

Overview of the Governor's Budget Recommendations for 2002-04

The Governor's budget recommendations for 2002-04 are intended to address a substantial projected budget shortfall for the next biennium. Continuing economic weakness is projected to produce general fund revenues which are insufficient to cover the cost of continuing current services – even before adding the cost of typical high priority commitments such as Medicaid, the state share of the Standards of Quality, and increases in human resources and other programs. When the cost of these programs is included, the projected budget shortfall approaches \$2.0 billion.

To bring the almost \$2.0 billion budget shortfall into balance, the introduced budget proposes a number of revenue diversions which add about \$723 million to the revenues available for appropriation. The introduced budget also proposes general fund budget reductions of about \$1,255 million. These revenue and budget reduction actions include:

- Diversion to the general fund of the portion of the one-half cent sales tax dedicated for highway construction (shown as increased revenue), to be replaced by bonds issued by the Commonwealth Transportation Board;
- Budget reductions of 6 percent in FY 2003 and FY 2004 to almost all state agencies and programs;
- Targeted reductions in grants for public school construction, shifting to localities part of the cost of funding health insurance for retired teachers, reducing aid to local public libraries, and other programs;
- Tuition increases for students attending state colleges and universities, which is proposed as a means to offset about \$133 million in general fund reductions;
- Reductions in retirement contributions to the level recommended by the VRS actuary, rather than the level recommended by the VRS Board of Trustees; and
- Diversion of Literary Fund revenue to pay for teacher retirement.

In addition, the budget and related bills propose authorizing over \$1.7 billion in tax-supported debt through the Virginia Public Building Authority (VPBA), General Obligation bonds, Commonwealth Transportation Board bonds, and revenue bonds of some colleges and universities. This is in addition to the \$214 million in tax-supported debt proposed in HB/SB 29, bringing the total for proposed tax-supported bond issues to \$2.0 billion.

Revenues

The Governor’s proposed 2002-04 budget includes \$25.0 billion in general fund resources available for appropriation, projecting growth rates of 2.2 percent for FY 2003 and 5.4 percent for FY 2004.

General Fund Resources Available for Appropriation (2002-04 biennium, \$ in millions)	
Available Balances	\$ 73.3
Revenue Estimate*	23,478.8
Transfers*	<u>1,427.6</u>
Total GF Resources	\$24,979.7
*Assumes passage of legislation affecting certain tax policies.	

The forecast assumes that the current recession will end during the first quarter of FY 2003, with a subsequent slow economic recovery. Both job and wage growth are projected to be weak until FY 2004.

The proposed budget also assumes that the practice of accelerating sales and withholding tax collections into June -- an action proposed in HB/SB 29 -- will be continued. Other proposed revenue changes include the doubling of registration fees for stock corporations.

Proposed transfers to the general fund increase total available revenues. Several proposed actions deviate from traditional funding policies, and add about \$722.8 million to the revenues available for appropriation:

- \$652.6 million from the proposed redirection of the one-half cent state sales and use tax from highway construction;
- \$29.6 million in nongeneral fund agency budget reductions (6 percent each year), with the savings redirected to the general fund;
- \$25.1 million from the write-off of VRS unclaimed property liabilities (another \$25.0 million GF is shown as a budget reduction); and
- \$15.5 million from unspent balances at the Virginia Tobacco Settlement Foundation.

This \$722.8 million in additional revenue is added to the budget savings itemized below to bring the budget into balance.

Proposed Budget Savings

The introduced budget includes \$1,254.5 million in proposed general fund budget reductions. These include reducing retirement contributions for state employees, teachers, and other employee groups; using other fund sources to pay the cost of programs now borne by the general fund; reducing aid to localities; shifting the cost of programs from current revenues to debt; delaying payments; and reducing the budgets of state agencies and programs. A small proportion of the budget reductions result from lower projected caseloads, and are primarily technical. The proposed savings are detailed below.

Major Spending Reductions Proposed in HB/SB 30, As Introduced (\$ in millions)	
Reduce Retirement Contributions	
Public Ed.-Charge VRS Actuary's Rate for Teachers	(\$14.8)
State & Other Empl.-Charge VRS Actuary's Rate	(59.3)
VRS-Savings from Unclaimed Property (GF)	(25.0)

Shift Costs To Other Funds And Payers

Public Ed.-Use Literary Fund for Teacher Retirement and Social Security	(\$167.0)
Higher Ed-Authorize Tuition Increases to Offset a Portion of GF Cuts	(133.2)
DMAS-Increase Federal Funds for Medicaid	(38.0)
VDH-Use TANF funds for Prevention Program Grants to Localities	(3.0)
CSA-Use TANF Funds for the Comprehensive Services Act Trust Fund	(2.1)
DCR-Use DGIF Sales Tax Rather than GF for Operations at State Parks	(12.3)
Comp. Bd.-Use Technology Trust Fund for Circuit Court Clerks' Offices	(5.0)
DEQ-Increase Hazardous Waste, Solid Waste, and Water Program Permit Fees to Offset GF Support	(6.2)
DSP-Use Wireless E-911 Fund for 911 Dispatchers	(5.0)
DOC-Use Room and Board Funds for Diversion Centers	(2.5)

DOC-Use Medical Co-Payment Balances to Pay Some Medical Costs	(1.5)
MRC-Use DGIF Watercraft Sales Tax For Marine Patrol Operations	(2.0)
DOC-Utilize Drug Assessment Funds to Pay Operating Expenses	(0.8)
DJJ-Use Drug Assessment Fund Fees for DJJ Costs	(0.4)
DTP-Use Wireless E-911 for the Virginia Geographic Information Network	(0.3)
CO-Use Oil Overcharge Funds for Energy Efficiency Capital Projects	(0.5)
DOA-Fund Line Of Duty Act Payments from Group Life Program	(0.5)

Delay Payments

Comp. Bd.-Delay June 2003 Reimbursement for Constitutional Officers until July	(\$38.7)
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Use Debt Instead Of Cash

DHCD-Issue Debt for Industrial Site Development	(\$4.0)
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Reduce Aid To Localities

Public Ed.-Eliminate GF Support for School Construction Grants	(110.0)
Public Ed.-Require Local Match for Retiree Health Care Credit, and Fund "Recognized" Positions only	(36.1)
Public Ed.-Eliminate Lottery "Hold Harmless"	(29.7)
Public Ed.-Reduce Funding for Teaching Materials	(6.4)
CSA-Set Matching Rate at 50% for all Localities	(26.9)
DOA-Reduce Appropriation for ABC Profits, Wine Tax and Other Dedicated Local Aid	(16.8)
LOV-Reduce State Aid to Local Public Libraries by 25%	(10.2)
DOC-Eliminate Payments In Lieu Of Taxes to Localities	(5.8)
DCJS-Reduce Aid to Localities with Police Departments due to Lower State Revenues	(3.7)
DHCD-Reduce Regional Competitiveness Act by 10%	(2.1)
Comp. Bd.-Redefine Offenders with "12 Month" Sentences as Local Responsible Inmates	(2.0)

Other Budget Reductions

Cen. Accts., Leg., Jud.-6% Across the Board Cuts for Exec., Leg., and Judicial Agencies	(380.9)
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Cen. Accts.-Reduce the Governor's Opportunity Fund	(10.0)
DMAS-Limit Hospital Payments to 80 Percent of Total Costs	(22.6)
DMAS-Reduce Pharmaceutical Costs Below the Average Wholesale Price	(12.8)
DMAS-Eliminate Medicaid Coverage for Substance Abuse Services	(10.1)
DMAS-More Stringent Medical Oversight of Specific Disease Categories	(10.0)
DSS-Propose Consolidation of Local Dep'ts. of Social Services Management	(4.0)
DJJ-Close Culpeper Juvenile Correctional Center and Transfer to DOC	(9.1)
DOC-Close Men's Boot Camp	(4.2)

DJJ-Eliminate Separate General Fund Support for the Richmond Continuum Project	(1.6)
LOV-Reduce Funding for Infopowering the Commonwealth	(1.0)
VEDP-Reduce Funding for Marketing Missions and Industry Shows	(1.0)
SCHEV-Reduce the Virtual Library Program	(0.9)
VPPB-Decrease Funding for Public TV Stations	(0.8)
Technical Reductions	
Treasury Bd.-Reduce Debt Service Payments	(8.5)
DMAS-Lower Enrollment for the Family Access to Medical Insurance Security Plan (FAMIS)	(1.7)
Public Ed.-Savings from Non-Participation in At-Risk Four-Year-Old Program	(1.5)
All Agencies-Reduction in Workers' Compensation Premiums	(1.5)
All Agencies-Reduce Funding for Rental Charges	(0.5)
Total	(\$1,254.5)

Proposed Spending Increases

HB/SB 30 proposes \$2,084.7 million GF in spending increases above the base budget for the next biennium. Of the total, about 75 percent is explained by proposed increases in six areas:

- 1) the increased cost of Medicaid (\$610.3 million);
- 2) updates in the cost of the state share of the Standards of Quality for public schools, along with related categorical and incentive programs, and maintaining the state testing program (\$459.6 million);
- 3) a proposed 2 percent salary increase for state employees, teachers, faculty, and state-supported local employees (\$210.1 million);
- 4) the increased cost of serving special needs children under the Comprehensive Services Act (\$137.7 million);

- 5) the proposed increase in the car tax reimbursement to 100 percent, effective January 1, 2004 (\$75.2 million); and
- 6) general fund increases to offset the loss of out-of-state inmates in adult prisons (\$63.4 million).

Spending Increases	
Proposed In HB/SB 30, As Introduced	
(GF \$ In Millions)	
Salary Increase and Benefit Cost Increases	
Public Ed.-2% Teacher Salary Increase, Dec., 2002	\$77.1
Cen. Acc'ts-2% Performance-Based Salary Increase for State Employees	65.4
Cen. Acc'ts-Increase Health Benefit Premiums for State Employees (11% Avg. Employee Premium Increase)	48.5
All Colleges-2% Faculty Salary Increase	46.5
Cen. Acc'ts-2% Salary Increase for State-Supported Local Employees	21.1
Cen. Acc'ts-Increased Cost of the Disability Program for State Employees	12.1
Cen. Acc'ts-Increased Cost of Group Life Insurance for State Employees	8.6
Cen. Acc'ts-Increased Cost of Retiree Health Credit for State Employees	7.7
Cen. Acc'ts-Increased Funds for UVa Health Care Plan	1.6
Car Tax	
Car Tax at 70% Until Jan 2004, then 100%	75.2
Public Education	
Public Ed.-Update Costs of the Standards of Quality Programs	416.2

Public Ed.-Update Costs of Public Education Categorical Programs	21.9
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Public Ed.-Continue Funding for Public Education Direct Grant Programs	5.7
Public Ed.-Update Costs of Public Education Incentive-Based Programs	3.9
DOE-Continue Implementation of Web-Based SOL Testing Initiative	6.4
DOE-Continue Funding for Emergency Retakes and Remediation Recovery Testing	3.0
DOE-Maintain Current Testing Programs	2.6

Higher Education

Cen. Acc'ts-Continue the Commonwealth Technology Research Fund	16.6
All Colleges-Increase Student Financial Assistance	12.7
UVa, VCCS, UVaW, MWC, JMU, VPI-Operation and Maintenance of New Facilities	11.2
NSU- Enhance Academic Programs	8.5
CO: NSU-Funding for Deferred Maintenance	1.7
VSU-Enhance Academic Programs	6.0
CO: VSU- Funding for Deferred Maintenance	3.2
VSU-Ext.- 100% Match for Cooperative Extension	1.8
UVa, W&M, VPI, GMU, VCU, ODU-Fund Virginia Microelectronics Consortium	2.1
SCHEV-Tuition Assistance Grant (TAG)	0.7
SCHEV-State Match for GEAR UP Program	2.1

Human Resources

DMAS-Provide Funding for Utilization and Inflation	610.3
DMAS-Fund Indigent Health Care at Teaching Hospitals	34.7
DMAS-Eliminate the Shortfall in the Mental Health and Mental Retardation Facilities	27.4
DMAS-Fund all Current Mental Retardation Waiver Slots; Increase by 150 Slots	23.8
DMAS-Complete Development of the New Medicaid Claims Processing System	1.2
DSS-Fund Mandated Foster Care Maintenance and Adoption Subsidy Payments	38.0
DSS-Meet Federal Mandate to Operate an Electronic Benefits Transfer (EBT) System for Food Stamps	4.0
DSS-Fund Federal Mandated Spending to Improve Food Stamp Eligibility and Benefits Accuracy Based on Prior Error Rates	1.5

DSS-Fund Child Support Enforcement Operations	1.5
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DSS-Replace Old Computers used by over 150 Offices	1.1
DMHMRSAS-Enhance Staffing at Training Centers	3.4
DMHMHSAS-Implement Sexually Violent Predators Program	1.0
VDH-Continue Funding for Information Technology Network Infrastructure	6.0
CSA-Fund Mandated Foster Care and Special Education Services	137.7
DSS-Fund the Comprehensive Services Assistance and Review Team	0.6
Ageing-Provide Funding for Pharmacy Connect in Southwest Virginia	0.7
Public Safety	
DOC-Replace Out-of-State Inmate Revenue with GF	60.4
DCE-Replace Revenues from Out-of-State Inmates with General Fund Support	2.9
DJJ-Provide the State's Share of Operating Local Detention Facilities	18.9
DCJS-Funding for the Residential Substance Abuse Treatment Program	0.9
DCJS-Matching Funds for State Agency Grants	1.7
DCJS-Fund the Integrated Criminal Justice Information System (ICJIS)	1.6
DCJS-Fund Maintenance and Operating Costs for the Norfolk Public Health Building	1.6
Gen. Acc'ts-Fund Anti-Terrorism Response Initiatives	12.7
Debt Service	
VDOT-Debt Service for Transportation Bonds	26.9
Treas. Bd.-Debt Service for Higher Education Equipment Notes	6.9
Treas. Bd.-Debt Service for VCBA Capital Projects	6.2
Treas. Bd.-Debt Service for VPBA Projects	2.6
State Police- Debt Service on Five Helicopters	1.1
Treasury Bd.-Debt Service for Worker Training Center in Pulaski County	0.9

Commerce And Trade/Natural Resources

VEDP-Operating Subsidy for the Va. Adv. Carrier Integration Center	14.0
Cen. Acc'ts-Provide Funding for Semiconductor Manufacturing Performance Grant Programs	6.7
DMME-Solar Photovoltaic Manufacturing Incentive Grants	3.6
Forestry-Equipment Replacement	2.2

Cen. Acc'ts-Provide Funding for Semiconductor Manufacturing Education Grant	1.5
VEDP-Virginia Commercial Space Flight Authority	0.8
MRC-Replace Marine Patrol Vessels	0.4
DCR-Match for Federal Land Conservation Program	6.1
DCR-Replace Vehicles and Maintenance Equipment at State Parks	0.4

General Government

Comp. Bd.-Provide Funding for Local and Regional Jail Per Diem Payments	25.8
Comp. Bd.-Provide One Law Enforcement Deputy per 1,500 Local Population	7.4
VRS-Provide Funds for the Volunteer Firefighters and Rescue Squad Workers Service Award Program	0.5
Treasury-Increase Funding for Payment of Bank Services Fee	0.7
Tax-Continue Tobacco Enforcement Unit to Satisfy the Master Tobacco Settlement Agreement	0.6
Nonstate Agency-Funding for Virginia Horse Center	2.5
DOA-Provide Additional Funding for the Payroll Service Bureau	0.5
DGS-Provide Funding for Security Equipment at the Seat of Government	0.7
DGS-Maintain Laboratory's Drinking Water Analysis Capability	0.7
DGS-Maintain Laboratory's Ability to use Molecular Biology Analysis	0.8
Courts-Provide Funding for Judgeships Passed Last Session	1.5
Courts-Increase for Criminal Fund	23.2

Courts-Finance Social Security Tax Base Increase	0.6
Atty Gen.-Establish Tobacco Enforcement Unit	0.3
Atty Gen.-Establish Civil Commitment of Sexual Predators Unit	0.4
Other Increases	2.7
Capital Outlay	
CO: Maintenance Reserve: Fund Statewide Infrastructure Repair Projects	50.2
CO: Fund Emergency Repairs and Improvements at State Facilities	2.5
Total	\$ 2,084.7

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

Direct Aid for Public Education. The proposed budget contains a net increase of \$158.9 million GF and \$167.0 million NGF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$524.7 million (including the salary increase for teachers) offset by \$198.8 million in reductions.

Roughly half of the increased funding, or \$167.0 million, comes from using Literary Fund revenue to cover a portion of the cost of teacher retirement and social security.

Recommended increases for direct aid to public education include formula-driven and technical increases of \$416.2 million to update the Standards of Quality accounts for increased enrollment, prevailing costs of education, sales tax revenues, and updated composite index calculations; \$25.8 million to update costs and participation rates in a number of categorical and incentive programs; \$77.1 million to provide a 2 percent salary increase for school employees, effective December 1, 2002; and \$5.7 million to continue the funding of a number of direct grants.

In addition to the transfer of Literary Funds to cover a portion of the increased costs, the following funding reductions are proposed to help offset cost increases: eliminate the School Construction Grants program (\$110.0 million GF); eliminate the Lottery Hold Harmless program (\$29.7 million GF); shift to localities some of the cost of the retiree health care credit and cover state-funded

positions only (\$36.1 million GF); adjust VRS contribution rates to pay the rate recommended by the VRS actuary rather than the rate set by the Board of Trustees (\$14.8 million GF); reduce the state share of SOL materials funding from \$10 per pupil to \$5 per pupil (\$6.4 million GF); and capture anticipated savings from the At-Risk Four-Year-Old Preschool program (\$1.5 million GF).

To partially compensate for the diversion of Literary Funds from the Literary Fund loan program, the Governor proposes that \$25.0 million remain in the Literary Fund to support an interest rate subsidy program. This amount would enable about \$112.5 million in projects on the First Priority Waiting List to move to alternative financing. Sufficient funds also were retained in the Literary Fund for debt service on the proposed authorization of \$115.8 million in Virginia Public School Authority Equipment Notes for educational technology in schools throughout the Commonwealth in the 2002-04 biennium.

Higher and Other Education. The proposed 2002-04 budget for the state's colleges and universities results in a net increase of \$92.6 million GF for the biennium when compared to the adjusted appropriation for current operations. Funding increases of \$95.0 million GF are offset by funding decreases of \$2.4 million GF.

However, this total does not reflect the \$167.6 million in higher education reductions that are included in the Central Appropriations as part of the 6 percent across-the-board cut. Actions for achieving these across-the-board savings are not specified in the budget.

In addition, institutions' general fund budgets are further reduced in the Central Appropriations by \$133.2 million GF over the biennium, with the provision that the amount can be replaced in part by tuition revenue, pending approval of the Governor. The proposed budget includes language directing institutions to submit a tuition plan that may include a tuition increase of no more than \$200 per student per year.

Major funding increases in HB/SB 30 include \$46.5 million for a 2 percent faculty salary increase, effective November 25, 2002; \$12.7 million for student financial aid; and \$11.3 million for operations of new educational facilities. The budget also proposes equipment allocations of \$50.0 million from the Higher Education Equipment Trust Fund and \$2.0 million for a microelectronics initiative.

In addition to these systemwide initiatives, the proposed budget includes \$8.5 million for academic programs and instructional equipment at Norfolk State

University and \$7.7 million for academic programs, instructional equipment, and cooperative extension programs at Virginia State University.

For Other Education agencies, the proposed budget creates a new agency to oversee the Jamestown 2007 commemoration. The proposed budget transfers \$499,340 GF and \$23,565 NGF and 5.0 FTE positions from the Jamestown-Yorktown Foundation to a new agency, named Jamestown 2007.

The proposed budget also reduces state aid to local public libraries by \$5.1 million each year, or 25 percent. It also reduces base funding for the Library of Virginia's strategic plan for technology by \$500,000 GF each year. This reduction is in addition to a \$1.2 million GF reduction for the technology plan as part of Executive Order 74 (01) in FY 2002.

Health and Human Resources. The proposed budget for Health and Human Resources results in a net increase of \$759.8 million GF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$891.8 million, offset by \$132.0 million in targeted reductions. In addition, across-the-board cuts of about \$29.3 million each year (through unspecified actions) are included in Central Appropriations for distribution to health and human resources agencies.

Most of the added spending is for mandatory programs: \$610.3 million for rising Medicaid costs; \$137.7 million for at-risk youth entitled to care under the Comprehensive Services Act (CSA); \$38.0 million for children entitled to foster care and subsidized adoptions; and \$27.4 million to meet a shortfall in Medicaid funding for mentally retarded persons served in state facilities.

A few non-mandatory, but traditionally high priority items also are included: \$34.7 million to offset a loss of federal funds for indigent care at the two state teaching hospitals, \$23.8 million to fully fund the federally allowed maximum of 5,536 slots in the Mental Retardation (MR) Waiver program; \$3.4 million for improvements in care at state training centers for mentally retarded persons; and \$7.2 million for completion of data processing systems at the Departments of Health and Medical Assistance Services.

About three-fourths of the targeted reductions in health and human resources result from \$95.3 million in Medicaid cost containment actions including rate cuts for hospitals, prescription drugs, and other actions. Savings in other areas include: \$26.9 million by increasing the local match rate for CSA from an average of 37 percent to 50 percent while eliminating the local match on Medicaid-covered services, \$5.2 million by substituting federal TANF funds for

state funded grants to localities for health care and CSA initiatives, and \$4.0 million from the proposed consolidation of local departments of social services.

Public Safety. The proposed 2002-04 budget for Public Safety results in a net increase of \$53.3 million GF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$88.5 million, offset by \$35.2 million in specific, targeted reductions.

In addition to the \$35.2 million in targeted reductions, another \$70.0 million for Public Safety agencies is included as part of the 6 percent across-the-board reductions in Central Appropriations.

The new spending in Public Safety includes \$63.4 million for the Departments of Corrections and Correctional Education, to offset anticipated reductions in the number of out-of-state and federal prisoners housed in state facilities. The other major increase is \$18.9 million for the state share of the operating cost of new local juvenile detention facilities. The major decreases include closing Culpeper Juvenile Correctional Center and the adult boot camp, adjusting state aid to localities with police departments (HB 599), based on lower revenue projections, and eliminating funding for payments in lieu of taxes and for the Richmond service continuum for juvenile offenders.

For nongeneral funds, the budget for the Department of Alcoholic Beverage Control is increased by \$44.9 million NGF the first year and \$61.4 million NGF the second year to increase the inventory in ABC stores to meet projected demand. The agency's business plan also recommends opening additional stores in priority markets that have high potential for increasing sales. The recommended budget includes a total increase of \$4.6 million the first year and \$6.4 million the second year, and 30 new positions by the second year, to open 20 new stores.

Commerce and Trade. The proposed 2002-04 budget for Commerce and Trade results in a net decrease of \$4.3 million GF for the biennium when compared to the adjusted appropriation for current operations. This total represents new funding of \$15.0 million, offset by \$19.3 million in targeted reductions.

In addition to the \$19.3 million in targeted reductions, another \$15.8 million reduction for Commerce and Trade agencies is included in Central Appropriations as part of the 6 percent across-the-board budget cut.

New funding of \$14.0 million GF in FY 2004 is proposed for the operation of the Virginia Advanced Shipbuilding and Carrier Integration Center. In

addition, \$3.6 million in FY 2004 is proposed to meet commitments for the Solar Photovoltaic Manufacturing Incentive Grant Program. New funding of \$2.2 million GF for the 2002-04 biennium is proposed for the Department of Forestry to replace equipment used in fighting forest fires.

The introduced budget proposes \$8.2 million GF for the 2002-04 biennium for three commerce and trade incentive programs located in Central Appropriations, including semiconductor manufacturing incentive grants. In addition, \$10.0 million GF is proposed for each year of the biennium for the Governor's Opportunity Fund.

Proposed targeted reductions include \$2.0 million GF each year of the biennium for the Industrial Site Development Program and \$1.0 million each year for the Regional Competitiveness Program (10 percent).

Natural Resources. The proposed budget for Natural Resources results in a net decrease of \$13.2 million GF for the biennium when compared to the adjusted appropriation for current operations. This total represents new funding of \$7.3 million, offset by \$20.5 million in targeted reductions.

In addition, Natural Resources agencies are subject to \$11.5 million in across-the-board reductions, which are included in Central Appropriations.

About \$6.9 million of the new GF spending is recommended for the Department of Conservation and Recreation. The largest funding initiative is \$6.1 million GF in state matching funds for the Conservation Reserve Enhancement Program, which protects environmentally sensitive lands.

Proposed targeted reductions include \$12.2 million GF for state park operations managed by the Department of Conservation and Recreation, \$2.0 million GF for the Marine Patrol operated by the Marine Resources Commission, and \$6.2 million for the environmental permitting activities of the Department of Environmental Quality.

Part of the general fund reductions for Parks and Marine Resources would be offset by a proposed transfer of \$8.7 million NGF each year from the sales tax on watercraft and hunting and fishing equipment, which has been statutorily dedicated to the Department of Game and Inland Fisheries. Of this amount, \$6.1 million would go to the Department of Conservation and Recreation to help offset budget cuts to state park operations. Another \$1.0 million would be used to supplant an equal amount of general fund dollars for law enforcement activities of the Marine Resources Commission. The remaining \$1.6 million would be transferred to the general fund of the state treasury.

General Government. The proposed budget for Administration results in a net decrease of \$37.5 million GF when compared to the adjusted appropriation for current operations. This total reflects new spending of \$57.7 million, offset by \$95.2 million in reductions.

New general fund spending includes \$47.6 million GF for per-diem payments to local and regional jails, and \$7.3 million GF for new law enforcement deputies to maintain a ratio of 1 deputy for each 1,500 in population.

The general fund reductions include targeted decreases of \$38.7 million by changing the reimbursement schedule for constitutional officers' expenses, \$11.8 million by moving more state responsible inmates out of local jails, \$10.0 million from projected turnover and vacancy savings and \$5.0 million by supplanting a portion of the Circuit Court clerks' appropriation with revenues from the Technology Trust Fund. Additional 6 percent across-the-board reductions for Administration, which are contained in Central Appropriations, total \$19.8 million GF.

For Finance agencies, the introduced budget proposes a net decrease of \$0.6 million GF and a net increase of \$4.8 million NGF over the adjusted appropriation for current operations. Further cuts of \$1.9 million GF from the across-the-board reductions are included in Central Appropriations for distribution to Finance agencies.

The budget proposes \$25.2 million GF in increases to the Finance agencies, the largest element of which is \$17.0 million GF in new debt service payments for capital outlay projects and for the Higher Education Equipment Trust Fund. Other funding increases include \$6.2 million GF for the transfer of debt service payments from the Virginia Public Broadcasting Board; \$0.7 million GF for service fees to banks for Virginia banking accounts; \$0.6 million GF for creation of a Tobacco Enforcement Unit; \$0.5 million GF for increased operations costs for the Payroll Service Bureau; and \$0.2 million GF for additional Treasury staff.

The increases are offset by decreases of \$16.8 million GF for reductions in aid to localities from shared revenues, such as ABC profits, wine taxes, and other sources. Additional funding decreases include \$8.5 million GF for adjustments to current debt service requirements; and \$0.5 million GF for the transfer of Line of Duty program to the Virginia Retirement System and the Department of Human Resource Management.

For the Judicial Department, the budget proposes a 6 percent across-the-board reduction, which totals about \$9.7 million GF each year.

Transportation. The proposed 2002-04 budget for transportation includes \$107.0 million GF and \$6,601.9 million NGF for appropriations. Proposed language authorizes \$998.6 million in new debt for a variety of purposes, including bond issues to replace the one-half cent sales and use tax for highway construction (\$652.6 million), which the budget proposes be transferred to the general fund.

The budget also proposes changes to the Virginia Transportation Act of 2000 (VTA), including an increase in the debt ceiling for Federal Reimbursement Anticipation Notes (FRANs) from \$800.0 million to \$1.0 billion. As introduced, the proposed budget also expands the use of the funding in the VTA to any project in the Virginia Transportation Development Plan as well as for highway and bridge maintenance. Language also is included which provides that one-third of automobile insurance premiums will not be appropriated for transportation in the 2002-04 biennium, as required by the VTA.

Certain administrative actions taken by the Governor during the 2000-02 biennium are also proposed for funding. These include 144.0 FTE positions at the Department of Transportation (VDOT), enhanced truck weigh operations by the Department of Motor Vehicles (DMV), and increased staff and administrative support at the Department of Rail and Public Transportation (DRPT). In total, an additional 205.0 FTE positions NGF are proposed.

Central Appropriations. Central Appropriations contain funding for a variety of different purposes, many of which cut across secretarial and agency functions. These include salary increases, funding for the Personal Property Tax Relief program, across-the-board budget reductions, the Governor's Opportunity Fund, and other programs.

The appropriation for Personal Property Tax Relief provides a reduction of \$36.2 million the first year and an increase of \$111.3 million the second year to continue 70 percent reimbursement until January 1, 2004, when funds are budgeted to increase reimbursement to 100 percent. The cost of increasing the car tax reimbursement for the last six months of the next biennium is \$118.8 million GF.

The largest single increase is \$86.5 million GF to provide a 2 percent salary increase for state employees and state-supported local employees, effective, December 1, 2002. The salary increase budgeted for faculty and

teachers is budgeted directly to the colleges and to direct aid for public education.

In addition, funds are proposed to cover increases in the cost of state employee health insurance (\$48.5 million GF); increases in the cost of other state employee benefit programs (\$28.4 million GF); a new anti-terrorism fund (\$12.7 million GF); the Governor's Deal Closing Fund (\$20.0 million GF); and for economic contingencies to address emergencies (\$3.0 million GF). Nongeneral fund appropriations of \$166.7 million are included for the Tobacco Settlement funds.

The introduced budget also proposes four appropriation reversions that together reduce agency budgets by \$441.0 million. These reversions are across-the-board reductions of 6 percent for Executive Branch agencies (\$355.7 million GF); a reduction in VRS retirement rates (\$59.3 million GF); and credit against VRS retirement rates for unclaimed accounts (\$25.0 million GF); and savings from the centralized purchase of airline tickets (\$1.0 million GF). (An additional \$133.2 million reversion in higher education can be partially offset with tuition increases.)

Capital Outlay. The proposed capital budget includes over \$1.3 billion in capital outlay funding, almost all of which would come from proposed bond issues. Another \$608.2 million is proposed through a general obligation bond issue, which is subject to voter referendum. [Note: These totals do not include the Transportation bonds proposed to replace current revenue which would normally be used for highway construction.]

Included in proposed bond funding is \$198.2 million for projects at a variety of state agencies, to be funded with bonds issued by the Virginia Public Building Authority. The budget also includes funding for revenue generating projects totaling \$608.5 million. Finally, the proposed budget includes \$131.0 million for projects at the Virginia Port Authority.

Of the capital outlay total, only about \$57.1 million comes from projected general fund revenue, mainly for the Maintenance Reserve program.

Nonstate Agencies. The proposed 2002-04 budget includes \$1.3 million GF each year for the Virginia Equine Center Foundation. A contingent appropriation is proposed to provide grants to an additional 39 non-state organizations in FY 2003, should actual general fund revenues exceed the official forecast.