The Economic and Budgetary Outlook for Virginia…More of the Same?

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House Appropriations Committee
November 15, 2011

True Statements

“9 percent unemployment and very slow growth is not a very good situation"

- Federal Reserve Chairman Bernanke

“We have to be realistic. Short-term rates are at zero and long-term rates are at 60-year lows. We've got mortgage rates at record lows. If that cheap credit is unable to stimulate growth, there is nothing more the Fed can do”

- Bernard Baumohl, Economic Outlook Group

“Two years into the recovery and the labor market still looks like it is in a recession”

- Robert Vaughn, HAC Staff Director

A Guide To The Economy

- Consumer spending accounts for two-thirds of total economic activity
  - Recovery cannot fully engage without consumers
- Industrial production and corporate profits can be leading indicators of a recovery
- Job gains generally lag in a recovery
- While economic indicators signal the direction of the economy, the inflection point – the point at which the recovery fully engages – is hard to predict

The Recovery Has Zig-Zagged Since the "Official" End of the Recession

- The U.S. economy is growing at such a slow pace that the lack of job creation makes it "feel" as if the economy is in a recession even though the economy is still advancing
  - GDP growth is at a level equal to recovery from the worst recession
- Nationally, unemployment remains high, with monthly job growth below the 125,000 that is needed to absorb new entrants
  - At the current rate of growth, it will take 4 to 5 years to recover the jobs lost
- Companies remain reluctant to spend the $1.9 trillion in cash they've accumulated, especially in the United States. They're unconvinced that consumers are ready to spend again with the vigor they showed before the recession, and they are worried about uncertainty in U.S. government policies
- Companies have been showing some willingness to hire and increase hours worked
  - But, continue to hoard cash, in part because of the uncertain economic recovery and the fear that they won't have access to credit
- Consumers remain cautious, spending primarily on replacement items

What Has Happened to the Recovery?

Thoughts From Global Insight

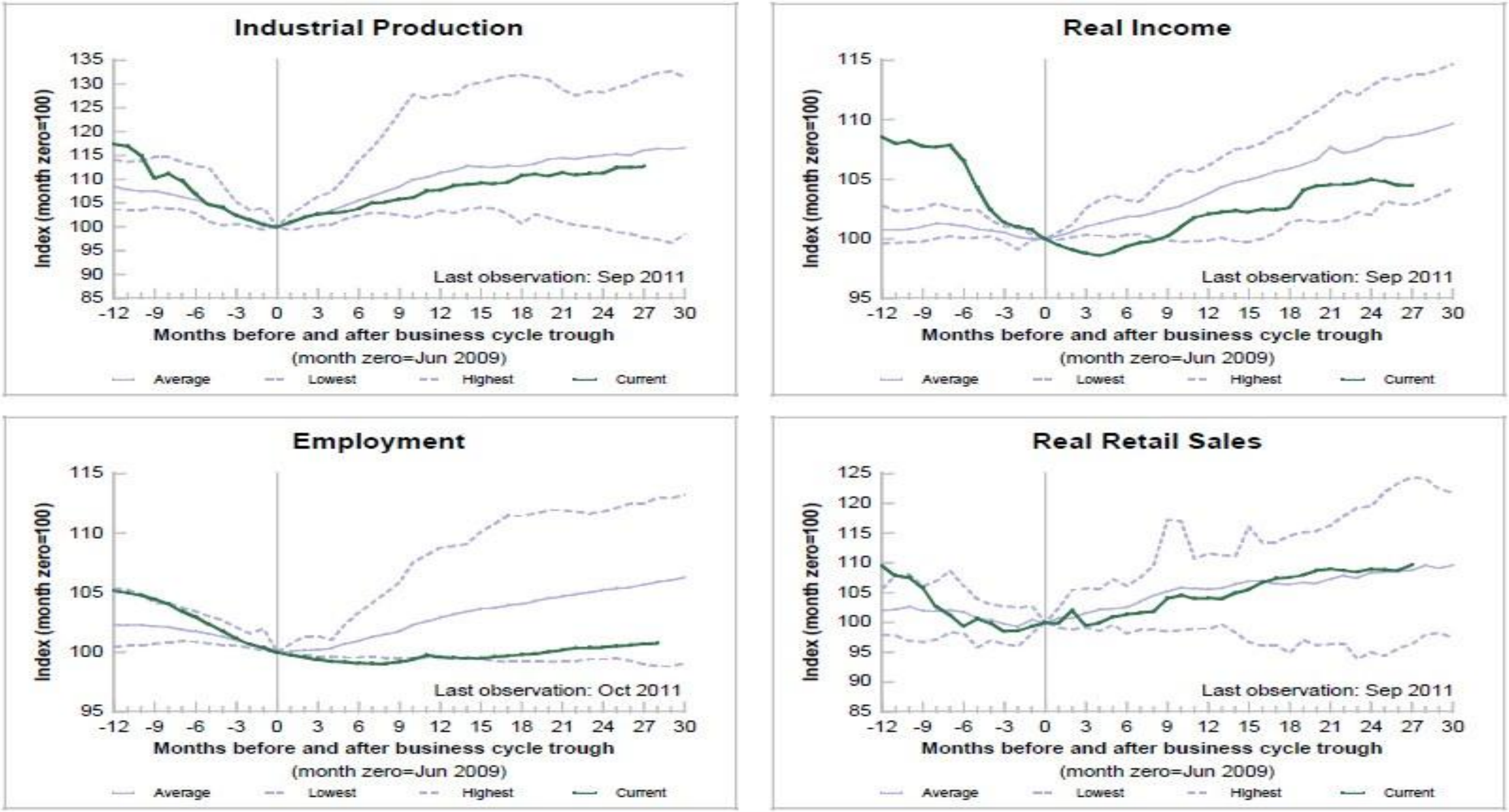
The Bad News

- Growth very weak, following usual pattern after a severe financial crisis
- Commodity price surge and Japan disaster
- Confidence in U.S. policy-making has hit new lows, after the debt-ceiling debacle
- The debt-ceiling outcome offered neither short-term fiscal support nor long-term fiscal reforms
- Fed running out of options
- Global growth slowing; Eurozone recession likely
- Financial fall-out from Eurozone sovereign debt crisis could be severe if policy-makers cannot act more decisively

The Good News

- Leading indicators don't yet point to U.S. recession
- Stock market is down but financial stress indicators are nothing like 2008, or even 2007
- Credit conditions still tight but beginning to ease
- The downside to battered sectors like housing is limited
- Pent-up demand is building, Japan shock effects receding, commodity price pressures easing
- Consumer sentiment is at recession levels, but spending hasn't yet followed sentiment down
- It would probably take more shocks to make a recession (rather than just weak growth) the most likely outcome

How Has The U.S. Economy Fared Since The "Official" End of The Recession?



Data last updated 2011-11-04.

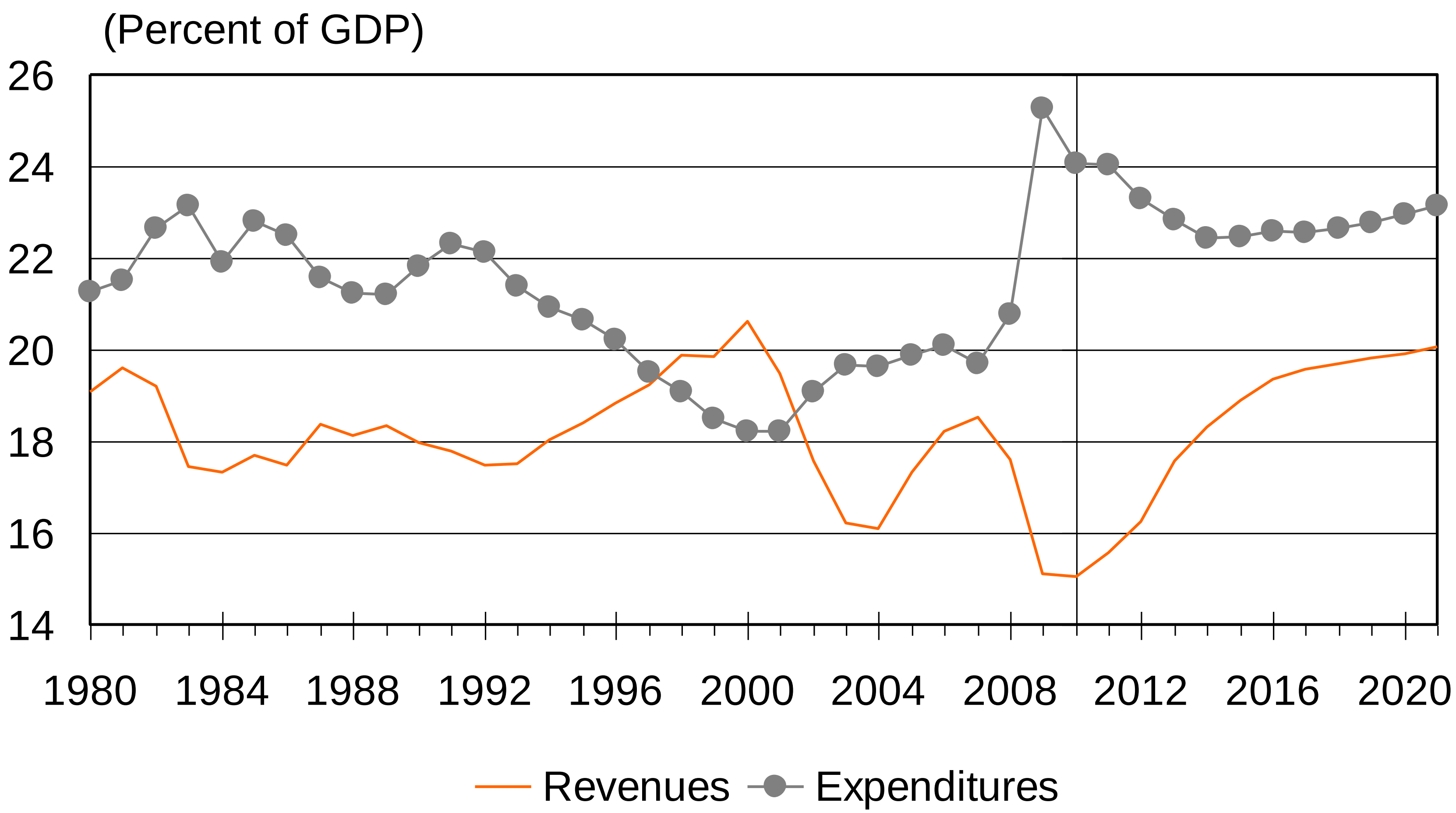
The Recession Is Really Over, But Growth Is Not As We Would Want It

Federal Intervention, GDP, Jobs, Consumer Spending, and Housing?

Despite Unprecedented Federal Intervention, It Didn't Produce A Bounce

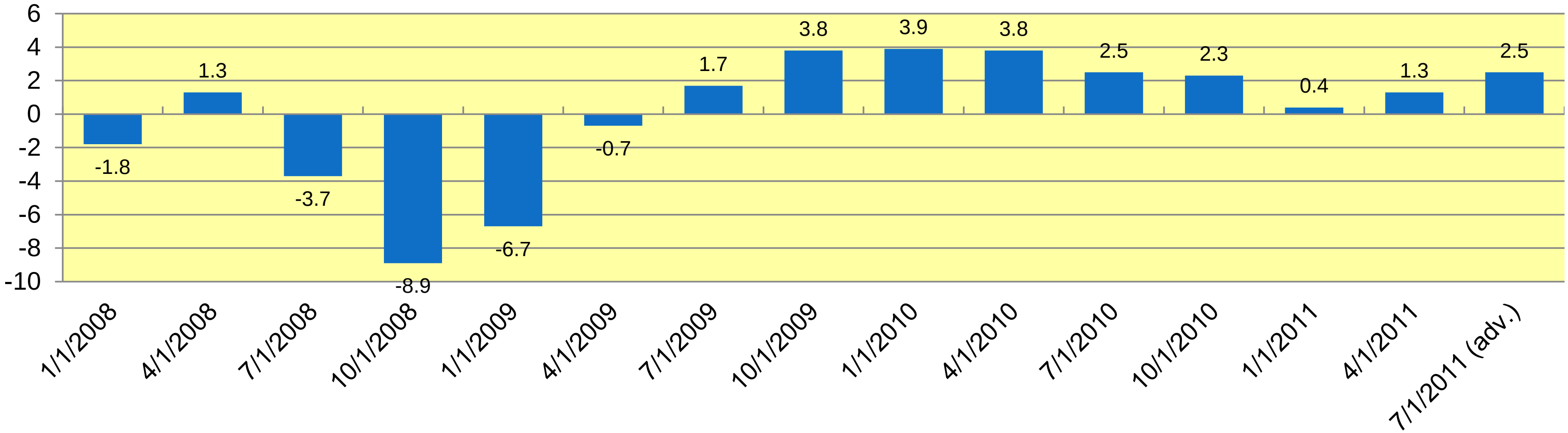
- Unlike at the beginning of previous recessions, the Federal Funds rate was at historic lows, standing at 1% when recession started compared to 8% in 1991 and 5% in 2001
  - Typically, once in a recession, the Federal Reserve begins to lower the Federal Funds rate in order to stimulate spending
  - Indications are the rate will stay in the 1% range for the near future
- In order to further stimulate the economy, the Federal Reserve implemented Quantitative Easing (QE I and QE II) which resulted in the purchase of US Treasuries to keep long-term interest rates low and spur the housing recovery and business expansion
  - While this strategy have kept interest rates low, tight credit, higher loan standards, and stubborn unemployment rates have undermined the impact
  - This strategy favors borrowers over savers
- While the possibility of QE 3 remains and option, the fact is that the Fed will continue to purchase long-term bond in an effort to keep long-term interest rates low
- Federal stimulus funding mitigated cuts to state and local government
  - Contained programmatic spending that ends this year
  - Created a "cliff effect" for state and local governments
- Emphasis on deficit reduction will result in more cuts to state and local governments

The Federal Budget Gap… Expect Action To Reduce the Deficit, But How Will It Impact Virginia



Source: Global Insight

Eight Consecutive Quarters of Positive GDP, But Recent Data Indicates A Slowing Economy



- The third quarter GDP (advanced estimate) is based on preliminary data that will be revised again on November 22, 2011. The increase in GDP primarily reflects positive contributions from personal consumption expenditures, nonresidential fixed investment, federal defense spending, and exports that were partly offset by a negative contribution from private inventory investment, and state and local government spending
- Second quarter GDP includes the final revisions and primarily reflected positive contributions from personal consumption expenditures, nonresidential fixed investment, and exports. Offsetting contributions include private inventory investment, and state and local government spending
  - **Exports continue to contribute to GDP, although the quarterly growth was half as much as the previous quarter.** Imports, **which are a subtraction** in the calculation of GDP, increased 1.4%, down from 8.3% in the previous quarter
  - Federal spending – **driven by defense** -- continues to add positively to overall GDP, but it's impact will wane as deficit reduction efforts begin. Nondefense spending declined
  - Consumer spending declined for the second straight quarter, driven in part to slower vehicle sales

Will We Fall Back Into Recession?

Why?

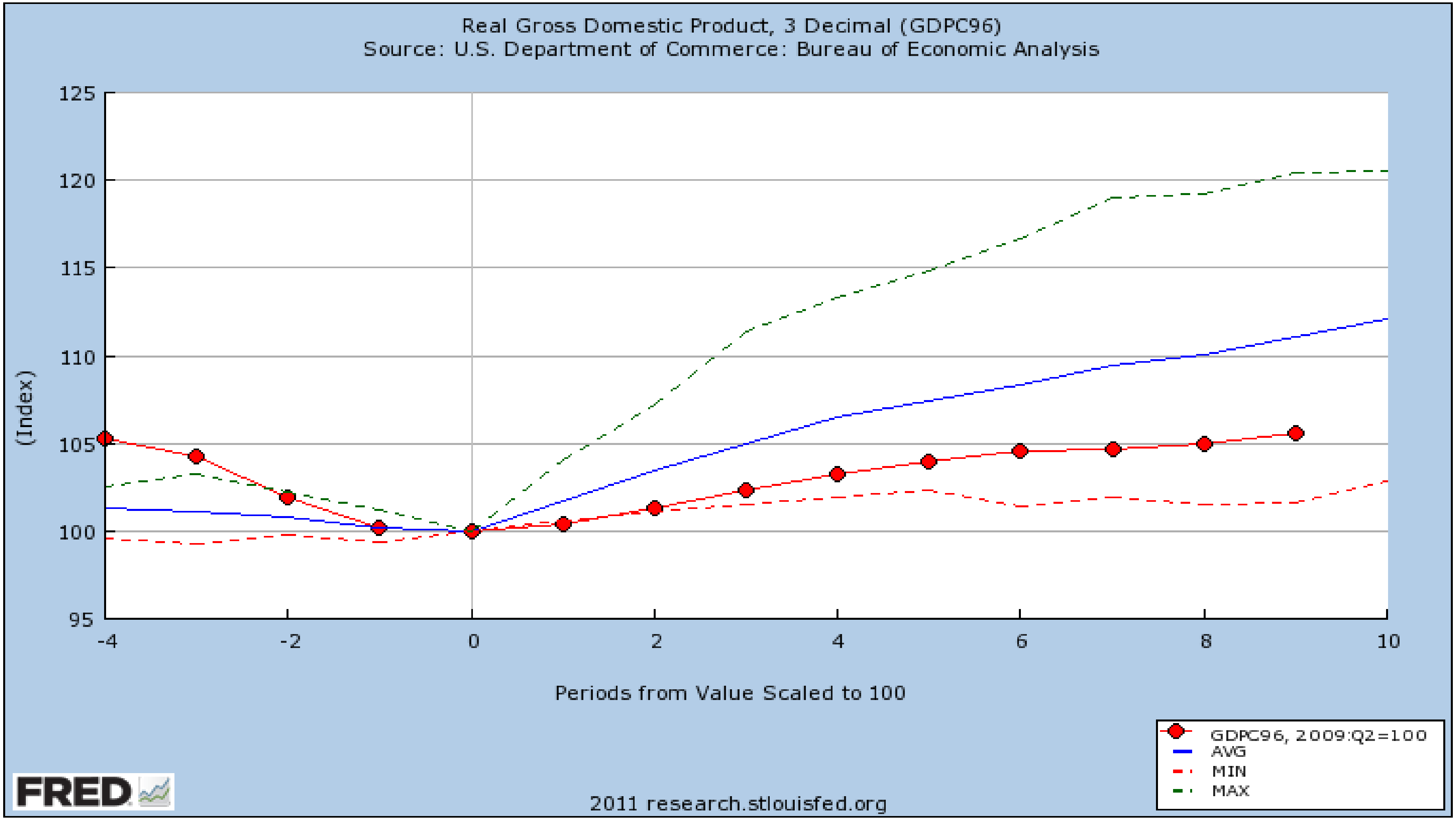
- An economy near stall speed is vulnerable to shocks
- Fed can't help much
- Risks of policy mistakes
  - Premature fiscal tightening
  - Policy paralysis
- Eurozone is the immediate risk
- Oil shocks a perennial threat

Why Not?

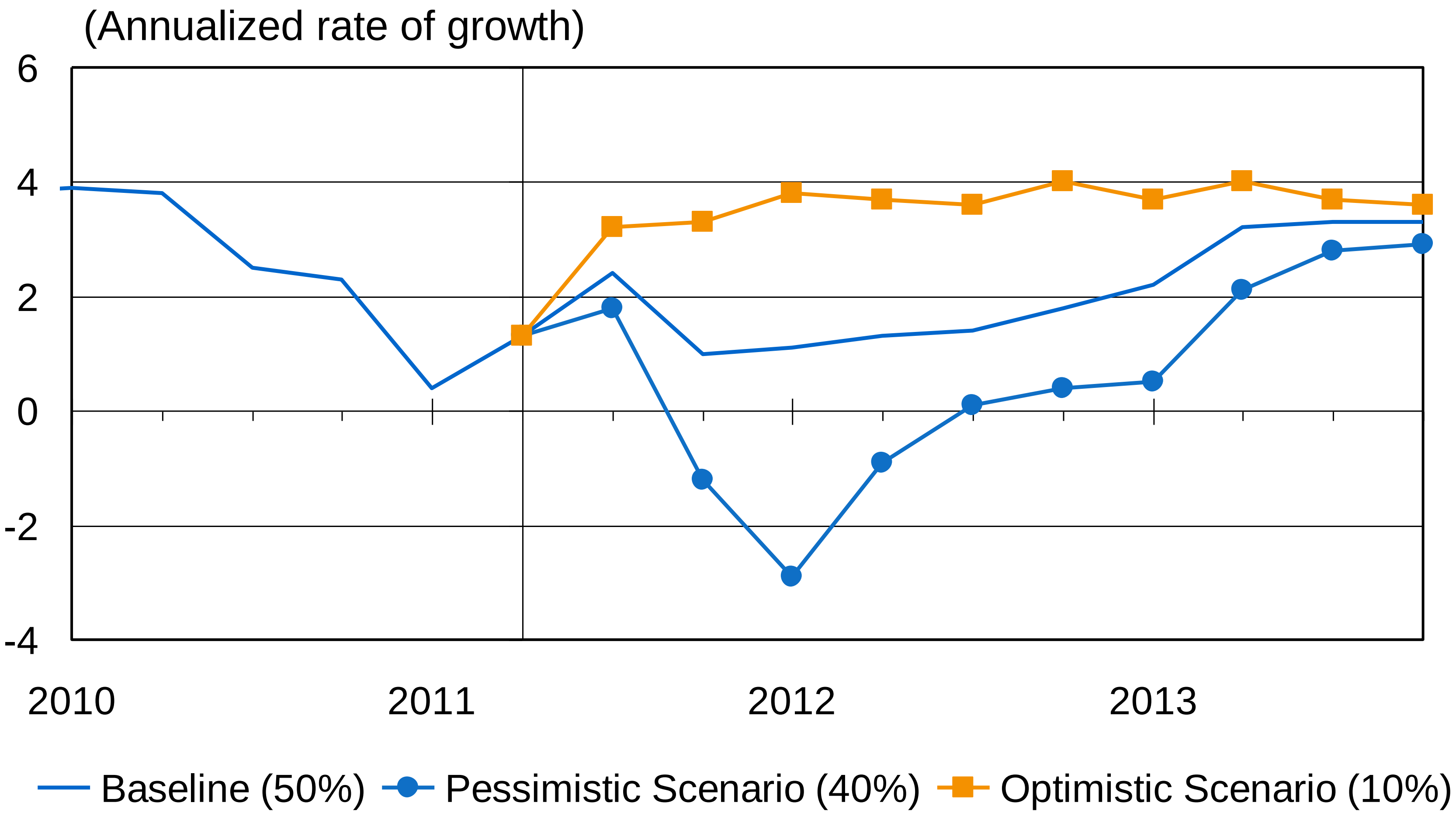
- U.S. banks in better shape than 2008
- Nonfinancial corporations balance sheets are strong
- Exposures to Eurozone sovereign debt are better understood than exposures to sub-prime debt were
- Europe unlikely to allow a major institution to collapse

Source: Global Insight's October Outlook

Current GDP Compared to Previous Expansions…Slightly Better than The Worst



GDP Growth Outlook



Source: Global Insight

GDP Outlook Over the Forecast Period

- Most likely outcome is anemic growth, not recession
- Recovery very muted; growth doesn’t exceed 3% until 2014
- Fed powers are limited; no panaceas
- Fiscal stimulus; the question is how fast it’s withdrawn, not whether it will be ramped up
- Still huge fiscal uncertainty; Supercommittee task looks impossible
  - January 1, 2013 could be another crisis deadline
- Growth at around “stall speed” leaves the economy highly vulnerable to recession risks (40% odds)

Looking Beyond GDP -- What are the Key Economic Indicators Telling us?

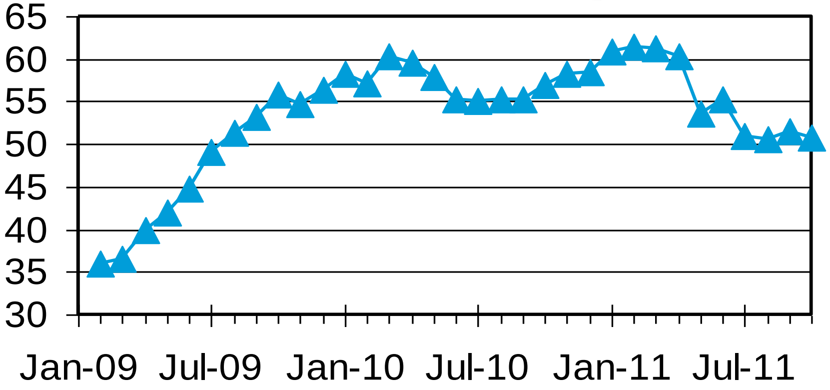
ISM Index Signals Expansion, But Slowdown Is At Hand and Employment Remains the Achilles Heel

Employment Is Turning, But Not Rapidly

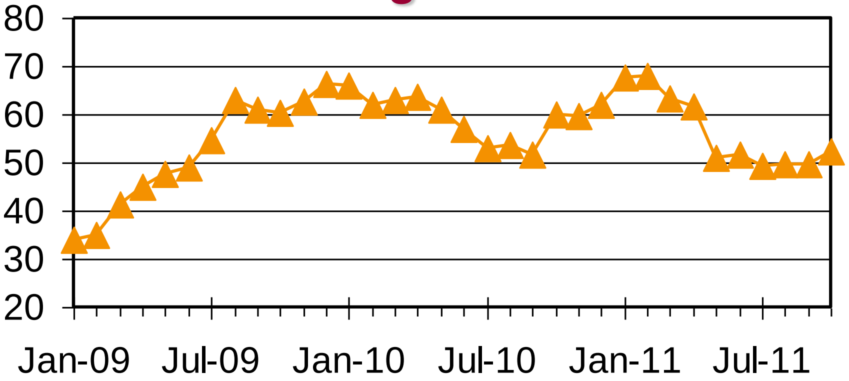
- Since the recession began in December 2007, a total of 7.8 million jobs have been lost nationally
  - October year-over-year comparisons show the economy has added over 1,501,000 total jobs
- Since December 2009, the economy has created 2,066,000 or about 93,000 per month – but the economy needs to create 125,000 jobs just to absorb new entrants to the labor market
  - Last 6 months average job growth was 90,000 versus 160,000 the previous 6 months
  - Decline in average is due to reductions in government employment
- Manpower's quarterly survey of 18,000 firms reveals 16% of employers expect to add works, 11% expect to contract and 70% of the firms plan no change in hiring
  - 11 out of 13 industry sectors report a positive outlook
- Mass layoff announcements have declined 50% from a year ago
  - Improvement is reflected in the initial unemployment claims
- Most companies continue to meet their additional labor needs by either increasing the hours worked per week or by adding temporary workers; the recovery of the labor market will take some time

With 8 of 18 Manufacturing Industries Reporting Growth in October, Manufacturing Sector Expands for 27th Consecutive Month…Albeit The Indexes Have Slipped Towards Breakeven

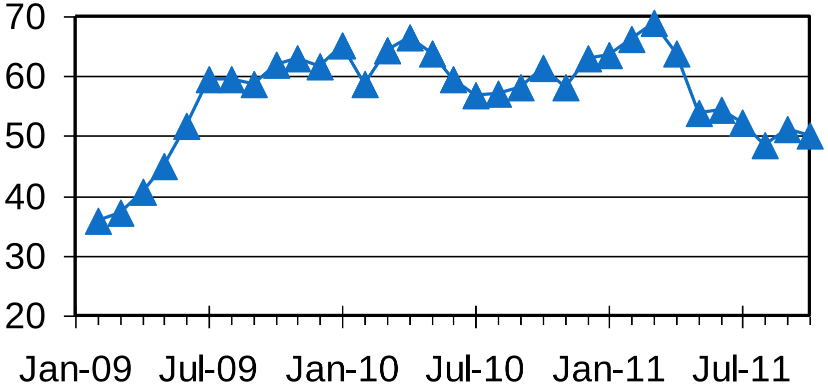
ISM Manufacturing Index



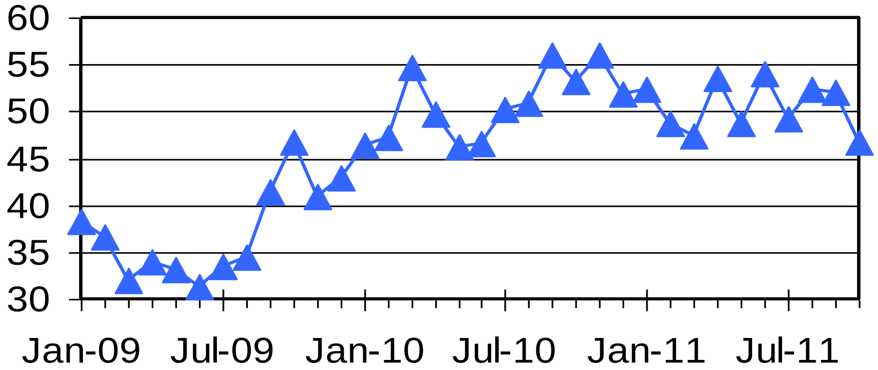
ISM Manufacturing New Orders Index



ISM Manufacturing Production Index



ISM Manufacturing Inventories Index

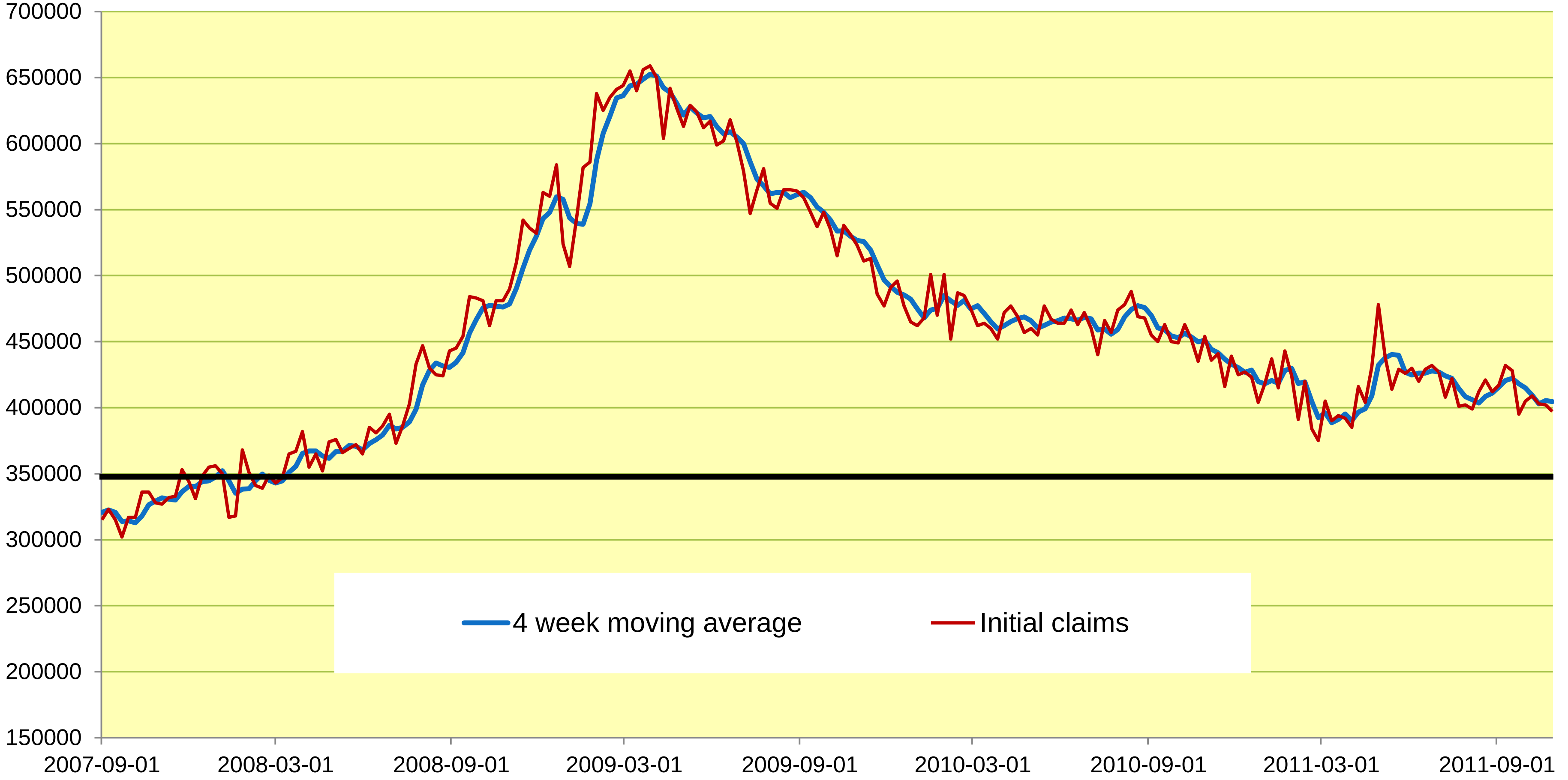


All indicators are diffusion indexes

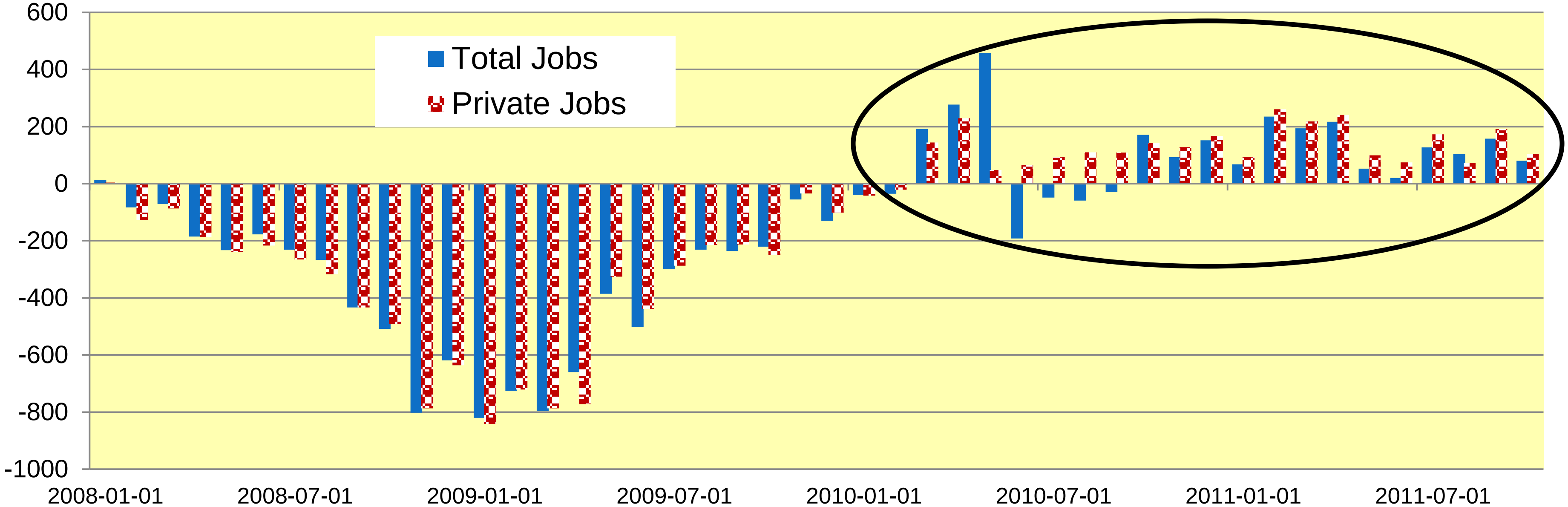
Mass Layoff Events Are Down…But Still Above the Pre-recession Level

- The number of mass layoffs (involving 50 or more workers from a single employer) has inched up over the last several months, although the number of events are down 50% from their recession highs
- Average number of events for CY 2011 are down 126 compared to the same time period in CY 2010

Initial Unemployment Claims… Receding From Their Peak, But Economists Are Looking For A Reading Of 350,000 and Below



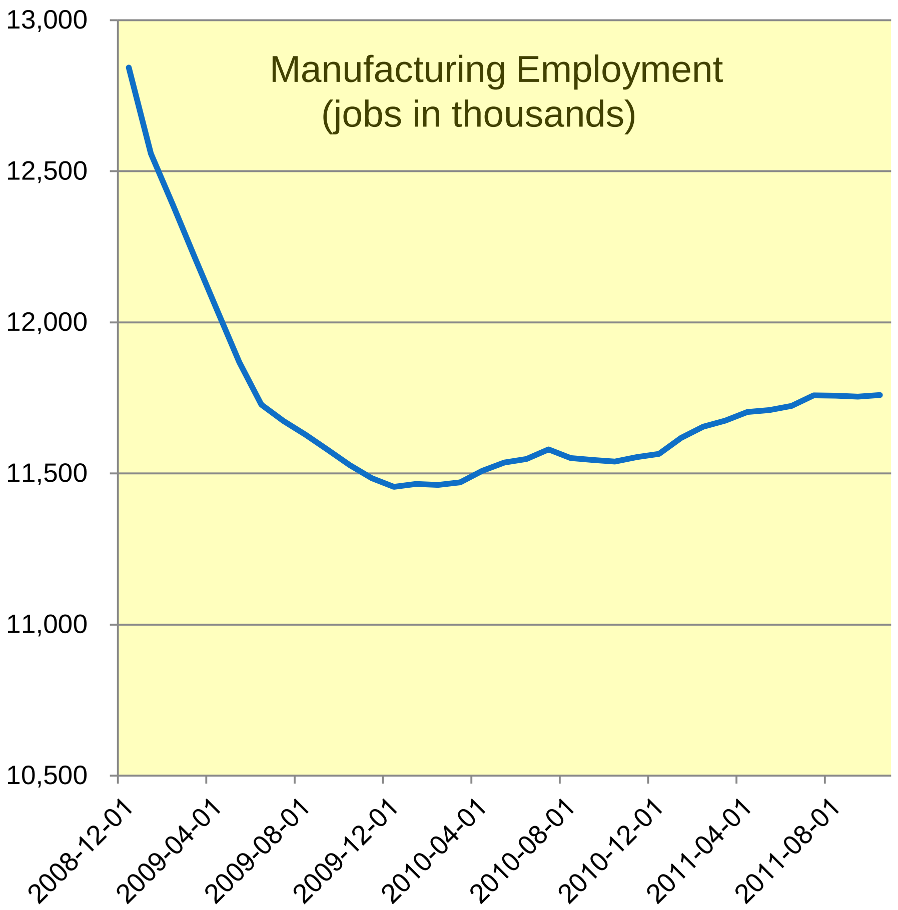
Private Sector Employment -- The Silver Lining?



- The private sector has experienced 20 consecutive months of employment gains – average about 138,000 per month
- Job gains have been across a broad range of sectors with Professional & Business Services experiencing the greatest gains followed by: Education and Health; Leisure and Hospitality; Manufacturing; Construction; and, Transportation
  - 2 sectors continue to experience job loss: finance and information services
- The economy (GDP) will need to grow twice the current rate to begin to lower the unemployment rate

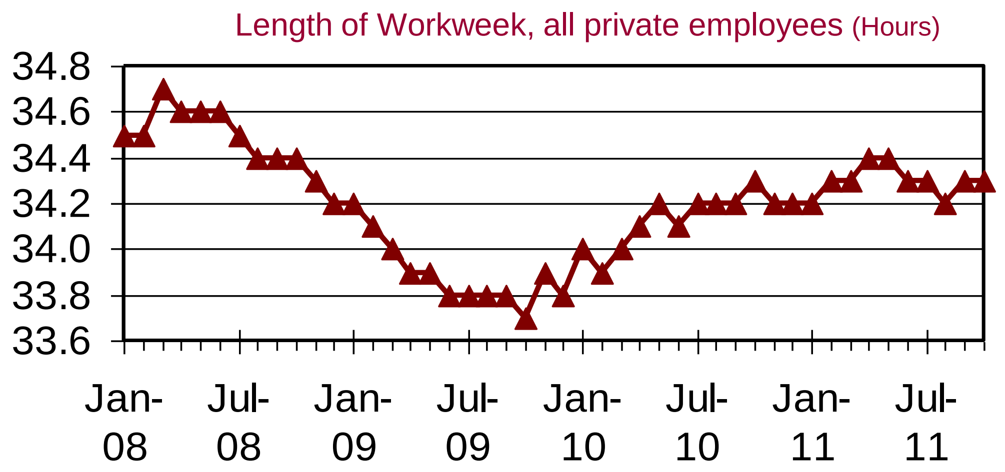
Manufacturing Employment Slow To Recover, But Unlike Construction, There Have Been Job Gains

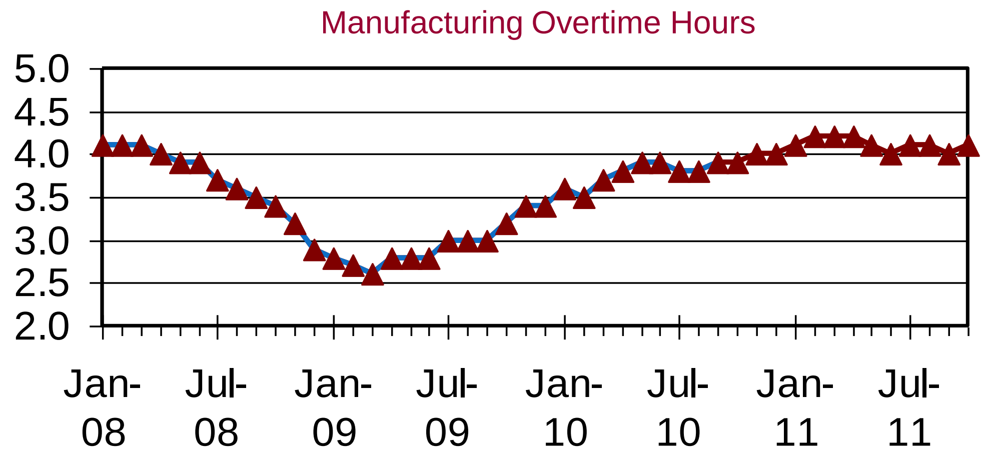
- Manufacturing, which accounts for 9% of the nation's employment, lost 2.2 million jobs (28% of total job loss)
- Since hitting bottom in December 2009, manufacturing has seen several monthly gains totaling 303,000 jobs
- Manufacturing job gains appear to have leveled off as both the U.S. consumer and the export market have slowed
  - Although the work week and overtime have remained strong



Lengthened Workweek and Overtime In Manufacturing Allow Companies To Meet Demand

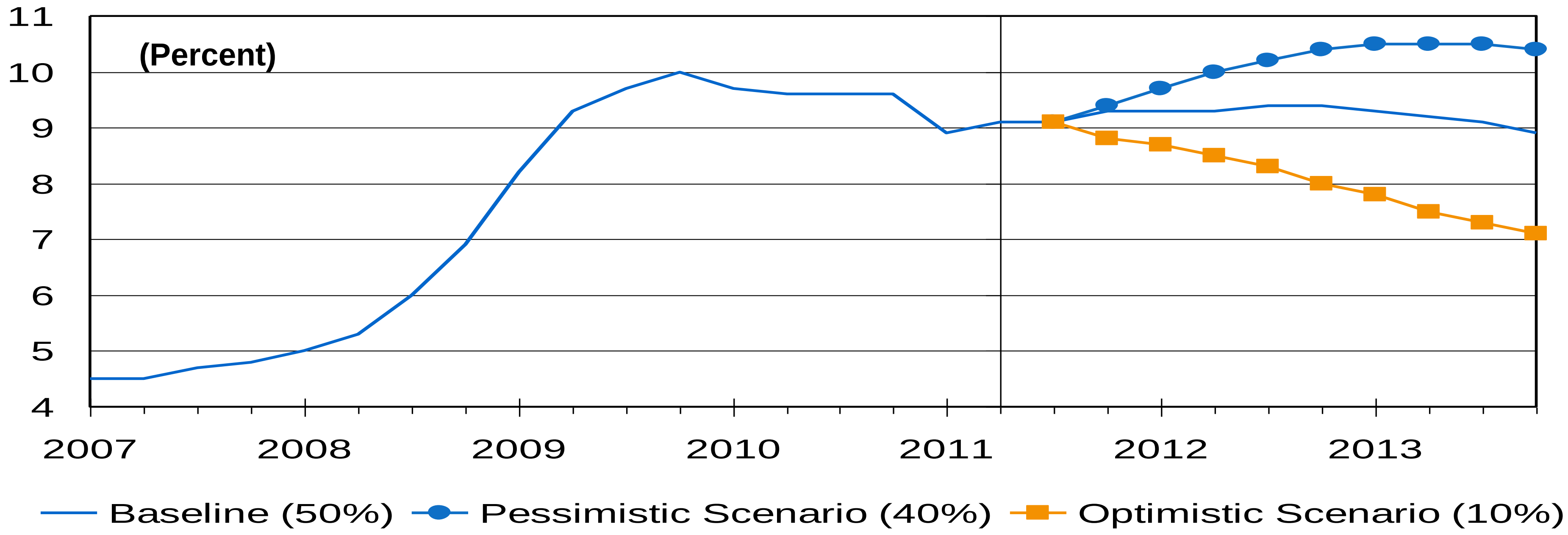
- Average monthly job gains have slowed over the last 6 months as companies continue to be cautious in their hiring
- Instead, companies rely on productivity, lengthened workweek, overtime, and temporary employees to meet demand
  - Temporary help has added 542,000 jobs since an employment low in August 2009





Based on Global Insight's Current Forecast, the Unemployment Rate Is Expected To Drop -- How Quickly Depends on the Consumer

- Based on current job growth, Global Insight's standard forecast assumes the unemployment rate will decline through the forecast period at a much slower rate than in previous recessions
- If consumers begin to engage, job growth could be stronger which would reduce the unemployment rate more quickly



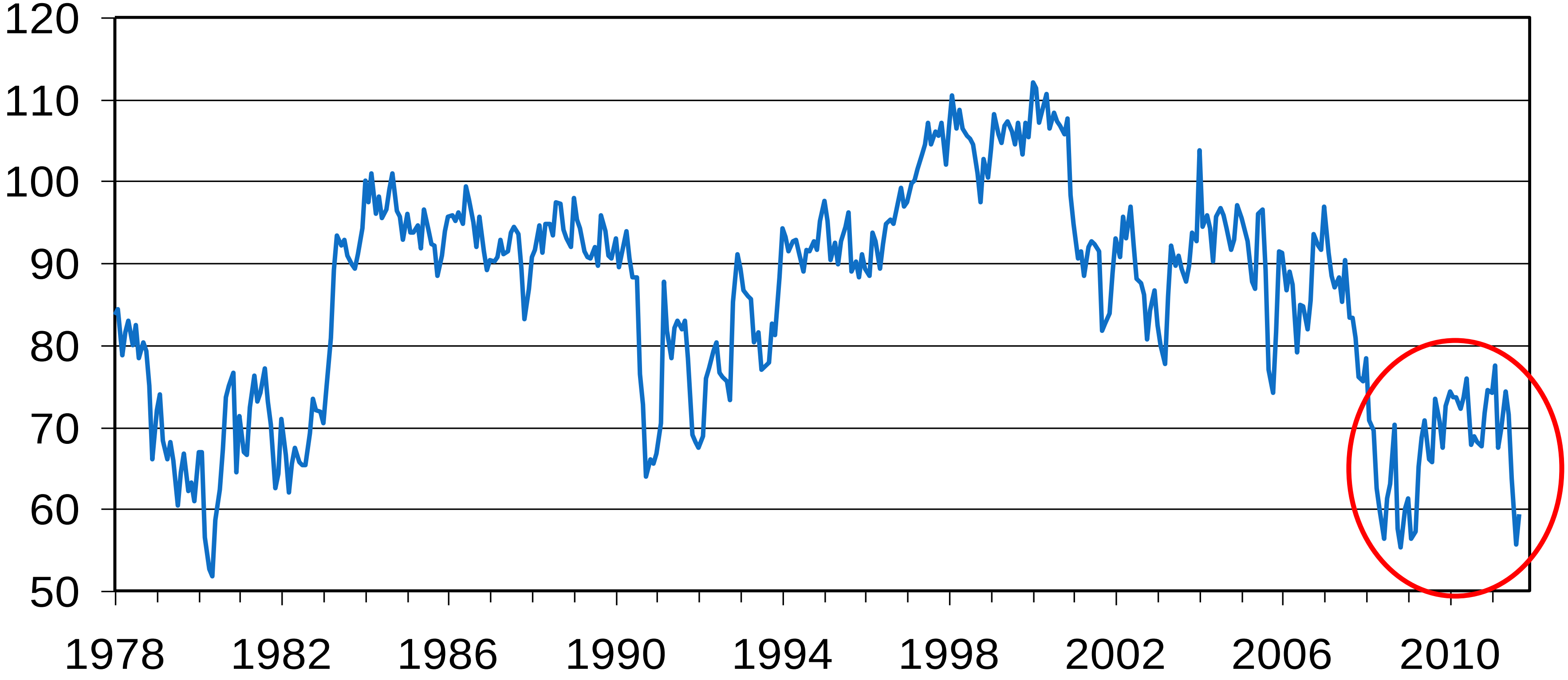
Why Is The Consumer Still Reluctant?

Weak Employment,
Energy and Food Prices,
Wealth Loss

Short Term Pain, Long Term Gain?

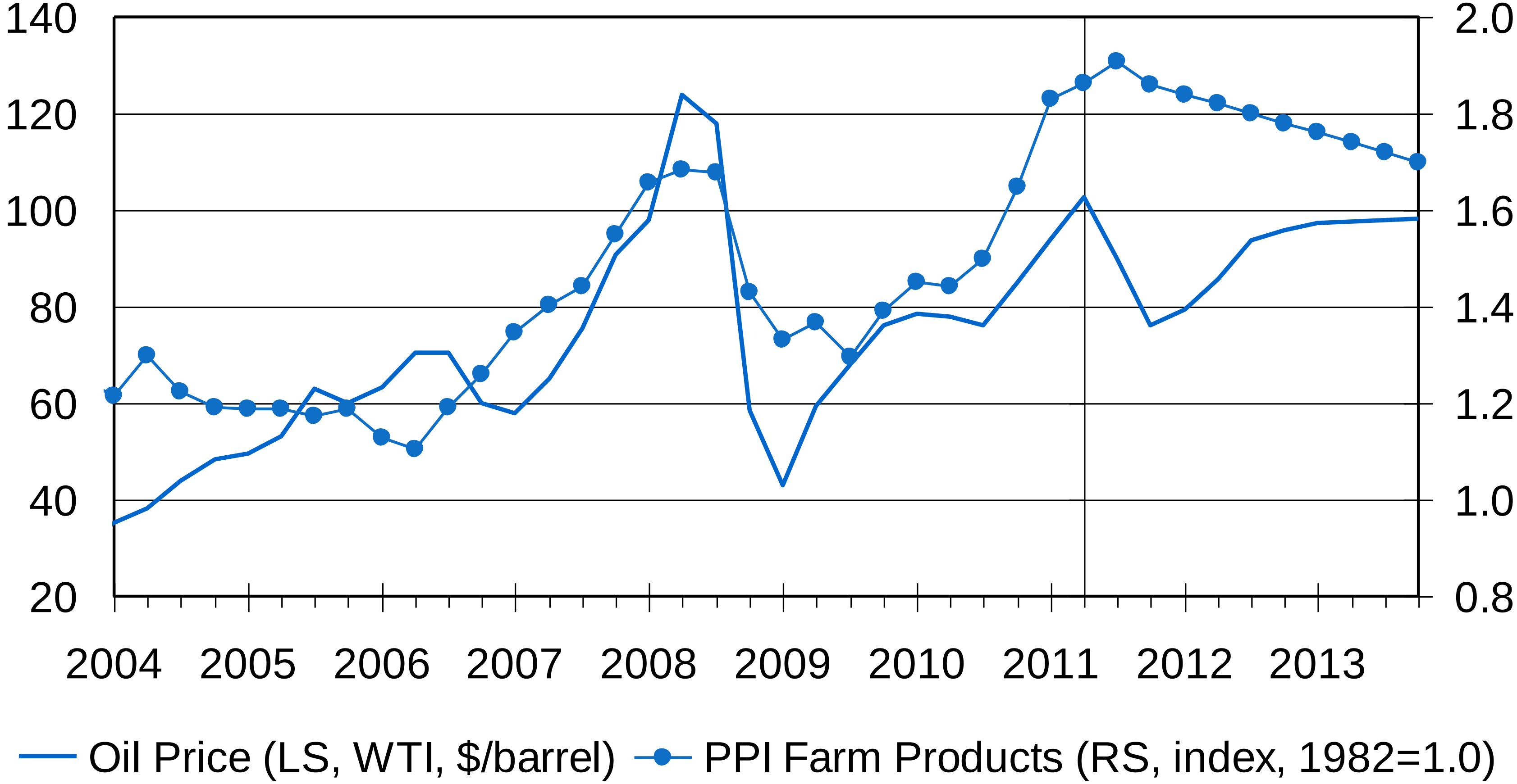
- Consumer confidence remains low, with high unemployment leading to continued concerns about the state of the economy in the future
- Higher energy and food prices have hampered discretionary spending
- “Wealth” effect still is dampening consumer spending as housing values remain stagnant and the stock market has yet to recover all of the losses
- Consumers have continued to defer discretionary expenditures
  - Revolving credit, which includes credit cards, fell for 25 straight months since early 2009. Only this summer have we seen slight increases in consumer debt, and rates of growth remain low
- While trends to reduce outstanding debt and increase savings hamper spending in the short run, they help support long-term economic health

Consumer Sentiment Back At Recession Level…A Reading Over 90 Would Signal A True Recovery



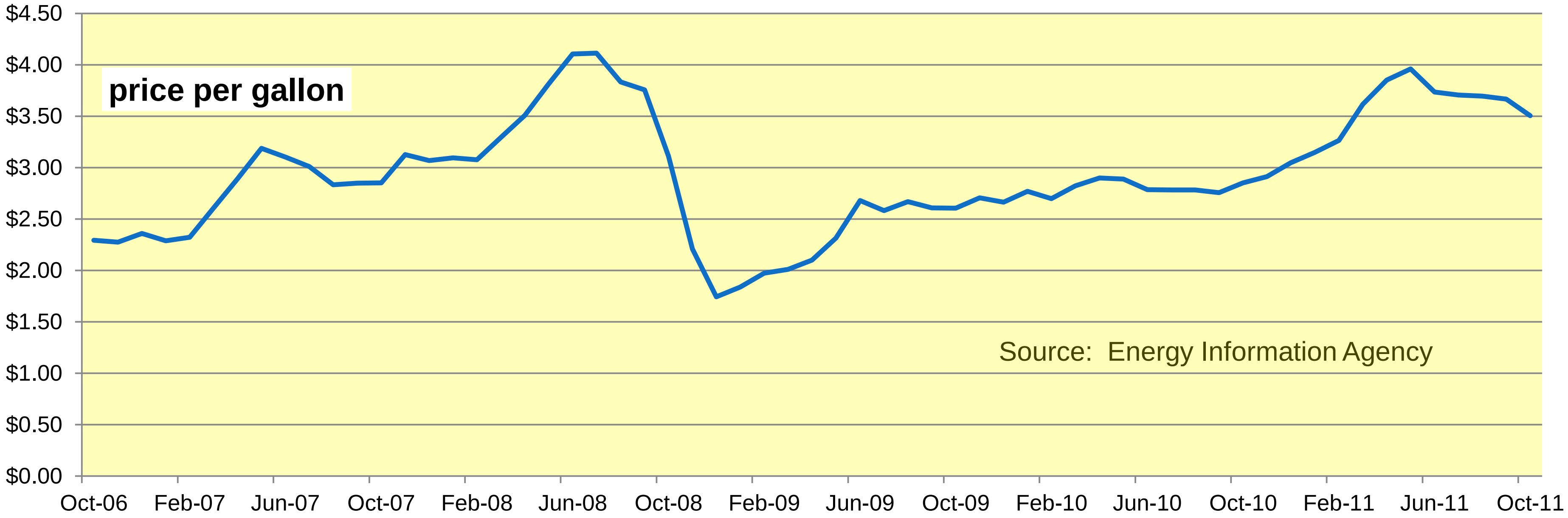
(Reuters/University of Michigan Index, 1966=100)

Energy and Food Prices Have Climbed

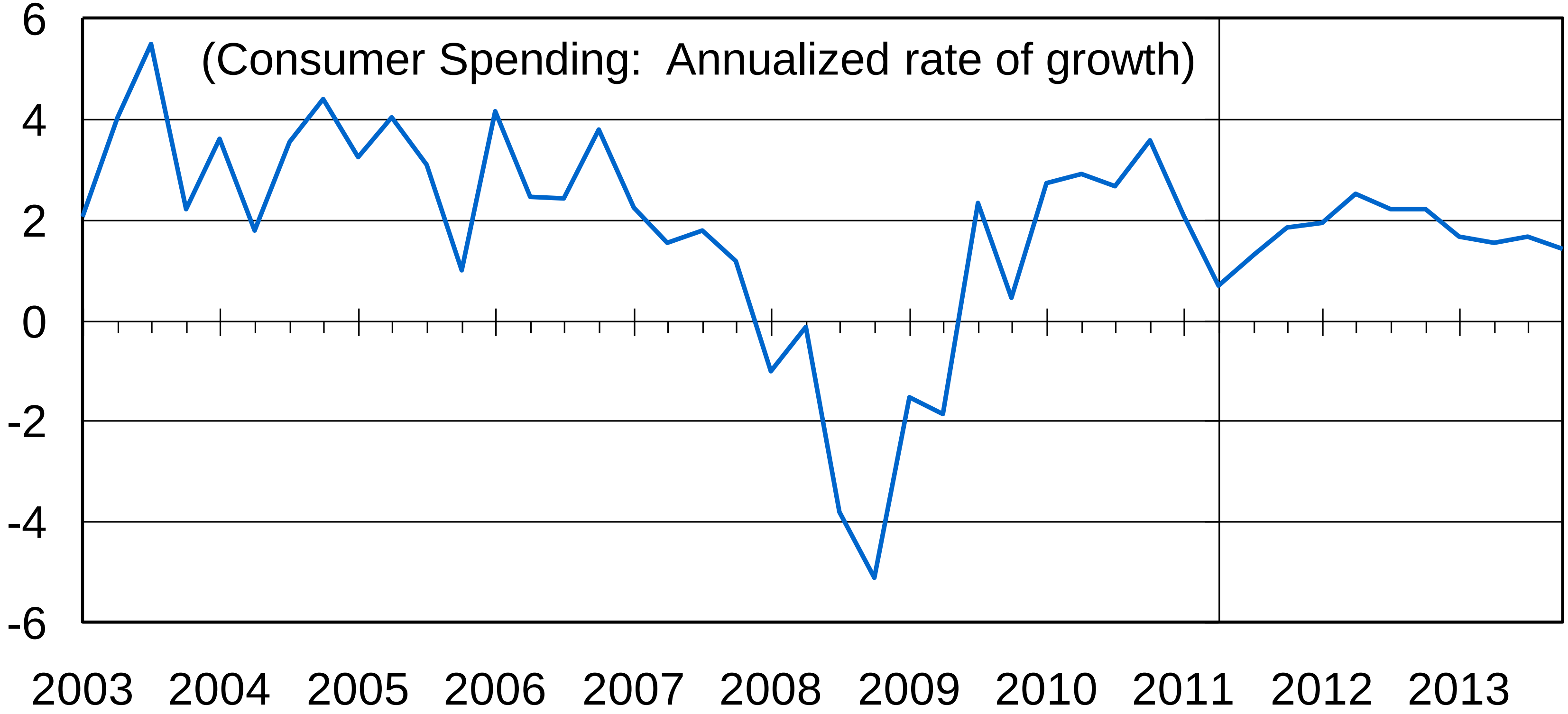


Impact of Energy Costs On The Consumer

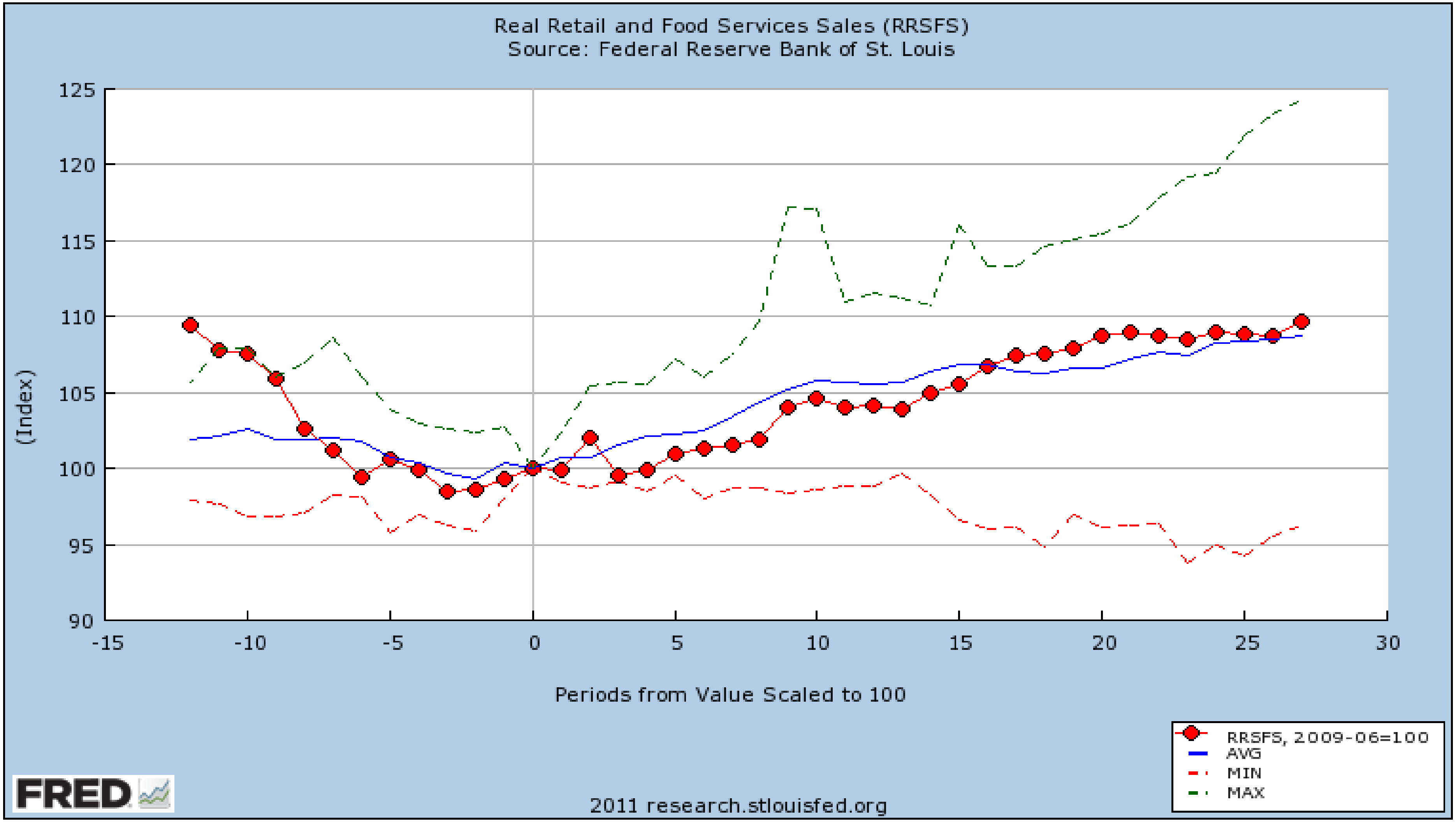
- In July 2008, the price per barrel of oil reached its all time inflation-adjusted high -- previous high was in 1981
- In May 2011, average price per gallon was $3.96, just below the 2008 high of $4.10 per gallon
- Nationally, every 10 cent increase in gas costs consumers $12 billion annually and a $1.00 increase in gas prices will cost the average auto owner $600 a year (per car)
- While oil prices are down $0.50 from May, gas is still $0.65 higher than a year ago
    - Consumers have long memories



Consumer Spending Is Not a Strong Driver of Recovery, But It's Doing Better than Sentiment



Consumer Spending Is Not a Strong Driver of Recovery, But It's on Par With Previous Recoveries



The Housing Cycle: Still at the Bottom

- Has anything changed in housing over the past year? The short answer is not much
  - Home sale volumes remain at levels not seen in more than a decade and housing starts remain at post WW-II lows
  - The Bureau of Economic Analysis's 3rd quarter 2011 advance report on GDP shows that residential investment as a percent of GDP remains at a post-war low of 2.22%

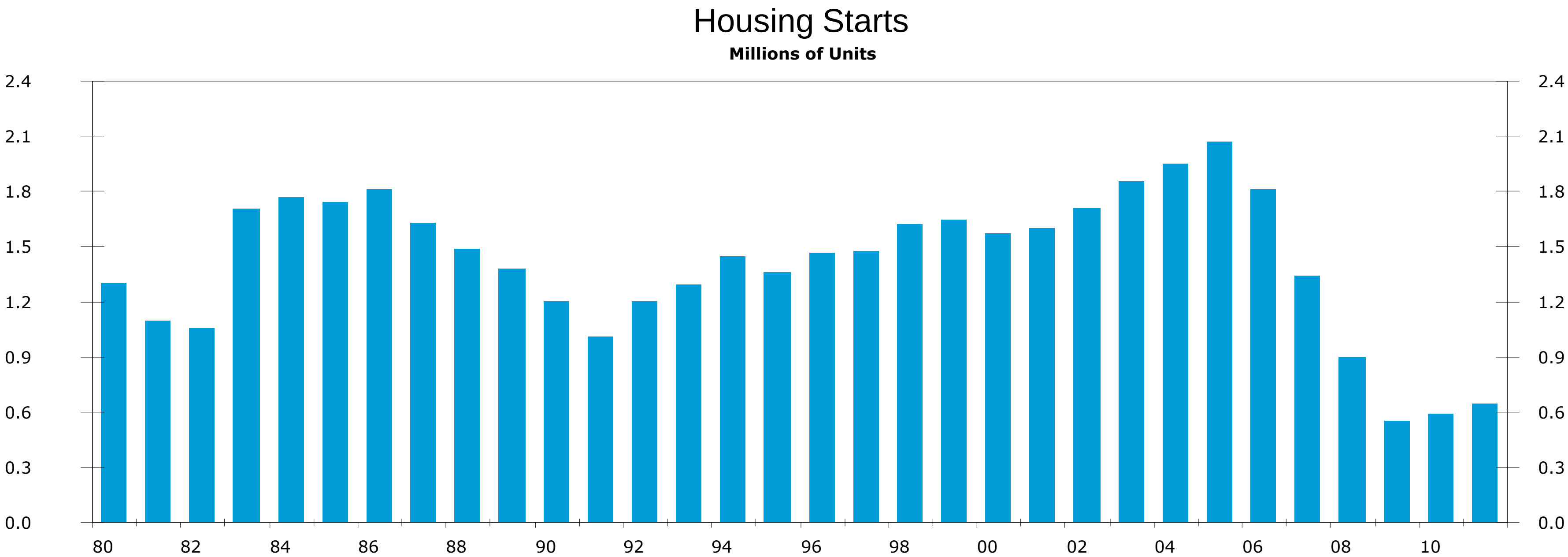
What elements continue to hold down housing?

- Homeowners "underwater" – negative amortization – 28.5% of homes in VA
- Burn off of foreclosure stock – percent seriously delinquent dropping, but rates still are 4x the "norm". Will take years to work through
- Continued tight lending standards. The average credit score for loans has increased 50 pts over the past 3 years. These standards are reducing foreclosures on recent vintage loans, but suppressing sales
- Shadow Inventory

Potential Improvement

- Will improved HARP expand refinancing and boost the recovery?
- Increased short sales

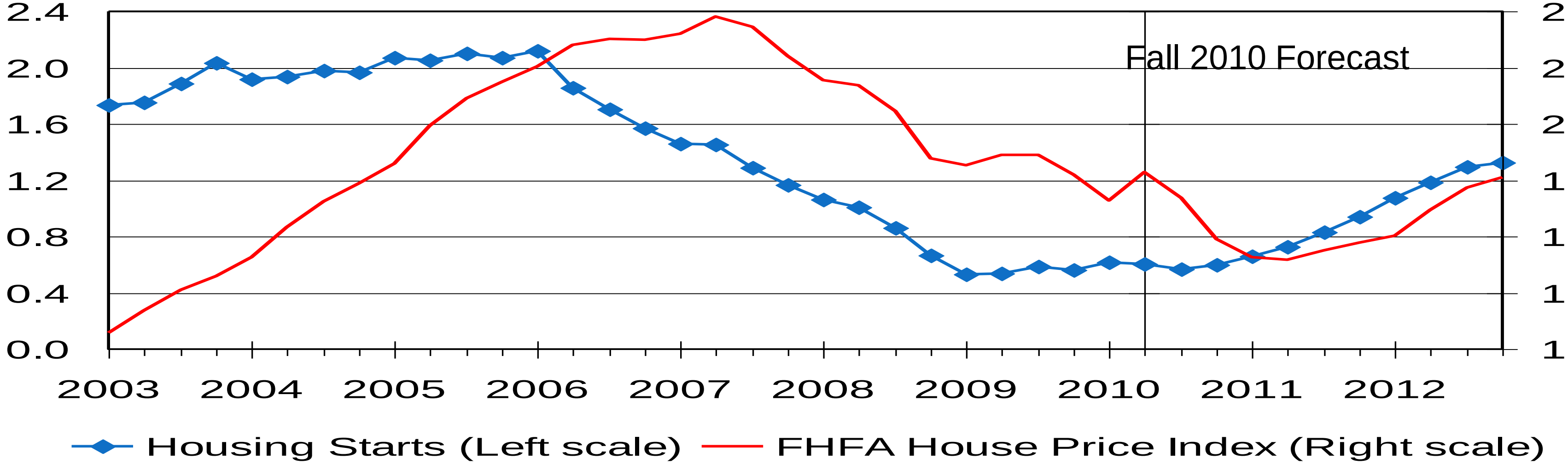
National Homebuilding Trends

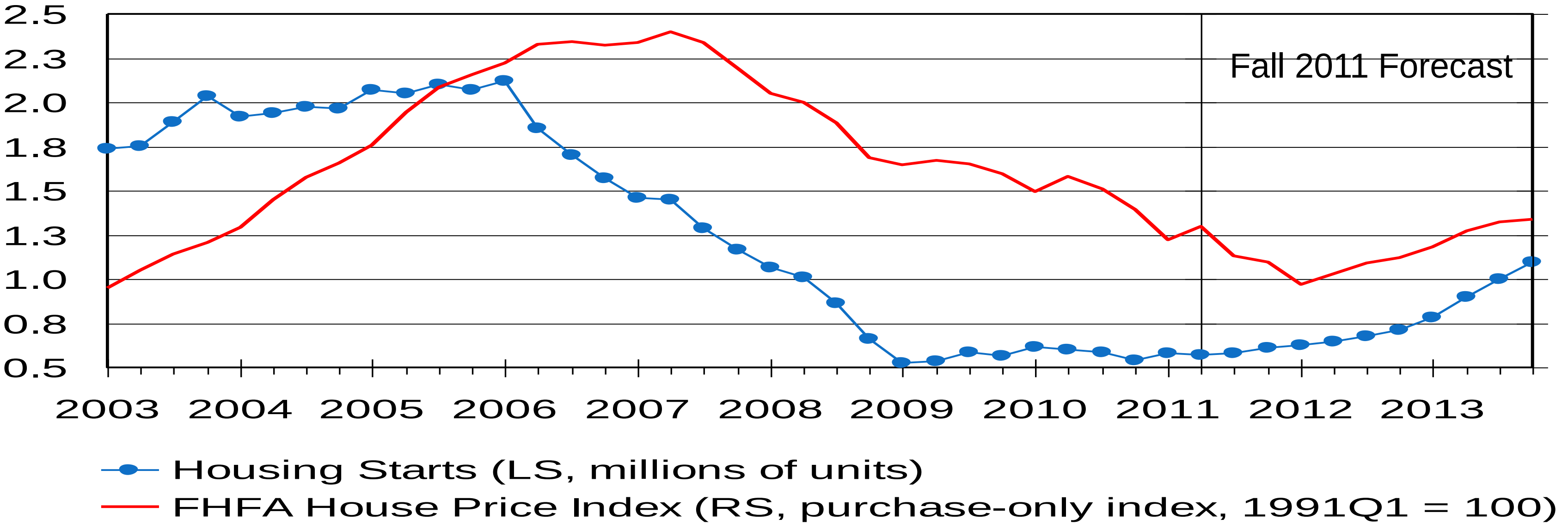


- US Bureau of Census data on housing starts show they reached a bottom in 2009 at 554,000, but have shown only a very marginal improvement since then
- 2010 showed 605,000 housing starts, and through September 2011, the seasonally adjusted year to date rate is only 658,000
  - Last year at this time forecasters were predicting rates of 1.0 million starts in 2012, now it is expected to remain in the 700,000 range for another year

Source: U.S. Department of Commerce data, October 2011

Forecasts for Housing Starts and Pricing Continue to Drop



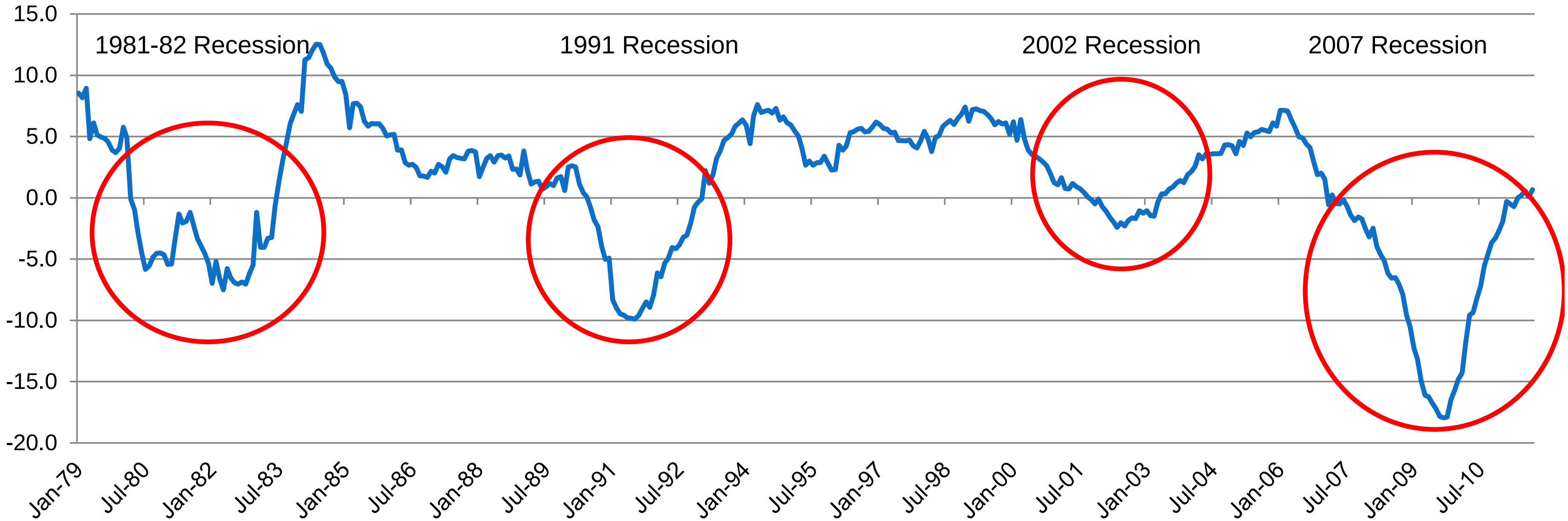


Source: Global Insight, October 2010 and October 2011 presentations

Bank Actions to Avoid Flooding Market with Foreclosures

- Short Sales:
  - According to the National Association of Realtors, 1/3 of all home transactions in August were foreclosures or short sales and while foreclosure sales have remained flat, short sales have jumped 20%
  - In short sales, homes typically change hands at a discount of about 20% compared to an average 40% price cut for foreclosures
  - Banks have become more amenable to short sales as foreclosures slow due to documentation issues as well as for strategic reasons
- Shadow Inventory
  - According to CoreLogic, the current mortgage debt outstanding in the shadow inventory is about $336 billion
  - Nearly 2 million homeowners who haven't paid their mortgage in more than 3 months have not received any foreclosure filing. About 800,000 have not made a payment in over a year
  - Because banks are wary to see such losses appear on their books, they hold onto REOs, or allow owners to stay in homes long after foreclosure would have occurred

Typically After Recessions End, Construction Booms... But the Current Recovery Has Not Benefited from New Construction Activity and Employment Has Yet to Go Positive

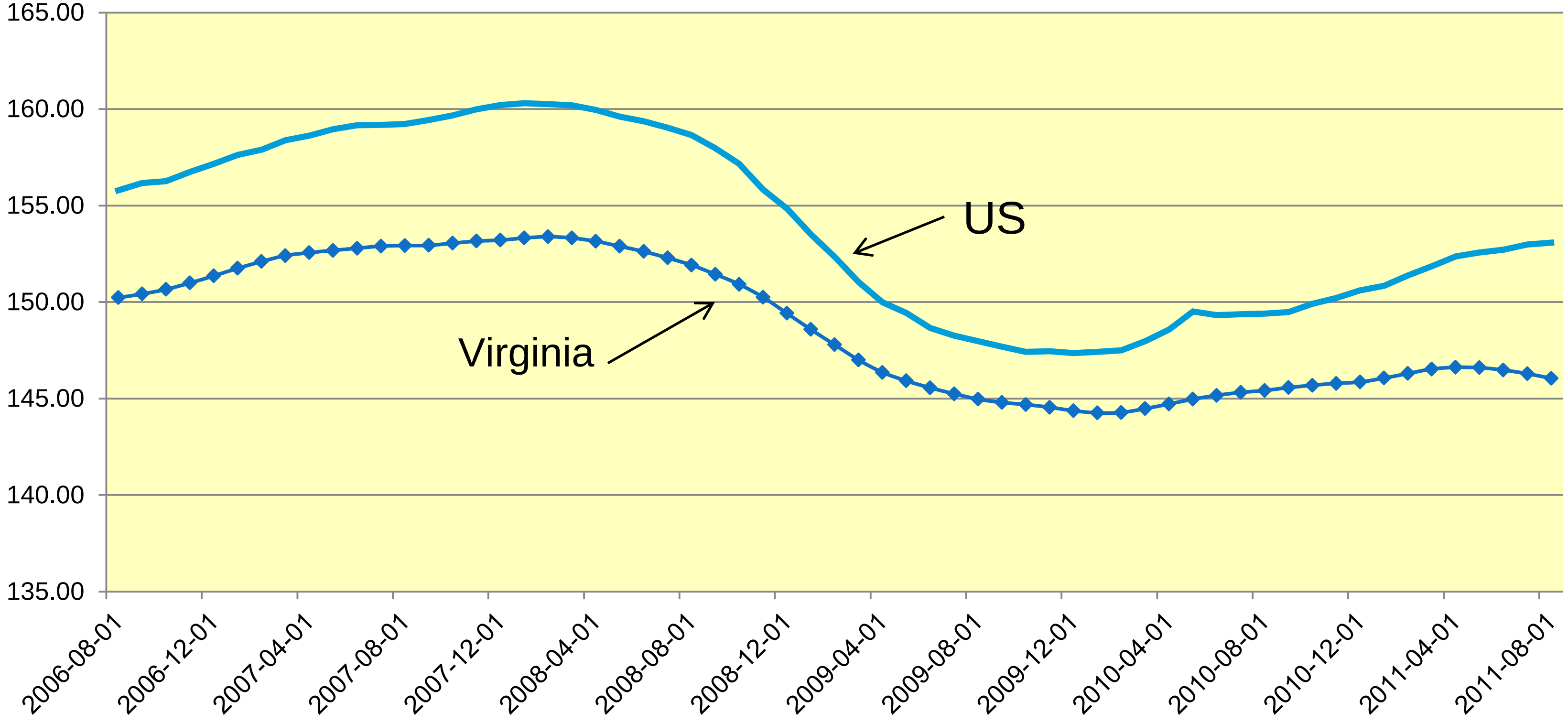


- Market conditions will continue to remain challenging for the next several years until the foreclosure problem is resolved
- Continued high levels of distressed sales will restrain prices and could result in a “double dip” in prices in some markets
- Long-term home appreciation will depend on employment and income growth

How Has Virginia Employment Fared?

Northern Virginia Continues to Lead in Job Growth, But Signs Point to a Slow Down

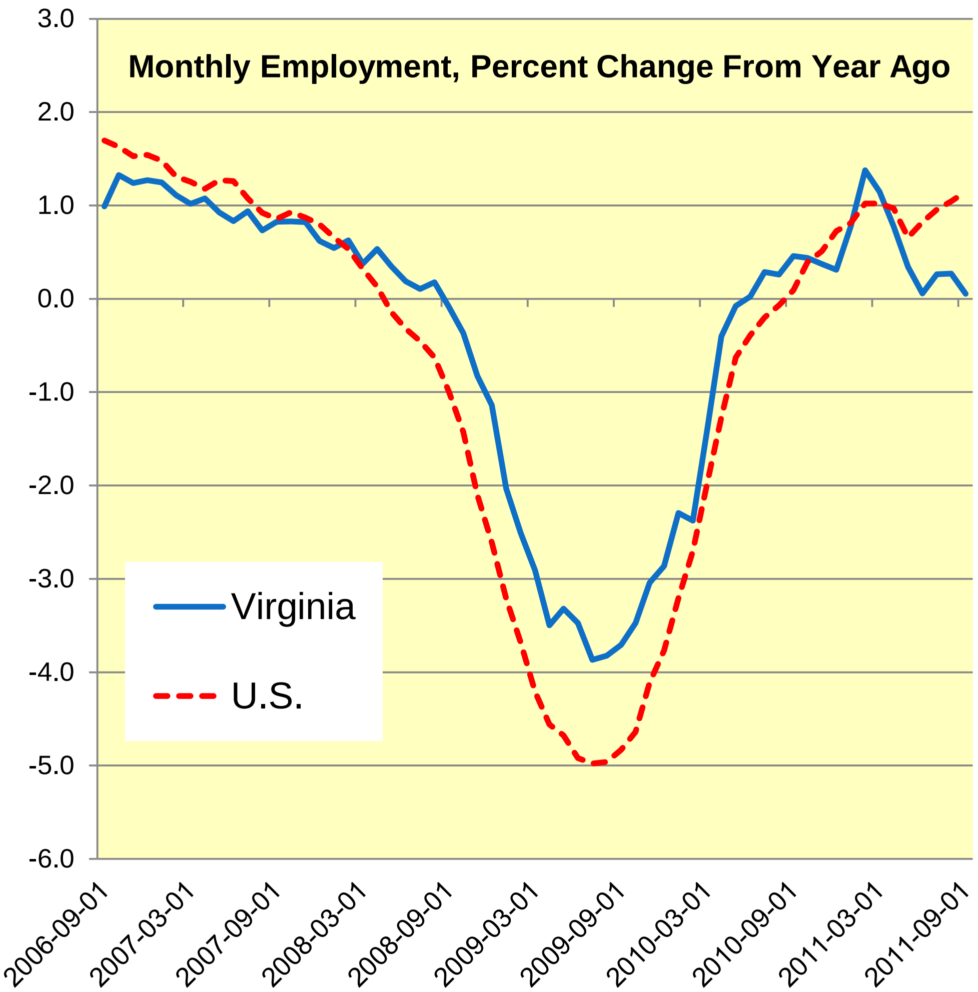
Based on Leading Indicators, Virginia, Which Typically Out Performs the Nation, Began to Slow Down in May



- The Coincident Economic Activity Index includes four indicators: nonfarm payroll employment, the unemployment rate, average hours worked in manufacturing and wages and salaries

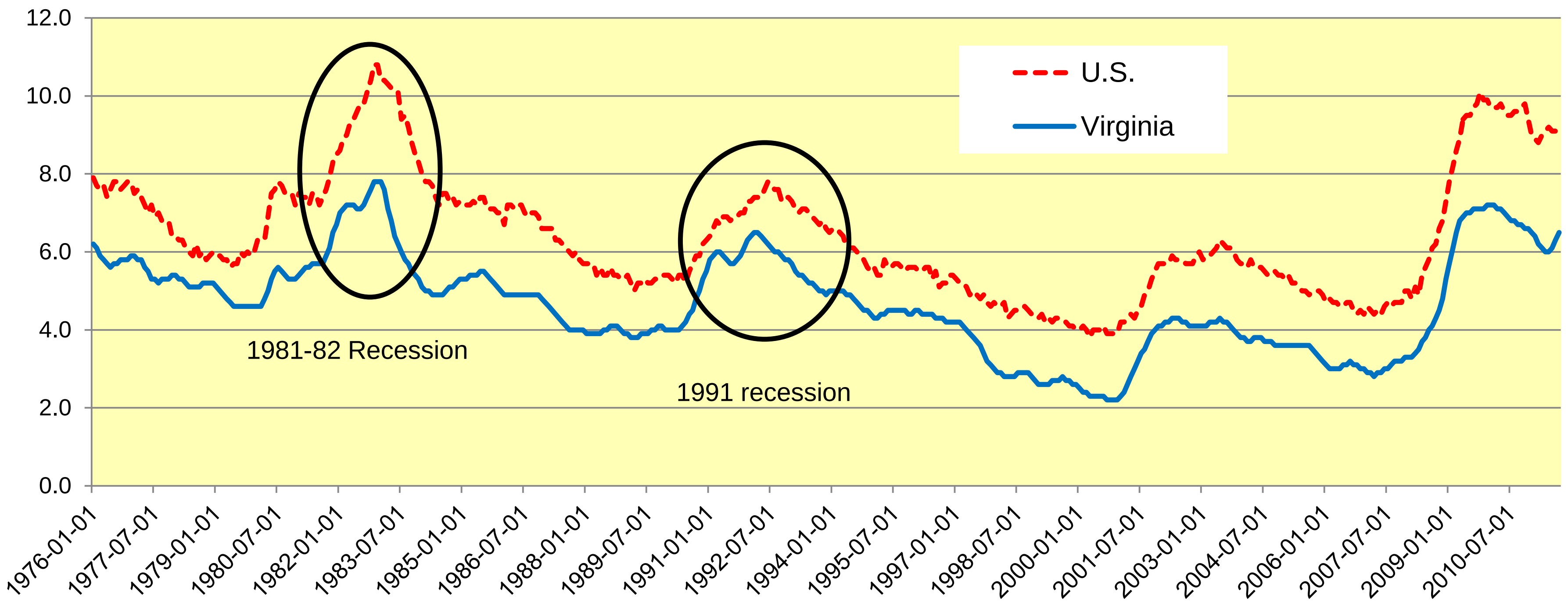
Virginia Job Growth Has Decelerated Since April, With Job Growth Below the Forecast

- Virginia's unemployment rate stands at 6.5% in September, up from 6.3% in August
- Payroll employment in the Commonwealth for the first 3 months of the FY 2012 grew 0.2 percent over the same period a year ago – well below the forecast for job growth
- In the year-over-year comparison (September 2010 to September 2010), nonfarm payroll employment is up just 2,000 jobs
  - The worst year-over-year monthly gain since June 2010



Virginia's Unemployment Rate in Perspective

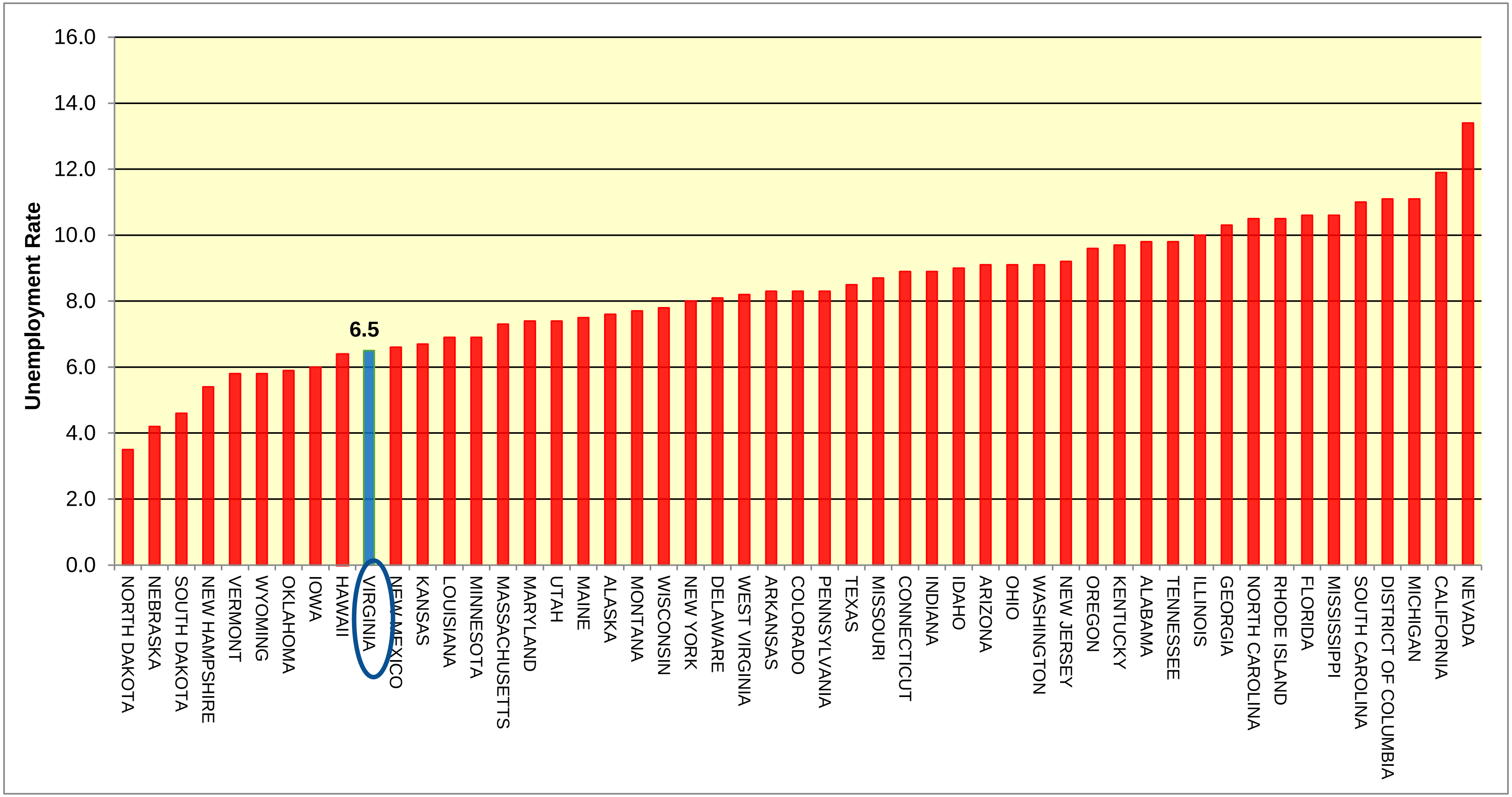
- While the national unemployment rate was consistent with the level of the 1982 recession - the worst in 30 years - Virginia's unemployment rate was closer to the 1991 recession rate
- Virginia's unemployment rate of 6.5% has dropped since peaking at 7.3% in March, 2010 --- however, it has inched up over a half percent since June
  - U.S. rate has dropped 0.1% over the same period



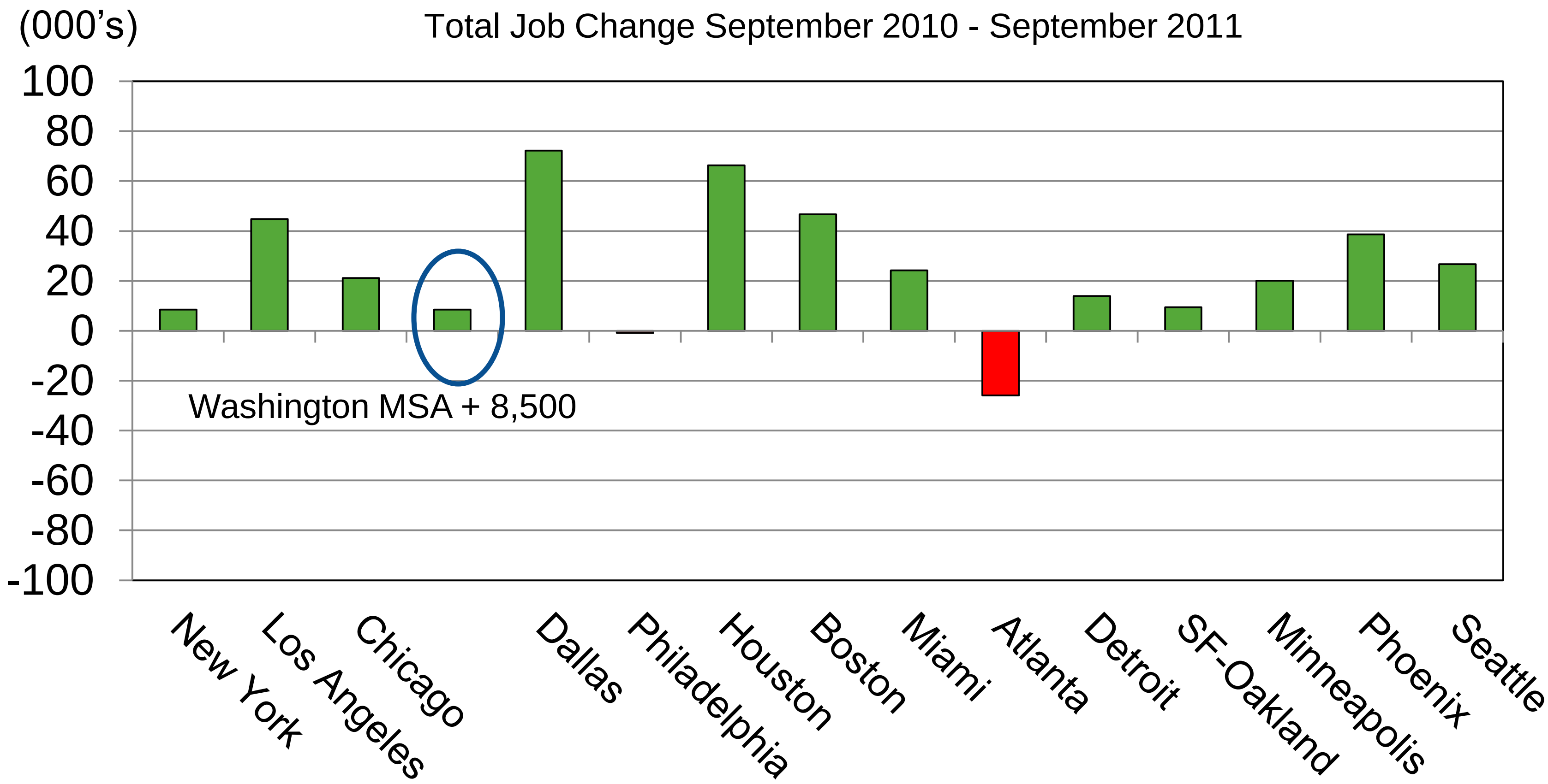
Comparison of Virginia's Employment to Other States

- Virginia's unemployment rate of 6.5% is 10th best overall and 4th among states with over 1 million in population
- However, Virginia is ranked 43rd in terms of job growth for the September over September period compared to 21st a year ago
- Washington/Northern Virginia had one of the smallest percentage job gains of any major MSA over 1 million workers in September over the previous September
  - Currently ranked 11 out of 26 MSA's based on 12 month moving average, down from number 1 last September
  - September over September ranking is 22 out of 26

Virginia's Unemployment Rate of 6.5% Is the 10th Lowest Among All States, and 4th Lowest Among States with Over 1 Million Population



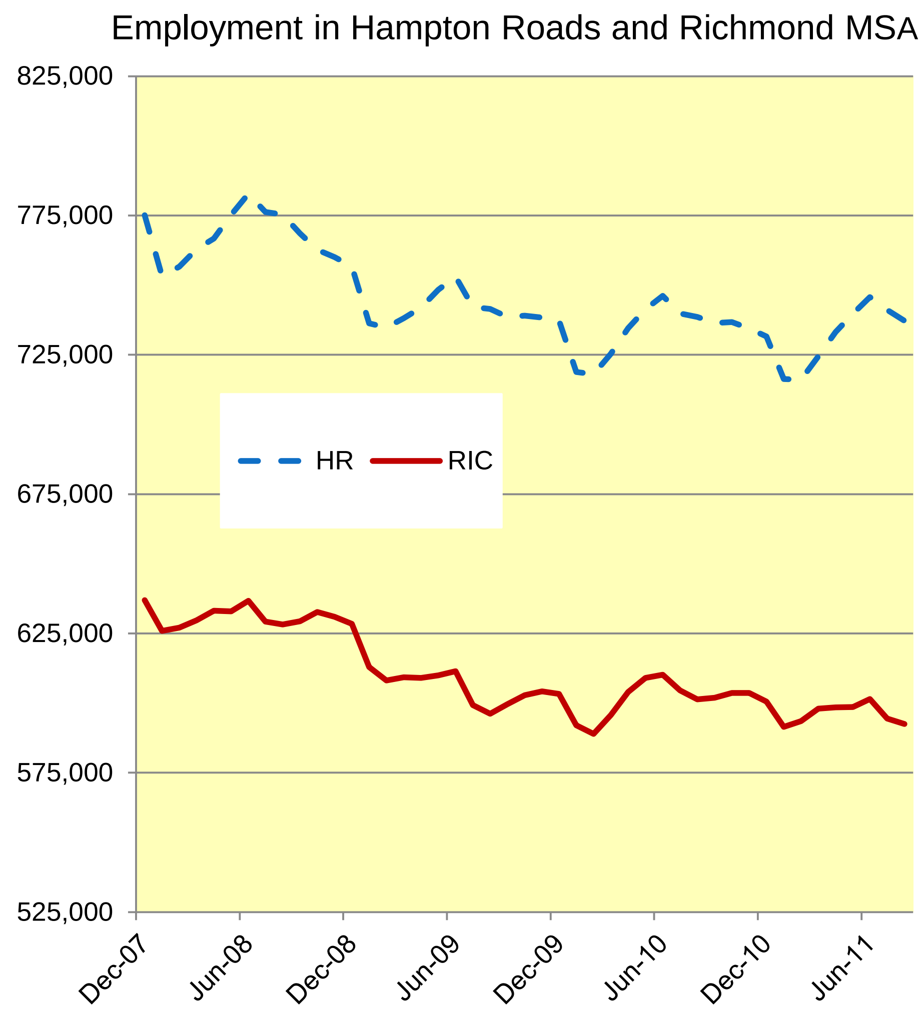
No Longer Number 1…Northern Virginia/Washington Ranked 22 Out of 26 in Job Gain of Any Major Metropolitan Area



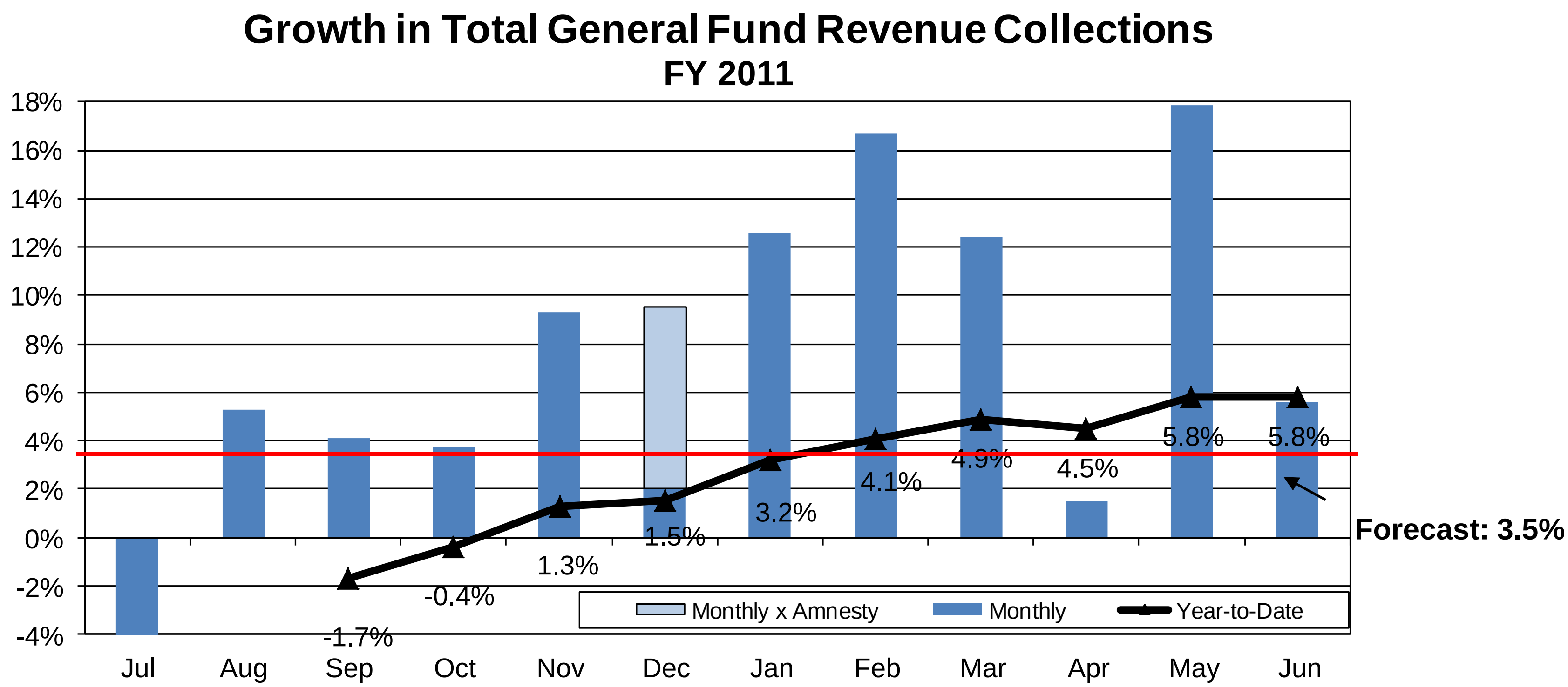
Source: BLS data, Seidman Research Institute, W.P. Carey School of Business, Arizona State University

VA's Job Growth Expected to Underperform the Nation Due to Several Factors

- Virginia's job losses were not as severe as other states or the nation as a whole
  - Virginia's job loss equaled about 4.9% of total nonfarm employment versus 6.3% nationally
- Virginia's job recovery moved at a faster pace than the nation, having regained 21% of the total job loss by September 2010, versus about 7% nationally
  - Nationally, by September 2011, 23.9% of jobs have been recovered versus 22.2% in Virginia
- While manufacturing is not as significant an employer as it is in other states, nationally 12.5% of the job losses have been recovered versus 5.4% in Virginia
- Northern Virginia, which has recovered about 75% of their job loss, has slowed considerably over the last several months
- Hampton Roads, after recovering about 30% of their jobs, has seen job growth abate
- Richmond's job recovery has been anemic, with only 7.5% of jobs recovered



General Fund Revenue Outlook



- General fund revenue growth gradually increased throughout fiscal year 2011
- By year end, total revenues rose 5.8%, ahead of the revised annual forecast of 3.5% growth
    - Adjusting for the accelerated sales tax program in June 2010, total revenues grew 7.4% in fiscal year 2011, compared with the economic-based forecast of 5.5% growth
- Total general fund revenue collections exceeded the forecast by $322.0 million, a forecast variance of 2.2%

Source: Secretary Brown's August 2011 presentation to Joint Money Committees

Where Did the Excess Revenues Come From?

- Payroll Withholding: $60.2 million of surplus
  - Collections of payroll withholding taxes make up 65% of GF revenue Grew 5% compared to forecast of 4.3%
- Individual refunds: $27.7 million of surplus
  - Refunds were 6.3 percent behind fiscal year 2010 and below the estimate of a 4.9 percent decline. Average refund down 7%
- Nonwithholding: $110.2 million of surplus
  - Nonwithholding makes up 14% of total revenues. Grew 14.3% in FY 2011. The large surplus was attributable to a better-than-expected final payments, which increased by 34%
- Corporate Income Tax: $55.6 million of the surplus
  - Collections grew 2.0%, ahead of the estimate of a 4.9% decline

Actual FY 2011 GF Revenue Collections

$ in Millions

Revenue Source	Official Estimate FY2011	% Change	Actual Collections FY2011	% Change	Amount Variance
Individual Income Tax:					
Withholding	$ 9,574.8	4.3%	$ 9,635.0	5.0%	$ 60.2
Tax Dues/Estimated Payments	2,068.4	8.5%	2,178.6	14.3%	110.2
(Refunds)	(1,897.0)	-4.9%	(1,869.3)	-6.3%	27.7
Net Individual Income Tax	9,746.2	7.2%	9,944.3	9.4%	198.1
Sales and Use	2,968.9	-3.7%	3,012.4	-2.3%	43.5
Corporate Income	766.6	-4.9%	822.2	2.0%	55.6
Insurance Premiums	277.7	6.0%	281.6	7.5%	3.9
Wills, Suits, Deeds, Contracts	274.0	-5.6%	292.0	0.6%	18.0
Interest	74.8	-20.7%	81.1	-14.0%	6.3
Other Revenue	610.3	2.4%	606.9	1.9%	(3.4)
Total General Fund Revenue	14,718.5	3.5%	15,040.5	5.8%	322.0
Transfers	423.1	-25.4%	412.1	-27.3%	(11.0)
Total General Fund Resources	$ 15,141.6	2.4%	$ 15,452.6	4.5%	$ 311.0

Source: Secretary Brown's August 2011 presentation to Joint Money Committees

Other Available Resources

- In addition to excess revenues, agencies ended FY 2011 with $234.1 million in savings and balances
- This included $170.5 million in general fund balances, as follows:
  - $37.2 million in mandatory carry-forward balances
  - $133.3 million in discretionary balances
    - The Governor has reverted $86.1 million for reappropriation in the caboose bill
    - He has recommended allowing agencies to carry-forward the remaining $47.2 million into FY 2012
- The remainder of the balances - $63.6 million – represent higher education and other nongeneral fund balances which are retained by the agencies

Governor's Announced Plans for Allocation of FY 2011 Unappropriated Amounts

$132.7 million	Revenue Stabilization Fund Deposit from FY2011 Surplus (Subject to Final Audit)
$50.3 million	Water Quality Improvement Fund (Parts A and B)
$26.0 million	Pay Back Transportation for Its Share of the Accelerated Sales Tax
$8.9 million	Unemployment Compensation Trust Fund Interest Payment to Federal Government (per Ch. 890)
$17.3 million	Natural Disaster Reserve Fund
$7.5 million	For Base Realignment and Closure (BRAC) Obligations (per Ch. 890)
$7.4 million	Supplemental Public Safety Funding for Sheriff's Offices (per Ch. 890)
$30.0 million	Federal Action Contingency Trust Fund (FACT Fund)
$67.2 million	Mandatory Deposit to Transportation (2/3 of unencumbered amounts)

Fall Forecasting Process Began in October

- This coming Session the General Assembly will consider one final round of revisions to the FY 2012 budget, and adopt a budget for the FY 2012-2014 biennium
- In October the Joint Advisory Board of Economists reviewed the economic projections for the remainder of the current fiscal year and for the next biennium
- Next week, the Governor’s Advisory Council on Revenue Estimates will review the revenue forecast for FY 2012 and for the FY 2012-2014 biennium
- In December, the General Fund revenue forecast will be finalized and Governor McDonnell’s amendments to the 2010-2012 budget and his proposal for the FY 2012-2014 budget will be presented to the Joint Money Committees on December 19th

What Does FY 2011 Performance Mean for FY 2012?

- Because the FY 2011 collections exceeded the forecast by $311 million, that amount ripples through to FY 2012 and then is adjusted for the new growth rates
  - When Chapter 890 was approved, it was assumed revenue growth would be 6.0%
- FY 2012 revenues will have only have to grow 3.7% in order to meet the revenue assumed in Chapter 890
  - This rate of growth does not reflect any adjustments based on the economic forecast or year-to-date performance

Summary of Fiscal Year 2012 Revenue Collections - July through October

General Fund Revenue Forecast for Fiscal Year 2012

Major Source	Source as a % of Total Revenues	Chapter 890 Official Forecast	Y-T-D Performance Through Oct
Withholding	**63.9**	**3.4%**	**4.3%**
Nonwithholding	14.3	2.1%	16.5%
Refunds	**(11.9)**	**-0.9%**	**-11.2%**
Net Individual	66.2	3.9%	6.6%
Sales	20.0	3.4%	6.0%
Corporate	5.3	1.1%	-3.7%
Wills (Recordation)	1.9	3.3%	3.4%
Insurance	1.9	2.9%	-
All Other Revenue	4.7	3.5%	2.9%
Total GF Revenues	**100.0**	**3.7%**	**5.8%**

*** Adjusted for AST, total revenues grew 5% through October, compared to the economic-base forecast of 3.5% growth**

Source: Secretary Brown’s October 2011 monthly revenue report.

Year-to-Date Individual Income Taxes

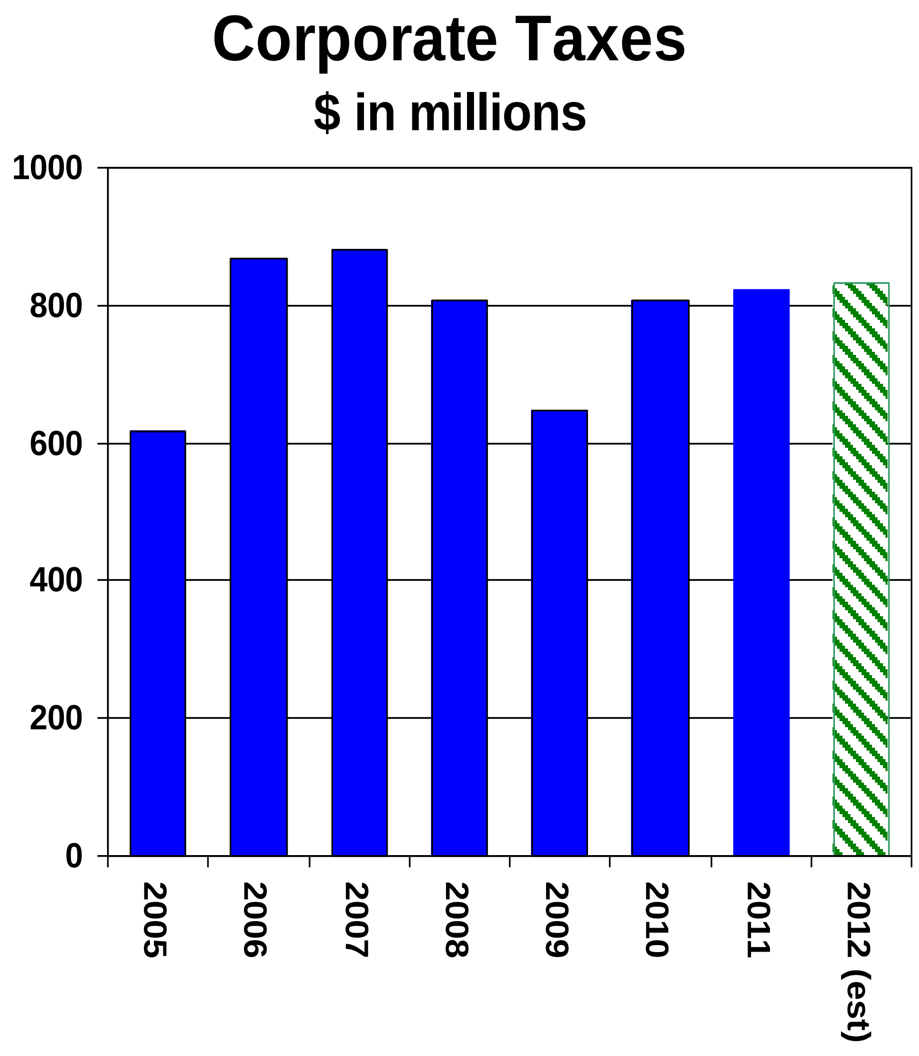
- Year-to-date, net individual income tax collections have grown 6.6% compared to a forecast of 3.9% growth
  - This includes withholding, nonwithholding and refunds
- Payroll Taxes: Forecast for year is +3.4%, actual collections through October grew 4.3%
  - October growth was 5.3% on a year-over-year basis
  - Over the last 20 years, Virginia has collected, on average, 31.21% of the year's withholding taxes in the first 4 months. Through October, 31.32% of the year's forecast has been collected
- Nonwithholding: Forecast for year is +2.1%, actual collections through October grew 16.5%
  - October growth was 5.0% on a year-over-year basis, although it is not a significant month for nonwithholding
  - Over the last 20 years, Virginia has collected, on average, 17.89% of the year's withholding taxes in the first 4 months. Through October, 18.48% of the year's forecast has been collected

Year-to-Date Sales Tax Collections

- Through October (exclusive of AST), sales tax collections grew 2.1%, slightly lagging the economic base forecast of 2.5%
  - Including AST, sales tax is up 6.0% compared with the forecast of 3.4%, reflecting the partial repeal of AST
- While year-to-date performance is slightly below the economic based forecast, collections have been improving - Summer sales were tepid, but Fall is looking better
- Further, that National Retail Federation’s forecast for the upcoming holiday season is 2.8% growth

Year-to-Date Corporate Tax Collections

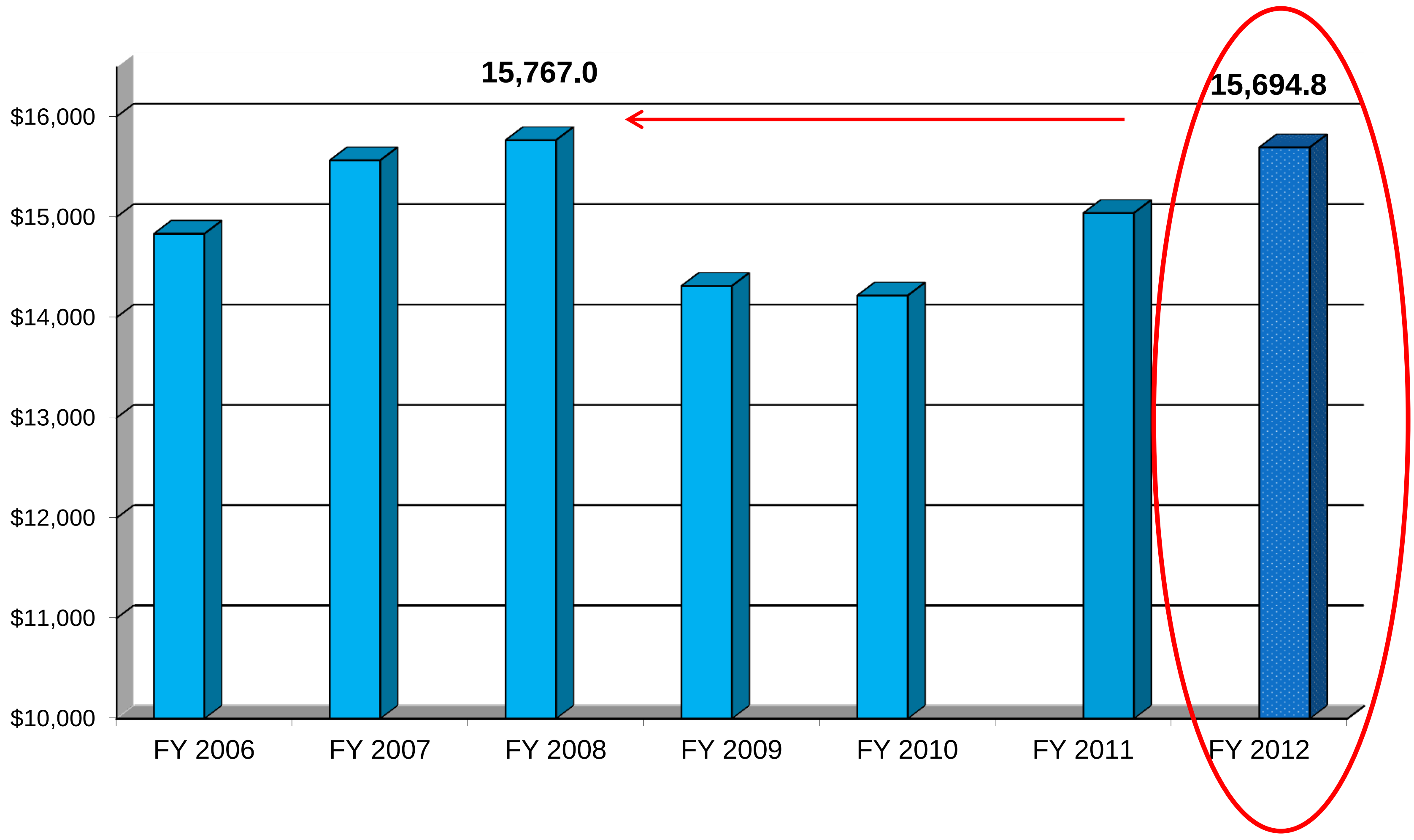
- Corporate income tax is the most volatile tax source and does not lend itself to easily discernible trends
  - Forecasting is difficult due to safe harbor rules, carry back and forward rules which allow companies to smooth out their income tax liability, and depreciation schedules
- U.S. corporate profits continue to be a bright spot
  - Of the 433 (87%) S&P 500 companies who have reported Q3, 70% beat estimates, 10% were in-line, and 20% were below estimates, with the blended earnings growth rate at 16.8%
- FY 2012 forecast for corporate taxes is 1.1%. Through October collections were down 3.3%
  - However, October is a large refund month for extension filers
  - Clearer view will be had in February



Likely Caboose Bill Forecast Adjustment?

- Current GF growth rate for FY 2012, when adjusted for FY 11 performance, is 3.7%, which is well-below the 6.0% rate assumed in Chapter 890
- Based on year-to-date performance, we anticipate adjustments in the range of $80-100 million in net individual income
  - Would result in a forecast of 4.2%- 4.3% compared to the 6% growth rate assumed in Chapter 890
- Through the first quarter, corporate collections were slightly ahead of forecast. However, October and November are refund months making it too early to determine whether any adjustment is warranted
- Because the holiday sales will not be available until February, any potential adjustments to the forecast would be considered as part of the mid-Session reforecast
- Likewise, quarterly payments are due January 15th, any further adjustments (above December) would be reflected in the mid-Session reforecast

Current GF Forecast for FY 2012 Sets Collections at FY 2008 Levels



Source: Actual collections data for FY 2006-2011, FY 2012 based on HAC forecast adjustments

FY 2012-2014 Biennial Economic Outlook

- Outlook has changed substantially since the forecast was presented in December, 2010
- The October 2011 Standard Outlook presented to the Joint Advisory Board of Economists (JABE) indicates a growing, but very sluggish recovery
  - All economic indicators have been revised downward for both FY 2013 and 2014
- Because Virginia's recovery began earlier than the nation, we will experience lower growth than the nation as a whole, particularly in terms of employment
  - JABE members slightly more pessimistic than Standard Outlook which will be reflected in the outlook given to GACRE
  - Adjustments based on slower job outlook in Northern Virginia and Hampton Roads – due to federal presence

Revenue Forecast Process

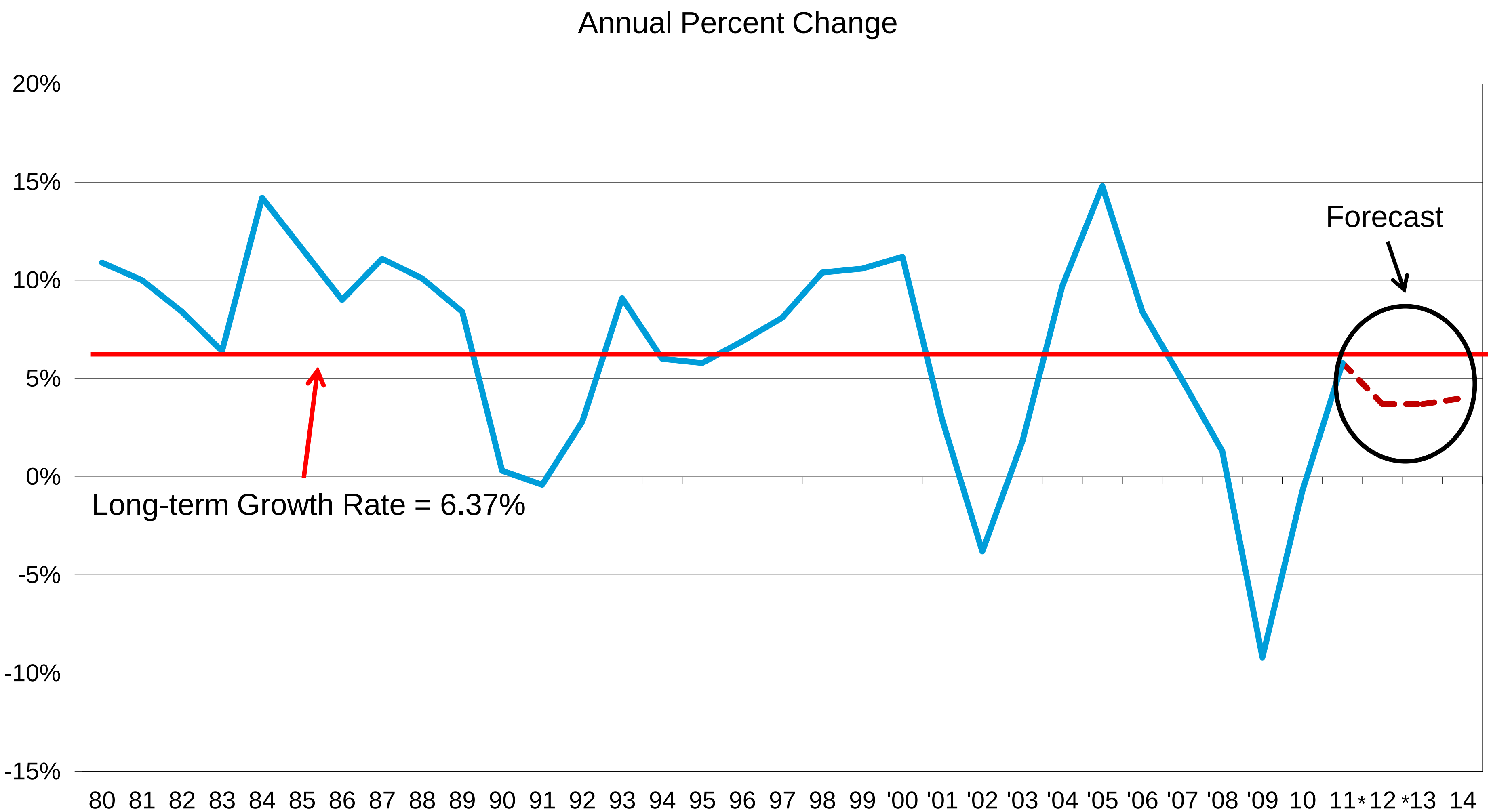
Virginia Economic Indicators

- Withholding and sales tax account for 75%-80% of GF forecast. The forecast model uses several economic indicators which serve as proxies to project growth rates
  - Individual Withholding: Jobs and average wages and salaries serve as proxies
  - Sales Tax: Personal income serves as the primary proxy
- Based on JABE, it is anticipated that employment growth will be taken down to below 1% in FY13, with FY14 at about 1.5%
- As a result, annual withholding growth would be around 4.0-4.5% over the forecast period
- Expect sales tax growth to continue at around 3.2%
- While the proxies serve as a gauge in measuring revenue growth, they don't always pick up the inflection points during an economic slowdown, recovery or expansion

	FY 13	FY 14
Employment		
Official (Oct '10)	2.1	1.7
Standard	1.2	1.6
Personal Income		
Official (Oct '10)	4.5	4.4
Standard	3.4	3.8
Wages & Salaries		
Official (Oct '10)	4.6	3.9
Standard	3.7	4.0

Standard forecast presented to JABE in October.
Do not reflect any post-JABE adjustments

Actual General Fund Revenue Growth FY 1980-2011 Forecasted Revenue Growth FY 2012-2014



*Actual Collections FY 1980-2011, FY 2012 Current Forecast, HAC Estimate for FY 2013 and FY 2014. All exclude transfers.

Revenues for the FY 2012-2014 Biennium

- **Expect:**
  - Continued slower revenue growth
    - FY 2013: 3.7% - 4.2%
    - FY 2014: 3.7% - 4.2%
  - Growth in spending driven by Medicaid, VRS and K-12 re-benchmarking
- **Means that:**
  - FY 2013 will be especially difficult in that the costs of the major drivers are static from one year to the next for items such as VRS and K-12 while revenues are expected to grow in FY 2014 over FY 2013
  - Budget reductions may be needed to maintain fiscal balance
  - Objective will be to “manage” all aspects of the budget

Final Thoughts on Revenue Outlook

- The revenue outlook for FY 2013 and 2014 would mark 4 years of below trend growth AFTER two consecutive years of decline
- National indicators of economic activity appear to zigzag from quarter to quarter, which creates a conflicting pattern to analyze
- Range of opinion from major economic forecasters varies dramatically – high error bar
- Global Insight still places risks of a double-dip at 40% -- largely due to risks from Europe
- Growth hampered by ephemeral issues of confidence – hard to model
- Impact of cuts to federal spending – especially defense spending – are the greatest unknown facing Virginia

Balancing Virginia’s 2012-2014 Biennial Budget on Below Trend Revenue Growth

Budget Outlook for the FY 2012-2014 Biennium

- What are known budget drivers?
- Does our projected revenue growth support these drivers?
- What is the potential impact of federal budget reductions on Virginia’s budget?

Developing the FY 2012-2014 Biennial Budget

- The "base budget" equals FY 2012 appropriations, adjusted for one-time spending and savings as well as the annualization of any partial year costs
- Base budget does not include spending increases driven by either state or federal law, or high priority or discretionary spending
- Two primary types of budgetary pressures
  - Statutory: Driven by federal or state law, i.e. Medicaid forecast adjustments, SOQ re-benchmarking, "Rainy Day" fund deposits, VRS, debt service
  - High Priority: Driven by historical commitments or enrollment demands i.e., higher education (in-state students, financial aid), indigent care at teaching hospitals, corrections

Adjusted Base Budget for FY 2012-2014

(GF Dollars in Millions)

	FY 2013	FY 2014
Chapter 890 (FY 2012 Operating Base)	$16,548.0	$16,548.0
DBP Base Budget Adjustments (Technical adjustments and one-time savings)	($59.2)	($62.9)
DPB Base Budget	$16,488.8	$16,485.1
HAC Identified Adjustments* (Prior commitments, one-time spending)	($117.0)	($116.1)
HAC Estimated Base Budget	$16,371.8	$16,369.0

Note: HAC Adjustments include removal of one-time per-pupil supplement, composite index hold harmless, performance pay, and excess Route 58 payment due to FY 2011 savings action, addition of previously approved economic development incentives and continuation of sheriff's funding restoration

2012-14 Budget Drivers:
Selected Mandatory/Statutory Items

GF $ in Millions	FY 2013	FY 2014	Total
Medicaid Utilization & Inflation	$173.0	$477.5	$650.5
FAMIS/SCHIP (*shifts 48k kids into Medicaid FY14)	(0.2)	(12.2)	(12.4)
DOJ Settlement (amount undetermined)	30.0	30.0	60.0
VCBR Census Growth	2.2	3.6	5.8
Involuntary Mental Commitment Fund	0.2	0.2	0.4
K-12 Prelim Re-benchmarking (SOQ, Incentive & Categorical)	211.6	231.2	442.8
Composite Index Update	42.7	45.0	87.7
VRS Rates Teachers (cost depends on actuarial assumptions used to determine rates)	169.0-312.4	169.0-312.4	338.0-624.8
VRS Rates State Employees (cost depends on actuarial assumptions used to determine rates)	47.7-150.0	47.7-150.0	95.4-300.0
State Employee Health Insurance Rate Adjustments	32.5	75.0	107.5
Capital Outlay – Treasury Board Debt Service	39.8	54.9	94.7
Increased Costs of Existing Eco. Devop. Commitments	8.3	14.3	22.6
Lawrenceville Rate Adjustment	1.1	1.1	2.2
Jail Per Diems	4.5	-	4.5
1:1500 Ratio	4.5	6.1	10.6
Criminal Fund	3.3	5.0	8.3
TOTAL – Mandatory/Statutory Budget Drivers	**$770.2 - 1,015.9**	**$1,148.4 - 1,394.1**	**$1,918.6 - 2,410.0**

2012-14 Budget Drivers:

Selected High Priority Items

GF $ in Millions	FY 2013	FY 2014	Total
DSS Eligibility & Services Systems Modernization	$10.5	$9.6	$20.1
Vocational Rehabiliation Services State Match	4.5	6.8	11.3
DBHDS Improve MH Hospital Treatmt. & Dischgs.	3.3	3.9	7.2
DBHDS Federally Req. Electronic Health Records	4.4	1.9	6.3
Medicaid Increased Audits, Data & Info Systems Costs	3.2	2.5	5.7
Aging Services-Hold Harmless for Census Changes	1.8	1.8	3.6
Health Dept.-Restore GF for Core Public Health Svs.	1.5	1.5	3.0
Medicaid Federal Provider Screening Regs.	2.3	0.7	3.0
Increased Reimbursements to Const. Officers for VRS Rates	35.0-39.0	35.0-39.0	66.0-80.0
K-12 Cost of Lottery Programs in Excess of Proceeds	39.3	47.2	86.5
TJ 21 Higher Educ Funding Incentives & Operating	50.0	50.0	100.0
O & M New Facilities	4.9	11.6	16.5
HEETF Lease	-	13.0	13.0
New I/S Seats at CWM, JMU, UVA, & VT	3.3	4.4	7.7
BRAC - Oceana	7.5	7.5	15.0
Fort Monroe Authority	6.3	5.4	11.7
FACT Fund	30.0	-	30.0
Direct Inmate Health Care	17.2	17.2	34.4
Loss of DOC Out-of-State Inmate Revenue	20.4	20.4	40.8
Funding for New Jails	3.8	7.0	10.8
TOTAL – Known High Priority Budget Drivers	$249.2-253.2	$245.4-251.4	$492.6-504.6

Range of Resources Available for Budget Drivers

$'s in millions	FY 2013	FY 2014	Biennium
FY 2012 Carry-forward	$100.00		$100.00
Revenue Forecast - ***FY 13 at 3.7%, FY 14 at 4.0%*** (incl. transfers)	$16,680.10	$17,330.70	$34,010.80
Revenue Forecast - ***FY 13 at 4.2%, FY 14 at 4.0%*** (incl. transfers)	$16,758.56	$17,412.30	$34,170.87
HAC Base Budget	$16,371.80	$16,369.00	$32,740.80
Net Resources Above Base Budget (includes carryforward)	$408.30 - $486.76	$961.70 - $1,043.30	$1,370.00 - $1,530.10

Potential Budget Gap
Based on Identified Drivers

$'s in millions	FY 2013	FY 2014	Biennium
Net Resources for Budget Drivers	$408.3 - $486.76	$961.7 - $1,043.3	$1,370.0 - $1,530.1
Mandatory/Statutory Spending Drivers	$770.2 - 1,015.9	$1,148.4 - 1,394.1	$1,918.6 - 2,410.0
High Priority Drivers	$249.2-253.2	$247.4-251.4	$496.6-504.6
Total Drivers	$1,019.4 - 1,269.1	$1,395.8-1,645.5	$2,415.2 - 2,914.6
Potential Budget Gap	($532.6) - ($860.8)	($352.5) - ($683.8)	($885.14) - ($1,544.6)

How Do We Bridge the Gap?

- As part of the budget development process, Governor McDonnell requested all agencies to develop contingency reduction plans for the upcoming biennium
- The savings plans are intended to provide flexibility for the reallocation of resources given the uncertainty in the economy, especially in light of federal budget issues
- There are two types of plans: 2%/4%/6% across-the-board reductions and targeted reduction plans
  - These major programs make up about 25% of the budget
- Targeted reallocation plans were created for higher education, K-12 SOQ, Medicaid and behavioral health, which total about 75% of the GF budget
  - The Governor has convened working groups to identify targeted savings strategies in these areas

Agency 2%/4%/6% Reduction Plans

- 2%, 4% and 6% reduction plans were submitted from agencies and programs which comprise about 25% of the GF budget. The plans total:
  - $77 million at the 2% level each year
  - $146 million at the 4% level each year
  - $220 million at the 6% level each year
- The savings strategies proposed vary across agencies and Secretariats. Some of the major categories of strategies include:
  1. Elimination of funds supporting new initiatives or recently provided restorations
  2. Closure of facilities and/or elimination of positions
  3. Reduction in pass-through grants
  4. Reduction in reimbursements
  5. Supplant GF support with nongeneral fund resources
  6. Use of fees
  7. Reduction or elimination of services

Agency 2%/4%/6% Reduction Plans

- <u>Elimination of New Initiatives or Restorations</u>:
  - Within the area of Commerce and Trade, a number of proposed strategies related to reducing new funding that has been provided over the past two years or initiatives begun by the General Assembly. Reductions include:
    - International trade funds at VEDP, derelict structures program, regional nuclear research, Rural Center and Enterprise Zone grants at DHCD,
  - Similarly in the natural resources area, proposals include reducing support for soil and water conservation districts as well as funding in VDACS for purchase of development rights program
  - In Public Safety options included reducing overtime payment for troopers, and the level of grants for the Wounded Warrior Program

Agency 2%/4%/6% Reduction Plans

- Closure of Facilities or Position Reductions:
  - In public safety – especially at DOC - the majority of strategies result from facility closures
  - Closure of regional or sub-regional offices also was included within both Agriculture and Forestry
    - Regional animal laboratories at VDACS, regional office buildings and moving employees to mobile status and selling those office buildings
  - Across all plans, strategies would eliminate positions in numbers ranging from a total of 36 at the 2% level up to 212 positions at the 6% level. These reductions would potentially result in 31 layoffs at the 2% level and 181 layoffs at the 6% level
    - In addition, a number of agencies propose use of extended vacancy rate savings to meet targets

Agency 2%/4%/6% Reduction Plans

- Reduction in Pass-Through Grants:
  - At DCJS, the potential strategies include reducing grant funds, including HB 599 funding, that flows to localities
  - Within HHR, proposed reductions affect pass-through health department grants that support local health-related services and Department of Aging grants used to finance community services for the elderly
  - At DHCD strategies include reducing funding for Southwest Virginia water and wastewater treatment planning and construction funds that flow to localities
  - The Library of Virginia and Commission for the Arts both reduce aid to local libraries and arts organizations
  - Other proposals include reducing local litter grants and well as juvenile detention and payments to localities for juvenile services

Agency 2%/4%/6% Reduction Plans

- <u>Reduction in Reimbursements:</u>
  - The Compensation Board's budget is comprised almost entirely of funding provided as reimbursements for costs of local constitutional officers. Their savings plans account for 15% of the total
    - As an alternative to across-the-board reductions to constitutional offices one proposal would eliminate reimbursement of fringe benefits
    - Important to remember that this might conflict with other agency plans – have limited ability to close DOC facilities AND reduce jails at the same time
  - Similarly, the State Board of Elections proposals would eliminate reimbursement add-on received by localities that include towns

Agency 2%/4%/6% Reduction Plans

- Supplanting with NGFs:
  - While agencies have worked to supplant GFs with federal or other nongeneral funds over recent years, some agencies have additional positions and services they are able to shift to NGF resources
    - Two concerns are that dependence on federal funding is risky at this point in time
    - Use of other NGF resources often shifts costs from one agency to another
  - DMME’s plans shift energy programs to federal grants
  - Health Department proposes GF dollars for health programs with $4 for Life funds
  - At DGS – plans include shifting additional internal service fund charges (for consolidated labs, purchasing and real estate services) to NGF resources
  - Taxation proposes to shift costs for administering NGF tax sources like land preservation credits, tobacco tax stamps, TICRC and TTF forecasting costs to NGF resources

Agency 2%/4%/6% Reduction Plans

- Use of Fees:
  - Plans include increases in fees for State Park services
  - Natural Resources also includes plans to increase Stormwater Management Program fees
  - In Finance, Tax proposes charging a submittal fee to organizations requesting sales tax exemptions and to individuals who request copies of their tax returns
  - In the Health Department, plans include increases in fees for shellfish and marina regulation

Agency 2%/4%/6% Reduction Plans

- <u>Reduction or Elimination of Services:</u>
  - Eliminate animal welfare activities and dangerous dog registry
  - Eliminate funding for coyote control program
  - Reduce funding for food safety and security testing
  - Elimination of funding for child service programs for homeless population
  - Elimination of funding for See Virginia Parks, See Virginia Wineries, outdoor advertising and radio and television advertising through See Virginia First Program
  - Reduce office of drinking water operations at the Health Department
  - Eliminate general medical clinics run by the Health Department

Targeted Reduction & Reallocation Plans

- Given that we are 5 years into budget reductions, many of the options in the targeted plans are likely to include strategies that have been considered previously. Following are possible options:

Medicaid

- The GF share of the Medicaid forecast increase includes almost $200.0 million in funding for inflationary increases for hospitals and nursing homes, as well as rebasing of nursing home costs.
  - Share for hospital inflation is $154 million and amounts for nursing home inflation and rebasing is $45 million over the biennium
- Other potential targeted Medicaid reductions that could be considered include:
  - Use of hard caps on personal care services, saving up to $9.0 million GF annually
  - Additional strategies to reduce unnecessary use of community mental health services

Targeted Reduction & Reallocation Plans

Public Education

- A number of policy changes have been used and/or considered to reduce K-12 costs for the state and localities. Some of the options that might be included in the targeted plan for K-12 are:
  - Suspend secondary planning period standard
  - Fund teacher retirement at the state employer rate (similar to methodology used to fund constitutional offices funded through the Compensation Board)
  - Adjust instructional salaries based only on state recognized salary incentives
  - Continue the current funding PPA for textbook payments
  - Adjust the additional basic aid add-on percentage for At-Risk payments
  - Eliminate funding tier level for K-3 Class Size Reduction program
  - Reduce or eliminate technology VPSA grants

Targeted Reduction & Reallocation Plans

<u>Higher Education</u>

- Public colleges and universities were exempt from the 2%-4%-6% reduction plan requirements
- Instead, colleges and universities are expected to submit proposed reallocation plans to address the goals of the TJ 21 legislation within existing resources
  - As such, the intent is not to reduce total general fund support for higher education, but potentially to re-direct existing resources to meet new or expanded needs
  - As Tony will discuss in detail tomorrow, some of the priorities identified by the Governor and the institutions include addressing increasing degree production, especially in STEM areas

Potential Impact of Federal Budget Reductions on Virginia's Budget

Budget Control Act of 2011

- On August 2, the President signed the Budget Control Act of 2011 (BCA) to increase the federal debt limit while reducing long-term budget deficits. The bill includes 3 major provisions of relevance to states:
  - Established caps on discretionary spending through 2021, estimated to reduce deficits by more than $900 million
  - Created a Joint Committee on Deficit Reduction ("Super Committee") to propose at least an additional $1.2 trillion in deficit reduction between 2012 and 2021
    - Committee includes 12 members: 3 from each party from each body
    - Recommendations due by November 23, 2011
    - Revenue changes may be on the table
    - Proposal must receive at least affirmative 7 votes to go to floor
    - Proposal goes to House and Senate for an up-or-down vote; no changes or amendments
  - If the "Super Committee" fails to act on required cuts by January 15, 2012, a process known as sequestration occurs. This "poison pill" was intended to force the Super Committee to act
    - Sequestration is the automatic, across-the-board cancellation of budgetary resources

Budget Control Act of 2011

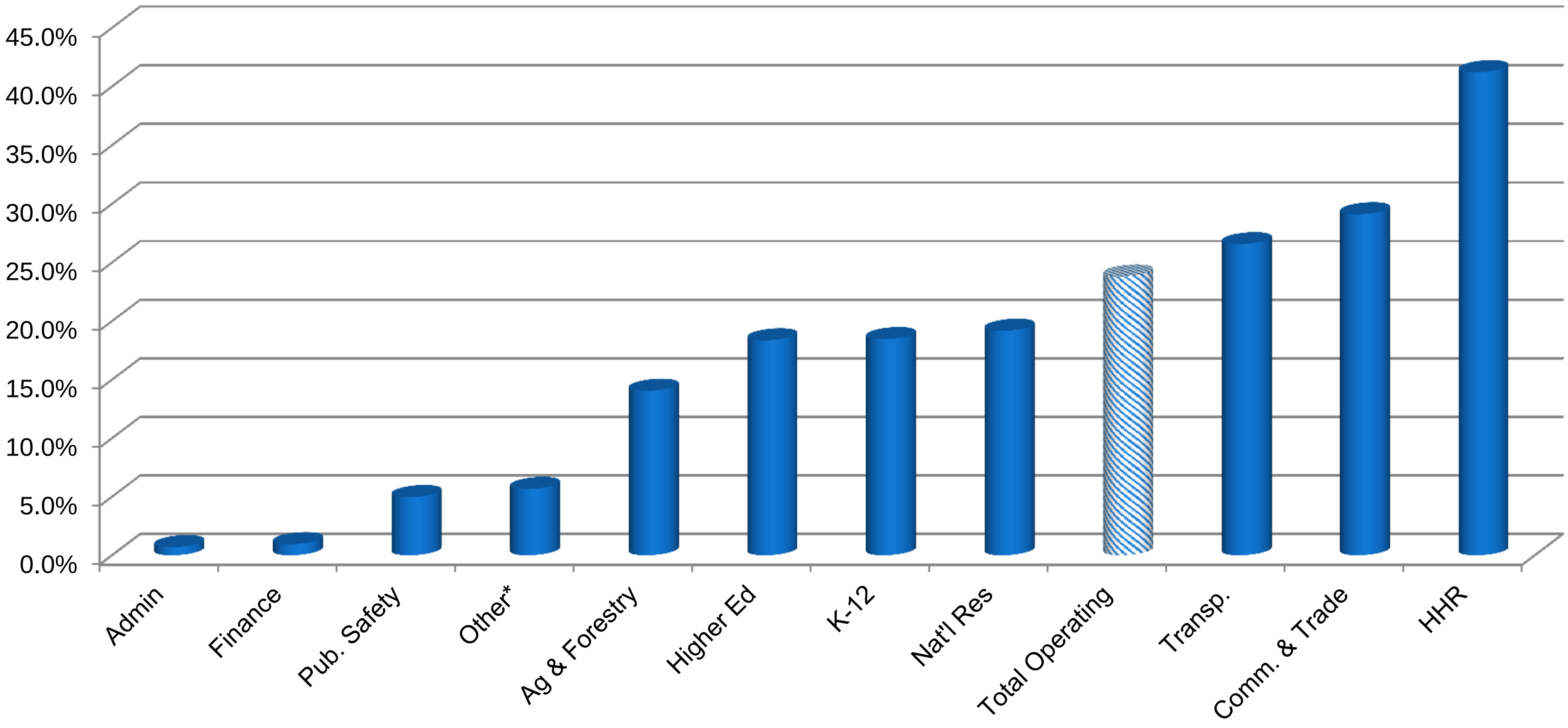
- If Congress does not act by the sequestration deadline, cuts of approximately $109 billion a year split equally between defense and non-defense would be imposed
  - The cuts would take effect January 1, 2013 for FY 2013
  - For FY 2013, discretionary cuts would be achieved by across-the-board spending cuts. The scope of the reductions on discretionary programs would be about 8.8%
  - For FY 2014 and beyond, levels for specific programs will be determined through the regular appropriations process except that for nonexempt mandatory spending, automatic a-t-b cuts would take place each year
  - Reductions are intended to stem the growth of the cost-curve
- The cuts to the defense budget would not be applied across-the-board, but are assumed at the 10% level
- A number of major programs are exempt from the sequestration process, including: Social Security, Medicaid, Children's Health Insurance, TANF, food stamps, and federal-aid highway and transit funding
  - While not exempt, Medicare is limited to 2% reductions
- Current expectation is that <u>something</u> will occur and full sequestration will not take effect
  - Questions are how much will be agreed to, and when

Virginia's Reliance on Federal Grants

- Virginia received less federal aid to state and local governments on a per capita basis than any other state in the nation in FY 2010
- Nonetheless, federal grants amounted to $10.6 billion in FY 2010 according to the Consolidated Federal Funds Report, and are estimated to decrease to $9.4 billion in FY 2012, irrespective of additional federal budget cuts
- In FY 2012, expected federal dollars made up just under 1/4 of the state's operating budget
- The largest program areas supported by federal funding are within the areas of health and human resources and transportation, many of which are exempt from sequestration
- But many smaller agencies are highly dependent on federal funds as a percentage of their budget

Agency Reliance on Federal Funds Varies

- Although 24% of the FY 2012 operating budget is derived from federal revenues, dependence on federal funds varies dramatically. While this means some agencies will be adversely impacted by cuts beyond your control, this must be back-dropped against fact that agencies without federal funds are largely supported by general funds and have received a disproportionate share of the cuts in recent years



Other includes legislative, judicial, executive offices, independent agencies and central appropriations.

Direct Impacts of Federal Spending Reductions on Virginia’s Government Programs

Assessment of the Impact of Federal Budget Cuts on Virginia

- Staff from the House Appropriations and Senate Finance Committees have been working with the Department of Planning and Budget to survey all state agencies on the potential programmatic impacts of federal cuts
- A survey was sent to all agencies, with responses due by November 7
- Goal was to determine which agencies and programs would be impacted by the cuts, and whether the potential reductions would be to mandatory or discretionary programs
  - While full detail is not yet available, about 55% of Virginia's federal funding flows to programs <u>exempt</u> from sequestration
- Some of the questions were intended to determine:
  - Do the reductions impact mandatory or discretionary programs?
  - Would the state have to backfill lost federal funds?
  - Do the cuts apply to programs that support state priorities?
  - Do the cuts impact local governments?
  - Do the cuts impact Aid to individuals?
- What follows is a brief description of the potential impacts of federal spending reductions on the agencies and programs most dependent on federal funding

Health and Human Resources

- 86% of federal funds in Health and Human Resources –are outside the sequestration debate
  - Medicaid, Children's Health Insurance, TANF, and SNAP (food stamps), as well as foster care and adoption assistance, mandatory child care assistance, child support enforcement, vaccines for children, and new summer feeding programs for children and adults
- $711.3 million, about 14% of the total federal funds HHR agencies expect to receive in FY 2012 would be subject to sequestration
  - The potential reduction could be $62.6 million

Department of Social Services

- Department of Social Services receives $811.3 million in federal funds, about 43% of its budget. About 3/4 is exempt from sequestration
- The $224.3 million remaining could be subject to 8.8% reductions under sequestering, a potential reduction of about $19.7 million. Largest programs outlined below

Federal Programs ($ in millions)	Grant Award FY 2012	Potential Reduction
Low Income Home Energy Assistance Program (LIHEAP)	$92.3	$8.1
CCDF for at-risk day care	$41.9	$3.7
SSBG for local staffing & services	$43.4	$3.8
Child Welfare Services	$12.7	$1.1
CSBG for services through Community Action Agencies	$10.8	$1.0
Total	$201.1	$17.7

Impact Social Services Reductions

Federal Programs ($ in millions)	Potential Reduction
LIHEAP	Reduction in heating assistance grants from $350 to $322 per client on average
CCDF for at-risk day care	800 fewer child day care slots, from 54,670 to 53,868
SSBG and Child Welfare Services	Elimination of 51 to 95 local DSS social worker positions
CSBG	Possible consolidation of 29 local Community Action Agencies and local service reductions

Department of Health

- Federal funds account for about 44% of Department of Health's FY 2012 budget of which 80% would be subject to sequestration
- If the $271.0 million in federal funds for FY 2012 subject to sequestering were reduced 8.8%, you'd see a reduction of about $23.8 million
- Largest programs outlined below

Federal Programs ($ in millions)	Grant Award FY 2012	Potential Reduction
WIC nutrition services and supplemental food	$104.5	$9.2
Ryan White Act HIV/AIDS drugs & services	$28.2	$2.5
Bioterrorism and Hospital Preparedness Program	$23.0	$2.0
Various Grants for Disease Prevention & Control (STDs, TB, heart disease, cancer, chronic diseases)	$19.9	$1.8
Maternal & Child Health Services Block Grant	$12.3	$1.1
Drinking Water Loan Fund & Water Supply Superv.	$10.8	$1.0
Total	$198.7	$17.6

Impact of Health Department Reductions

Federal Programs ($ in millions)	Potential Impact
WIC nutrition services and supplemental food	13,700 fewer served 98 positions eliminated
Ryan White Act HIV/AIDS drugs & services	124 fewer individuals will receive HIV drugs, from 4,200 to 4,076 6 positions eliminated
Bioterrorism Public Health Emergency and Hospital Preparedness Program	10 positions eliminated Training, emergency testing & hospital readiness activities reduced
Maternal & Child Health Block Grant	Elimination of injury prevention programs, health care services in local health depts. and clinics serving children with special needs
Drinking Water State Revolving Loan Fund & Water Supply Supervision	3-5 fewer drinking water construction projects 3-6 positions eliminated, resulting in delays in drinking water inspections

Behavioral Health & Developmental Services

- Federal funds account for about 7.5% of DBHDS' FY 2012 budget - none exempt
- About $79.1 million in federal funds for FY 2012 could be subject to 8.8% reductions under sequestering, or about $7.0 million
  - Majority of these funds flow to local community services boards

Federal Programs ($ in millions)	Grant FY 2012	Potential Reduction	Potential Impact
Sub. Abuse Block Grant	$42.9	$3.7	1,000 fewer clients served, from 38,661 to 37,661 2 positions eliminated in DBHDS
Mental Health Block Grant	$10.0	$0.9	226 fewer clients treated, from 64,190 to 63,964 1 position eliminated in DBHDS
Part C Early Intervention Services	$10.3	$0.9	Potentially more than 1000 fewer children served
Total	$63.2	$5.5	

Department of Rehabilitative Services (DRS)

- Federal funds account for about 65% of DRS' FY 2012 budget
  - Exempt amounts account for about 1/3 of the federal funds and relate to disability determination funding from the Social Security and Medicaid eligibility determination for SSI recipients
- About $59.9 million in federal funds for FY 2012 could be subject to 8.8% reductions under sequestering, totaling about $5.3 million
  - Largest program subject to sequestration is the Vocational Rehabilitative State Grant totaling $57.7 million
- Potential impact of federal reductions
  - Elimination of 40-48 vocational rehabilitation counselors or
  - Reduction in 3,900 individuals served from 24,375 to 20,475 or
  - Some combination of above

Department for the Aging

- Federal funds account for about 68% of Department for the Aging's FY 2012 budget - none exempt
- About $41.8 million in federal funds awards for FY 2012 could be subject to 8.8% reductions under sequestering, or about $3.7 million
- Majority of federal funds, about $30.7 million, are received from the Older Americans Act and go out to local Area Agencies on Agencies
    - $14.6 million is used for individual care services for the elderly, care coordination, senior centers, respite care, adult day care, transportation
    - $16.2 million used to support provision of meals
- Potential impact of federal reductions
  - 121,158 fewer home delivered meals to elderly
  - 77,100 fewer congregate meals for elderly
  - Consolidation of local Area Agencies on Aging from 25 to 24 with fewer individual care services available statewide

Commerce and Trade

- The largest source of federal funding within this Secretariat is the Virginia Employment Commission, which is funded entirely with NGF resources, primarily unemployment trust funds
  - Payments of uninsurance claims are out of scope of the sequestration process and would not be impacted directly
- However, in the survey responses sent to DPB, the VEC identified $72.8 million in on-going federal funding that could be subject to reductions
  - Of this total, about $40 million is used to support core unemployment benefit payment administration services and $16 million supports re-employment services
  - In combination, these funds support all the positions within the agency – currently totaling 1,037
  - 8.8% reductions in this funding would result in both office closures and the potential elimination of 91 positions
  - The remaining federal funds subject to sequestration are for specialized programs like veteran's services, trade adjustment act services and certification of foreign workers

Commerce and Trade

- 3 agencies highly dependent on federal dollars. 67% of DHCD's major program funds are federal. 48% of DMME's total budget is federal and 36% of DOLI's relies on federal funds.
- The remaining agencies – VEDP, VTA, DBA, DPOR and Racing Commission receive no federal funds

Federal Programs ($ in millions)	Grant FY 2012	Potential Reduction	Potential Impact
DHCD – HOME Funds	$12.4	$1.0	50 fewer homes served, Used to fund 15 positions at DHCD
DHCD – Homeless Assistance	$2.3	$0.2	Reduced emergency shelter grants, reduction of 171 served
DHCD - Weatherization	$3.0	$0.3	37 fewer homes weatherized, 2.5 pos'ns
DHCD – CDBG Grants	$17.8	$1.6	Reduction of 1 grants to locals for community improvement projects, reduction in 5 positions supported
DMME – Mining/Safety/Energy	$14.2	$1.2	9-11 positions reduced, all but 2 in mining
DOLI (Dept Labor & Industry)	$4.9	$0.4	283 fewer inspections, 39 fewer surveys, 8 positions eliminated inspection

Transportation

- Transportation is largely exempt from sequestration
  - Only 4%, or $2.4 billion, of USDOT funding is subject to sequestration
    - Mass transit investment grants (“new starts”) and highway funding exempt from the annual obligation ceiling
- This does not mean that transportation is not facing federal budget reductions
  - The multi-year authorization for federal highway and transit programs expired after FY 2009 and the programs have been running on short-term extensions since that time
  - Exclusive of ARRA funding, funding levels have been flat
  - Last week the Senate marked up a 2-year authorization bill – MAP-21 - at levels that continue the FY 2010 amounts plus inflation
  - House bill assumes funding based only on trust fund revenues and would result in a 35% reduction over FY 2010 levels
  - As a reminder, Virginia anticipates receiving more than $1.2 billion in federal transportation funding in the current year – a reduction of 10% would result in the loss of $120 million
    - Within VDOT, $1.0 billion in federal funds finance about 1/3 of current year’s construction program with bonds supporting an additional 38%

Natural Resources

- About 28%, or $44.4 million of the Department of Environmental Quality's (DEQ) budget comes from federal funds
  - Largest source is $26.1 million for the Clean Water Revolving Loan Fund which provides funding for wastewater treatment plant improvements
    - Because the state's revolving fund derives most of its proceeds from prior loan repayments, federal grant reductions would not have a major impact on the operations of the fund but would limit future loans made
  - DEQ also receives about $16.8 million from the EPA for permitting, monitoring, and outreach services. These federal funds supported about 17% of the agency's permitting, monitoring, and outreach positions (93 of the 550)
    - If these funds were reduced by 8.8%, it could result in 8 position reductions and/or delays in permitting, particularly air permits
- About 11%, or $14.2 million of the Department of Conservation and Recreation's (DCR) budget comes from federal funds
  - These funds support 46 employees, payments to localities totaling $2.8 million, payments to state agencies totaling $1.1 million, and payments for vendor totaling $5.9 million
  - An 8.8% reduction in these grants would total $1.2 million, and could result in the elimination of four employees, a $250,000 reduction in funding for localities

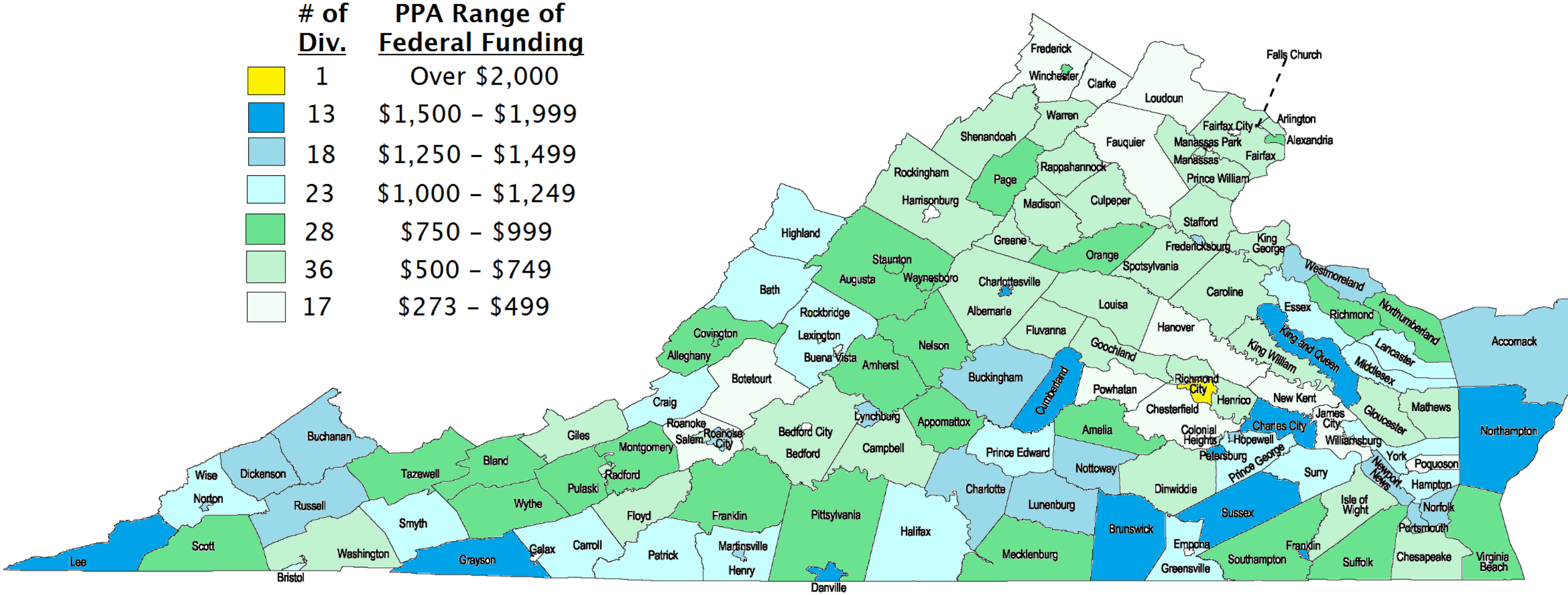
Public Education

- Federal K-12 funds predominantly flow to localities’ grant funded education programs and services
  - There is no federal mandate to backfill these programs
  - Fewer federal dollars would result in a smaller federal revenue deduct in the SOQ model which then results in more general fund dollars needed to fund K12
- In FY 2010, school divisions reported to DOE that they had spent about $937.4 million from over 40 different federal programs (exclusive of one-time ARRA funding)
- To assess the potential impacts, staff calculated total per pupil federal funding for each of the major programs. The statewide average Per Pupil Amount (PPA) from major federal sources is $775
  - Richmond City had the highest PPA at $2,029
  - Falls Church received the least amount at $273 PP
- Based on FY 2010 totals reported by the divisions, an 8.8% across the board reduction would result in a loss of $82.5 million in federal funding

K-12 Per Pupil Amount (PPA) of Federal Grants Spent in FY 2010

(excludes ARRA and Education Jobs funding)

# of Div.	PPA Range of Federal Funding
1	Over $2,000
13	$1,500 - $1,999
18	$1,250 - $1,499
23	$1,000 - $1,249
28	$750 - $999
36	$500 - $749
17	$273 - $499



Public Education Summary

Largest Federal Grants	# of Div.	Total Grant Amount Spent ($ in millions)	Sequestration (8.8%) Amt. ($ in millions)	Per Student Grant Amount	Per Student Amount Loss from Seq (8.8%)
Special Education – IDEA	136	**$238.9**	**($21.0)**	$197.44	($17.37)
Basic School Improvement (Title I)	136	**212.0**	**(18.7)**	175.25	(15.42)
National Lunch Program	136	**175.8**	**(15.5)**	145.30	(12.79)
School Breakfast	135	**50.3**	**(4.4)**	41.60	(3.66)
Impact Aid	26	**49.6**	**(4.4)**	74.81	(6.58)
Improving Teacher Quality	135	**46.8**	**(4.1)**	38.74	(3.41)
Head Start	21	**24.5**	**(2.2)**	62.53	(5.50)
Voc. Ed. Basic (Carl Perkins)	135	**19.8**	**(1.7)**	16.40	(1.44)
21st Century Learning Centers	57	**16.0**	**(1.4)**	25.85	(2.28)
Language Acquisition	72	**10.7**	**(0.9)**	10.62	(0.93)
Adult Literacy	56	**9.3**	**(0.8)**	9.79	(0.86)
Largest Federal Grants' Total		**$853.7**	**($75.1)**		

Public Education – Sequestration Would Not Be Evenly Distributed Across State

- Federal education funds tend not to be allocated on a purely population basis
- Instead, funds are distributed based on the populations the programs seek to support
  - For example, federal dollars that support programs and services for special education are distributed on the basis of the number of special education students, not total student population
    - Federal funding tied to Special Education grants account for about 25% of all of the federal money that our schools received
  - Likewise, a number of federal programs are allocated based on the number of students eligible for free lunch and as such, reductions to programs allocated using that criteria, such as Title I, would have a disproportionate impact on divisions with high percentages of students from families with lower incomes

Higher Education

- Public Colleges and Universities
  - Public colleges and universities expend about $700 million in federal grants and contract funding, primarily for research
  - In addition, VT & VSU provide more than $14 million in support of cooperative extension and agricultural programs
  - Because research funds are not distributed by formula, but on a competitive basis, it is difficult to determine what the impact would be on colleges
- Financial Aid
  - Federal financial aid programs also provide more than $1.2 billion to in-state students at public colleges and universities in the form of PELL grants, student loans and student work-study programs
  - These amounts are provided directly to students. There would be no requirement to backfill these amounts at the state level but reduced support would make tuition increases more difficult for individuals to absorb

Agriculture and Forestry

- Virginia Department of Agriculture and Consumer Services (VDACS)
  - In FY 2012, VDACS' budget includes $8.2 million in federal funding, or about 25% of all funds
  - Majority of funds support the areas of animal and poultry disease control, plant and pest control and regulation of meat and dairy products and could be subject to reductions of approximately $563,000 under sequestration
  - VDACS also receives $1.8 million for the distribution of USDA donated food
- Virginia Department of Forestry
  - DOF's FY 2012 budget includes a total of $4.9 million in federal funds, about 20% of its total funding. Reductions of about $430,000 would result from sequestration. Largest share is from forestry stewardship which supports 10% of the agency's salaries

Public Safety Agencies

- Most public safety agencies are not highly reliant on federal funds
- The largest source of federal dollars at DCJS is Byrne grant funds which are one-time in nature and not used to support ongoing operations
- At State Police, the largest impact would be to commercial vehicle enforcement – motor carrier inspection operations

Department	FY 2012 Federal Funds	Percentage of Budget	Potential Reduction
Dept Emergency Mgmt	$35.4 million	80%	$3.1 million
Alcoholic Beverage Control	$700,000	0.13%	$61,600
Correctional Education	$2.3 million	4.38%	$203,973
Corrections	$2.1 million	0.21%	$185,105
Criminal Justice Services	$21.5 million	8.21%	$1.9 million
Emergency Management	$35.4 million	81.3%	$3.1 million
Fire Programs	$250,000	0.74%	$22,000
Forensic Science	$1.5 million	4.21%	$132,527
State Police	$11.5 million	3.94%	$1.0 million

Governor's FACT Proposal

- In August, the Governor proposed the creation of a FACT fund, or Federal Action Contingency Trust Fund to set aside funding to address needs resulting from federal reductions
- He has proposed utilizing $30.0 million in unencumbered FY 2011 surplus amounts as initial funding
- Because of the timing of the work of the Supercommittee and the potential for sequestration, it is unlikely that solid information will be available during the 2012 regular Session
- In light of this, you will have to consider what role the General Assembly should play in determining the use of the funds
  - Do you want to establish an oversight group, akin to the Major Economic Investment (MEI) Commission that reviews proposed economic development incentives?

Indirect Impacts of Federal Spending Reductions on Virginia's Economy

The Federal Budget and Its Impact on Virginia

- While losses of federal grants supporting government programs have been the focus of much analysis, Virginia is uniquely situated to be negatively impacted by the indirect effects of federal spending reductions
- According to the Census Bureau's annual report on Federal Aid to States, 32% of Virginia's total FY 2010 gross state product came from direct federal expenditures or obligations
- Similar analysis of all states in FY 2009 placed Virginia as the state most dependent on total federal expenditures
- Direct federal expenditures in Virginia – this includes retirement/ disability payments, other direct aid to individuals, grants to government entities, procurement contracts and federal salaries and wages – totaled $136.1 billion
  - Of this amount, only 9% comes in the form of grants to state and local governments
  - In contrast, 43%, or $58.3 billion, is procurement spending

Virginia Receives Largest Share of Procurement Spending in Nation

- 11.3% of <u>all</u> U.S. government procurement dollars were spent in Virginia in FY 2010
- These contracts totaled $7,291 per capita in Virginia, 4.5 times greater than the national per capita amount
- Unlike many states that depend on a single federal department for their procurement dollars, Virginia benefits from contracts supporting many federal agencies
  - Our proximity to D.C. means companies locate in Virginia and vie for contracts across a range of government activities
  - Virginia has expanded its presence in areas like cyber security, homeland security, clean energy and health care, all sectors less likely to be as impacted by the reductions
  - A large proportion of Virginia's procurement contracts center around "backroom operations" or services
  - In Northern Virginia about 75% fall into this category, with supplies, equipment and R and D accounting for the remainder

Federal Spending Drives Virginia's 2 Largest Regions

Northern Virginia

- Virginia's largest economic driver – Northern Virginia – is particularly dependent on federal spending, which totaled $65.3 billion in the region in FY 2010
  - This is about half of all of federal spending in the state
- Northern Virginia has an even greater proportion of the state's procurement contracts
  - 75% of the state's procurement spending, or $43.5 billion, occurs in Northern Virginia
- Regionwide, direct federal spending is estimated to make up 37% of the economy in the DC region

Hampton Roads

- Likewise, the Hampton Roads region is heavily dependent on federal spending, but the focus is on the Department of Defense
- Includes direct military spending, with major bases throughout the region as well as military-related manufacturing
  - ODU estimates that 45% of the gross regional product in Hampton Roads is attributable to Department of Defense spending (including indirect)
  - U.S. government spending in Hampton Roads totaled $27.0 billion in FY 2010 and has nearly doubled since 2000, growing at an average annual rate of 7% year

Can You Budget for Indirect Impacts?

- While the impact of direct reductions in federal spending alone is substantial, the combined direct and multiplier effects of procurement spending reductions could severely impact Virginia’s tax collections
  - As we heard in Steve Fuller’s presentation, Virginia could see an overall GSP reduction of $10.5 billion based on potential Department of Defense spending reductions alone
- We will have to live with a large degree of uncertainty – no magic formula to apply
- But, expect that Virginia’s revenue forecast to reflect slower rates of assumed job growth – especially in regions most dependent on federal spending
- We are likely to see the “indirect” impacts of federal belt tightening first
  - Even before any change has been agreed to, concern about the potential for cuts appears to have impacted companies decisions to hire workers and people’s tendencies to spend
- One “saving grace” – at least in the short-run – is the “pig in python” nature of procurement spending
- Cuts in federal spending will occur, but when and how much is the question
  - Direct impact on Virginia will be felt – but will it be more of a 2014-16 budget issue?

APPENDICES:
1. Impacts of Federal Education Cuts
2. Rainy Day Fund Requirements

Special Education (IDEA, Part B): $238.9 million, 25.5%

- Formula based grant that provides funding toward the additional costs of providing services to students, ages 3 through 21, that have disabilities
- All divisions received funding with a statewide average PPA of $197

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	King & Queen	0.4404	726	$244,378	**$337**	Fairfax County [2]	0.7126	170,503	**$36,054,576**	$211
2	Patrick	0.2439	2,497	$805,574	**$323**	Virginia Beach	0.4060	69,200	**$12,782,107**	$185
3	Lexington	0.4601	618	$195,856	**$317**	Prince William	0.4036	77,369	**$11,643,970**	$150
4	Charlottesville	0.6560	3,687	$1,154,241	**$313**	Chesterfield	0.3551	58,435	**$10,775,449**	$184
5	Middlesex	0.7431	1,173	$362,997	**$309**	Henrico	0.4371	48,268	**$9,790,001**	$203
6	Charles City	0.4203	802	$247,120	**$308**	Loudoun	0.5854	62,353	**$8,885,396**	$143
7	Buchanan	0.2849	3,178	$959,799	**$302**	Norfolk	0.3004	30,921	**$7,222,650**	$234
8	Prince Edward	0.3043	2,406	$681,978	**$283**	Newport News	0.2778	28,196	**$6,533,510**	$232
9	Franklin City	0.3047	1,179	$332,557	**$282**	Richmond City	0.4945	21,306	**$5,983,509**	$281
10	Richmond City	0.4945	21,306	$5,983,509	**$281**	Chesapeake	0.3465	38,657	**$5,137,652**	$133

Basic School Improvement Grants to LEAs (Title I, Part A): $212.0 million, 22.6%

- Provides funding to schools with high percentages of students in poverty
  - Schools focus services on those children who are failing, or most at-risk of failing SOLs
- All divisions received funding with a statewide average PPA of $175

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount
1	Colonial Beach	0.3785	562	$462,140	**$823**	Fairfax County [2]	0.7126	170,503	$17,926,858	**$105**
2	Petersburg	0.2255	4,184	$2,902,394	**$694**	Richmond City	0.4945	21,306	$13,798,711	**$648**
3	Richmond City	0.4945	21,306	$13,798,711	**$648**	Norfolk	0.3004	30,921	$12,479,748	**$404**
4	Franklin CIty	0.3047	1,179	$710,785	**$603**	Newport News	0.2778	28,196	$10,906,697	**$387**
5	Lee	0.1692	3,330	$1,994,619	**$599**	Virginia Beach	0.4060	69,200	$10,192,896	**$147**
6	Sussex	0.3213	1,174	$659,438	**$562**	Hampton	0.2690	20,696	$7,800,003	**$377**
7	Charlottesville	0.6560	3,687	$2,047,151	**$555**	Portsmouth	0.2497	14,080	$7,015,813	**$498**
8	Essex	0.4869	1,595	$873,113	**$547**	Prince William	0.4036	77,369	$6,180,503	**$80**
9	Danville	0.2470	6,062	$3,154,167	**$520**	Henrico	0.4371	48,268	$5,926,736	**$123**
10	Northampton	0.5109	1,687	$862,369	**$511**	Chesapeake	0.3465	38,657	$5,364,436	**$139**

National Lunch Program: $175.8 million, 18.8%

- Provides funding and USDA foods from the USDA to those schools that choose to participate in the program for each for nutritionally balanced, low-cost or free lunch served
- All divisions received funding with a statewide average PPA of $145
- Virginia provides $5.8 million annually in matching funds to divisions

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount
1	Danville	0.2470	6,062	$1,905,517	**$314**	Fairfax County [2]	0.7126	170,503	**$17,780,683**	$104
2	Richmond City	0.4945	21,306	$6,561,896	**$308**	Prince William	0.4036	77,369	**$8,428,603**	$109
3	Sussex	0.3213	1,174	$359,041	**$306**	Virginia Beach	0.4060	69,200	**$8,383,223**	$121
4	Martinsville	0.2263	2,250	$675,194	**$300**	Norfolk	0.3004	30,921	**$8,314,567**	$269
5	Brunswick	0.2728	1,971	$580,249	**$294**	Richmond City	0.4945	21,306	**$6,561,896**	$308
6	Highland	0.7846	226	$66,447	**$294**	Henrico	0.4371	48,268	**$6,431,354**	$133
7	Northampton	0.5109	1,687	$495,631	**$294**	Newport News	0.2778	28,196	**$6,409,028**	$227
8	Cumberland	0.2805	1,373	$388,283	**$283**	Chesterfield	0.3551	58,435	**$4,908,426**	$84
9	Accomack	0.3753	4,815	$1,353,678	**$281**	Chesapeake	0.3465	38,657	**$4,433,879**	$115
10	Franklin CIty	0.3047	1,179	$329,061	**$279**	Hampton	0.2690	20,696	**$4,080,167**	$197

School Breakfast Program: $50.3 million, 5.4%

- Provides funding and USDA foods from the USDA to those schools that choose to participate in the program for each for nutritionally balanced, low-cost or free breakfast meal served
- 135 divisions received funding with an average PPA of $42 (West Point omitted)
- Virginia provides $2.9 million each year as incentivized funding to schools for meals served

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount
1	Sussex	0.3213	1,174	$188,146	**$160**	Fairfax County [2]	0.7126	170,503	**$2,960,103**	$17
2	Cumberland	0.2805	1,373	$174,376	**$127**	Norfolk	0.3004	30,921	**$2,642,075**	$85
3	King & Queen	0.4404	726	$87,630	**$121**	Virginia Beach	0.4060	69,200	**$2,516,909**	$36
4	Danville	0.2470	6,062	$710,016	**$117**	Richmond City	0.4945	21,306	**$2,438,948**	$114
5	Hopewell	0.2285	3,873	$447,282	**$115**	Newport News	0.2778	28,196	**$2,040,921**	$72
6	Highland	0.7846	226	$25,922	**$115**	Prince William	0.4036	77,369	**$1,908,218**	$25
7	Richmond City	0.4945	21,306	$2,438,948	**$114**	Henrico	0.4371	48,268	**$1,835,161**	$38
8	Portsmouth	0.2497	14,080	$1,601,564	**$114**	Portsmouth	0.2497	14,080	**$1,601,564**	$114
9	Northampton	0.5109	1,687	$188,278	**$112**	Chesapeake	0.3465	38,657	**$1,313,018**	$34
10	Lunenburg	0.2308	1,555	$169,078	**$109**	Hampton	0.2690	20,696	**$1,293,862**	$63

Impact Aid (Title VIII): $49.6 million, 5.3%

- Helps to offset some of the lost local revenue that otherwise would be available to localities to potentially pay for the education of children whose family live on federally owned property
  - Federal property is exempt from local property taxes, therefore the locality cannot collect any property tax revenue associated with these properties
- 28 divisions received funding – average PPA of $75

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	York	0.3727	12,434	$9,277,072	**$746**	Virginia Beach	0.4060	69,200	**$14,299,361**	$207
2	Prince George	0.2345	6,202	$3,333,610	**$538**	York	0.3727	12,434	**$9,277,072**	$746
3	Virginia Beach	0.4060	69,200	$14,299,361	**$207**	Newport News	0.2778	28,196	**$4,649,196**	$165
4	Newport News	0.2778	28,196	$4,649,196	**$165**	Norfolk	0.3004	30,921	**$4,631,248**	$150
5	Norfolk	0.3004	30,921	$4,631,248	**$150**	Fairfax County [2]	0.7126	170,503	**$4,159,466**	$24
6	Chesapeake	0.3465	38,657	$3,688,254	**$95**	Chesapeake	0.3465	38,657	**$3,688,254**	$95
7	Poquoson	0.3524	2,308	$135,762	**$59**	Prince George	0.2345	6,202	**$3,333,610**	$538
8	Stafford	0.3362	26,769	$1,528,839	**$57**	Stafford	0.3362	26,769	**$1,528,839**	$57
9	Craig	0.2903	693	$39,005	**$56**	Hampton	0.2690	20,696	**$1,152,110**	$56
10	Hampton	0.2690	20,696	$1,152,110	**$56**	Prince William	0.4036	77,369	**$994,101**	$13

Improving Teacher Quality (Title II, Part A): $46.8 million, 5.0%

- Support programs that increase academic success by increasing the number of highly qualified -- teachers in classrooms, principals and assistant principals
- 135 divisions received funding - average PPA of $39 (Buena Vista omitted)

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	Petersburg	0.2255	4,184	$507,284	**$121**	Fairfax County [2]	0.7126	170,503	**$3,859,917**	$23
2	Buchanan	0.2849	3,178	$378,377	**$119**	Virginia Beach	0.4060	69,200	**$2,612,949**	$38
3	Northumberland	0.8000	1,408	$155,287	**$110**	Norfolk	0.3004	30,921	**$2,301,034**	$74
4	Franklin CIty	0.3047	1,179	$119,586	**$101**	Chesterfield	0.3551	58,435	**$2,084,473**	$36
5	Brunswick	0.2728	1,971	$192,886	**$98**	Richmond City	0.4945	21,306	**$2,062,603**	$97
6	Richmond City	0.4945	21,306	$2,062,603	**$97**	Prince William	0.4036	77,369	**$1,716,063**	$22
7	Lynchburg	0.3643	8,178	$776,429	**$95**	Newport News	0.2778	28,196	**$1,640,095**	$58
8	Danville	0.2470	6,062	$572,422	**$94**	Henrico	0.4371	48,268	**$1,418,227**	$29
9	Dickenson	0.1940	2,396	$225,197	**$94**	Chesapeake	0.3465	38,657	**$1,293,726**	$33
10	Bristol	0.3132	2,294	$213,184	**$93**	Portsmouth	0.2497	14,080	**$1,286,701**	$91

Head Start: $24.5 million, 2.6%

- Grants are given directly to localities to provide comprehensive child development services to economically disadvantaged children and families, with a emphasis on helping preschoolers develop the early reading and math skills
- 23 divisions received funding – average PPA of $63

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	Lee	0.1692	3,330	$1,300,795	**$391**	Richmond City	0.4945	21,306	**$7,340,836**	$345
2	Fredericksburg	0.7763	3,029	$1,097,920	**$362**	Prince William	0.4036	77,369	**$2,233,628**	$29
3	Richmond City	0.4945	21,306	$7,340,836	**$345**	Augusta	0.3416	10,471	**$1,778,118**	$170
4	Hopewell	0.2285	3,873	$1,281,924	**$331**	Stafford	0.3362	26,769	**$1,554,359**	$58
5	Orange	0.4258	5,023	$1,358,861	**$271**	Orange	0.4258	5,023	**$1,358,861**	$271
6	Petersburg	0.2255	4,184	$1,089,803	**$260**	Lee	0.1692	3,330	**$1,300,795**	$391
7	Augusta	0.3416	10,471	$1,778,118	**$170**	Chesterfield	0.3551	58,435	**$1,282,584**	$22
8	Stafford	0.3362	26,769	$1,554,359	**$58**	Hopewell	0.2285	3,873	**$1,281,924**	$331
9	Brunswick	0.2728	1,971	$96,808	**$49**	Henrico	0.4371	48,268	**$1,232,765**	$26
10	Hanover	0.4195	18,231	$841,260	**$46**	Fredericksburg	0.7763	3,029	**$1,097,920**	$362

Vocational Education Basic Grants (Carl D. Perkins, Title I): $19.8 million, 2.1%

- Provides funds to increase career & technical (CT) based curriculum & to expand the attention of the academic achievement for students who have a focus on CT-based class schedule -- funds can also be used to improve the connection between high school graduation & college
- 135 divisions received funding – average PPA of $16 (Lexington omitted)

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	Colonial Beach	0.3785	562	$32,278	**$57**	Fairfax County [2]	0.7126	170,503	**$1,970,862**	$12
2	Northumberland	0.8000	1,408	$69,670	**$49**	Norfolk	0.3004	30,921	**$935,130**	$30
3	Mecklenburg	0.3315	4,587	$226,524	**$49**	Virginia Beach	0.4060	69,200	**$933,317**	$13
4	Cumberland	0.2805	1,373	$61,405	**$45**	Richmond City	0.4945	21,306	**$912,966**	$43
5	Richmond City	0.4945	21,306	$912,966	**$43**	Prince William	0.4036	77,369	**$878,231**	$11
6	Portsmouth	0.2497	14,080	$602,671	**$43**	Newport News	0.2778	28,196	**$678,582**	$24
7	Lee	0.1692	3,330	$140,336	**$42**	Chesterfield	0.3551	58,435	**$652,666**	$11
8	Danville	0.2470	6,062	$252,501	**$42**	Henrico	0.4371	48,268	**$637,134**	$13
9	Tazewell	0.2487	6,425	$266,485	**$41**	Portsmouth	0.2497	14,080	**$602,671**	$43
10	Sussex	0.3213	1,174	$47,468	**$40**	Hampton	0.2690	20,696	**$576,600**	$28

21st Century Community Learning Centers (Title IV, Part B): $16.0 million, 1.7%

- Supports after-school activities for children, particularly those who attend high-poverty and low-performing schools with a focus on helping students meet state and local standards in core academic subjects, such as reading and mathematics; also offers literacy and other educational services to the families of participating students
- 60 divisions received funding - average PPA of $26

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount	Division	Comp Index	ADM	Grant Award Spent	Per Pupil Amount
1	Grayson	0.3178	1,877	$858,820	**$458**	Russell	0.2113	4,047	**$962,603**	$238
2	Cumberland	0.2805	1,373	$530,103	**$386**	Hampton	0.2690	20,696	**$909,615**	$44
3	Colonial Beach	0.3785	562	$160,053	**$285**	Grayson	0.3178	1,877	**$858,820**	$458
4	Nottoway	0.2547	2,144	$518,693	**$242**	Newport News	0.2778	28,196	**$855,595**	$30
5	Russell	0.2113	4,047	$962,603	**$238**	Bedford County	0.4076	9,480	**$789,476**	$83
6	Charles City	0.4203	802	$177,827	**$222**	Smyth	0.2100	4,651	**$784,839**	$169
7	Surry	0.6956	908	$182,710	**$201**	Roanoke City	0.3582	12,128	**$781,227**	$64
8	Westmoreland	0.5020	1,656	$317,959	**$192**	Cumberland	0.2805	1,373	**$530,103**	$386
9	Smyth	0.2100	4,651	$784,839	**$169**	Nottoway	0.2547	2,144	**$518,693**	$242
10	Rockbridge	0.5050	2,521	$373,550	**$148**	Henrico	0.4371	48,268	**$515,622**	$11

Language Acquisition (Title III, Part A): $10.7 million, 1.1%

- Formula based funding is based on the number of immigrant and ESL students and help divisions to offer programs that improve the education of these children by helping them learn English
- 74 divisions received funding –average PPA of $11

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	Poquoson	0.3524	2,308	$128,888	**$56**	Fairfax County [2]	0.7126	170,503	**$4,033,621**	$24
2	Manassas City	0.4005	6,740	$282,615	**$42**	Prince William	0.4036	77,369	**$1,595,965**	$21
3	Harrisonburg	0.4133	4,542	$156,676	**$34**	Loudoun	0.5854	62,353	**$692,873**	$11
4	Arlington	0.8000	20,200	$622,974	**$31**	Arlington	0.8000	20,200	**$622,974**	$31
5	Galax	0.2695	1,266	$38,474	**$30**	Henrico	0.4371	48,268	**$395,407**	$8
6	Alexandria	0.8000	11,714	$345,856	**$30**	Alexandria	0.8000	11,714	**$345,856**	$30
7	Winchester	0.5125	3,821	$102,357	**$27**	Manassas City	0.4005	6,740	**$282,615**	$42
8	Manassas Park	0.3311	2,820	$74,535	**$26**	Chesterfield	0.3551	58,435	**$256,442**	$4
9	Fairfax County [2]	0.7126	170,503	$4,033,621	**$24**	Harrisonburg	0.4133	4,542	**$156,676**	$34
10	Prince William	0.4036	77,369	$1,595,965	**$21**	Virginia Beach	0.4060	69,200	**$146,977**	$2

Adult Literacy: $9.3 million, 1.0%

- Provides funding for instruction in reading, math, and English literacy for adults and high school drop-outs; also supports literacy services for workplace and families
- 58 divisions received funding – average PPA of $10

	Divisions with the Highest Per Pupil Amount (PPA)					Divisions with the Largest Award Total				
	Division	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**	**Division**	**Comp Index**	**ADM**	**Grant Award Spent**	**Per Pupil Amount**
1	Cumberland	0.2805	1,373	$206,963	**$151**	Fairfax County [2]	0.7126	170,503	**$861,416**	$5
2	Middlesex	0.7431	1,173	$122,092	**$104**	Franklin County	0.4012	7,045	**$494,216**	$70
3	Northumberland	0.8000	1,408	$145,831	**$104**	Amherst	0.2664	4,361	**$419,366**	$96
4	Amherst	0.2664	4,361	$419,366	**$96**	Prince William	0.4036	77,369	**$381,403**	$5
5	Franklin County	0.4012	7,045	$494,216	**$70**	Washington	0.3166	7,160	**$366,260**	$51
6	Russell	0.2113	4,047	$260,737	**$64**	Richmond City	0.4945	21,306	**$362,520**	$17
7	Prince George	0.2345	6,202	$329,051	**$53**	Virginia Beach	0.4060	69,200	**$359,009**	$5
8	Washington	0.3166	7,160	$366,260	**$51**	Spotsylvania	0.3594	23,390	**$339,212**	$15
9	Charlottesville	0.6560	3,687	$139,937	**$38**	Prince George	0.2345	6,202	**$329,051**	$53
10	Wise	0.1885	6,392	$216,744	**$34**	Norfolk	0.3004	30,921	**$296,892**	$10

Rainy Day Fund Requirements

- The Auditor of Public Account's annual report on the Revenue Stabilization Fund requirements indicates the following deposit requirements based on the current revenue forecast:
  - FY 2013: $132.7 million
  - FY 2014: $91.5 million
- Because FY 2011 ended with a surplus, the Governor was able to set aside the full $132.7 million due in FY 2013 based on FY 2011 revenues
- The General Assembly already had set aside $114.0 million to help fund a portion of the deposits required in the FY 2012- 2014 biennium
- Based on the <u>current</u> deposit estimates – which does not include any revenue forecast adjustments - this means that all the funds required in the next biennium have already been set aside and in fact, $22.5 million would become a balance available for appropriation
- However, if the revenue forecast is increased for FY 2012, the Rainy Day Fund deposit due in FY 2014 will increase by 50% of any forecast increase attributable to individual and corporate income taxes or sales taxes