

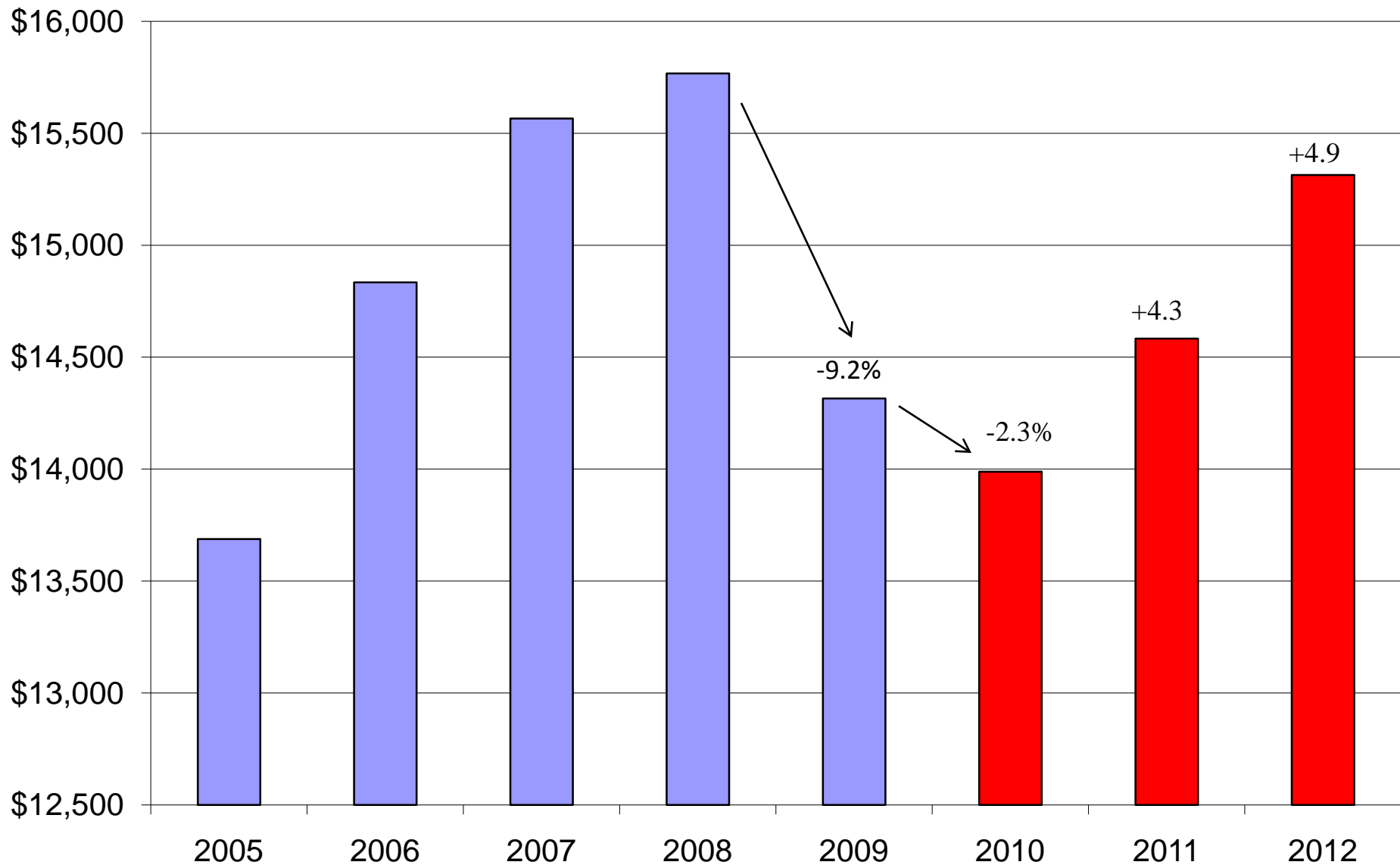


# The Outlook for State Aid to Virginia First Cities

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# 2010 Session Adopted General Fund Revenues in FY 2012 Less Than FY 2007



# Governor Kaine Strategy To Close 2010-12 Budget Gap

- Eliminate the \$1.9 bil. car tax reimbursement program\*
- Proposed \$360 mil. in tax policy and fee increases
- \$716 mil. in targeted and across-the-board agency reductions from 9/09 plan
  - Significant reductions to higher education, health and human services, public safety, and constitutional officers
- \$1.5 bil. in additional savings in budget as introduced, including K-12:
  - FY 2011 base budget included \$376 mil. K-12 support position reduction from FY 2010.
  - \$269 million in K-12 health care premium support reductions
  - \$174 mil. for K-12 payments for accrued annual/sick leave for terminated employees and excluding capital expenditures
  - \$126 million in remaining K-12 federal stimulus funds

\* Proposed income tax surcharge was separate from the appropriation act.

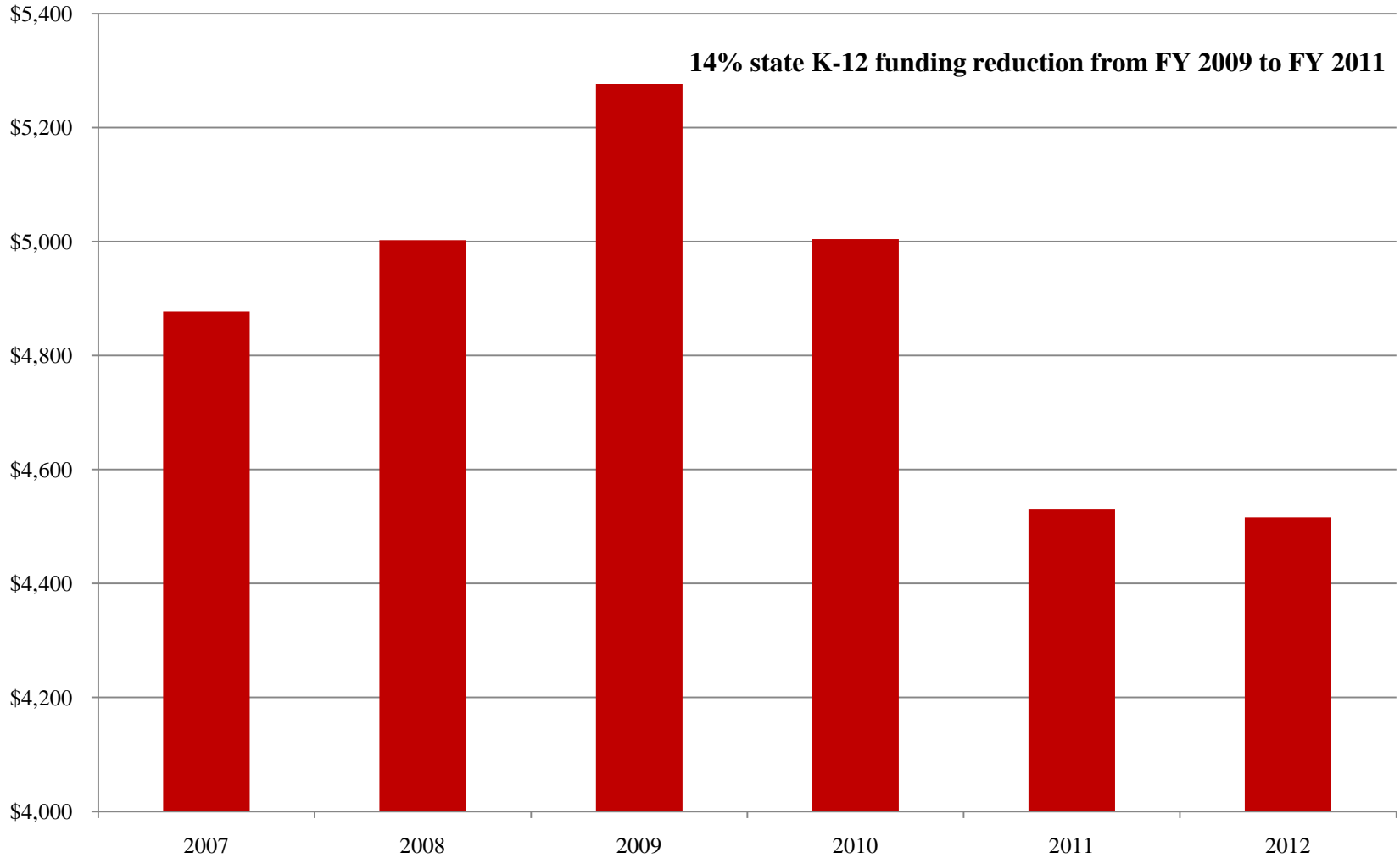
# How Did the General Assembly Restore the \$1.9 Bil. Car Tax Reimbursement?

- \$321 mil. revenue re-forecast (mid-session + GA interest & less refunds)
- \$122 mil. in other revenues, fees, other transfers, and balances
- \$504 million reduction in VRS state employee retirement/benefit contributions.
- \$346 million reduction in VRS teacher retirement/benefit contributions.
- \$614 mil. in other net GF spending budget reductions, including:
  - \$253 mil reduction in public education program funding
  - \$360 mil reduction in HH&S (mitigated by FMAP extension)
  - \$120 mil in “flexible” local reductions
  - Approx. \$90 million other net program reductions
  - \$207 mil. increase to partially restore sheriffs, constitutional officers, and HB 599 Aid to Police funding

# New Permanent K-12 Changes Adopted in 2010 Session (Limited At-Risk Changes)

- Introduced 2010-12 Budget:
  - Fund health care premium at prevailing participation (\$134 mil./yr.)
  - Eliminate annual/sick leave payments for personnel who terminate employment, capital outlay replacement and a “miscellaneous” category (\$87 mil./yr.)
  - Eliminate nonpersonnel inflation (\$4.7 mil/yr)
- Additional Support Function Reductions in Adopted Budget (\$100 mil/yr )
  - Include \$0 in division LWA for non-personnel support (\$39 mil/yr)
  - Extend school bus replacement cycle from 12 to 15 years (\$10 mil/yr)
  - Eliminate staff travel, leases/rentals, and facilities from recognized non-personnel support funding (\$35 mil/yr)
  - Increase the federal revenue deduct from 29% to 38% (\$17 mil/yr)
- Lottery Funding Changes Net \$165 mil. (biennial) GF Savings
  - Transfers remedial summer school, ESL, and 2/3 of textbook funding to lottery
  - Eliminates enrollment loss and add'l support for construction and operating costs
  - Limits participation in the K-3 Class Size Reduction Program to schools with free lunch higher than 30 percent

# State K-12 Spending per Pupil \*



\* Includes all state fund sources and appropriated federal stimulus \$

**FY 2011 Funding Cuts Not Adopted  
(With Major Assist From VFC)**

	<b><u>Original LCI Change Cost</u></b>	<b><u>Block Grant At-Risk K12*</u></b>	<b><u>Aid to Police</u></b>
Charlottesville	\$ (1,208,191)	\$ (679,304)	\$ (211,448)
Hampton	(4,391,495)	(1,754,018)	(685,345)
Harrisonburg	(91,880)	(779,199)	(137,497)
Hopewell	(112,597)	(853,403)	(133,109)
Lynchburg	(1,695,468)	(1,259,892)	(307,905)
Martinsville	(8,451)	(484,156)	(88,413)
Newport News	(4,545,093)	(4,499,161)	(918,435)
Norfolk	(8,632,009)	(8,681,773)	(1,174,030)
Petersburg	(689,016)	(1,265,300)	(212,453)
Portsmouth	(3,728,315)	(3,158,174)	(607,940)
Richmond	(10,595,437)	(6,906,294)	(1,459,687)
Roanoke	(1,374,362)	(2,421,892)	(560,951)
Staunton	(293,631)	(133,109)	(90,204)
Winchester	<u>653,399</u>	<u>(198,337)</u>	<u>(85,392)</u>
<b>VFC Total</b>	<b>\$ (36,712,546)</b>	<b>\$(33,074,012)</b>	<b>\$ (6,672,811)</b>

\* Impact from House proposed distribution formula using ADM

# Increases in State Aid to Localities Will Be Limited for Some Time

- First call on any FY 10 revenue surplus: a) \$82.2 mil. for state employee bonus; b) 10% to WQIF ; c) remaining 2/3 to transportation
- General funds needed to backfill expiring federal stimulus funds
- Constitutional requirement to fill Rainy Day Fund.
  - Requires deposit of half of growth above previous six-year GF revenue growth
- VRS contributions for both teachers and state employees will have to be restored. Adopted budget calls for 10 year payback.
- Additional Medicaid commitments – growth in cost & utilization, plus new health care bill requirements
- Continued growth in debt service requirements
- No appetite for tax increases and revenue pressures for transportation
- Local revenue pressures continuing for some time due to housing downturn, commercial real estate losses, and lagging assessments.



# Significant Additional General Funds Are Necessary to Maintain Current Services When Federal Stimulus Ends

<b>ARRA Stimulus Funding (\$ Mil.)</b>					
	<b>FY 10 <u>ARRA*</u></b>	<b>FY 11 <u>ARRA*</u></b>	<b>FY 11 GF <u>Backfill</u></b>	<b>FY 12 <u>ARRA</u></b>	<b>FY 12 GF <u>Backfill</u></b>
<b>Medicaid **</b>	\$720	\$777	-\$57	\$0	\$777
<b>K-12 Public Education</b>	\$586	\$126	\$460	\$0	\$586
<b>Higher Education</b>	\$219	\$36	\$183	\$0	\$219
<b>Sheriffs (Bryne Justice)</b>	\$23	\$0	\$23	\$0	\$23
<b>SFSF General</b>	<u>\$109</u>	<u>\$0</u>	<u>\$109</u>	<u>\$0</u>	<u>\$109</u>
<b>Total</b>	\$1,657	\$939	<b>\$718</b>	\$0	<b>\$1,714</b>

\*Federal ARRA stimulus funds used by Virginia to offset general fund cuts

\*\* DMAS forecast presented to Senate Finance Committee 10/22/09

Note: Assumes full FY 2011 FMAP Medicaid extension

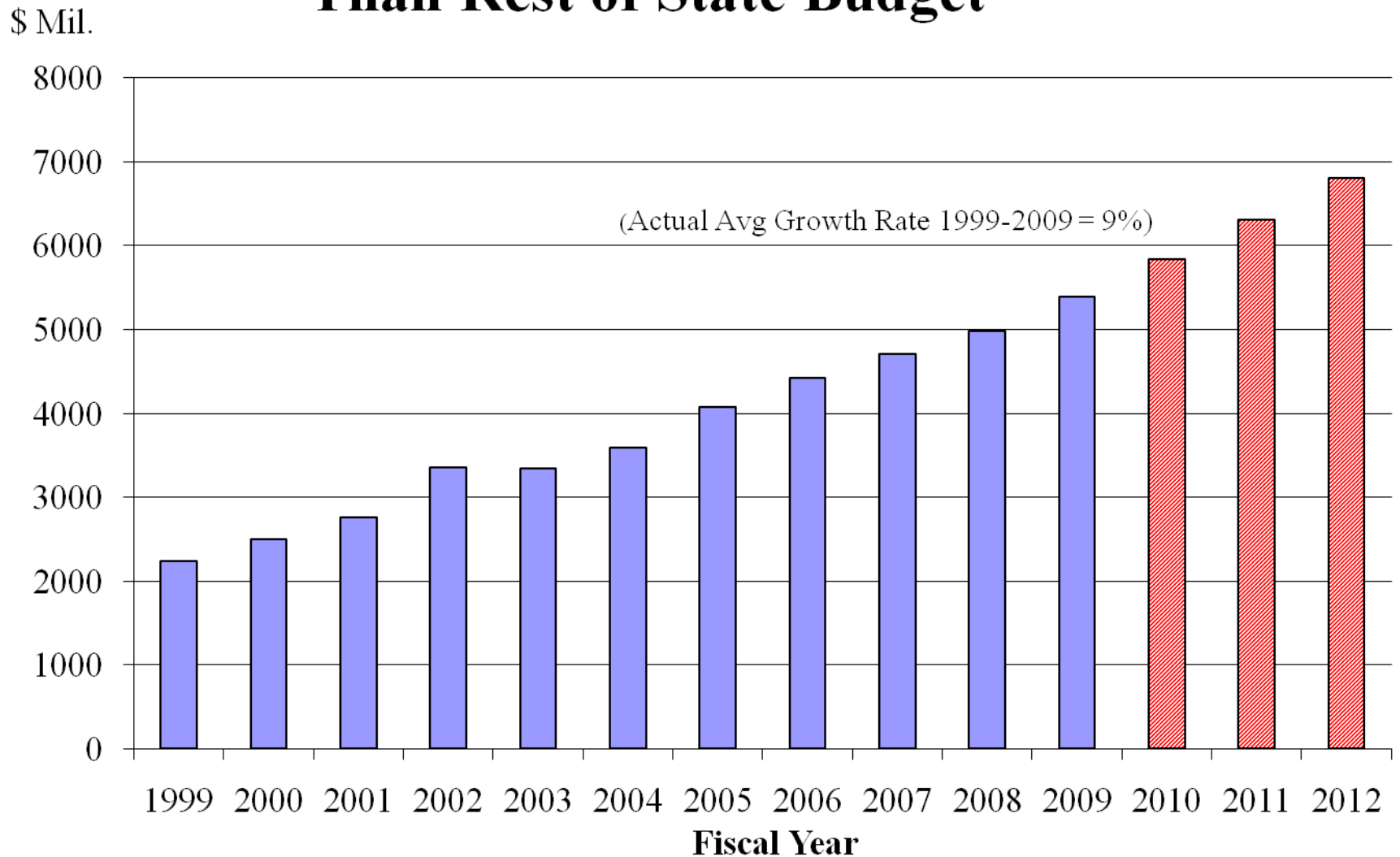
# 2010-12 Teacher VRS Rates Will Be Raised in Future Biennia

<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.”**

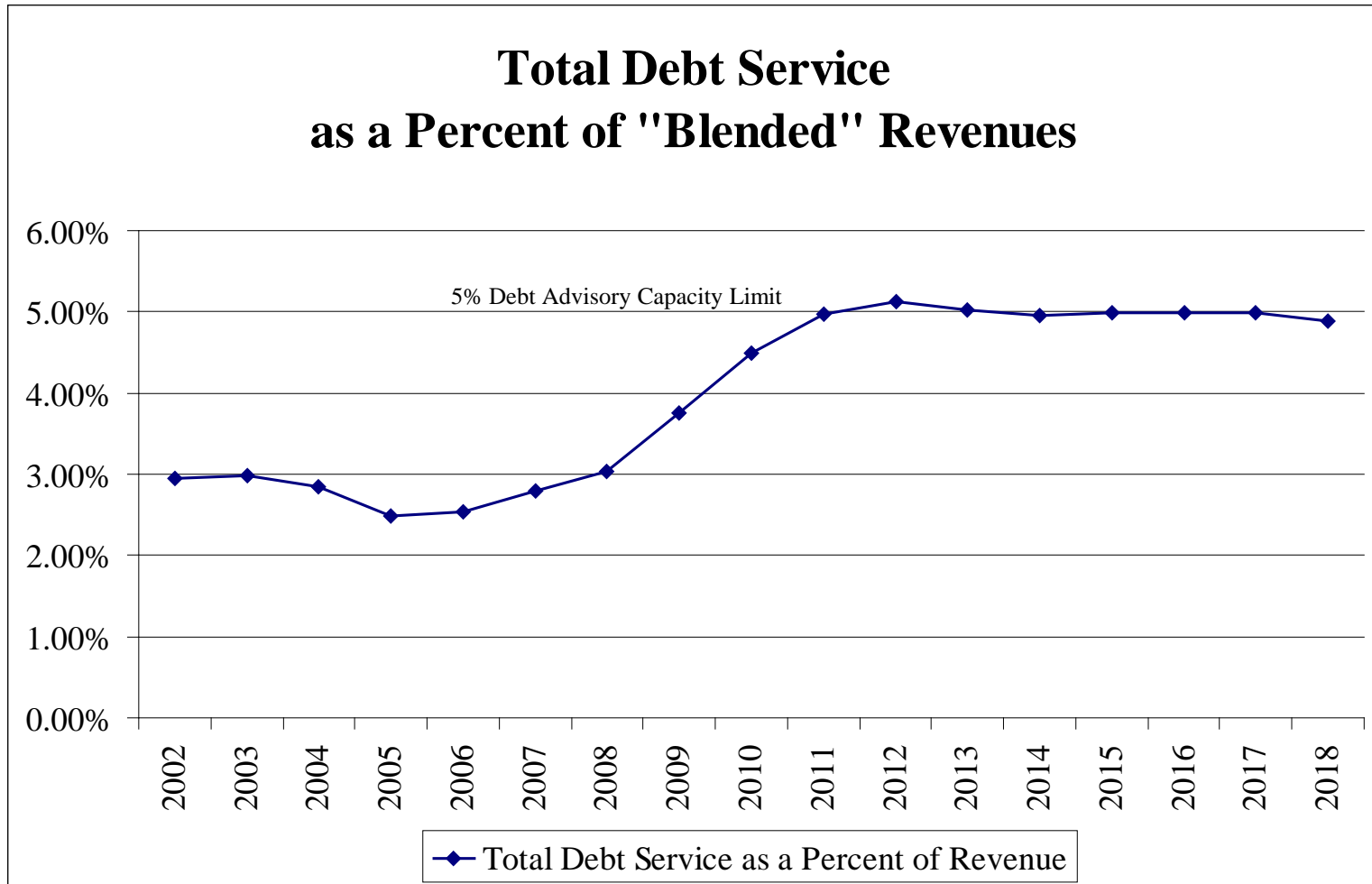
# Medicaid Expenditures Growing Faster Than Rest of State Budget\*



\* DMAS forecasted - does not include Medicaid expenditures for MH&MR facilities and CSA = \$361mil. in FY 2008

# New Debt Capacity Is Limited...

## If Virginia Wants to Keep its AAA Rating



Note: "Blended" revenues include GF and transportation revenues

Source: Debt Capacity Advisory Committee, Dec. 19, 2009 <http://www.trsvirginia.gov/Documents/Debt/DCAC/DCAC2009.pdf>

# General Fund Appropriation Trends

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
K-12 Direct Aid	35.2%	32.3%	30.8%	30.7%
Higher & Other ED	12.2%	12.0%	11.6%	9.9%
Other HH&S	9.2%	9.6%	9.0%	8.5%
DMAS (Medicaid)	14.7%	16.3%	18.3%	21.2%
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%

# Survey Results: How are VFC Localities Balancing Budgets?

## **Employment Changes**

- No employee raises, furloughs , hiring freezes, eliminating vacant positions through attrition, turnover and layoffs.

## **Departmental Savings**

- Across-the-board departments reductions; travel, training, and other expense reductions including libraries, museums, civic and community orgs

## **School Savings**

- Reducing local funding to schools; increasing class size; reducing support positions, administrative overhead, instructional assistants and teachers; several school closings

## **Capital and Equipment Reductions**

- Reducing capital expenditures, deferring equipment replacement, reducing street paving, cleaning and bus replacements.

## **Revenue Increases**

- A few localities are raising revenues, i.e., temporary meals tax increase in Roanoke for schools, water rate increase in Martinsville, and cigarette tax increase in Winchester, possible tax amnesty in Richmond.

# VFC Priorities

## Preserve State Aid to Localities

- Minimize Disproportionate Cuts to Cities and Citizens  
**Education/At-Risk, CSA, Aid to Police (HB599), Enterprise Zones, No Additional “Flexible Cuts”**

## Urban Revitalization

- Derelict Structure, Vacant & Abandoned Property - Legislation
- Brownfields Assessment Funding

## Transportation

- Priorities: Street Maintenance Payments, Transit, Rail

## Urban Policy

- Job Creation Strategies
- Advance Urban Policy Recommendations

## Alliance Building

- ☐ Continue and build upon alliances with schools, Alliance for Virginia’s Children, NOVA, other urbans, VML/VACO, Business Leaders

# 2010 Interim Issues

## Transportation

- Administrative, Code Changes, Revenue
- Street Maintenance - 4% growth same as VDOT maintenance
- Fewer Revenue Sharing Funds
- Transit- 10% revenue reduction from last year. State Operating share drops from 22% to 14%-record low
- Transportation Finance Special Session?

## Eminent Domain Constitutional Amendment

- History and Coalitions
- Strategy to Refute media disinformation campaign
- Educating legislators



# Interim Continued

- Response to Education Cuts
- Emerging Revenue Coalition
- Urban Policy Follow-Up
- Government Reform Commission
  - Sale of ABC Store? Where will dollars be spent?
  - Local Advisory task force? Regional Proposals?
- Jobs Commission

2010-2011 Schedule: 2010 Summer Commissions; September Special Session; 2011 Short Session; Redistricting Session; Fall 2011 election of all House and Senate seats