

Virginia's Budget Outlook and Implications for Local Government

Fiscal Analytics, Ltd.

November, 2017

Despite FY 17 Surplus, GF Revenue Growth Has Been Historically Low

| <u>Fiscal Years</u> | <u>Avg. Annual GF Growth*</u> |
|-------------------------|-------------------------------|
| 1990-1999 | 5.9% |
| 2000-2008 | 5.7% |
| 2009-2010 | -5.0% |
| 2011-2016 | 4.1% |
| 2017 | 3.6% |
| <i>2018 Forecast **</i> | <i>3.2%</i> |

*Does not include GF transfers

** Due to FY 17 \$132 mil. surplus, only 2.7% growth needed to make current budget revenue forecast

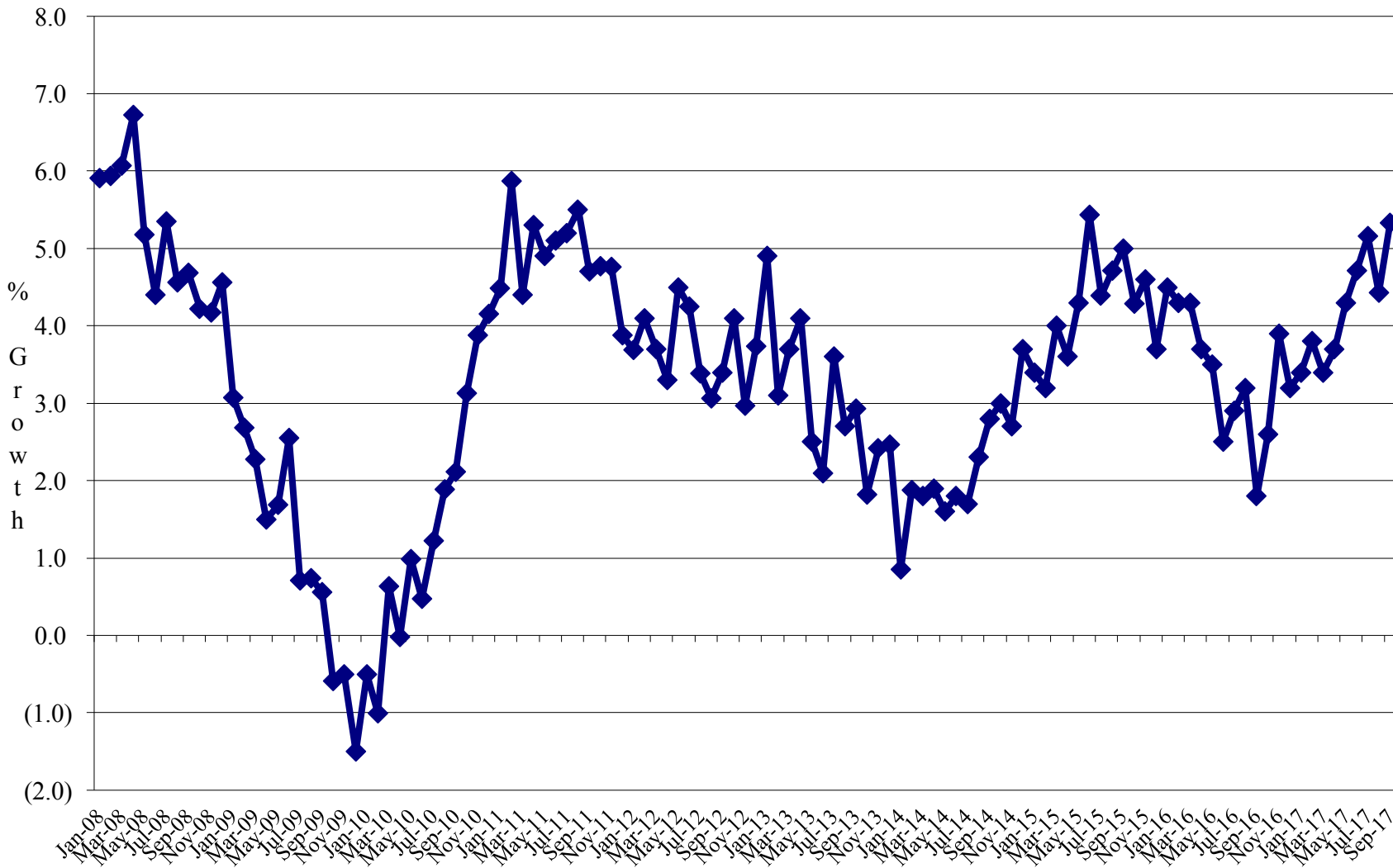
1ST Q GF Revenue Growth Encouraging

| | <u>1st Q GF Growth</u> | <u>% of GF</u> |
|-----------------------|------------------------|----------------|
| Withholding | 4.0% | 63.1% |
| Est Payments/Tax Dues | -1.5% | 16.8% |
| Refunds | <u>10.3%</u> | <u>-10.1%</u> |
| Net Individual Income | 2.9% | 69.8% |
| Sales Taxes* | 2.7% | 18.0% |
| Corporate Income | 27.9% | 4.4% |
| Recordation | -2.3% | 2.1% |
| All Other | <u>1.5%</u> | <u>5.8%</u> |
| Total GF Revenues | 4.1% | 100.0% |

* 19.2% when including 0.375 cent sales tax transfer to the GF

Income Tax Withholding Growth is Improving

12 Mo. Moving Avg (% Growth)



But, Lower Paying Jobs Have Been Growing Faster Over Last 5 years

| | 2017 Average Annual Pay | 1st Q 2017 Employment | 5-Year Growth | 1st Q 2017 Total Wages | % Growth Over 2012 |
|------------------------------------|-------------------------|-----------------------|---------------|------------------------|--------------------|
| Total, All Industries | \$58,664 | 3,774,364 | 6.0% | \$55,355,076,327 | 17.4% |
| Jobs Paying Over \$1,000 per Week | \$84,956 | 1,708,653 | 3.7% | \$36,289,953,464 | 16.6% |
| Jobs Paying Under \$1,000 per Week | \$36,826 | 2,048,654 | 7.4% | \$18,861,161,569 | 18.0% |

Source: Fiscal Analytics analysis of VEC Employment data.

How Did Last Year's Adopted Budget Balance the \$1.5B GF 2016-18 Shortfall With a \$132 Mil. Surplus?

Major Revenue Changes and Spending Reductions:

- \$567.2 mil. Rainy Day Funds
- About \$400 mil. in increased revenues (incl. policy changes) and \$150 mil. in transfers
- \$150 mil. unspent agency appropriations
- \$128 mil. in captured capital balances
- \$146 mil. in additional lottery (\$52.4m), Literary (\$50m), and Virginia Health Care (\$44.5m) funds to offset GF.
- \$347.2 mil. eliminated contingent salary increases (\$134m for teachers)
- Targeted reductions including: higher education (\$56m), “technical” reductions in K-12 aid from lower sales tax (\$40m) and ADM (\$35m), reductions in economic development incentives (\$53m), and delayed women’s prison open (\$21m).

Major Increases :

- \$247 mil. in Medicaid cost increases
- \$161 mil. in FY 2018 compensation adjustments (\$32m for teachers)
- **\$86 mil. in Children Services Act mandatory funding**
- \$32 mil. in new mental health funding

Factors Shaping the 2018-20 Biennium Budget

- National and Virginia economic growth
- Possible Federal Actions – budget authorization and debt ceiling, children’s health insurance (CHIP) reauthorization?, tax reform impacts on Virginia
- Mandatory Spending – SOQ rebenchmarking, Medicaid growth, **DOJ Settlement**, debt service increases, employee health costs, **CSA increases**
- Priority Spending – reserve cash to increase state liquidity and preserve bond rating, employee and teacher compensation, economic development, **mental health and STEP-VA CSB funding**, higher education, water quality
- Transportation – Looming expiration of bond revenue for public transit funding and also pressing WMATA needs.

Likely GF Revenue Growth Insufficient for New State Commitments

| | |
|--|----------------------|
| Est. Net New GF Revenue for 2018-20 Biennium (assumes 3%-4% growth) | \$1.4-2.0 B |
| Reserve 2017 Surplus | (\$136.6) |
| Remove 2018 Rainy Day one-time funding | (\$272.5) |
| Remove 2018 Tax Amnesty one-time funding | (\$90) |
| Medicaid Growth over next 3 years | (\$671) |
| 2018-20 K-12 Rebenchmarking | (\$450) |
| Biennium Debt Service Increases | (\$80) |
| Net Available for All Other | (\$300) - \$300 Mil. |

Note: FY 2018 GF Rainy Day Fund requirements begin at 4.0%

Will Massive Move to Managed Care Provide Assumed Medicaid Savings?

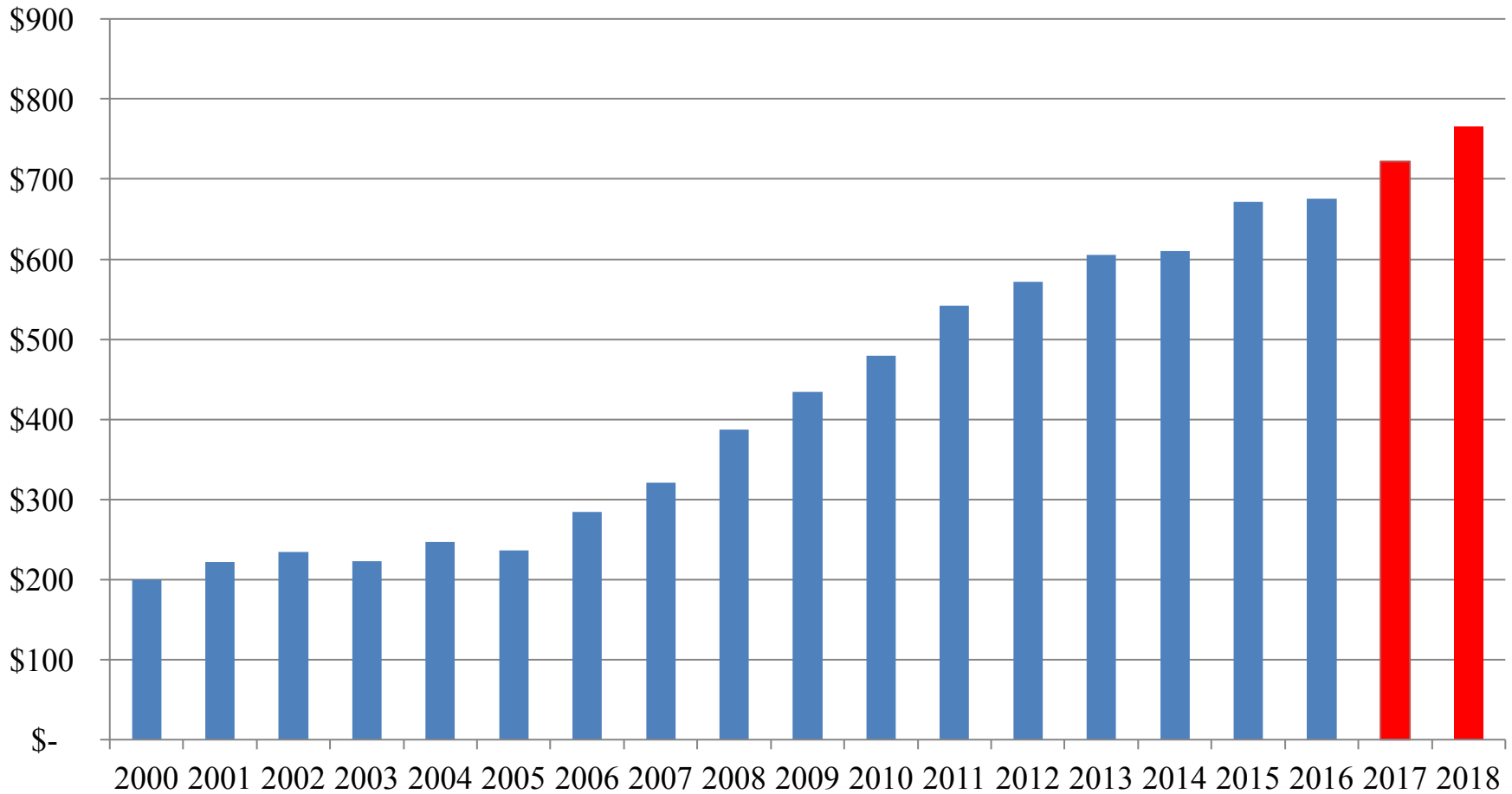
| <u>Fiscal Years</u> | <u>Avg. GF Annual Growth</u> |
|-----------------------|------------------------------|
| 2000-2009 | 8.8% |
| 2010-2015 | 6.2% |
| 2016 | 9.3% |
| 2017 | 7.2% |
| <i>2018 Forecast*</i> | <i>6.5%</i> |
| <i>2019 Forecast*</i> | <i>2.3%</i> |
| <i>2020 Forecast*</i> | <i>3.4%</i> |

* Reflects massive expansion of managed care beginning 1/1/18, mostly in long-term care and behavioral health with *assumed* lower rates and continued low new eligibility.

Steadily Rising Senior Population Ensures Medicaid Growth

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

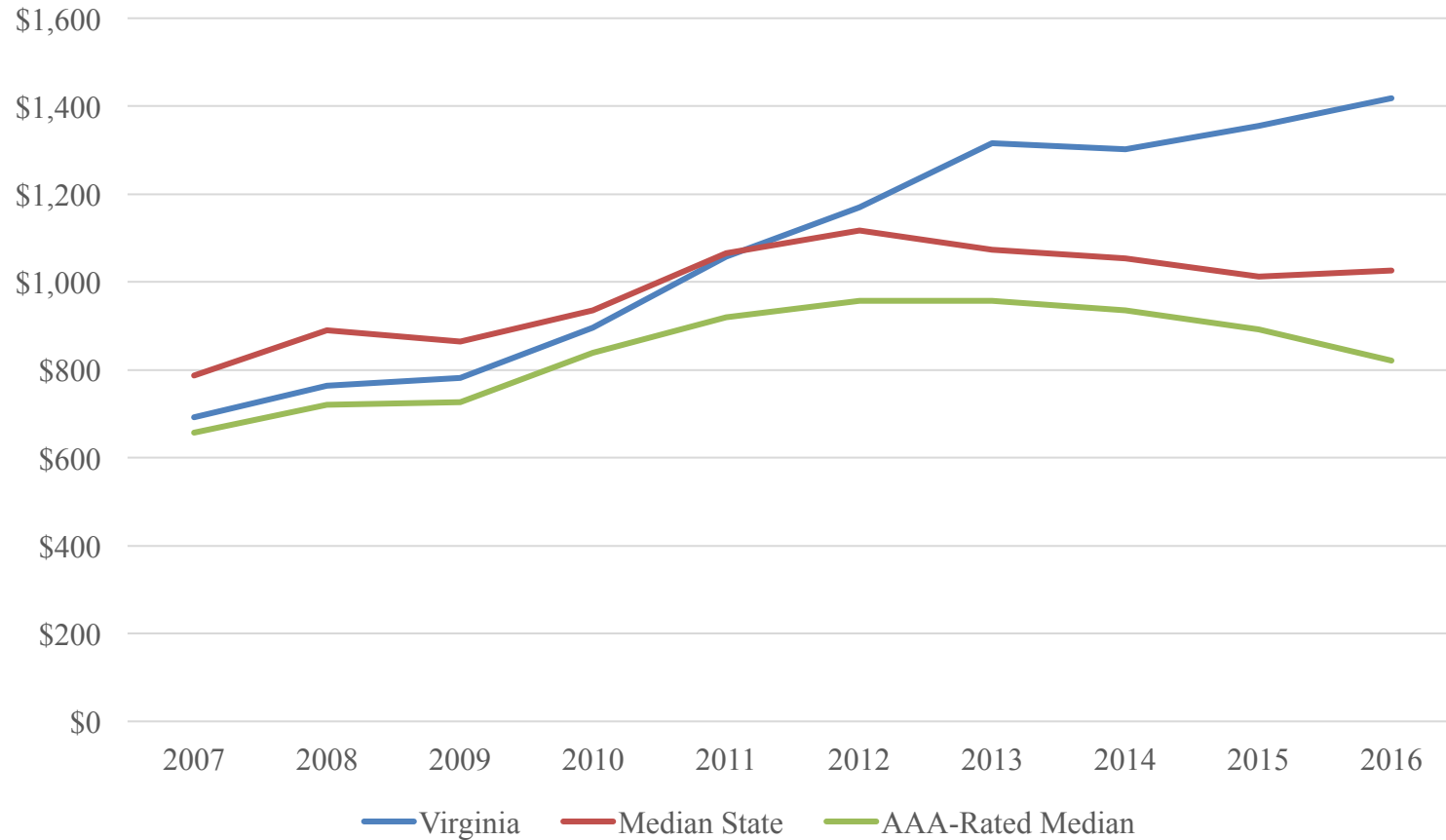
Continued Growth in GF Debt Service (\$ Mil.)



Note: \$3.8 bil. in authorized, but unissued GF tax supported debt (VPBA, VCBA) planned from FY 2017-22.

...And Virginia Has Little Room for More Borrowing and Stay AAA-Rated

Virginia Debt per Capita Compared to Other States



Source: Virginia Debt Capacity Advisory Board, Dec. 2016

Note: Current debt service payments already above self-imposed cap of 5% of GF + transportation revenues.

Any additional debt capacity is based on back-loaded 10 year average – currently about \$500 m per year.

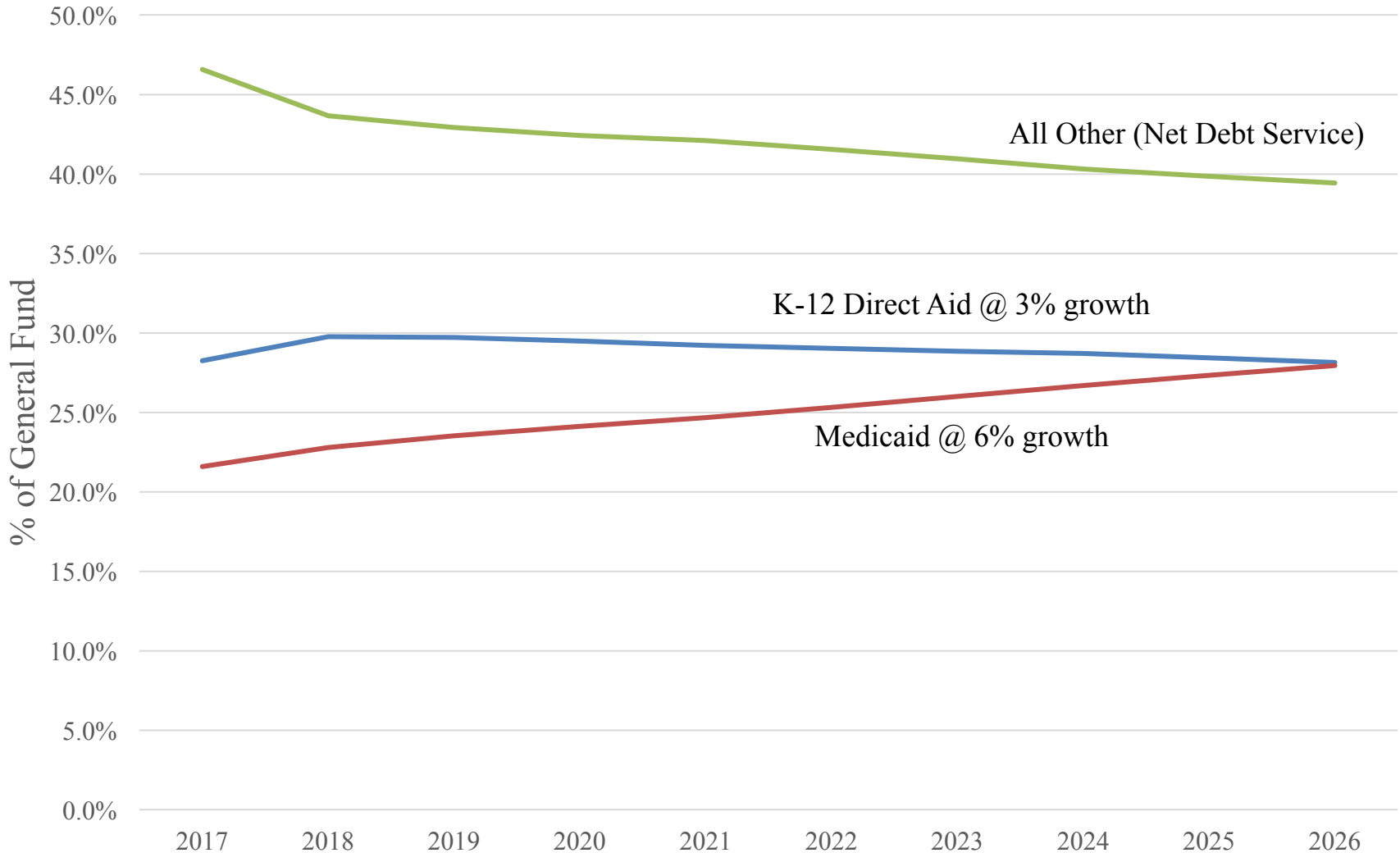
General Fund Operating Appropriation Growth (\$ Mil.)

| | <u>2001</u> | <u>2018</u> | <u>Growth</u> | <u>Annualized Compound Growth</u> |
|---------------------------|-------------------|-------------------|---------------|---|
| Medicaid (DMAS) | \$1,384.2 | \$4,605.7 | 232.7% | 7.3% |
| GF Debt Service | \$243.1 | \$763.7 | 214.2% | 7.0% |
| Behavioral Health | \$430.2 | \$772.6 | 79.6% | 3.5% |
| Other H&HS | \$648.9 | \$1,059.0 | 63.2% | 2.9% |
| K-12 Public Education | \$3,942.4 | \$6,030.0 | 53.0% | 2.5% |
| Public Safety/Comp Board | \$1,949.1 | \$2,588.3 | 32.8% | 1.7% |
| Higher Education | \$1,634.2 | \$2,014.5 | 23.3% | 1.2% |
| Natural Resources | \$152.1 | \$128.5 | -15.5% | -1.0% |
| All Other | <u>\$1,899.4</u> | <u>\$2,392.3</u> | <u>25.9%</u> | <u>1.4%</u> |
| Total GF Operating | \$12,283.6 | \$20,354.6 | 65.7% | 3.0% |

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

Are GF Spending Patterns Unsustainable?

(Assumes 3.4% Avg. Annual Revenue Growth)



...But Where Will Spending Change?

| | GF Budget Accounting | | | | | Biennial Change |
|-------------------------------|----------------------|--------------|-------------|--------------|-------------|--------------------|
| | | 2016 Session | | 2017 Session | | |
| | <u>FY 16</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> | |
| Legislative and Executive | 107.7 | 115.5 | 115.5 | 115.7 | 119.4 | 4.1 |
| Judicial Dept. | 456.0 | 484.5 | 485.2 | 482.9 | 485.6 | (1.2) |
| Administration/Comp Board | 691.7 | 711.8 | 718.7 | 705.2 | 715.4 | (9.9) |
| Treasury Board Debt Service | 675.0 | 734.9 | 766.3 | 722.1 | 763.7 | (15.4) |
| Other Finance/Technology | 181.6 | 191.6 | 188.6 | 189.1 | 186.0 | (5.1) |
| Rainy Day Fund | - | 605.6 | - | 605.6 | - | - |
| Car Tax Reimbursement | 950.0 | 950.0 | 950.0 | 950.0 | 950.0 | - |
| Commerce and Trade | 197.0 | 203.8 | 217.3 | 188.3 | 205.6 | (27.2) |
| Agriculture / Nat. Resources | 174.7 | 237.7 | 172.2 | 234.2 | 163.7 | (12.1) |
| K-12 Education/Central Office | 5,576.0 | 5,900.0 | 6,190.6 | 5,735.6 | 6,088.5 | (266.5) |
| Higher & Other Education | 1,865.5 | 2,046.6 | 2,081.1 | 2,040.0 | 2,015.2 | (72.5) |
| DMAS Medicaid | 4,159.5 | 4,293.9 | 4,421.0 | 4,332.8 | 4,605.7 | 223.6 |
| Other Health & Human Services | 1,682.6 | 1,759.3 | 1,764.8 | 1,799.9 | 1,831.6 | 107.4 |
| Public Safety & Veterans/HS | 1,837.5 | 1,921.8 | 1,949.4 | 1,907.1 | 1,932.9 | (31.2) |
| Transportation | 69.1 | 41.0 | 41.0 | 41.0 | 41.0 | - |
| Central Appropriations | 334.8 | 139.5 | 223.0 | 63.5 | 214.9 | (84.0) |
| Cash Reserve | - | - | - | - | 35.0 | 35.0 |
| Independent Agencies/Capital | 143.2 | 12.0 | 0.3 | 2.2 | 0.3 | (9.8) |
| Total GF Appropriations | 19,102.0 | 20,349.5 | 20,285.0 | 20,115.2 | 20,354.6 | (164.7) |
| GF Revenues/Transfers | 19,119.3 | 19,481.2 | 20,230.3 | 19,210.6 | 19,835.4 | (665.5) |
| Rainy Day Fund Withdrawal | | | | 294.7 | 272.5 | 567.2 |
| Balances | 932.1 | 946.2 | (0.5) | 736.3 | 128.2 | (81.2) |
| Unreserved Balance | 265.3 | 77.9 | 22.6 | 126.4 | 7.9 | |

GF State Aid to Localities (\$ Mil.)

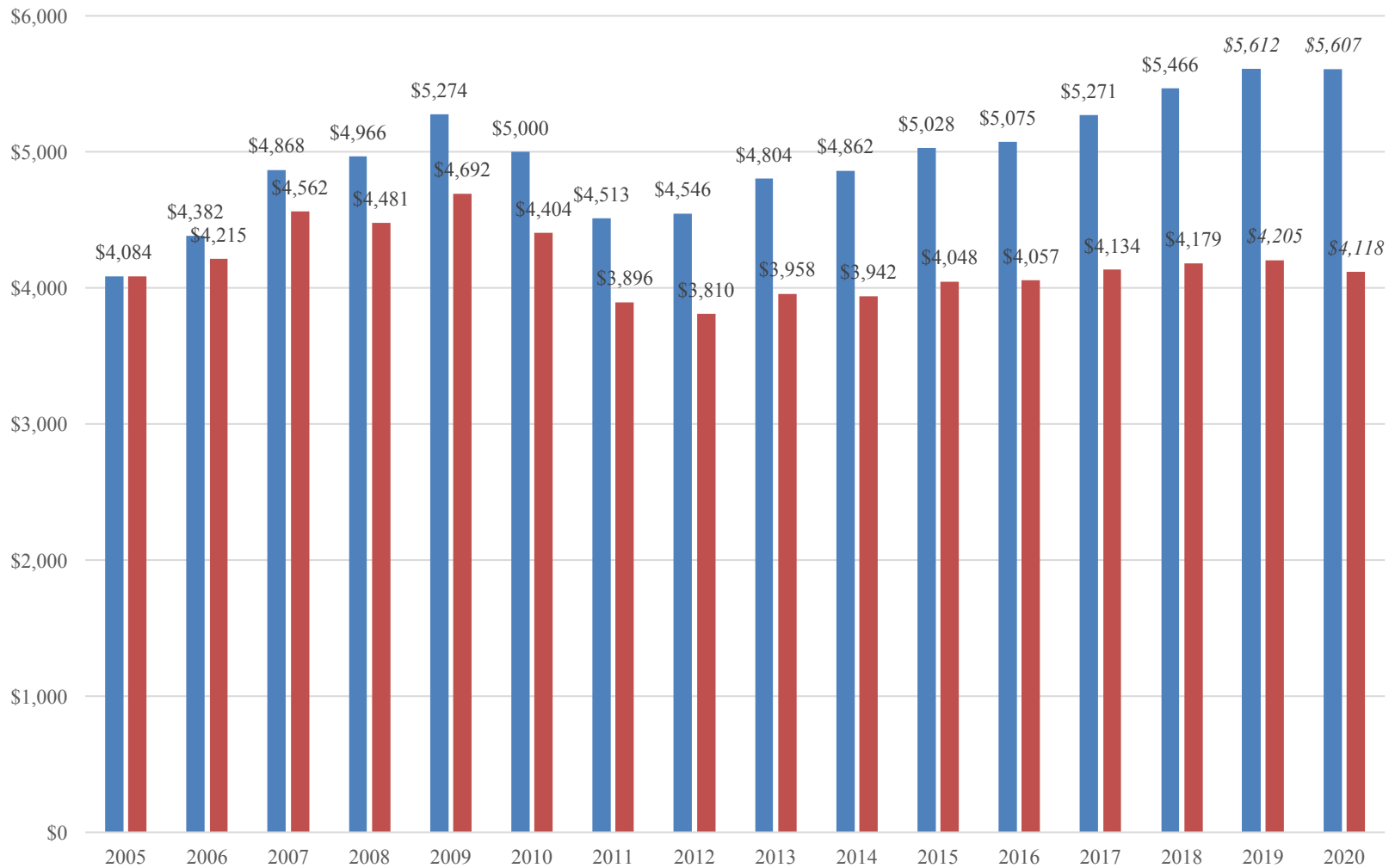
| | <u>FY 2009</u> | <u>FY 2014</u> | <u>FY 2016</u> | <u>FY 2017</u> | <u>FY 2018</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Direct Aid to K-12 | \$5,607.6 | \$5,240.3 | \$5,520.9 | \$5,675.3 | \$6,030.0 |
| K-12 % of Total GF Appropriations | 35.2% | 29.6% | 28.9% | 28.2% | 29.6% |
| Health and Human Services | 888.4 | 791.7 | 867.5 | 926.0 | 951.5 |
| <i>CSA</i> | 299.7 | 217.2 | 237.2 | 278.9 | 279.5 |
| <i>Community MH/MR Services</i> | 249.4 | 269.3 | 318.0 | 330.8 | 351.6 |
| <i>Local Social Services Staff</i> | 117.4 | 115.3 | 114.4 | 117.5 | 122.1 |
| <i>Community Health Programs</i> | 117.6 | 107.2 | 115.1 | 117.7 | 117.6 |
| <i>Welfare Services and Programs</i> | 104.3 | 82.7 | 82.8 | 81.1 | 80.7 |
| Public Safety | 734.3 | 687.9 | 715.5 | 732.1 | 743.4 |
| <i>Local Sheriffs Offices</i> | 406.1 | 411.3 | 436.0 | 447.2 | 457.0 |
| <i>Local Police Depts HB 599</i> | 197.3 | 172.4 | 172.4 | 178.0 | 178.0 |
| <i>Local Jail Per diem</i> | 80.1 | 59.4 | 61.4 | 60.6 | 61.3 |
| <i>Assistance for Juvenile Justice</i> | 50.8 | 44.8 | 45.7 | 46.3 | 47.1 |
| Constitutional Officers | 155.3 | 145.8 | 152.5 | 156.7 | 158.0 |
| Dept. of Accounts Transfers | 49.3 | 49.3 | 49.5 | 49.6 | 49.6 |
| 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 | \$8,255.9 | \$8,489.7 | \$8,882.5 |
| Total GF Appropriations | \$15,943.0 | \$17,705.2 | \$19,102.0 | \$20,115.2 | \$20,354.6 |
| Local Aid % of Total GF | 52.0% | 44.1% | 43.2% | 42.2% | 43.6% |

Initial 2018-20 Biennium K-12 Rebenchmarking Increases State Funding by About 3 Percent

- FY 2019 = \$210.8 m; FY 2020 = \$232.6 m; Total = \$443.4 m
(Net 25.4% non-participation for VA Pre-School Initiative, Not including VRS rate reduction from 16.32% to 15.68%)

| Major Cost Increases: | <u>Biennial Cost</u> (\$ Mil) | Major Cost Decreases: | <u>Biennial Cost</u> (\$ Mil) |
|---|----------------------------------|--------------------------------------|----------------------------------|
| Recognize Full Year Cost of 2.0% State Salary Increase and Instructional/Support Prevailing Costs | \$169.5 | Pupil Transportation Costs | (\$24.1) |
| Non-personal Support Prevailing and Inflation Costs (<i>largest factor: substitute teachers up 9.3%</i>) | \$161.3 | 3-Year Avg. FL Rates for CEP Schools | (\$21.0) |
| Health Care Premium (<i>up 10%</i>) | \$58.0 | Support Position Cap Ratio (4.27-1) | (\$18.9) |
| Update Lottery Accounts | \$43.7 | Textbook Costs | (\$14.4) |
| Projected Enrollment Counts | \$38.4 | Federal Revenue Deduct | (\$2.3) |
| ESL, CTE, Remedial Summer School, Categorical, Superintendents, School Board, Nurse Costs | \$22.7 | Other | (\$1.7) |
| SOL Test Failure Rate Data | \$17.5 | Total Decreases | (\$82.4) |
| Special Ed Child Counts | \$14.6 | | |
| Total Increases | \$525.7 | | |

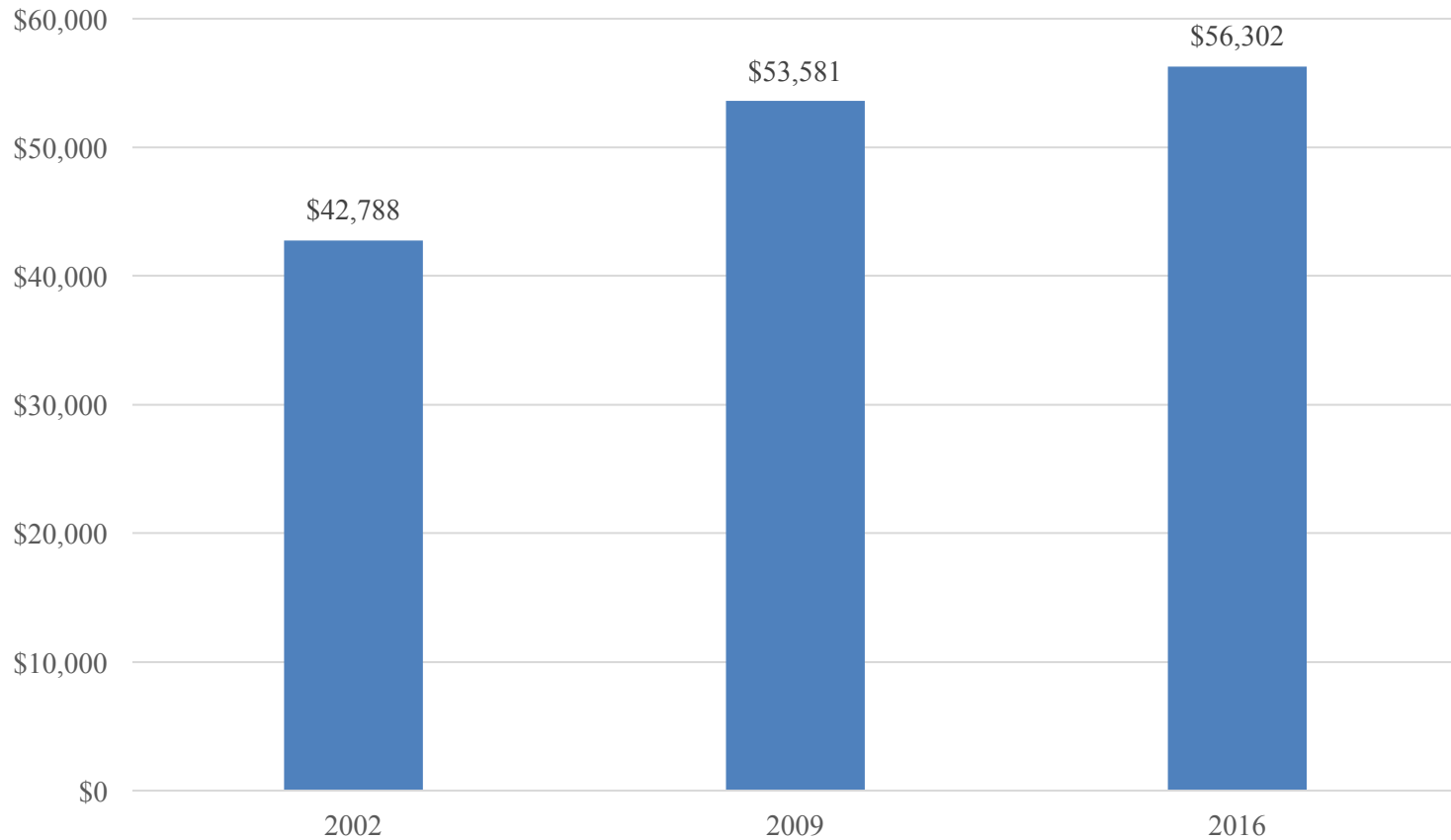
Real State Per Pupil K-12 FY 18 Funding \$520 Below FY 09* Nominal and Inflation-Adjusted Direct Aid (CPI \$2005)



* 2018-20 funding levels assume initial \$211m and \$233m rebenchmarking amounts only and 2.0% inflation each year.

Instructional Pay Increases Have Slowed Considerably Since 2009

Average 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 \$59,872 in 2016 if grown at the rate of the CPI from 2009.

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 \$3.9 bil. beyond state requirements to meet SOL and SOA requirement in FY 16. All 134 local school divisions exceeded Required Local Effort (RLE) in FY 16.

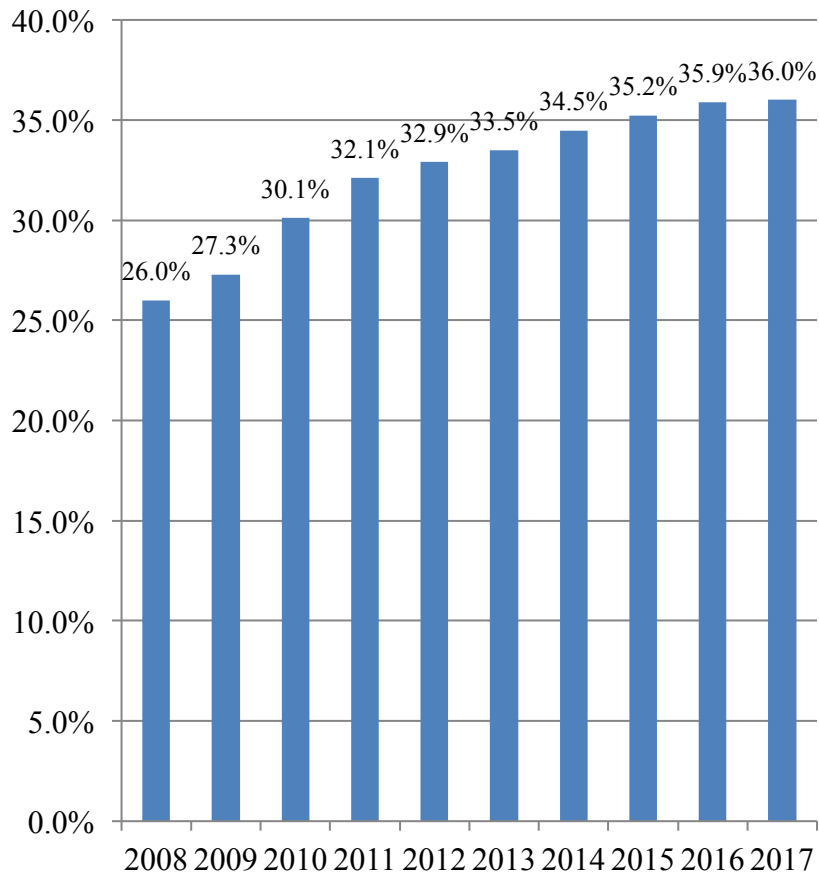
| | |
|---------------------------------|----|
| Divisions up to 25% Above RLE | 16 |
| Divisions Exceeding 25% to 75% | 45 |
| Divisions Exceeding 76% to 100% | 30 |
| Divisions Exceeding 100% RLE | 43 |

Virginia Board of Education Recommends \$600 Mil./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).

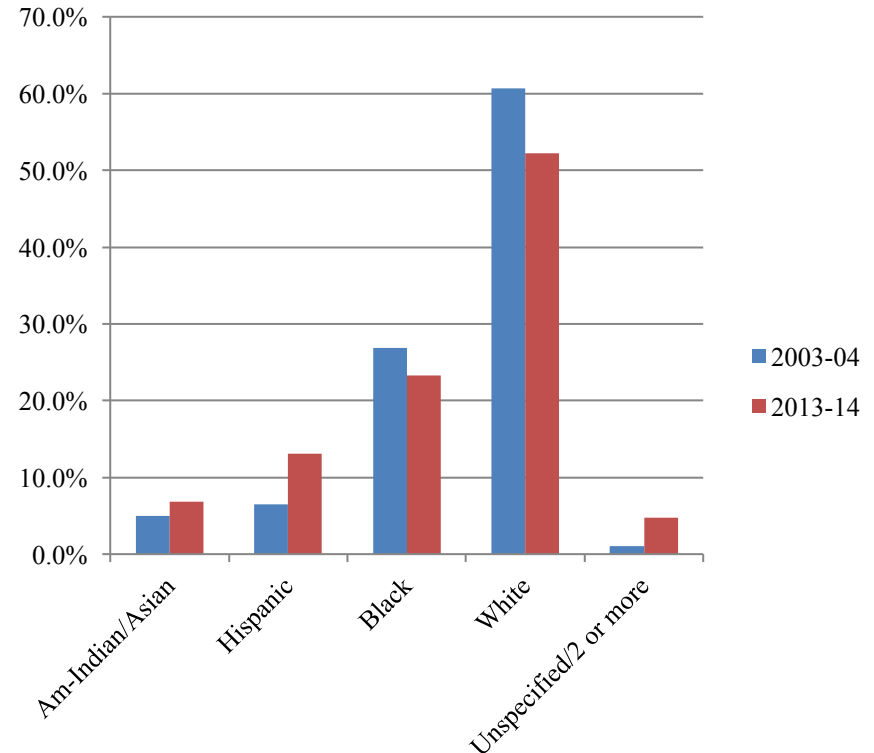
More Difficult and Diverse Student Population to Educate

% Free Lunch Students Growing



- Changing Demographics – ESL increased 63% over last 10 years

VA Public K-12 Student Population by Race



The Achievement Gap Persists

SOL Pass Rates (2016-17)

| | <u>English</u> | <u>Math</u> | |
|-----------------------------|----------------|-------------|--|
| Asian | 91 | 93 | |
| White | 86 | 86 | |
| Hispanic | 71 | 71 | |
| Black | 67 | 66 | |
| Economically Disadvantaged | 67 | 68 | |
| Limited English Proficiency | 64 | 68 | |

Source: http://www.doe.virginia.gov/statistics_reports/school_report_card/index.shtml

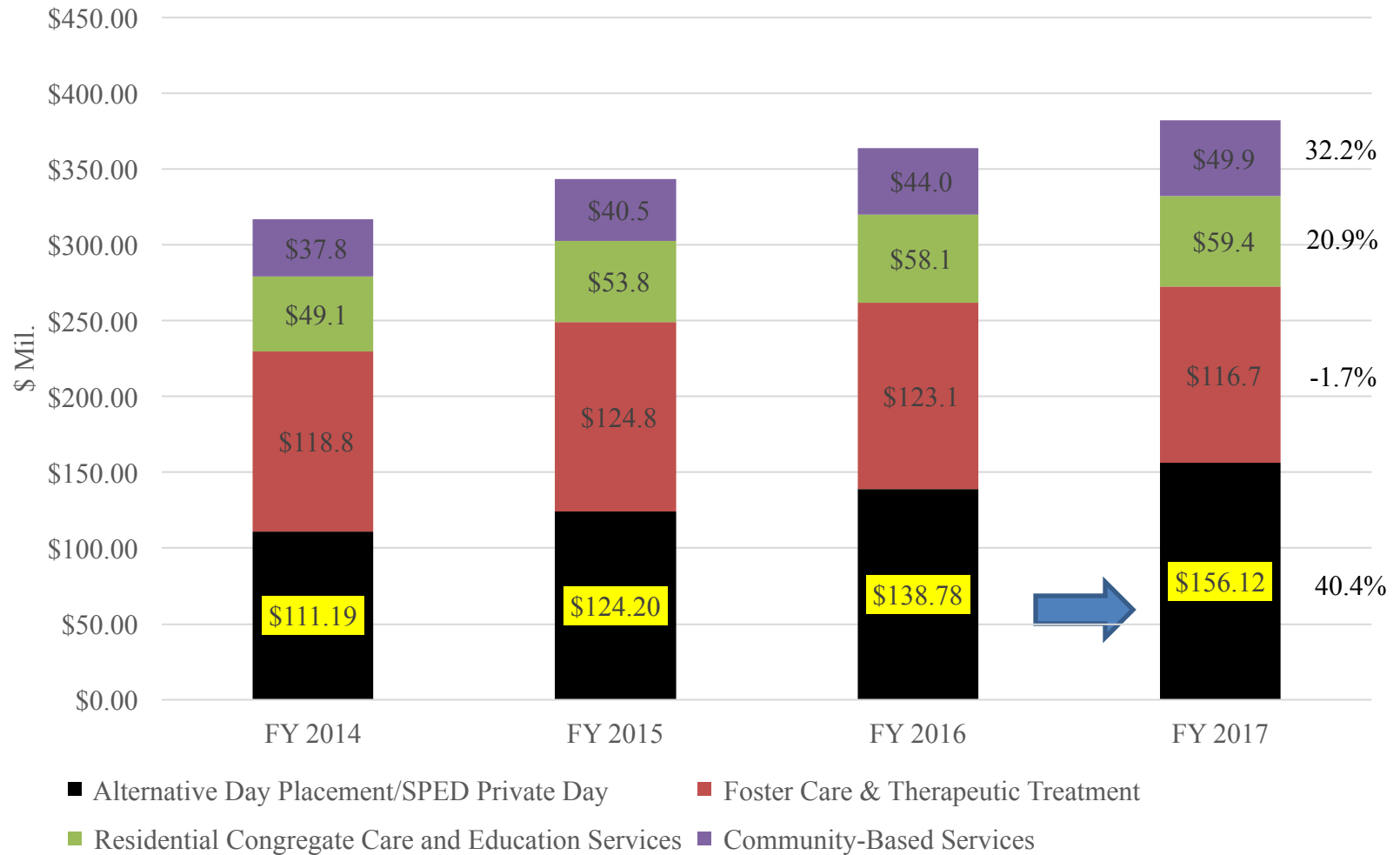
Has the State Funded Its Share of Special Education Costs (Mil. \$)?

| | State Appropriations (\$ Mil.) | | |
|-------------------------------------|--------------------------------|----------------|---------------|
| | <u>FY 2009</u> | <u>FY 2018</u> | <u>Growth</u> |
| SOQ Special Education | \$372.7 | \$382.9 | 2.7% |
| Special Education Regional Tuition | \$64.2 | \$87.6 | 36.4% |
| All Other Special Ed Programs | <u>\$39.1</u> | <u>\$43.8</u> | <u>12.0%</u> |
| Total State Special Education Funds | \$476.0 | \$514.3 | 8.0% |

Note: Special Education child count rose 1.9% from 165,874 in FY 2009 to 168,943 in FY 2016.

CSA Special Education Day Placement Costs Are Growing

CSA EXPENDITURE GROWTH



Special Education Day Placement Costs

| | <u>FY 2014</u> | <u>FY 2017</u> | <u>% Growth</u> |
|----------------------------|----------------|----------------|-----------------|
| Number Served | 3,158 | 3,817 | 20.9% |
| Avg. Annual Cost per Child | \$34,437 | \$41,088 | 19.3% |

Special Education Day Placement Cost Containment Proposals

- Continue current funding methods and improve the system.
 - For example, use outcome measures to track the progress of children in private day placements; and enhance local school divisions' abilities to serve kids in their local schools such as better use of CSA wrap-around funds for behavioral aides.
- State management of costs and rates.
- Place appropriations with VDOE -- more directly linked to local IEP team placements.
- Change current local match rates to the local composite index rate.

Other VCOPPA Budget Issues

- Impact of using Magellan's Independent Assessment, Certification and Coordination Team (IACCT) as a single point of entry for youth at risk of admission to residential treatment.
- Impacts of Commonwealth Coordinated Care (CCC Plus) 2018 behavioral health managed care rollout.
 - Over 200,000 people put in long-term managed care 1/18
- Who pays education costs for non-CSA parental placements?
- More resources for State Police fingerprint background checks.
- CSA vs. non-CSA Medicaid Rate

Since Recession, Locality Resources Have Not Kept Pace with Inflation/Population Growth

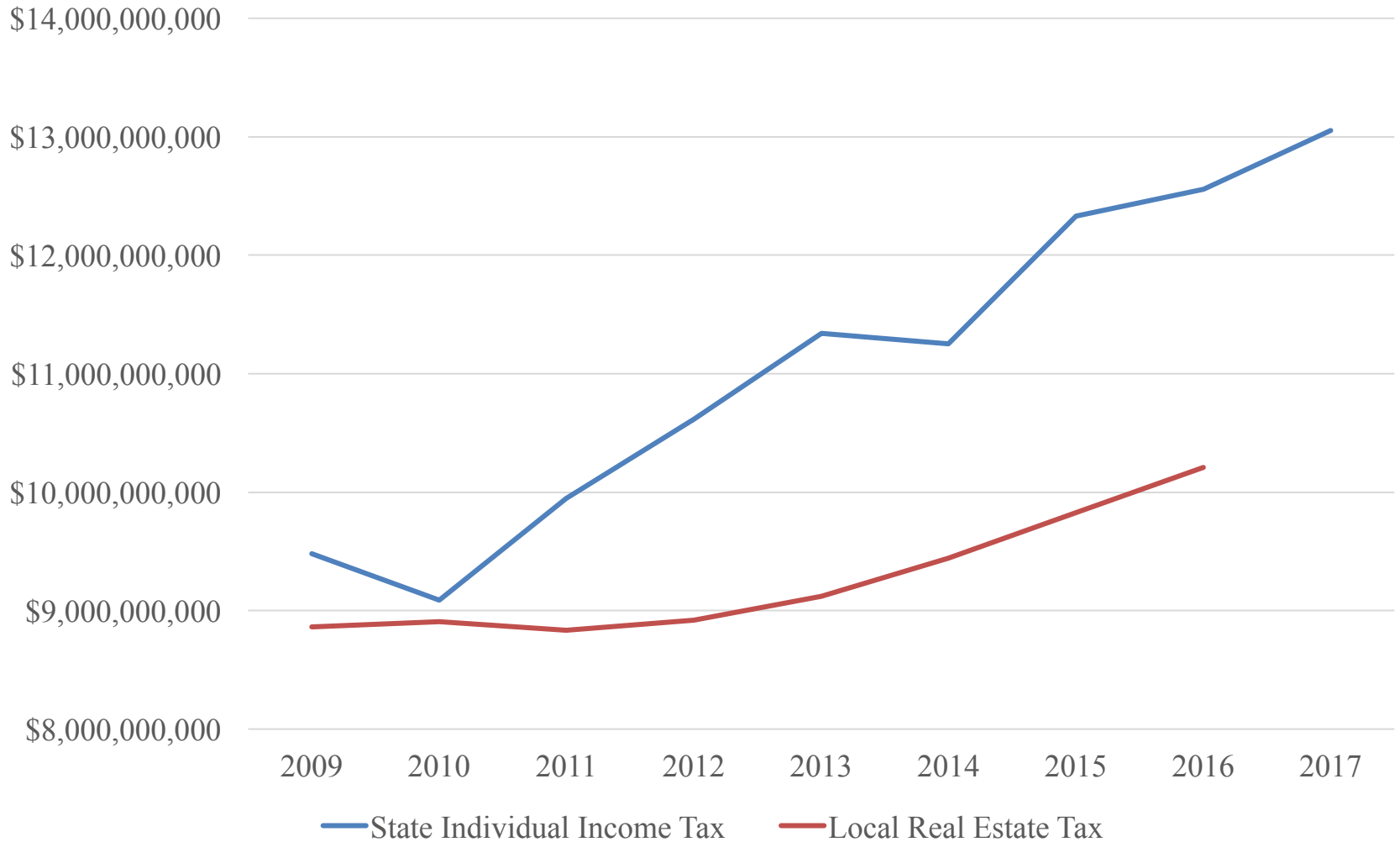
| FY 2009 - FY 2016 Growth Comparison | | | | | |
|--|----------------------------------|---|-----------------------------------|-------------------|------------------------------|
| | Locally-Generated Revenue | State/Federal Revenue for Localities | All Revenue for Localities | Population | Population /Inflation |
| VA Cities* | 11.8% | 2.2% | 7.8% | 6.4% | 18.1% |
| VA Counties | 18.4% | 11.8% | 15.9% | 7.3% | 19.0% |

* *Net of Cities of Richmond and Hopewell*

Note: Consumer Price Index from fiscal years 2009-16 = 11.7%

Sources: Virginia Auditor of Public Accounts Comparative Revenue and Expenditure Reports, U.S. Bureau of Labor Statistics

State Income Tax Growth Has Significantly Exceeded Local Real Estate Tax Growth Since Recession



Even Slow Real Property Revenue Growth Has Required Sharply Rising Rates

Median Real Estate Tax Rates in Virginia Localities*

| | <u>CY 2009</u> | <u>CY 2016</u> | <u>Change</u> |
|-----------------|----------------|----------------|---------------|
| Cities | 0.90 | 1.07 | 0.17 |
| Counties | 0.55 | 0.66 | 0.11 |
| Towns | 0.18 | 0.18 | - |

* Nominal rates per \$100 of assessed value. Source: Weldon Cooper Center, “Virginia Local Tax Rates”

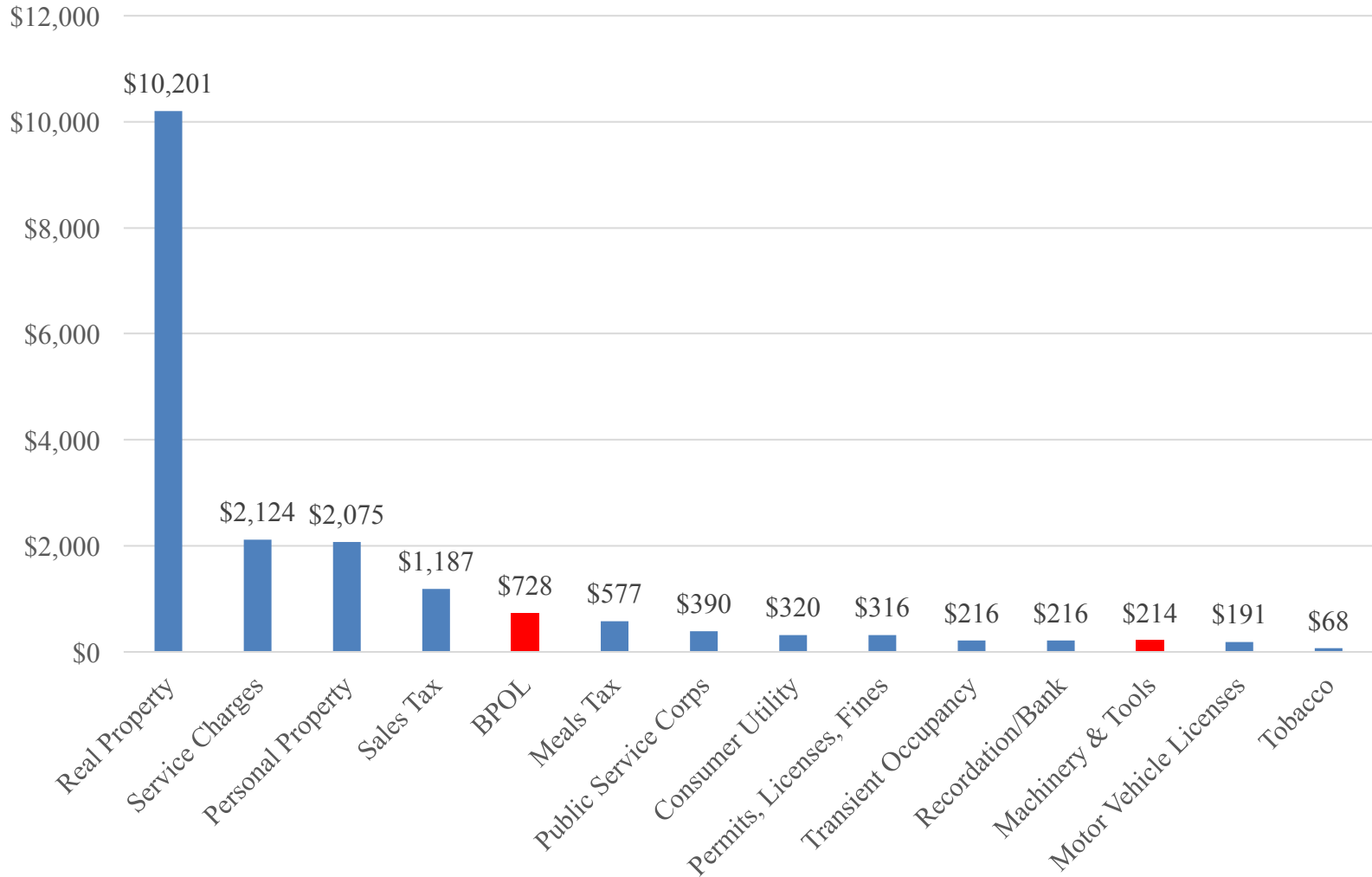
Despite Local Fiscal Issues, the Burden of the State-Local Fiscal Partnership is on Localities

| | <u>2012 JLARC Ranking</u> | <u>2017 JLARC Ranking</u> |
|---|---------------------------|---------------------------|
| Per capita personal income | 8 | 11 |
| State and local <i>taxes</i> as a percentage of personal income | 43 | 44 |
| Per capita state taxes | 34 | 36 |
| Per capita local taxes | 13 | 15 |
| State Per Pupil Funding | 35 | 38 |
| State and Local Per Pupil Funding | 17 | 26 |
| Average Salary of Public School Teachers | 28 | 29 |

Source: *Virginia Compared to Other States, JLARC, 2012, 2017 Editions*

Business Taxes Are Important Local Revenue Sources

Major Local Revenue Sources (\$ Mil. - FY 2016)



60 Percent of Business Licenses Pay Under \$100 per Year*

| <u>Gross Receipts Level</u> | <u># of Licenses</u> | <u>Percent</u> | <u>\$ Amount</u> | <u>Percent</u> | <u>Avg per License</u> |
|-----------------------------|----------------------|----------------|----------------------|----------------|------------------------|
| Flat Fee only | 74,888 | 23.6% | \$4,134,673 | 0.7% | \$55 |
| \$0-\$100,000 | 117,469 | 37.0% | \$4,841,153 | 0.8% | \$41 |
| \$100,001-200,000 | 29,165 | 9.2% | \$9,273,349 | 1.6% | \$318 |
| \$200,001-500,000 | 35,989 | 11.3% | \$27,652,331 | 4.8% | \$768 |
| \$500,001-5,000,000 | 50,616 | 16.0% | \$177,978,987 | 30.8% | \$3,516 |
| \$5,000,001-25,000,000 | 7,622 | 2.4% | \$174,518,999 | 30.2% | \$22,897 |
| Over \$25,000,000 | <u>1,456</u> | <u>0.5%</u> | <u>\$178,979,953</u> | <u>31.0%</u> | <u>\$122,926</u> |
| Survey Totals | 317,205 | 100.0% | \$577,379,446 | 100.0% | \$1,280 |

* Survey responses covered about 85% of total BPOL levies collected in FY 12.

Note: Mid-size low margin retail businesses (\$500k-\$5 mil.) pay about \$50 mil. in BPOL levies averaging \$2,800/yr.

M&T Taxes Are Concentrated in Localities

| | Total FY 2016 M&T \$ | Effective 1st Yr Tax Rate/\$100 | | M&T as % of Total Local Revenue | Effective 1st Yr Tax Rate/\$100 |
|------------------|-------------------------------------|--|------------------|--|--|
| 1 Newport News | \$20,312,830 | \$1.25 | 1 Alleghany | 23.20% | \$0.89 |
| 2 Richmond City* | 12,838,347 | \$2.07 | 2 Covington | 19.10% | \$0.83 |
| 3 Rockingham | 8,693,745 | \$2.30 | 3 Giles | 17.70% | \$1.06 |
| 4 Frederick | 6,895,312 | \$1.20 | 4 Buchanan | 15.90% | \$1.56 |
| 5 Norfolk | 6,063,521 | \$1.70 | 5 Hopewell** | 12.10% | \$0.76 |
| 6 Alleghany | 5,876,975 | \$0.89 | 6 Henry | 9.10% | \$1.44 |
| 7 James City | 5,792,203 | \$1.00 | 7 Campbell | 8.60% | \$0.81 |
| 8 Buchanan | 5,697,213 | \$1.56 | 8 Southampton | 8.00% | \$1.92 |
| 9 Campbell | 5,618,130 | \$0.81 | 9 Rockingham | 7.80% | \$2.30 |
| 10 Hopewell** | 5,066,978 | \$0.76 | 10 Botetourt | 7.30% | \$0.90 |
| 11 Manassas | 4,909,651 | \$1.68 | 11 Sussex | 7.00% | \$2.43 |
| 12 Lynchburg | 4,731,874 | \$0.90 | 12 Greensville | 6.80% | \$0.80 |
| 13 Chesterfield | 4,564,090 | \$0.25 | 13 Pulaski | 6.50% | \$0.72 |
| 14 Henry | 4,468,853 | \$1.44 | 14 Isle of Wight | 5.90% | \$0.70 |
| 15 Isle of Wight | 4,121,487 | \$0.70 | 15 King William | 5.60% | \$0.56 |
| 16 Giles | 3,812,525 | \$1.06 | 16 Amherst | 5.50% | \$0.50 |
| 17 Augusta | 3,649,048 | \$0.40 | 17 Galax | 4.90% | \$0.75 |
| 18 Botetourt | 3,438,291 | \$0.90 | 18 Newport News | 4.80% | \$1.25 |
| 19 Pulaski | 3,372,366 | \$0.72 | 19 Frederick | 4.70% | \$1.20 |
| 20 Bedford | 3,114,881 | \$1.20 | 20 Accomack | 4.60% | \$1.67 |
| 21 Roanoke City | 3,028,795 | \$2.07 | 21 Manassas | 4.50% | \$1.68 |
| 22 Salem | 2,931,060 | \$2.24 | 22 Augusta | 4.20% | \$0.40 |
| 23 Covington | 2,874,828 | \$0.83 | 23 Washington | 4.20% | \$1.55 |
| 24 Washington | 2,821,283 | \$1.55 | 24 Salem | 4.20% | \$2.24 |
| 25 Chesapeake | 2,803,960 | \$0.63 | 25 Shenandoah | 4.10% | \$1.73 |

* FY 2015, ** FY 2014

Summary

- Low growth in GF revenues and continued high growth in Medicaid and debt service could mean a continued degradation in state support for locally-administered state-mandated programs.
- The 2009-10 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 FY2009. CSA funding levels now being scrutinized.
- 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 much greater revenue generating capacity.

What Can State Government Do to Improve Economic Growth?

- Enact policies to close the skills gap:
 - Get serious about addressing the K-12 achievement gap; turn community colleges into career factories linked to industry/company needs; encourage a modern affordable Higher Ed curriculum and invest in research.
- Incentivize a more entrepreneurial economy:
 - Encourage more venture capital and gap financing - turning ideas into startups and helping successful companies grow.
 - Foster more human synergies and critical mass.
- Focus state policy on obvious infrastructure issues:
 - Transportation bottlenecks and high speed connections
 - Broadband and technology access
 - Providing cheap, abundant, clean energy

Modernize the State/Local Tax Base

- Reduce individual/corporate income and sales tax preferences.
- Start to capture the growing service economy with sales taxes.
- Create a level playing field by requiring internet sellers not collecting Virginia sales tax to inform the purchaser and Tax Department for use tax payment purposes.
- Modernize the local communications sales tax for audio and video streaming services and prepaid calling services and raise the rate to current retail sales and use tax.
- Expand the 0.7 percent regional sales tax for transportation to other regions.
- Allow counties the same taxing authority *by ordinance* as cities for meals, tobacco, and transient occupancy taxes.

Fiscal Stress (CLG) versus Fiscal Stewardship (FAM)

| CLG Fiscal Stress Rank | 2016 FAM Score | 2009 RE Tax Revenues | 2016 RE Tax Revenues | Growth FY09-16 | VA GF Exceeds Local RE Growth? |
|----------------------------|----------------|-------------------------|-------------------------|----------------|--------------------------------|
| <i>Virginia (Total GF)</i> | | <i>\$14,315,100,000</i> | <i>\$18,040,100,000</i> | <i>26.0%</i> | |
| 1 Emporia | 75.3% | \$2,704,096 | \$3,231,115 | 19.5% | Yes |
| 2 Buena Vista | 18.1% | \$3,337,299 | \$3,982,630 | 19.3% | Yes |
| 3 Petersburg | 4.5% | \$23,651,270 | \$25,523,837 | 7.9% | Yes |
| 4 Martinsville | 41.1% | \$6,887,656 | \$6,609,824 | -4.0% | Yes |
| 5 Covington | 35.6% | \$1,845,129 | \$2,114,507 | 14.6% | Yes |
| 6 Galax | 20.7% | \$2,306,898 | \$3,413,186 | 48.0% | No |
| 7 Lynchburg | 35.2% | \$48,391,257 | \$56,475,151 | 16.7% | Yes |
| 8 Franklin City | 34.9% | \$4,922,643 | \$5,558,277 | 12.9% | Yes |
| 9 Hopewell | N/A | \$12,829,945 | N/A | - | N/A |
| 10 Radford | 35.2% | \$5,335,962 | \$6,105,625 | 14.4% | Yes |
| 11 Bristol | 4.2% | \$9,593,966 | \$12,246,361 | 27.6% | No |
| 12 Portsmouth | 49.0% | \$90,174,449 | \$90,944,523 | 0.9% | Yes |
| 13 Norfolk | 20.7% | \$206,319,083 | \$217,125,915 | 5.2% | Yes |
| 14 Hampton | 42.8% | \$121,510,087 | \$135,302,923 | 11.4% | Yes |
| 15 Norton | 17.9% | \$1,601,572 | \$2,062,943 | 28.8% | No |
| 16 Newport News | 25.6% | \$167,606,717 | \$174,097,563 | 3.9% | Yes |
| 17 Danville | 76.8% | \$16,134,891 | \$16,364,473 | 1.4% | Yes |
| 18 Harisonburg | 43.6% | \$20,253,878 | \$28,256,206 | 39.5% | No |
| 19 Roanoke City | 21.4% | \$78,417,254 | \$81,997,230 | 4.6% | Yes |
| 20 Greensville County | 51.7% | \$3,014,889 | \$4,147,984 | 37.6% | No |
| 21 Buchanan County | 66.8% | \$7,624,465 | \$9,260,576 | 21.5% | Yes |
| 22 Lexington | 72.4% | \$3,651,580 | \$5,560,264 | 52.3% | No |
| 23 Staunton | 63.1% | \$16,500,114 | \$16,974,204 | 2.9% | Yes |
| 24 Smyth County | 38.5% | \$7,422,198 | \$10,624,941 | 43.2% | No |
| 25 Sussex County | 61.0% | \$4,221,374 | \$4,633,591 | 9.8% | Yes |
| 26 Richmond City | 13.7% | \$222,174,092 | N/A | - | N/A |
| 27 Dickenson County | 36.4% | \$5,658,058 | \$7,709,242 | 36.3% | No |
| 28 Waynesboro | 51.9% | \$12,190,852 | \$13,523,760 | 10.9% | Yes |
| 29 Salem | 45.3% | \$22,701,024 | \$24,430,486 | 7.6% | Yes |
| 30 Scott County | 30.1% | \$7,057,811 | \$8,094,350 | 14.7% | Yes |

Provide More Local *Structure* Options to Improve Efficiency

- Incentivize increased local and regional cooperation. For example, consider giving a county that does not oppose a city reversion to town status the ability to raise revenue similar to the city it incorporates.
 - Provide other incentives for regional cooperation, particularly for school consolidation.
- Create a new category of reversion called “dependent city” -- combining county-city school districts, but no town annexation authority.

Options to Reduce Critical Local Stress

- Challenged Schools and Teacher Recruitment
- Community Wealth Building/Workforce Development to Overcome Chronic Poverty
- Improve Tax Policy for Low-Income Taxpayers, e.g., higher threshold, indexed standard deduction, refundable EITC
- Economic Development Incentives Targeted to Critically Stressed Localities
 - Enterprise Zone Enhancements, Brownfield Funding
 - “Stressed Locality Strategic Opportunity Fund”: generate increased local revenue by incentivizing and accelerating anchor tenants, millennial attractions, and innovative businesses and technology with gap financing; increase business recruitment and collaborations; leverage other economic development funds.