

Overview of Changes to 2000-02 Budget Contained in Chapter 814 HB 29, as Adopted

Changes to the 2000-02 biennial budget are structured to address a shortfall of about \$1.4 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 \$1.2 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. The adopted budget also includes a limited number of discretionary spending increases.

To address the budget shortfall caused by reduced revenues and required and discretionary appropriation increases, the adopted budget contains both revenue and appropriation adjustments, including:

- Early remittance of estimated June sales tax collections by larger retailers (remit June collections before the end of the month rather than remitting in July), to produce a one-time revenue adjustment of \$137.8 million GF;
- Withdrawal of one-half of the balance of the Revenue Stabilization Fund (\$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 3 percent across-the-board budget reductions for both general fund and select nongeneral fund agencies, to produce about \$92.7 million;
- Reversal of Virginia Transportation Act (VTA) general fund appropriations (\$89.4 million);
- Using Literary Fund revenue in lieu of general funds to pay some of the cost of teacher retirement (\$110.0 million); and

- Lowering VRS rates from recognition of dormant accounts and updated system valuation (\$101.4 million GF and NGF).

In addition, the adopted budget reflects the revenue actions and budget reductions which were undertaken through administrative action pursuant to Executive Order 74 (March 12, 2001).

Resources Available for Appropriation. The adopted budget assumes \$12.2 billion in general fund resources available for appropriation in FY 2002. This amount reflects the \$1.0 billion downward revision in revenues included in the November 2001 reforecast and a \$231.1 million further downward revision in the February mid-session reforecast, based on an assumed revenue decline of 1.7 percent for the fiscal year. (The actual economic growth rate embedded in the forecast is a decline of 2.9% for FY 2002. The acceleration of \$137.8 million in sales tax revenue at year-end takes the growth rate to negative 1.7 percent).

The adopted 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 partially offset by an additional \$8.9 million appropriation to DMAS). This action was taken administratively in December 2001.

Finally, \$28.3 million is transferred to the general fund from NGF agencies to reflect lowered VRS rates from recognition of dormant accounts and the June 2001 system valuation.

Budget Savings. The adopted budget includes roughly \$518 million in general fund budget reductions, not counting the budget reductions implemented under Executive Order 74. Included are reduced retirement contributions for state employees, teachers, and other employee groups due to recognition of VRS dormant accounts and the June 2001 system valuation; a shift of some program costs from the general fund to other fund sources; and reducing the budgets of state agencies and programs. Other budget reductions result from lower projected caseloads or similar factors, and are therefore technical.

Major budget savings are detailed on the next page.

**Appropriation Reductions
Adopted HB 29
(\$ in millions)**

Reduce Retirement Contributions

Apply Lower Retirement Contribution Rates to reflect June 2001 system valuation-Teachers, State Employees, VaLORS/SPORES/JRS	(43.3)
VRS-Dormant Accounts	(32.7)
VRS-Group Life Premium Holiday	(2.5)

Change Source of Funds

VDOT-Replace VTA General Fund Appropriations with Federal Reimbursement Anticipation Note (FRAN) authorization	(89.4)
Public Ed.-Use Literary Fund Revenue to Pay a Part of Teacher Retirement	(110.0)
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)

Delay Payments

Shift Comp. Bd. Payment to FY 2003	(35.1)
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Reduce Budgets

Cen. Acct's.-Across-the-Board Reductions for Agencies of the Exec. Branch (GF Only)	(87.3)
Legislative Department Savings	(1.0)
Cen. Acct's.-Freeze Car Tax at 70%	(46.0)*
Cen. Acc'ts.-Reduce Commonwealth Technology Research Fund	(3.3)
Cen. Acct's.-Reduce Tourism Visitor's Tech. Program	(0.9)
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	(22.7)
DMAS-Projected Lower Enrollment for Family Access to Medical Insurance Security Plan (FAMIS)	(12.4)
DCJS-Adjust 599 Program Funding	(16.0)
DCJS-Adjust SABRE grants	(1.0)
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	(\$517.6)

*The actual savings is \$13.5 million. The remaining \$32.5 million was provided from capital and other balances in FY 01.

Spending Increases

The adopted budget includes roughly \$278 million GF in spending increases above the base budget for the next biennium. The proposed increases are detailed below and on the next page.

**Appropriation Increases
Adopted HB 29
(\$ In Millions)**

Health And Human Resources

DMAS-Provide Funding for Utilization and Inflation	\$ 83.2
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
DMHMRSAS-Restore Funds for Pharmacy Shortfall	2.1
Education	
Public Ed.-Provide Local Share of Additional Lottery Proceeds	15.3
Public Safety	
DJJ-Fund the State's Share of the Operating Costs of Local Detention Facilities	4.6
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
Tax-Continue Relocation Expenses	1.2
Bd. Of Elect.-Cover Increased Costs to Implement Virginia Voter Registration System (VVRS)	0.6
DRVD-Reestablish Funding and Positions for the Department	0.2
Tax-Create Tobacco Enforcement Unit	0.2
Other Technical Increases	23.3
Total	\$277.8

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

Health & Human Resources. The adopted budget for Health and Human Resources results in a net increase of \$153.3 million. This total reflects new spending of \$175.3 million, offset by \$22.0 million in targeted reductions. In addition, a 3 percent budget cut of \$15.6 million is included in the Central

Appropriations for distribution to health and human resources agencies through reduction plans.

Most of the added spending is for mandatory programs: \$83.2 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.

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, \$2.1 million for pharmaceuticals provided through the Department of Mental Health, Mental Retardation and Substance Abuse Services, and \$1.4 million for continued operation of Health Department data processing systems.

One new item of \$8.9 million was approved to pay local incentives, legal, and banking fees related to the capture of \$259 million in federal Medicaid funds related to retroactive upper limit payments for publicly owned nursing home reimbursement.

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. The approved FY 2002 budget for Direct Aid to Public Education contains a net decrease of \$129.6 million GF. This total reflects additional funds of \$15.3 million for increased Lottery profits and \$144.9 million in general fund savings from using Literary Funds for teacher retirement, updating various accounts, and using revised Virginia Retirement System rates.

A net increase of \$0.3 million is included for the Department of Education to fully fund teacher certification bonuses. However, the Department's budget will be reduced by the \$2.9 million in Executive Order 74 savings and 3 percent across-the-board reductions, which are reflected in a central account.

The adopted amendments for higher education for FY 2002 reduce funding by \$41.6 million GF, largely due to a 3 percent across-the-board reduction budgeted in the Central Appropriations. Across-the-board reductions of 3 percent, combined with Executive Order 74 savings, result in a \$4.1 million GF reduction for other education agencies.

Public Safety. The approved FY 2002 budget for Public Safety agencies results in a net decrease of \$10.8 million GF. This total reflects new spending of \$6.2 million, offset by \$17.0 million in reductions. The additional spending includes \$4.6 million for the state share of operating costs at recently-opened local juvenile detention facilities and \$1.6 million for the new forensic laboratory in Norfolk. The \$17.0 million decrease reflects (1) a downward adjustment of \$16.0 million in state aid to localities with police departments (HB 599) to conform funding growth to the change in state general fund revenues, pursuant to statute, and (2) a reduction of \$1.0 million in SABRE funding for local community corrections.

Additional Public Safety reductions in the Central Appropriations total \$34.7 million GF including 3 percent across-the-board reductions of \$17.6 million to be achieved through unspecified actions, and Executive Order 74 reductions of \$17.1 million. The 3 percent reductions exclude the Departments of State Police, Military Affairs, and Emergency Services, and all security salaries in the Departments of Corrections and Juvenile Justice.

Transportation. The FY 2002 amendments adopted for transportation agencies include a reduction of \$89.3 million GF for transportation projects identified in the Virginia Transportation Act of 2000 (VTA). The general fund reduction is offset by increased Federal Reimbursement Anticipation Note (FRAN) debt authorization. Several approved language amendments also make significant policy changes to the VTA, including expanding the use of FRANS to fund all projects included in the VTA. Previously, FRANS were limited to projects included in the Priority Transportation Fund.

The adopted amendments also authorize the Virginia Port Authority to issue \$135.0 million of tax-supported debt for port renovations at Norfolk International Terminal-South and authorize the issuance of \$6.6 million of debt by the Virginia Aviation Board for the Aviation World's Fair project at the Newport News/Williamsburg International Airport.

Other amendments affecting transportation funding include a 3 percent reduction in administrative programs for the Secretary of Transportation, the Department of Aviation, the Department of Rail and Public Transportation, the Department of Motor Vehicles, and the Motor Vehicle Dealer Board, with the \$1.3 million in savings being transferred to the general fund.

Other Proposed Amendments. In Administration, the adopted amendments provide \$22.7 million to the Compensation Board for the cost of jail per diems for state and local responsible inmates.

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

In Finance, the principal 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.

Capital Outlay. The adopted amendments for FY 2002 provide a net increase of \$376.3 million in capital outlay funding – mostly for previously approved projects that were delayed last year. Specific actions include \$262.6 million in state-supported debt, through the Virginia College Building Authority and the Virginia Public Building Authority, largely to address general fund projects frozen through Executive Order 74 last year.

The budget as adopted provides \$50.4 million in 9(c) and 9(d) bond authority for auxiliary enterprise projects at colleges and universities. The budget also includes \$135.0 million in state-supported debt for the Virginia Port Authority.