

Overview of the Adopted Budget 2002-04 Biennium Contained in HB 30, as Adopted

The 2002-04 budget, as adopted, addresses a substantial projected budget shortfall for the next biennium. Economic weakness is expected to continue into the start of the new biennium and will produce general fund revenue collections that 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 approached \$2.4 billion over the two-year period.

To bring the \$2.4 billion budget shortfall into balance, the adopted budget includes a combination of revenue actions and budget cuts that are meant to provide a transition in the first year to permanent, on-going budget savings and to better align year-to-year revenue collections and GF spending.

Specifically, the adopted budget adds about \$785 million to the resources available for appropriation through increased transfers, fees, and revenue adjustments and includes about \$1.6 billion in GF budget reductions. Major features of resource and budget reduction actions include:

- Diversion to the general fund of the one-half cent sales tax dedicated for highway construction in FY 2003, estimated at \$317 million, to be replaced by bonds issued by the Commonwealth Transportation Board. (The proposed diversion of \$335.6 million in FY 2004 sales tax was rejected.);
- Increase in a variety of registration/user fees to help offset general fund reductions (\$175 million for the biennium);
- Targeted budget cuts to include the closure of a state prison, elimination/downsizing of numerous state programs, reduction in discretionary grants for local aid, etc., and cuts equivalent to 7 percent and 8 percent for most GF agencies, along with 7 and 8 percent reductions for select NGF agencies;
- Lowering VRS contribution rates to reflect recognition of dormant accounts and system valuation as of June 30, 2001 with related GF and NGF savings; and

- Using Literary Fund revenue in lieu of general funds to pay some of the cost of teacher retirement.

Revenues

The adopted 2002-04 budget includes \$24.7 billion in general fund resources available for appropriation, projecting growth rates of 3.4 percent for FY 2003 and 6.5 percent for FY 2004.

General Fund Resources Available for Appropriation (2002-04 biennium, \$ in millions)	
Available Balances	\$ 151.1
Revenue Estimate	23,306.3
Transfers	<u>1,290.6</u>
Total GF Resources	\$24,748.0

The forecast assumes that the current recession will end during the first quarter of FY 2003, and the recovery will be gradual rather than a sharp rebound. Both job and wage growth are projected to remain weak until FY 2004.

The forecast also incorporates tax policy actions such as the continued acceleration of sales and use tax collections from July into June for larger retailers, repeal of the change in income tax withholding that has been deferred since 1989, doubling of registration fees for stock corporations, re-estimates and limits on certain tax credits, and deconformity with federal tax law changes. Increases in various fees also are incorporated in the resource estimate, as detailed in the revenue section which follows.

Proposed transfers to the general fund increase total available resources by \$1.3 billion. Of this amount, \$658.0 million represents estimated Lottery profits that are transferred for use in public education. Other large transfers totaling about \$521 million, which reflect unusual activity include:

- \$317.0 million from redirection of the one-half cent state sales and use tax from highway construction in FY 2003;

- \$62.6 million in nongeneral fund agency budget reductions (7 percent and 8 percent), and savings from reducing the number of authorized “at-will” positions, with the savings redirected to the general fund;
- \$54.3 million from the write-off of VRS dormant account liabilities (another \$25.0 million GF is shown as a budget reduction), along with \$52.0 million in NGF savings from reduced VRS contribution rates;
- \$15.5 million from unspent balances at the Virginia Tobacco Settlement Foundation; and
- \$20.0 million from a Motor Vehicle Records fee increase.

This \$521 million in additional transfers resulting from unusual activity is added to revenue adjustments and budget savings itemized below to bring the budget into balance.

Budget Savings

The adopted budget includes about \$1.6 billion in general fund budget reductions to include reduced retirement contribution rates for state employees, teachers, and other employee groups related to dormant accounts and updated system valuation; substituting different fund sources to pay the cost of some programs now borne by the general fund; eliminating or starting to phase out a number of state programs; and imposing across-the-board cuts to agency budgets. A small proportion of budget reductions result from lower projected caseloads, and are primarily technical. The budget savings are detailed below.

Major GF Spending Reductions HB 30, As Adopted (\$ in millions)	
Reduce Retirement Contributions	
Public Ed.- Group Life Holiday	(\$30.5)
Cent. Acct’s – State Employee Group Life Holiday	(36.3)
Comp. Bd./Cent. Acct’s - Charge VRS Actuary’s Rate	(55.1)
VRS-Savings from Dormant Accounts (GF)	(45.8)

Shift Costs To Other Funds And Payers

Public Ed.-Use Literary Fund for Teacher Retirement and Social Security	(176.4)
Car Tax Remains at 70%	(118.8)
DMAS-Increase Federal Funds for Medicaid	(38.0)
VDH-Use TANF funds for Prevention Program Grants to Localities	(2.8)
VDH-Fees to supplant GF for Well & Onsite Sewage Inspections	(1.0)
VDH-Fees to supplant GF for Annual Restaurant Inspections	(0.9)
VDH-Fees to supplant GF for Vital Records Searches	(0.4)
CSA-Use TANF Funds for the Comprehensive Services Act Trust Fund	(2.1)
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	(6.0)
DOC-Use Room and Board Funds for Diversion Centers	(2.5)
DOC-Use Medical Copayment Balances to Pay Some Medical Costs	(1.5)
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)
Higher Ed.-Phase out GF Support for Research Centers	(3.8)
DOA-Fund Line Of Duty Act Payments from Group Life Program	(0.5)
DGS-Drinking Water Tests	(2.0)
VDOT-Switch Fund Sources for Rt. 58 Corridor Fund	(13.1)

Reduce Aid To Localities

Public Ed.-Reduce GF Support for School Construction Grants	(55.0)
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.-Eliminate Separate Funding for Teaching Materials	(12.9)
Public Ed.-Eliminate Separate SOL Teacher Training	(34.7)
Public Ed.-Eliminate Additional Teachers	(57.1)
Public Ed.-Eliminate Maintenance Supplement	(19.3)
Public Ed.-Eliminate Several Small Programs	(13.2)
Public Ed.-Reduce Several At-Risk Programs	(8.6)
Public Ed.-Capture Anticipated Balances	(9.9)
DOA-Reduce Appropriation for ABC Profits, Wine Tax and Other Dedicated Local Aid	(16.8)
LOV-Reduce State Aid to Local Public Libraries	(3.2)
DJJ-Juvenile Comm. Crime Control Act (VJCCA)	(30.0)
DJJ-Offices on Youth	(4.2)
DCJS-Reduce Aid to Localities with Police Departments due to Lower State Revenues	(18.2)
DCJS-Jail Based Substance Abuse Treatment	(0.8)
Comp. Bd.-Redefine Offenders with "12 Month" Sentences as Local Responsible Inmates	(2.0)
State Program Eliminations/Reductions	
Cen. Accts-Unallocated Across-the-Board Cuts for Exec. Agencies (H&HR Agencies 4% = \$42.0)	(47.1)
Cen. Accts- Higher Ed. Affiliated Institution/Other Education Cuts	(21.7)
Cen. Accts-Legislative Department Budget Cuts	(2.6)
Allocated Across-the-Board Cuts	
Higher Education Institutions Cuts	(290.7)
Public Safety Agencies-7%/8% Cuts (Includes prison closure)	(73.5)
Administration Agencies-7%/8% Cuts	(6.1)
Comp Bd.-Sheriff's 5%/5% Cuts	(33.6)
Comp Bd.-Other Const. Offices-7%/8% Cuts	(20.3)
Commerce & Trade Agencies-7%/8% Cuts	(12.3)
Natural Resource Agencies-7%/8% Cuts	(10.6)
Finance Agencies-7%/8% Cuts	(4.6)
DOE-7%/8% Cuts	(4.1)
Technology Agencies-7%/8% Cuts	(2.5)
Cen. Accts.-Reduce the Governor's Opportunity Fund	(12.5)
DMAS-Reduce Provider Payments in Medicaid	(40.6)
DMAS-Cost Containment of Pharmaceuticals and Other Actions	(24.2)

DMAS-Defer Medicaid Coverage for Substance Abuse Services until April 2004	(8.8)
DMAS-More Stringent Medical Oversight of Specific Disease Categories	(10.0)
DSS-Administrative Efficiencies at Local Departments of Social Services	(4.0)
Comp. Bd.-Transfer State Responsible Inmates to DOC	(16.9)
Comp. Bd.-Reimbursement for Out-of-State Inmates	(7.5)
DJJ-Reconfigure Culpeper Juvenile Correctional Center	(9.1)
DOC-Close Men's Boot Camp	(4.2)
DOC/DCJS/DJJ -SABRE Substance Abuse Treatment	(18.5)
DCJS-Pre and Post Incarceration Services	(2.6)
DCJS-Inst. Of Forensic Science & Medicine	(2.0)
Parole Board-Reduce Size of Board (SB 647)	(0.4)
DJJ-Eliminate Separate General Fund Support for the Richmond Continuum Project	(1.6)
LOV-Reduce Funding for Info-powering the Commonwealth	(1.0)
VEDP-Reduce Funding for Marketing Missions and Industry Shows	(1.0)
DBA-Workforce Training	(8.8)
DHCD-Eliminate Funding for Regional Competitiveness Act	(18.0)
DOE-Targeted Reductions	(4.5)
DMHMRSAS-Postpone Implementation of Performance Outcome Measurement System	(3.5)
DMHMRSAS-Reduce Funds for Pilot Programs	(0.3)
DMHMRSAS-Reduce Funds to Monitor Performance Agreements	(0.3)
DMAS-Reduce Indigent Care Trust Fund	(2.0)
Health-Reduce Health Care Grant Programs	(1.6)
Aging-Reduce Aging Grant Programs	(0.3)
SCHEV-Reduce Tuition Assistance Grants (TAG)	(6.8)
Internal Auditor-Eliminate Agency	(1.5)
Technical Reductions	
Treasury Bd.-Reduce Debt Service Payments	(8.5)
All Agencies-Reduction in Workers' Compensation Premiums	(1.5)
All Agencies-Reduce Funding for Rental Charges	(0.5)
SCHEV-Eliminate Former OCR Programs	(6.8)
Total	(\$1,661.9)

Spending Increases

The adopted budget includes \$2,213.0 million GF in spending increases above the base budget for the next biennium. Of the total, about two thirds is explained by increases in five areas:

- 1) the increased cost of Medicaid (\$609.1 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 maintain the state testing program (\$390.2 million);
- 3) a 2.5 percent bonus or two weeks of paid vacation (at employee's option) in August, 2002, for classified state employees and a 2.5 percent equivalent for faculty (\$63.4); a FY 2004 compensation reserve for all groups of state and state-supported employees (\$101.4 million); health insurance premium increases for state employees (\$82.6);
- 4) the increased cost of serving special needs children under the Comprehensive Services Act (\$137.7 million); and
- 5) general fund increases to offset the loss of out-of-state inmates in adult prisons (\$52.9 million).

Spending Increases HB 30, As Adopted (GF \$ In Millions)

Salary Increase and Benefit Cost Increases

Cen. Acc'ts-2.5% Bonus or Paid Vacation for State Classified employees and equivalent for faculty, August 2001	\$63.4
Cen. Acct's-FY 2004 Compensation Reserve for all State and State-supported Local Employees	101.4
Cen. Acc'ts-Increase Health Benefit Premiums for State Employees (11% Avg. Employee Premium Increase)	82.6

Cen. Acc'ts-Increased Cost of the Disability Program for State Employees	11.3
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
UVA-Increased Funds for Health Care Plan	1.6
Public Education	
Public Ed.-Update Costs of the Standards of Quality Programs	379.9
Public Ed.-End Deduction of Locally-generated Revenues (JLARC Tier 1)	74.8
Public Ed.-Phase-in State Share of Administrative Positions	58.3
DOE Testing Initiative	10.3
DOE-Teacher Bonuses	2.4
Higher Education	
Cen. Acc'ts- Continue Commonwealth Technology Research Fund	16.2
All Colleges-Increase Student Financial Assistance	8.2
UVa, VCCS, UVaW, MWC, JMU, VPI-Operation and Maintenance of New Facilities	9.0
NSU- Enhance Academic Programs	7.5
CO: NSU-Funding for Deferred Maintenance	0.9
VSU-Enhance Academic Programs	5.0
VSU-Extension State Match for Land Grant	0.6
CO: VSU- Funding for Deferred Maintenance	2.6
SCHEV-State Match for GEAR UP Program	2.1
Human Resources	
Aging-Provide Funding for Pharmacy Connect in Southwest Virginia	0.7
Aging-SeniorNavigator.com	0.3
CSA-Fund Mandated Foster Care and Special Education Services	137.7
VDH-Emergency Medical Services	6.4
VDH-Continue Funding for Information Technology Network Infrastructure	6.0
VDH-Epidemiologists for Bio-Terrorism	1.8
DMAS-Provide Funding for Utilization and Inflation	609.1

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-Fund Indigent Health Care at Teaching Hospitals (Plus \$2.25 million in Legislative)	22.0
DMAS-Complete Development of the New Medicaid Claims Processing System	1.2
DMAS-Expand Enrollment in FAMIS	0.5
DMHMRSAS-Enhance Staffing at Training Centers	3.4
DSS-Fund Mandated Foster Care Maintenance and Adoption Subsidy Payments	38.0
DSS-Restore GF for Healthy Families	2.8
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
DSS-Replace Old Computers used by over 150 Offices	1.1
DSS-Fund the Comprehensive Services Assistance and Review Team	0.6
DSS-Restore GF for Domestic Violence System	0.3
DSS-Restore Dementia Training for LTC Workers	0.1
Public Safety	
DOC-Replace Out-of-State Inmate Revenue with GF	50.0
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-Fund the Integrated Criminal Justice Information System (ICJIS)	1.6
DCJS-Fund Maintenance and Operating Costs for the Norfolk Public Health Building	1.6
Debt Service	
Treas. Bd.-Debt Service for Higher Education Equipment Notes	7.9
Treas. Bd.-Debt Service for Building Virginia's Future	27.2
Treasury-Payment for Jeffrey Cox	0.7
State Police- Debt Service on Five Helicopters	1.1

Commerce And Trade/Natural Resources

VEDP-Operating Subsidy for the Va. Adv. Carrier Integration Center	5.0
Forestry-Equipment Replacement	2.2
DHCD-Workforce Services	4.0
DCR-State Park Operations	12.3
MRC-Marine Patrol	2.0
DEQ-Groundwater Research/Water Supply Planning	0.9
DEQ-TMDL's	0.5
MRC-Replace Marine Patrol Vessels	0.4
DCR-Match for Federal Land Conservation Program	6.1

General Government

Comp. Bd.-Provide Funding for Local and Regional Jail Per Diem Payments	62.7
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	0.3
Treasury-Increase Funding for Payment of Bank Services Fee	2.8
Tax-Continue Tobacco Enforcement Unit to Satisfy the Master Tobacco Settlement Agreement	0.6
Tax-Consolidate Functions from DMV at Tax	4.7
Nonstate Agency-Funding for Virginia Horse Center	1.3
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
DGS-Consolidated Labs Equipment	0.6
Courts-Judgeships Approved in 2001 Session	1.5
Courts-Increase for Criminal Fund	23.2
Courts-Finance Social Security Tax Base Increase	0.6
Courts-District court Staffing (HB 151)	1.8
Public Defender Commission-Norfolk Public Defender and Capital Defense Units	7.0
Atty Gen.-Establish Tobacco Enforcement Unit	0.3

Non State Agencies	6.3
Other Increases	2.7
Transportation	
VDOT-Deposit GF into Priority Transportation Fund	146.6
Capital Outlay	
CO: Maintenance Reserve: Fund Statewide	
Infrastructure Repair Projects	49.8
CO: Fund Emergency Repairs and Improvements at	
State Facilities	0.9
Total	\$2,213.0

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

Direct Aid for Public Education. The approved 2002-04 budget for Direct Aid to Public Education contains a net increase of \$280.7 million (\$29.7 million GF and \$251.0 million NGF) for the biennium when compared to the adjusted appropriation for current operations. This total reflects new general fund spending of \$513.1 million, offset by \$483.3 million in reductions.

Literary Fund revenues in the amount of \$176.4 million are being used to cover a portion of the cost of teacher retirement and Social Security. Net new federal funding will provide \$60.9 million in the biennium, and \$13.7 million from the Literary Fund is included for additional equipment debt service for a \$117.3 million educational technology grant program.

Recommended increases for Direct Aid to Public Education include formula-driven and technical increases of \$379.9 million to update the Standards of Quality accounts, incentive and categorical accounts for increased enrollment, prevailing costs of education, sales tax revenues and updated composite index calculations; \$74.8 million to end the deduction of locally-generated revenues in the calculation of the state share of the costs of the Standards of Quality; \$58.3 million to begin paying the state share of the cost of administration in local school divisions; \$96.4 million from the newly enacted federal No Child Left Behind Act to provide additional funding for Teacher Training, Early Reading and Special Education programs; and \$13.7 million from the Literary Fund for technology debt service.

In addition to the transfer of \$176.4 million in Literary Funds to cover a portion of the increased costs, the following funding reductions were adopted to help offset cost increases and address the JLARC tier 1 recommendations: eliminate the Additional Teachers funding added during the previous administration (\$57.1 million GF), Maintenance Supplement (\$19.3 million GF), and 11 smaller programs (\$3.4 million GF); reduce the School Construction Grants program by half (\$55.0 million GF); eliminate the Lottery Hold Harmless program (\$29.7 million GF); apply the composite index to the retiree health care credit (\$36.1 million GF); eliminate Teacher Training as a stand-alone program (\$34.7 million GF); adjust VRS and Group Life rates (\$30.5 million GF); eliminate the additional state payment for Standards of Learning Teaching Materials (\$12.9 million GF); eliminate Virginia Guaranteed Assistance, Truancy and School Community Health Grant programs (\$9.7 million GF); reduce Drop-Out Prevention, At-Risk and Project Discovery Programs (\$8.6 million GF); and capture anticipated savings or make technical changes in several programs (\$9.9 million GF).

To partially compensate for the diversion of Literary Funds from school construction, the budget provides 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 to issue \$117.3 million in equipment notes to provide schools with additional technology.

Higher and Other Education. The adopted 2002-04 general fund budget for Higher Education totals \$2.9 billion, a net decrease of \$275.0 million GF for the biennium when compared to the adjusted appropriation for current operations. Biennial budget reductions of \$290.7 million GF were allocated to institutions of higher education. To offset a portion of the budget reductions, institutions of higher education will be allowed to raise tuition for the 2002-2004 biennium. Budget reductions of 7 percent the first year and 8 percent the second year were applied to the affiliated higher education agencies, totaling \$15.9 million for the biennium.

Other significant spending decreases include a reduction of \$6.8 million GF for the Tuition Assistance Grant program, and a reduction of \$6.8 million GF for elimination of the former Office of Civil Rights programs, replaced by program and facilities enhancement funding at Norfolk State University and Virginia State University. In addition, the budget, as adopted, phases-out support of \$3.8 million GF for research and special purpose centers at the colleges and universities, and replaces the funds with a nongeneral fund appropriation.

New spending initiatives were limited to a few key items. To address the impact of potential tuition increases, \$8.2 million GF in additional financial aid is provided. For the operation and maintenance of new facilities coming on-line, \$9.0 million GF is provided. The adopted budget also provides equipment allocations of \$35.0 million in each year from the Higher Education Equipment Trust Fund. And, college faculty would be eligible to participate in the bonus provided in the first year.

In addition to these system wide initiatives, the adopted budget includes \$7.5 million GF for academic programs and instructional equipment at Norfolk State University and \$5.0 million GF for academic programs and instructional equipment at Virginia State University. As noted above, amounts represent funding required under the new Office of Civil Rights (OCR) Accord.

For other education agencies, the budget, as adopted, includes reductions of 7 percent the first year and 8 percent the second year, totaling \$5.8 million for the biennium. Targeted reductions include \$1.6 million GF per year in state aid to local libraries and \$500,000 GF each year for Info-powering programs of the Library of Virginia.

Health and Human Resources. The adopted 2002-04 budget for Health and Human Resources results in a net increase of \$748.0 million GF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$892.2 million, offset by \$144.2 million in targeted reductions. In addition, the adopted budget restores \$31.5 million GF over the biennium to reduce across-the-board cuts in Health and Human Resource from 7 and 8 percent to 4 percent each year. The across-the-board reductions of \$21.0 million each year are included in Central Appropriations for distribution to health and human resources agencies.

Most of the added spending is for mandatory programs: \$609.1 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: \$24.3 million GF 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, \$8.2 million at the Health Department for emergency medical services

and epidemiologists to improve the state's response to terrorism, and \$7.2 million for continued operation and completion of critical data processing systems at the Departments of Health and Medical Assistance Services.

More than three-fourths of the targeted reductions in health and human resources result from \$121.6 million in Medicaid cost containment actions including rate cuts for hospitals, health maintenance organizations (HMOs), nursing homes, prescription drugs, and other actions. Savings in other areas include: \$4.9 million by substituting federal TANF funds for state funded grants to localities for health care and CSA initiatives; \$4.0 million through administrative efficiencies in local departments of social services; \$4.0 million by reducing or eliminating grants to organizations for aging and health services; \$3.5 million by postponing implementation of the performance outcome measurement system in the mental health, mental retardation and substance abuse services system; \$2.3 million by offsetting general fund expenses with fees for vital records searches, restaurant inspections and sewage and septic system inspections; and \$2.0 million by reducing state funding for the Indigent Health Care Trust Fund to more closely match hospital contributions.

Public Safety. The adopted 2002-04 budget for Public Safety agencies results in a net decrease of \$92.4 million GF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$87.8 million GF, offset by \$180.1 million in GF reductions.

New spending in Public Safety includes \$52.9 million for the Departments of Corrections and Correctional Education to offset anticipated loss of contract revenue through 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 costs of new local juvenile detention facilities.

Major targeted reductions include closing Staunton Correctional Center (as of July 1, 2003), closing the adult boot camp at Southampton, reducing the SABRE drug treatment program and Juvenile Community Crime Control grants to localities, adjusting HB 599 aid to localities, and eliminating funding for Offices on Youth and the Richmond juvenile continuum.

The Departments of Emergency Management, Fire Services, and Military Affairs are exempted from across-the-board reductions.

Commerce and Trade. The adopted 2002-2004 budget for Commerce and Trade results in a net decrease of \$60.2 million GF for the biennium when compared to the adjusted appropriation for current operations. This total

represents new funding of \$4.5 million, offset by \$64.9 million in targeted reductions and executive management savings.

New funding of \$5.0 million GF in FY 2004 is approved for the operation of the Virginia Advanced Shipbuilding and Carrier Integration Center in Newport News. In addition, \$2.0 million GF in each year is appropriated to boost workforce services in cooperation with the Regional Partnerships set up under the Regional Competitiveness Act. New funding of \$2.2 million for the biennium is included for the Department of Forestry to replace equipment used in fighting forest fires.

In addition to these amounts, \$17.5 million GF is contained in the Central Appropriations for the Governor's Opportunity Fund.

Proposed targeted reductions include \$9.0 million GF each year for the Regional Competitiveness Program; \$4.4 million GF each year for the Industrial Training Program; and \$5.6 million GF for industrial and tourism marketing.

Another \$12.3 million in reductions for Commerce and Trade agencies is included as executive management savings.

Natural Resources. The adopted 2002-04 budget for Natural Resources agencies results in a net decrease of \$10.2 million GF for the biennium when compared to the adjusted appropriation for current operations. This total represents new funding of \$9.2 million, offset by \$19.5 million in reductions.

Two-thirds of the increase is accounted for by \$6.1 million GF approved for the Department of Conservation and Recreation to continue the state's participation in the Conservation Reserve Enhancement Program. Other increases include \$850,000 for statewide water supply planning and \$500,000 for the Total Maximum Daily Load program in the Department of Environmental Quality.

Targeted reductions include \$6.2 million GF for the environmental permitting activities of the Department of Environmental Quality, to be replaced by NGF fee increases. Other targeted reductions also include \$2.0 million for the Chesapeake Bay Local Assistance Department, to be achieved through efficiencies by merging this agency with the Department of Conservation and Recreation.

In addition to the targeted reductions mentioned above, \$10.7 million GF savings is achieved in the Natural Resources agencies by applying an average of

7 percent the first year and 8 percent the second year in across-the-board reductions.

HB 30, as introduced, proposed transferring to the General Fund \$8.7 million each year from the Game Protection Fund, which is a major funding source for the Department of Game and Inland Fisheries. Approved amendments rejected transferring any funds out of the Game Protection Fund. However, 7 and 8 percent efficiencies were assumed at the Department of Game and Inland Fisheries as reflected by a reduction in transfers to the agency from the general fund of \$2.8 million the first year and \$3.0 million the second year.

Transportation. The adopted 2002-04 budget for Transportation agencies totals \$6,781.0 million, including \$6,567.4 million NGF and \$213.6 million GF. This represents a net increase of \$665.2 million over the FY 2000-2002 biennium, an increase of 10 percent. In addition, language authorizes \$541.6 million in new debt for a variety of purposes, including replacement of the \$317.0 million sales and use tax for highway construction in FY 2003, and \$135.0 million for improvements to the port facilities at Norfolk International Terminals.

A number of changes to the Virginia Transportation Act of 2000 (VTA) were included in the approved budget. First, the debt ceiling for Federal Reimbursement Anticipation Notes (FRANs) is increased from \$800.0 million to \$1.2 billion, \$317.0 million of which is to replace the FY 2003 highway construction portion of the state sales and use tax transferred to the general fund. These funds will be allocated to primary, secondary and urban system projects under the state allocation formula. Second, language expands the allowable use of FRAN proceeds to all projects included in the VTA, including those previously designated as general fund projects.

Finally, the adopted budget provides \$146.6 million in additional appropriations from the general fund. This includes \$106.5 million in FY 2003 to provide one-third of the estimated insurance premium revenues to transportation, as provided by the VTA of 2000. In addition, \$40.1 million is included to cover debt service costs for the \$317.0 million issuance of FRANs. These increases of \$146.6 million are partially offset by the substitution of \$13.1 million in Commonwealth Transportation Funds for general funds provided to the Route 58 Corridor Development Fund in FY 2003.)

The adopted budget also includes reductions in administrative programs at transportation agencies of 7 percent in FY 2003 and 8 percent in FY 2004, with the \$47.6 million in savings being transferred to the general fund.

Administration & Finance Agencies. The adopted 2002-04 budget for Administration results in a net decrease of \$31.1 million GF when compared to the adjusted appropriation for current operations. This total reflects new spending of \$111.9 million, offset by \$143.8 million in reductions.

The new general fund spending includes \$62.7 million for increased per-diem payments to local and regional jails and \$7.4 million for new law enforcement deputies to maintain a ratio of 1:1,500 population.

The general fund reductions include targeted decreases of \$16.9 million by moving more state responsible inmates out of local jails, \$7.5 million from increased reimbursement of state costs for supporting out-of-state inmates, \$5.0 million by supplanting a portion of the Circuit Court clerks' operating appropriation with the Technology Trust Fund, \$2.4 million from revised VRS rates for local constitutional officers, and \$2.0 million from the imposition of a fee for drinking water tests. In addition to the targeted reductions, a total of \$60.1 million is saved through across-the-board reductions - \$54.0 million from local constitutional officers and \$6.1 million from other Administration agencies.

The adopted 2002-04 budget for Finance agencies contains a net increase of \$17.2 million GF and a net increase of \$6.2 million NGF over the adjusted appropriation for current operations. This total reflects new general fund spending of \$50.6 million, offset by \$33.4 million in reductions.

The single largest decrease is \$16.8 million GF for reductions in aid to localities from shared sources, primarily ABC profits. Additional funding decreases include \$8.5 million GF for adjustments to current debt service requirements; \$1.5 million GF from the elimination of funding for the State Internal Auditor, and \$475,000 GF for the transfer of the Line of Duty program to the Virginia Retirement System and the Department of Human Resource Management.

Increased general fund spending of \$50.6 million includes an increase of \$36.0 million GF for new debt service payments in the Treasury Board budget for capital outlay projects and for the Higher Education Equipment Trust Fund. Other funding increases include \$6.2 million GF to transfer debt service payments from the Virginia Public Broadcasting Board to the Treasury Board; \$2.6 million GF for the Department of Taxation's establishment of toll-free telephone services; \$1.4 million GF for Personal Property Tax Relief Act (PPTRA) compliance at the Department of Taxation; \$2.8 million GF for bank service fees in the Department of Treasury; \$0.7 million to the Department of Taxation for transportation revenue forecasting; \$0.7 million GF to the Department of the Treasury for a claims bill; \$0.6 million GF to create a Tobacco

Enforcement Unit in the Department of Taxation; and \$0.3 million GF for additional Treasury staff.

Funding increases in nongeneral funds include \$5.2 million NGF for contractor payments and agency costs for the Tax Department's public-private technology partnership, and \$1.4 million NGF for Debt Service in the Treasury Board.

Central Appropriations. Central Appropriations serves as a holding account for contingent funds, for unallocated cost increases and decreases, and for the Personal Property Tax Relief appropriation.

The appropriation for the Personal Property Tax program is \$1,667.1 million, which will fund reimbursement at the 70 percent level through the biennium. In addition, \$17.5 million GF for the Governor's discretionary economic development "Deal Closing Fund" and \$4.5 million GF for use by the Governor for unbudgeted economic contingencies is included in the approved budget. Nongeneral fund appropriations of \$166.7 million are included for the Tobacco Settlement funds.

A number of appropriation reversions were approved that capture savings from agency general fund budgets. These include undistributed across-the-board reductions of \$47.0 million GF; a \$52.7 million GF savings due to a reduction in VRS employer contribution rates; and a \$45.8 million GF credit against VRS employer contribution rates for the resolution of unclaimed, or dormant, retirement accounts.

Compensation. Employee compensation increases totaling \$164.8 million GF are included to provide increases in each year of the biennium. In the first year, \$63.4 million GF will provide a 2.5 percent bonus on August 30, 2002 for state employees and higher education faculty. Employees also have the option of receiving 10 days compensatory time or a combination of compensatory time and bonus payment. The bonus will be paid to employees with performance ratings of satisfactory or better.

In the second year, \$101.4 million GF is appropriated in a compensation reserve for a December 2003 increase for state employees, higher education faculty, state-supported local employees, and public school teachers. The approved amount is sufficient to provide a 2.75 percent salary increase for the four employee groups.

Finally, the approved budget contains \$82.6 million GF for the employer's share of the increased cost of the state employee health insurance program in

each year of the biennium. Budget language also establishes a Commission on Health Benefits Reform to review the current state employee health insurance plan and recommend changes to meet state workforce needs.

Capital Outlay. The adopted budget for 2002-04 provides \$1.2 billion in capital outlay funding. Of this amount, \$54.7 million is from general funds, largely for the Maintenance Reserve program. The budget also includes \$88.0 million in 9(c) bond authority and \$617.6 million in 9(d) bond authority for auxiliary enterprise projects at the colleges and universities, \$2.2 million for a project funded from the Virginia Public Building Authority, and \$423.0 million in nongeneral fund projects.

The “Building Virginia’s Future” capital program is not included in the budget but is authorized through separate legislation. The program includes \$900.5 million in general obligation bonds for higher education and other education agencies, \$119.0 million in general obligation bonds for parks and natural areas, \$249.1 million in state-supported debt to “jumpstart” high priority capital projects, and \$120.8 million in state-supported debt for projects in public safety, mental health, and general government.

Nonstate Agencies. The approved 2002-04 budget includes \$6.3 million GF in FY 2003 for historic landmarks and nonstate agencies in Item 532. No funding is provided for FY 2004.