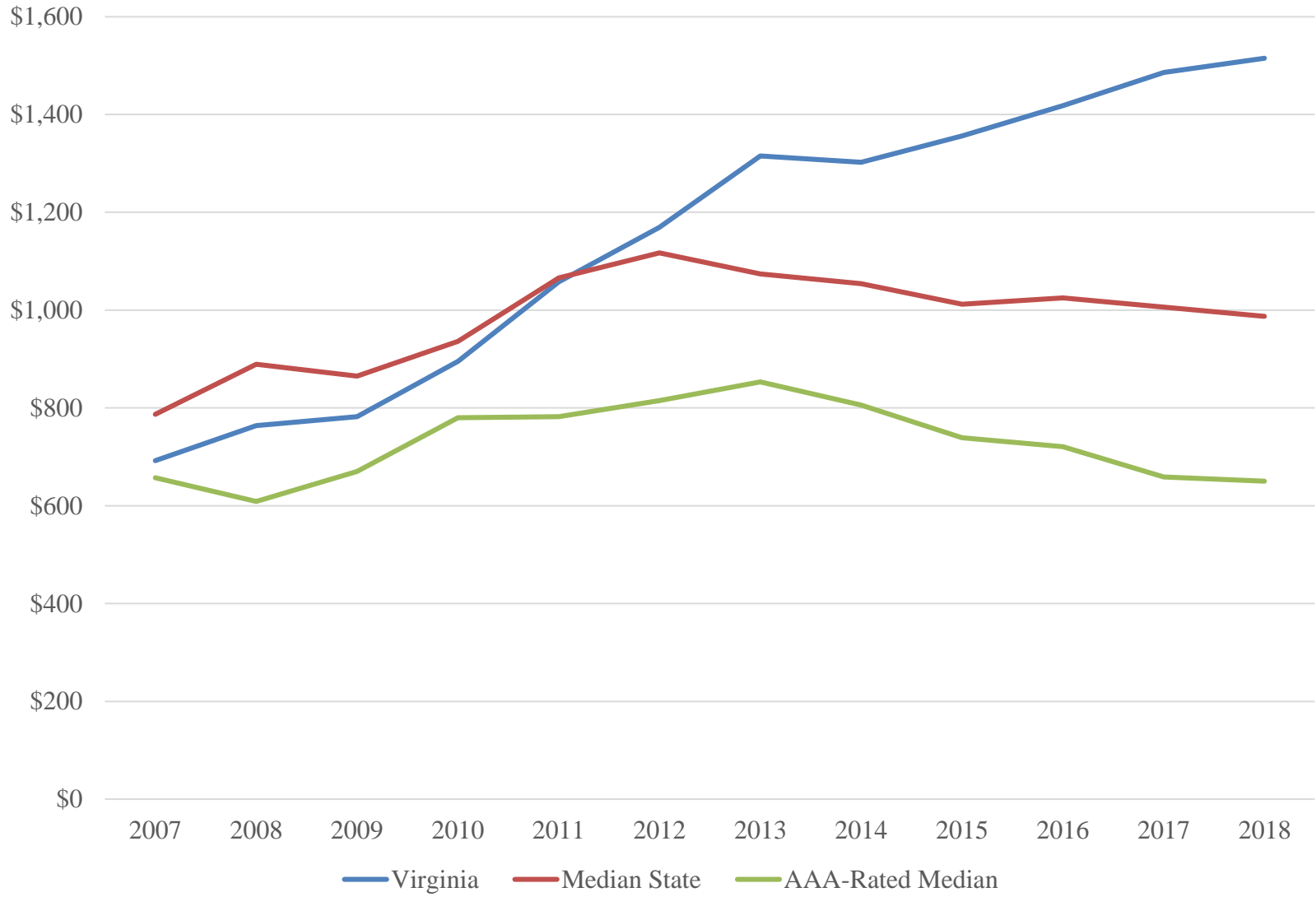
Difficult to Use State Debt Capacity for Local Schools FY 2009-18 Tax-Supported Debt Issued - \$11.0 Bil.



\$4.9 bil. in currently authorized, but unissued debt. DCAC estimates 10 year avg annual capacity of \$671 mil. in new debt and still keep debt service under 5% of blended revenues (No recession forecast).

Source: Debt Capacity Advisory Committee Report to the Governor, Dec. 19, 2018

Virginia Debt per Capita Compared to Other States



Source: Debt Capacity Advisory Committee Report to the Governor, Dec. 19, 2018

K-12 Education Funding Summary and Needs

State Actions:

From FY 2001 through FY 2019 state general fund appropriations for K-12 education have grown at a compound annual rate of 2.6 percent versus 3.0 percent growth in total general funds.

- **State cuts in K-12 from FY 2010 have yet to be restored.** Since FY 2009, the K-12 *appropriation* has dropped from 35.2 percent of total GF appropriations to 29.9 percent in FY 2019. In addition, *inflation-adjusted* (2005\$) average per pupil state funding has dropped nine percent from \$4,692 in FY 2009 to \$4,266 in FY 2019.
- From FY 2009 to FY 2017, average instructional pay in Virginia has grown less than the rate of inflation – from \$53,581 to \$57,766. If instructional pay had grown at the rate of the consumer price index (CPI), average pay would have been \$62,000 in FY 2017. According to the latest National Education Association salary survey, Virginia ranks 32nd in teacher pay, or \$7,210 below the national average. **However, if Northern Virginia (Planning District 8) localities are removed from the state average, Virginia would rank among the bottom five states.**
- Roughly two-thirds of school division employees (136,000 out of 200,000) are recognized and funded by the state’s Standards of Quality (SOQ). Adopting the 2016 state Board of Education SOQ revisions would require about \$600 million per year in additional state appropriations, eliminating the arbitrary support position funding cap set by the state (\$350 million/year), and revising various professional staffing ratios.
- Increasing the state-determined 55 percent share of funding for the current SOQ standards would annually cost the state an additional \$93 million per increased percentage point.

Local Reactions:

- Most locality revenue sources have not kept pace with inflation and population growth, despite median real property tax rates increasing 17 cents for cities and 12 cents for counties since FY 2009.
- As a result of the slower growth in state K-12 funding, local funding for K-12 operations has increased from 52.0 percent (FY 2009) to 55.3 percent (FY 2017) of total state-local expenditures (DOE Superintendents Annual Report).
- Localities also borrowed \$2.6 billion for school construction, additions, and renovations from 2013-2017. Direct state grants for capital improvements have not been available since FY 2010. Literary fund loans to school divisions have also been minimal since the recession.

Options for Additional State School Construction/Renovation Funds

- Use state funds from **tax reform windfall** for school construction *infrastructure* funding.
- Use general funds for lottery funded programs and increase “flexible” Lottery funding distribution.
- Substitute GF for Literary Funds for teacher retirement costs and increase Literary Fund loans for school construction or interest rate subsidy programs.
- Create a *less* restrictive Literary Fund loan construction subsidy program with additional general funds.

Other Budget Needs For Localities

- 2018-2020 budget increased funding for STEP-VA same day access and CSB primary care screening and began phasing in an expansion of outpatient mental health and substance abuse services and funded an expansion of detoxification services in FY 2020 at CSBs and Behavioral Health. **However, additional CSB funding is still needed for:**
 - Full implementation of STEP-VA, mental health needs/jails
 - Same day access and alternative transportation (DBHDS has allocated the same amount to all CSBs for same day access - \$270,000 - and the estimated cost for Fairfax to implement is \$2.1 million)
 - Primary care coverage
 - Potential backfilling of GF reductions assumed in biennial budget associated with Medicaid expansion
- Rising costs for private day placements in the Children's Services Act (CSA).
 - FY 2020 budget reflects a two percent rate increase cap on private day special education rates.
- Uncovered Medicaid expansion costs for local social service departments.
- Implementation costs for the Family First Prevention Services Act.
- Stormwater Local Assistance Funds.
- Inadequate Aid to Police (HB 599) and jail per diems
- **Inadequate highway and public transportation funding.**

Special Education Day Placement Costs Continue to Grow

STATE CSA EXPENDITURE GROWTH



■ Alternative Day Placement/SPED Private Day
 ■ Foster Care & Therapeutic Treatment
 ■ Residential Congregate Care and Ed. Services
 ■ Community-based Services

Special Education Day Placement Costs

	<u>FY 2014</u>	<u>FY 2018</u>	<u>% Growth</u>
Number Served	3,158	4,101	29.9%
Average Annual Cost per Child	\$34,437	\$45,118	31.0%

State Transportation Revenue Growth Has Slowed Since 2013 Tax Increase Phase-in (\$ million)

<u>Fiscal Year</u>	<u>Motor Fuels</u>	<u>Vehicle Sales</u>	<u>Licenses</u>	<u>State Sales</u>	<u>Total CTF*</u>	<u>% Growth</u>
2010	\$830	\$444	\$230	\$491	\$2,305	
2011	\$844	\$501	\$238	\$477	\$2,369	2.8%
2012	\$833	\$547	\$236	\$503	\$2,438	2.9%
2013	\$822	\$589	\$246	\$521	\$2,494	2.3%
2014	\$660	\$789	\$249	\$823	\$2,806	12.5%
2015	\$723	\$855	\$245	\$995	\$3,137	11.8%
2016	\$861	\$919	\$253	\$1,001	\$3,356	7.0%
2017	\$872	\$958	\$260	\$1,020	\$3,452	2.9%
2018	\$857	\$944	\$259	\$1,044	\$3,457	0.1%
<i>2019 est.</i>	<i>\$884</i>	<i>\$965</i>	<i>\$256</i>	<i>\$1,065</i>	<i>\$3,518</i>	<i>1.8%</i>

**Commonwealth Transportation Fund*

Note: TTF (construction) transferred \$90.7 million and \$141.9 million to HMOF (maintenance) in FY 2017 and 2018.

2013 Tax Increase Has Mostly Funded Maintenance Increases

	<u>FY 2013</u>	<u>FY 2019</u>	<u>% of Budget</u>	<u>% Increase</u>
Evaluation, Planning, Research	\$77.5	\$99.4	1.9%	28.3%
Highway Construction	\$1,614.3	\$1,730.6	32.3%	7.2%
Highway Maintenance	\$1,452.2	\$1,724.2	32.2%	18.7%
Toll Facilities	\$43.3	\$80.9	1.5%	86.8%
Assistance to Localities	\$390.9	\$472.4	8.8%	20.8%
Regional Programs	\$0.0	\$471.5	8.8%	NM
Non-Toll Debt Service	\$292.8	\$390.5	7.3%	33.4%
Admin, Support, Capital Outlay	\$242.9	\$289.8	5.4%	19.3%
Support to DRPT and Other Agencies	<u>\$70.0</u>	<u>\$99.4</u>	<u>1.9%</u>	<u>42.0%</u>
Total VDOT Programs	\$4,183.9	\$5,358.7	100.0%	28.1%

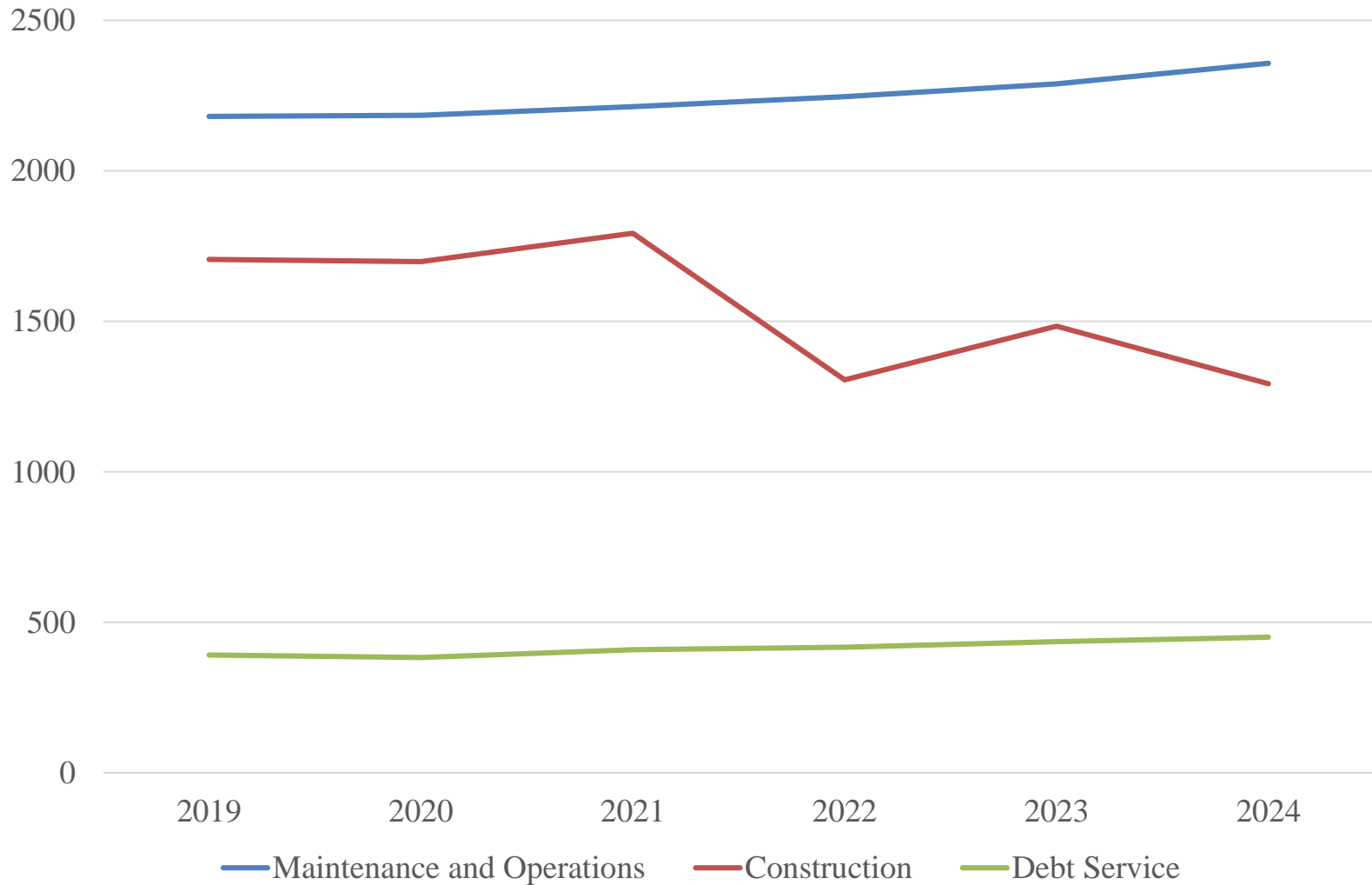
Future Transportation Revenue Growth Expected to Be Flat

	<u>State*</u>	<u>Federal</u>	<u>Regional</u>	<u>WMATA</u> <u>Pass-Thru</u>	<u>Bonds</u>	<u>Total</u>
2019	\$4,251	\$1,143	\$472	\$135	\$147	\$6,147
2020	\$4,191	\$1,087	\$467	\$135	\$302	\$6,182
2021	\$4,288	\$1,104	\$477	\$136	\$397	\$6,403
2022	\$4,124	\$1,122	\$486	\$137	\$76	\$5,946
2023	\$4,108	\$1,141	\$495	\$137	\$296	\$6,177
2024	\$4,172	\$1,159	\$505	\$138	\$125	\$6,099
* Includes local participation and toll revenue						

Source: June 2018 VDOT budget presentations to the CTB

Note: The 2019 introduced budget forecast state transportation revenues to decline \$61 million from the official 2018-20 forecast.

Declining Construction Allocations in 2019-2024 Six-Year Improvement Program (SYIP)



Source: June 2018 VDOT budget presentations to the CTB

Smart Scale Allocations Indicate Far Greater Need

	(\$ Millions)	
	<u>FY 2018 Round 2</u>	<u>FY 2019 Round 3*</u>
Project Costs - Requested	\$10,886.2	\$12,389.0
Total Smart Scale - Request	\$8,566.2	\$6,956.0
Project Costs - Accepted	\$2,350.4	?
Smart Scale - Allocated	\$1,026.8	Est. \$800.0
% Smart Scale Request Allocation	12.0%	11.5%

* 2019 Round 3 requests limited to: 4 applications for Localities < 200K and MPO's/PDC's/Transit Agencies <500K and 10 applications for entities above those population levels.

Summary

- An improving economy and federal tax changes offer a rare opportunity for Virginia to restore reductions that occurred during the last recession in state funding for locally-administered programs. The 2009-2010 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 FY 2009.
- Continuing high growth in Medicaid spending could mean a further degradation in state support for locally-administered state-mandated programs.
- As evidenced by Smartscale applications, transportation revenues are woefully inadequate to meet needs.
- 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 greater revenue generating capacity.
 - Retain revenue from the permanent business tax changes resulting from the 2017 federal tax reform to shore up education funding?
 - Use one-time state revenue to shore up the VRS teacher pool?

Appendices

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	Net Operating Losses 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 Internal Revenue Code 179 Expensing to \$1 million
Repeal High Income Limit on Itemized Deductions	Simplified accounting rules for small businesses

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 point 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 transportation)	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 Department of Taxation

State K-12 Policy Changes Adopted to Reduce Funding

<u>Major K-12 Funding Policy Changes Since 2008 Session</u>	<u>Session</u>	<u>Biennial \$ in million</u>
Cap Funding for Support Positions	2009	(\$754)
Adjust Health Care Participation Rates	2010	(\$269)
Eliminate Equipment, Travel, Miscellaneous Expenses From SOQ Calculation	2010	(\$244)
Eliminate School Construction Grants and Lottery Support for School Construction	2009/10	(\$122)
Eliminate Non-personal Inflation Update (not originally intended as permanent, partially offset in 2012-14 biennium)	2012	(\$109)
Reduce funding for K-3 class size program; use Kindergarten enrollment as proxy for four-year-olds for VPI; eliminate enrollment loss assistance	2010/12	(\$79)
Include \$0 Values in Linear Weighted Average Calculation	2010	(\$79)
Eliminate COCA for support positions in NoVa	2012/14	(\$50)
Extend School Bus Replacement Cycle From 12 to 15 Yrs	2010	<u>(\$19)</u>
Total Major Policy Changes Since 2009		(\$1,725)

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 2017*) to the national average and funding prevailing support costs requires an additional \$750 million GF/year.
- Localities on average spend about double, or \$4.0 billion beyond state requirements to meet SOL and SOA requirement in FY 2017. All 134 local school divisions exceeded Required Local Effort (RLE) in FY 2017.

Divisions up to 25% Above RLE	15
Divisions Exceeding 25% to 75%	47
Divisions Exceeding 76% to 100%	27
Divisions Exceeding 100% RLE	46

Virginia Board of Education Recommends \$600 Million/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.

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

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