

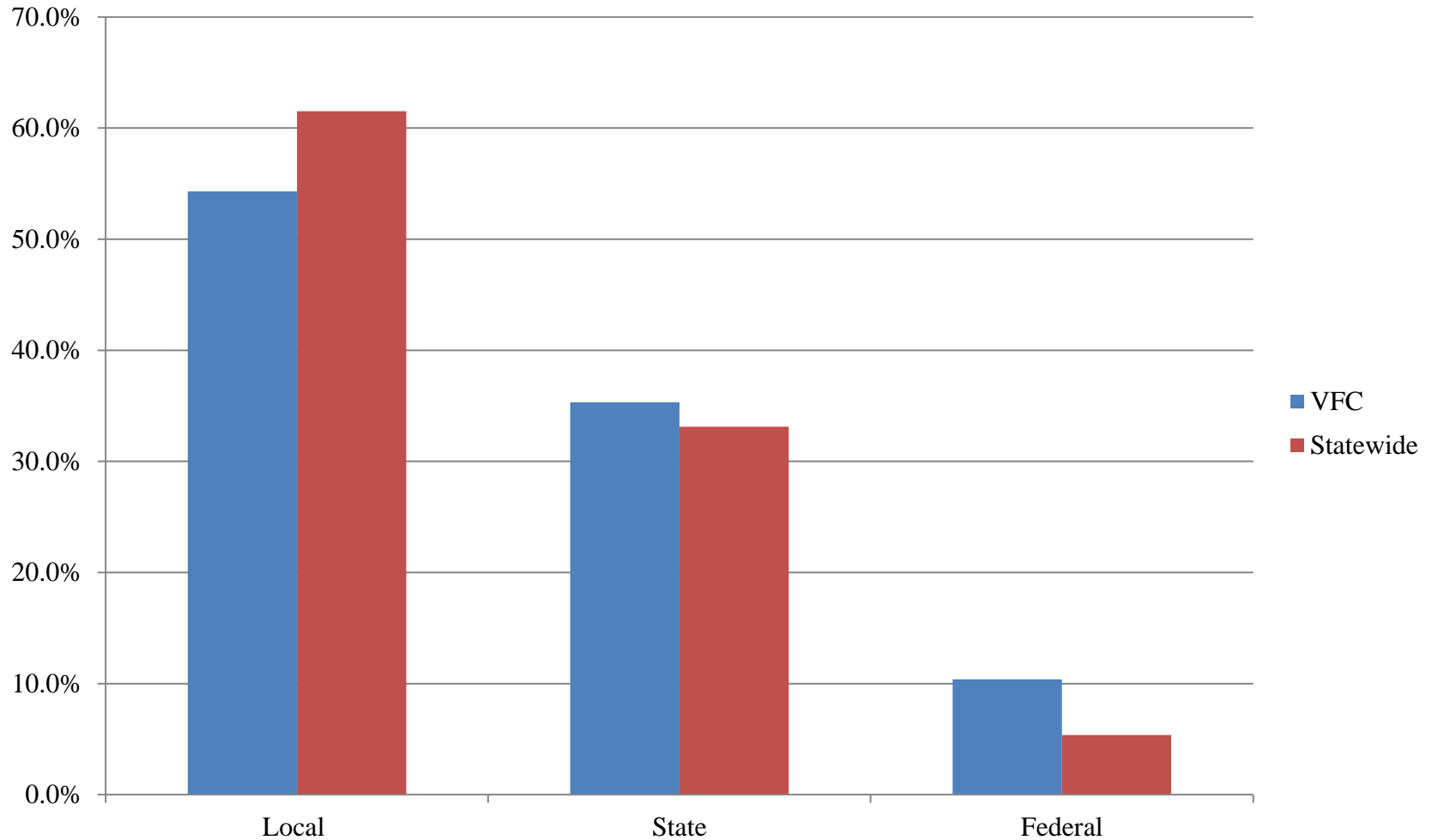
# Forecasting the Financial Future for VFC Localities

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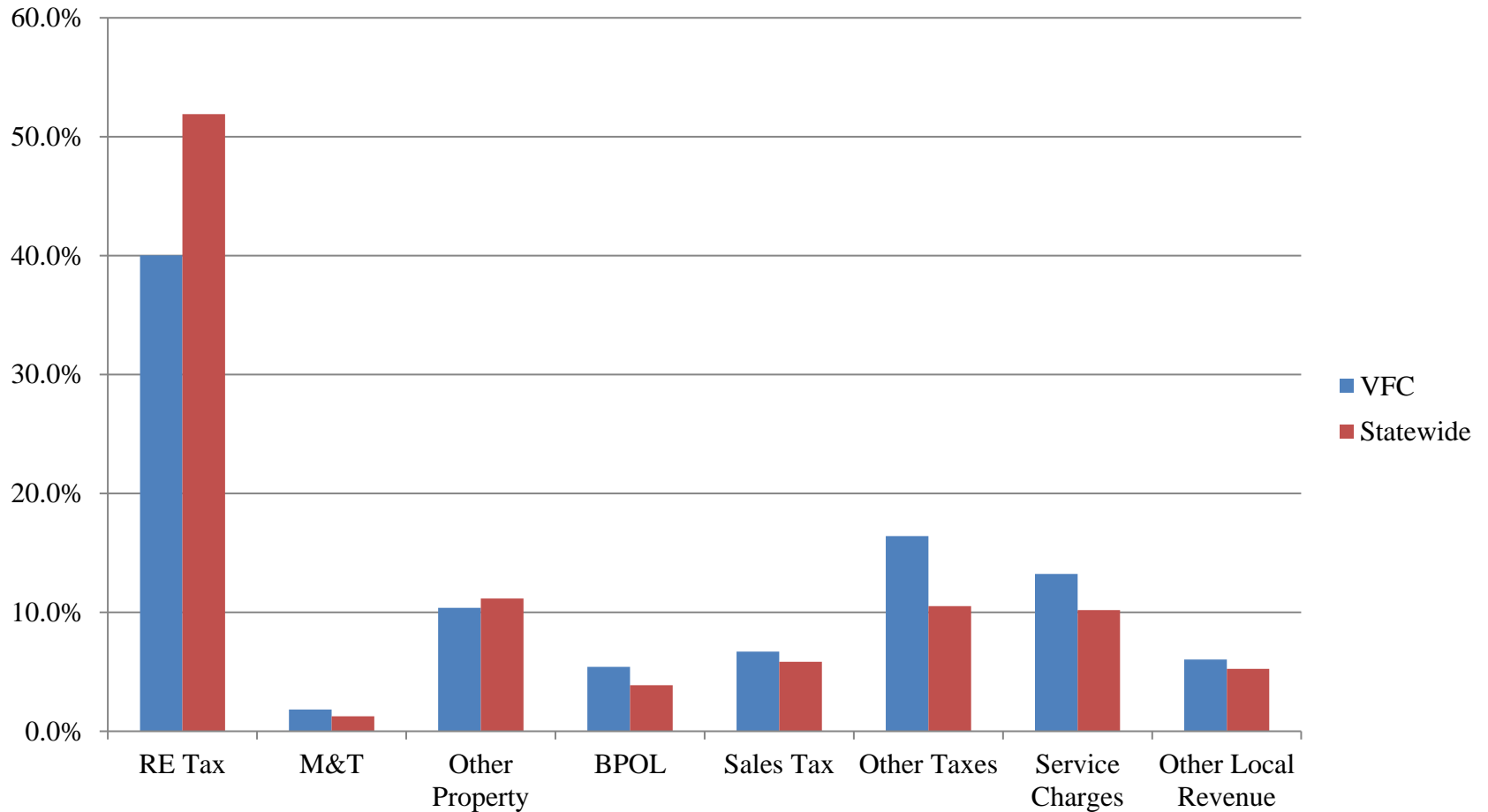
Virginia First Cities Coalition

November 2010

# VFC Relies More on State and Federal Revenue Sources



# ...And Less on Real Estate Taxes For Local Revenue - FY 2009



Source: Auditor of Public Accounts Comparative Report

# 8 Localities Experienced Further Deterioration in FY 11 Budgeted General Fund Revenues

	<b>Estimated FY 2010</b>	<b>Budgeted FY 2011</b>	<b>% Change</b>
City of Charlottesville	\$104,222,137	\$103,978,751	-0.2%
City of Hampton	\$240,841,997	\$243,294,894	1.0%
City of Harrisonburg	\$81,532,674	\$84,484,944	3.6%
City of Hopewell	\$36,619,660	\$36,384,487	-0.6%
City of Lynchburg	\$154,062,910	\$153,813,145	-0.2%
City of Martinsville	\$17,541,566	\$17,901,054	2.0%
City of Norfolk	\$473,663,122	\$482,609,200	1.9%
City of Petersburg	\$78,500,000	\$77,070,000	-1.8%
City of Portsmouth	\$218,226,531	\$218,361,390	0.1%
City of Richmond	\$512,074,636	\$497,274,255	-2.9%
City of Roanoke	\$187,735,000	\$186,996,000	-0.4%
City of Staunton	\$45,644,000	\$43,750,000	-4.1%
City of Winchester	<u>\$69,000,000</u>	<u>\$68,806,000</u>	<u>-0.3%</u>
<b>VFC Subtotal</b>	<b>\$2,219,664,233</b>	<b>\$2,214,724,120</b>	<b>-0.2%</b>

# VFC Used Numerous Budget Balancing Strategies for FY 11

Targeted cuts in other services and programs (parks, libraries, street operations, leaf pick-up, etc.)	11
Delay or cancellation of capital outlay/infrastructure projects for either local government or schools	10
Hiring freeze	9
Reduced contributions to civic and cultural organizations	9
Delay of annual equipment replacement programs (IT equipment or software, vehicles, etc.)	8
Fee Increases (new or existing)	7
Targeted cuts in public education	7
Targeted cuts in public safety services (police, fire, EMS)	7
Targeted cuts in human/social services	6

## ... VFC Budget Balancing Actions, Continued

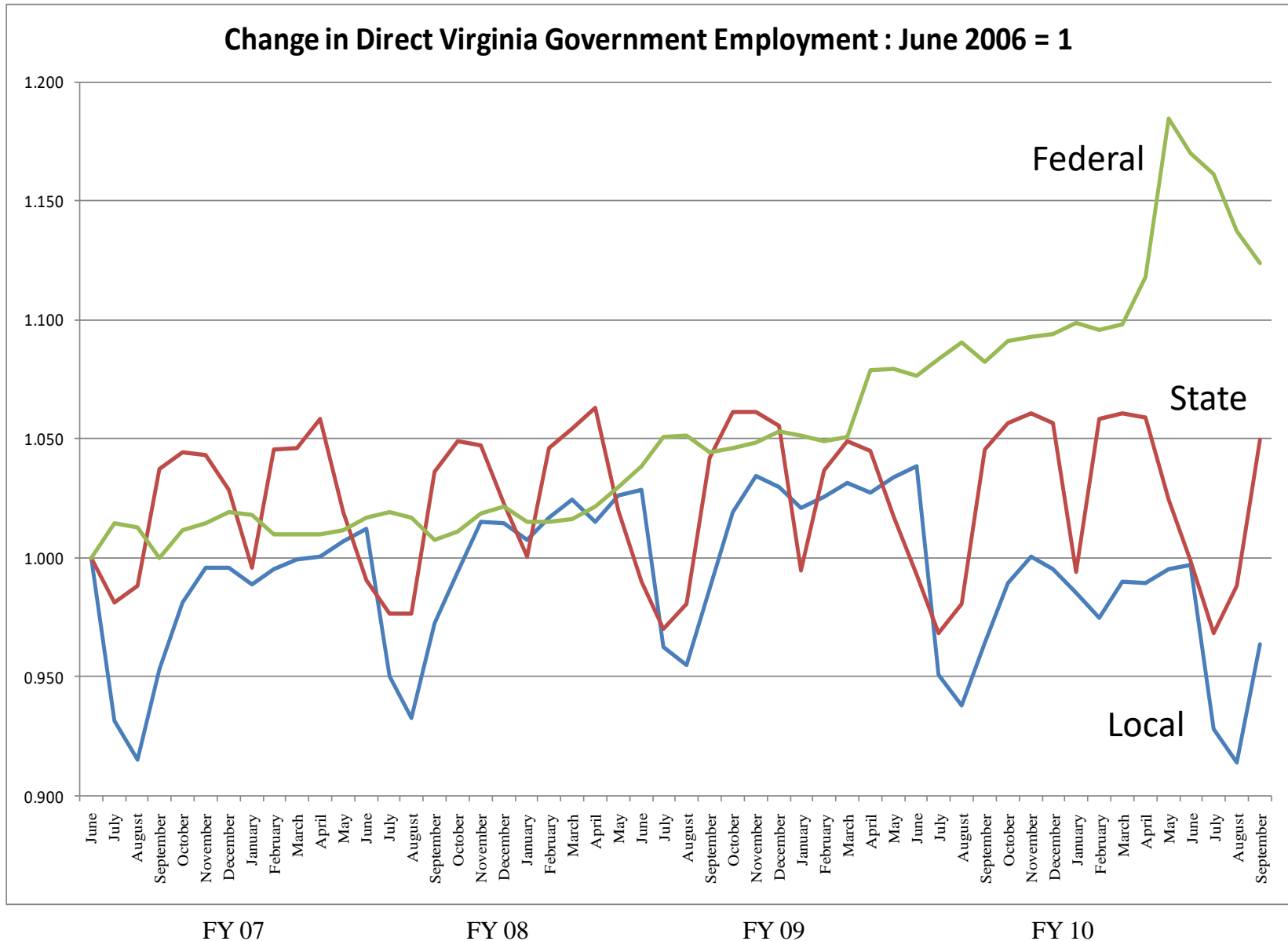
Increase tax rates	4
Personnel layoffs	4
Draw down reserves	4
Early retirement incentives	3
Across the board services cut	2
Reducing staff health care benefits (such as raising co-pays, increasing premiums, reducing benefits)	2
Renegotiate debt	2
Replacing local general funds with special funds	2
Personnel furloughs	1
Increasing privatization/contracting out	1
Increasing use of inter-local and regional agreements to deliver services/share costs	1
Establishment of a new contingency fund	1
Sale of assets	1

# Employee Morale, Salaries and Benefits

## Top Future VFC Budget Concerns

Charlottesville	Have own retirement plan - costs are increasing dramatically next few years - if we cannot provide raises for a third year in a row, the impact of that on employee morale. Managing expectations for large capital requests that are not all "needs" but are politically "popular".
Hampton	Biggest expenditure concerns involve the lack of funds to give employees salary increases, increasing health care and benefit costs.
Harrisonburg	Unfunded capital needs and lack of a pay raise for employees.
Hopewell	Employee salary adjustments
Lynchburg	VRS rates, competitive pay for staff, debt service, infrastructure maintenance
Martinsville	Increased cost to provide citizens with the level of services they're accustomed to in light of reductions in staff.
Norfolk	Employee benefits - retirement and healthcare; operating impact of new capital projects opening up (Light Rail); debt service
Petersburg	1) Education, particularly replacement of federal stimulus funds used for operating expenses; 2) absorption of new debt service
Portsmouth	Restore employee raises/increases in tough economic times; Continuing to fund OPEB unfunded actuarial accelerated liability. Increase cash (pay go) funding for CIP Projects
Richmond	Primarily the cost of healthcare and retirement costs, both of which are somewhat out of our control. They seem to be the major drivers of our expenditure increases.
Roanoke	Local support of education, given decline in state funding
Staunton	Federal & state mandated services, social services, CSA, etc., health insurance, VRS
Winchester	Unforeseen building maintenance issues and information technology costs currently not budgeted.

# Local Governments Are Reducing Their Workforce





# Local Government Workforce Being Reduced More Than State and Federal

Avg. Monthly VA Government Employment

<b>Fiscal Year</b>	<b>Local</b>	<b>State</b>	<b>Federal</b>
2007	370,067	153,175	156,308
2008	377,008	153,217	157,367
2009	382,300	153,517	163,142
2010	369,858	154,242	171,108
<i>1st 3 Mo. FY 10</i>	<i>358,667</i>	<i>149,433</i>	<i>167,600</i>
<i>1st 3 Mo. FY 11</i>	<i>352,600</i>	<i>150,000</i>	<i>176,133</i>

# State Budget Issues for 2011 Session

- **Don't anticipate significant local aid budget restorations**, even though *FA* anticipates about \$300-350 million in new GF revenue/balances for 2010-12.
  - About \$250 mil. from revised revenue forecast and about \$50-100 mil. available from FY 2010 agency year-end balances.
  - Budget "needs" include \$100-200 million for increased Medicaid utilization, and \$200-300 mil. in public safety, higher education, and other health and human service needs. Gov also favors add'l discretionary economic development program funding.
  - Latest FMAP extension for Medicaid fell short by about \$137 million -- pressure to undo contingent appropriation cuts and make providers whole.
  - \$249 million in federal "Jobs" bill education funding to local schools could potentially be used to offset state GF appropriations which could be directed to other priorities (e.g., Medicaid, VRS teacher contributions).
- Election and re-districting year will make for "interesting" session.
  - Proposals from economic development/job creation commission include corporate tax rate, BPOL, M&T changes, etc.
  - Impacts from Government Reform Commission and ABC privatization proposal?

# State GF Appropriations to Localities Has Decreased by \$1 Billion Since FY 2009

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
<b>Direct Aid to K-12</b>	<b>\$5,607.6</b>	<b>\$4,769.8</b>	<b>\$4,739.3</b>	<b>\$4,903.1</b>
<b>Health and Human Services</b>	<b>888.4</b>	<b>878.7</b>	<b>823.3</b>	<b>813.7</b>
<i>CSA</i>	299.7	279.2	272.2	274.0
<i>Community MH/MR Services</i>	249.4	256.5	230.1	230.1
<i>Local Social Services Staff</i>	117.4	117.4	114.4	111.4
<i>Community Health Programs</i>	117.6	116.9	106.1	105.0
<i>Welfare Services and Programs</i>	104.3	108.7	100.5	93.2
<b>Public Safety</b>	<b>734.3</b>	<b>556.8</b>	<b>671.6</b>	<b>642.7</b>
<i>Local Sheriffs Offices</i>	406.1	257.1	399.9	387.4
<i>Local Police Depts HB 599</i>	197.3	180.8	178.7	160.0
<i>Local Jail Per diem</i>	80.1	68.1	47.6	49.9
<i>Assistance for Juvenile Justice</i>	50.8	50.8	45.4	45.4
<b>Constitutional Officers</b>	<b>155.3</b>	<b>142.2</b>	<b>144.2</b>	<b>144.2</b>
<b>Car Tax</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>	<b>950.0</b>
<b>Aid-to-Locality Reduction</b>	<b>(50.0)</b>	<b>(50.0)</b>	<b>(60.0)</b>	<b>(60.0)</b>
<b>Total Local GF Aid</b>	<b>8,285.6</b>	<b>7,247.5</b>	<b>7,268.4</b>	<b>7,393.7</b>
<b>Total GF Appropriations</b>	<b>\$15,943.0</b>	<b>\$14,787.2</b>	<b>\$15,377.0</b>	<b>\$16,021.1</b>

(1) Does not include appropriated federal stimulus funds in FY 10 and FY 11.

# ...And Is Falling as a Percent of Total GF Appropriations

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
<b>Direct Aid to K-12</b>	<b>35.2%</b>	<b>32.3%</b>	<b>30.8%</b>	<b>30.6%</b>
<b>Health and Human Services Aid</b>	<b>5.6%</b>	<b>5.9%</b>	<b>5.4%</b>	<b>5.1%</b>
<b>Public Safety Aid</b>	<b>4.6%</b>	<b>3.8%</b>	<b>4.4%</b>	<b>4.0%</b>
<b>Car Tax</b>	<b>6.0%</b>	<b>6.4%</b>	<b>6.2%</b>	<b>5.9%</b>
<b>Constitutional Officers</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>0.9%</b>
<b>Aid-to-Locality Reduction</b>	<b><u>-0.3%</u></b>	<b><u>-0.3%</u></b>	<b><u>-0.4%</u></b>	<b><u>-0.4%</u></b>
<b>Total Local GF Aid</b>	<b>52.0%</b>	<b>49.0%</b>	<b>47.3%</b>	<b>46.1%</b>

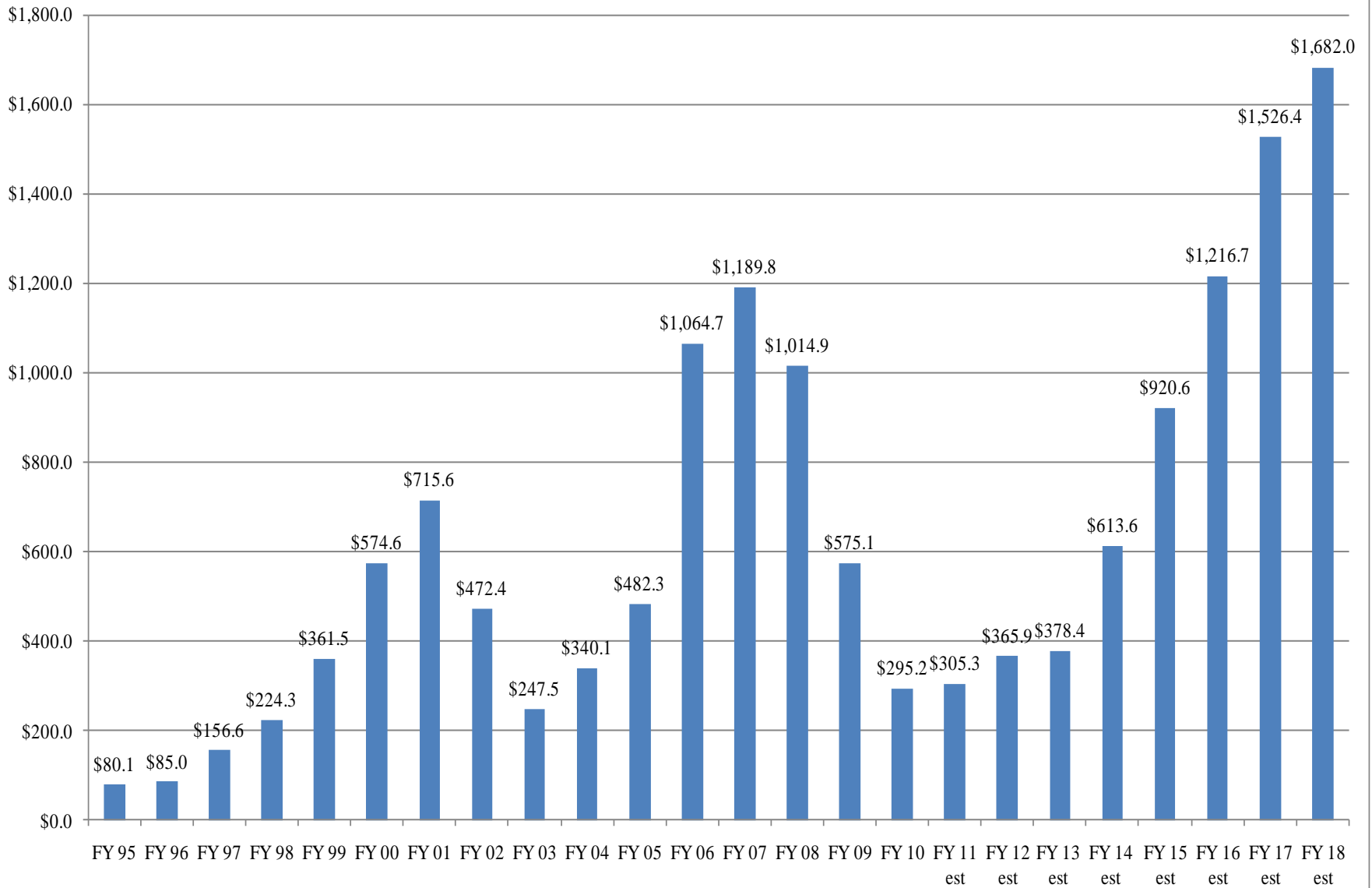
# State GF Budget Cuts (K-12, HB 599, Comp. Board)

<b>Locality</b>	<b>FY 10-FY 11</b>	<b>FY 11-FY 12</b>	<b>RE Tax per penny</b>	<b>Per Penny Equiv. FY 11</b>	<b>Per Penny Equiv. FY 12</b>
Charlottesville	-\$308,437	-\$696,808	\$522,505	-0.6	-1.3
Hampton	-\$18,788,493	-\$2,851,162	\$1,096,610	-17.1	-2.6
Harrisonburg	-\$1,249,624	\$374,723	\$397,758	-3.1	0.9
Hopewell	-\$2,484,254	\$427,163	\$137,906	-18.0	3.1
Lynchburg	-\$6,397,995	-\$867,849	\$473,968	-13.5	-1.8
Martinsville	-\$2,072,274	-\$109,731	\$65,188	-31.8	-1.7
Norfolk	-\$28,190,411	-\$6,520,215	\$1,830,459	-15.4	-3.6
Petersburg	-\$5,342,496	-\$993,031	\$158,333	-33.7	-6.3
Portsmouth	-\$12,963,936	-\$2,184,718	\$742,913	-17.5	-2.9
Richmond	-\$12,979,952	-\$7,200,608	\$1,858,842	-7.0	-3.9
Roanoke	-\$11,027,921	-\$1,116,298	\$678,504	-16.3	-1.6
Staunton	-\$656,703	-\$19,812	\$215,722	-3.0	-0.1
Winchester	-\$1,041,102	\$175,768	\$298,701	-3.5	0.6

# Existing Spending Pressures Will Limit State Aid to Localities for Foreseeable Future

- Constitutional requirement to fill Rainy Day Fund.
  - Requires deposit of half of growth above previous six-year average GF revenue growth. Expect \$200-300 million/year in deposits in FY 2014-2017 to restore fund.
- Continued 10% Medicaid growth rates (costs + utilization), plus new health care bill requirements in 2014 (additional Medicaid eligibility costs state \$100's of millions /yr).
- VRS contributions for both teachers and state employees will have to be restored to actuarially sound levels. Plus, adopted budget calls for 10 year payback of prior cuts. Employer rates will significantly increase.
- Continued growth in future biennia debt service requirements.
- Other numerous pent-up demands for additional state agency funding, including growing VITA contractual demands.
- No appetite for general fund tax increases and additional revenue pressures for transportation first.

## Revenue Stabilization Fund Balances (\$ Mil.)



Out-year RDF balances could rise even higher if constitutional amendment passes, increasing max. from 10-15% of major GF taxes

# 2010-12 VRS Teacher Rates May Triple in Future Biennia

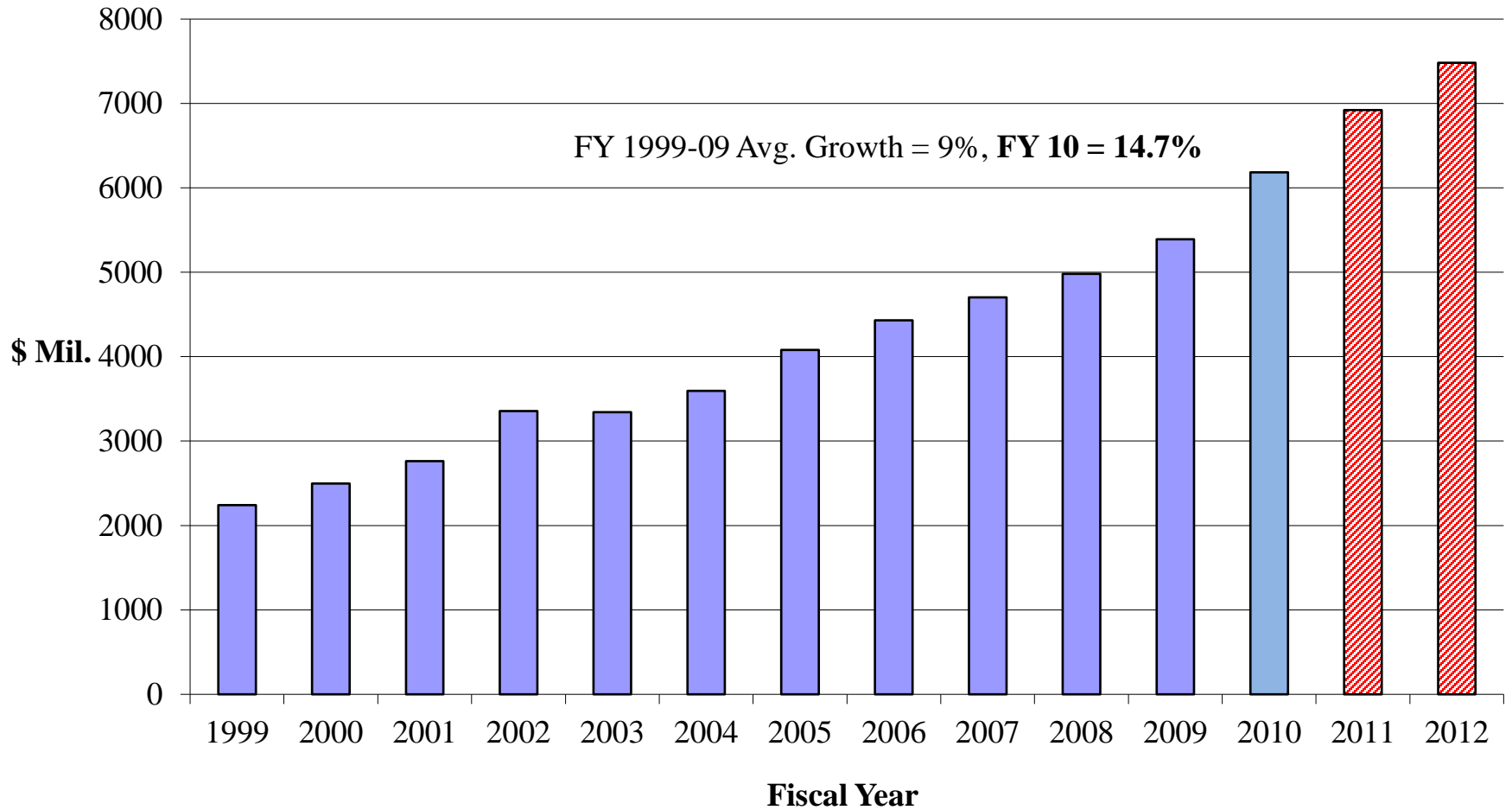
<i>Fall 2009</i>	<i>Spring 2010</i>
<u>VRS Board Certified Employer Rates</u>	<u>VRS Adopted Budget Employer Rates</u>
Retirement* = 12.91%	Retirement* = FY 11: 3.93%; FY 12: 5.16%
Retiree Health Care Credit = 1.08%	Retiree Health Care Credit = 0.60%
Group Life = 1.11%	Group Life = 0.28%
VSDP = 0.66%	VSDP = 0.00%
* Does not include 5% member contribution	

## 2012-2014:

**“In setting the employer retirement contribution rates in subsequent biennia, the Board shall calculate a separate, supplemental employer contribution rate that will amortize the FY 2011 and 2012 contribution shortfalls over a 10-year period using the Board's assumed long-term rate of return. The Governor shall include funds to support payment of such Board-approved, supplemental employer contribution rates in the budget submitted to the General Assembly.”**



# Medicaid Expenditures Growing Faster Than Rest of State Budget



\* DMAS forecasted - does not include Medicaid expenditures for MH&MR facilities and CSA

# General Fund Appropriation Trends

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
<b>K-12 Direct Aid</b>	<b>35.2%</b>	<b>32.3%</b>	<b>30.8%</b>	<b>30.6%</b>
Higher & Other ED	12.2%	12.0%	11.6%	9.9%
Other HH&S	9.2%	9.6%	9.0%	8.5%
<b>DMAS (Medicaid)</b>	<b>14.7%</b>	<b>16.3%</b>	<b>18.3%</b>	<b>21.2%</b>
Public Safety/Comp Board	15.3%	14.6%	14.7%	13.8%
Car Tax	6.0%	6.4%	6.2%	5.9%
Debt Service	2.8%	3.2%	3.7%	3.8%
All Other	4.6%	5.6%	5.7%	6.2%

# VFC Localities Should Plan On Tough Budgets for Foreseeable Future

- Federal relief efforts are ending.
- Meaningful increases in state aid will be hard to come by for at least several biennia.
- While a double-dip recession is not likely, job growth and a real estate recovery will likely be slow, therefore:
  - Slow increases in real estate assessments;
  - And slow growth in most other local taxes.
  - VFC cannot afford reductions in local revenue authority (e.g., BPOL and M&T).