

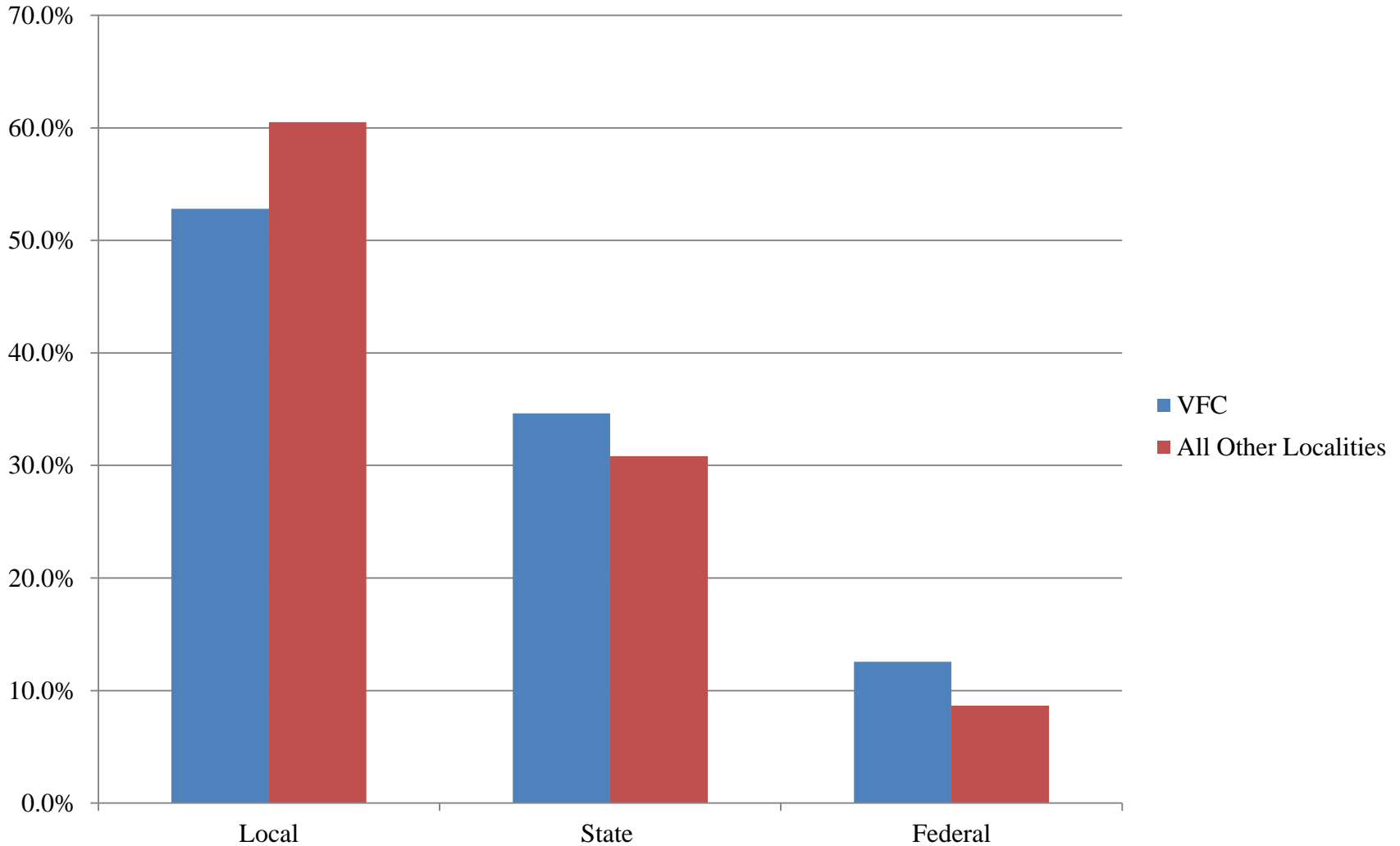
Forecasting 2012-14 Finances for Virginia First Cities

James J. Regimbal Jr.

VFC Fall Legislative Forum

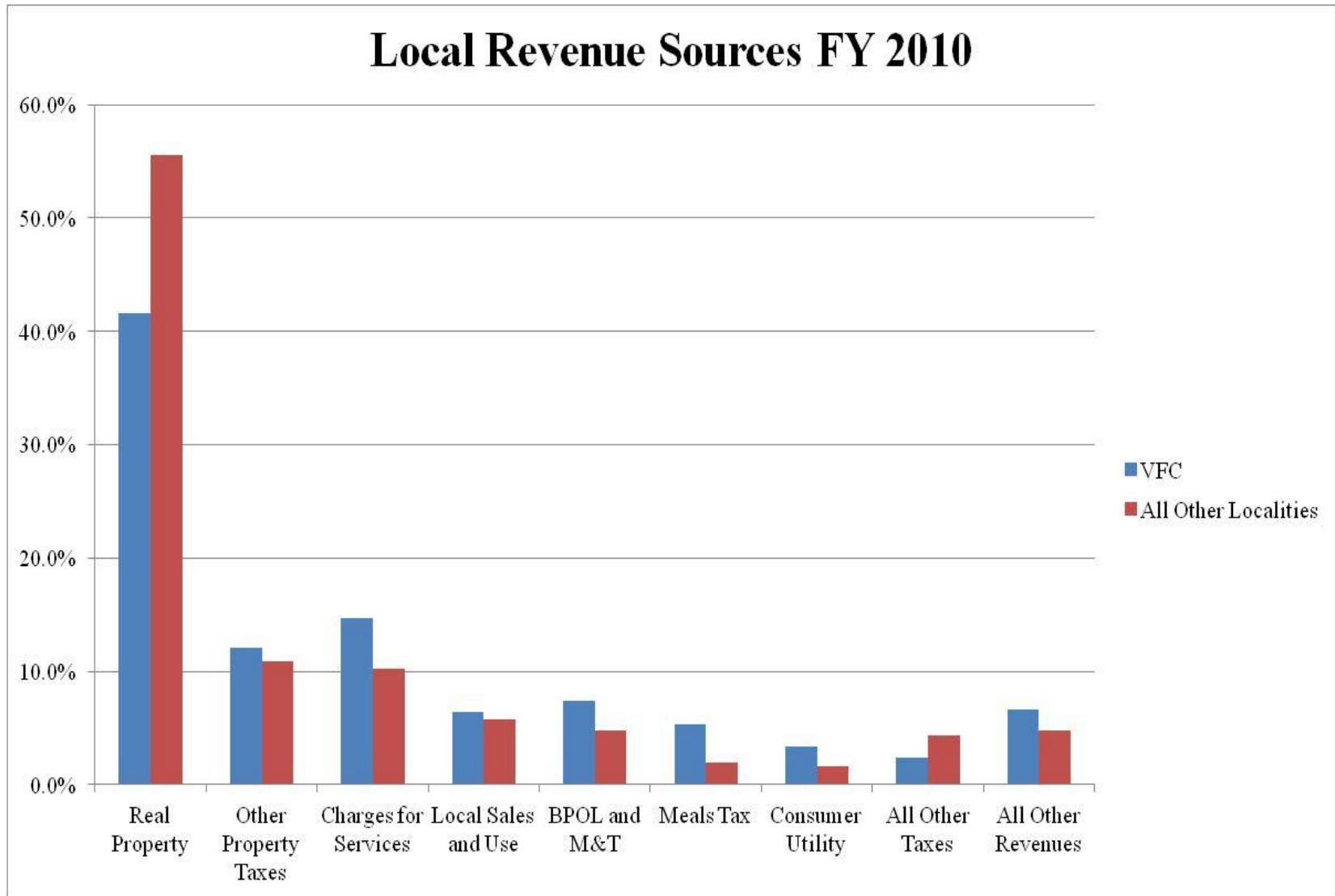
December 2, 2011

VFC Relies More on State and Federal Revenue



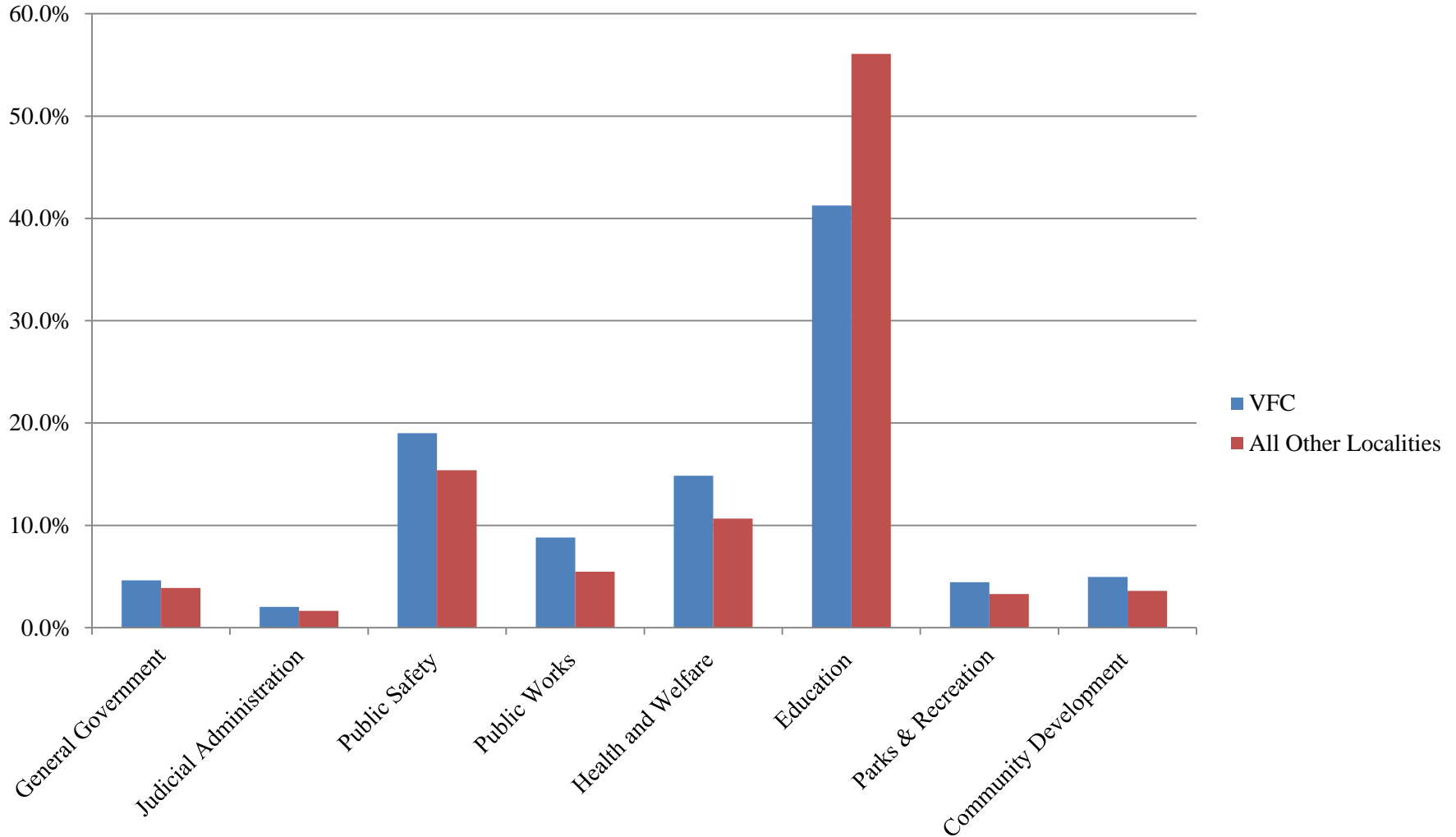
Source: Auditor of Public Accounts Comparative Report of Revenues and Expenditures, FY 2010

... And Relies Less on Real Property Taxes

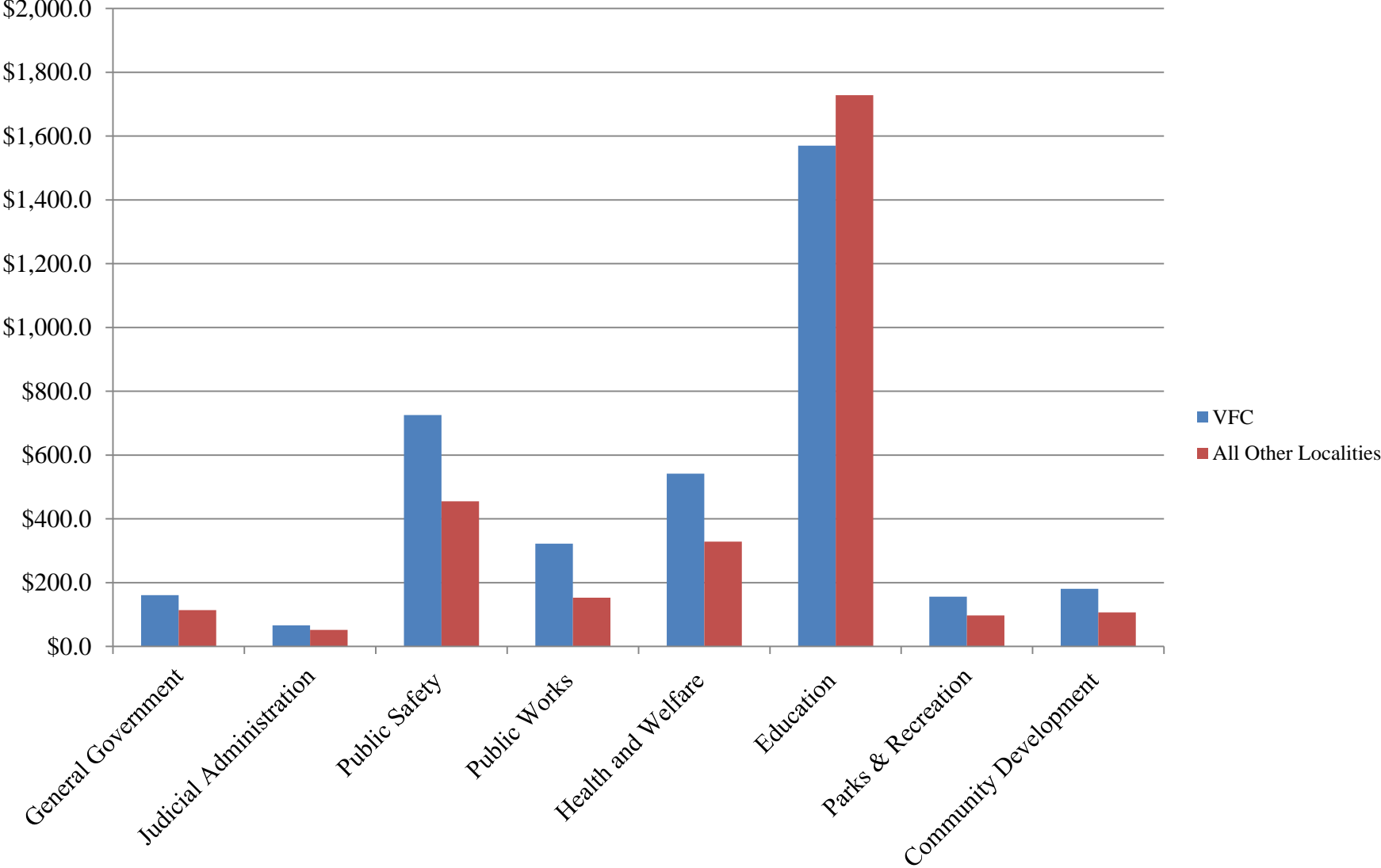


Source: Auditor of Public Accounts Comparative Report of Revenues and Expenditures
 Note: Communication sales taxes no longer considered local revenue – state appropriated

VFC Has to Spend a Greater Percent of Budgets On Areas Other Than Education



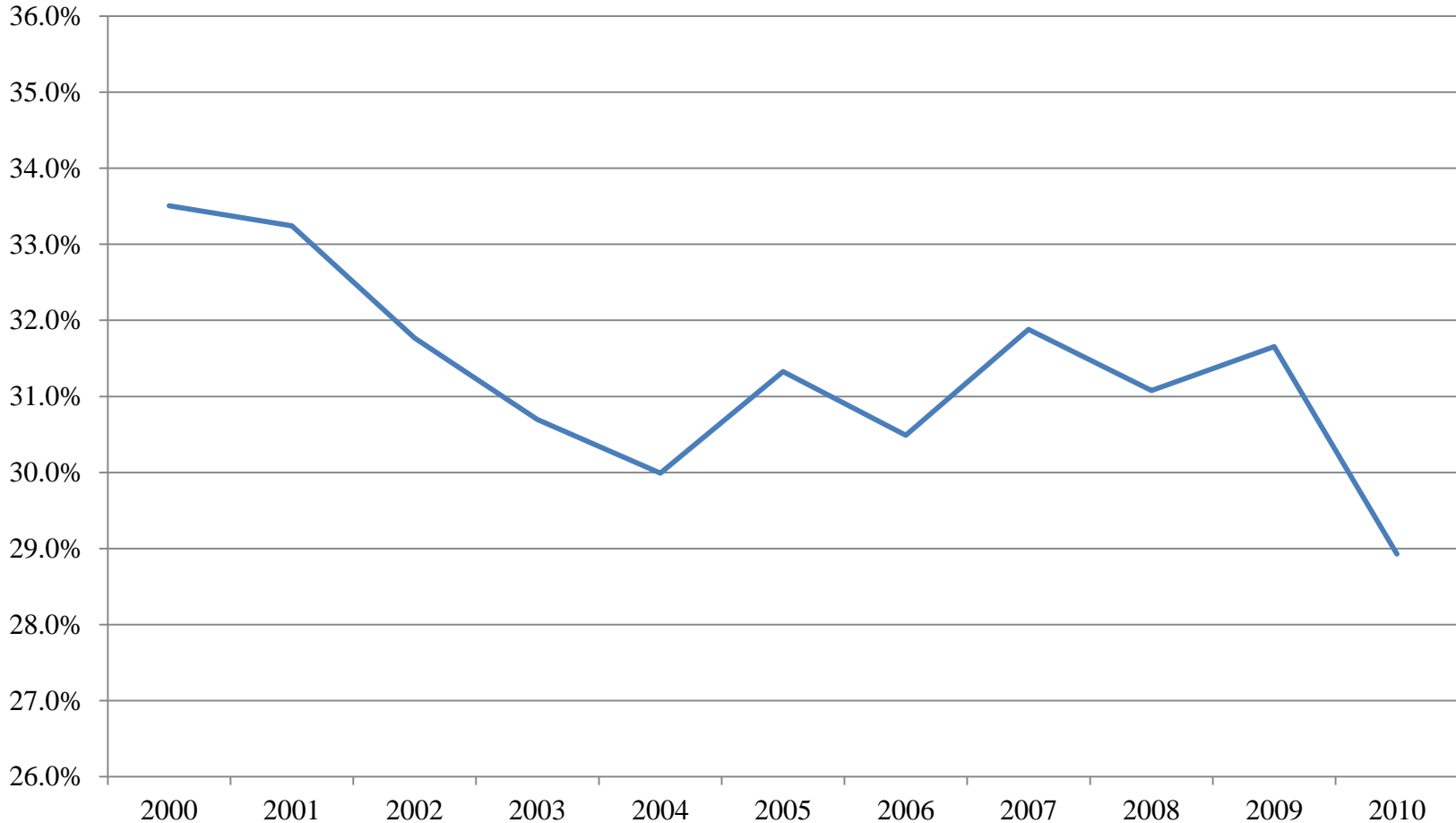
...And More Per Capita Expenditures as Well



Source: Auditor of Public Accounts Comparative Report of Revenues and Expenditures, FY 2010

State Funding is Falling for Localities

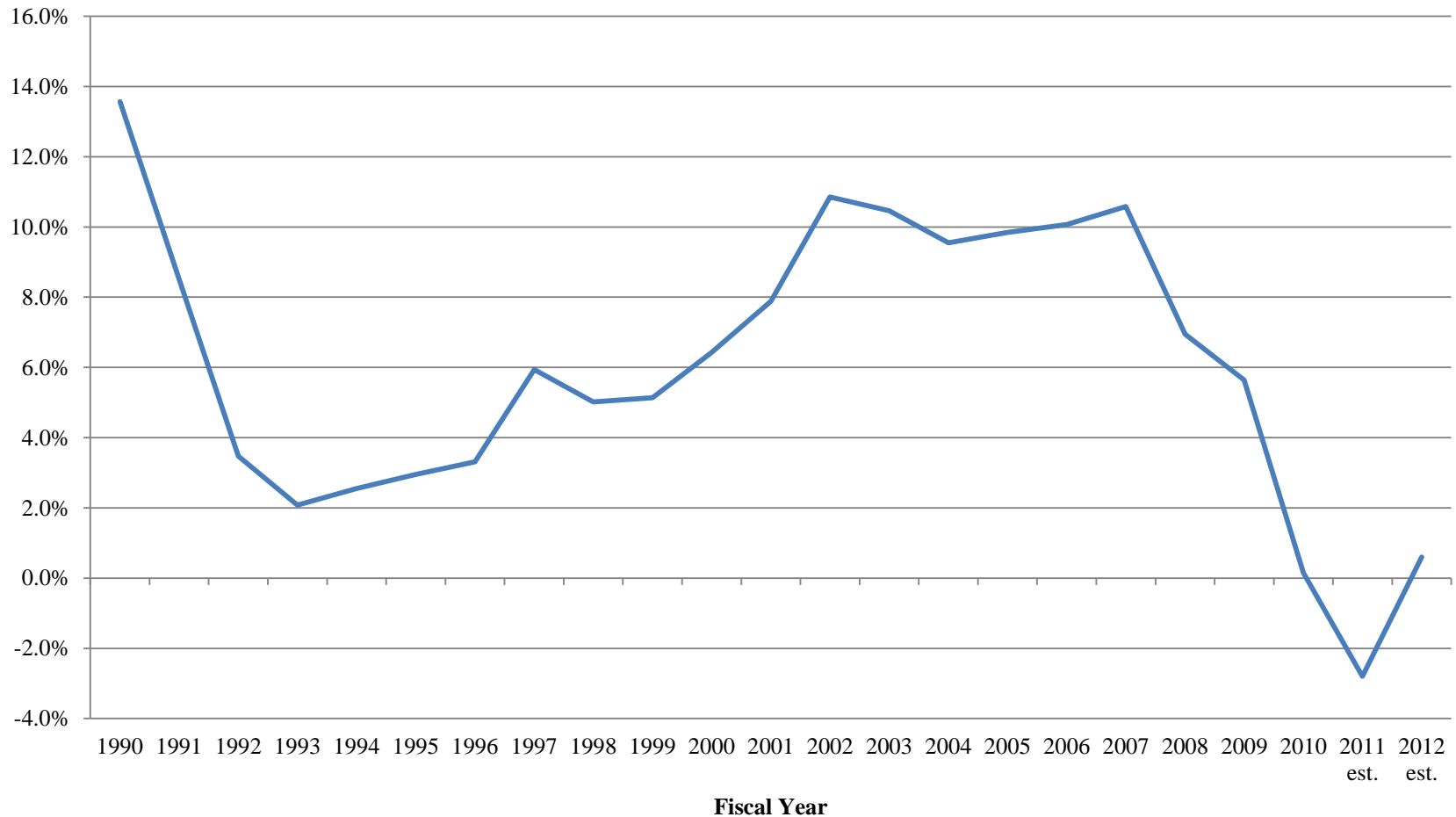
State Categorical Aid As % of Total Local Operating Expenditures



Source: APA Comparative Reports on Local Revenues and Expenditures

And a Continuing Real Estate Recession

Growth in Real Property Tax Revenues – All Localities



Source: 1990-2010, Auditor of Public Accounts
FY 11 & 12 estimates from VML/VACO Fiscal Survey

Recession Took a Bite Out of State General Funds for Locally-Administer Programs

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
GF Direct Aid to K-12	\$5,607.6	\$4,769.8	\$4,713.3	\$4,951.8
Health and Human Services	\$888.4	\$878.7	\$816.8	\$850.5
<i>CSA *</i>	\$299.7	\$279.2	\$271.2	\$270.1
<i>Community MH/MR Services</i>	\$249.4	\$256.5	\$230.1	\$269.0
<i>Local Social Services Staff</i>	\$117.4	\$117.4	\$114.4	\$114.3
<i>Community Health Programs</i>	\$117.6	\$116.9	\$106.1	\$109.3
<i>Welfare Services and Programs</i>	\$104.3	\$108.7	\$95.0	\$87.8
Public Safety	\$734.3	\$556.8	\$686.0	\$667.7
<i>Local Sheriffs Offices</i>	\$406.1	\$257.1	\$408.2	\$399.2
<i>Local Police Depts HB 599</i>	\$197.3	\$180.8	\$178.7	\$172.4
<i>Local/Regional Jail Per diem</i>	\$80.1	\$68.1	\$53.7	\$49.9
<i>Assistance for Juvenile Justice</i>	\$50.8	\$50.8	\$45.4	\$46.2
Constitutional Officers	\$155.3	\$142.2	\$144.2	\$143.8
Car Tax	\$950.0	\$950.0	\$950.0	\$950.0
Aid-to-Locality Reduction	<u>(\$50.0)</u>	<u>(\$50.0)</u>	<u>(\$60.0)</u>	<u>(\$60.0)</u>
Total Local GF Aid	\$8,285.6	\$7,247.5	\$7,250.3	\$7,503.8
Total GF Appropriations	\$15,943.0	\$14,787.2	\$15,457.4	\$16,556.9

State Public Education Aid - All Funds

	Final State K-12 Payments*			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>Fy 2012</u>
CHARLOTTESVILLE	20,162,267	18,209,909	17,289,551	17,520,933
HAMPTON	145,266,313	135,538,915	117,968,151	117,523,523
HARRISONBURG	24,044,062	23,950,306	23,053,125	24,796,737
HOPEWELL	26,824,337	26,046,227	23,061,010	23,548,237
LYNCHBURG	53,046,373	50,206,716	43,842,471	43,814,734
MARTINSVILLE	17,136,996	15,835,232	13,573,931	13,648,481
NORFOLK	222,231,277	207,807,101	183,061,554	180,075,734
PETERSBURG	34,023,407	31,412,400	26,927,707	26,962,494
PORTSMOUTH	105,492,801	100,469,875	87,481,086	86,313,421
RICHMOND CITY	144,187,298	134,481,853	121,081,589	119,905,043
ROANOKE CITY	80,060,110	75,977,269	67,083,616	67,557,854
STAUNTON	17,950,563	16,384,851	14,738,589	15,026,509
WINCHESTER	17,157,276	16,603,816	15,640,127	16,596,020
Total VFC	907,583,080	852,924,470	754,802,507	753,289,720
VFC Change		-6.0%	-11.5%	-0.2%
Statewide	6,307,483,275	5,664,288,900	5,466,800,463	5,574,314,047
Change		-10.2%	-3.5%	2.0%

* Includes state appropriated federal stimulus funding for K-12

State Aid For Locally-Delivered Programs Was Not a Priority in the 2011 Session

- Out of \$615 million in additional 2011 Session biennial GF revenues, locally-delivered programs received an increase of about \$78 million - 13 percent of the additional funding.

Priorities were:

- Higher Education
- Medicaid
- Partial restoration of VRS contributions
- Mental Health
- Rainy Day Reserve
- Transportation and Economic Development
- VITA Contract

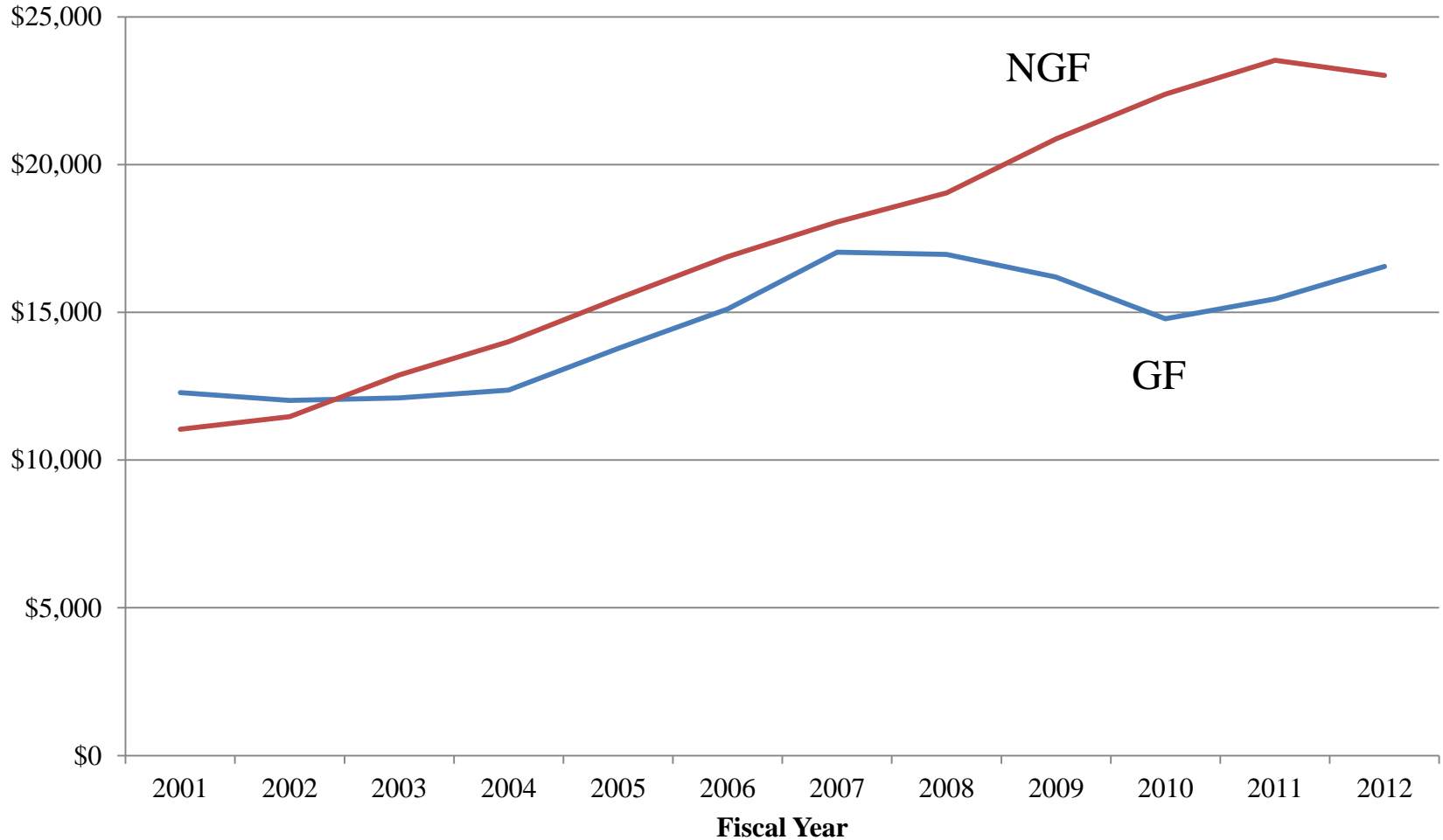
Locals Also See Little New State Aid From FY 2011 Surplus

Governor's Proposal to Spend FY 2011 GF Surplus

	<u>\$ Mil.</u>
Surplus GF Revenues	\$310.7
Unspent GF Appropriations	<u>\$170.5</u>
Total FY 2011 GF Surplus Available:	\$481.2
Spending Required in the Budget or in Legislation:	
Revenue Stabilization Fund	\$132.7
2/3 Remaining to TTF	\$67.2
Water Quality Improvement Fund	\$50.3
Accelerated Sales Tax to Transportation	\$26.0
Unemployment Compensation Interest	\$8.9
Oceana BRAC Contingency Appropriation	\$7.5
Sheriff's Contingency Appropriation	<u>\$7.4</u>
Total Required Spending	\$300.0
Spending Proposed by Governor:	
Re-appropriated GF Operating Balances	\$84.4
Proposed Federal Action Contingency Fund	\$30.0
Proposed VRS Payment & Other Non-recurring	\$18.7
Natural Disaster Reserve	\$17.3
Treasury Loan Repay for Capitol Renovations	\$13.1
Other Planned Reversions & Miscellaneous	<u>\$17.7</u>
Total Proposed Expenditures	\$181.2

Can Other Payors Continue to Absorb More State Costs?

State Appropriations (\$ Mil.)



GF avg. annual growth rate = 2.7%
NGF avg. annual growth rate = 6.9%

10 Year Change in Largest State Appropriations - All Funds (\$ Mil.)

	<u>FY 2001</u>	<u>FY 2011</u>	<u>% Change</u>
VA Community College System	\$491.60	\$1,410.80	187%
VA Employment Commission	\$411.60	\$1,035.40	152%
Medical Assistance Services (Medicaid)	\$3,053.70	\$7,532.50	147%
George Mason	\$308.60	\$747.90	142%
University of VA (incl. Medical)	\$1,151.80	\$2,237.40	94%
Virginia Tech	\$547.80	\$1,003.70	83%
VCU	\$529.10	\$943.50	78%
Personal Property Tax Relief	\$572.40	\$950.00	66%
Dept. of Social Services	\$1,221.00	\$1,918.90	57%
Direct Aid to Public Education	\$4,356.80	\$6,248.40	43%
Virginia Dept. of Health	\$420.80	\$570.60	36%
Dept. of Corrections	\$824.00	\$1,011.10	23%
Dept. of Behavioral Health	\$756.90	\$928.50	23%
Dept. of Transportation	\$2,840.70	\$3,366.40	19%
Compensation Board	\$522.90	\$624.80	19%

State Budget Drivers

% Change FY 2001 – FY 2010

Demographics:

Children Health Insurance (SCHIP/FAMIS) Enrollees	106%
Medicaid Enrollees	45%
Pop. Ages 65 and Over	23%
Higher Ed Enrollment	21%
State-Responsible Inmates	12%
Total VA Population	11%
VA K-12 Enrollment	10%
VA Employment	3%
Salaried State Employees	-2%

Inflation:

CPI - Medical	42%
CPI-All Urban	23%
State Employee Salary Avg.	22%

Revenue Base:

Non-General Fund Revenues	103%
Ind. Income Tax Withholding	47%
VA Wages & Salaries	41%
Taxable Sales	31%
Total General Fund Revenues	28%
Ind. Income Tax Non- Withholding	6%

General Fund Tax Changes Have More Than Neutralized 2004 Tax Increase

	<u>Enacted/Amended</u>	<u>2010-12 (\$ Mil.)</u>
Age Subtraction (net of means testing)	1994/2004	(\$555)
Subtraction for UI/Military/Gov't Empl	1999	(\$73)
Historic Rehab Tax Credit	1999	(\$92)
Coalfield Employment Tax Credits	2000	(\$89)
Low Income Tax Relief	2000, 2004, and 2007	(\$377)
Land Preservation Tax Credit	2003	(\$275)
2004 Tax Reforms*	2004	\$1,780
Elim. 2.5% Sales Tax on Food	2004	(\$437)
Shift Insurance Premiums and Recordation from GF to Transportation	2009	(\$340)
Estate Tax Repeal	2009	(\$280)
Other Tax Changes since 1999	1999-2011	(\$182)
Total		(\$919)

* Includes cigarette tax increase dedicated to Health Care Fund

Sources: Senate Finance Committee Retreat, Revenue Outlook, Nov. 18 , 2010

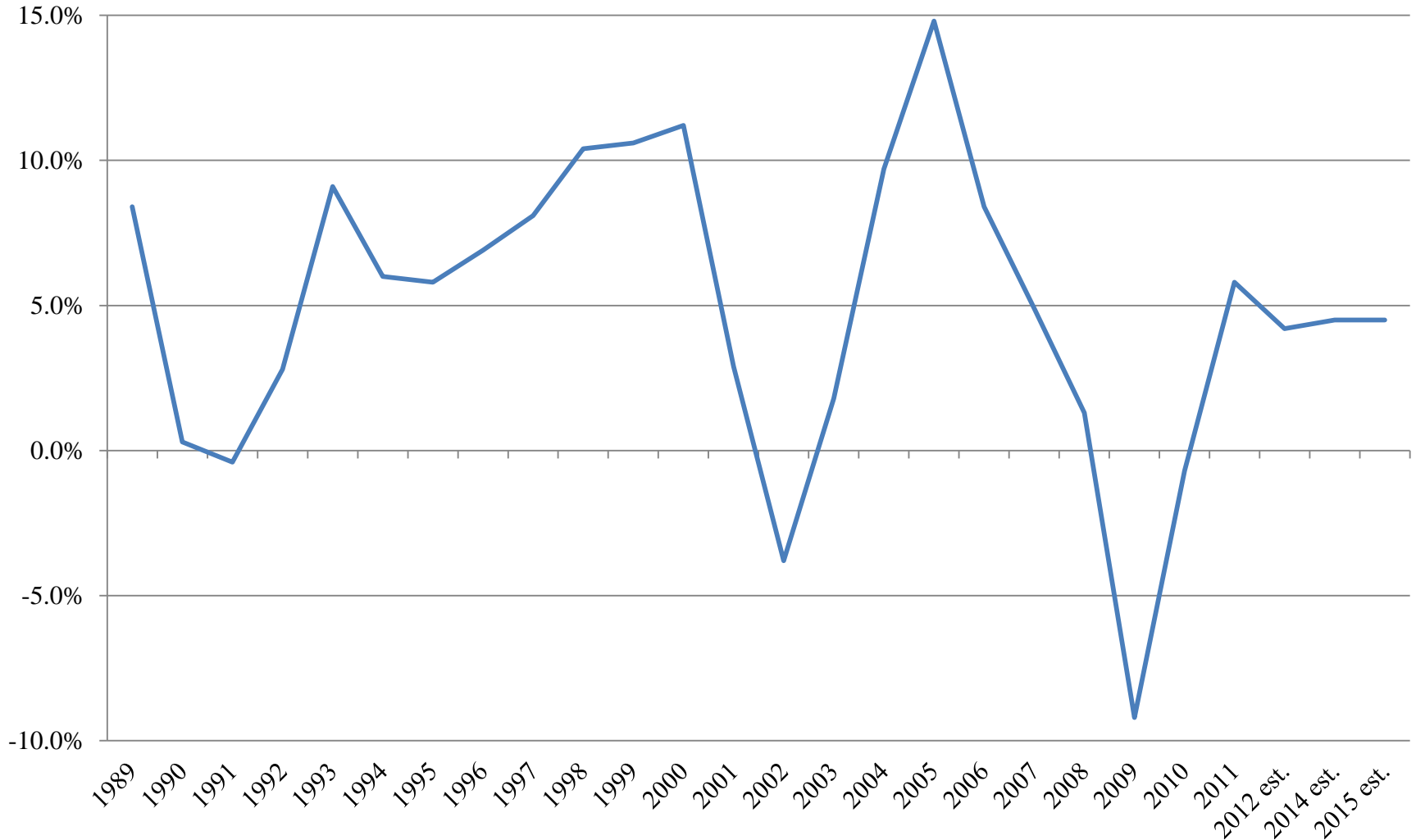
Summary of Amendments to the 2010-2012 Budget, Money Committee Staff. May 2010

Reasons the state will not restore cuts to core programs

1. Revenues not growing as fast as usual coming out of a recession (under 5% revenue growth expected in 2012-14).
2. Rainy Day Fund must be restored – Half of any GF revenue growth above prior 6-yr. avg. (2% now) goes to RDF.
3. VRS contribution rates for teachers and state employees will be significantly increased.
4. Medicaid spending continues to grow faster than state revenues. 2014 impact of federal health care big unknown, but law as written would add up to 425,000 new Medicaid recipients.
5. Use of one-time revenues/savings in recession have to be replaced with ongoing revenues.
6. Concern over potential impact of federal deficit reductions.

Revenues Not Rebounding as Fast

Growth in General Fund Tax Revenues



Retirement Rates Set to Rise

	<i>2011 & 2012 VRS Board Rates</i>	FY 2011	6/25/2011- 3/24/2012	3/25/2012- 6/24/2012	FY 2012-14 VRS Board Rates *	FY 2012-14 HAC Retreat Option **
State	8.46%	2.13%	2.08%	6.58%	13.07%	8.80%
Teachers	12.91%	3.93%	6.33%	6.33%	16.77%	11.71%

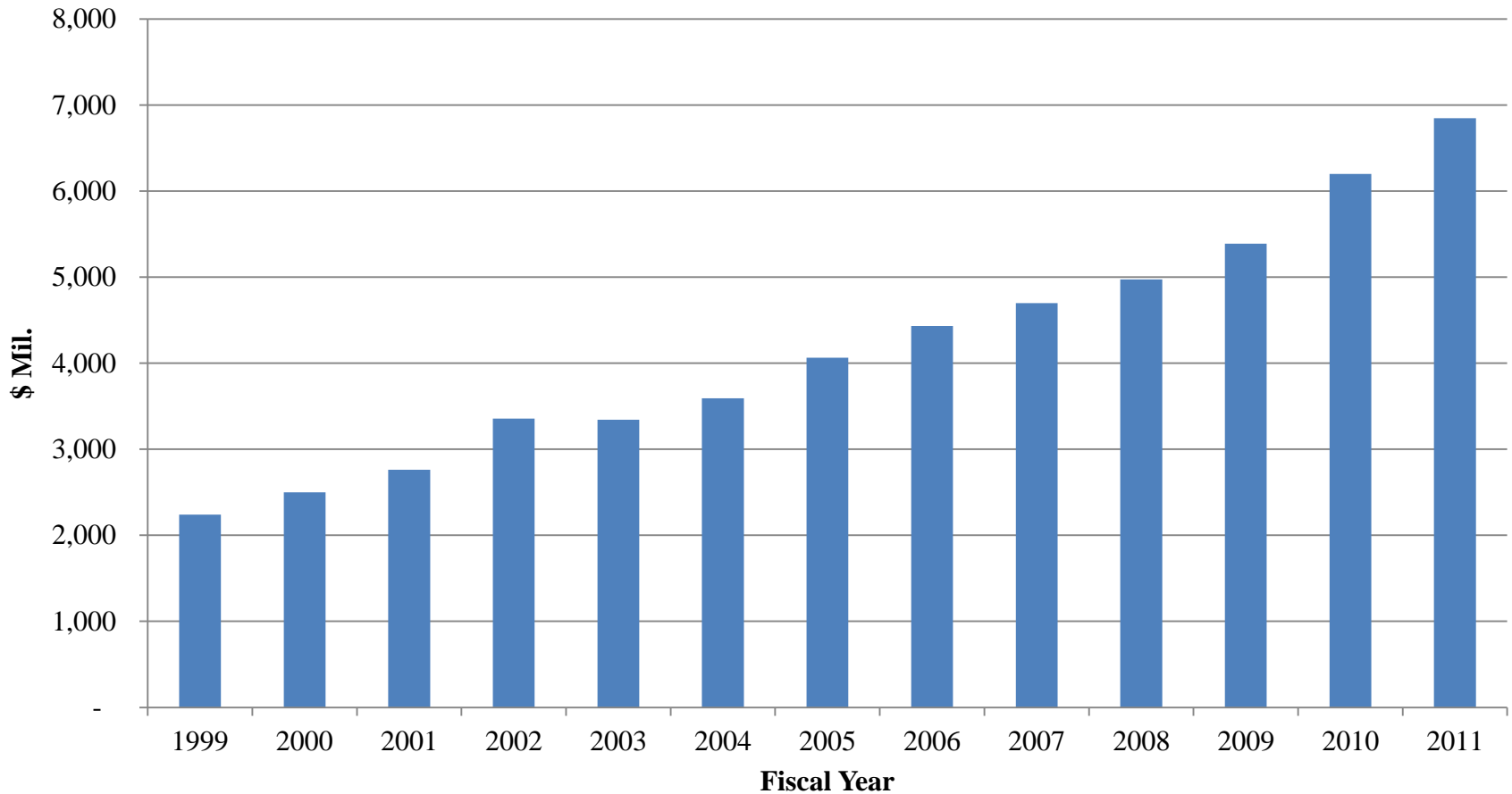
* Assumes phase-in of 7.5% to 7% investment return, 2.5% COLA, and 30 year amortization

** Reflects 8.0% investment return, HAC Retreat, Nov. 15, 2011

Notes: Employer rates only and do not include 5% member contribution.

Over the last 10 years ending June 30, 2011 VRS annual average total fund investment return has been 5.7%.

Medicaid Costs Will Continue to Grow Faster than GF Revenues



Note: Does not include CSA and MHMR facility reimbursements. FY 2011 includes the shifting of \$262 million from FY 12 to capture higher federal FMAP match.

Federal Stimulus Funding Helped Offset State GF Reductions

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Medicaid Federal Stimulus	\$746	\$714	
K-12 Federal Stimulus	\$584	\$123	
Higher Ed Federal Stimulus	\$75	\$202	
Other Federal Stimulus	\$110	\$0	
Federal JAG (Sheriff's)	\$23	\$0	
One-time Federal "EduJobs" Funding		\$250	—————>
<hr/>			
Total	\$1,538	\$1,289	

... Plus Other Non-Recurring Revenues Were Used to Offset Declining GF

- Rainy Day Fund - \$783 mil.
- Reduce VRS state employee and teacher retirement/benefit contributions - \$850 mil.
- Replacing Capital Outlay Cash With Debt - \$350 mil.
- Accelerated Sales Tax for Dealers - \$227 mil.
- Capture NGF balances and interest earnings - \$113 mil.
- Tax Amnesty - \$102 mil.
- Eliminate Sales Tax Dealer Discount for Electronic Filers - \$98 mil.

Mandatory and High Priority Spending Alone Exceed Est. Revenues in 2012-14

	<u>House Appropriations</u>	<u>Senate Finance</u>
Biennium GF Resources	\$34,110 - \$34,270	\$34,602
<i>Minus:</i> Base Budget	\$32,740	\$32,993
<i>Minus:</i> Mandatory and High Priority Spending	<u>\$2,415 - \$2,914</u>	<u>\$2,214 - \$2,667</u>
<i>Equals:</i> Budget Shortfall	(\$885 - \$1,544)	(\$604 - \$1,058)

2012 Session Fiscal Policy Issues

- K-12 preliminary DOE re-benchmarking policies not yet endorsed by Governor or General Assembly.
 - HAC listed options at retreat to cut K-12 funding.
- What will the Governor propose for public retirement costs?
 - HAC defended use of 8% rate-of-return versus VRS Board 7%.
- Will policies be proposed to bend Medicaid cost curve?
- Removal of \$60 million aid-to-local reduction?
- Will Aid-to-Police (HB 599) increase with GF revenue growth?
- Were lower FY 2011 CSA expenditures a one-time event? Will additional state savings policies be proposed?
- Will devolution changes be proposed for transportation maintenance funding that reduce street maintenance payments?
- Will General Assembly make BPOL/M&T tax changes without replacement revenue?

Locals Already Help Support State Transportation System

- FY 2010 local street maintenance expenditures exceeded state payments by 33% or \$113 million.*
- Total FY 2010 local expenditures for highways exceeded \$365 million, not including toll revenue, and debt service for transportation project bonds.*
- Local funds supporting public transportation amounted to \$264 million in FY 2010, not including \$316 million in farebox and other transit revenue. **

* FY 2010 Weldon Cooper Road, Street, and Highway Finance Survey

** Dept. of Rail and Public Transportation

VFC Spends Significant Amounts on Transportation Above State Funding

	FY 10 Street Maintenance Payment	FY 10 Eligible Maintenance Expenditures	State payment as % of eligible maintainance	FY 10 Total Maintenance Expenditures	State payment as % of total maintainance	FY 10 Public Transit Operating Local GF
CHARLOTTESVILLE	3,288,834	7,532,222	44%	8,213,500	40%	2,171,644
HAMPTON	12,561,396	14,796,238	85%	17,008,841	74%	3,017,984
HARRISONBURG	3,628,716	4,110,069	88%	4,201,231	86%	453,179
HOPEWELL	3,198,592	3,119,468	103%	3,119,468	103%	
LYNCHBURG	9,267,265	14,291,052	65%	27,752,994	33%	3,220,527
MARTINSVILLE	2,625,314	2,625,425	100%	2,625,425	100%	
NORFOLK	20,021,490	20,897,337	96%	27,748,919	72%	7,609,057
PETERSBURG	4,565,451	7,187,734	64%	7,187,734	64%	1,106,846
PORTSMOUTH	9,994,911	10,970,158	91%	11,044,906	90%	2,113,162
RICHMOND CITY	21,830,900	21,898,508	100%	27,293,285	80%	12,580,041
ROANOKE CITY	11,205,469	12,065,048	93%	14,338,537	78%	1,550,464
STAUNTON	3,215,362	3,464,847	93%	3,940,780	82%	615,280
WINCHESTER	<u>2,464,061</u>	<u>3,240,181</u>	<u>76%</u>	<u>3,347,641</u>	<u>74%</u>	<u>110,520</u>
VFC Subtotal	107,867,761	126,198,287	85%	157,823,261	68%	34,548,704

VFC Relies More on BPOL and M&T

	<u>BPOL \$</u>	<u>% of Local Revenues</u>	<u>M&T \$</u>	<u>% of Local Revenues</u>
Charlottesville	\$ 6,502,949	4.8%	\$ 9,690	0.0%
Hampton	12,348,558	4.5%	2,126,834	0.8%
Harrisonburg	5,571,597	7.7%	1,918,964	2.7%
Hopewell	1,871,513	4.5%	7,534,302	18.0%
Lynchburg	7,728,324	5.2%	4,153,744	2.8%
Martinsville	1,676,826	7.5%	112,242	0.5%
Norfolk	26,008,918	5.4%	4,217,413	0.9%
Petersburg	2,553,424	4.7%	4,039,900	7.5%
Portsmouth	6,383,132	3.2%	2,054,923	1.0%
Richmond	27,904,888	5.4%	17,038,468	3.3%
Roanoke	12,073,504	6.3%	3,534,027	1.8%
Staunton	1,828,598	4.5%	207,245	0.5%
Winchester	<u>5,158,001</u>	<u>8.2%</u>	<u>1,418,746</u>	<u>2.3%</u>
VFC Subtotal	117,610,232	5.3%	48,366,498	2.2%
State Total	631,486,736	3.8%	213,776,573	1.3%

Local Government Budgets

Trying to Hold On Until Better Days Arrive

* 83 localities responding to VML/VACO Survey

In Top 3 FY 12 Budget
Balancing Actions

Delay or cancellation of capital outlay/infrastructure	40
Draw down reserves	29
Salary Freeze	26
Increase tax rates	21
Eliminate Vacant Positions and RIF	20
Targeted cuts in other services and programs	19
Delay of annual equip. replacement programs	12
Fee increases	12
Reducing staff health care benefits	11
Targeted cuts in public education	10
Hiring freeze	7
Reduced contributions to civic/cultural	6
Renegotiate debt	5
Replacing local general funds with special funds	4
Across the board service cut	3
Early retirement incentives	2
Targeted cuts in public safety services	2
Other	4

VFC Localities Actions to Balance FY 2012 Budgets

Locality	Three Most Important Actions to Balance Budget in FY 2012		
Charlottesville	No significant spending or service adjustments		
Hampton	Delay of capital projects for local gov't & schools	Draw down of reserves	Early retirement and elimination of vacant positions
Harrisonburg	Draw down of reserves	Delay/cancel capital outlay	
Hopewell	Hiring Freeze	Eliminate positions	Reduce benefit contributions
Lynchburg	Renegotiate debt	salary freeze	targeted cuts
Martinsville	Delay/Cancellation of Capital Outlay purchases	Delay Equipment Replacement	Draw Down Reserves
Norfolk	carry forward balances	personnel actions	Tax and fee increases
Portsmouth	Draw down reserve	Salary freeze	Delay of capital outlay
Richmond City	Reducing staff health care benefits	Salary Freeze	Eliminate vacant positions
Roanoke City	Salary freeze	Delay of capital outlay	Delay Equipment Replacement
Staunton	<i>No Survey Provided</i>		
Winchester	Eliminate vacant positions	Delay equip. replacement	Targeted cuts

More Localities Fear the Future*

Meet Financial Needs?	<u>Better</u>	<u>Same</u>	<u>Less Able</u>
All Localities (118)			
FY 2012 Compared to FY 2011	23%	57%	20%
FY 2013 Compared to FY 2012	4%	55%	36%
Cities (31)			
FY 2012 Compared to FY 2011	25%	50%	25%
FY 2013 Compared to FY 2012	3%	53%	38%
Counties (87)			
FY 2012 Compared to FY 2011	22%	60%	18%
FY 2013 Compared to FY 2012	5%	56%	36%

* Results from 2011 VML/VACO survey

Biggest Locality Revenue Concerns

121 Localities Responding to 2011 VML/VACO Survey

	<u># Citing</u>
Reductions in state funding	62
Lack of local revenue growth/real estate assessment reductions	55
Loss of federal funding (CDBG, federal grants)	15
Shifting of state responsibilities to localities	6
State actions that impede local revenue collection	8
Concerns about overall economic growth	12
Lack of new debt capacity	2

Biggest Locality Expenditure Concerns

121 Localities Responding - 2011 VML/VACO Survey

	<u># Citing</u>
Deferred capital outlay/infrastructure/maintenance needs	34
Rising costs of personnel benefits and retirement costs	34
Need to increase employee compensation	28
Demands for education funding	25
New and unfunded mandate expenditures, such as LODA, schools	24
Public safety expenditure needs	12
Increasing costs for utilities, replacing equipment, service demands, etc.	11
Environmental/storm/waste water mandate costs	4
Increased CSA expenses	3
State cost shift for secondary road maintenance	1
State cost shifts for local constitutional officers	1

Conclusion

- VFC relies more on state and federal revenues and less on real property taxes. VFC has to spend a greater amount of budgets on non-education related programs.
- Without new revenues and expecting modest economic growth, state will continue to reduce funding for locally-administered, but required programs in 2012-14 budget.
 - Medicaid and VRS demands will outstrip GF revenue growth, putting pressure on state funding for other core programs.
 - Rainy Day Fund must be replenished and other one-time revenue sources are exhausted.
- State increasingly relies on funding sources other than state taxes for programs (federal revenue, local funding, higher ed tuition & fees).
 - State has reduced its own tax base.
 - Pushing program funding to feds, locals, and students will get more difficult due to federal deficit, ongoing housing crisis, and already high college tuitions.
- Governor's request for 2%, 4%, and 6% agency budget reduction plans, and his Task Force for Local Government Mandate Review reflect realities of lower funding.
- State will be tempted to continue shift more responsibilities to local government, despite real estate recession (e.g., transportation devolution).
 - Will General Assembly also attempt to reduce local revenues such as BPOL/M&T?

Appendix

Local Composite Index Calculation

	<u>Change in LCI Components 2007 to 2009</u>					2010-12	2012-14	<u>Change</u>
	<u>TVRE</u>	<u>AGI</u>	<u>Sales</u>	<u>ADM</u>	<u>POP</u>	<u>LCI</u>	<u>LCI</u>	
WINCHESTER	-6.5%	-18.5%	-22.9%	2.5%	0.5%	0.5124	0.4645	(0.0479)
RICHMOND CITY	-6.1%	-21.6%	-5.9%	-3.7%	1.7%	0.4945	0.4779	(0.0166)
MARTINSVILLE	-6.3%	-17.7%	-15.3%	-4.1%	-0.5%	0.2263	0.2175	(0.0088)
STAUNTON	-0.2%	-15.1%	-11.6%	-1.0%	3.5%	0.4024	0.3987	(0.0037)
LYNCHBURG	8.4%	-13.7%	-8.7%	-1.3%	7.3%	0.3643	0.3727	0.0084
HOPEWELL	0.9%	-7.4%	-12.6%	1.7%	-2.6%	0.2285	0.2376	0.0091
NORFOLK	-1.6%	-9.9%	-10.1%	-3.2%	3.4%	0.3004	0.3102	0.0098
HARRISONBURG	6.0%	-6.5%	-9.7%	0.7%	7.3%	0.4133	0.4274	0.0141
ROANOKE CITY	4.6%	-5.6%	-11.0%	-1.2%	6.3%	0.3582	0.3728	0.0146
HAMPTON	-1.1%	-4.4%	-6.3%	-2.7%	-3.4%	0.2690	0.2912	0.0222
PORTSMOUTH	6.9%	-7.1%	6.0%	-0.4%	-1.6%	0.2497	0.2755	0.0258
PETERSBURG	15.0%	-7.6%	-15.8%	-7.4%	6.8%	0.2255	0.2516	0.0261
CHARLOTTESVILLE	-0.2%	-5.6%	-8.4%	-3.2%	9.0%	0.6560	0.6861	0.0301
STATE TOTALS	-6.1%	-6.3%	-6.3%	1.0%	3.0%			