VGEA eNEWS

VIRGINIA GOVERNMENTAL EMPLOYEES ASSOCIATION

News this issue:

Tidewater Meeting Set

Budget Agreement Covers Shortfall

Upcoming
VGEA Regional Meeting!

Don't Miss it!

Tidewater Regional Meeting

Thursday,
October 16, 6 p.m.

Kelly's Tavern
Greenbrier Mall, Chesapeake

RSVP for this meeting by email: info@vgea.org or toll-free phone: 877-302-7146

A complimentary meal will be served, so RSVPs are necessary. Thank you!

Upcoming

September 18, 2014

Legislators Agree on Budget Actions

On Monday, September 15, Governor Terry McAuliffe and the General Assembly leadership announced that they had reached agreement on a plan that would close the additional 2014-16 biennium general fund revenue shortfall of $842.5 million. Yesterday afternoon, that plan was adopted unanimously as House Bill 5010 by the House Appropriations Committee. Then today, September 18, also without dissent - (Senate Bill 5005) was approved by the Senate Finance Committee. When the full General Assembly later convened, these Budget amendments were adopted by overwhelming majorities.

It is always a relief when we know there are budget cuts coming to hear the Governor say, "We are doing everything we can to preserve State employee jobs." That was just one message that he brought to us at last Saturday's VGEA Annual Meeting at the DoubleTree in Midlothian. For more about the **Annual Meeting**, please see the videoclips that will be posted on our website (www.vgea.org) early next week, and look for the next issue of ***ForeSight*** for expanded coverage and photos coming soon!

During the Meeting, members had a lot of Budget questions about how the General Assembly seemed to go from being in session in February/March and appearing to be on track with State salary increases (of 1% or 2%) to a month or so later facing what was then a billion and a half dollar shortfall. How were the financial analysts ***so*** off? The short answer is federal SEQUESTRATION. That's a long word that means the Federal government enacted across-the-board spending cuts that took effect in 2013. These cuts greatly impacted Virginia because of mandated decreased Department of Defense spending (from which the Commonwealth also lost State sales and other taxes) and in large part caused the projected shortfall for 2014 - now estimated at $2.4 billion. There are, of course, other economic elements.

Back in June, when the Fiscal Year 2014-16 biennial budget was finally passed, it attempted to address the budget shortfall known at that time, which was estimated at $1.55 billion. Because the Caboose Budget (amending the FY 2014 budget) had already been adopted, the entire three-year estimated shortfall was programmed into the new budget. So the June adopted budget for 2014-16 included a reserve of $842.5 million; and anticipated a withdrawal of $707.5 million from the Rainy Day Fund, to close the known gap.

However, revenues continued to decline, resulting in an even larger shortfall than was anticipated after the June budget action. The Governor called for an official revenue re-forecast for the upcoming biennium immediately after the June 30 close of the fiscal year. Two overarching facts influenced the resultant revised forecast:

- The expectation that Virginia's economy will continue to under-perform the nation
- Continued sluggish job and salary growth.

Governor McAuliffe presented the revised revenue forecast to the Joint Money Committees on August 15. It is significantly lower than was anticipated in the June budget and assumes the following:

- Total general fund revenue growth of 2.7% in FY 2015 (reduced from 5.2%)
- Total general fund revenue growth of 2.7% in FY 2016 (reduced from 4.1%)
- When the FY 2014 additional shortfall is factored in, the anticipated biennial deficit is expected to be $881.5 million more than predicated in the June budget.

Because we are already three months into fiscal year 2015, the Governor and General Assembly leadership quickly determined that addressing the shortfall now will provide more time to

VGEA Chapter Meeting!

Don't Miss it!

Prince William ChapterMeeting

Monday, Sept. 29, 5:30 p.m.

At the Olive Garden Restaurant in Woodbridge

Please RSVP to: Linda Pierce at meanmom1@erols.com

For more details call the VGEA Office toll-free: 877-302-7146

necessary. Than

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implement savings actions. HB 5010 and SB 5005 make the following changes to the budget enacted in June:

- Updates the revenues assumed in the budget to reflect the downward revisions to the general fund forecast
- Appropriates $470.0 million in FY 2015 and $235.0 million in FY 2016 from the Rainy Day Fund
- Takes action to close the remaining budget shortfall of $345.5 million in FY 2015 and $536.0 million in FY 2016 through the establishment of four reversion accounts

Those four accounts provide for the following:

1. State agency reductions of $92.4 million in FY 2015 and $100.0 million in FY 2016-approximately 4% each year. This total is not agency-specific and the Governor is given latitude to achieve the necessary savings within the confines of the agency reduction plans. Existing budget language provides limitations on how much the Governor can reduce spending in any one agency or program to 15% or less and prohibits any reduction to retirement system contributions. The Governor requested that each agency plan for a 5% reduction in FY 2015 and 7% reductions in FY 2016 and those plans have been submitted to the respective Cabinet Secretaries and are due to the Governor tomorrow.

2. Higher education reductions of $45.0 million each year. These reductions will be taken against Education and General programs only. Research, financial aid, Cooperative Extension and VIMS are exempt from reductions. These are not across-the-board reductions against the General Fund, but may affect future tuition costs. The target reflects each institution's in-state/out-of-state mix and revenue capacity. Also, consistent with the Governor's guidance, the Bill states the legislative intent that institutions achieve savings through productivity and operating efficiencies and not through any mid-year tuition and fee increases. HB 5010 and SB 5005 also repeal language that set aside $20.0 million for higher education. These amounts were not allocated to any particular institution in the June budget, but were designed to be an additional reserve in the event revenues declined further.

3. Savings from state aid to local governments of $30.0 million each year is proposed. Overall, aid to localities makes up almost half of the budget. Consistent with strategies utilized by Governors Kaine and McDonnell, localities will be given the flexibility to identify which programs to reduce to achieve the target. Targets will be established by the Department of Planning and Budget and will be distributed among localities on a pro rata

share of total local aid received. Governors Kaine and McDonnell excluded funding for K-12 and car tax reimbursements from the calculation and from the local aid categories that may be reduced. $30.0 million equates to less than 0.3% of total local aid. This strategy was first used in the 2008-10 biennium and continued through FY 2013. Reductions totaled $60.0 million in FY 2011 and were eliminated by the General Assembly in FY 2014.

4. The last reversion clearing account contains net spending adjustments of - $40.6 million in FY 2015 and - $284.9 million in FY 2016 from a series of balance reversions, transfers and other actions. The largest component is the authorization of transfers from the Rainy Day Fund totaling $705.0 million. It also includes language freezing the additional transfer of existing general fund sales tax revenues to transportation at the FY 2014 level for one year only. This defers the $50.0 million incremental increase to transportation scheduled for FY 2015 until FY 2016.

The language in this account does appropriate an additional $5.7 million in FY 2015 and $10.1 million in FY 2016 to fill 36 additional judgeships, effective December 1, 2014. It also authorizes the Governor to reallocate up to $5.0 million each year from economic development appropriations to other programs designed to enhance economic development efforts if such funds can be used to enhance job creation.

Lastly, this account directs the Governor to develop budget reduction plans and other strategies for submission to the 2015 regular session of the General Assembly to address the remaining FY 2016 shortfall of $272.0 million not otherwise addressed in HB 5010. More cuts will likely be proposed in January to close the remainder of the revenue gap starting next July, but this provides a sort of 'down payment' on the next fiscal year's cuts. It's a good first step and we'll just have to wait and see what comes to fruition next year.

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