

State and Local Fiscal Affairs

GFOA

Wed., Oct. 21, 2009

Mike Edwards, VACo

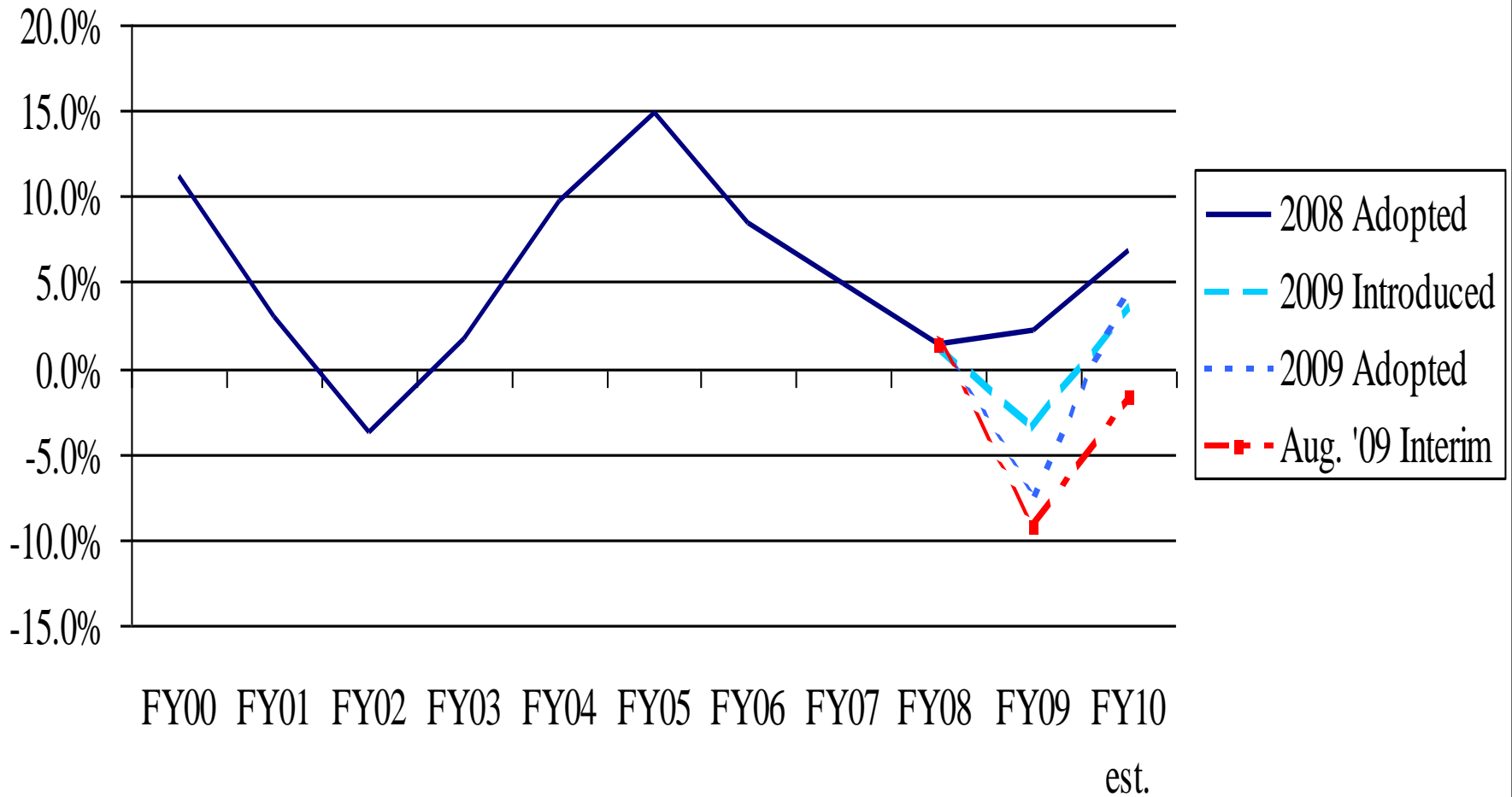
Credit to:

Jim Regimbal, FA, & Neal Menkes, VML

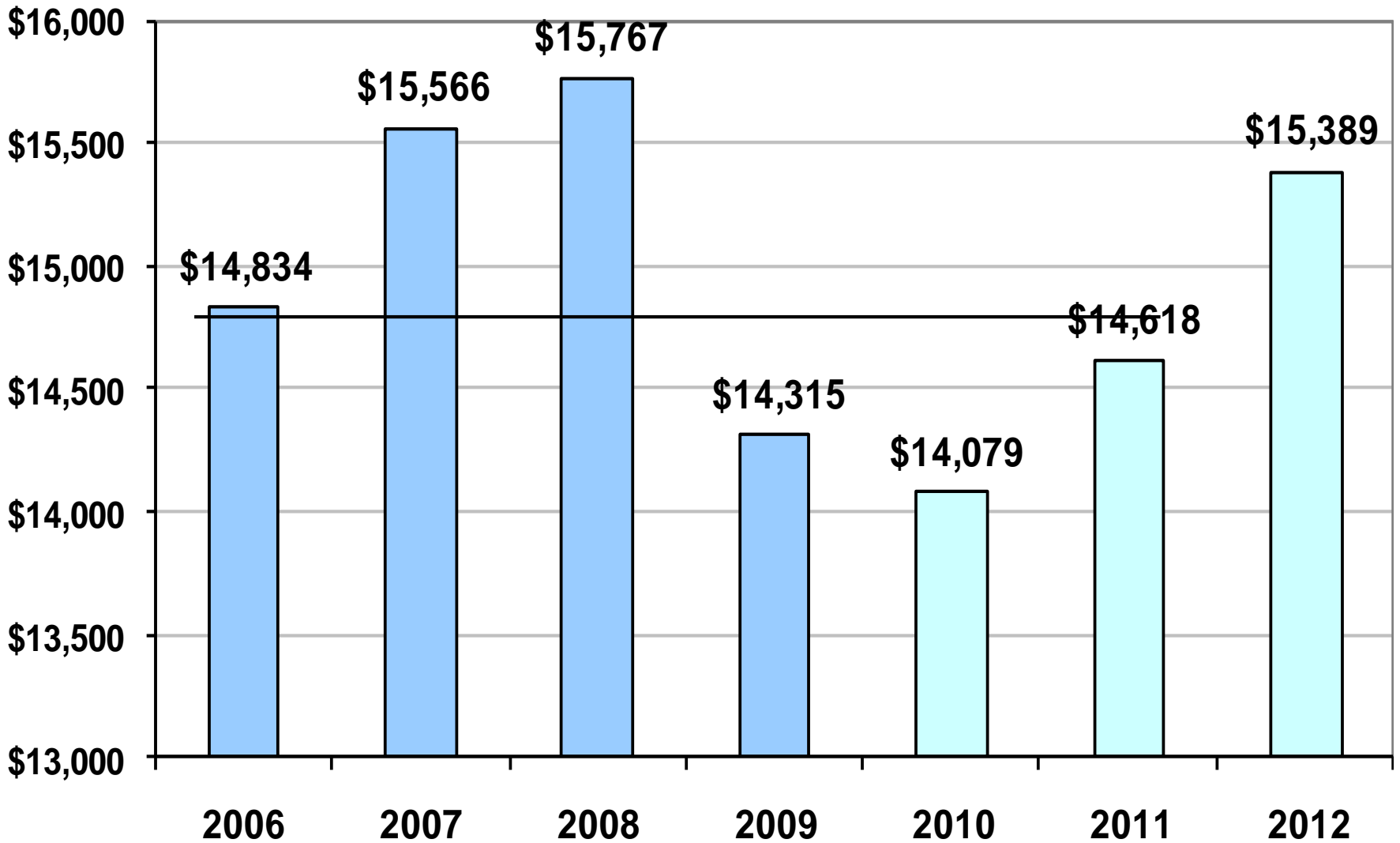
Brief Overview

- **Aug. 19, Gov. Kaine announces a \$300m FY 09 GF revenue shortfall and an additional \$1.2b FY 10 GF revenue shortfall**
- **On Sept. 8, Kaine announces \$1.35b FY 10 budget reduction plan**
- **Kaine has Cut > \$5.5b in GFs (FY 2005 – FY 2010)**
- **VACo est. >\$3b FY 2010-12 budget shortfall**

General Fund Revenue Forecast Changes Since Last Year



GF Revs Won't Exceed FY 06 until FY 12



FY 2010 GF State Cuts to Localities

Major Categories of State Aid to Localities

FY 2010 GF Appropriations

	<u>Original GF Appropriation</u>	<u>Current GF Appropriation</u>	<u>% Change</u>	<u>% of State Aid to Localities</u>	<u>% of GF</u>
K-12 Direct Education Aid	\$5,930,513,050	\$5,148,221,622	-13.2%	71.0%	34.3%
Car Tax	\$950,000,000	\$950,000,000	0.0%	13.1%	6.3%
Compensation Board	\$666,153,186	\$600,400,897	-9.9%	8.3%	4.0%
Comprehensive Services Act	\$323,640,564	\$279,208,772	-13.7%	3.8%	1.9%
Community Service Boards	\$256,463,596	\$227,360,416	-11.3%	3.1%	1.5%
HB 599	\$205,001,876	\$183,623,320	-10.4%	2.5%	1.2%
DJJ Juvenile Confinement/Treatment	\$50,787,956	\$48,266,904	-5.0%	0.7%	0.3%
Recordation Tax Distribution	\$40,000,000	\$40,000,000	0.0%	0.6%	0.3%
Public Library Aid	\$17,378,628	\$16,509,697	-5.0%	0.2%	0.1%
Flexible State Aid Reduction	(\$50,000,000)	(\$50,000,000)		-0.7%	-0.3%

Significant Additional General Funds Will be Necessary to Maintain Current Services When Federal Stimulus Ends

ARRA Stimulus Funding (\$ Mil.)

	FY 10	FY 11	FY 11 GF	FY 12	FY 12 GF
	<u>ARRA*</u>	<u>ARRA*</u>	<u>Backfill</u>	<u>ARRA</u>	<u>Backfill</u>
Medicaid	\$685	\$367	\$318	\$0	\$685
K-12 Public Education	\$434	\$296	\$138	\$0	\$434
Higher Education	\$219	\$36	\$183	\$0	\$219
Sheriffs (Bryne Justice)	\$23	\$0	\$0	\$0	\$23
SFSF General	<u>\$109</u>	<u>\$0</u>	<u>\$109</u>	<u>\$0</u>	<u>\$109</u>
Total	\$1,470	\$699	\$748	\$0	\$1,470

**Major "One Times" More Than Half of Strategies
to Close \$5.5 Bil. 2008-10 Budget Gap**

	<u>GF Millions \$</u>
Rainy Day Fund Withdrawal	\$773
Sales Tax Acceleration/LPC Adjust/Tax Amnesty	\$186
Bonded Debt for GF Capital	\$355
Delay 4th Q VRS Retirement/Benefit Payments*	\$135
State Employee Furlough*	\$16
Sell Prison/Transfer Fire Programs Fund to GF	\$51
Enhanced ARRA SFSF Medicaid Match	\$1,059
ARRA SFSF - Flexible Funds	\$219
ARRA SFSF - Education	<u>\$652</u>
Total Major "One-time" Budget Strategies	\$3,446

* Includes NGF agency transfer to GF

Regimbal est. > \$3.0b 2010-12 GF rev shortfall; >10% GF rev growth required in FY 11 to fund existing spending policies

GF Budget Outlook (\$ Millions)		
	<u>FY 2011</u>	<u>FY 2012</u>
Aug. 19 Revenue Forecast (3.8%, 5.3%)	\$14,618	\$15,389
Transfers	<u>\$329</u>	<u>\$339</u>
Total Est. GF Available	\$14,947	\$15,728
<i>Current Service Appropriations:</i>		
K-12 Direct Aid (incl. rebenchmarking)	\$5,346	\$5,661
Higher & Other Education	\$1,805	\$1,842
Medicaid (7% annual growth)	\$2,817	\$3,427
Other HHS	\$1,566	\$1,566
Public Safety	\$1,710	\$1,710
Car Tax	\$950	\$950
Planned GF Debt Service	\$600	\$630
All Other **	\$1,645	\$1,645
Total Expenditures	\$16,439	\$17,430
Projected Budget Gap	(\$1,492)	(\$1,702)
** All Other includes Legislative, Executive, Judicial, Admin, Finance, Commerce & Trade, Nat. Res., Capital, Central Appropriations		

2010-12 Budget Outlook

Regimbal's 2010-12 GF budget outlook assumes FY 2010 current services appropriations with four exceptions:

- A seven percent utilization growth rate in Medicaid funding.**
- Planned GF debt service cost increases**
- General funds necessary to offset loss of federal stimulus funding**
- Est. K-12 re-benchmarking increases in public education funding (July preliminary: \$60 mil. FY 2011; \$79 mil. in FY 2012)**

K-12

-Expect additional K-12 cuts: K-12 is 35% of GF and 70% of local aid

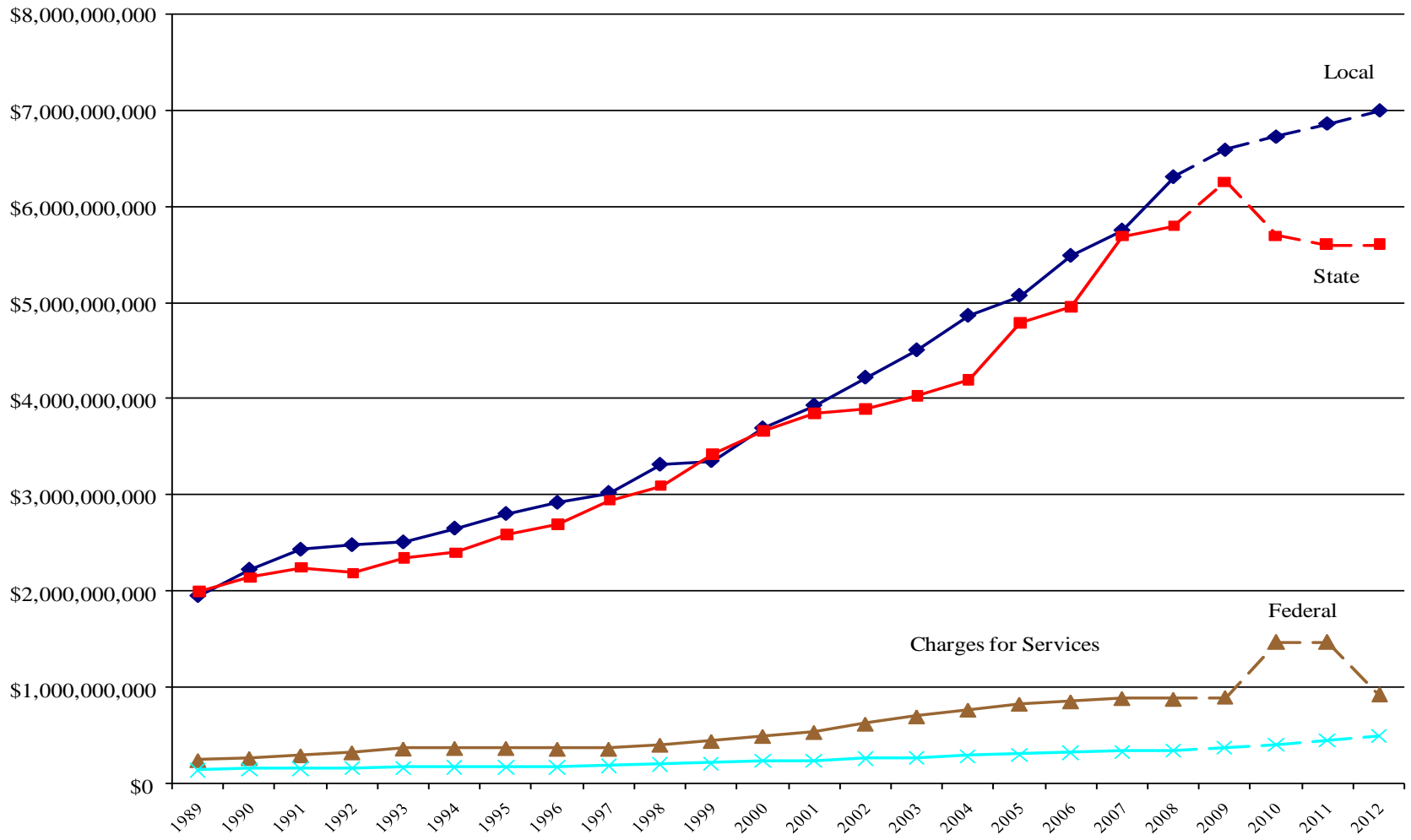
-State and local revenue problems will be compounded when federal K-12 stimulus funding ends

-Localities are holding Virginia's public education system together by spending \$3b more per year than required by the state

In total, localities spend 82% more than required by state; and this excess pays for 22% of all K-12 spending

-Restoring administrative support cost funding to FY 08 levels requires an additional \$754m for re-benchmarking in FY 2010-2012

Sources of Funds for K-12 Expenditures (Projected FY 09 to FY 12)



VML/VACO

2009 Local Fiscal Condition Survey

VML/VACO conducted a survey of Virginia localities in the summer.

Localities at least partially responding:

38 of 41 Cities and Towns; and 92 of 95 Counties

	Better able	About the same	Less able
Meet its financial needs for FY 2010 as compared to FY 2009?	2.3%	29.0%	68.7%
Address its financial needs for FY 2011 as compared to FY 2010?	1.5%	22.3%	76.2%

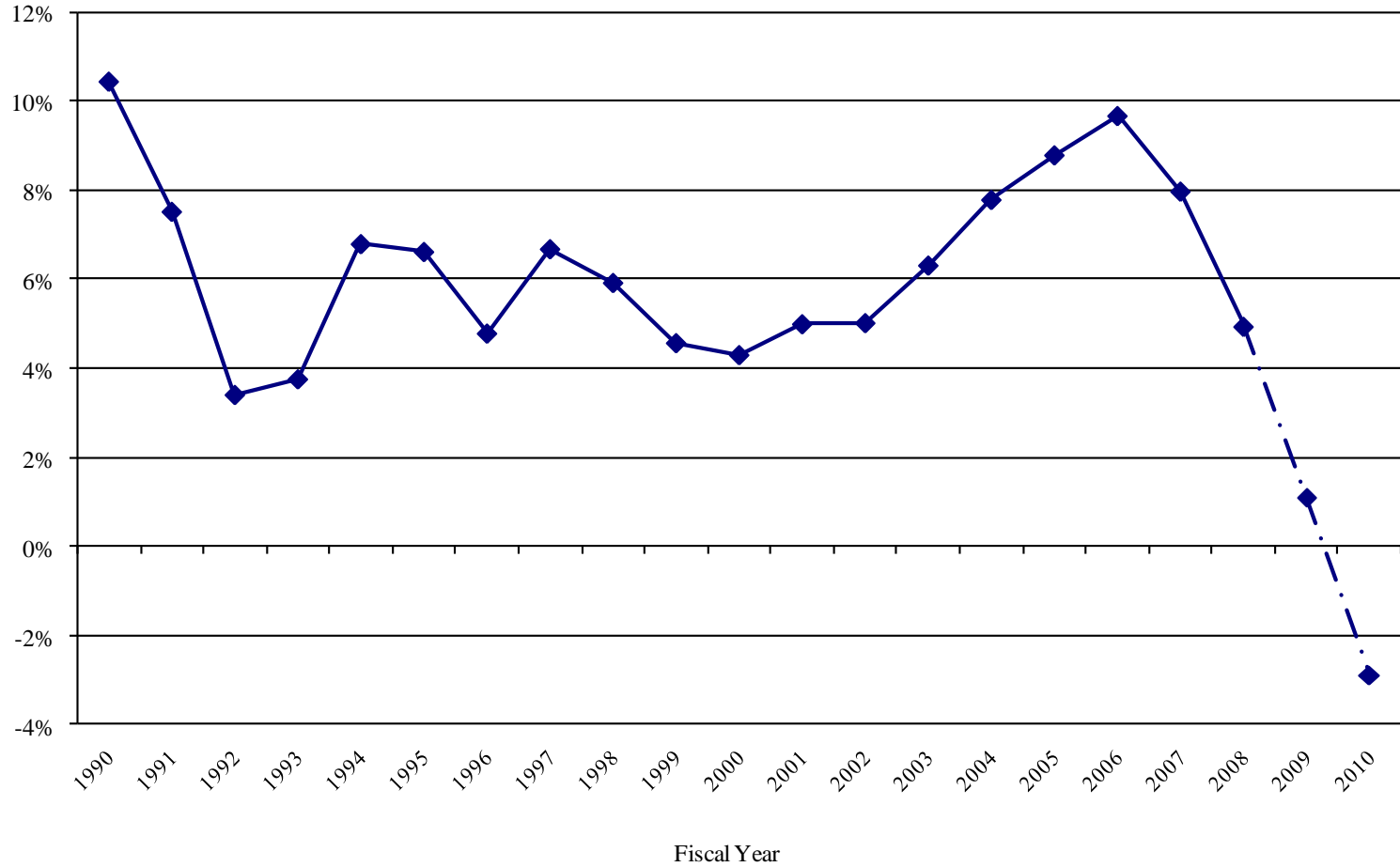
Biggest local concerns for FY 2011

-Expiration of federal stimulus money and its impact on the state's ability to maintain funding for localities and school districts.

-Continued erosion of real property values placing significant upward pressure on tax rates.

-Many localities still have reserves. 74 of 106 localities responding reported reserves greater than 10 percent of FY 10 spending.

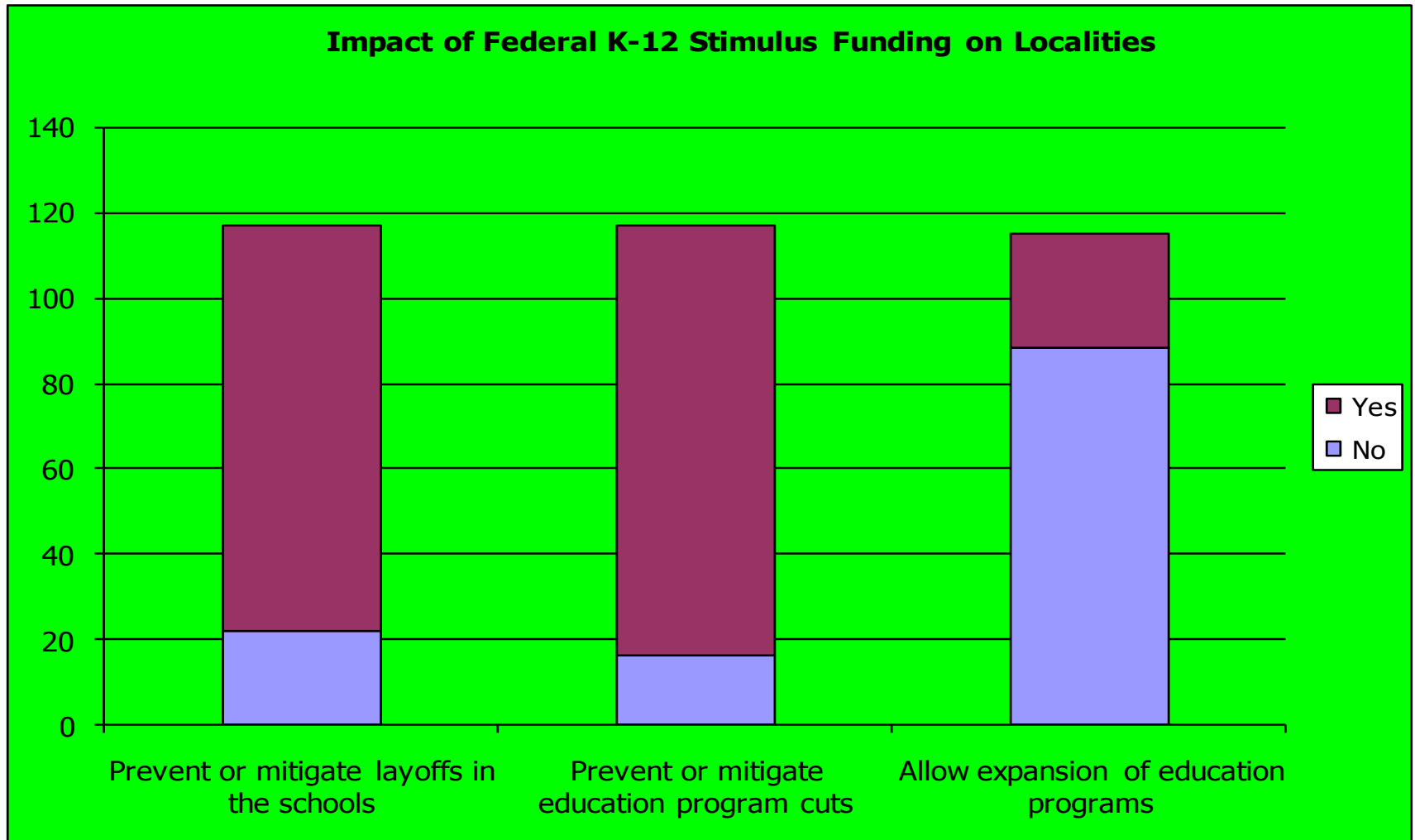
Virginia Local General Fund Revenue Annual Growth Rate*



Greatest Impact on FY 10 Budget Balancing Strategy

Strategy:	<i>Greatest Impacts</i>	<i>Second Greatest</i>	<i>Third Greatest</i>	<i># With Great Impact</i>
Delay or cancellation of capital outlay	17	24	16	57
Across the board service cut	25	10	13	48
Use reserves or undesignated balances	20	9	7	36
Personnel layoffs	11	11	7	29
Hiring freeze	5	13	8	26
Salary or wage reductions/freeze	6	8	10	24
Revenue enhancement	6	8	8	22
Cuts in other services and programs	4	5	9	18
Reduced contributions to civic/cultural	1	6	9	16
Other	4	4	5	13
Reduce health care benefits	1	3	8	12
Renegotiate debt	7	4	1	12
Reduced education funds/increased costs	4	4	0	8
Replace local general funds with special funds	2	2	0	4
Cuts in human/social services	0	0	3	3
Cuts in public safety services	0	2	1	3
Personnel furloughs	1	1	1	3
Increase use of regional agreements	1	1	0	2
Early retirement incentives	0	0	0	0
Increase privatization/contracting out	0	0	0	0
Reduce pension plans benefits	0	0	0	0

Federal K-12 Stimulus Funding Prevented Layoffs and Education Program Reductions in FY 10



Biggest Future Expenditure Concerns	
	<u>Number of Localities</u>
Education	48
Capital outlay/ infrastructure	40
Personnel compensation	38
Personnel benefits	33
Public safety	26
Debt servicing	19
CSA	11
Unfunded mandates	9
VRS	6
Transportation	3
<i>Other</i>	32

FY 2011:?

- **Reduce local school funding?**
- **Local flexibility to address state cuts?**
- **Revenues:**
 - State: ?**
 - Local – Property and Excise Taxes?**
 - VACo: Local option sales tax (0.5%) –**
albeit unlikely, locals need rev. capacity
- **New federal stimulus funding – Medicaid, unemployment?**
- **Please advise VACo and VML**

Virginia's State Budget—A Train Wreck **About to Happen**

James J. Regimbal Jr., The Virginia News Letter (Vol. 85, No. 5) October

2009 Virginia News Letter:

<http://www.coopercenter.org/publications/VANEWSLETTER/>

Weldon Cooper Center for Public Service (UVa)