

Financial Considerations and Issues

Presented to the

New Board of Visitors Virginia Colleges and Universities

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Secretary of Finance
October 24, 2017



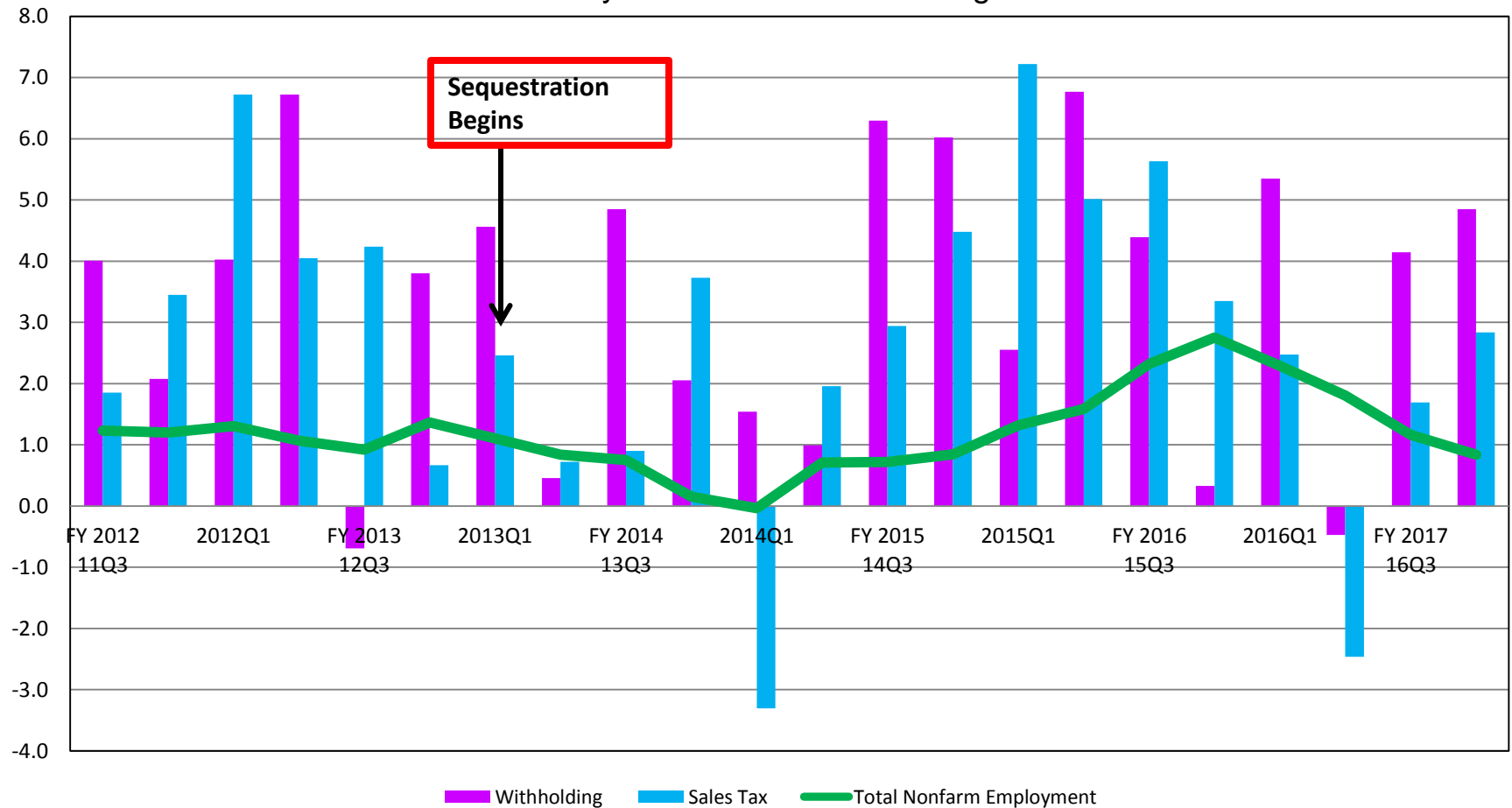
Rating Agency Key Factor Assessments

- **Economic Climate – Vitality and Diversity**
 - Income
 - Industrial Diversity
 - Employment Volatility
- **Fiscal Performance**
 - Revenues
 - Balances and Reserves
 - Liquidity
- **Governance**
 - Financial Best Practices
 - Financial Flexibility / Constitutional Constraints
- **Long-term Liability Burden**
 - Debt
 - Pension and OPEB Obligations

Sequestration Started January 2013 and Pulled Down Virginia's Employment, Sales Tax and Payroll Withholding

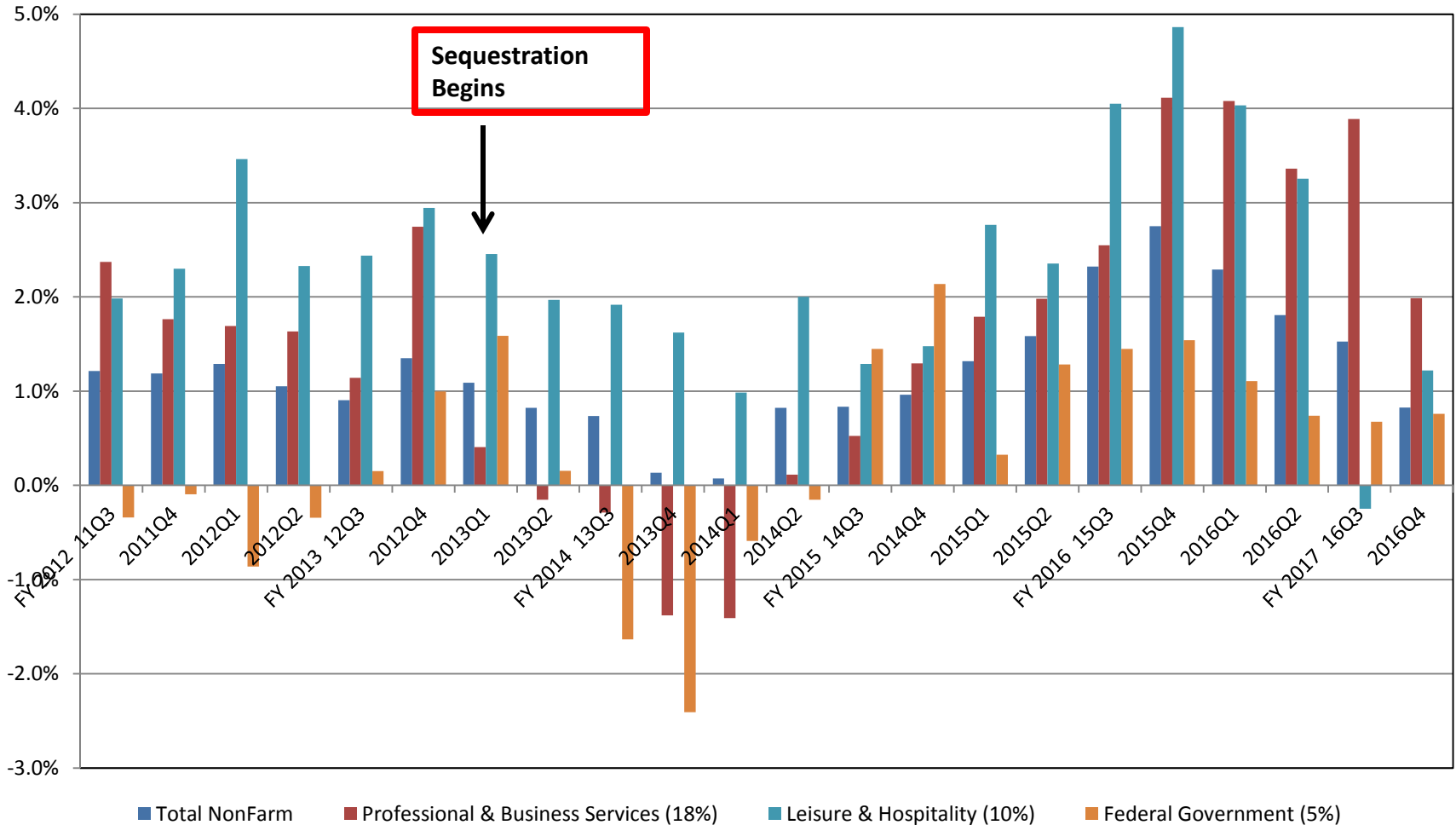
Payroll Withholding, Sales Tax and Employment Growth

Quarterly Year-Over Year % Change



Virginia's Employment Losses Mirrored Recent Studies Projecting Losses in Key Sectors During Sequestration

Quarterly Year-Over-Year % Change



Variance Between Actual General Fund Revenue Collections and the Official Budget Estimates

Personal Income Taxes Are the Prime Variable

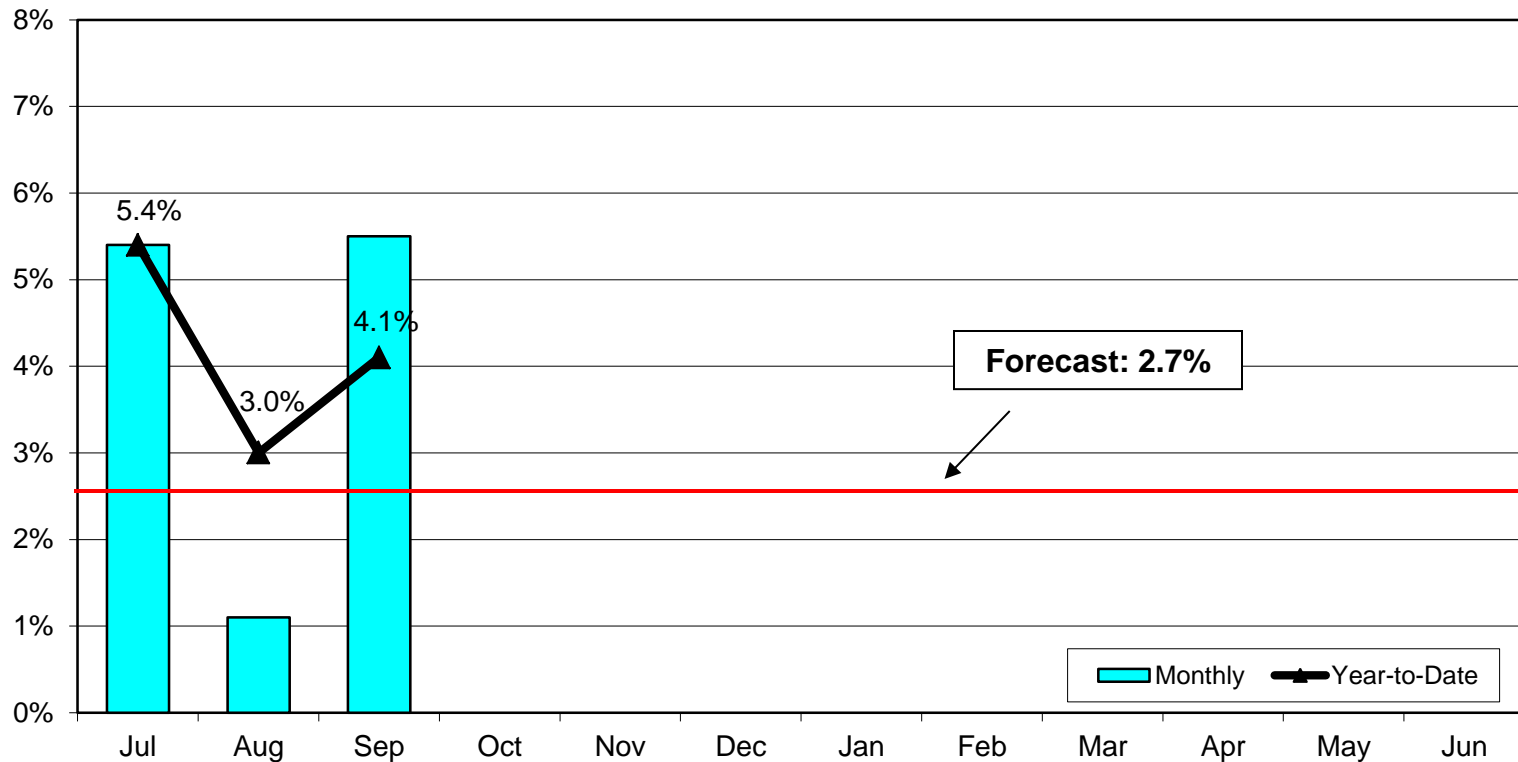
Amounts in Millions of Dollars

Actual Collections Variance from Official Budget Estimate

| Fiscal Year | Withholding Receipts | Nonwithholding Receipts | Total GF Revenues |
|-------------|----------------------|-------------------------|-------------------|
| 2011 | + \$ 60.3 | + \$ 110.2 | + \$ 321.7 |
| 2012 | + 33.7 | (94.3) | + 123.1 |
| 2013 | (115.0) | + 290.1 | + 263.6 |
| 2014 | (66.0) | (401.1) | (438.0) |
| 2015 | + 140.4 | + 316.4 | + 549.6 |
| 2016 | (195.3) | (28.9) | (268.9) |
| 2017 | + 182.1 | (30.0) | + 134.1 |

Growth in Total General Fund Revenue Collections

FY18 Monthly and Year-to-Date



Monthly Growth:

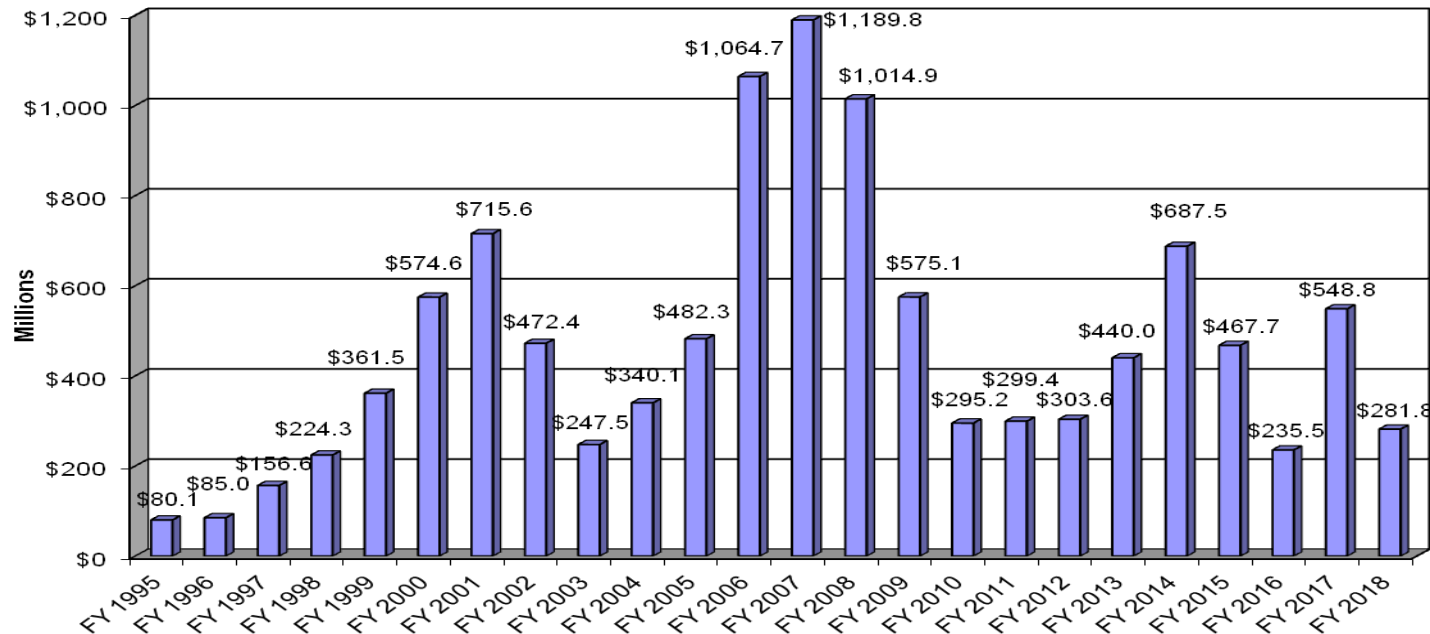
- Total general fund revenues increased 5.5 percent in September even with one less deposit day.
- On a year-to-date basis, total revenues increased 4.1 percent, ahead of the annual forecast of a 2.7 percent increase.

A Mandatory Deposit of \$605.6 Million Was Made to the Revenue Stabilization Fund in FY2017 As Well As a Withdrawal of \$294.7 Million. The Fund Balance was \$548.8 Million as of June 30, 2017.

Revenue Stabilization Fund – June 30 Balance

FY1995-2017 Actual and FY2018 Forecast

(millions of dollars)



- Another withdrawal estimated at \$272.5 million will occur in FY2018.
- A mandatory deposit is not required to the Fund in FY2018. Also, pending certification by the Auditor of Public Accounts, we estimate no deposit will be required in FY2019.

Looking Forward – Factors Shaping the Commonwealth’s Next Budget and Financial Future

Major Issues:

- **National Economic Situation** – Withholding and Nonwithholding Tax Collections
- **Federal Actions** – Budget Authorization, Debt Ceiling, Children’s Health Insurance Program (CHIP), and Tax Reform Actions
- **Mandatory Spending Items** – SOQ Rebasing, Medicaid, DOJ Settlement, Debt Service, Employee Health Costs, etc.
- **Bond Rating (*Negative Outlook*)** – Need for Cash Reserves, Back-filling Revenue Stabilization Fund, and Effect on New Debt Authorizations
- **Priority Spending Items** – Economic Development, Mental Health, Higher Education, and Employee Compensation

For more
information on Virginia's
budget, visit:
www.DPB.Virginia.gov
www.Finance.Virginia.gov

Thank You