

Overview of the Budget for 2000-02, as Adopted

The adopted budget for 2000-02 is 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 \$25.0 billion in general fund resources available for 2000-02 -- about \$3.5 billion more than the approximate cost of continuing current services.

In addition to the \$3.5 billion in new revenue, budget savings of about \$220.0 million are included, bringing total new general fund resources available for appropriation to about \$3.7 billion.

The adopted budget includes operating budget increases of \$3.4 billion and \$303.8 million for capital outlay projects.

General Fund Budget for 2000-02 (\$ in millions)	
Revenues Available for Appropriation	\$ 24,981.9
Operating Appropriations	24,673.1
Capital Appropriations	<u>303.8</u>
Unappropriated Balance	\$ 5.0

Revenues

The general fund revenue forecast of \$23,506.1 million anticipates overall growth rates of 5.5 percent for FY 2001 and 6.9 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. It also reflects a number of tax policy changes that will go into full effect in the next biennium.

The adopted budget also includes \$761.1 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 \$633.4 million increase in revenues 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 adopted budget also includes \$714.7 million in transfers. Estimated Lottery proceeds of \$620.6 million and estimated ABC profits of \$73.0 million make up the bulk of the transfer total.

Budget Savings

In addition to the \$3.5 billion in “new” revenue available, the adopted budget proposes about \$220.0 million in budget savings. These savings have the effect of adding to the resources available for appropriation in 2000-02.

The largest single item is a \$91.7 million GF 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 language.

The next largest reduction -- \$54.6 million -- results from conducting an annual valuation of VRS assets, rather than a biennial valuation. Using a June 30, 1999 valuation (rather than June 30, 1998) reduces by \$54.6 million GF the required retirement contribution for state employees for the 2000-02 biennium. A similar savings accrues for teachers and for local governments which are members of VRS.

Other reductions include paying debt service on Route 58 and Northern Virginia Transportation Bond from TTF revenues rather than from the general fund; revising debt service requirements for bonds to be issued in the next biennium; establishing premium holidays for two insurance funds; revising the amounts needed for agency utility bills; and reducing the matching funds for the COPS program, which was not re-authorized by Congress.

Savings are detailed below.

Major Spending Reductions in the Budget, As Adopted (\$ in millions)	
Central Accounts	
Withhold Productivity Savings	\$ (91.7)
Retirement Contribution Savings from Annual Valuation of VRS Assets	(54.6)
Establish Premium Holiday for Automobile Liability Insurance & Performance Indemnity Bond	(2.7)

Major Spending Reductions (Continued)	
Reduce Utility Costs for Electricity and Natural Gas Deregulation	(2.3)
Health and Human Resources	
Reduce Involuntary Mental Commitment Fund	(3.6)
Offset GF Costs with Federal TANF Revenues	(2.4)
Capture Reduced Utilization of General Relief	(2.0)
Transportation	
Use Transportation NGF for Rt. 58/NVTD Bonds	(14.1)
Public Safety	
Reduce GF Appropriation for COPS Matching Funds	(4.9)
Reduce Prison Food Inventory Per APA Report	(3.5)
DOC/DJJ-Turnover and Vacancy Savings	(6.1)
Use Special Revenue for Substance Abuse Assessments	(1.0)
Other	
Direct Aid for Schools-Reduce Funding for SOL Materials	(12.6)
Revise Debt Service Schedules	(5.2)
Comp. Bd.- Reduce Local Jail Per Diem Payments	(2.9)
Capture Employment & Training Savings	(1.3)
Adjust Funding in Higher Education (various)	(1.4)
CIT-Decrease Funding for Centers/Adv. Communications Fund	(1.0)
Other Savings	(6.7)
Total-Spending Reductions	(\$220.0)

Spending Increases

Non-Discretionary Spending Increases. About \$2.3 billion of the \$3.7 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 (\$878.0 million);

- 2) Fully funding the state share of the Standards of Quality (SOQ) (\$497.7 million);
- 3) Providing funds to make the deposits to the Revenue Stabilization Fund in FY 2001 and FY 2002 (\$266.4 million); and
- 4) Meeting the projected cost of Medicaid services for mandated client groups (\$173.8 million).

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

Required/Non-discretionary Spending Increases Included in the Budget, As Adopted (GF \$ in millions)	
Central Accounts	
Personal Property Tax Program	\$ 878.0
Direct Aid to Public Education	
Fully Fund Direct Aid to Public Education (SOQ, Incentive Funds, Categorical Accounts)	497.7
Special Education in Jails	3.4
Alternate Tests for Special Education Students	2.0
Health and Human Resources	
Medicaid-Increased Utilization and Inflation	173.8
DMAS-Federal Matching Funds Requirement	11.8
MCVH/UVAH-Additional Funding for Indigent Care	13.0
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-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

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

Higher Education

Col. & Univ.-Oper. and Maintenance of New Facilities	\$ 12.4
VSU-Extension Program-Prior Commitment to Match Federal Funds	1.2

Public Safety

DCJS-Aid to Localities with Police Departments (HB 599)	33.9
DOC-Increase Direct Inmate Cost Funding	25.7
DJJ-State Share of Construction of Local Detention Facilities	13.3
DOC-Increased Computer Network Operating Expenses	6.0
DJJ-Operating Costs for Detention Facilities	6.5
DJJ-Higher Medical Care Costs	3.7
DOC-Funding for Service Fees to Localities	1.6

General Government

Treasury-Revenue Stabilization Fund-FY 2001 and FY 2002	266.4
Treas. Bd.-Debt Service for Higher Education Equip. Trust Fund	44.0
DOA-Share State Rev.-ABC Profits, Rolling Stock	13.7
Sup. Ct.-Criminal Indigent Defense	13.3
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	20.3
Other Spending Increases	12.4

Capital Outlay

Maintenance Reserve	100.0
Infrastructure/Life Safety Projects	63.7
Equipment for Facilities Coming On-line	12.7

**Total-Required and Non-discretionary Spending
Increases**

\$2,276.2

Budgeting for Initiatives and Other Traditional Priorities. The remaining \$1.4 billion 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 the budget, as adopted.

Discretionary Spending Increases Included in the Budget, as Adopted (\$ in millions)	
Public Education	
Direct Aid-2.4% Teacher Salary Increase (Dec. 1, 2000)	\$ 88.9
Direct Aid-Expand the Early Reading Intervention Program	15.5
Direct Aid-Technology Assistance Grants for High Schools	4.8
Direct Aid-SOL Algebra Readiness Program	9.1
Direct Aid-Composite Index Transition Payment	2.9
Direct Aid-Caseload Reduction for Speech Pathologists	1.2
Direct Aid-Vocational Technical Equipment	1.2
Direct Aid-No. Va. Cost of Competing	1.1
DOE-SOL Testing Improvements	11.2
DOE-Statewide Web-Based HS Computer System	6.6
DOE-School Assistance for SOA Accountability	4.2
DOE-Expand the Early Reading Intervention Program	1.3
Other Public Education	10.8
Transportation	
VDOT-Stabilize and Update the Six-Year Improvement Program	307.3
VDOT-Aid for Mass Transit, Ports, and Airports	70.4
Higher and Other Education	
Col. & Univ.-Maintain Faculty Salaries at 60th Percentile	59.7
Col. & Univ.-Fund Enrollment Growth	13.0
Col. & Univ.-Student Financial Assistance	2.0
Cen. App.-Higher Education Research Initiative	13.0
GMU-Enhance Academic Programs	15.5
SCHEV- Tuition Assist. Grant (TAG) Program to \$2,850 and \$3,000	12.0
VCCS-Faculty and Equipment	9.0
NSU-Enhance Academic Programs	6.7
VCU-Enhance Academic Programs and Centers	6.4
VSU-Enhance Academic Programs	5.9

**Discretionary Spending Increases
(continued)**

Library of Va-Full Funding of Aid to Local Libraries	7.1
Library of Va- "Infopowering" Grants	3.7
Commonwealth Health Research Fund	5.0

Public Safety

DOC/DCJS/DJJ- Substance Abuse Treatment (SABRE)	13.3
St. Pol.-Establish Special Operations Division (SABRE)	8.9
DOC-Prison Bed Impact of SABRE Legislation	2.1
St. Pol.- Statewide Communication System	5.0
St. Pol.-Add'l Medevac Funds and Replace Helicopters	4.7
DCJS-Increase Forensic Science Salaries and Positions	4.1
DCJS-Community Corrections	3.8
DCJS-Va. Institute of Forensic Science and Medicine	2.0
DCJS-School Resource Officers	1.4
DCJS-E-911 Grants	1.4
DES-Flood Relief for Franklin City	4.0
DJJ-Private Provider Beds and Services	2.0
DMA-National Guardsmen Tuition Assistance	1.3
Other Public Safety	8.3

Health and Human Resources

DMAS-Increase Nursing Home Reimb. For Patient Care	27.0
DMAS-Increase in Rates for Personal Care Providers	6.3
MHMR/DMAS-Community Services for Mentally Disabled	32.0
DSS/DMAS-Adult Home Rates to \$815 (Nov. 1, 2000)	7.2
Aging/DSS-Home and Community Care for Elderly	5.7
DMAS-Mitigate Impact of Hospital Rate Changes	5.9
DMAS-Medicaid Coverage of Organ Transplants	5.6
DMAS-Medicaid to 80% of Poverty-Elderly and Disabled	5.2
DMAS-10% Dental Rate Increase	2.0
VDH-Local Health Dept. Funding and Facilities	4.4
DRS/Blind-Services for Physically Disabled	4.0
VDH-Integrated On-line Network	2.8
DMAS-Expanded Medicaid for Cancer Screening and Treatment	2.3
VDH-AIDS and Hepatitis C Treatment	1.8
DSS-Community Action Agencies	1.0
VDH-Va. Institute of Forensic Science and Medicine	1.0
Other Health and Human Resources	7.5

**Discretionary Spending Increases
(continued)**

Employee Compensation and Related Expenses	
Salary Increases for State Employees (3.25%, 11/25/00)	\$ 127.3
Increase in State Employee Health Ins. Premiums (Yr.1)	32.3
VRS-Deferred Compensation Cash Match Program	28.3
VRS Disability Program	2.7
Implement New Classified Pay Structure	2.0
Commerce and Trade	
Additional Funding for Tourism Advertising	3.0
Additional Support for Forestry Operations	2.9
Aid for Industrial Development Parks	1.8
Other Commerce and Trade	7.0
Finance	
Treas. Bd.-Higher Ed. Equip. Trust Fund Debt Svc.	13.5
Treas. Bd.- Debt Svc. Shipbuilding Carrier Integ. Ctr.	9.0
Natural Resources	
DCR-Va. Land Conservation Fund	15.8
Water Quality Programs	5.2
DCR-Additional Support for State Parks	4.0
General Government	
Jud.-Court Automation	7.3
Va. Public Broadcasting Bd.-Digital TV	3.6
Increased Rent Costs Across State Agencies	3.4
Bd. Elections-Develop New Voter Registration System	2.3
Comp. Bd.-Commonwealth Attorney Positions	1.6
Central Accounts	
Governor's Opportunity Fund	30.0
Establish Regional Visitor Technology Program	1.5
Non-State Agencies	
Grants to Non-State Entities	34.0
Capital	
New Construction	93.1
Other Capital Outlay	17.0
Other Discretionary Spending Increases	72.2
Total-Operating & Capital Discretionary Spending	\$ 1,396.6

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

Direct Aid for Public Education. An additional \$620.6 million GF is allocated to Direct Aid for Public Education in the 2000-02 biennium.

Most of the new spending -- \$477.6 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 \$20.1 million has been included to update costs and participation rates in a number of categorical and incentive programs.

Initiatives totaling \$135.9 million GF are included to support a 2.4% salary increase for teachers, effective December 1, 2000, expand the Early Reading Intervention Program, create a new remedial math program in middle schools in the second year, comply with new federal special education regulations, and support other initiatives, which are outlined in greater detail in the Public Education section of this document.

A non-general fund contribution of \$56.7 million each year is included to support an educational technology program of computer-administered instruction and testing. The funds come from the sale of notes of the Virginia Public School Authority.

In the Department of Education, increases totaling \$28.8 million GF are included primarily 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 \$157.3 million GF in funding increases are provided for higher education, including \$59.7 million GF in the first year for average faculty salary increases of 3.4 percent -- to maintain salaries at the 60th percentile of peer institutions. Funding of \$13.0 million GF is provided to address enrollment growth, and \$12.4 million GF is included for operation and maintenance of new facilities coming on-line.

The budget also includes an allocation of \$99.1 million from the Higher Education Equipment Trust Fund, to provide technology infrastructure and replace obsolete equipment. Lease payments for the equipment are budgeted to the Treasury Board.

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

Institution-specific initiatives include \$15.5 million GF at George Mason University for instructional technology and to improve academic programs; \$9.0 million GF for the community colleges for workforce training activities, equipment for new facilities and new faculty; \$6.7 million GF at Norfolk State University for upgrades to the telecommunications network and for academic program improvements; \$6.7 million GF at Virginia State University for academic program improvements and cooperative extension; and \$6.4 million at VCU for library improvements, life sciences programs, and other initiatives.

Funding of \$13.0 million GF in the second year is also provided for a Technology Research Fund to encourage research at Virginia's public colleges and universities, and \$5.0 million GF is provided for the Commonwealth Health Research Fund.

Additional funding of \$12.0 million GF is included to increase the annual per student Tuition Assistance Grant from \$2,700 to \$2,850 in the first year and \$3,000 in the second year, based on projected private college enrollments. Additional funding of \$2.0 million is also provided for student financial aid at public colleges and universities.

Additional funding of \$7.1 million GF is included to fully fund the formula for providing state aid to local libraries, and \$3.7 million GF is provided to increase Internet access at local libraries.

Public Safety. Additional funding of \$146.1 million GF is recommended for public safety. This includes the required increase in aid to localities with police departments (HB 599), based on current revenue growth estimates (\$33.9 million GF), and \$24.3 million GF for the Substance Abuse Reduction Effort (SABRE). 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 \$4.7 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 adopted budget includes spending increases of \$353.8 million GF for Health and Human Resources agencies. Almost 70 percent of the funding is required to meet caseload and cost increases in Medicaid and other programs (\$193.9 million GF); to comply with federal and state mandates for enhanced services to disabled persons, welfare recipients, and others (\$31.0 million GF); and to offset non-general fund revenue losses in mental health facilities and child support enforcement (\$18.4 million GF).

New initiatives or service expansions account for the remaining increase, including \$46.2 million GF for long-term care, \$32.0 million GF for mentally disabled individuals, and \$21.8 million GF for expanded Medicaid eligibility, coverage, and payments. In addition, \$149.2 million is provided from the federal TANF (welfare reform) grant for child care and other purposes intended to assist low-income families in achieving or maintaining self-sufficiency.

Compensation. Employee compensation increases totaling \$127.3 million GF are included to provide a 3.25 percent salary increase in the first year of the biennium for state and state-supported employees. The salary increase will be paid to employees with performance ratings of "meets expectations" or better.

Other compensation increases include \$23.3 million GF for the matching deferred compensation program. Funds will allow for an employer match of up to \$20 per pay period. The approved budget also included \$32.3 million GF for first year premium increases in the employee group health insurance plan; and \$2.0 million GF for administrative costs associated with reform of the classified employees' pay plan.

Commerce and Trade. Nearly all of the \$17.1 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 \$3.0 million GF to enhance tourism marketing and promotion of a number of historic attractions and sites; \$2.8 million as additional support for the Department of Forestry; \$1.1 million GF to support regional planning district commissions; and \$700,000 GF to promote a certified community cooperative advertising program.

Other general fund Commerce and Trade initiatives are contained in the Central Accounts section of the budget, including \$1.5 million GF to expand the use of technology in local and regional visitor centers, \$1.0 million GF to stimulate movie production in Virginia, and \$30.0 million GF for the Governor's "Deal Closing Fund."

Natural Resources. The budget includes a spending increase of \$61.1 million GF, of which \$20.3 million is committed to the Water Quality Improvement Fund. The Departments of Conservation and Recreation (DCR) and Environmental Quality (DEQ) will receive \$13.8 million for agency operations such as poultry litter control, TMDLs, tributary strategies, and the conservation reserve advancement program.

An additional \$15.8 million GF is provided for the Virginia Conservation Land Fund. Of this amount, \$3.4 million GF is for 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 \$4.9 million for DEQ's air pollution control program; \$1.0 million for the agency's TMDL program, and \$2.7 million for DEQ's portion of the Water Quality Improvement Fund. Also included is \$7.8 million for wildlife management programs and other services provided by the Department of Game and Inland Fisheries; \$1.0 million for DCR's portion of the Water Quality Improvement Fund, and \$925,000 in anticipated federal grant funds from the Land and Water Conservation Fund.

General Government. Central Appropriations includes \$1,427.7 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. 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, or \$114.8 million, is included as general fund revenue.

In Finance agencies, an additional \$393.1 million GF is provided, including \$266.4 million GF for two payments into the Revenue Stabilization, or "Rainy Day" Fund. An increase of \$106.3 million GF in the Treasury Board budget includes \$13.5 million for debt service payments on a \$99.1 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 \$13.7 million GF to pay localities for the local share of higher wine taxes and alcoholic beverage control profits and \$9.0 million GF in debt service payments for the Newport News Advanced Shipbuilding and Carrier Integration Center.

Transportation. The budget includes \$379.9 million GF for a new transportation program, as a result of the passage of the Virginia Transportation Act of 2000 (SB 33/HB 608). Combined with additional non-general funds of \$374.4 million, total spending for transportation will increase by 13.4 percent over the 1998-2000 base budget.

The increased revenues are distributed across all modes of transportation. The increases from the general fund are designated to update and make current the Six-Year Improvement Plan and to capitalize new initiatives for mass transit, ports, and airports. Specific new, non-highway initiatives include \$25.0 million for the Virginia Airports Revolving Loan Fund; \$5.0 million for a capital grant program for small private airports; \$2.0 million for the National Air and Space

Museum Annex; \$2.4 million for the dredged material study of Craney Island; and \$700,000 to begin dredging of the inbound channel of Norfolk Harbor.

Capital Outlay. The approved budget for 2000-2002 provides \$959.9 million for capital construction, \$303.8 million of which comes from the general fund. Of this amount, \$100.0 million GF is provided for the Maintenance Reserve Program, \$12.7 million GF is provided for equipment to complete capital projects authorized in 1998, an additional \$63.7 million GF is included to address infrastructure needs, and \$91.1 GF is earmarked for construction of new capital projects, primarily at the state's colleges and universities.

Non-general fund projects include \$107.8 million for dorms and dining halls at colleges and universities, which would be issued as 9 (c) debt and repaid with student and user fees. Debt of \$125.5 million from 9 (d) bonds would be issued for parking and athletics facilities at various colleges and universities.

Several property transfers and long-term leases are also included in the approved budget.