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 fell at an annualized rate of 31.4 percent in the second quarter of 2020, the largest decline on record.
  – The prior record was a 10 percent decline in the first quarter of 1958.

• Job growth slowed in September. Payroll employment rose by only 661,000 jobs.
  – This follows gains of 1.5 million in August and 1.8 million in July.

• The national unemployment rate fell from 8.4 percent to 7.9 percent in September, largely due to a contraction of the labor force.

• Initial claims for unemployment fell by 9,000 to 840,000 during the week ending October 3.

• The Conference Board’s index of leading indicators rose 1.2 percent in August to 106.5 following increases of 2.0 percent in July and 3.1 percent in June. Although this was the fourth consecutive increase, the reading suggests the recovery is slowing.

• The Conference Board’s index of consumer confidence rose from 86.3 to 101.8 in September. Both components improved for the month.

• The Institute of Supply Management index unexpectedly fell from 56.0 to 55.4 in September after three consecutive monthly gains. However; it remains above the expansionary threshold of 50.0.
National and State Economic Indicators

• The CPI rose 0.4 percent in August and stands 1.3 percent above August 2019.
  − Core inflation (excluding food and energy prices) also rose by 0.4 percent, and has increased 1.7 percent from last year.

• At its September meeting, the Federal Reserve left the federal funds target rate unchanged at the range of 0.0 to 0.25 percent and signaled it will keep rates low at least through 2023.

• In Virginia, payroll employment fell 5.2 percent in August compared with last year. Northern Virginia fell 5.3 percent; Hampton Roads employment fell 5.2 percent, and Richmond-Petersburg fell 5.3 percent.

• The seasonally adjusted unemployment rate decreased 1.8 percentage point to 6.1 percent and stands 3.4 percentage points above August of last year.

• The Virginia Leading Index rose 1.6 percent in August after rising 1.7 percent in July.
  − All four components, the U.S. Leading Index, future employment, auto registrations and initial claims improved in August.
  − The indexes for all eleven Virginia metro areas rose for the month.
• Total general fund revenues increased 7.6 percent in September.
  – September contained one additional deposit day.

• On a year-to-date basis, total revenues increased 9.9 percent, ahead of the annual forecast of a 1.8 percent decline.
Budget Risks / Considerations

• **COVID-19**
  – Federal Fiscal and Monetary Policy
  – Right-sizing in Private Business
  – Long-term Trends

• **Structural Balance**
  – Nonwithholding
  – Excess Revenues
  – New Revenues
  – Expenditure Reductions
Steps Leading to General Fund Forecast

- **November 4** – *Joint Advisory Board of Economists* (JABE) reviews the economic outlook for FY21 – FY22.

- **November 23** – *Governor’s Advisory Council on Revenue Estimates* (GACRE) reviews the economic and revenue outlook for FY21 – FY22.

- **December 16** – Governor presents revised forecast and budget actions for 2020 - 2022 budget.
Potential SCHEV Recommendations for Additional Higher Education Funding

- Initiate *G3: Free Community College for At-risk Students* ($34.5 M)
- Increase Student Financial Aid ($30.3 M, undergrad; $1.5 M, grad)
- Provide Affordable Access / Institution Support ($52.6 M)
- Support *Tuition Assistance Grant (TAG) Program* ($7.9 M)
- Restore Un-allotted Funding for Centers, Research, etc. ($6.5 M)
- Increase *Higher Education Equipment Trust Fund Bond Support* ($31.0 M)
- Fully Fund *Military Survivors Program* ($750,000)
- Fund Guidance for Post Secondary Success & VIVA ($650,000)
- Increase *Innovative Internship Fund Program* ($1.3 M)
- Fund Miscellaneous… ($595,375)
  - Cost Study
  - Grow Your Own Teacher Program
  - Title IX Training
  - Earth System Science
For more information on Virginia’s budget, visit:

www.DPB.Virginia.gov

Thank You