

Overview of the Governor's Budget Recommendations for 2000-02

The Governor's budget recommendations for 2000-02 are predicated on (1) significant increases in the revenue projection above the amounts forecast last year; and (2) substantial uncommitted balances that result primarily from the higher revenue forecast for the current year. Together, they provide about \$24.7 billion in general fund resources available for 2000-02 -- about \$3.2 billion more than the approximate cost of continuing current services.

In addition to the \$3.2 billion in new revenue, budget savings of about \$123.3 million are recommended in the introduced budget, bringing total new general fund resources available for appropriation to about \$3.3 billion.

HB/SB 30, as introduced, proposes operating budget increases of \$3.1 billion and \$199.8 million for capital outlay projects.

Proposed General Fund Budget for 2000-02 (\$ in millions)	
Revenues Available for Appropriation	\$ 24,732.5
Operating Appropriations	24,527.6
Capital Appropriations	<u>199.8</u>
Unappropriated Balance	\$ 5.1

Revenues

The general fund revenue forecast of \$23,415.5 million anticipates overall growth rates of 6.6 percent for FY 2001 and 6.8 percent for FY 2002. The forecast assumes continued strong job and wage growth, with low inflation through FY 2002, and no downturns in the economy or stock market. The official revenue forecast also incorporates a portion of the Commonwealth's allocation of the Tobacco Master Settlement Agreement (MSA) as general fund revenue. And, it reflects a number of tax policy changes that will go into full effect in the next biennium.

As introduced, HB/SB 30 also includes \$611.8 million in balances either brought forward from 1998-2000 or projected to occur in 2000-02. The largest portion of this total comes from a \$683.8 million increase in the revenues and transfers for FY 2000. Because relatively little of this revenue is used in FY 2000, the bulk flows forward as a balance into 2000-02.

The introduced budget also includes \$705.1 million in proposed transfers. Estimated Lottery proceeds of \$620.6 million and estimated ABC profits of \$67.2 million make up the bulk of the transfer total.

Proposed Budget Savings

In addition to the \$3.2 billion in “new” revenue available, the introduced budget proposes about \$123.3 million in budget savings. These savings have the effect of adding to the available resources which can be allocated in the introduced budget.

The largest single item is a proposed \$91.7 million reduction to agency budgets in FY 2002. Agencies are required to submit reduction plans by October 1, 2000. A number of programs and agencies – higher education, direct care staff in mental health and mental retardation facilities, staffing costs in adult and juvenile corrections, and aid to localities, for example – are exempted from these reductions through proposed language.

Other proposed reductions include the supplanting of general fund support for the Route 58 and Northern Virginia Transportation Bond programs, with debt service to be paid instead from Commonwealth Transportation Funds; a revision of debt service requirements for bonds to be issued in the next biennium; a proposed premium holiday for two insurance funds; and, a reduction in the amounts for the COPS program, which was not reauthorized by Congress.

Proposed savings are detailed below.

Major Spending Reductions Proposed in HB/SB 30, As Introduced (\$ in millions)	
Central Accounts	
Withhold Productivity Savings	\$ (91.7)
Premium Holiday for Automobile Liability Insurance	(2.4)
Premium Holiday on Performance Indemnity Bond	(0.3)

Major Spending Reductions (Continued)	
Transportation	
Supplant GF with Transportation NGF	(14.1)
Public Safety	
Reduce GF Appropriation for COPS Matching Funds	(2.5)
Special Revenue for Substance Abuse Assessments	(1.0)
Other	
Revise Debt Service Schedules	(5.2)
Supplant GF with Water Quality Imp. Fund NGF	(2.5)
Employment & Training Savings	(1.3)
Adjust Funding in Higher Education (various)	(1.2)
CIT-Decrease Funding for Centers/Adv. Communications Fund	(1.2)
Total-Spending Reductions	\$ (123.3)

Proposed Spending Increases

Non-Discretionary Spending Increases. About \$2.3 billion of the \$3.3 billion in new resources available is required to fund non-discretionary cost increases, meet historical commitments, address revenue shortfalls, respond to other pressing cost increases, or fund basic facility repairs.

Four commitments account for over \$1.8 billion of the \$2.3 billion in required cost increases:

- 1) Continuing the phased elimination of the personal property tax on personally owned vehicles assessed under \$20,000 (\$878.1 million);
- 2) Fully funding the state share of the Standards of Quality (SOQ) (\$577.0 million);
- 3) Providing funds to make the deposits to the Revenue Stabilization Fund in FY 2001 and FY 2002 (\$200.1 million); and
- 4) Meeting the projected cost of Medicaid services for mandated client groups (\$179.1 million).

The table below details the cost increases which are largely non-discretionary.

Required/Non-discretionary Spending Increases Proposed in HB/SB 30, As Introduced (GF \$ in millions)	
Central Accounts	
Personal Property Tax Program	\$ 878.1
Direct Aid to Public Education	
Fully Fund Direct Aid to Public Education (SOQ, Incentive Funds, Categorical Accounts)	577.0
Special Education in Jails	3.4
Alternate Tests for Special Education Students	2.0
Comprehensive Services	
Caseload Growth	12.0
Health and Human Resources	
Medicaid-Increased Utilization and Inflation	179.1
DMAS-Federal Matching Funds Requirement	11.8
MCVH-Additional Funding for Indigent Care	11.0
DMAS/MHMR- Services to Disallowed Clients on Elderly and Disabled Waiver	14.4
DSS-Foster Care & Adoption Subsidy Caseload/Mandated Rate Increases	7.1
DSS-Replace Child Support Enforcement Revenue	6.6
DSS-Implement Elec. Benefits Transfer (EBT) System	4.0
MHMR-Program to Treat Violent Sexual Predators	3.0
MHMR-Financial Management System Software	2.4
DMAS-New Medicaid Claims Processing System	2.0
DMAS-Residential Care for Non-CSA children	1.5
VDH-Office of Chief Medical Examiner	1.5
MHMR-Critical Staffing at Hiram Davis Medical Center	1.3
DSS-Increase the Number and Timeliness of Adoptions	1.2
Higher Education	
VSU-Extension Program-Prior Commitment to Match Federal Funds	1.2

**Required/Non-discretionary Spending Increases
(continued)**

Col. & Univ.-Oper. and Maintenance of New Facilities	\$ 12.2
Public Safety	
DCJS-Aid to Localities with Police Departments (HB 599)	48.7
DOC-Increase Direct Inmate Cost Funding	25.7
DJJ-State Share of Construction of Local Detention Facilities	12.0
DOC-Increased Computer Network Operating Expenses	6.0
DJJ-Operating Costs for Detention Facilities	5.6
DJJ-Higher Medical Care Costs	3.7
DOC-Funding for Service Fees to Localities	1.6
DOC-Cost Increases for Private Prison	1.2
General Government	
Treasury-Revenue Stabilization Fund-FY 2001 and FY 2002	200.1
Treas. Bd.-Debt Service for Higher Education Equip. Trust Fund	44.0
DOA-Share State Rev.-ABC Profits, Rolling Stock	10.7
Comp. Bd.-Increased Inmates in Local Jails	10.6
Sup. Ct.-Criminal Indigent Defense	8.1
TAX-Temporarily Relocate the Department of Taxation	2.9
Comp. Bd.-Retiree Health Care Credit - Constitutional Officers & Deputy Sheriffs	1.6
Treasury-Bank Services Fees	1.1
Comp. Bd.-Increase Number of Local Sheriffs' Deputies	1.1
Other	
DEQ/DCR-Water Quality Improvement Fund	34.0
Other Spending Increases	12.0
Capital Outlay	
Maintenance Reserve	90.0
Infrastructure/Life Safety Projects	65.6
Equipment for Facilities Coming On-line	14.7
Total-Required and Non-discretionary Spending Increases	\$ 2,334.0

Budgeting for Initiatives and Other Traditional Priorities. The remaining \$975 million in additional resources is available to support new initiatives and traditional priorities such as capital projects and salary increases for employee groups. The following table details how this funding is allocated in HB/SB 30, as introduced.

Discretionary Spending Increases Proposed in HB/SB 30, As Introduced (\$ in millions)	
Public Education	
Direct Aid-Expand the Early Reading Intervention Program	\$ 15.5
Direct Aid-GF Part of Statewide HS Computer System	10.3
Direct Aid-New Remedial Math Program	9.1
DOE-SOL Testing Improvements	11.2
DOE-Statewide Web-Based HS Computer System	6.3
DOE-School Assistance for SOA Accountability	4.5
DOE-Expand the Early Reading Intervention Program	1.6
Other Public Education	1.7
Transportation	
VDOT-Create the Priority Transportation Fund	212.3
VDOT-Tobacco Settlement Funding to Priority Transportation Fund	11.6
VDOT-General Fund Support for Highways	157.4
DRPT-General Fund Support Mass Transit	29.4
VPA-General Fund Support for Ports	8.4
Aviation-General Fund Support for Aviation	4.8
Higher Education	
Col. & Univ.-Maintain Faculty Salaries at 60th Percentile	44.3
Col. & Univ.-Fund Enrollment Growth	16.6
GMU-Enhance Academic Programs	15.0
SCHEV- Tuition Assist. Grant (TAG) Program	6.2
VSU-Enhance Academic Programs	5.5
NSU-Enhance Academic Programs	6.7
UVA-Center for Government	1.0
VCU-Engineering School and Centers	1.6

**Discretionary Spending Increases
(continued)**

Public Safety

DOC/DCJS/DJJ- Substance Abuse Treatment (SABRE)	20.0
St. Pol.-Establish Special Operations Division (SABRE)	16.8
DOC-Prison Bed Impact of SABRE Legislation	4.7
St. Pol.-Add'l Medevac Funds and Replace Helicopters	6.0
St. Pol.- Statewide Communication System	5.0
DCJS-Increase Forensic Science Salaries	3.0
DCJS-Va. Institute of Forensic Science and Medicine	2.0
DJJ-Private Provider Beds and Services	2.0
DMA-National Guardsmen Tuition Assistance	1.3
Other Public Safety	1.9

Health and Human Resources

DMAS-Increase Nursing Home Reimb. to \$85/day	16.0
DMAS-Increase in Rates for Personal Care Providers	4.1
VDH-Integrated On-line Network	2.8
VDH-Va. Institute of Forensic Science and Medicine	1.0
Other Health and Human Resources	1.9

Employee Compensation and Related Expenses

Salary Increases for State Employees (2.4%, Nov. 25, 2000)	51.4
Increase in State Employee Health Ins. Premiums (Yr.1)	32.3
Salary Increases for State-Supported Local Employees	24.8
VRS-Deferred Compensation Cash Match Program	17.3
Implement New Classified Pay Structure	2.0

Commerce and Trade

Additional Funding for Tourism Advertising	6.5
Establish the Virginia Business Information Center	1.0
VEDP-Certified Community Cooperative Advertising	1.0
Other Commerce and Trade	4.9

Finance

Treas. Bd.-Higher Ed. Equip. Trust Fund Debt Svc.	14.4
Treas. Bd.- Debt Svc. Shipbuilding Carrier Integ. Ctr.	6.4
Treas. Bd.-New VPBA Projects Debt Svc.	1.6
Tax.-Administrative Expenses for Legislation	1.4
DPB-Replace Budgeting Computer Systems	1.0

**Discretionary Spending Increases
(continued)**

Natural Resources	
DCR-Preserve Civil War Battlefields	3.4
Other Natural Resources	0.2
General Government	
Bd. Elections-Develop New Voter Registration System	2.3
Increased Rent Costs Across State Agencies	3.4
Other	3.1
Central Accounts	
Governor's Opportunity Fund	30.0
Establish Regional Visitor Centers	6.0
Governor's Motion Picture Opportunity Fund	2.0
Other Central Accounts	0.5
Technology	
CIT-Higher Education Research Initiative	20.0
DTP-Comm. Access to Computers and the Internet	8.7
DTP-Geographic Information Systems	4.4
DTP-Increase Resources for New Responsibilities	1.7
DTP-Establish Technology Internship Program	1.1
Non-State Agencies	
Grants to Non-State Entities	12.8
Assoc. for Preservation of Va. Antiquities for 2007	3.0
Grants for Historical Landmarks	2.7
Virginia Equine Center	2.0
National Slavery Museum at Jamestown	1.0
Capital	
Jamestown-Yorktown Foundation	12.3
Science Museum	1.1
Central Account Repairs and Energy Projects	6.5
Other	10.7
Total-Operating & Capital Discretionary Spending	\$ 974.4

A summary of significant general fund proposed spending increases in each major area follows.

Direct Aid for Public Education. An additional \$615.9 million GF is allocated to Direct Aid for Public Education in the 2000-02 biennium, along with an additional \$12.0 million GF to cover increased caseloads in Comprehensive Services.

Most of the proposed new spending -- \$547.2 million GF -- is to update the Standards of Quality accounts for increased enrollment, prevailing local costs of education, sales tax revenues, and updated composite index calculations. Another \$29.8 million has been included to update costs and participation rates in a number of categorical and incentive programs.

Initiatives totaling \$38.9 million GF are included to expand the Early Reading Intervention Program, to provide for the general fund portion of an educational technology program, to create a new remedial math program in middle schools in the second year, and to comply with new federal special education regulations.

A nongeneral fund contribution of \$41.2 million the first year and \$43.6 million the second year from the Literary Fund has been recommended to support an educational technology program of computer-administered instruction and testing in high schools, by the 2003 school year.

In the Department of Education, increases totaling \$27.7 million GF are recommended to address concerns with Standards of Learning testing, to implement a statewide web-based computerized instructional and testing system, to provide assistance to school divisions in meeting the requirements of the Standards of Accreditation and provide additional testing staff, to support an expanded Early Reading Intervention program and new middle school remedial math program, to establish alternate tests for special education students, and to establish an Alternative Licensure program for teachers.

Higher and Other Education. About \$109.0 million GF in funding increases are proposed for higher education, including \$44.3 million GF in the first year for average faculty salary increases of 2.46 percent -- to maintain salaries at the 60th percentile of peer institutions. Funding of \$16.6 million GF is provided to address enrollment growth, and \$12.2 million GF is included for operation and maintenance of new facilities coming on-line.

The budget also proposes an allocation of \$79.7 million from the Higher Education Equipment Trust Fund, to provide technology infrastructure and replace obsolete equipment. Lease payments for the equipment are budgeted in the Treasury Board.

The proposed budget also continues for two years the freeze on increases in tuition and mandatory instructional fees.

Institution-specific initiatives include \$15.0 million GF at George Mason University for instructional technology and to improve academic programs; \$6.7 million GF at Norfolk State University for upgrades to the telecommunications network and for academic program improvements; and \$6.7 million GF at Virginia State University for academic program improvements and cooperative extension. Funding of \$20 million GF in the second year is provided to the Center for Innovative Technology for a Technology Competitiveness Fund to encourage research at Virginia's public colleges and universities.

Additional funding of \$6.2 million GF is recommended to maintain the annual Tuition Assistance Grant at \$2,700 per student, based on projected private college enrollments.

Public Safety. Additional funding of \$167.6 million GF is recommended for public safety. Over half of this amount covers the required increase in aid to localities with police departments (HB 599), based on current revenue growth estimates (\$48.7 million GF), and establishes a proposed Substance Abuse Reduction Effort (SABRE) with \$41.5 million GF. The SABRE project includes funds for State Police for law enforcement, and for adult and juvenile corrections for treatment and supervision of drug offenders.

The recommended budget for the Department of State Police includes \$5.0 million GF the first year for engineering costs associated with the new interagency land-mobile radio system, and \$6.0 million GF to lease five new helicopters -- four of which will replace existing single-engine machines and one which will increase twin-engine capacity. Also, six positions for a new Medevac program serving the Lynchburg region are recommended.

Health and Human Resources. The budget includes proposed spending increases of \$274.7 million GF for Health and Human Resources agencies. About 90 percent of the funding is required to meet caseload and cost increases in Medicaid and other programs (\$197.2 million GF); to comply with federal and state mandates for enhanced services to disabled persons, welfare recipients, and others (\$34.0 million GF); and to offset nongeneral fund revenue losses in mental health facilities and child support enforcement (\$18.4 million GF).

Proposed initiatives includes \$21.4 million GF for long-term care programs, including \$16.0 million GF for increased nursing home reimbursement (plus \$17.2 million in federal Medicaid funds), \$4.1 million GF for home-based personal care services (plus \$4.4 million in federal Medicaid funds), \$850,000 GF for community-based programs administered by the Department for the Aging, and \$400,000 GF in special services for blind elderly persons.

Compensation. Employee compensation increases totaling \$94.3 million are recommended to provide a 2.4 percent salary increase in the first year of the

biennium for state and state-supported employees. As proposed, the salary increase would be paid to employees with performance ratings of "meets expectations" or better.

Other compensation recommendations include \$17.3 million GF for the matching deferred compensation program, and \$32.3 million GF for first year premium increases in the employee group health insurance plan. The budget also includes \$2.0 million GF for administrative costs associated with reform of the classified employees' pay plan.

Commerce and Trade. Nearly all of the proposed \$14.9 million GF increase in Commerce and Trade is targeted to four agencies -- Virginia Tourism Authority, Virginia Economic Development Partnership, Department of Business Assistance and the Department of Minority Business Enterprise.

Included is \$6.5 million GF to enhance tourism marketing and promotion of a number of historic attractions and sites; \$1.0 million GF to develop a certified community cooperative advertising program; \$1.0 million GF to establish the Virginia Business Information Center; and \$700,000 GF to further capitalize the Capital Access Fund for Disadvantaged Businesses.

Other general fund Commerce and Trade initiatives are contained in the Central Accounts section of the budget, including \$6.0 million GF for the establishment of regional visitors centers, \$2.0 million GF for the creation of the Governor's Motion Picture Opportunity Fund, and \$30.0 million GF for the Governor's "Deal Closing Fund."

Natural Resources. The budget proposes a spending increase of \$35.3 million GF, of which \$34.0 million is committed to the Water Quality Improvement Fund. The Departments of Conservation and Recreation (DCR) and Environmental Quality (DEQ) will use the funds for agency operations (\$19.0 million) and for carrying out the Water Quality Improvement Act (\$15.0 million). The budget also includes a general fund reduction of \$2.5 million for DCR's water quality programs, to be supplanted with moneys from the Water Quality Improvement Fund.

An additional \$3.4 million GF is recommended for DCR to partner with the federal government and private non-profit organizations in the purchase of four Civil War battlefields threatened by encroaching development.

Nongeneral fund initiatives include \$2.9 million for DEQ's air pollution control program; \$1.8 million for wildlife management programs and other services provided by the Department of Game and Inland Fisheries; \$925,000 in anticipated federal grant funds from the Land and Water Conservation Fund; and \$570,877 for the Marine Resource Commission's programs for recreational saltwater fishing and oyster restoration.

Technology. About \$37.4 million GF in additional spending is proposed for Technology agencies, including \$20.0 million GF for a state college and university technology research grant initiative.

Other technology-related initiatives include \$4.4 million GF for an expanded geographic information program; \$8.7 million GF to increase Internet access through community organizations such as libraries; \$0.4 million GF for expansion of educational web site services which support the Standards of Learning (SOL); and \$1.1 million GF for a technology worker training and retention initiative.

General Government. Central Appropriations includes \$1,427.8 million GF for the biennium to continue phased elimination of the personal property tax on personally owned vehicles. During the 2000-2002 biennium, the phase-in will increase from 47.5 percent of assessed value to 100 percent of assessed value for personally owned vehicles assessed at \$20,000 or less.

A total of \$235.3 million in Tobacco Master Settlement Agreement (MSA) revenues is also included in the budget, as introduced. Of \$235.3 million, \$143.5 million is budgeted in the Central Accounts as nongeneral fund revenue for the Tobacco Indemnification and Community Revitalization Fund, in keeping with legislation adopted last session establishing dedicated funds for specific purposes. Another \$28.7 million is allocated to the Virginia Tobacco Settlement Foundation Fund, for the purpose of reducing and preventing tobacco use by minors.

The remaining 40 percent is included as general fund revenue. In FY 2001, the full 40 percent is appropriated for transportation purposes. In FY 2002, the budget assumes that securitization of the 40 percent of revenues will occur, and that \$11.6 million will remain as the residual for transportation -- after the sale.

Recommended initiatives for general government agencies include \$2.3 million GF for replacement of the Virginia Voter Information System; about \$1.0 million GF for the Virginia War Memorial and the National World War II Memorial in Washington, D. C.; and \$200,000 GF for expansion of workforce oversight and planning by the Department of Personnel and Training. Funding also is included for the cost of housing an increasing number of prisoners in local jails.

In Finance agencies, an additional \$325.2 million GF is proposed, including \$200.1 million GF for two payments into the Revenue Stabilization, or "Rainy Day" Fund. An increase of \$103.0 million GF in the Treasury Board budget includes \$14.4 million for debt service payments on a proposed \$79.9 million allocation from the Higher Education Equipment Trust Fund, along with \$49.0 million GF transferred from the institutions of higher education to simplify

the debt payment process. Other spending increases include \$10.7 million GF to pay localities for the local share of higher wine taxes and alcoholic beverage control profits and \$6.4 million GF in debt service payments for the Newport News Advanced Shipbuilding and Carrier Integration Center.

The introduced budget projects agency savings of \$91.7 million GF for the biennium from unspecified productivity improvements. Although not captured until the second year, these savings are calculated as 1 percent of non-exempted personal services and 2 percent of non-exempted non-personal services each year for Executive Branch agencies.

Exempted personal services amounts include funds for adult and juvenile correctional officers, mental health direct care positions, and all higher education staff. Exempted non-personal service includes aid to localities, continuous charges like debt service and long-term leases, and all of higher education.

Transportation. Increased spending includes \$423.9 million GF for a proposed transportation program. The increase is partially offset by a \$14.1 million GF reduction for the Northern Virginia Transportation District Program and the U.S. Route 58 Corridor Development Program.

Additional nongeneral funds of \$945.3 million are recommended, \$570.1 million of which would result from the proposed sale of 40 percent of the Commonwealth's Tobacco Settlement proceeds.

The increased revenues are distributed across all modes of transportation. Several projects have been identified as uses for the funds, including \$25.0 million NGF for a Virginia Airports Revolving Loan Fund, \$10.0 million in tax credits to encourage teleworking, \$2.0 million GF for the National Air and Space Museum Annex, and \$2.4 million GF for continuation of the Craney Island study.

Capital Outlay. The introduced budget provides \$848.9 million for capital construction, \$199.8 million of which would come from the general fund. Of this amount, \$90 million GF is provided for the Maintenance Reserve Program. Funding of \$14.7 million GF is provided for equipment to complete capital projects authorized in 1998. An additional \$65.6 million GF is also provided to address infrastructure projects, such as HVAC and water systems, as well as life/safety, fire suppression, and asbestos abatement.

The remainder of capital funding comes from nongeneral fund sources or from proposed debt issuance. Nongeneral fund projects include \$107.8 million for dorms and dining halls at colleges and universities, which will be issued as 9(c) debt and repaid with student and user fees.

Virginia Public Building Authority debt of \$28.9 million is recommended for projects at the seat of government and the Virginia Museum of Fine Arts.

Debt of \$105.9 million from 9(d) bonds would be issued for parking and athletics facilities at colleges and universities.

Several property transfers and long-term leases are also proposed in both capital and operating sections of the introduced budget. Language also is included which authorizes the Tobacco Indemnification and Community Revitalization Commission to expend up to \$40.1 million for five higher education projects and two natural resources projects.