



Virginia's Budget and the American Rescue Plan

Virginia First Cities Coalition



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The State Budget is in Good Shape



- **Expect a GF revenue surplus of at least \$1 bil. at the end of FY 2021** - even with the recently adopted budget increasing GF revenue growth from -1.8% in the August Special Session to +2.7 percent in April budget. YTD GF revenue growth thru April was 12.8 percent. **A Rainy Day Fund deposit is required beyond a \$440m surplus, WQIF would also receive 10% of any surplus.**
- April budget prioritized restoring FY 22 unallotments, providing July 1, 2021 salary increases for teachers and state employees, and building up cash reserves.
 - 5% salary increase for state employees & state supported local employees - \$236 mil.
 - State share of 5% salary increase for K-12 SOQ Positions - \$235 mil. Allows divisions to access prorated funds if the division provides an increase between two percent and five percent.
 - Eliminating Health and Human Service unallotments were a priority (\$173 mil. over introduced budget). Focusing on long-term care, maternal and child health, and behavioral/developmental health.
 - \$100 mil. for a one-time payment to the VRS to reduce unfunded liabilities (\$61 mil. for teacher plan)
 - \$126 mil. for the Housing Trust Fund
 - \$100 mil. for broadband
 - \$250 mil. to increase cash reserves and Rainy Day Fund to \$2.1 billion.

Other Budget Changes of Interest to VFC Localities

- Fully funded “no loss” payments for 3.5 percent ADM reductions.
- \$49.5 million to fund SOQ staffing standard of three specialized support positions for every 1,000 students
- Provides \$26.6 million GF in FY 2022 to provide one counselor per 325 students as provided in 2020 legislation
- Provides \$11.1 million GF in the second year to increase Va. Preschool Initiative per pupil amount from \$6,326 in FY 2021 to \$7,655 in FY 2022
- Begins the next phase of improvements for wastewater treatment plants by providing \$50.0 million GF and \$50.0 million in bonds for nutrient removal grants. Also provides \$25 mil. to the Stormwater Local Assistance Fund.
- \$10 mil. (VFC initiative) for the Community Development Financial Institutions Fund (CDFI)

Missed Opportunities

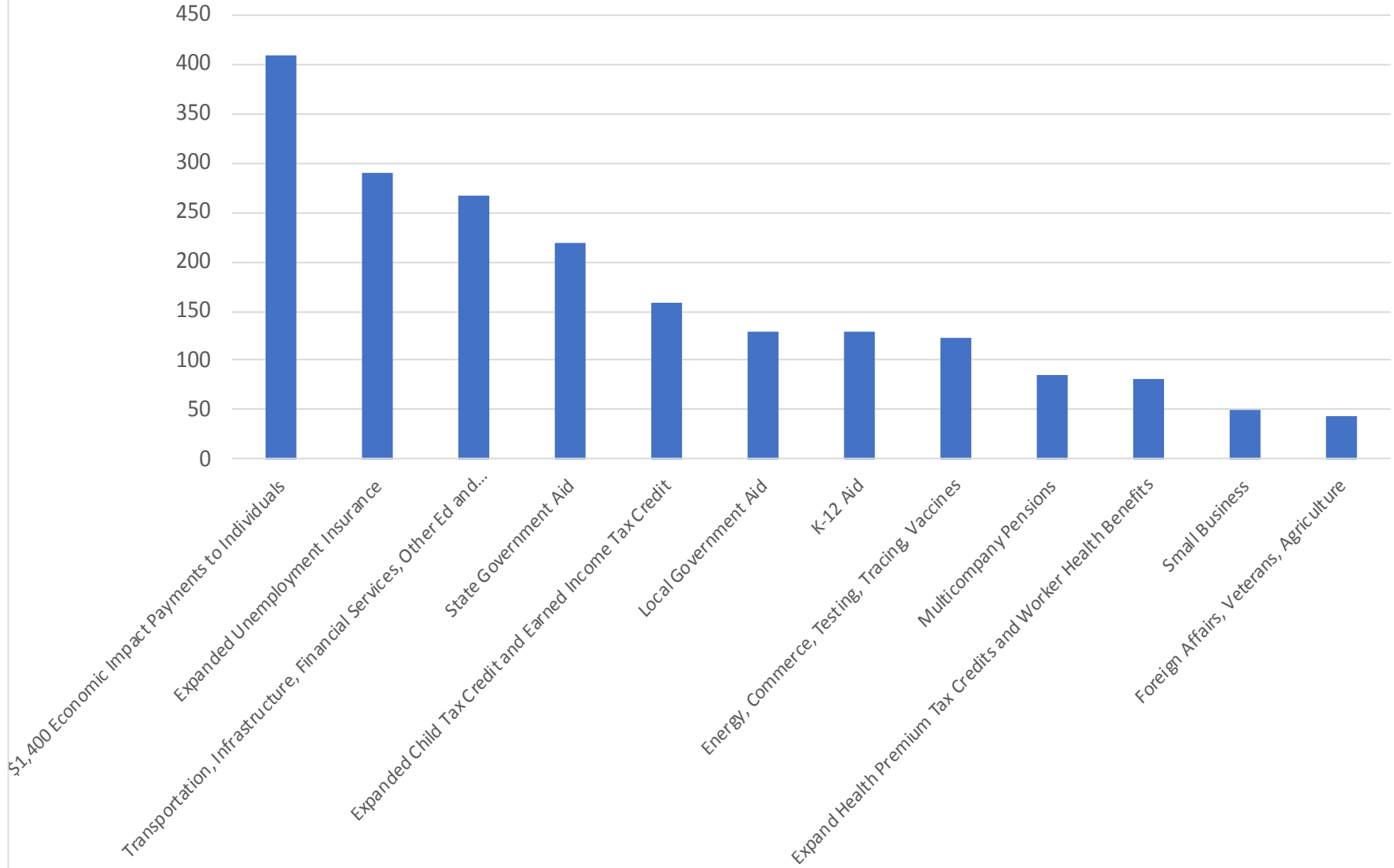
- No increase in Aid to Police (HB 599)
- Full funding of VFC requests for economic development, such as more Main Street, Enterprise Zones, Industrial Revitalization, and Brownfields funding.
- Instead of \$250 million increase in cash reserves, an additional one-time payment to reduce the VRS teacher pool would have provided long-term savings for state a local governments equivalent to a 7 percent annual return.

FY 2021 Revenues Have Rebounded Strongly, All but Guaranteeing a Large Revenue Surplus

	Original FY 21 Revenue Est.	August Special Session FY 21 Revenue Est.	Adopted Revenue FY 21 Est.	YTD April 2021 Actual
<i>Withholding</i>	3.9%	2.4%	2.7%	3.7%
<i>Estimated Pay/Tax Dues</i>	7.8%	-3.6%	4.4%	40.1%
<i>Refunds</i>	<u>4.2%</u>	<u>5.1%</u>	<u>23.7%</u>	<u>-1.1%</u>
Net Individual Income	4.8%	0.6%	0.6%	11.1%
Sales Taxes	1.3%	-9.7%	4.7%	8.7%
Corporate Income	-1.2%	3.0%	27.4%	59.2%
Recordation	-17.2%	-12.6%	24.4%	40.6%
Total Revenue Growth Over Prior Year	3.0%	-1.8%	2.7%	12.8%

Note: Non-withholding growth will moderate in last two months due to timing of tax filing versus last year

\$1.9 Trillion American Rescue Plan Spending (\$ Bil.)



Virginia Will Receive \$13.8 Billion in Direct Program Aid from ARPA

	<u>\$ Mil.</u>
State Recovery Funds	\$4,293.7
Local Recovery Funds	\$2,910.0
Elementary and Secondary School Emergency Relief	\$2,123.3
Higher Education Emergency Relief Fund	\$843.9
Child Care Grants	\$823.3
Public Transit Formula Assistance	\$800.1
Emergency Rental Assistance	\$450.7
Hoeowner Assistance Fund	\$258.4
Epidemiology and Lab Capacity for School Testing	\$257.1
Capital Projects Fund	\$221.7
State Small Business Credit Initiative	\$188.4
Vaccine Preparedness & Community Health Centers Access	\$162.6
HUD HOME Investment Partnerships	\$97.0
Low-income Energy Assistance	\$90.2
Human Services Assistance Programs	\$86.6
IDEA Grants to States, Preschool, Infants	\$73.3
Mental Health and Substance Block Grants	\$69.5
Emergency Assistance to non-public Schools	\$46.3
All Other	\$12.4

Expected ARPA Allocations to VFC Localities

Cities	Weldon Cooper	Amounts Listed by U.S. Treasury (\$ M)			Total	Per Capita \$
	July 1, 2019 Estimate	Metro Cities Allocation	Non-Entitlement Allocation	County Allocation		
Charlottesville City	49,181	\$10,428,843		\$9,180,866	\$19,609,709	\$399
Danville City	39,932	\$21,364,773		\$7,778,078	\$29,142,851	\$730
Hampton City	135,753	\$22,533,427		\$26,126,991	\$48,660,418	\$358
Harrisonburg City	53,997	\$13,536,358		\$10,297,736	\$23,834,094	\$441
Hopewell City	22,718	\$5,622,819		\$4,375,994	\$9,998,813	\$440
Lexington City	7,432		\$7,725,349	\$1,446,298	\$9,171,647	\$1,234
Lynchburg City	80,783	\$17,368,358		\$15,960,171	\$33,328,529	\$413
Martinsville City	12,793		\$13,024,984	\$2,438,467	\$15,463,451	\$1,209
Newport News City	181,000	\$31,981,891		\$34,812,355	\$66,794,246	\$369
Norfolk City	245,054	\$106,991,262		\$47,149,788	\$154,141,050	\$629
Petersburg City	31,430	\$14,873,246		\$6,088,593	\$20,961,839	\$667
Portsmouth City	94,581	\$38,506,859		\$18,335,705	\$56,842,564	\$601
Richmond City	226,841	\$110,120,336		\$44,759,492	\$154,879,828	\$683
Staunton City	24,971	\$8,113,077		\$4,842,749	\$12,955,826	\$519
Williamsburg City	15,383		\$15,515,024	\$2,904,639	\$18,419,663	\$1,197
Winchester City	28,180	\$6,883,860		\$5,453,822	\$12,337,682	\$438
Total VA First Cities	1,250,029	\$408,325,109	\$36,265,356	\$241,951,744	\$686,542,209	\$549
Total Virginia Allocation	8,535,519	\$618,276,089	\$633,753,549	\$1,657,924,506	\$2,909,954,144	\$341
VFC % of State	14.6%	66.0%	5.7%	14.6%	23.6%	

Uses of Local Relief Funds in ARPA



*Only use the funds provided under a payment made under this section (2 tranches) to cover costs incurred by the metropolitan city, non-entitlement unit of local government, or county, **by December 31, 2024:***

(A) to respond to the public health emergency with respect to COVID–19 or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;

- There is a **presumption of eligibility inside qualified low-income census tracts**, along with other impacted populations and geographic areas.
 - Direct cash and loan interventions
 - Assistance to business and non-profits
 - Impacted industries and workers
 - Investments in housing and neighborhoods, such as services to address individuals experiencing homelessness, affordable housing development, housing vouchers, and residential counseling and housing navigation assistance to facilitate moves to neighborhoods with high economic opportunity;
 - Addressing childcare and education disparities

Uses of Local Relief Funds in ARPA



(B) to respond to workers performing essential work during the COVID–19 public health emergency by providing premium pay to eligible workers that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;

- Funds are eligible to provide premium pay for "essential work" as work involving regular in-person interactions or regular physical handling of items that were also handled by others. Such workers include:
 - ✦ Staff at nursing homes, hospitals, and home care settings;
 - ✦ Workers at farms, food production facilities, grocery stores, and restaurants;
 - ✦ Janitors and sanitation workers;
 - ✦ Truck drivers, transit staff, and warehouse workers;
 - ✦ Public health and safety staff;
 - ✦ Childcare workers, educators, and other school staff; and
 - ✦ Social service and human services staff.

Uses of Local Relief Funds in ARPA



(C) for the provision of government services to the extent of the reduction in revenue due to the COVID–19 public health emergency relative to revenues collected in the most recent full fiscal year.

Treasury’s Interim Final Rule establishes a calculation methodology. Localities will compute the extent of their reduction in revenue by comparing their actual revenue to an alternative representing what could have been expected to occur in the absence of the pandemic. Begin with an FY 2019 baseline before the pandemic and project forward at either (a) the recipient’s average annual revenue growth over the three full fiscal years prior to the public health emergency or (b) 4.1%, the national average state and local revenue growth rate from 2015-18 (the latest available data). Treasury’s Interim Final Rule presumes that any diminution in actual revenue relative to the expected trend is due to the COVID-19 public health emergency.

1. Own source general revenue drawn from Census Bureau definition
2. Localities should sum across all revenue streams covered as general revenue
3. What is **excluded** from General Revenue:
 - refunds and other correcting transactions
 - proceeds from issuance of debt or the sale of investments
 - agency or private trust transactions
 - Utilities (NLC reviewing this with Treasury) and insurance trusts

Example Revenue Reduction Calculation



Localities can calculate a revenue reduction as of four points in time: December 31, 2020; December 31, 2021; December 31, 2022; and December 31, 2023.

1. A city had \$100m in revenue in FY 2019, the last full fiscal year before Jan. 27, 2020
2. The city finds that 4.1 percent is greater than city's average annual revenue growth in the three full fiscal years prior to the public health emergency
3. City has 18 months from the end of its base year (June 2019) to December 31, 2020, and its projected revenue would have been \$106.3m. $100m + [(1 + .041)^{(18/12)}]$
4. City had \$95m of actual revenue in CY 2020
5. The revenue loss for 2020 is \$106.3m - \$95m = \$11.3m
6. **If actual revenue exceeds calculation, then no revenue loss for that year**

Uses of Local Relief Funds in ARPA



(D) to make necessary investments in water, sewer, or broadband infrastructure.

- Projects eligible under the Clean Water State Revolving Fund
 - Construct, improve, and repair wastewater treatment plants; control non-point sources of pollution; create green infrastructure; manage and treat stormwater; water reuse; protect waterbodies from pollution.
- Projects eligible under the Drinking Water State Revolving Fund
 - Build or upgrade facilities to improve water quality; transmission, distribution, and storage systems; consolidation or establishment of drinking water systems.
- Cybersecurity
- Climate change and resilience projects
- Encourages modern, high-speed broadband fiber-optic projects where possible, in unserved or underserved communities. Financial assistance to households to support internet access or digital literacy is also an eligible use.

Reporting Requirements



1. Metropolitan cities must submit an interim report and quarterly Project and Expenditure reports thereafter.
2. Metropolitan cities with a population in excess of 250,000 will also be required to submit an annual Recovery Performance Plan to Treasury.
3. Non-entitlement units of local government (NEU) are NOT required to submit interim reports or Recovery Performance Reports. However, NEUs will be required to submit annual Project and Expenditure reports.

Key Documents on Uses of ARPA Funding



Fact Sheet:

<https://home.treasury.gov/system/files/136/SLFRP-Fact-Sheet-FINAL1-508A.pdf>

Interim Final Rule:

<https://public-inspection.federalregister.gov/2021-10283.pdf>

ELEMENTARY AND SECONDARY SCHOOL EMERGENCY RELIEF FUND (ESSER III)



CHARLOTTESVILLE CITY PUBLIC SCHOOLS	\$10,065,919
DANVILLE CITY PUBLIC SCHOOLS	\$29,674,337
HAMPTON CITY PUBLIC SCHOOLS	\$54,800,634
HARRISONBURG CITY PUBLIC SCHOOLS	\$11,822,224
HOPEWELL CITY PUBLIC SCHOOLS	\$12,531,043
LEXINGTON CITY PUBLIC SCHOOLS	\$441,286
LYNCHBURG CITY PUBLIC SCHOOLS	\$28,413,544
MARTINSVILLE CITY PUBLIC SCHOOLS	\$8,801,782
NEWPORT NEWS CITY PUBLIC SCHOOLS	\$82,142,456
NORFOLK CITY PUBLIC SCHOOLS	\$113,301,572
PETERSBURG CITY PUBLIC SCHOOLS	\$22,608,275
PORTSMOUTH CITY PUBLIC SCHOOLS	\$46,708,351
RICHMOND CITY PUBLIC SCHOOLS	\$122,811,024
STAUNTON CITY PUBLIC SCHOOLS	\$6,258,501
WILLIAMSBURG CITY	\$2,703,488
WINCHESTER CITY PUBLIC SCHOOLS	\$8,188,762
VFC Total	\$561,273,201
VFC % of State	29.6%

Summary of ARPA K12 Allowed Uses



Activities authorized under federal programs like ESEA, IDEA, Perkins & McKinney-Vento;

Developing and implementing procedures and systems to improve Division preparedness and response efforts;

Cleaning, sanitizing, and associated training and planning;

Educational technology;

Mental health services and supports;

Planning and implementing activities to address the unique needs of low-income children or students, children with disabilities, English learners, racial and ethnic minorities, students experiencing homelessness, and foster care youth;

Eligible uses to include school re-construction projects, facility repairs, and air quality upgrades **directly related to the COVID-19 pandemic.**

ARPA Funding – Transformational, If Well Thought Out



- The Administration, General Assembly, and localities should think hard on how to leverage the money to accomplish agreed-upon priorities shared by the state AND localities (e.g., poverty reduction).
- For example, there will be money for transit & rail infrastructure and equipment but without passengers the impact will be stunted. Think about using ARP funds to provide free or substantially reduced fares/tickets to encourage ridership again.
- Find ways to leverage ARPA funding for inclusive small business development through the new CDFI Fund and other creative mechanisms.
- School rehabilitation/modernization. This is an opportunity to meaningfully address the capital needs of local schools. Leveraging state ARPA dollars with local and school ARP dollars is one way to address this longstanding problem. Because needs of local school divisions are so different it will be necessary to have more than one formula. A growing school division like Loudoun County has very different needs and resources than the Cities of Richmond or Petersburg. The state can even give an extra incentive to those localities that have approved an additional 1.0 percent sales tax increase for the capital needs of their schools.
- Broadband is another critical area. There is enough federal money to accelerate broadband expansion in underserved areas, to help low-income households pay for broadband services, and provide computers to low-income households. Some of the broadband policies embedded in the Appropriation Act will hinder development. Localities and public authorities should be authorized to move ahead in this area without the need of private partners when no private provider is available. The 10.0 percent pilot program cap language in the Budget Bill before you is a hinderance.
- There are K-12 needs beyond capital. This lost school year will have a negative impact on academic achievement. The ARPA has separate funding for K-12 in addition to the money available in the two Recovery Funds. DOE and local school divisions should work together to come up with strategies that can be employed to boost academics. A one-size-fits-all strategy will not be in tune with the different needs fragmented by region and local resources and demographic pressures.
- A tracking system for spending is important. One approach is for both the state and localities to record their spending by major program categories, e.g., small business development, public education, public health, etc.