

BATH COUNTY SCHOOL BOARD

AGENDA ITEM: INFORMATION { X } ACTION { } CLOSED MEETING { }

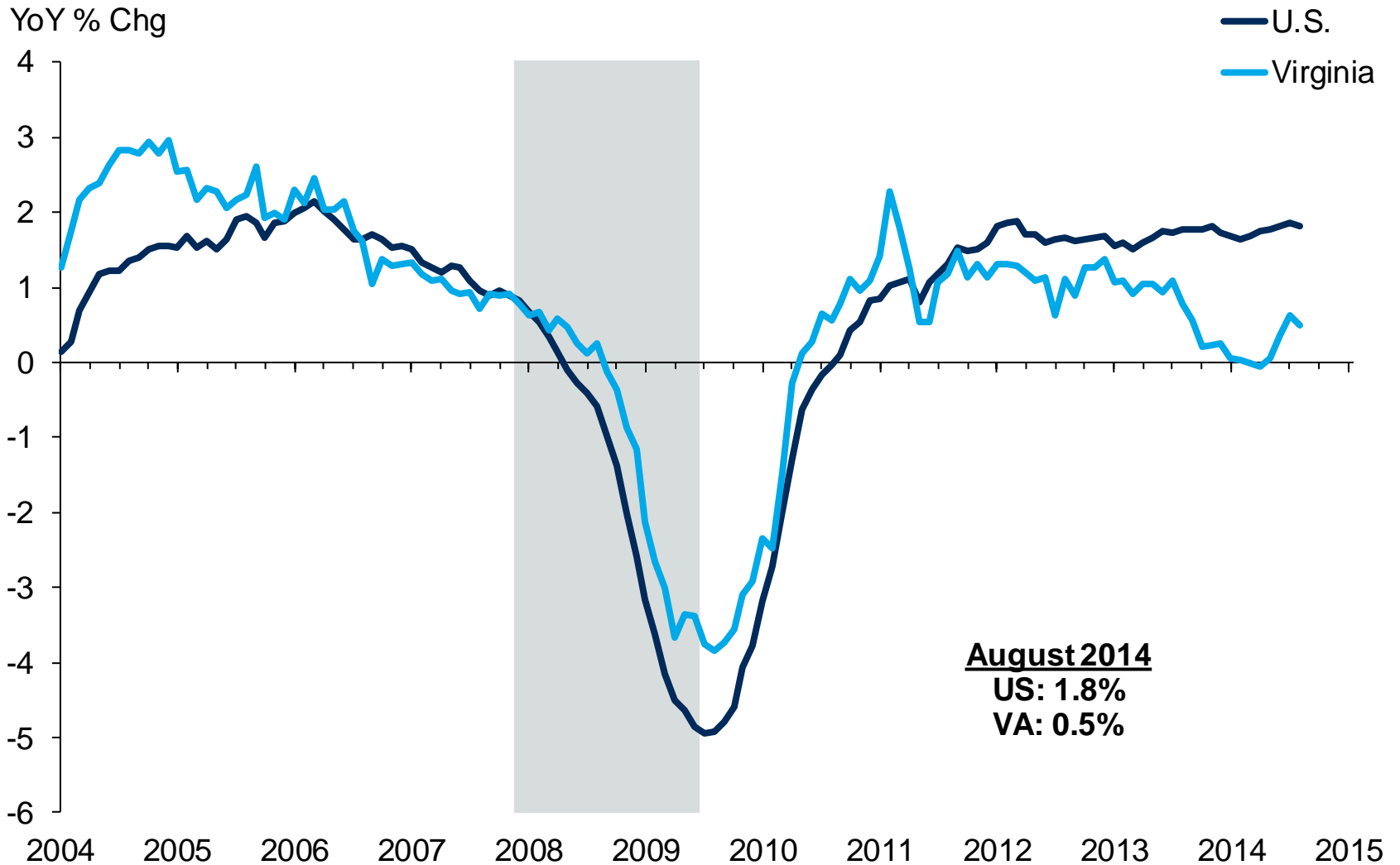
SUBJECT: ITEMS FOR BOARD MEMBERS

Virginia Economic and Budget Trends and the Impact on K-12 School Funding

Fiscal Analytics, Ltd.

October, 2014

Slow Virginia Payroll Employment Growth



Source: Bureau of Labor Statistics/Haver Analytics

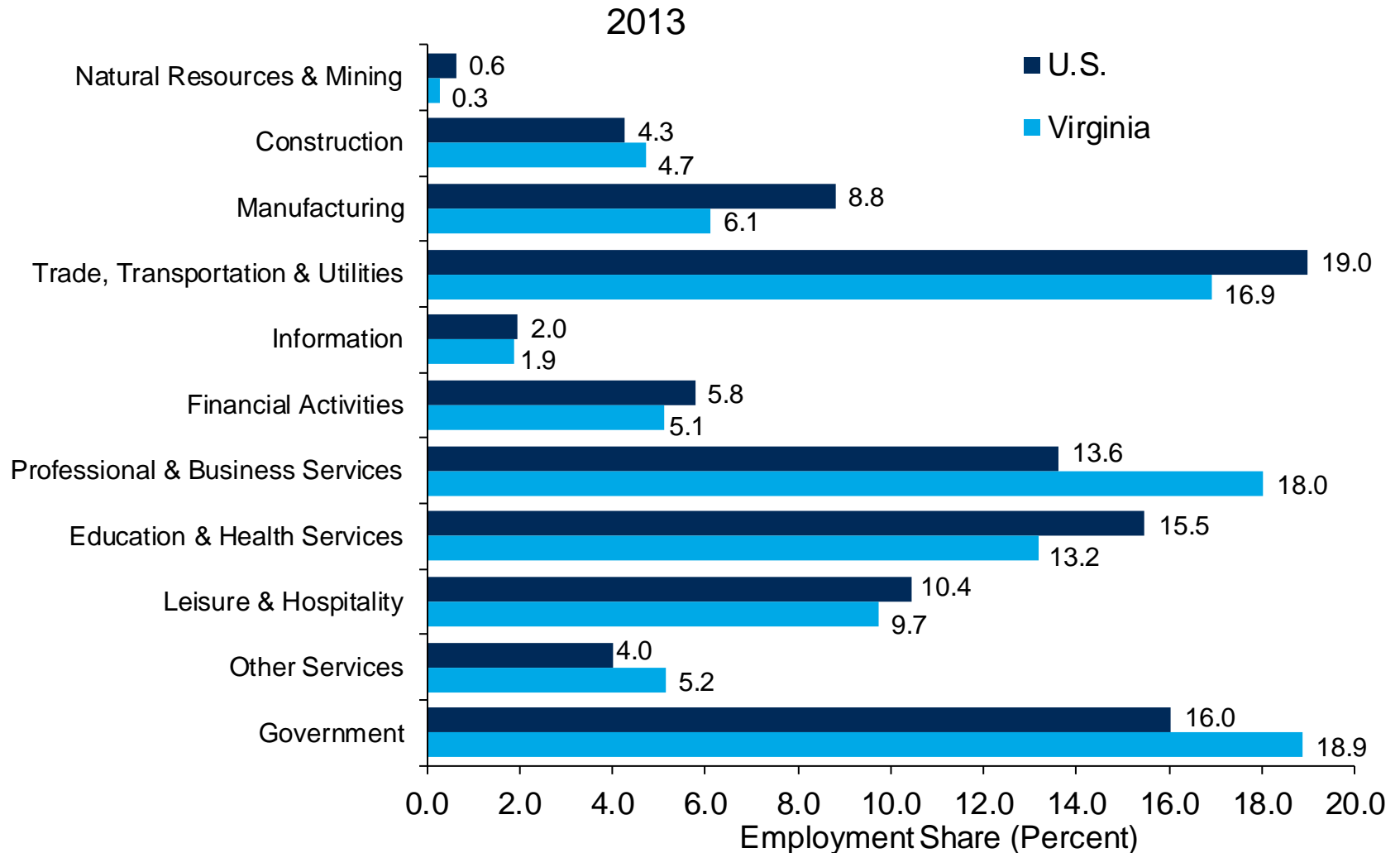
Employment Growth By Region

	August 2014 Employment (000's)	Chg over Prior Year
Virginia Total	3,787.1	0.49%
Northern Virginia	1,378.5	0.60%
VA Beach - Norfolk MSA	754.5	-0.08%
Richmond MSA	646.0	1.91%
Roanoke MSA	156.3	-1.33%
Charlottesville MSA	103.7	-0.58%
Lynchburg MSA	100.4	-1.47%

Despite 5 Years of U.S. Economic Recovery, Defense Cutbacks Are Hurting Virginia's Economic Recovery

- In 2010, federal spending (\$137 B total; \$58B DoD) contributed approximately one-third of Virginia's gross state product (\$424 B).
 - VA ranked #2 in total per capita federal spending and #1 in per capita DoD spending in 2010.
- From CY 2000-10 federal spending in VA grew 107% versus 60% in total Virginia's gross state product.
- However, U.S. defense spending declining.
 - 7.2% FFY 2013
 - 4.9% FFY 2014
- DoD spending in Virginia down from \$54.8 billion in 2012 to \$41.4 billion in 2013. (Chmura Economics)

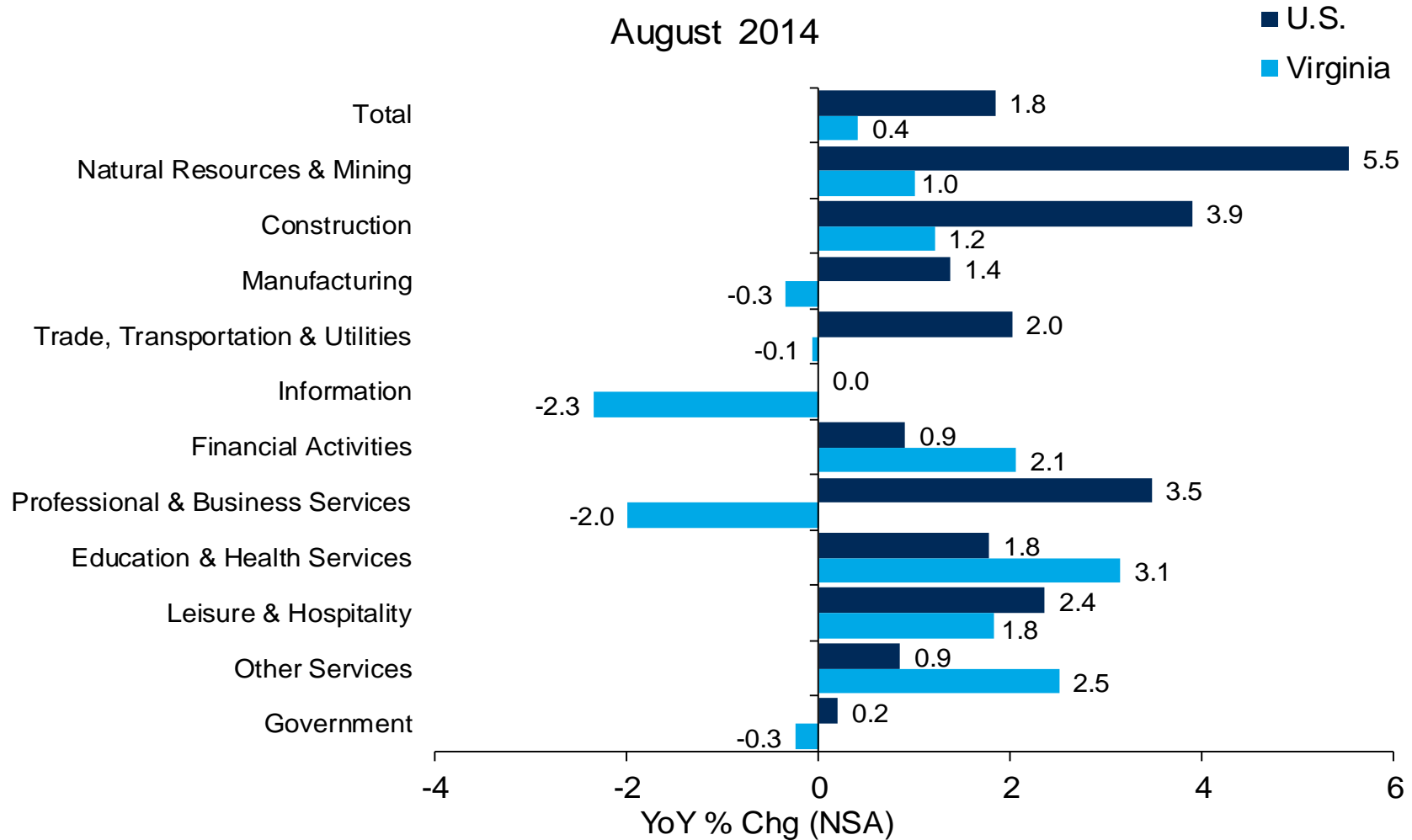
Virginia Has a Much Higher Percentage of Professional and Business Service Jobs Than the Nation



...But High Paying Jobs Have Been Declining Along With Defense Cuts in Virginia

Percent Change in Employment from a Year Ago, NSA

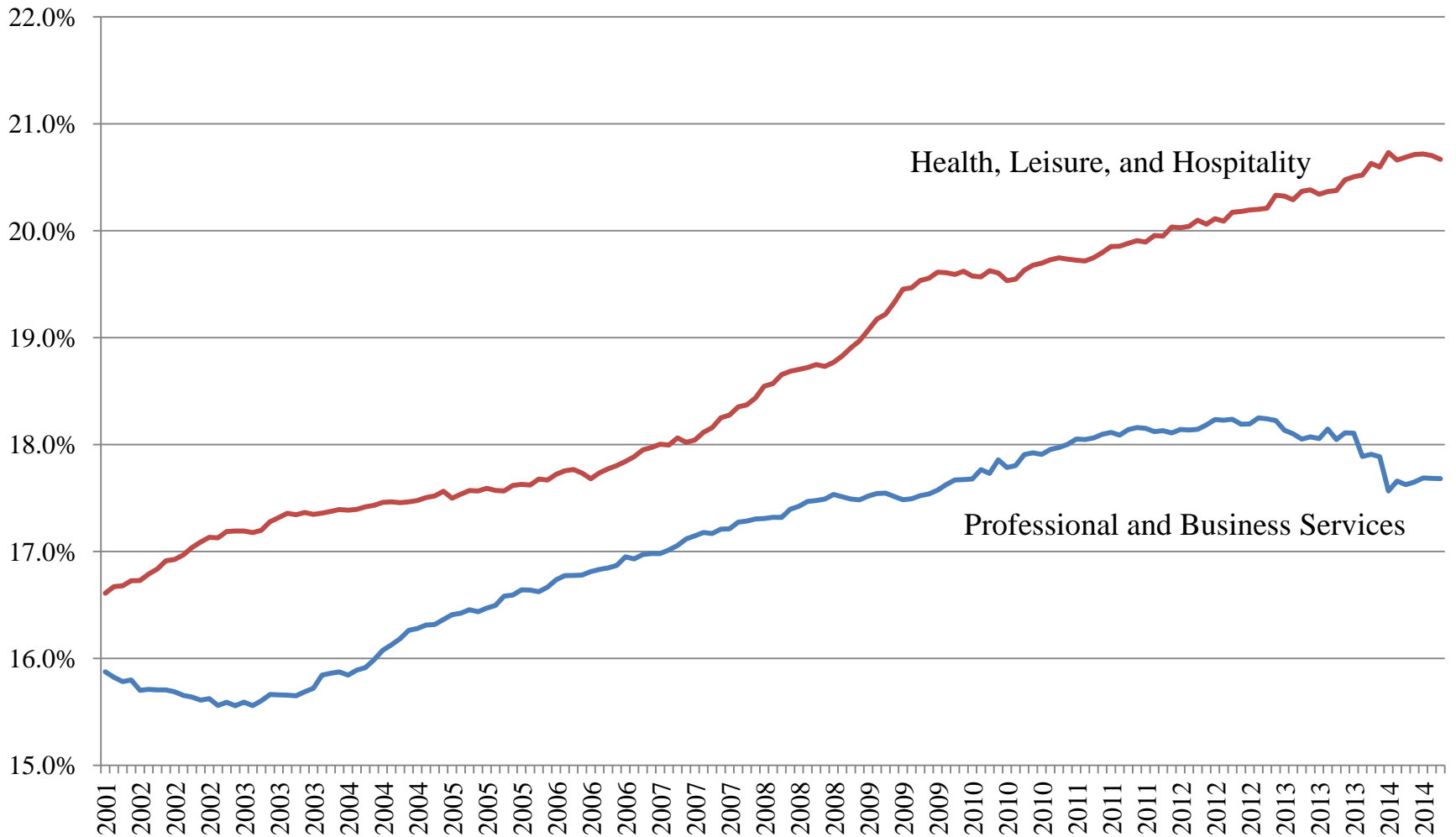
August 2014



Source: Bureau of Labor Statistics/Haver Analytics

Virginia's Replacement of High Paying With Low Paying Jobs Helps Explain Slow Growth in Wages and Tax Revenues

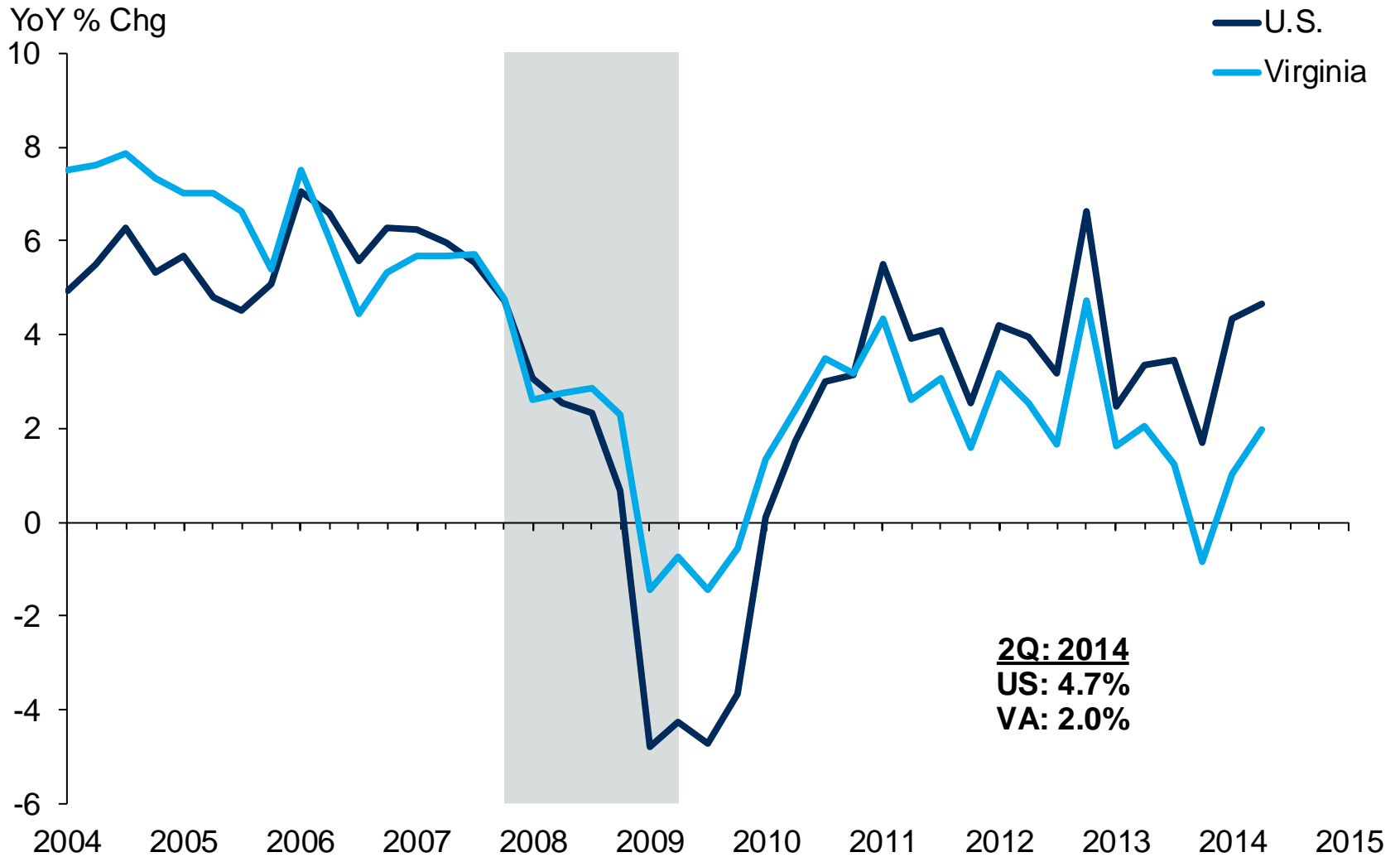
(% of Total VA Employment)



High Paying Business and Professional Jobs Generate Significant Tax Revenue

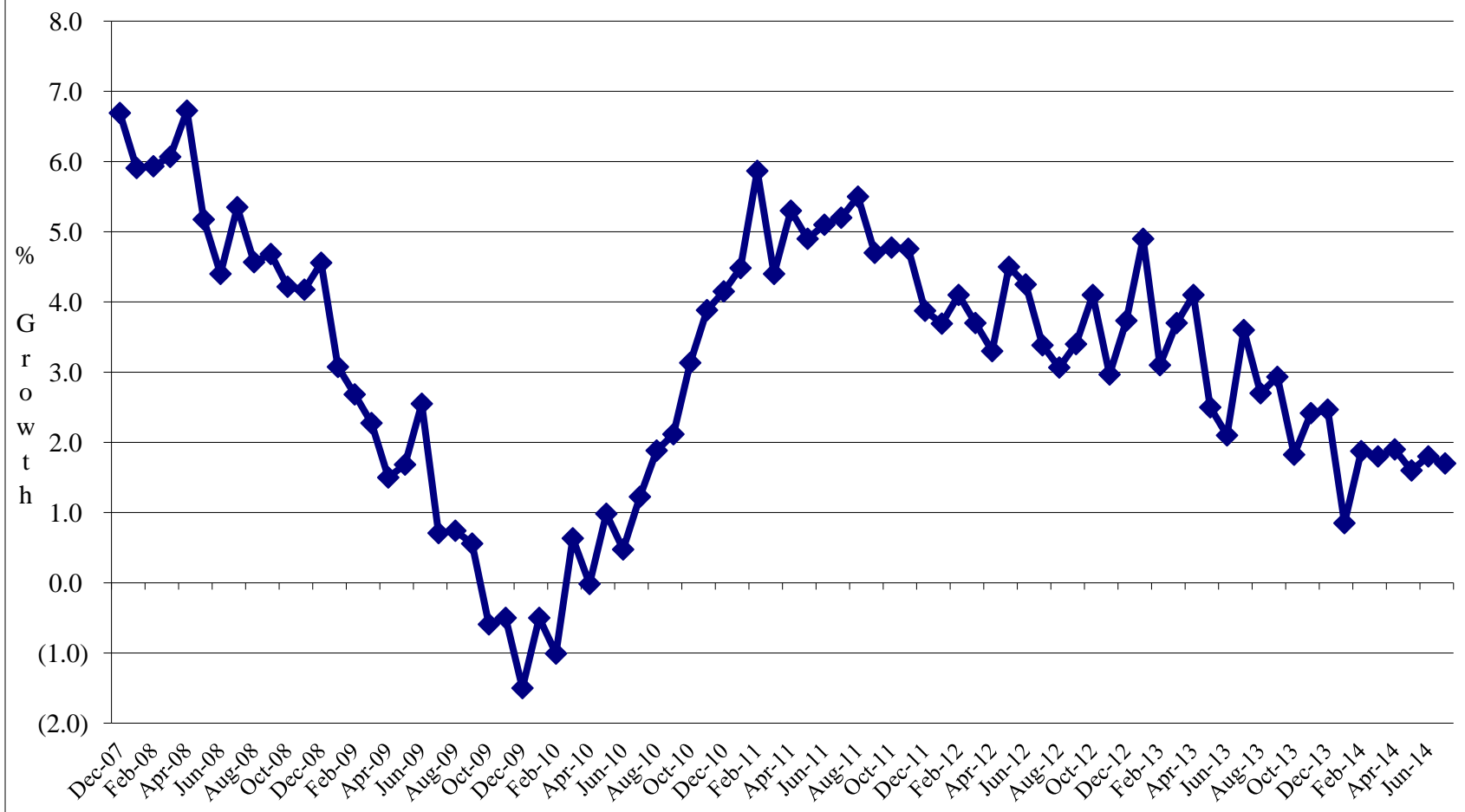
	<u>Avg. Weekly VA Wage</u>
Management of Companies and Enterprises	\$1,860
Professional, Scientific, and Technical Services	\$1,785
Information	\$1,491
Finance and Insurance	\$1,402
Wholesale Trade	\$1,366
Utilities	\$1,359
Public Administration	\$1,343
Mining, Quarrying, and Oil and Gas Extraction	\$1,213
Manufacturing	\$1,034
Transportation and Warehousing	\$934
Construction	\$924
Real Estate and Rental and Leasing	\$893
Health Care and Social Assistance	\$878
Educational Services	\$820
Other Services (except Public Administration)	\$728
Unclassified establishments	\$726
Administrative, Support and Waste Manageme	\$699
Agriculture, Forestry, Fishing and Hunting	\$542
Retail Trade	\$509
Arts, Entertainment, and Recreation	\$426
Accommodation and Food Services	\$332

Virginia Wage and Salary Growth Lagging the U.S.

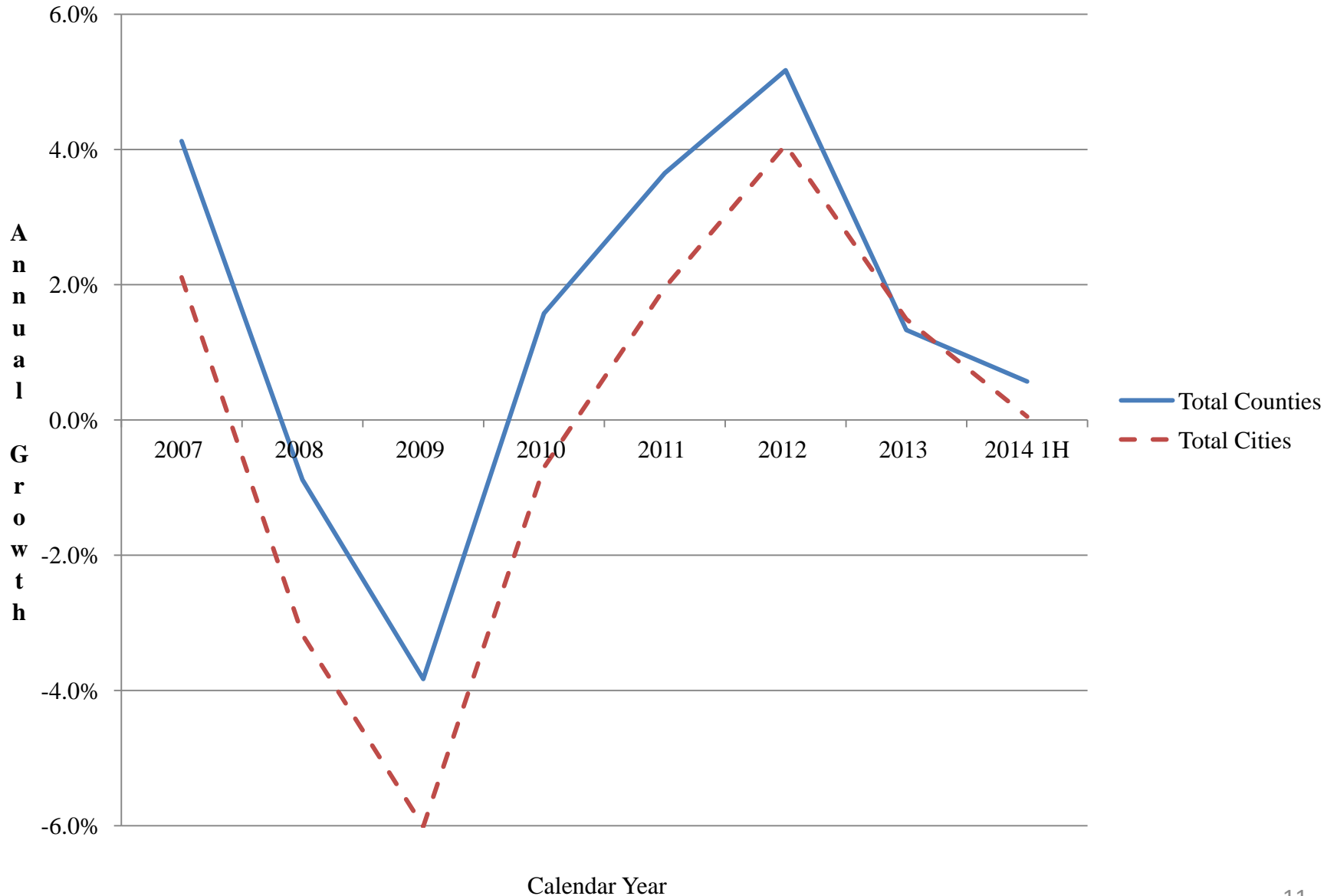


Source: Bureau of Economic Analysis/Haver Analytics

Slowing Growth in Individual Income Tax Withholding 12 Mo. Moving Avg (% Growth)

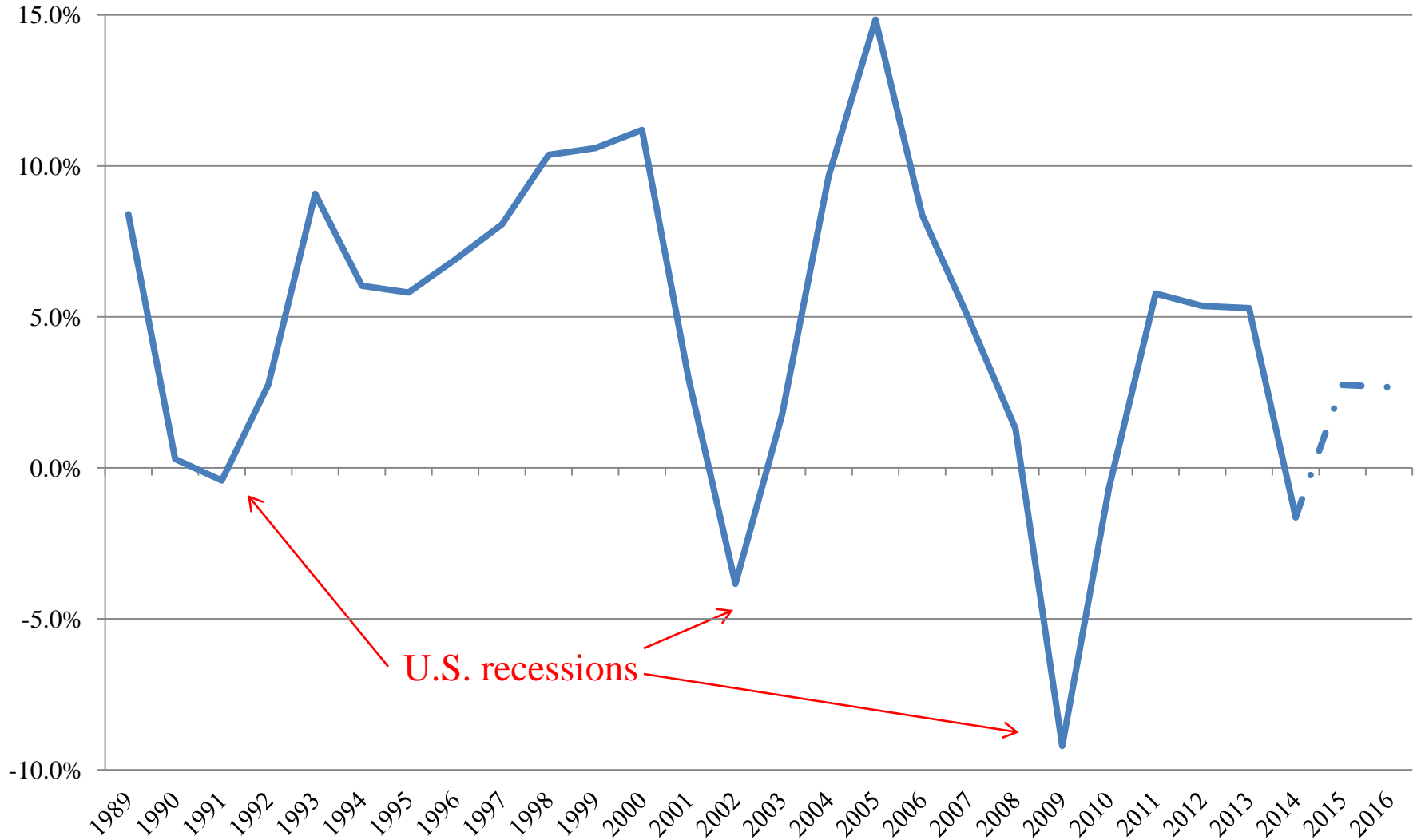


Taxable Sales Growth Approaching Zero



Virginia GF Revenue Declined 1.6% in FY 2014

2.7% Growth/Yr Now Projected in 2014-16



\$2.4 Billion 2014-16 Budget Reduction Required

- In FY 14, GF revenue declined for the first time without U.S. recession. (-1.6 % actual vs. 1.0% budgeted, or \$439 mil. below official forecast).
 - Federal tax changes led to non-withholding income tax growth of -10.1%. Final payments \$342 million below previous tax year.
 - Income tax withholding grew only 2.3%.
 - Sales and corporate income taxes fell 4.8% and 4.9%.
 - Lower FY 14 GF revenue base carries over into 2014-16.
- \$1.55 billion shortfall anticipated in June. Additional GF reduction of \$882 million forecast in September (\$346 m in FY 15 and \$536 m in FY 16). GF growth lowered to 2.7% from 4.5% in FY 15.
 - Non-withholding forecast capped at 15 percent of total GF revenue collections.
 - September budget actions still left \$272 mil. budget hole for FY16.

Major June Actions Taken to Save \$1.55B

- Assumed Rainy Day Fund withdrawals of \$705M over biennium.
- Removed almost all new funding for K-12 above rebenchmarking adjustments.
- Removed the majority of new funding above the base budget for higher education.
- Removed hospital and nursing home provider inflation adjustments.
- Removed increase in HB 599 funding.
- Reduced Commerce and Trade funding by \$39M over biennium, including all new tourism and economic development funding.
- Captured \$31.1 million in unspent balances from a GF appropriation made to transportation in 2007.
- Delayed AST phase-out for 125 large sales tax dealers.

State Actions in September to Partially Balance Remaining \$882M GF Budget Hole

<u>Budget Balancing Items</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Total</u>
Revenue: New Federal Debt Set-off program	\$12.0	\$4.0	\$16.0
Revenue: Delay GF Sales Tax Transfer to HMOF	\$49.8		\$49.8
Unobligated Balances	\$102.0		\$102.0
Executive Agency Management Savings	\$92.4	\$100.0	\$192.4
Higher Education Management Savings	\$45.0	\$45.0	\$90.0
Repeal of Higher Ed Reserve (Item 468.K)		\$20.0	\$20.0
Local Government Reversions	\$30.0	\$30.0	\$60.0
Additional Lottery Proceeds for K-12	\$28.1		\$28.1
Literary Fund Transfer for Teacher Retirement	\$15.0		\$15.0
Bond Refinancing Savings	\$3.2	\$23.0	\$26.2
Natural Resources Commitment Fund	\$1.0	\$1.0	\$2.0
Judicial Agency Balances	\$0.7		\$0.7
Legislative Balances	\$3.9		\$3.9
VASAP Balances	\$1.0		\$1.0
Repeal Transportation Funding Cash Flow §3-1.01 GG.1.	(\$30.0)	\$30.0	\$0.0
Delay Filling Judicial Appointments	<u>\$3.2</u>		<u>\$3.2</u>
Total Budget Balancing Actions	\$357.2	\$253.0	\$610.2
Total Budget Balancing Actions Needed	\$357.2	\$525.0	\$882.2
Budget Actions Left for 2015 Session		<u>\$272.0</u>	<u>\$272.0</u>

What Will the State Do to Close the Remaining \$272M FY16 Budget Gap?

- Hope revenue growth exceeds current forecast of 2.7%.
- Delay additional sales tax to transportation until FY 17 (\$49.8 mil.)?
- Use additional cash flow techniques, such as accelerated sales tax deposits? Find more balances?
- Additional state agency cuts (\$23 mil. per 1 percent cut)?
Reduce state employee benefits?
- Reduce K-12 re-benchmarking or Higher Ed funding?
- Reduce other aid for locally-administered programs?
- Modify tax preferences?

Should the State Look at Its Tax Preferences?

Largest Virginia Tax Preferences

<u>Description of Largest Tax Preferences</u>	<u>Cost Est. (\$mil.)</u>
Sales Tax Exemptions	<i>See table next page</i>
Personal Property Tax Relief Act ("Car Tax")	\$950.0
Subtraction For Those Aged 65 or older and 62-64 (means tested)	\$284.9
Social Security and Railroad Retirement Subtraction	\$244.0
Estate Tax Elimination	\$140.0
Tax Credit for Families Below the Poverty Level	\$115.7
Tax Credit for Land Preservation (credits transferable)	\$100.0
Coalfield Employment and Production Incentive Tax Credits (\$3/Ton)	\$59.4
Tax Credit for Historic Rehabilitation	\$59.2
Single Sales Factor for Corporate Income Tax	\$59.0
Child and Dependent Care Deduction	\$28.4
Coalfield Employment Enhancement Tax Credits (\$1-2 per ton)	\$25.0
Subtraction for Unemployment Benefits	\$21.8
Virginia Education Savings Trust	\$17.9
Blind and Aged Personal Exemption	\$14.7
Deduction/Credit for Long Term Health Care Insurance	\$8.0
Subtraction for Military Wages -- Up to \$15,000	\$7.8
Tax Credit for Motion Pictures and Media Equipment	\$7.5
Neighborhood Assistance Tax Credit	\$6.2
Subtraction of Disability Income	\$5.8
Major Business Facility Job Tax Credit	\$4.3
Tax Credit for Equity and Subordinated Debt Investments	\$2.1

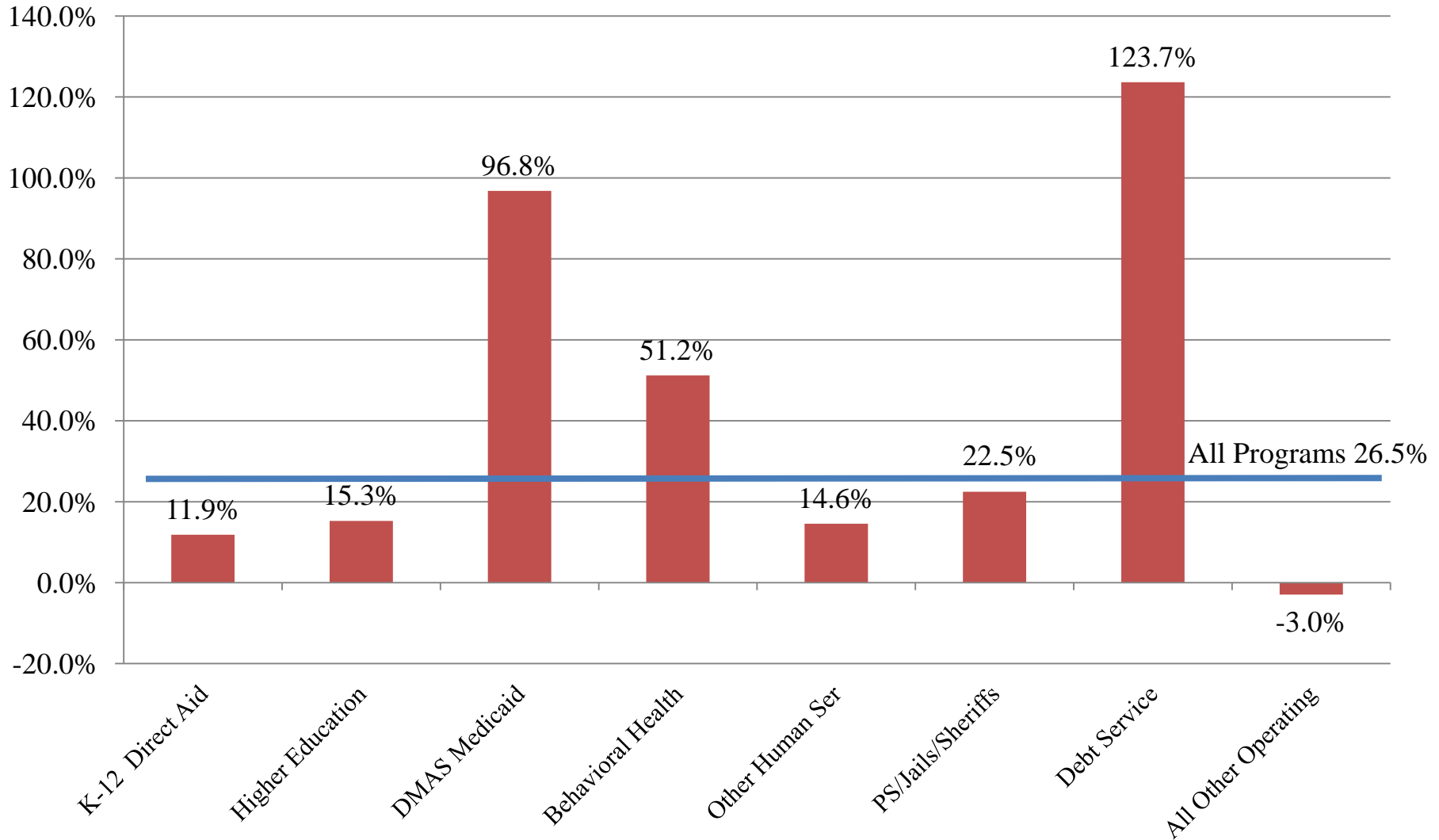
Largest Sales Tax Exemptions

Cost Est. (\$mil.)

Services Exemptions	\$ Varies by Service
Prescription Drugs	\$378.8
Partial Food for Home Consumption	\$346.2
Non-Profit Organizations (largely non-profit hospitals/medical)	\$208.4
Advertising	\$84.8
Transportation Services	\$83.8
Residential Heating Fuels	\$41.9
Research & Development	\$28.9
NonPrescription Drugs	\$26.7
Railroad Common Carriers	\$20.1
School Lunches	\$12.0
Airline Common Carrier	\$10.1
Movie Theatre and Broadcaster Purchases	\$7.5
Churches	\$6.0
Donations of Tangible Goods to Non-Profits	\$5.5
Media Provider Equipment	\$5.2
Printed Materials for Out-of-State Distribution	\$5.0
School Supplies Holiday	\$4.1
Forestry Equipment	\$3.8
Pollution Control Equipment	\$3.8
Ships and Vessels	\$2.8
Durable medical Equipment	\$2.3
Hurricane Preparedness Sales Tax Holiday	\$2.2

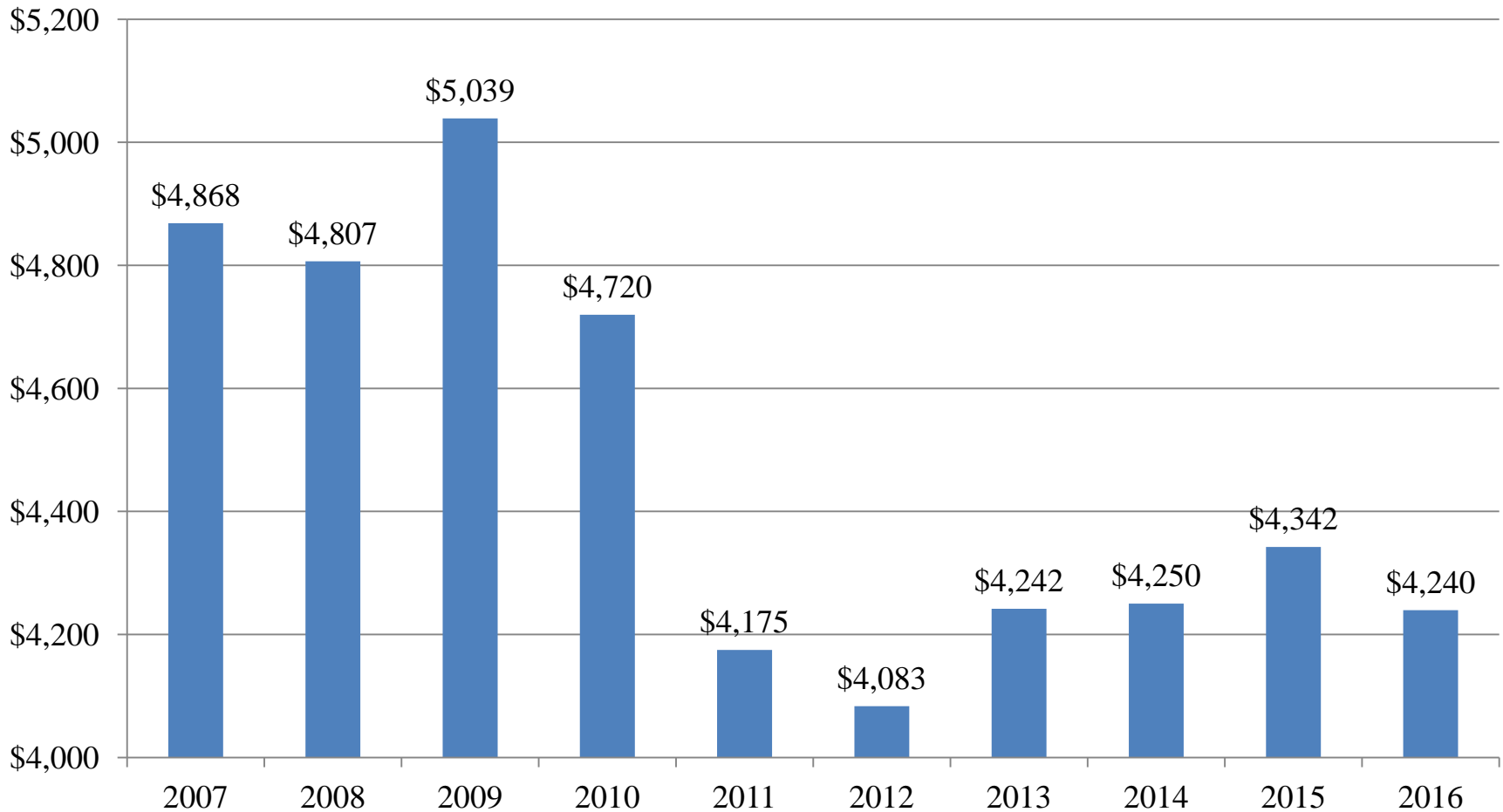
Will the State Adopt Additional K-12 Cuts?

Major GF Budget Drivers FY 2006-16



Note: Reflects June 2014 adopted budget for FY 16

Inflation-Adjusted State Per Pupil K-12 Funding Reveals Large Declines in State Aid (2007 \$ - All State Appropriated Funds)



Includes GF, lottery profits, miscellaneous NGF, and state appropriated federal stimulus funds *adjusted by the CPI*

State K-12 Policy Changes Adopted to Reduce Funding

<u>Major K-12 Funding Policy Changes Since 2008 Session</u>	<u>Session</u>	<u>Biennial \$ in Mil.</u>
Cap Funding for Support Positions	2009	(\$754)
Eliminate School Construction Grants	2009	(\$55)
Adjust Health Care Participation Rates	2010	(\$269)
Eliminate Equipment, Travel, Misc. Expenses From SOQ Calculation	2010	(\$244)
Include \$0 Values in Linear Weighted Avg Calculation	2010	(\$79)
Eliminate Lottery Support for School Construction	2010	(\$67)
Drop Lowest Tier From K-3 Class Size Calculation	2010	(\$36)
Extend School Bus Replacement Cycle From 12 to 15 Yrs	2010	(\$19)
Eliminate Enrollment Loss Assistance	2010	(\$16)
Eliminate Non-personal Inflation Update (not originally intended as permanent, <i>partially offset in 2012-14 biennium</i>)	2012	(\$109)
Reduce Nova COCA for support positions	2012	(\$28)
Use Kindergarten as Proxy for 4-yr-old Pre-K Count	2012	<u>(\$27)</u>
Total Major Policy Changes Since 2008		(\$1,703)

Virginia Board of Education Recommended, But Unfunded, Changes to the SOQ

	<u>Year First Recommended</u>	<u>FY 2014 Est. \$ Mil</u>
A full-time principal for each elementary school	2003	\$8.0
A full-time assistant principal for every 400 students in the school	2003	\$70.6
One reading specialist for every 1,000 students in K-12	2003	\$51.3
One mathematics specialist for every 1,000 students in K-8	2006	\$35.0
A data manager-test coordinator for every 1,000 students in K-12	2006	\$51.3
Reducing speech-language pathologist caseloads from 68 to 60	2003	<u>\$5.3</u>
Total Annual Unfunded BOE Recommended SOQ Changes		\$221.5

State K-12 Administrative Support Capabilities Are Stressed

Dept. of Education Central Office Budget

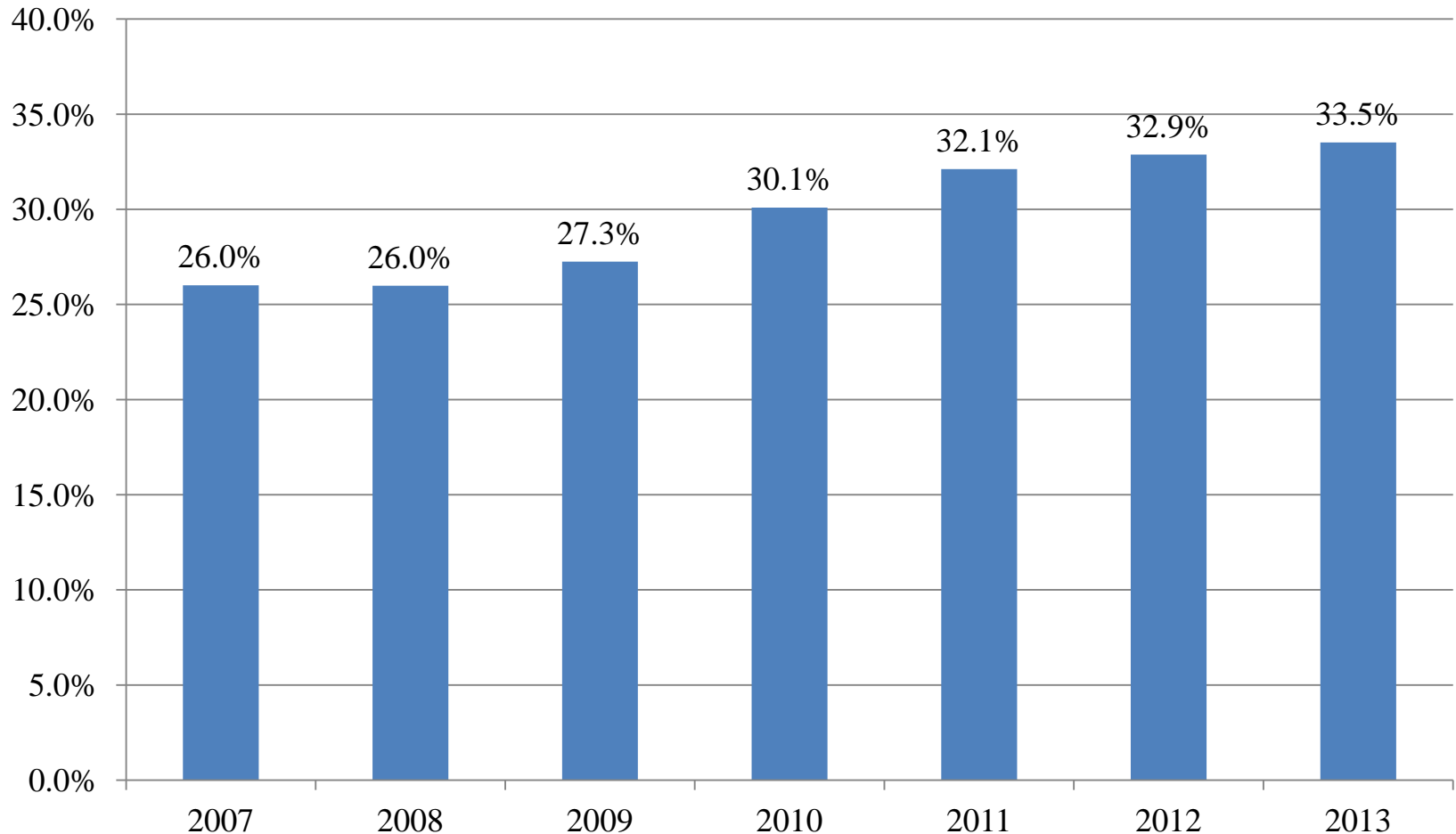
	<u>FY 2006</u>	<u>FY 2016*</u>
General Fund (\$ Mil.)	\$61.0	\$51.2
NGF/Federal Funds (\$ Mil.)	\$50.7	\$42.5
GF Position Cap	168.5	136.0
NGF Position Cap	168.5	178.5

* Not including September Executive Management savings

Expect Local Education Costs to Continue Rising...

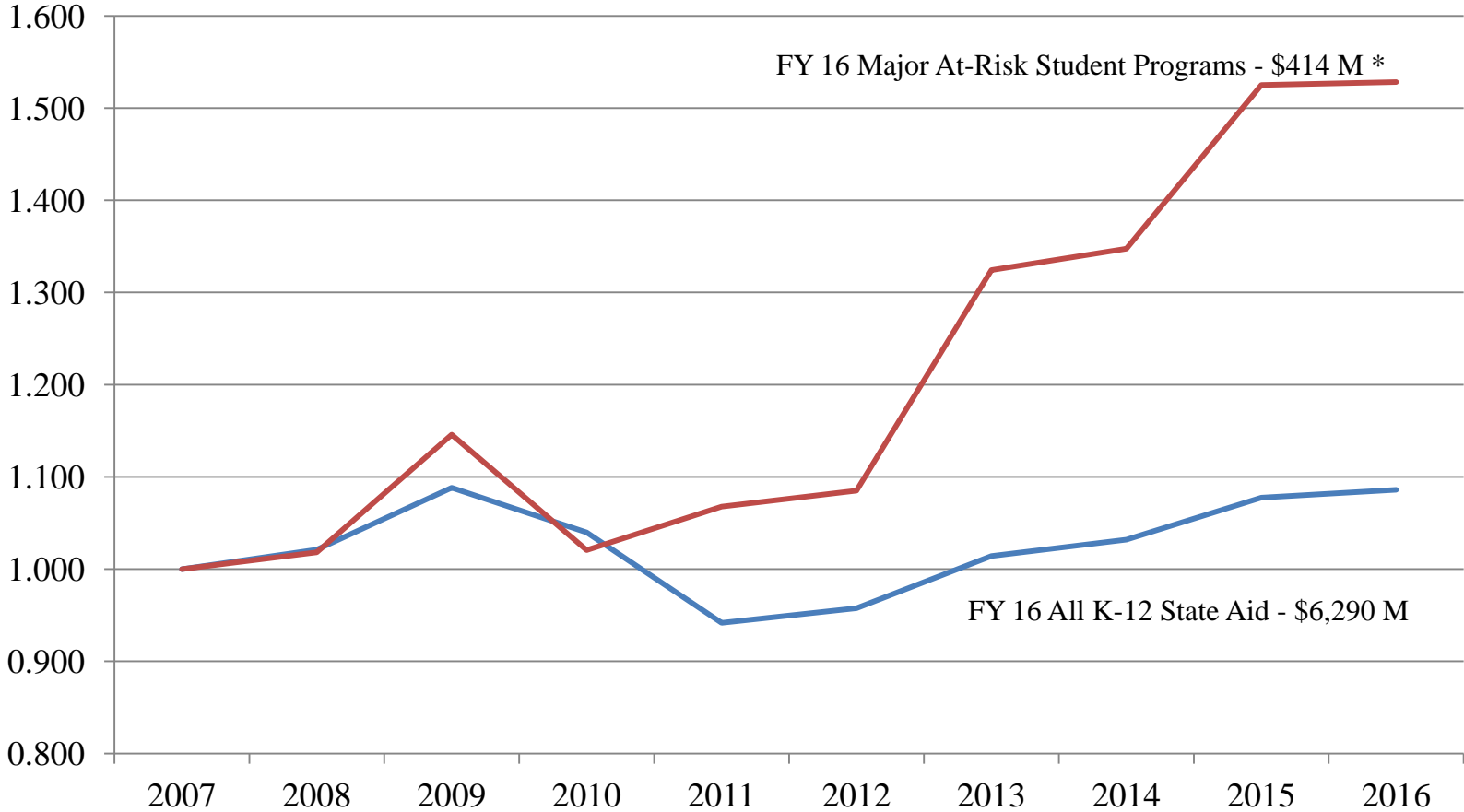
One Reason: Numbers of At-Risk Students Rising Sharply

Percentage of Free Lunch Students in VA



At-Risk Student Aid Growing Faster Than Overall State K-12 Aid

Cumulative Growth Since FY 2007 in Total State K-12 Aid Compared to Major At-Risk Student Education Programs



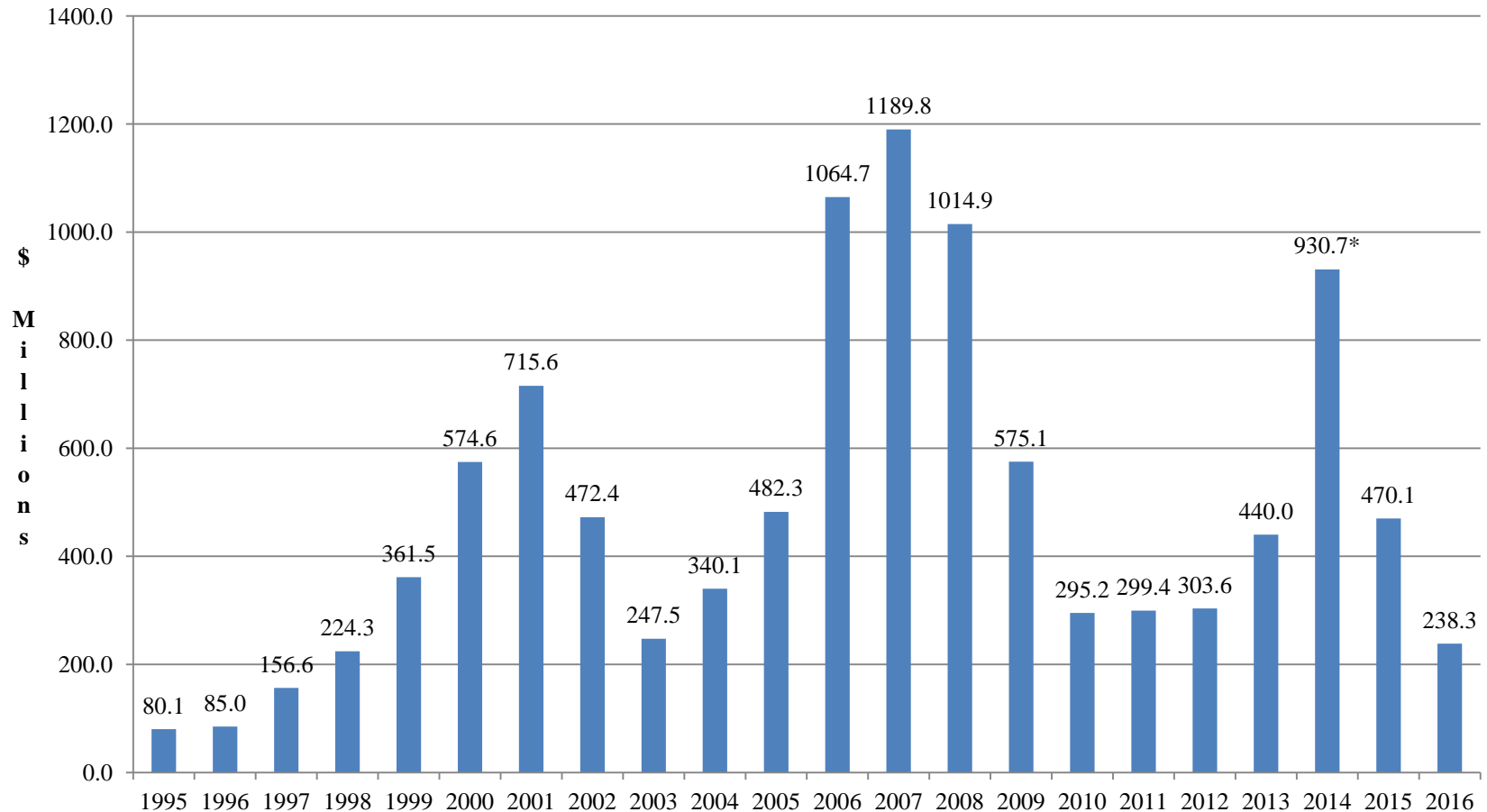
*Includes state funds for SOQ Prevention, Intervention, Remediation, and Lottery-funded At-Risk, K-3 Class Size, VPI, Algebra Readiness, Early Reading programs

There Are Headwinds for Meaningfully Increasing State Support for K-12 Programs

- Will the Virginia economy be able to transition to new industries with high paying jobs?
- \$272 million in budget cuts still required for FY 2016.
- \$260 million in one-time budget actions in 2014-16 September plan not available for future biennia.
- Filling Rainy Day Fund constitutionally required if revenue growth returns.
- Medicaid program continuing to grow faster than GF revenues.
- Will VRS rates for teachers and state-supported employees continue to rise? Will recent good VRS investment returns help rate outlook? 2014-16 VRS teacher rates rose 24 percent from 11.66% to 14.5%.
- State continues to incur more GF debt service due to lack of a pay-as-you-go capital program. Lower revenues impact new debt capacity.
- Additional GF for transportation still scheduled. Accelerated sales tax for largest payers still in force.

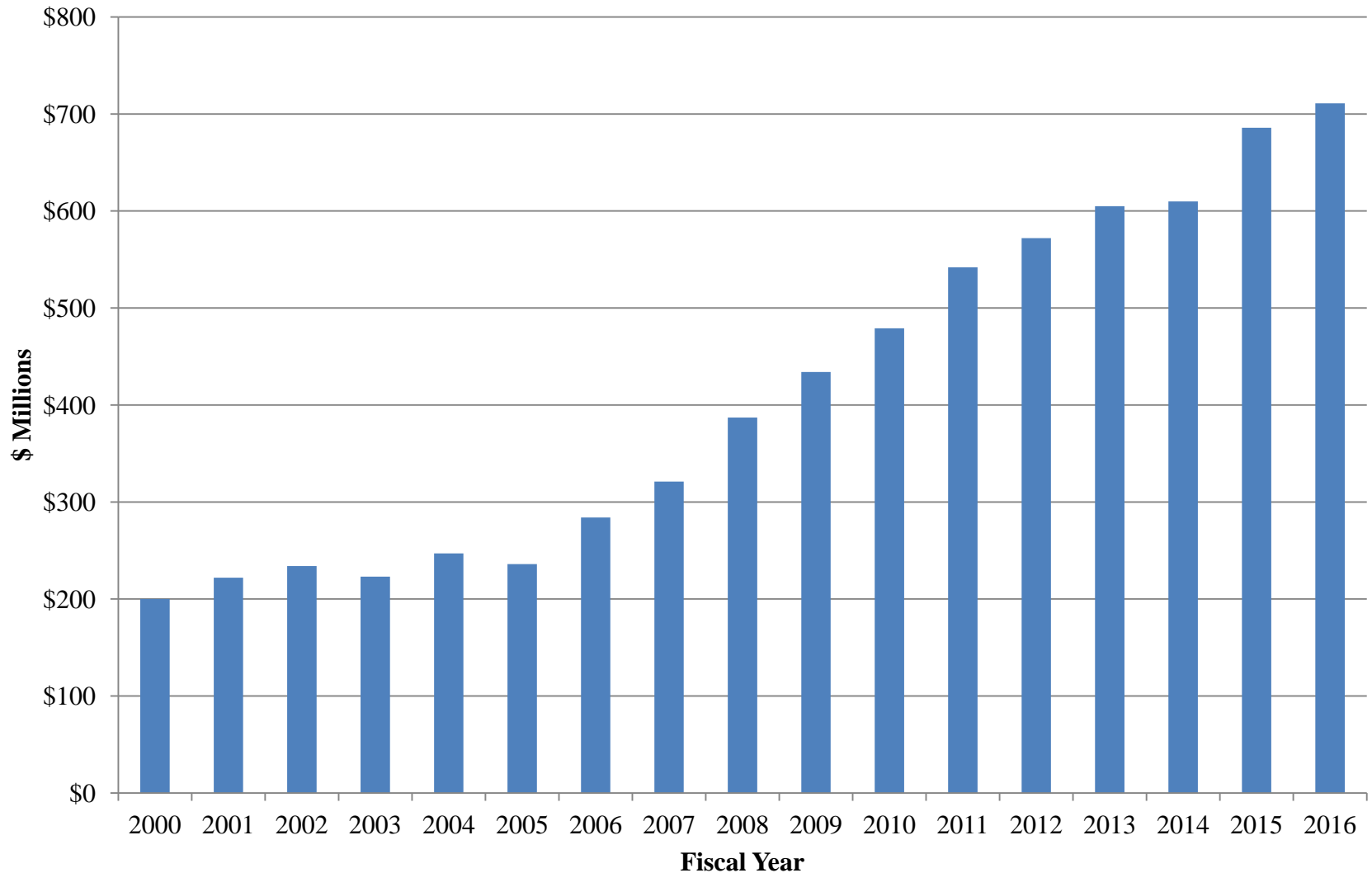
Better GF Revenues Require Refilling Rainy Day Fund Balances

Revenue Stabilization Fund Year-End Balances



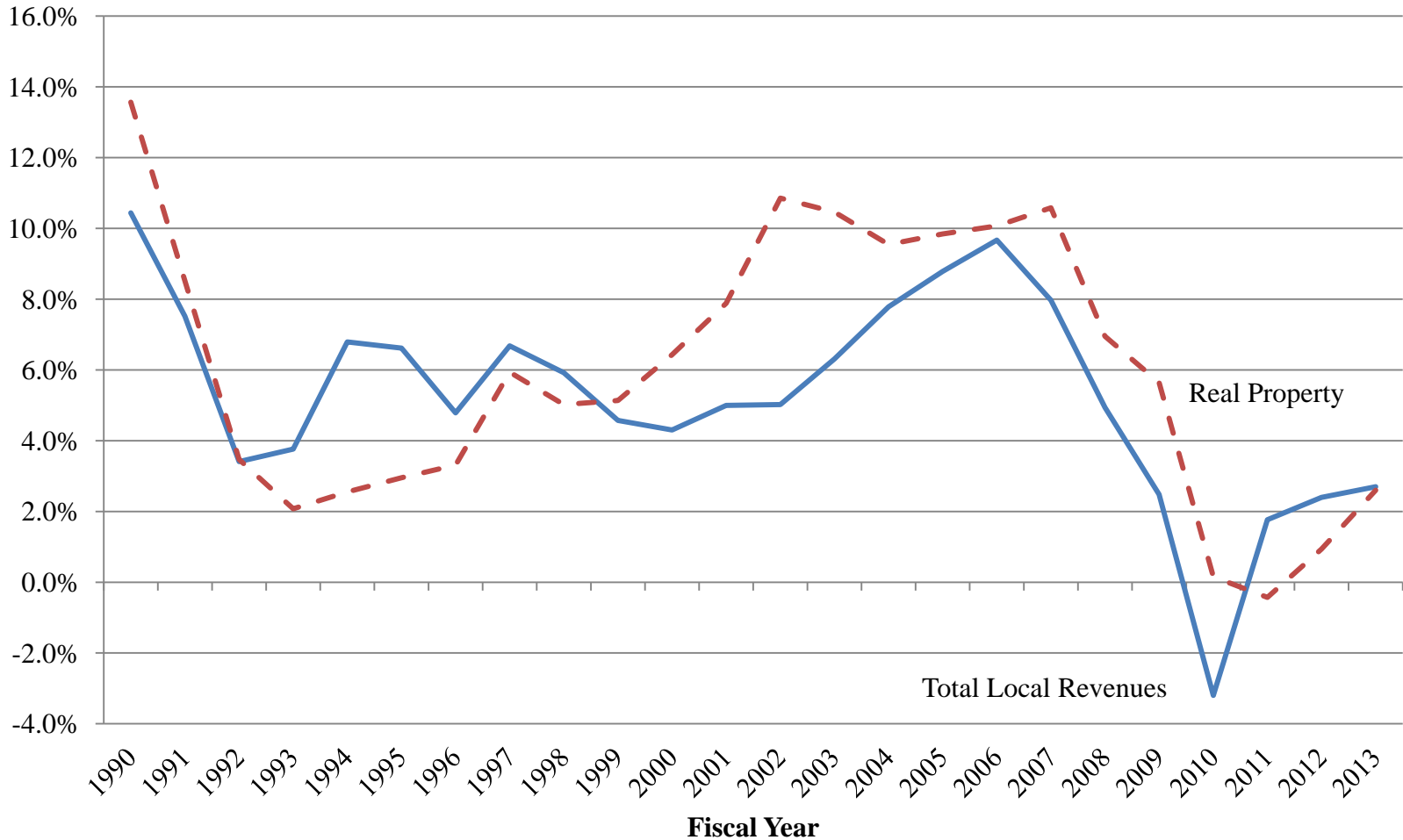
* Includes mandatory FY 15 deposit of \$243.2 million from FY 13 revenues. RDF withdrawals in FY 15 and 16 of \$470m and \$235m expected.

State GF Debt Service Growing Rapidly



Without Local Tax Increases, Local Revenues Not Likely to Offset State Funding Shortfall

Local Revenue Trends



Appendices

June 2014-16 GF Budget Anticipated Only \$1.55B Shortfall

2014 Session Adopted Budgets (\$ Mil.)

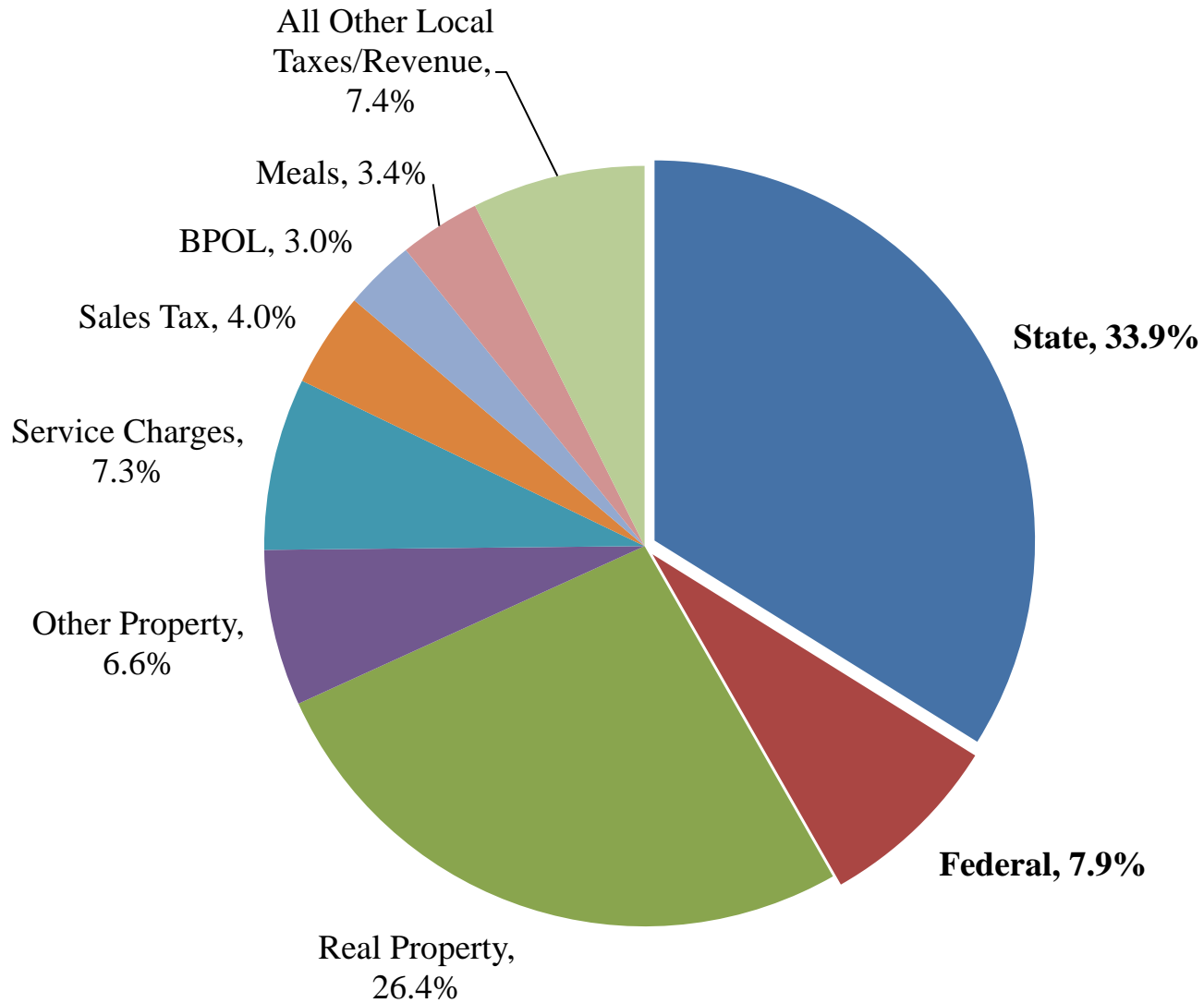
	FY 2014 Budget	FY 2015	FY 2016	FY 15 Change from FY 14
Legislative and Executive Dept's	\$103.2	\$109.0	\$107.2	\$5.8
Judicial Dept.	425.2	436.4	435.5	11.2
Administration/Comp Board	654.1	675.7	679.1	21.6
Treasury Board GF Debt Service	608.5	682.5	724.0	74.0
Other Finance/Technology	171.9	179.4	181.2	7.5
Rainy Day Fund	339.6	243.2	-	(96.4)
Car Tax Reimbursement	950.0	950.0	950.0	-
Commerce and Trade	183.3	166.5	179.1	(16.8)
Agriculture / Nat. Resources	144.0	182.7	152.4	38.7
K-12 Education/Central Office	5,292.7	5,549.7	5,641.7	257.0
Higher & Other Education	1,782.1	1,858.0	1,858.8	76.0
DMAS Medicaid	3,519.8	3,877.1	4,043.1	357.3
Other Health & Human Services	1,541.5	1,649.2	1,620.9	107.7
Public Safety & Veterans/HS	1,699.0	1,792.0	1,799.8	93.0
Transportation	42.0	13.2	69.1	(28.9)
Central Appropriations*	247.2	112.7	167.5	(134.5)
Independent Agencies/Capital	<u>1.2</u>	<u>1.4</u>	<u>1.2</u>	<u>0.2</u>
Total GF Appropriations	\$17,705.3	\$18,478.7	\$18,610.6	\$773.4
Available Balance to Spend	879.7	276.0	6.2	
GF Resources**	16,954.1	18,484.1	18,616.4	
Unspent Balance**	128.6	5.4	5.8	
* Net of CA Reserve		\$480.0	\$362.5	\$842.5
** Incl. prelim. revenue shortfalls and Rainy Day Fund drawdown	(\$350.0)	(\$600.0)	(\$600.0)	(\$1,550.0)
		\$470.0	\$ 235.0	\$705.0

State Funding for Localities Declining in Priority

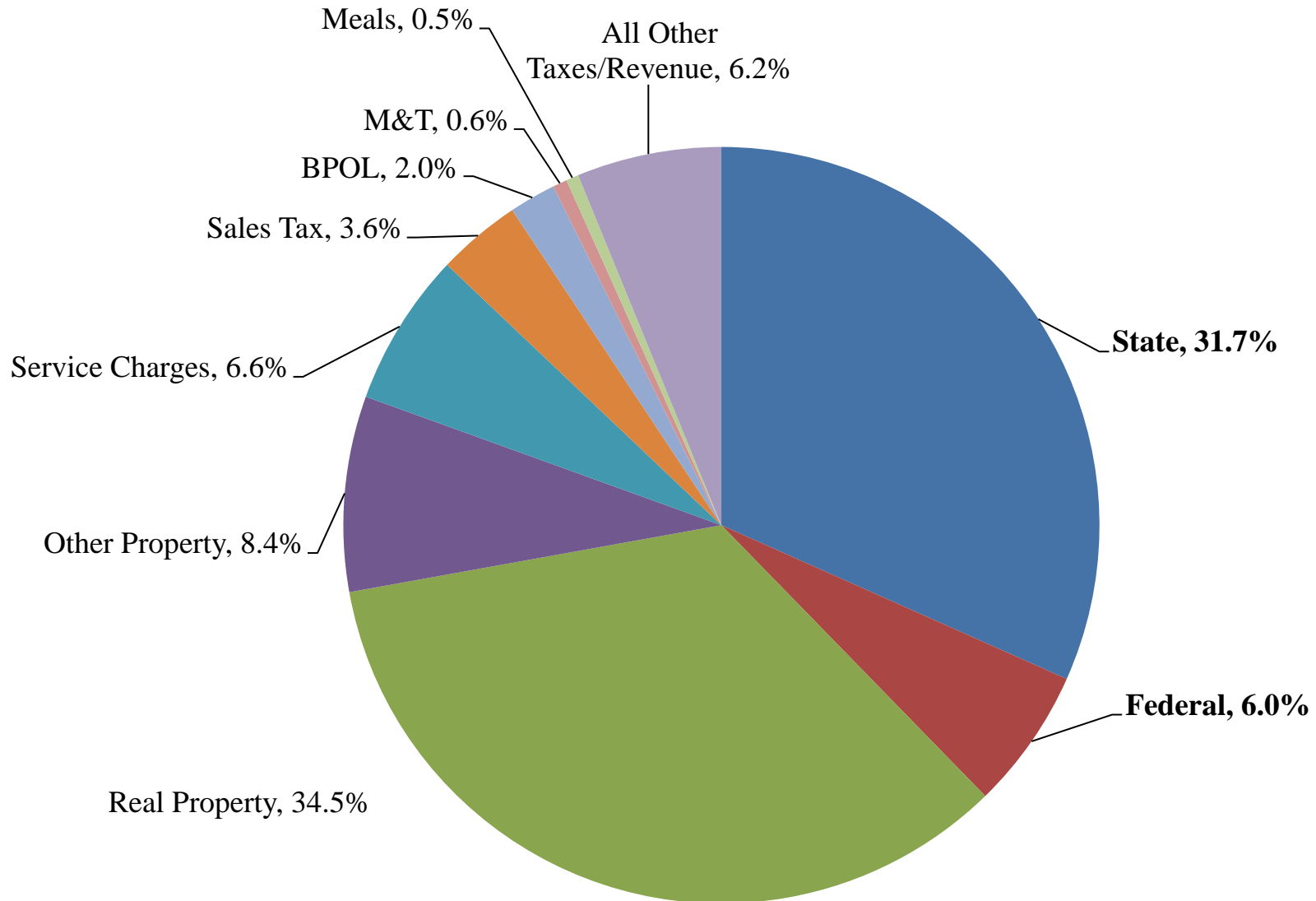
GF/Lottery State Funding for Localities

	<u>2008-10</u>	<u>2010-12</u>	<u>2012-14</u>	<u>2014-16</u>
Direct Aid to K-12	\$11,248.0	\$10,550.7	\$11,444.9	\$12,152.2
Health and Human Services	\$1,767.1	\$1,639.5	\$1,610.6	\$1,638.6
Public Safety	\$1,291.1	\$1,356.0	\$1,367.1	\$1,402.0
<i>HB 599 Aid to Police</i>	\$378.1	\$351.1	\$344.8	\$344.8
Constitutional Officers	\$297.5	\$288.0	\$289.3	\$304.9
Car Tax	\$1,900.0	\$1,900.0	\$1,900.0	\$1,900.0
Recordation/Rolling Stock/TVA	\$94.9	\$96.6	\$98.7	\$98.7
Aid-to-Locality Reduction	<u>(\$100.0)</u>	<u>(\$120.0)</u>	<u>(\$50.0)</u>	<u>(\$60.0)</u>
<i>Total Local Aid GF + Lottery</i>	\$16,498.6	\$15,710.8	\$16,660.6	\$17,436.4
Total GF + Lottery Appropriations	\$31,600.8	\$32,922.6	\$35,861.4	\$37,448.4
<i>Direct Aid to K-12 % of Total GF/Lottery</i>	35.6%	32.0%	31.9%	32.6%
<i>Total Local Aid % of Total GF/Lottery</i>	52.2%	47.7%	46.5%	46.7%

FY 13 Sources of Revenue for Virginia Cities (\$8.75B)



FY 2013 Revenue Sources for Virginia Counties (\$18.94B)



Virginia Is a Wealthy, Relatively Low Tax State, With Higher Reliance on Locality Taxes

	<u>State Rank</u>
Per capita personal income	8
State and local taxes as a percentage of personal income	43
Per capita state taxes	32
Per capita local taxes	14
Individual income taxes as a percentage of state and local tax revenue	7
Per capita state and local debt outstanding	28

Virginia Spending Rankings Reflect Tax Policies

	<u>State Rank</u>
State Per Pupil Funding Pre-K-12	38
State and Local Per Pupil Funding	21
Average Salary of Public School Teachers	29
Per Capita Medicaid Expenditures	46
In-State Tuition and Fees at Public 4-Year Institutions	13
State Corrections Expenditures per Offender	13

Source: Virginia Compared to Other States, JLARC, 2013 Edition