

**A Presentation to
New Board of Visitors Orientation**

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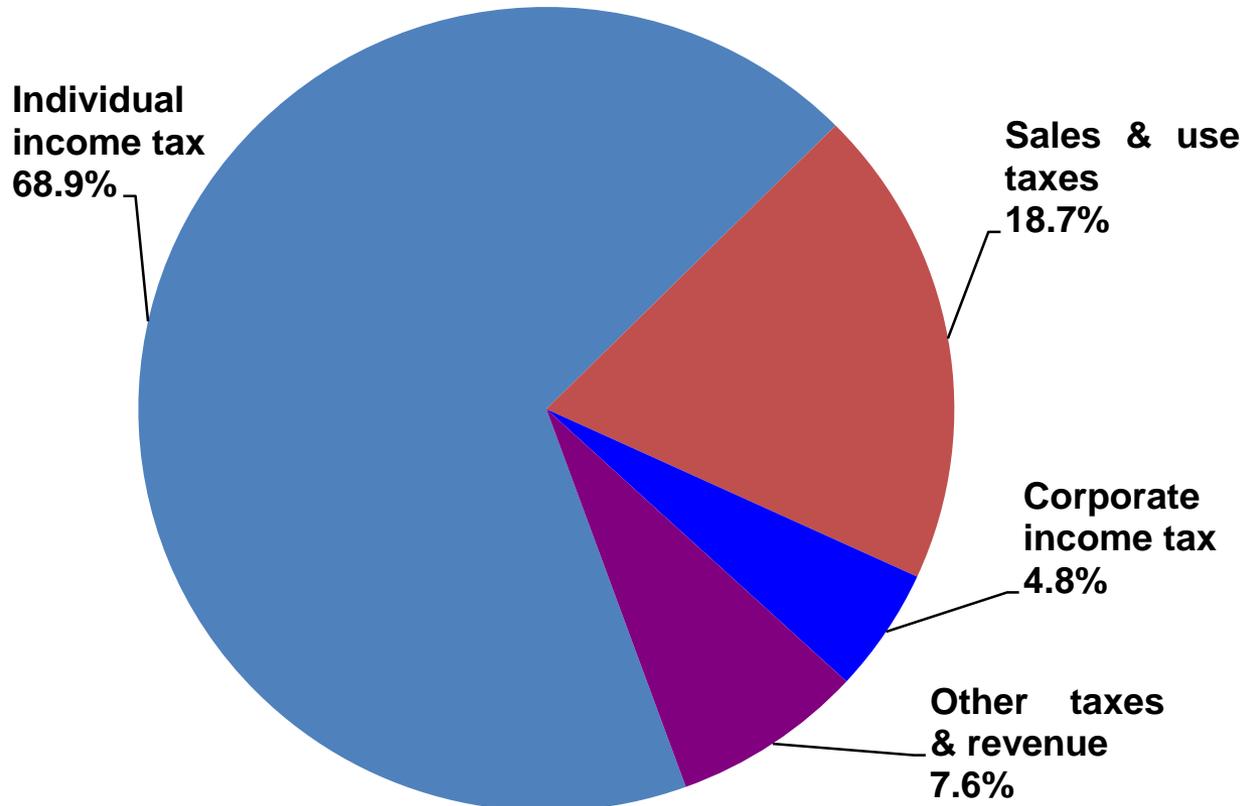
October 18, 2016



General Fund Revenues for 2014-2016

Economic trends are important because employment, wage gains, and consumer spending account for about 92.4% of all general fund revenues.

2014-2016 general fund revenues = \$34.9 billion

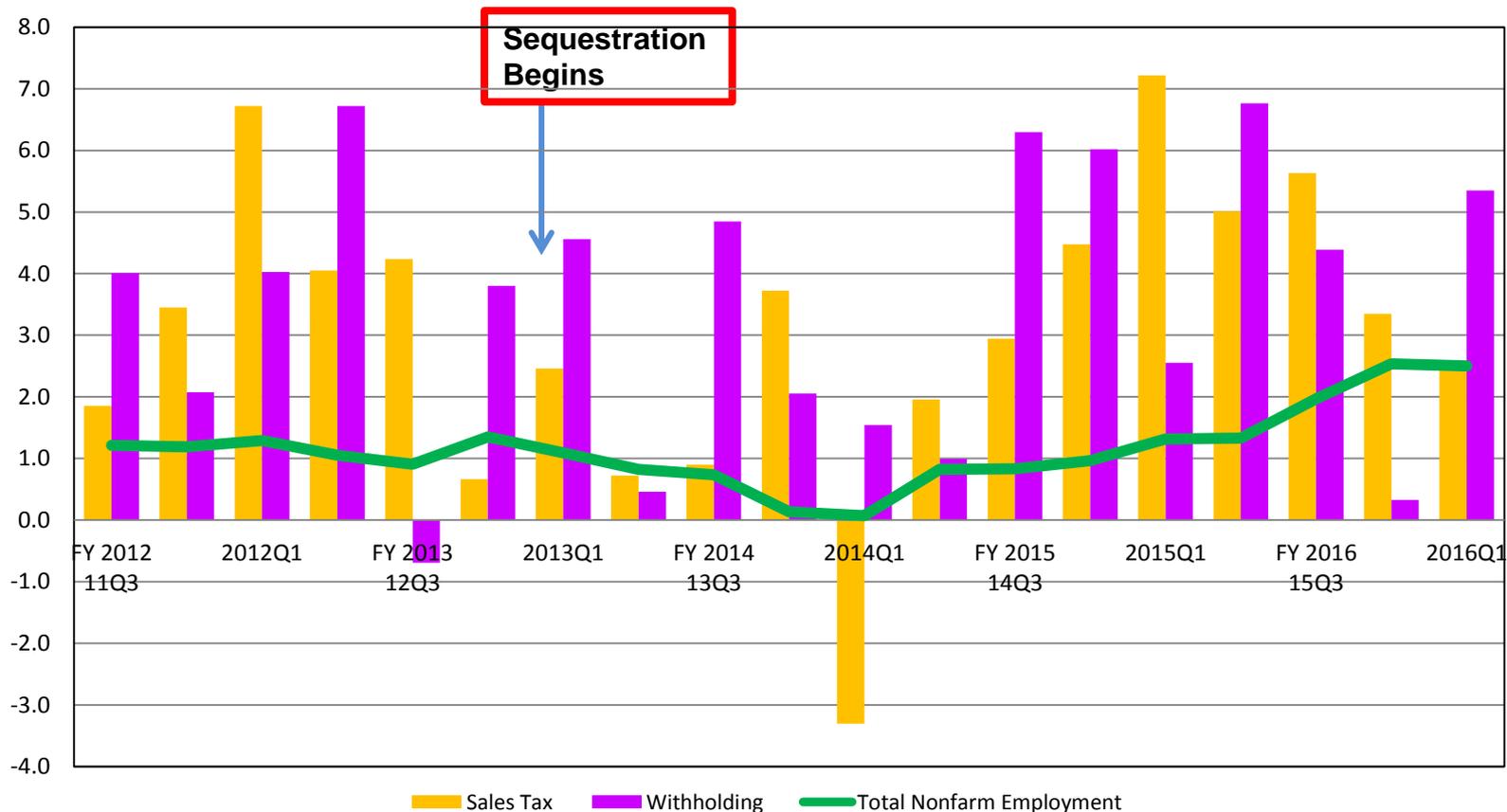


Data does not include transfers or balances. Data from 2015 Session Chapter 665

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

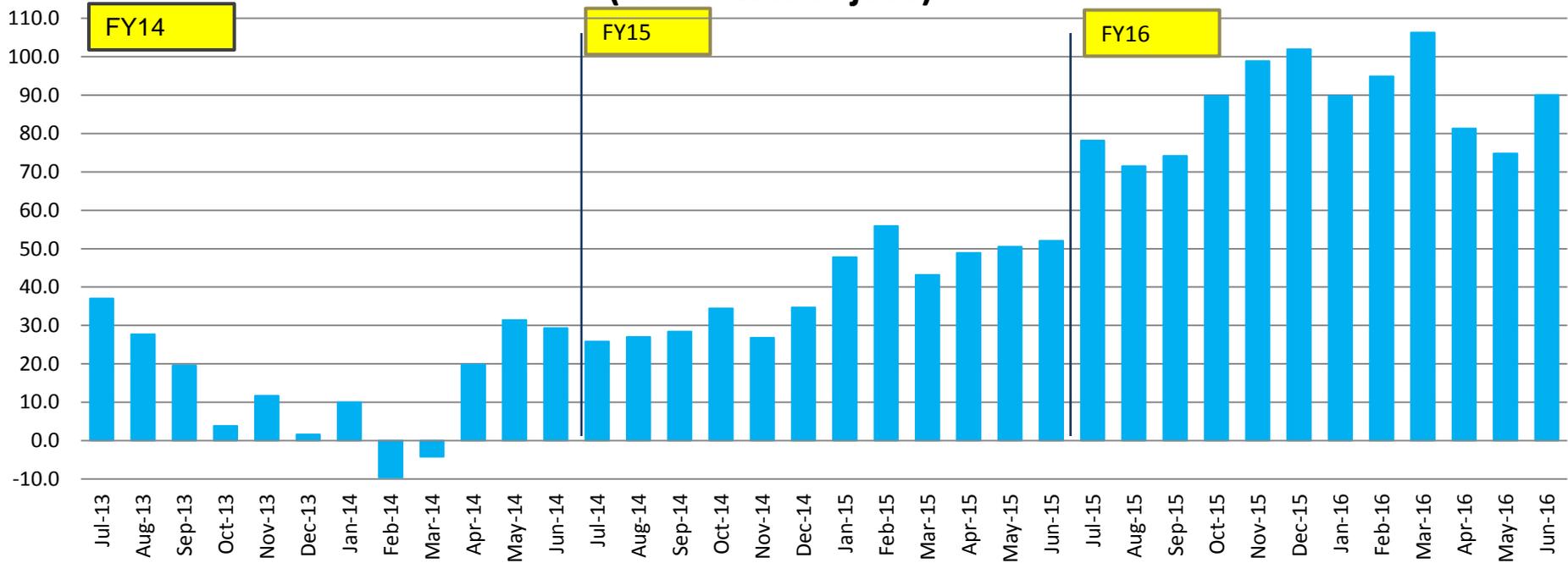
Sales Tax, Withholding and Employment Growth

Quarterly Year-Over Year % Change



Employment Growth Has Accelerated Over the Last Fiscal Year

Commonwealth of Virginia
Year-Over-Year Monthly Job Change
(thousands of jobs)



Virginia's Employment Growth Accelerated in Fiscal Year 2016 and Outperformed the Forecast

- In Virginia, wages and salaries grew 4.2 percent, higher than the official forecast of 3.9 percent.
- In Virginia, employment grew 2.3 percent, or 86,200 jobs, in FY16. The strongest percentage gains occurred in professional and business services, leisure and hospitality, and health services, while government was virtually flat.

Summary of Key Virginia Economic Indicators Percent Change Over the Prior Fiscal Year

| | <u>FY16 Forecast</u> | <u>FY16 Actual</u> |
|-----------------------|--------------------------|------------------------|
| Employment | 1.5 | 2.3 |
| Professional/Business | 2.7 | 3.7 |
| Government | 0.2 | 0.2 |
| Personal Income | 3.7 | 4.3 |
| Wages & Salaries | 3.9 | 4.2 |

However, Recent Job Growth Has Been Predominately in Lower Paying Occupations

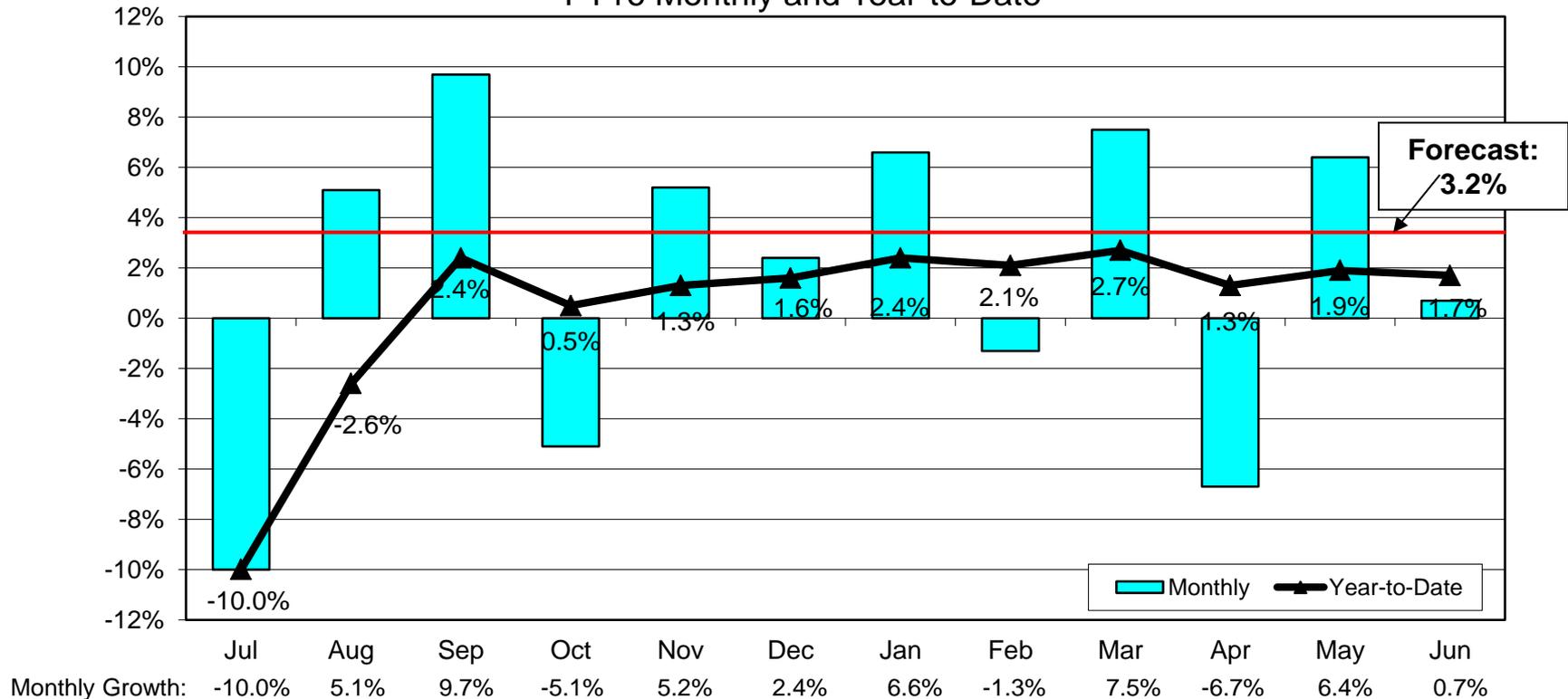
Virginia Employment Change and Average Weekly Wage by Major Industry

| Industry | Employment | Change From A Year Ago | | Average |
|--|------------|------------------------|----------|-------------------|
| | 2015:Q4 | # of Jobs | % Change | Weekly Wage |
| Total, All Industries | 3,797,909 | 109,880 | 3.0% | \$1,094 |
| Health Care and Social Assistance | 478,994 | 17,020 | 3.7% | \$1,012 |
| Professional, Scientific, and Technical Services | 413,493 | 16,468 | 4.1% | \$2,066 |
| Accommodation and Food Services | 336,783 | 13,615 | 4.2% | \$367 |
| Administrative and Support and Waste Management | 236,129 | 11,556 | 5.1% | \$797 |
| Transportation and Warehousing | 137,052 | 8,313 | 6.5% | \$1,025 |
| Unclassified establishments | 12,393 | 7,578 | 157.4% | \$937 |
| Construction | 197,806 | 7,151 | 3.8% | \$1,110 |
| Other Services (except Public Administration) | 138,790 | 6,093 | 4.6% | \$843 |
| Retail Trade | 440,825 | 5,785 | 1.3% | \$564 |
| Arts, Entertainment, and Recreation | 64,665 | 5,626 | 9.5% | \$590 |
| Public Administration | 247,058 | 4,540 | 1.9% | \$1,411 |
| Manufacturing | 244,523 | 3,032 | 1.3% | \$1,168 |
| Finance and Insurance | 134,097 | 2,362 | 1.8% | \$1,676 |
| Real Estate and Rental and Leasing | 53,608 | 1,723 | 3.3% | \$1,145 |
| Educational Services | 364,245 | 1,420 | 0.4% | \$846 |
| Agriculture, Forestry, Fishing and Hunting | 13,225 | 630 | 5.0% | \$680 |
| Wholesale Trade | 111,478 | 361 | 0.3% | \$1,538 |
| Utilities | 18,535 | 109 | 0.6% | \$1,607 |
| Mining, Quarrying, and Oil and Gas Extraction | 6,387 | (807) | -11.2% | \$1,425 |
| Management of Companies and Enterprises | 73,310 | (1,023) | -1.4% | \$2,087 |
| Information | 74,512 | (1,672) | -2.2% | \$1,718 |
| % of Job Growth | | | | |
| Low Wage | | 52,303 | 47.6% | \$367 - \$940 |
| Medium Wage | | 40,972 | 37.3% | \$941 - \$1,513 |
| High Wage | | 16,605 | 15.1% | \$1,514 - \$2,087 |

Fiscal Year 2016 Revenue Collections Finished The Year \$268.9 Million (-1.5 Percent) Below Forecast

Growth in Total General Fund Revenue Collections

FY16 Monthly and Year-to-Date



- Total general fund revenues increased 0.7 percent in June.
- Fiscal year 2016 total revenues increased 1.7 percent, behind the annual forecast of 3.2 percent growth.
 - Adjusting for Accelerated Sales Tax (AST) program, total revenues grew 1.8 percent, behind the economic-base forecast of 3.3 percent growth.

The Total Projected Shortfall in Revenues and Transfers Exceeds \$1.5 Billion Over Three Years; However, It Must Be Recognized Over Two

| | FY 2016 – actual | FY 2017 | FY 2018 | Biennial Total |
|---|---------------------|-----------------|-----------------|-------------------|
| Revenue | | | | |
| Revised Interim Forecast - Post-GACRE | \$18,040.1 | \$18,338.0 | \$19,000.4 | \$37,338.4 |
| Official Forecast - CHs 732 & 780 | \$18,309.0 | \$18,902.4 | \$19,633.1 | \$38,535.5 |
| Projected Revenue Shortfall | -\$268.9 | -\$564.4 | -\$632.7 | -\$1,197.1 |
| Change in Transfers | | | | |
| | -\$10.4 | -\$17.7 | -\$21.6 | -\$39.3 |
| Total Shortfall | -\$279.3 | -\$582.1 | -\$654.3 | -\$1,236.4 |
| Shortfall Applied by Fiscal Year | | -\$861.4 | -\$654.3 | -\$1,515.7 |

Announced Budget Strategies Address the Shortfall in FY2017 and Leave a Balance of \$13.7 Million

Solving the Shortfall

\$\$ in millions

| | FY 2016 - actual | FY 2017 |
|--|------------------|-----------------|
| <u>Shortfall</u> | | |
| Revised Interim Forecast – Post GACRE | \$18,040.1 | \$18,338.0 |
| Official Forecast – CH 780 | \$18,309.0 | \$18,902.4 |
| Projected Revenue Shortfall | <u>-\$268.9</u> | <u>-\$564.4</u> |
| Change Transfers | <u>-\$10.4</u> | <u>-\$17.7</u> |
| Total Annual Shortfall | -\$279.3 | -\$582.1 |
| Shortfall to Recognize in Fiscal Year 2017 | | -\$861.4 |
| <u>Strategies to Address Shortfall</u> | | |
| Remove pay increase | | \$125.1 |
| Transfers from Revenue Stabilization Fund | | \$392.3 |
| Apply Credit for FY 2016 Pledges submitted by state agencies | | \$23.5 |
| Revert unexpended discretionary general fund balances from FY 2016 | | \$43.3 |
| Adjust accelerated sales tax | | \$35.1 |
| Adjust carryover balance from FY 2017 to FY 2018 | | \$70.0 |
| Use additional Lottery revenue for public education - collected in FY 2016 | | \$33.2 |
| Use additional Lottery revenue for public education - projected for FY 2017 | | \$5.3 |
| Use additional Lottery revenue for public education - cash on balance sheet | | \$8.6 |
| Capture net changes in sales tax dedicated to public education | | \$12.0 |
| Offset teacher retirement costs in public education with Literary Fund revenue | | \$25.0 |
| Recover NGF cost of VRS payment from institutions of higher education | | \$24.8 |
| Reverse credit card and interest restoration to institutions of higher education | | \$4.0 |
| Across-the-board agency savings - excludes institutions of higher education | | \$73.0 |
| Subtotal of Strategies * | | <u>\$875.1</u> |
| BALANCE | | \$13.7 |

* May not add due to rounding.

Summary of Fiscal Year 2017 Revenue Collections

July through September

Percent Growth over Prior Year

| <u>Major Source</u> | As a % of Total <u>Revenues</u> | <u>YTD</u> <u>Actual</u> | <u>Annual</u> <u>Estimate</u> | <u>Variance</u> |
|---------------------|---------------------------------------|-----------------------------|----------------------------------|-----------------|
| Withholding | 63.5 % | 4.1 % | 3.0 % | 1.1 % |
| Nonwithholding | 16.5 | (0.2) | (1.2) | 1.0 |
| Refunds | (10.3) | (6.5) | 4.0 | (10.5) |
| Net Individual | 69.7 | 3.9 | 1.8 | 2.1 |
| Sales | 18.4 | 0.2 | 2.6 | (2.4) |
| Corporate | 4.0 | 5.1 | (3.0) | 8.1 |
| Wills (Recordation) | 2.1 | 14.2 | 5.5 | 8.7 |
| Insurance | 1.9 | na | 1.3 | na |
| All Other Revenue | 3.8 | 2.9 | (2.7) | 5.6 |
| Total | 100.0 % | 3.6 % | 1.7 % | 1.9 % |
| Sales (x AST) | | 0.2 % | 3.7 % | (3.5) % |
| Total (x AST) | | 3.6 % | 1.9 % | 1.7 % |