

How Is Budget Flexibility for the 2016-18 Biennium Going to Be Spent?

Virginia First Cities Coalition

Fiscal Analytics, Ltd

October 30, 2015

The Good News: Additional 2016-18 Revenues Likely - Even With FY15 Surplus Consumed by Rainy Day Fund

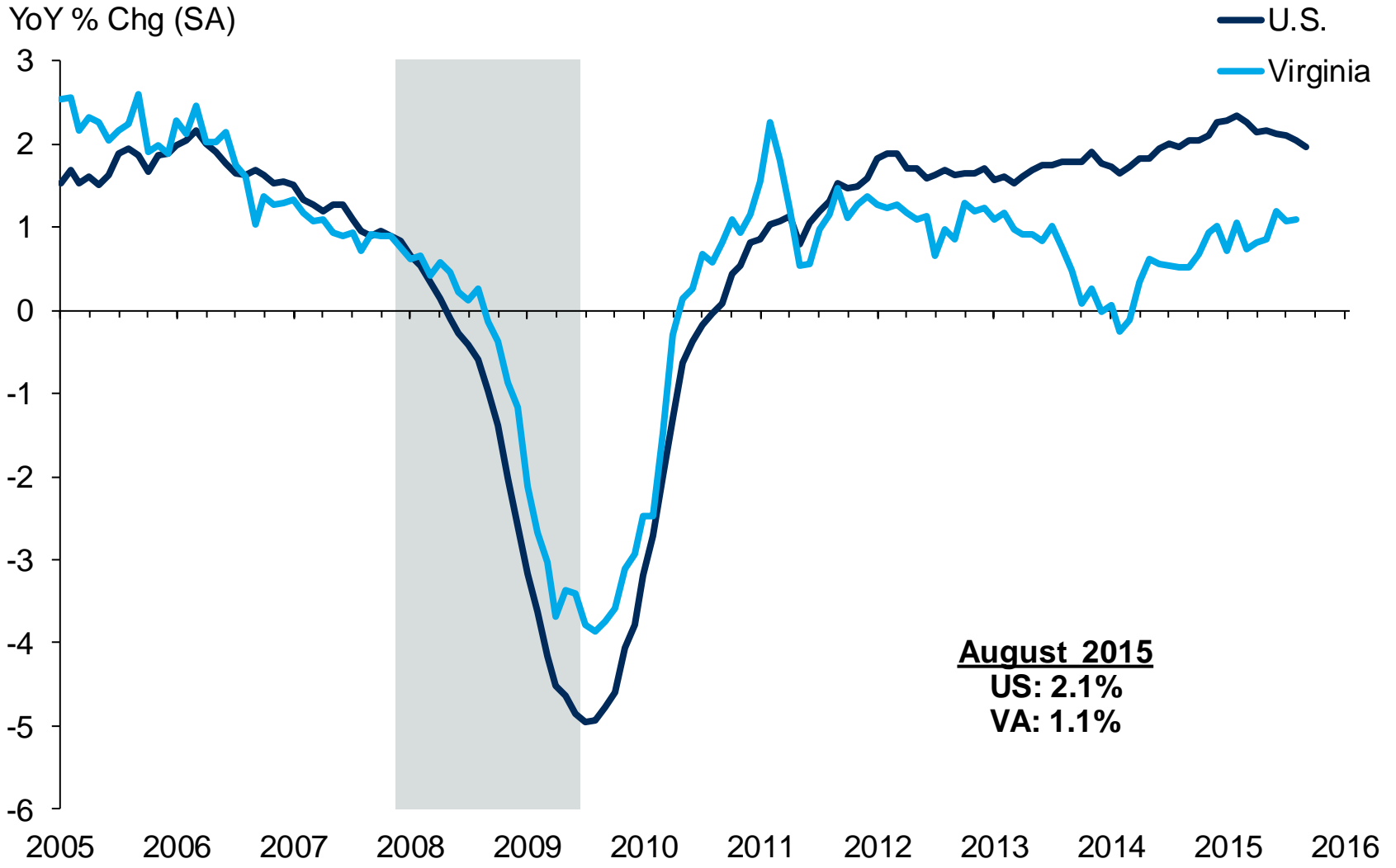
Fiscal Year	Official Growth	Official GF Revenues	Adj. Est. Growth	Adjusted GF Revenues	Difference
2014	-1.6%	\$16,411	-1.6%	\$16,411	\$0
2015	4.7%	\$17,186	8.1%*	\$17,736*	\$550
2016	3.1%	\$17,721	3.1%	\$18,289	\$568
2017	2.1%	\$18,092	2.1%	\$18,673	\$581
2018	3.7%	\$18,755	3.7%	\$19,364	\$609

* Preliminary Actual, FY 2015 surplus consumed by Rainy Day Fund constitutional deposit requirements

Will General Fund Growth Rates Perform Better than Expected?

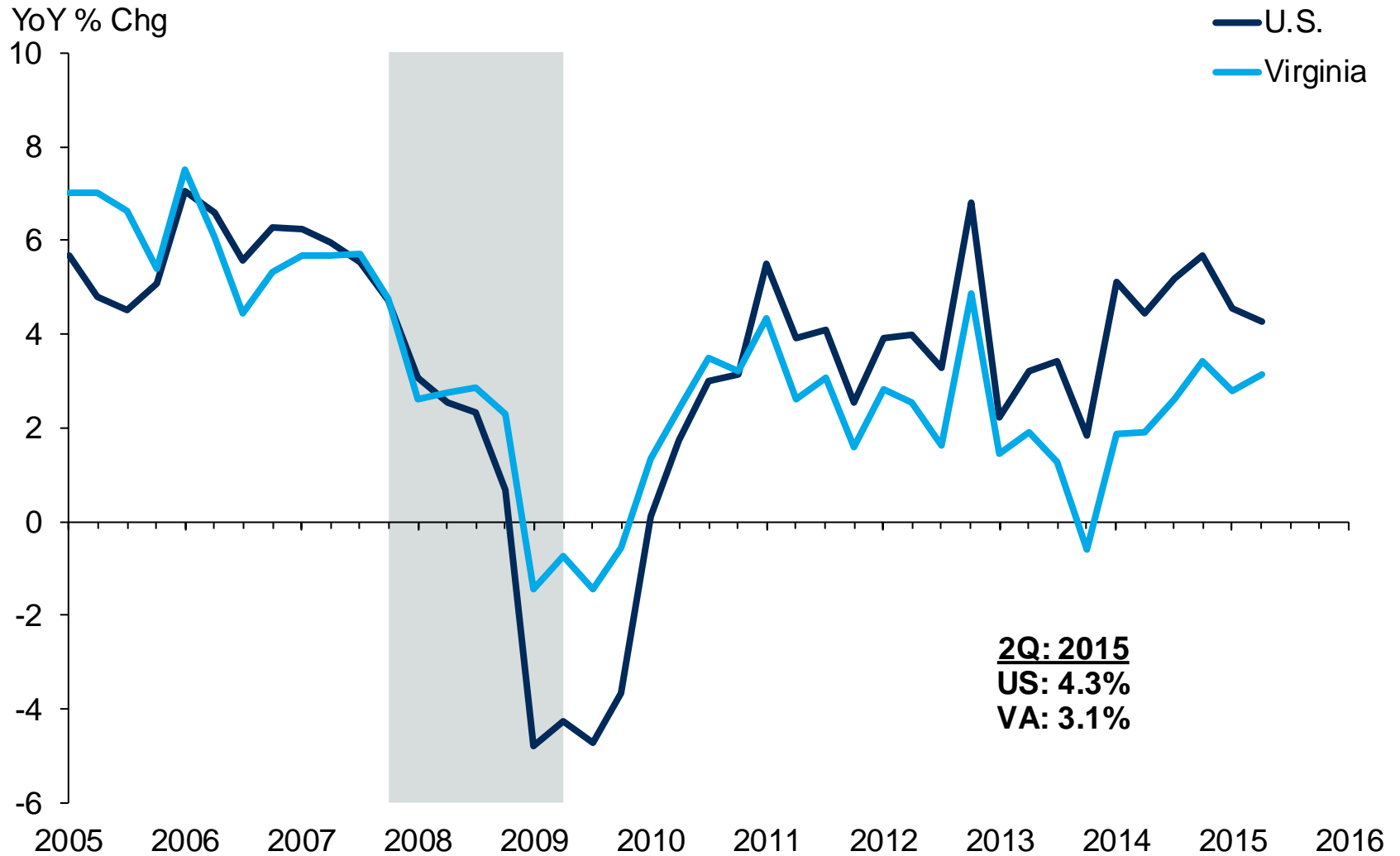
- Accurate revenue forecasting has proven to be especially difficult in recent years.
 - Income tax withholding (64% of GF) currently growing about 4-5 percent.
 - Non-withholding (16% of the GF) is a difficult revenue source to forecast (e.g., increased 2013 federal tax rates and recent strong stock market gains).
 - Will federal budget issues (especially defense spending cuts) slow Virginia's economy again?
- Virginia economy seems to be improving, even though still underperforming overall U.S. employment and income growth.
 - NoVa employment growth is bouncing back (2.4% Yr over Yr August growth, stronger professional/business services).

Virginia Payroll Employment



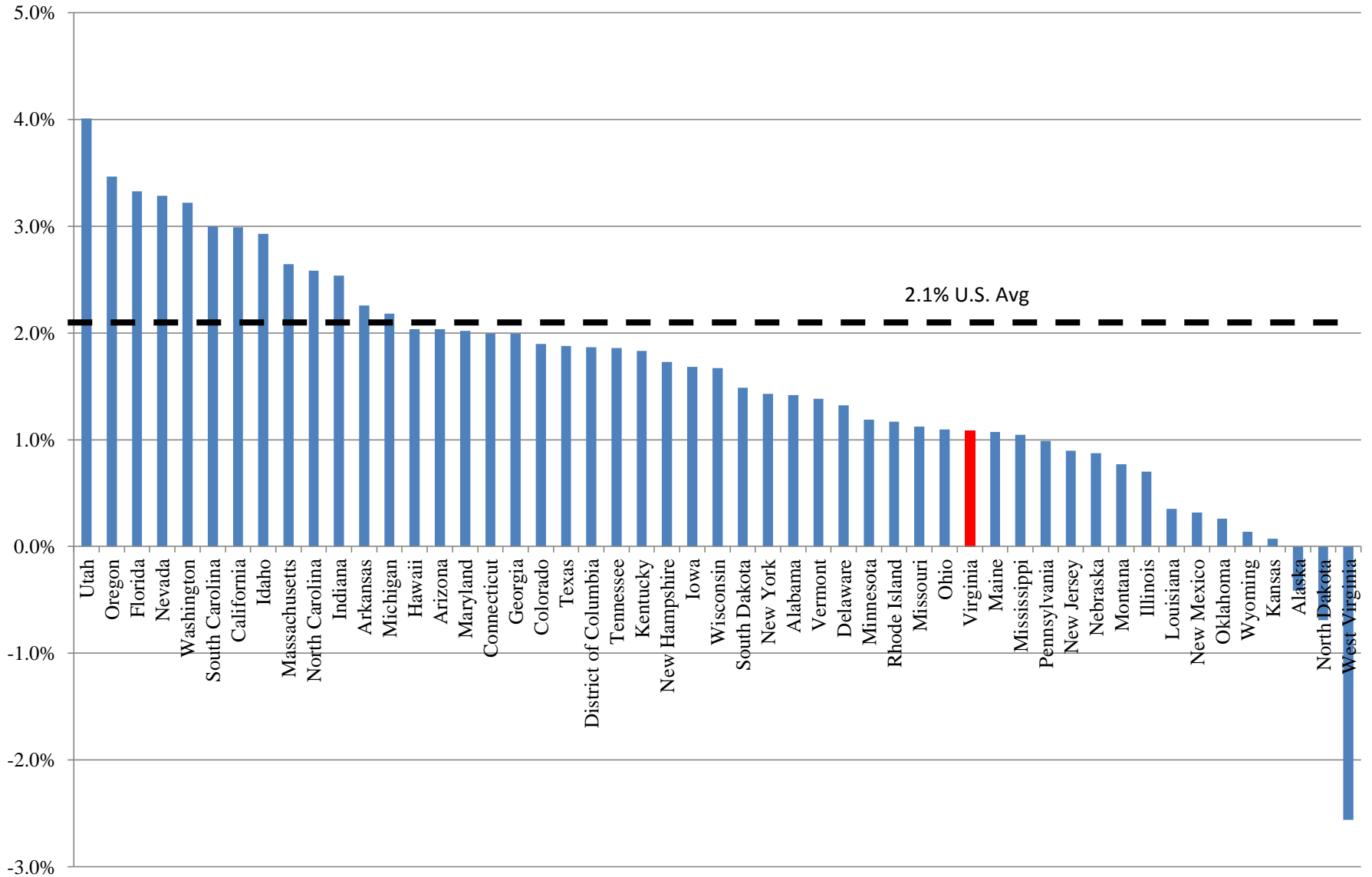
Source: Bureau of Labor Statistics/Haver Analytics

Virginia Wages and Salaries

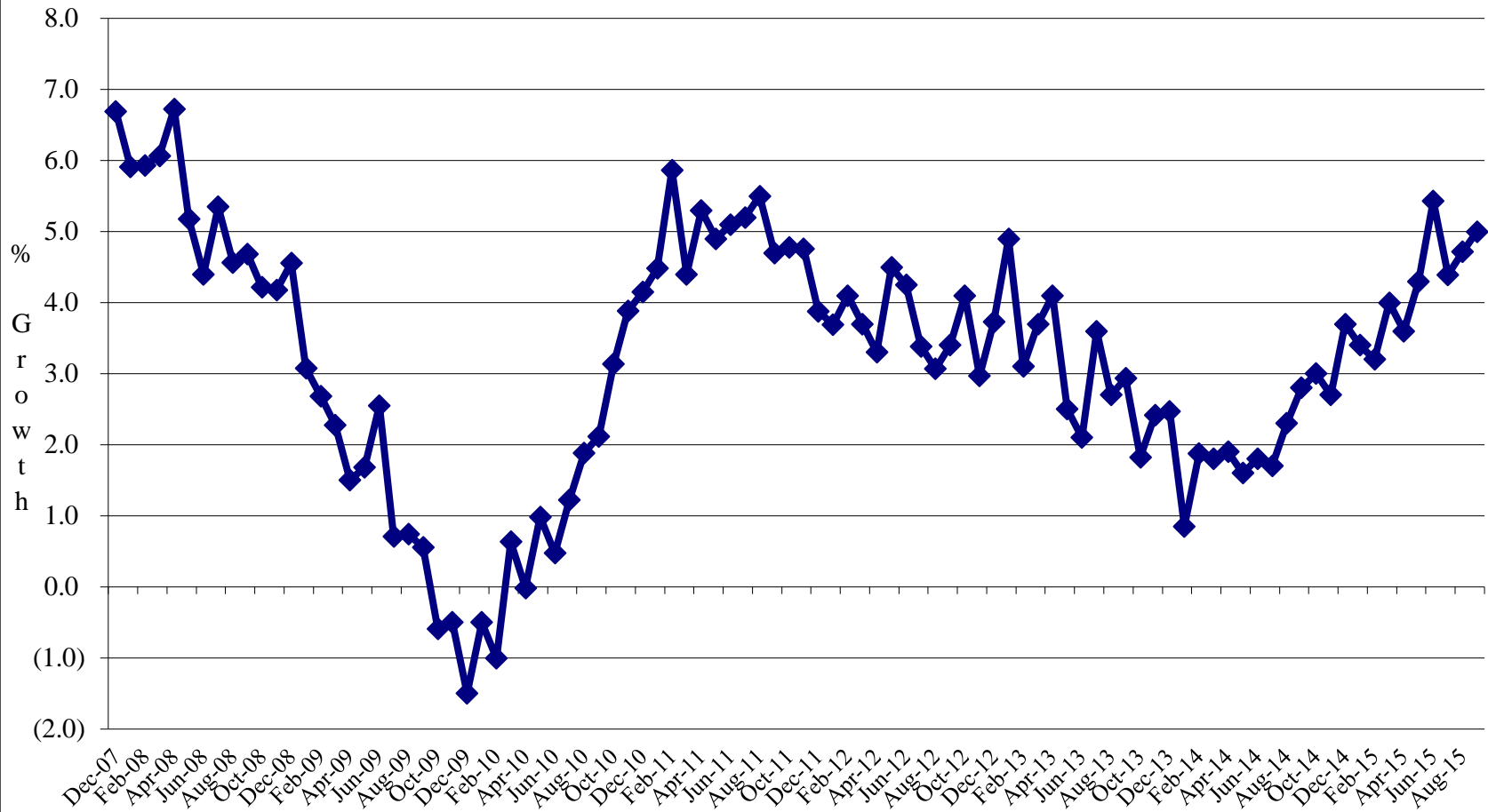


Source: Bureau of Economic Analysis/Haver Analytics

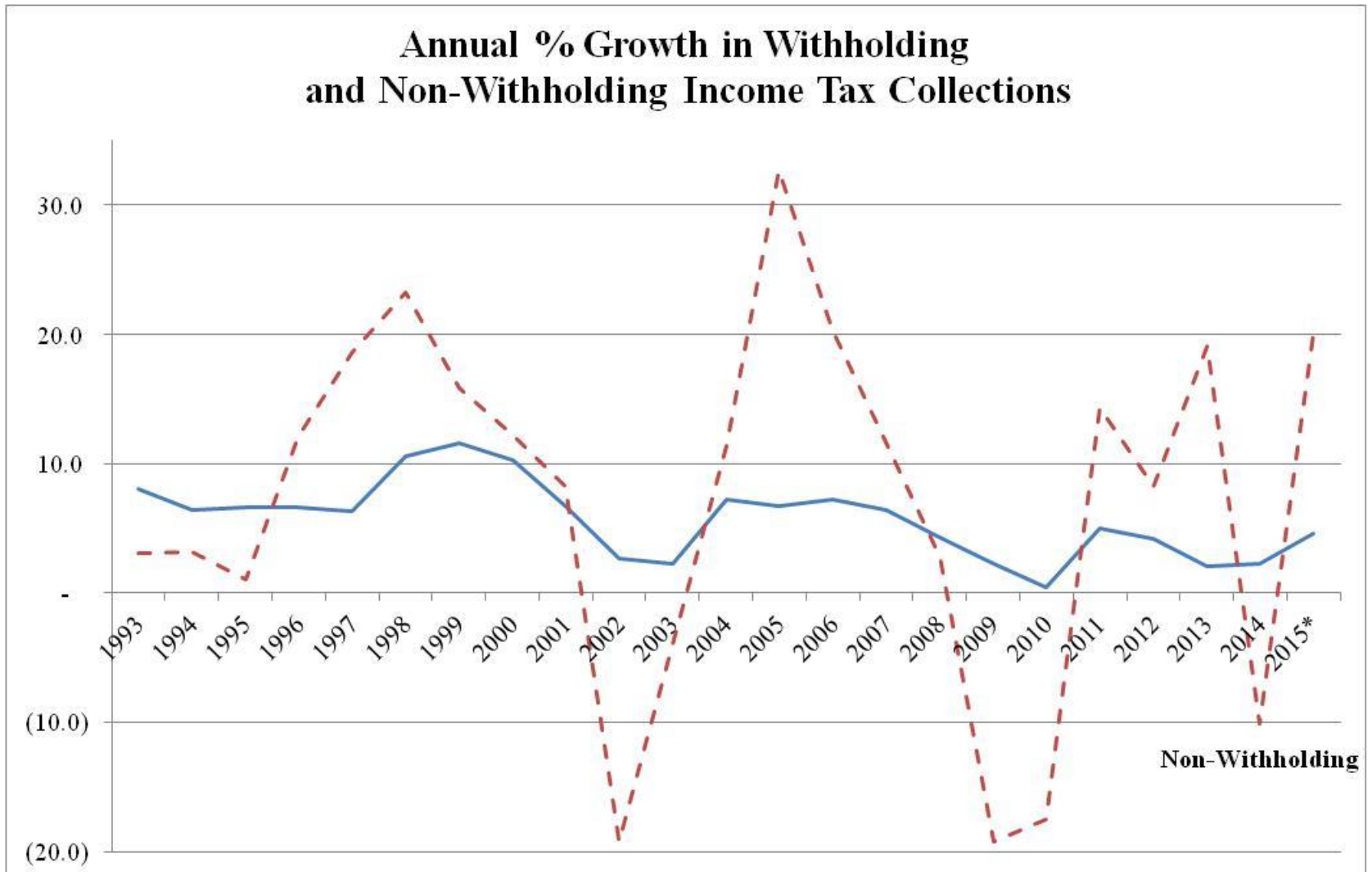
August 2015 States' Year-over-Year Employment Growth



Improving Growth in Individual Income Tax Withholding (62% of GF; 12 Mo. Moving Avg % Growth Thru Sept.)



Non-Withholding Income Tax (16% of GF) Is a Volatile Revenue Source

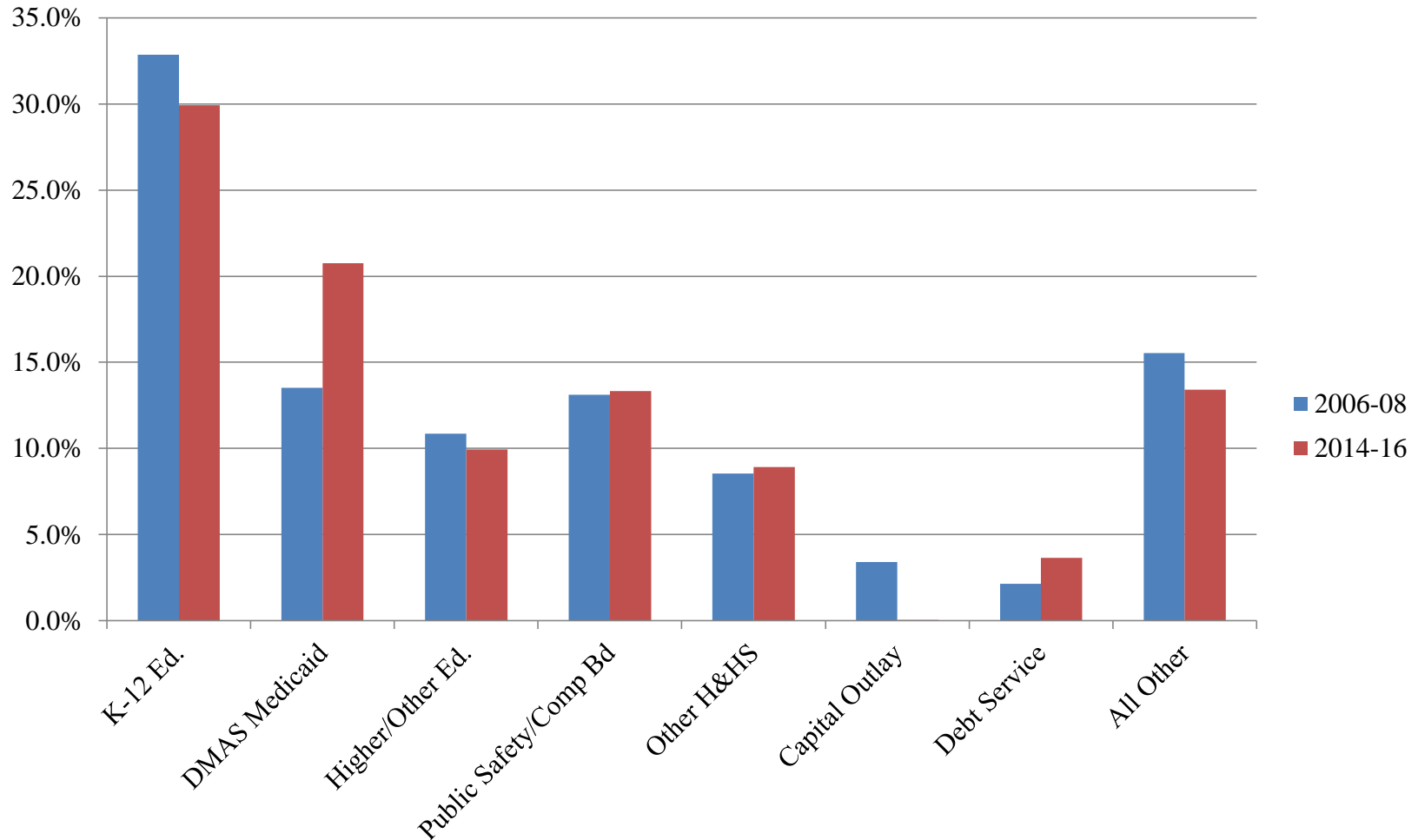


2014-16 General Fund Appropriations Currently \$1.6 Bil. Above the FY 14 Base

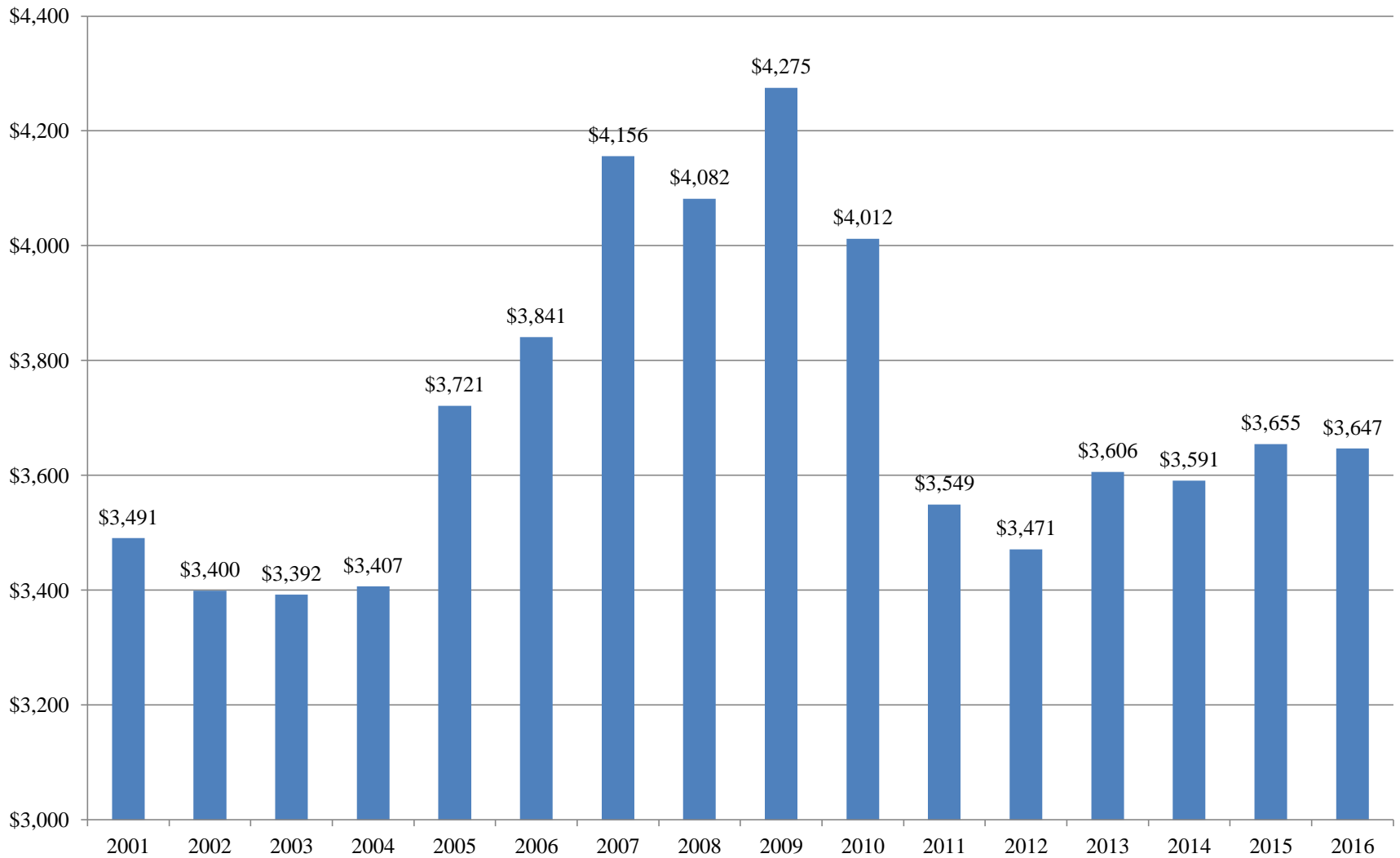
	<u>2015 Session Adopted Budget</u>			<u>FY14-16 over FY14 x 2</u>
	FY 2014 Budget	FY 2015 Budget	FY 2016 Budget	
Legislative and Executive Dept's	103.2	109.0	107.7	10.3
Judicial Dept.	425.2	452.6	455.4	57.6
Administration/Comp Board	654.1	689.6	680.5	61.8
Treasury Board GF Debt Service	608.5	672.1	683.7	138.7
Other Finance/Technology	171.8	179.8	181.5	17.5
Rainy Day Fund	339.6	372.7	-	(306.5)
Car Tax Reimbursement	950.0	950.0	950.0	-
Commerce and Trade	183.3	181.9	197.0	12.3
Agriculture / Nat. Resources	144.0	184.3	174.4	70.7
K-12 Education/Central Office	5,292.7	5,456.5	5,615.3	486.5
Higher & Other Education	1,782.1	1,813.6	1,865.5	114.9
DMAS Medicaid	3,519.8	3,694.4	3,987.2	642.0
Other Health & Human Services	1,541.5	1,646.1	1,658.1	221.1
Public Safety & Veterans/HS	1,699.0	1,802.8	1,836.1	240.8
Transportation	42.0	13.2	69.1	(1.7)
Central Appropriations	247.2	20.4	160.2	(313.8)
Independent Agencies/Capital	<u>1.2</u>	<u>1.4</u>	<u>142.6</u>	<u>141.6</u>
Total GF Appropriations	\$ 17,705.2	\$ 18,240.2	\$ 18,764.2	1,593.9
GF Resources	\$ 17,304.1	\$ 18,301.0	\$ 18,767.3	
Balances		\$ 186.4	\$ 1.9	
Unspent Balance		\$ 247.2	\$ 5.1	

Medicaid Spending Is Crowding Out Other State Spending Priorities

**Change in Share of State General Fund Appropriations
2006-08 to 2014-16 Bienniums**



Real Inflation-Adjusted State K-12 Appropriations Below 2005 (FY 2001 \$ Per Pupil - All State Appropriated Funds)



Key Statistics for VFC Localities

	<u>VFC FY 15 Amount</u>	<u>% of State</u>
Population - July 2014	1,224,439	14.7%
K-12 ADM	155,097	12.5%
Free Lunch Program	106,199	24.1%
Total K-12 State Aid	\$965,018,787	15.5%
Major K-12 At-Risk Programs	\$127,018,787	31.4%
Street Maintenance Payments	\$137,395,096	39.7%
HB 599 Aid to Police	\$62,201,545	36.1%
CSA Non-Medicaid State Pool Fund	\$31,022,504	30.4%

2016-18 State GF Budget:

Unless Growth Estimates Decline, There Should be Some Flexibility Beyond K-12 Rebenchmarking and Medicaid

- 2016-18 biennial GF base budget about \$37.5 billion. Available GF resources (balances, revenues, transfers) of about \$39.7 billion assuming current forecasted growth rates (i.e., \$2.2 bil. above base budget). Additions to base budget could include:
 - Initial K-12 Rebenching (\$341 million – net of \$47 mil. VPI non-participation); Final Rebenching: Update LCI, enrollment, VRS, lottery and sales tax revenues
 - Medicaid inflation and utilization (5% growth=\$600 mil; 7% growth=\$850 mil)
 - Higher education base funding increases and initiatives.
 - Other health & human service increases, such as behavioral health enhancements.
 - Already authorized but unissued VA tax-supported debt about \$5 bil. New debt service capacity for issuance about \$550 million/yr. Cash for capital spending?
 - Restore agency cuts and one-time reductions? Increased employee health care costs?
 - Salary increases for state employees, teachers, faculty?
 - Accelerate full funding of VRS? Current projected 2016-18 teacher rate of 14.76% represents 90% of full contribution rate needed.
 - Restore spending cuts for local-administered, state-priority programs, including K-12?
 - Funding for new initiatives, such as “GO Virginia”?
 - Tax policy initiatives such as repealing the accelerated sales tax payment, or new economic development incentives?

The Achievement Gap Persists

32 Percent of All Schools Are Not Fully Accredited (2014-15)

Fully Accredited	1249
Provisionally/Conditionally Accredited	23
Accredited with Warning	541
Accreditation Denied	13

2014-15 SOL Pass Rates

	<u>English</u>	<u>Math</u>
Asian	90	93
White	86	85
Hispanic	71	73
Black	65	67
Economically Disadvantaged	66	68
Limited English Proficiency	61	67

VFC believes Virginia needs to do more to close the public education “achievement gap” for economically disadvantaged students. Nearly one-third of Virginia’s schools are not fully accredited, with many “Priority” and “Focus” schools in our districts.

Particular issues:

- At-risk children often enter public school system with more limited vocabulary and social skills, making it difficult to reach needed reading skills by 3rd grade.
- Difficult to attract certified and highly qualified teachers to underperforming schools.
- Traditional school day and year not well suited to needs of at-risk students.
- Underperforming schools often have older buildings and equipment that contribute to a difficult teaching environment.

Strategies to consider:

- Give leadership flexibility and tools to manage and turn around underperforming schools.
- More teaching aides are needed to complement and assist teachers in underperforming schools. These schools need more literacy coaches, reading and math specialists, and general teaching aides in the classrooms.
- Consider pay changes to attract highly qualified teachers to underperforming schools.
- University curriculums need better training for placing teachers in urban school divisions. Use the VCU teacher residency program as a best practice model.
- Ensure extended school day/year strategies are employed and funded that fit the needs of a particular school division.
- Bring a set of “holistic” before, during, and after school wrap-around programs to underperforming schools.
- Build a high quality VPI program with good teachers and a flexible policy toward eligibility that encourages mixing of children from different backgrounds and income levels.

VASS Spring 2015 Superintendent Survey

“Great Recession” Spending Cuts Are Still Felt

92 percent of school divisions responded. Key findings included:

- 10,180 FTE reduced, including 5,138 teachers.
- 87% of respondents who reduced staff have added duties to the remaining staff
- 77% of respondents believe that teachers have left their division due to their salary.
- 20% have reduced compensation and 44.5% of divisions have reduced employees' benefits since FY 2009.
- 71% of divisions have increased class sizes since FY 2009.
- 23% of divisions closed schools for financial reasons.
- 52% of divisions reduced curricular programs.
- 29% of have reduced co-curricular programs.

Recent JLARC Report on K-12 Spending Agrees With Funding Assessment

- Virginia spends less to educate each student than a decade ago
 - 7% less per student adjusted for inflation (FY 2005-14).
 - Non-instructional spending was reduced the most.
 - Health insurance spending increased 66%.
- More than 80% of divisions reported challenges in recruitment and retention. High turnover may reduce instructional effectiveness.
- Teacher support services declining.
- Divisions spent 30% less to operate and maintain facilities since 2005.

Unfunded State Aid to Police (HB 599) Since FY 2000*			
	Current Appropriation	Annual Loss in FY 2016	Cumulative Loss Since FY 2000
Charlottesville	\$2,012,665	\$1,119,748	\$7,900,954
Hampton	\$6,523,451	\$3,629,328	\$25,409,511
Hopewell	\$1,267,000	\$704,897	\$4,939,084
Lynchburg	\$2,930,790	\$1,630,548	\$11,372,778
Martinsville	\$841,560	\$468,203	\$3,213,158
Newport News	\$8,742,111	\$4,863,682	\$34,191,033
Norfolk	\$11,174,995	\$6,217,220	\$44,601,973
Petersburg	\$2,022,234	\$1,125,072	\$7,921,662
Portsmouth	\$5,786,667	\$3,219,418	\$23,082,817
Richmond	\$13,894,018	\$7,729,951	\$55,675,952
Roanoke	\$5,339,407	\$2,970,585	\$20,525,555
Staunton	\$858,609	\$477,688	\$3,326,919
Winchester	<u>\$812,804</u>	<u>\$452,204</u>	<u>\$3,184,566</u>
Total VFC	\$62,206,312	\$34,608,543	\$245,345,961
Total State	\$172,412,837	\$87,853,786	\$583,951,450
* As compared to the statutory requirement			
to fund at the rate of growth in GF revenues			

The Need for Community Wealth Building

	2013 Median Household Income	Non-Marital Births %	2013 All Poverty Rate	2013 Child Poverty Rate	2014 On-Time HS Graduation	2011-13 Violent Crime per 100,000	2011-13 Property Crime per 100,000	2011-13 Drug Arrests per 100,000	Crime Change from 2007-09
Charlottesville	\$45,320	33.7%	22.9%	25.3%	88.8%	446	3,370	584	Down (Drug up)
Hampton	\$45,293	47.1%	15.6%	21.0%	84.0%	236	3,513	739	Down
Hopewell	\$39,440	65.8%	22.6%	31.4%	79.5%	493	3,891	886	Down (Drug up)
Lynchburg	\$39,918	40.7%	22.6%	28.0%	81.2%	376	2,826	522	Down (Drug up)
Martinsville	\$31,046	67.6%	25.8%	37.8%	86.7%	342	3,417	506	Down (Drug up)
Newport News	\$47,421	49.2%	17.5%	26.7%	88.0%	437	3,180	1,024	Down
Norfolk	\$42,949	48.1%	23.3%	33.1%	78.9%	562	4,645	410	Down (Drug up)
Petersburg	\$32,623	70.7%	28.1%	51.8%	82.6%	507	3,986	1,958	Down (Drug up)
Portsmouth	\$43,041	54.8%	20.9%	33.7%	85.1%	553	5,337	649	Down
Richmond	\$39,249	64.4%	25.4%	36.6%	80.5%	649	4,175	956	Down
Roanoke	\$37,223	55.9%	23.3%	35.6%	83.4%	537	4,724	1,212	Down
Staunton	\$39,712	44.9%	15.8%	24.1%	90.0%	187	2,264	754	Down
Winchester	\$43,943	51.9%	14.1%	22.2%	90.2%	245	4,117	1,101	Down (Drug up)
Total State	\$62,745	34.6%	11.7%	14.4%	89.9%	191	2,139	533	Down (Drug up)

2016-18 State Agency Funding Requests of Particular Interest to VFC

- **Comp Board:** Add \$21.5 mil. for jail per diems to support the increased cost of housing local responsible and state responsible inmates in local and regional jail facilities based on actual inmate populations and growth rates; \$10.3 mil. for corrections officers for local and regional jails with overcrowding rates that exceed 40% of operational capacity to meet up to 50% of their overcrowding deputy/officer staff need; \$20.2 mil. to meet 25% of the Commonwealth's responsibility for staffing needs for constitutional officers.
- **DHCD:** Add \$32 million the Housing Trust Fund; \$2 mil. per year to both the VA Enterprise Zone Program and Industrial Revitalization (Derelict Structures) Fund.
- **CSA:** Add \$32.8 mil. GF in 2016-18 biennium to cover CSA enrollment growth and savings that did not materialize from a new waste, fraud, abuse analytical system; \$20.6 mil. GF to eliminate the local match responsibility for residential TFC Case Management Services; \$21.5 mil. GF to cover costs of education for students placed in Medicaid-eligible residential treatment facilities that bypassed CSA processes; \$21.0 mil. to eliminate the local match for non-mandated children and serve as an incentive for localities to utilize all their non-mandated funding.
- **CSB'S:** Various proposed grants to localities to address community mental health needs.
- **Direct Aid to Public Education:** Add \$2.2 mil. per year for the Extended School Year Program; \$500,000 per year to the Teacher Residency Program; \$1 mil. per year to the Virginia Tiered Systems of Support program to assist school divisions in building capacity to decrease disciplinary actions, increase student academic potential, and to collaborate across systems to integrate wraparound services including mental health supports for students in need.
- **DOC:** \$1.2 mil. to cover increased costs for the Community Residential Program that provides re-entry short-term housing and services such as substance abuse treatment, individual/group counseling, urinalysis, basic life skills, and job placement.