

Overview of the Governor's Budget Recommendations Contained in HB/SB 29

The Governor's budget recommendations contained in HB/SB 29 are structured to address a budget shortfall of about \$1.2 billion, which is the combined result of projected lower revenues and required spending increases. The continuing effects of an economic recession are projected to reduce general fund revenue collections for FY 2002 by about \$1.0 billion below the amount forecast in December 2000. At the same time, non-discretionary spending increases in Medicaid, the Comprehensive Services Act, and several other programs will increase required appropriations by about \$250 million. HB/SB 29 also includes a limited number of discretionary spending increases.

To address the combined budget shortfall caused by reduced revenues and required and discretionary appropriation increases, HB/SB 29 proposes several actions affecting both revenue and appropriations, including:

- Accelerating sales tax and withholding collections from July into June, producing a one-time revenue windfall of \$248.0 million;
- Withdrawing one-half of the balance of the Revenue Stabilization Fund (about \$467.0 million);
- Budgeting the proceeds of an intergovernmental transfer for Medicaid, which produces a net one-time gain of about \$250.1 million;
- Implementing 2 percent across-the-board budget reductions for both general fund and selected nongeneral fund agencies, to produce about \$66.3 million;
- Using Federal Revenue Anticipation Notes (FRANs) to replace general fund revenue which had been budgeted for highway construction (about \$73.6 million); and
- Using Literary Fund revenue in lieu of general fund revenue to pay some of the cost of teacher retirement (\$57.0 million).

In addition, HB/SB 29 reflects the revenue actions and budget reductions which were undertaken through executive action pursuant to Executive Order 74 (March 12, 2001).

Resources Available for Appropriation. HB/SB 29, as introduced, assumes \$12.3 billion in revenues available for appropriation in FY 2002. This amount reflects the \$1.0 billion downward revision in revenues included in the November 2001 reforecast, based on an assumed revenue decline of 1.5 percent for the fiscal year.

The proposed acceleration of sales tax and withholding collections would increase revenue by \$248.0 million, moving the general fund growth rate to 0.8 percent. Under this proposal, retail merchants would be required to remit \$170.0 million in estimated June sales tax collections by June 25, rather than the current remittance date of July 20. Employers also would be required to make one extra payroll withholding deposit in June, to generate \$78.0 million.

The Governor's proposed budget also assumes the withdrawal of one-half of the balance in the Revenue Stabilization Fund, or \$467.0 million. Virginia's Constitution provides that up to one-half of the fund may be withdrawn to offset up to one-half of a revenue shortfall.

Resources also include \$259.0 million from a one-time retroactive Medicaid payment related to publicly owned nursing homes (which is offset by an additional \$8.9 million appropriation to DMAS). This action was taken administratively in December 2001.

Finally, selected nongeneral fund agencies are budgeted for a 2 percent reduction, with the savings of \$4.9 million transferred to the general fund.

Proposed Budget Savings

The introduced budget includes \$311.9 million in proposed general fund budget reductions, not including the budget reductions implemented under Executive Order 74. These include reducing retirement contributions for state employees, teachers, and other employee groups; shifting the cost of some programs from the general fund to other fund sources; and reducing the budgets of state agencies and programs. Some budget reductions result from lower projected caseloads or other similar factors, and are therefore technical.

The proposed savings are detailed below.

**Appropriation Reductions
Proposed in HB/SB 29, As Introduced
(\$ in millions)**

Reduce Retirement Contributions

Apply Lower Retirement Contribution Rates Retroactively to FY 2002-Teachers and State Employees	(\$18.1)
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Shift Costs To Other Funds And Payers

VDOT-Allocate Federal Reimbursement Anticipation Notes (FRAN) to Additional Highway Projects	(73.6)
Public Ed.-Use Literary Fund Revenue to Pay a Part of Teacher Retirement	(57.0)
DSS-Substitute TANF for GF in Local Programs	(6.0)
DTP-Use Wireless E-911 Funds to Help Support the Cost of the Virginia Geographic Information Network	(0.1)

Reduce Budgets

Cen. Acc'ts., Leg., Jud.-Across-the-Board 2 Percent Reductions for Agencies of the Exec. Leg., and Jud. Branch (GF Only)	(61.4)
Cen. Acc'ts.-Freeze Car Tax at 70%	(46.0)*
Cen. Acc'ts.-Reduce Commonwealth Technology Research Fund	(3.3)
DSS-Delay Auxiliary Grant Rate Increase	(1.8)
DSS-Other Unspecified Savings to Cover Foster Care/Adoption Shortfall	(1.8)
CIT-Reduce Technology Innovation Centers	(0.4)
CO: Agriculture-Eliminate Funding for the Piedmont- Roanoke Farmer's Market	(0.4)

Technical Reductions

Public Ed.-Sales Tax Reduction, Partly Offset by Basic Aid Increase, Enrollment, and Participation Estimates	(17.4)
DMAS-Projected Lower Enrollment for Family Access to Medical Insurance Security Plan (FAMIS)	(12.4)
DCJS-Adjust 599 Program Funding	(10.4)

Treas. Bd.-Capture Debt Service Savings	(0.9)
DOA-Adjust Appropriation for Aid to Localities Program	(0.7)
Courts-Adjust Funding for the Involuntary Mental Commitment Fund	(0.5)
VCCS-Delayed Opening of Facilities	(0.4)
VCCS-Eliminate Appropriation for Blue Ridge Workforce Center Lease	(0.2)
Other Reductions	(0.8)
Total	(\$311.9)
*The Actual Savings is \$13.5 million. The remaining \$32.5 million was provided from capital and other balances in FY 01.	

Proposed Spending Increases

HB/SB29 proposes \$290.0 million GF in spending increases above the base budget for the next biennium. The proposed increases are detailed on the next page:

Appropriation Increases Proposed In HB/SB 29, As Introduced (\$ In Millions)	
Health And Human Resources	
DMAS-Provide Funding for Utilization and Inflation	\$ 88.5
DMAS-Fund all Current Mental Retardation Waiver Slots; Increase Number of Slots by 150	10.7
DMAS-Payment to Localities for Intergovernmental Transfer Incentives, Transaction Costs, and Consultant Fees	8.9
DMAS-Provide Funding for Involuntary Mental Commitments	1.2
VDH-Continue Funding for Information Technology Network Infrastructure	1.4
CSA-Fund Foster Care and Special Education Services For At-Risk Youth	58.2
DSS-Provide Funding for Increased Cost of Foster Care and Adoptions	9.6

Education	
Public Ed.-Provide Local Share of Additional Lottery Proceeds	13.3
SCHEV-Provide State Match for GEAR UP Program	1.1
VSU-Provide 100 Percent Match for Cooperative Extension Activities	0.9
Public Safety	
DJJ-Fund The State's Share of the Operating Costs of Local Detention Facilities	7.5
Gen. Acc'ts.-Funding for Anti-Terrorism Response	7.5
DCJS-Fund Maintenance and Operation Costs for the Norfolk Public Health Building	1.6
Other Proposed Increases	
DOA-Required Funding for the Revenue Stabilization Fund Deposit	24.0
Comp. Bd.-Provide Per Diem Funding for Local and Regional Jail Inmates	19.5
Courts-Increase Funds for Criminal Fund	12.0
VEDP-Provide Operating Funds for the Virginia Advanced Shipbuilding and Carrier Integration Center	7.0
Tax-Continue Relocation Expenses	1.2
DHCD-Provide Funding for Enterprise Zone Job Grants	0.6
Bd. Of Elect.-Cover Increased Costs to Implement Virginia Voter Registration System (VVRS)	0.6
VTA-Provide Funding for a Joint Marketing Initiative with the Northern Virginia Visitors' Consortium	0.5
DRVD-Reestablish Funding and Positions for the Department	0.2
Comp. Bd.-Provide Staffing as Required for Law Enforcement Deputies	0.2
Tax-Create Tobacco Enforcement Unit	0.2
Atty. Gen.-Establish Tobacco Enforcement Unit	0.1
Other Technical Increases	23.0
Total	\$299.6

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

Health & Human Resources. The proposed amendments for Health and Human Resources result in a net increase of \$156.5 million. This total reflects new spending of \$178.5 million, offset by \$22.0 million in targeted reductions. In addition, a 2 percent budget cut of \$10.4 million is included in the Central Appropriations for distribution to health and human resources agencies through unspecified actions.

Most of the added spending is for mandatory programs: \$88.5 million for rising Medicaid costs, \$58.2 million for at-risk youth entitled to care under the Comprehensive Services Act (CSA), and \$9.6 million for children entitled to foster care and subsidized adoptions.

Recommended funding increases for non-mandatory programs that have been a high priority include: \$10.7 million to fully fund the federally allowed maximum of 5,536 slots for the Mental Retardation (MR) Waiver program and \$1.4 million for completion of Health Department data processing systems.

An additional \$8.9 million is recommended to pay local incentives, consultants, legal, and banking fees related to the capture of \$259.0 million in federal Medicaid funds from a loophole in the reimbursement system related to publicly owned nursing homes.

Budget reductions include \$12.4 million in savings from lower than projected enrollment in Virginia's new health insurance program for poor children, and \$9.6 million in federal fund substitutions and other actions in the Department of Social Services to pay for the increased cost of foster care and subsidized adoptions.

Education. Proposed amendments for Direct Aid to Public Education contain a net decrease of \$71.9 million GF in FY 2002. This decrease is the result of four separate actions: updating Standards of Quality, categorical, and incentive-based programs to reflect changes in enrollment, sales tax revenues, and participation rates (a net reduction of \$17.4 million GF); distributing additional Lottery proceeds from FY 2000, FY 2001 and FY 2002 (a net increase of \$13.3 million); diverting \$57.0 million in Literary Fund revenues to pay teacher retirement costs; and applying a VRS rate reduction retroactively based on the June 2001 valuation (a decrease of \$10.8 million GF).

For Higher Education, the proposed FY 2002 amendments result in a net decrease of \$25.9 million GF. Most of the decrease results from a 2 percent, or

\$27.5 million, reduction in Central Appropriations that is to be distributed to higher education. Additional funding of \$1.1 million GF is provided as a portion of the state match for the federal GEAR UP grant, and \$878,471 GF is recommended to fully match federal funds under the Cooperative Extension program.

Public Safety. Proposed amendments to FY 2002 appropriations for Public Safety result in a net decrease of \$1.3 million GF. This total reflects new spending of \$9.1 million, offset by \$10.4 million in reductions. The additional spending includes \$7.5 million for the state share of the operating costs of recently opened local juvenile detention facilities and \$1.6 million for the new forensic laboratory in Norfolk. The \$10.4 million decrease reflects an adjustment in aid to localities with police departments (HB 599) to conform the growth in funding to the change in state general fund revenues, as required by statute.

Central Appropriations contains \$7.5 million GF as the first installment of funding for an anti-terrorism response, with funds to be allocated by the Governor.

Additional Public Safety reductions contained in Central Appropriations total \$28.6 million, including a 2 percent cut of \$11.5 million to be achieved through unspecified actions, and Executive Order 74 reductions of \$17.1 million.

Transportation. Proposed amendments include a reduction of \$73.6 million GF for highway construction projects in the Virginia Transportation Act of 2000 (VTA). The general fund reduction is offset by a proposed increase in Federal Reimbursement Anticipation Notes (FRANs) debt authorization. In addition, HB/SB 29 contains several language amendments that make significant policy changes to the VTA, including its expanded use for any transportation project.

As introduced, the budget authorizes the Virginia Port Authority to issue tax-supported debt for \$131.0 million in port renovations at Norfolk International Terminals and the Virginia Aviation Board to issue bonds totaling \$15.0 million for the Aviation World's Fair project at the Newport News/Williamsburg International Airport.

Further, the Governor's proposed amendments require the Department of Transportation to fully fund the Commonwealth's commitment to the Smithsonian's National Air and Space Museum Extension at Dulles International Airport.

Other Proposed Amendments. In Administration, the proposed amendments provide \$19.5 million to the Compensation Board for the cost of jail per diems for state and local responsible inmates.

For the Judicial branch, HB/SB 29 provides \$12.0 million for cost increases for the Criminal Fund, which pays legal representation for indigent defendants, and supports other court costs.

In Commerce and Trade, the introduced budget proposes \$7.0 million as an operating subsidy for the Advanced Shipbuilding and Carrier Integration Center at Newport News.

In Finance, the principal proposed amendment is an increase of \$24.0 million required for the FY 2002 deposit to the Rainy Day Fund, based on FY 2000 fiscal performance. Other new spending includes \$1.2 million for Tax Department operations and \$0.2 million to create a unit to enforce the non-participating manufacturers provision of the Master Tobacco Settlement Agreement.

The proposed amendments also include an increase of \$774,000 of nongeneral funds from cash balances in the Court Debt Collection Program to fund the administrative costs of implementing accelerated tax collections.

Capital Outlay. The Governor's proposed capital outlay amendments for FY 2002 provide \$213.9 million in tax-supported debt, largely to address general fund projects that were frozen through Executive Order 74. The proposed budget also provides \$15.3 million in 9(d) revenue bonds for auxiliary enterprise projects at colleges and universities, and about \$7.0 million in nongeneral fund projects.