Financial Considerations and Issues

Presented to the
New Board of Visitors
Virginia Colleges and Universities

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Rating Agency Key Factor Assessments

• Economic Climate – Vitality and Diversity
  – Income
  – Industrial Diversity
  – Employment Volatility

• Fiscal Performance
  – Revenues
  – Balances and Reserves
  – Liquidity

• Governance
  – Financial Best Practices
  – Financial Flexibility / Constitutional Constraints

• Long-term Liability Burden
  – Debt
  – Pension and Other Post-Employment Benefits (OPEB) Obligations
Rating Agency / Additional Factors

• Demographics
  – Aging Population
  – Out-Migration

• Cyber Security

• Resiliency
  – Events
  – Insurance
National and State Economic Indicators

• According to the third estimate, real GDP grew at an annualized rate of 2.0 percent in the second quarter of 2019, slowing from 3.1 percent in the first quarter.

• Payroll employment rose by 136,000 jobs in September.
  – This follows gains of 168,000 in August and 166,000 in July.

• The national unemployment rate fell to 3.5 percent in September, the lowest level of the expansion.

• Initial claims for unemployment increased by 4,000 to 219,000 during the week ending September 28, consistent with a healthy labor market.
  – The four-week moving average was unchanged at 212,500.

• The Conference Board’s index of leading indicators was unchanged in August, following a 0.4 percent increase in July, suggesting moderate economic growth should continue.

• The Conference Board’s index of consumer confidence fell from 134.2 to 125.1 in September, with both the expectations and current conditions components declining. The decline is not necessarily a sign that confidence is falling sharply, as the index has been choppy in recent months.

• The manufacturing sector contracted for the second consecutive month in September. The Institute of Supply Management index fell from 49.1 to 47.8.
  – Although a reading below 50 indicates that the manufacturing sector is contracting, this is still above the recession threshold of 42.9.
National and State Economic Indicators

• The CPI rose 0.1 percent in August following a 0.3 percent increase in July, and stands 1.8 percent above August 2018.
  – Core inflation (excluding food and energy prices) rose by 0.3 percent, and has increased 2.4 percent from last year.

• At its September meeting, the Federal Reserve lowered the federal funds target rate by 25 basis points to the 1.75 to 2.0 percent range.

• In Virginia, payroll employment rose 0.9 percent in August compared with last year. Northern Virginia posted growth of 0.8 percent; Hampton Roads employment grew 0.3 percent, and Richmond-Petersburg rose 0.6 percent.

• The seasonally adjusted unemployment rate fell 0.1 percentage point to 2.8 percent in August and was unchanged from August of last year.

• The Virginia Leading Index rose 0.1 percent in August after rising 0.1 percent in July.
  – Future employment and initial claims improved while auto registrations declined; the U.S. Leading index was unchanged.
  – The indexes Roanoke, Northern Virginia, and Bristol were unchanged in August, while the indexes for the remaining Virginia metro areas rose.
• Total general fund revenues increased 9.3 percent in September.
  – Broad-based growth in payroll withholding, sales, individual nonwithholding, corporate and recordation tax collections.

• On a year-to-date basis, total revenues increased 8.2 percent, ahead of the annual forecast of a 1.2 percent increase.
Looking Forward – Factors Shaping the Commonwealth’s Next Budget and Financial Future

Major Issues:

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

• Joint Advisory Board of Economists (JABE)
  – Met on October 17th

• Governor’s Advisory Council on Revenue Estimates (GACRE)
  – Meets on November 25th
Potential SCHEV Recommendations for Additional Higher Education Funding

**Affordability and Excellence (~$100 M)**
- Need-based financial aid
- Funding for operations and new E&G facilities to mitigate tuition and fee increases
- Tuition Assistance Grant (TAG)
- Faculty and staff increases *(additional funding required)*

**Access and Success (~$100 M)**
- Postsecondary awareness and outreach activities to students in K-12 *(Guidance to Postsecondary Success Initiative - GPS)*
- Community college investment aligned to support skilled trades
- Institutional support for access and completion

**Talent Development ($50 M)**
- Tech talent initiative
- Innovative internship program

**Efficiency, Effectiveness, Planning and Other Areas of Support (~$7 M)**
- Cost and review of outcomes funding opportunities and agency operations
- Commonwealth Graduate Engineering Program
- Virtual Library of Virginia
For more information on Virginia’s budget, visit:
www.DPB.Virginia.gov

Thank You