

Financial Considerations and Issues

Presented to the
New Board of Visitors
Virginia Colleges and Universities

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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 Other Post-Employment Benefits (OPEB) Obligations

Rating Agency / Additional Factors

- **Demographics**
 - Aging Population
 - Out-Migration
- **Cyber Security**
- **Resiliency**
 - Events
 - Insurance

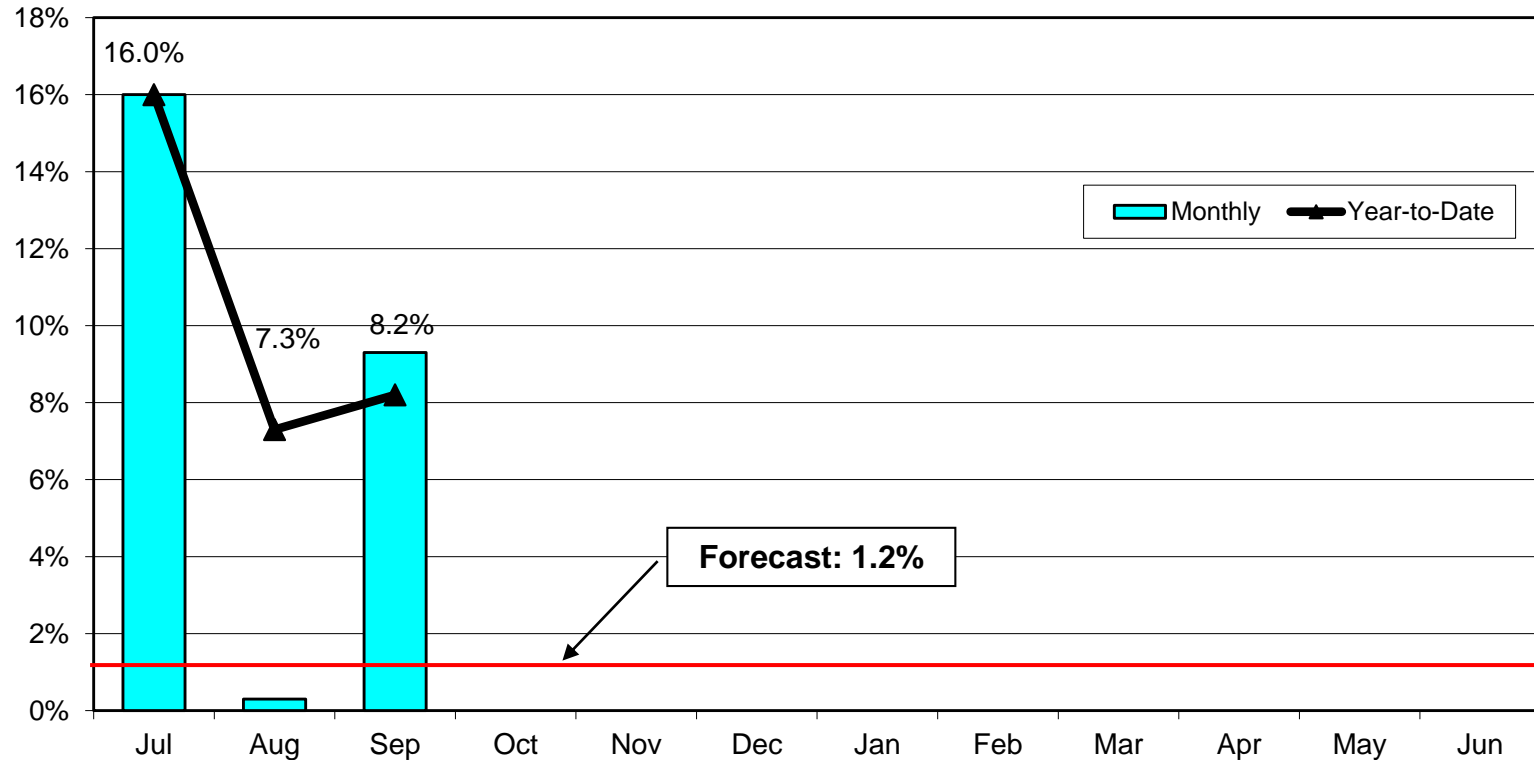
National and State Economic Indicators

- According to the third estimate, real GDP grew at an annualized rate of 2.0 percent in the second quarter of 2019, slowing from 3.1 percent in the first quarter.
- Payroll employment rose by 136,000 jobs in September.
 - This follows gains of 168,000 in August and 166,000 in July.
- The national unemployment rate fell to 3.5 percent in September, the lowest level of the expansion.
- Initial claims for unemployment increased by 4,000 to 219,000 during the week ending September 28, consistent with a healthy labor market.
 - The four-week moving average was unchanged at 212,500.
- The Conference Board's index of leading indicators was unchanged in August, following a 0.4 percent increase in July, suggesting moderate economic growth should continue.
- The Conference Board's index of consumer confidence fell from 134.2 to 125.1 in September, with both the expectations and current conditions components declining. The decline is not necessarily a sign that confidence is falling sharply, as the index has been choppy in recent months.
- The manufacturing sector contracted for the second consecutive month in September. The Institute of Supply Management index fell from 49.1 to 47.8.
 - Although a reading below 50 indicates that the manufacturing sector is contracting, this is still above the recession threshold of 42.9.

National and State Economic Indicators

- The CPI rose 0.1 percent in August following a 0.3 percent increase in July, and stands 1.8 percent above August 2018.
 - Core inflation (excluding food and energy prices) rose by 0.3 percent, and has increased 2.4 percent from last year.
- At its September meeting, the Federal Reserve lowered the federal funds target rate by 25 basis points to the 1.75 to 2.0 percent range.
- In Virginia, payroll employment rose 0.9 percent in August compared with last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads employment grew 0.3 percent, and Richmond-Petersburg rose 0.6 percent.
- The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.8 percent in August and was unchanged from August of last year.
- The Virginia Leading Index rose 0.1 percent in August after rising 0.1 percent in July.
 - Future employment and initial claims improved while auto registrations declined; the U.S. Leading index was unchanged.
 - The indexes Roanoke, Northern Virginia, and Bristol were unchanged in August, while the indexes for the remaining Virginia metro areas rose.

Growth in Total General Fund Revenue Collections FY20 Monthly and Year-to-Date



Monthly Growth: 16.0% 0.3% 9.3%

- Total general fund revenues increased 9.3 percent in September.
 - Broad-based growth in payroll withholding, sales, individual nonwithholding, corporate and recordation tax collections.
- On a year-to-date basis, total revenues increased 8.2 percent, ahead of the annual forecast of a 1.2 percent increase.

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

Major Issues:

- **National Economic Situation** – Growth of the Economy
- **Federal Actions** – Impact of Tax Reform Actions
- **Mandatory Spending Items** – Standards of Quality (SOQ) Updates, Medicaid forecast update, Debt Service, Employee Health Costs, etc.
- **Bond Rating** – Continue need for Cash Reserves, Back-filling Revenue Stabilization Fund, and Effect on New Debt Authorizations
- **Priority Spending Items** – Economic Development, Workforce Development, Early Childhood

Steps Leading to General Fund Forecast

- **Joint Advisory Board of Economists (JABE)**
 - Met on October 17th
- **Governor's Advisory Council on Revenue Estimates (GACRE)**
 - Meets on November 25th

Potential SCHEV Recommendations for Additional Higher Education Funding

Affordability and Excellence (~\$100 M)

- Need-based financial aid
- Funding for operations and new E&G facilities to mitigate tuition and fee increases
- Tuition Assistance Grant (TAG)
- Faculty and staff increases (*additional funding required*)

Access and Success (~\$100 M)

- Postsecondary awareness and outreach activities to students in K-12 (*Guidance to Postsecondary Success Initiative - GPS*)
- Community college investment aligned to support skilled trades
- Institutional support for access and completion

Talent Development (\$50 M)

- Tech talent initiative
- Innovative internship program

Efficiency, Effectiveness, Planning and Other Areas of Support (~\$7 M)

- Cost and review of outcomes funding opportunities and agency operations
- Commonwealth Graduate Engineering Program
- Virtual Library of Virginia

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

Thank You