All Is Not Well

A Deep Dive into Virginia's Recent and Longer-Term Budget Decisions, and How They're Hurting Schools and Local Communities

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The Commonwealth Institute

Virginia is selling itself short, and our schools, parks, families, and children are paying the price. Whether we look at the last year or the last seven, insufficient revenue has meant that the state's support for everything from textbooks for schoolchildren to health care has fallen.

This approach is eroding the quality of life that draws families and businesses to Virginia. Today, the level of state investment in our schools, families, and economy remains about $4 billion below pre-recession levels, after adjusting for the growing cost of providing the same level of services for a growing population. These services – good quality schools, community programs for troubled kids, public parks, and more – form the foundation for a strong and prosperous state.

Virginians have a number of opportunities over the coming months to discuss these issues and work together to restore our investment in our communities. Opportunities include the public discussions surrounding Virginia's upcoming legislative election in November, as well as the administration's release in December of their proposed budget for the next two years, and the 2016 legislative session where that budget proposal will be considered.

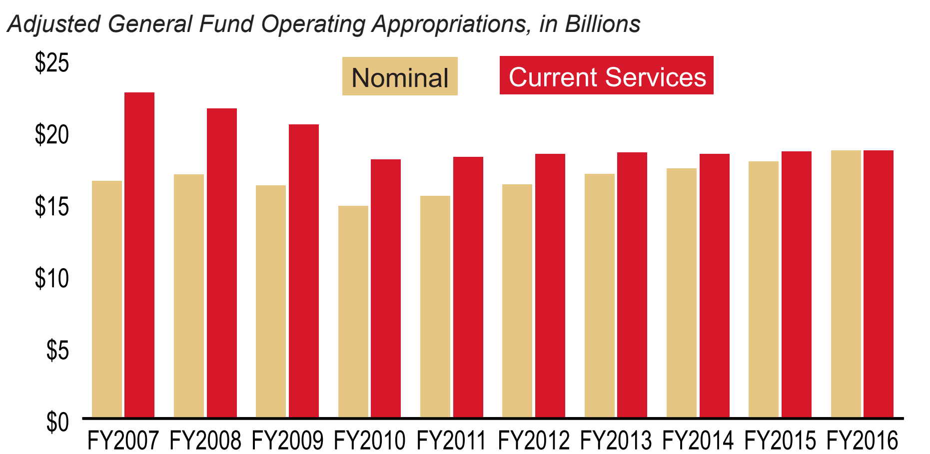
How Virginia Failed to Make Progress This Year

Virginia is in this spot because legislators have not taken steps to make sure revenue grows to meet the needs of Virginia's families, and instead have continually reacted to budget challenges through cuts, gimmicks, and using savings.

For example, during spring and summer 2014, a combination of federal spending decreases and erroneous revenue assumptions left Virginia without enough money to meet its commitments to its K-12 schools, colleges, communities, and families. Instead of making up the difference by raising additional revenue,

Still Way Down

Virginia's general fund operating appropriations, adjusted for reserves; Current services spending is adjusted for FY2016 inflation and population levels



Source: TCI analysis of Chapter 665 (Acts of Assembly 2015), prior budgets, and data from BLS, Census, and HEPI.

IN BRIEF

What Just Happened

Virginia's boomeranging revenue forecasts created a technical revenue surplus this June. But that news masks hundreds of millions of dollars in recent cuts to Virginia's colleges, communities, and public services as a result of overly pessimistic revenue forecasts.

The Bigger Picture

This last round of cuts was on top of years of budget cuts that have shifted costs onto Virginia's local communities and families, and in too many cases have resulted in declining schools and public services:

- Class sizes have been growing as per pupil state direct aid for K-12 education has fallen 14 percent.
- Students are paying a far higher share of college costs than in the past – and than the state's own commitments says they should – as per student state support has fallen 27 percent.
- Museums have been forced to reduce staff and cut programs as state funding has fallen 33 percent.

A Needed Conversation

It's time to get serious about how to provide sufficient support to K-12 schools, public colleges, and local communities. The current legislative elections provide an opportunity for a public discussion of these topics, as does the upcoming budget cycle during which policymakers will decide the state's priorities for the next two years.

legislators planned $614 million in cuts to schools, public services, and local communities; used $267 million in one-time funds from various sources; and spent $705 million of the state's rainy day fund.

Then, in the winter and spring of 2015, when the revenue picture turned out to not be as bleak as expected, policymakers restored only some of the money they had cut.

Still, at the end of the day, there was less money than needed – and than was originally planned – for a wide range of important public services.

For example, about $38 million was still cut from the state's support for public colleges and universities, undermining the state's commitment to restoring public funding for them in exchange for the schools' commitment to rein in tuition increases. As a result, schools continue to look to tuition increases to make up the difference and deal with uncertainty over state funding.

Legislators also kept a $30 million cut to their support for local governments for fiscal year 2015. That cut left localities scrambling to try to maintain state-required services without the expected state support.

State agencies that oversee critical services like funding for public health, public safety, museums and parks, and many other components of a high-quality of life were cut over $190 million.

Rather than fully reversing the cuts to public services, policymakers used much of the returning revenue for one-time items such as paying cash for capital projects.

When the books were finally closed on the budget year that ended June 30, a revenue surplus was announced. That is a good thing, but what it basically means is that the state's prior revenue forecast was overly pessimistic. And because the pessimistic forecast meant the money that's now come in over that forecast was not available to be appropriated at the time, essentially none of the surplus money will go toward funding core services for Virginia's families and communities.

In those cities and counties where officials have been unable or unwilling to increase the local contribution to public schools to make up for those cuts, our children have been left with bigger class sizes, fewer resources, and crumbling buildings. *(Photo: Laurie Sullivan, Creative Commons 2.0)*

A Snapshot of The Longer-Term Story

When the state makes cuts upon cuts while failing to meet the needs of the growing population, it erodes the foundations of our economy and communities in a way that impacts all of our lives.

Since lawmakers started making cuts in 2008, Virginia has moved further and further from meeting its long-standing commitments to the people of the state across a wide range of critical areas.

K12 Education

Years of cuts and gimmicks have damaged state support for public education, leaving local governments scrambling to fill the holes and, when they can't, risking the quality of education kids receive.

Legislators have changed the formula used to determine funding for schools over the last decade to ignore certain costs, such as some equipment and travel costs, part of inflation, and adjusting for enrollment loss. By doing so, they've been able to cut funding while still meeting the letter of the law.

As a result, state direct aid for public education will be down 14 percent – $883.7 million – this year compared to 2007 funding levels, after adjusting for the growing number of students and inflation. Although the problem is the result of decisions made by state lawmakers, Virginia's local elected officials, who are held responsible by their communities for providing a quality education, have been left holding the bag. And in those cities and counties where officials have been unable or unwilling to increase the local contribution to public schools to make up for those cuts, our children have been left with bigger class sizes, fewer resources, and crumbling buildings.

In Prince William County, middle and high school class sizes have ballooned from 21 kids to 30 kids, and there's been talk there of ending full-day kindergarten. In Norfolk, there are school buildings with deteriorating asbestos tiles and windows with cardboard where panes of glass belong. In Chesterfield, overcrowded art classes means there's no room to do large projects. In Hopewell, the school board was considering eliminating all athletics to make ends meet. Schools on the Peninsula have had to cut staff and increase class sizes. In Northampton, school officials have reduced field trips and eliminated the National Defense Cadet Corps program for high schoolers. Even in wealthy Fairfax County, the schools are getting less funding than they need to maintain top-quality education.

Higher Ed and Museums

Education funding problems don't stop at grade school, though. Even as an education beyond high school continues to be more and more necessary for individuals to get jobs that pay a living wage and for communities to compete for well-paying businesses, the state continues to shortchange its colleges. The state's support for public colleges, research institutions, and museums has plunged even more rapidly than K-12 support since 2007.

This year's support for colleges, universities, and research centers will be down by $650 million, a 27 percent drop, after adjusting for the growth in the state's population and the rise in higher education costs.

The small new contributions to higher education during the last legislative session can only be used to pay for certain costs, with much of it reserved for faculty salary increases. Making sure faculty receive small pay increases is a worthy goal, but it remains difficult for colleges to balance their budgets due to years of funding cuts from the state.

With public support declining, the colleges have turned to charging higher tuition to make up the difference, leaving students and their families with dramatically higher debt or priced out of a college education completely.

In less than a generation, Virginia shifted from the state covering an average of 58 percent of the basic costs of in-state students' undergraduate education, to covering just 36 percent of the basic costs. This means students and their families are paying thousands of dollars more over the course of a four-year education. For example, at Longwood University, state funding per in-state student is $3,062 per year below Virginia's own estimate for how much the state should pay. Longwood makes up for the insufficient state funding by charging higher tuition and finding other sources of funds in the amount of $2,900 per year per student above what the state says these families should need to pay. That's almost $12,000 extra for a four-year education.

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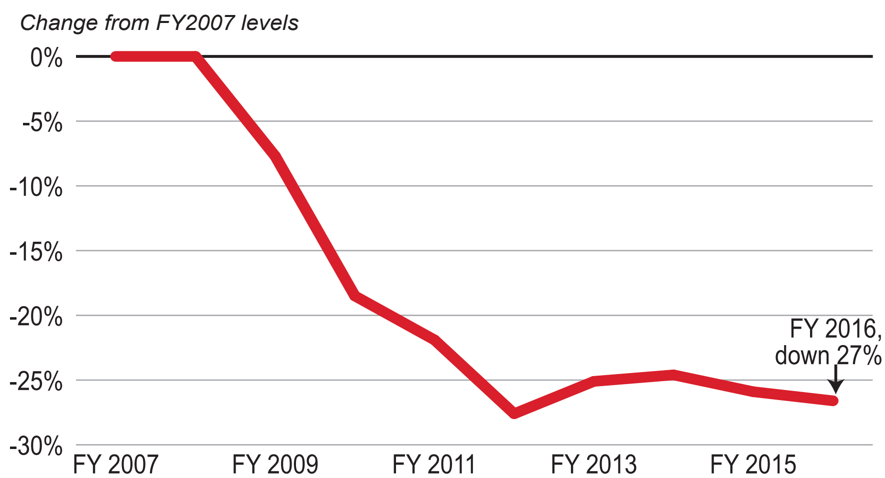
This problem isn't unique to Virginia, but that doesn't mean it's smart to undercut our state's storied public colleges and universities. Higher education is increasingly at the heart of the modern economy, and state investment in our colleges and universities is key to growing our economy and increasing opportunity for all Virginians.

Similarly, the state's museums, which provide valuable educational enrichment opportunities to tens of thousands of school children every year and hundreds of thousands of adults, have had a third of their state funding cut since 2007, after adjusting for the growing cost of providing the same opportunities to the state's growing population. The cuts have forced museums to reduce staff and cut

Still Failing

State general fund support for higher ed and research facilites, adjusted for population growth and inflation in higher ed costs



Sources: TCI analysis of Virginia budget documents, including Chapter 665, HEPI higher education inflation data, and Census population estimates.

programs. For example, the latest round of state cuts have forced the Jamestown Settlement / Yorktown Victory Center to eliminate its summer teacher's institute and cut back on educational outreach after state funding was cut over $900,000. Fewer programs mean 15,000 fewer Virginia schoolchildren will learn about the role of Jamestown and Yorktown in the history of Virginia and the nation.

Local Governments

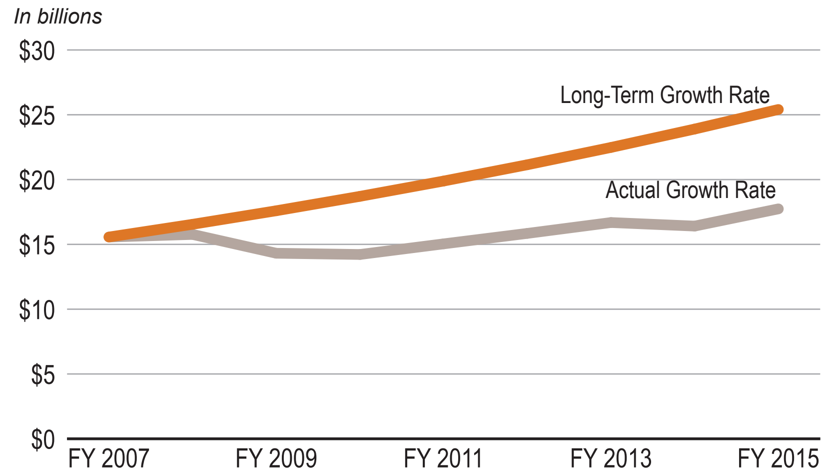
Virginia's cities and counties, which are limited by the General Assembly in their ability to raise their own revenue, have not only been left to figure out how to make up for state cuts to public schools, they've also faced repeated clawbacks of state support for public services that they administer, many of which are state mandated.

In fiscal year 2015, localities had to give back $30 million in state funding that was supposed to pay for critical functions like local police and sheriffs, elections, and local libraries. Legislators used some of the returning state revenue to undo this cut for the upcoming fiscal year, but, in the meantime, local elected officials have faced tough choices between cutting critical services and raising the few sources of revenue available to local governments.

Due to limits on the authority of local government in Virginia, localities can't levy income taxes, and they face limits on business taxes and personal property taxes unless they receive approval from the state legislature – essentially the same lawmakers who shifted these costs to the local level in the first place. The only remaining options are real property taxes, meals taxes, limited business and personal property taxes, fines and fees. Most of these hit lower-income residents harder than higher-income residents. Localities from Northampton to Rappahannock to Wythe have raised property taxes for next year, mostly to meet the needs of their schools.

Off Track

Actual General Fund Revenue vs General Fund Revenue at Long-Term Growth Rate, FY2007 - FY2015



Sources: Virginia Secretary of Finance, House Appropriations Committee, and Senate Finance Committee
FY2015 revenue level includes July 2015 announced surplus revenue above budgeted (Ch665) levels

Under the Radar (The Cuts that We Don't Hear About)

While cuts to schools and increased property taxes are generally high-profile, the lower-profile but still harmful practice of not increasing funding to keep up with growing needs often flies under the radar. The failure of the state to adjust funding for inflation and the growing population means Virginians receive fewer services and lose access to things we used to have.

For example, the number of Virginians with brain injuries has grown, but funding for the organizations that serve them has been completely flat until this year. As a result, wait lists have grown and there are fewer staff to care for patients because the cost of providing care has increased with inflation and the number of patients. In fast-growing Loudoun County, this means that while there used to be three people providing services to residents with brain injuries, now there is only one.

Why This Has Been Happening

Any way you measure it, Virginia's revenue has shrunk compared to the state's needs and its economy, and lawmakers have continually refused to take measures to restore revenue to necessary levels. The only significant new revenue that has been raised since 2007 was set aside almost entirely for transportation, leaving everyone else to fight for their piece of a too-small pie.

This is hurting Virginia's families and communities.

State revenue is now way off track compared to where it would have been if not for the combined hit from the recession and lawmakers' decisions to forgo raising the revenue required to meet the state's needs. From fiscal years 1990 to 2007, Virginia's revenue grew at an average of 6.3 percent a year. But the average growth since 2007 has been just 1.6 percent. That's led to a gap in state revenue of $8 billion last year compared to where we'd be if lawmakers had taken steps to make sure Virginia's revenue kept up with the modern economy's needs, like prior policymakers did.

Seen another way, if Virginia's revenue, measured as a share of personal income in the state, was at the same levels as during the mid-2000s, the state would have about

$2 billion more a year to patch the holes in state services. That's not enough to restore all services to pre-recession levels, since the recession's continued impact on Virginia's economy means it hasn't kept up with growth in Virginia's population and inflation, but it would be enough money to completely restore state support for K-12 education, which would be a huge relief for parents, communities, and local governments in addition to helping kids get a better education.

But general fund revenue is projected in the state's budget to be just 4.0 percent of state personal income this year, well below the 4.5 percent that was typical during the economic expansion of the 2000s, and even a bit below the typical levels during the recent recession. In fact, looking all the way back to 1990, it never dipped below 4.1 percent even amid the early 1990s' defense cuts and recession.

Even if we assume somewhat higher revenue for fiscal year 2016 based on higher-than-expected fiscal year 2015 revenue, the state will still be about $2 billion short of historic revenue levels.

No matter how you look at it, Virginia is failing to do all that it can and should for its schools and communities.

Virginia needs to restore its longtime commitments to higher education to ensure our colleges and universities remain strong. (Photo: Rick C., Creative Commons 2.0)

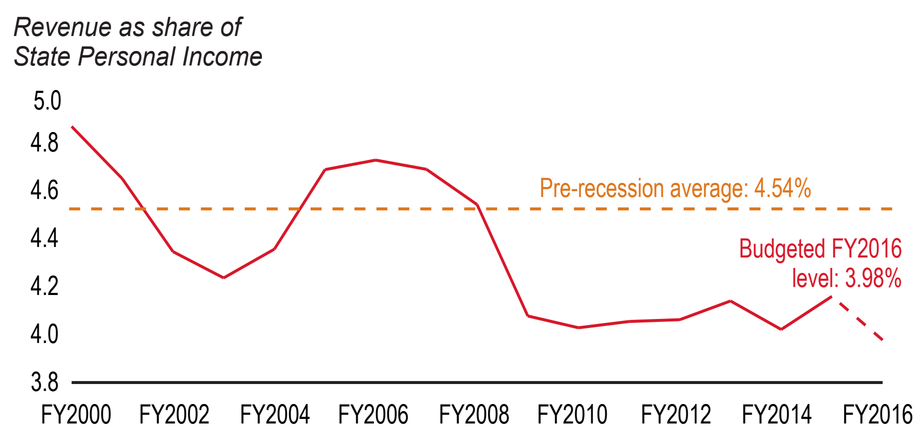
But There are Good Options to Get Out of This Hole

When the state fails to meet its commitments, families across Virginia feel the impact, but the damage is particularly severe in less wealthy communities and localities that can't fill the gap themselves. This is counterproductive since it reduces the chances that all of Virginia's children will have the opportunity to reach their full economic potential, and that hurts the whole state. We can and should fix this. Virginia's upcoming legislative elections provide an opportunity for public discussion of these challenges. As candidates barnstorm across the state and local newspapers cover the issues, Virginia's longer-term budget picture and its impacts need to be addressed.

Another upcoming opportunity for discussion of these issues is the mid-November retreats of the Senate Finance and House Appropriations committees, during which legislators will begin to turn their attention to the budget for the next two years (fiscal years 2017 and 2018). Similarly, the release in December of Governor McAuliffe's budget plan, and 2016 General Assembly session during which legislators will make changes to that budget, are important opportunities for a broad dialogue about the needs of Virginia and how to make wise choices for the future.

By understanding the way Virginia's level of investment in schools and communities has eroded over time we can all be better prepared to have a serious conversation about how to move the state forward and invest in our schools, communities, and future.

State Revenue as Share of Personal Income Still Low



Source: TCI analysis of BEA state personal income data, Virginia Secretary of Finance Dec 2014 Joint Money Committee presentation personal income estimates, and Chapter 665 (Acts of Assembly 2015)

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