

Overview of Budget Shortfall

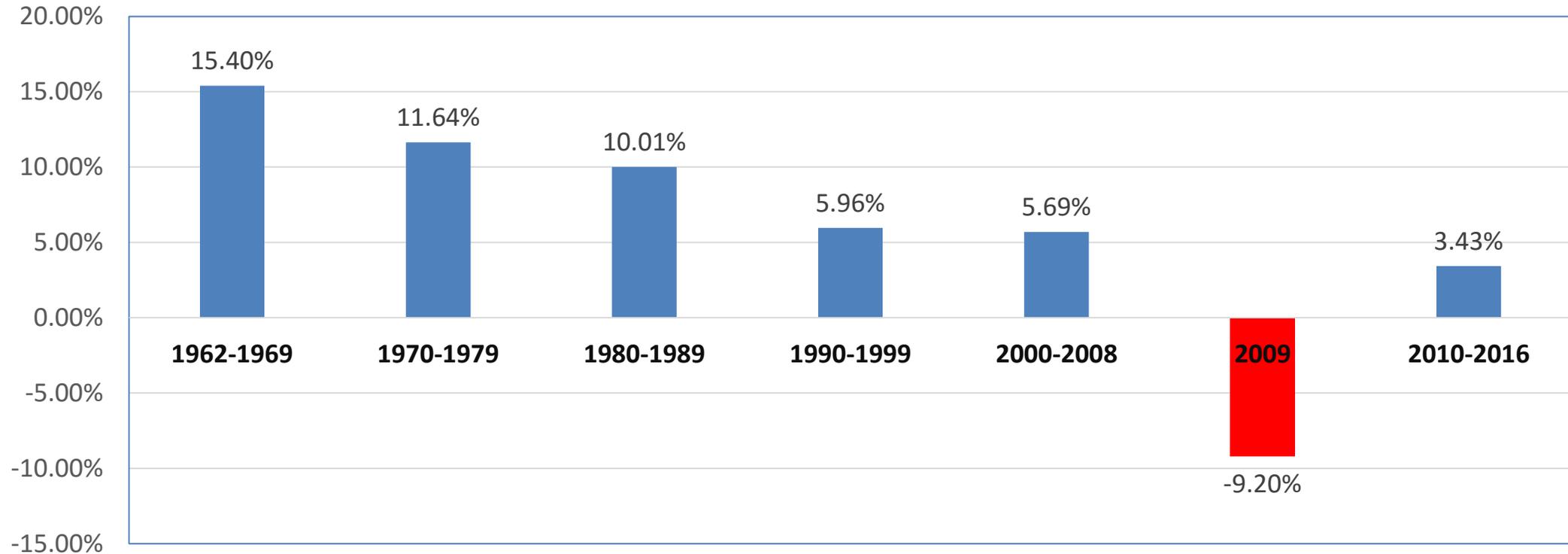
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General fund revenues have grown at a significantly lower rate since the great recession

Average Annual Growth in General Fund Revenues



A low rate of revenue growth along with other budget pressures have resulted in less funding for state employee salary actions

<u>Calendar Year</u>	<u>Salary Adjustment</u>	<u>Calendar Year</u>	<u>Salary Adjustment</u>
2002	0.00%	2009	0.00%
2003	2.25%	2010	0.00%
2004	3.00%	2011	<i>5% salary increase/offset 5% VRS employee contribution. Net salary decreased</i>
2005	4.40%	2012	0.00%
2006	4.00%	2013	<i>2% plus \$65 per year of service (\$70 for state police)</i>
2007	4.00%	2014	0.00%
2008	0.00%	2015	<i>2% plus \$65 per year of service (\$80 for state police)</i>

A salary adjustment was funded for CY 2016 contingent on FY 2016 revenues.

Funding for salary adjustments in recent years has been contingent on meeting revenue projections

- The funding for salary adjustments enacted during 2013 and 2015 were included in a revenue reserve which were contingent on the prior year revenues being within 1% of projections
 - 2013 adjustment was authorized in Chapter 806 (2013 Appropriation Act), Item 468, and the 2015 adjustment was authorized in Chapter 665 (2015 Appropriation Act), Item 467
 - Revenue reserves have provided funding contingent on the provisions of § 2.2-1503.3, Code of Virginia, not being effectuated
 - § 2.2-1503.3 requires an expedited reestimate of general fund revenues if the Comptroller determines, within 5 days after the preliminary close of the fiscal year, that the total of individual income, corporate income, and sales taxes collected for the fiscal year were 1.0 percent or more below the revenue projections included in the Appropriation Act
 - If the shortfall is greater than 1%, the salary actions are not implemented and funding from revenue reserve is used to revenue shortfall
 - Funding for the 2016 adjustment was included in revenue reserve but will not be effectuated because of the FYE 2016 revenue shortfall
 - Actual revenues grew 1.3% compared to a forecast of 2.8%
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Revenue reserve in Chapter 780

- The revenue reserve in Chapter 780 included \$346 million for salary adjustments for state employees, state supported local employees and teachers

(in millions)

	FY 2017	FY 2018	Total
3% salary adjustment for state employees	\$57.4	\$98.4	\$155.9
2 nd Phase of State Police Compression Adjustment Plan	\$2.3	\$4.0	\$6.3
Compression Adjustment for District Court Clerk positions	\$1.6	\$2.5	\$4.1
2% salary adjustment for state supported local employees	\$9.4	\$18.7	\$28.0
Salary Compression for employees in sheriffs' offices and regional jails	\$3.6	\$8.7	\$12.3
Additional participation in Career Development Programs for Constitutional Offices	\$1.7	\$3.5	\$5.2
2% Adjustment for SOQ funded positions	<u>\$49.0</u>	<u>\$85.5</u>	<u>\$134.4</u>
Total	\$125.0	\$221.3	\$346.3

Revenue reserve and potential rainy day fund withdrawal only covers a portion of the revenue shortfall

- The total shortfall in FY 2016 GF resources, including transfers, was \$278 million
 - The lower revenues for FY 2016 results in a lower base heading into FY 2017 and FY 2018
 - In addition, the revenue reforecast resulted in lower growth assumptions

(in millions)

	FY 2016	FY 2017	FY 2018	Total
FY 2016 Shortfall	(\$279.3)			(\$279.3)
Adjustments to forecast		<u>(\$582.1)</u>	<u>(\$654.3)</u>	<u>(\$1,236.4)</u>
Total decrease in resources		(\$861.4)	(\$654.3)	(\$1,515.7)
Resources Available from Revenue Reserve		\$125.0	\$221.3	\$346.3
Potential Rainy Day Fund Withdrawal		<u>\$392.3</u>	<u>\$228.6</u>	<u>\$620.9</u>
Remaining Shortfall		(\$344.1)	(\$204.4)	(\$548.5)

Next Steps

- Agencies are preparing 2017 savings strategies which are due to DPB on September 20th
 - Revenue forecast will be updated again in preparation for the Governor's proposed amendments to the budget
 - On a positive note, collections in the first 2 months of fiscal year 2017 were 8.1% above collections in FY 2016 (partially due to 2 extra deposit days in August)
 - Revised forecast assumes 1.7% growth in FY 2017
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