

Overview of Amendments to the Budget for 2002-2004, as Adopted

The amended budget for 2002-04, as adopted, addressed a shortfall of \$2.1 billion GF resulting from projected lower general fund revenues combined with required spending increases. A continued weak economy is projected to reduce general fund revenue collections for the 2002-04 biennium by approximately \$1.3 billion below the amount approved in Chapter 899 (2002 Session). Added to this amount is \$216.5 million from the year-end FY 2002 shortfall and obligations against balances. At the same time, non-discretionary spending increases in Medicaid, Direct Aid to Public Education, Personal Property Tax Relief, and several other programs totaled approximately \$718.0 million.

To address the budget shortfall, the budget as adopted includes the following actions:

- generating \$1,032.9 million in general fund budget savings (including reductions proposed administratively by the Governor in October, 2002);
- withdrawing \$245.9 million GF in FY 2003 and \$128.5 million GF in FY 2004 from the Revenue Stabilization Fund;
- capturing \$86.2 million GF and \$24.4 million GF in FY 2002 from unexpended agency operating balances;
- reverting \$98.1 million in capital balances and replacing the majority of this cash with debt issued through the Virginia College Building Authority (VCBA) and the Virginia Public Building Authority (VPBA); and
- increasing revenues by \$584.4 million through various adjustments, including: implementing a FY 2004 tax amnesty program to produce revenue of \$44.8 million; selling the Housing Partnership Loan Fund portfolio to VHDA for \$40.8 million; and capturing \$34.0 million by withholding fourth quarter interest earnings payable to nongeneral fund accounts, and \$20.7 million by increasing tax compliance efforts.

Revenues

The adopted budget includes \$24.4 billion in general fund resources available for appropriation, a net reduction of \$335.9 million from Chapter 899 (2002 Session). The net decline results from a reduction of \$1,264.4 million in general fund tax revenues to reflect the current expectation that economic weakness will continue through FY 2003 and an appreciable rebound will not occur until FY 2004.

	<u>As Adopted</u>	<u>Change from Ch. 899</u>
Official Revenue Estimate	\$22,172.8	(\$1,133.4)
Available Balances	120.7	(30.3)
Transfers (includes Lottery)	1,744.0	453.4
Revenue Stabilization Fund	<u>374.4</u>	<u>374.4</u>
General Funds Available for Appropriation	\$24,411.9	(\$335.9)

The revenue reduction is offset by revenue actions totaling \$131.0 million, including \$34.0 million from retention of fourth quarter interest from nongeneral fund accounts; \$21.7 million from retaining the Department of Motor Vehicle's share of the Auto Rental Tax; and \$20.7 million in enhanced tax collection efforts.

The revised revenue forecast assumes economic growth rates of 0.9 percent in FY 2003 and 4.5 percent in FY 2004. In contrast, revenue declined by 3.8 percent in FY 2002.

Transfers to the general fund increase available resources by \$827.8 million. Major transfers include:

- \$374.4 million from the Revenue Stabilization Fund;

- \$175.2 million in cumulative reductions to nongeneral fund agencies resulting from the Governor's October budget actions and from other actions in the adopted budget;
- \$72.8 million from increased Lottery profits;
- \$45.8 million from ABC/Wine and Spirit taxes, which includes an increase in the average price of products in ABC stores;
- \$44.8 million from a tax amnesty program; and
- \$40.8 million from the sale of the Housing Partnership Loan Fund portfolio to the Virginia Housing and Development Authority.

Budget Savings

The budget as adopted includes \$1,058.1 million in general fund budget reductions. This amount includes more than \$700.0 million in general fund reductions proposed by the Governor in his October 2002 administrative budget actions. (Note: The original October amount was \$725.1 million GF, along with \$132.6 million in nongeneral funds for a total October reduction amount of \$857.7 million. The General Assembly modified the proposed reductions or restored funds in its 2003 Session actions.)

Savings items contained in the adopted budget include using Literary Funds for teacher retirement, updating various fund sources to pay the cost of programs now borne by the general fund, reducing aid to localities, deferring funding, and targeting reductions to state agency budgets beyond the October actions. A small proportion of the budget reductions result from technical adjustments related to updating participation rates, inflation, and sales tax for Public Education.

The following table summarizes the adopted general fund reductions.

**Major Spending Reductions
in the Budget, as Adopted**
(GF \$ in millions)

Shift Costs to Other Funds and Payers

Public Ed.-Use Literary Fund for Teacher Retirement and Social Security	(\$54.9)
DSS-Supplant Day Care GF with DOE Pre-K Funds	(7.4)
DMAS-Supplant GF with FAMIS Trust Fund	(7.0)
DSS-Supplant Federal Funds for GF in Child Support Enforcement Program	(6.9)
DSS-Supplant Day Care GF with Federal and Other Funds	(5.1)
DGS-Make BCOM into Internal Service Account	(2.9)
VDH-Supplant EMS Funding	(1.6)
MRC-Supplant with Increase in Saltwater Fishing Fees	(1.4)
VDH-Supplant Physician Scholarships and loans	(1.1)
DOC-Increase Diversion Center Room & Board Charges	(1.0)
CSA-Improve Use of Medicaid Funding	(1.0)
DMME-Increase Permit and License Fees	(0.8)
VDH-Supplant GF with TANF for Prevention Programs	(0.7)
VDH Supplant Federal Funds for new Epidemiologists	(0.4)

Defer Funding

DMAS-Defer FY 2004 HMO Inflation Adjustment	(\$19.1)
DMAS-Defer FY 2004 Nursing Home Indirect Care Inflation Adjustment	(5.4)

Reduce Pass-through Funding and Grants

SCHEV-Reduce Tuition Assistance Grants	(\$9.2)
VEDP-Reduce Funding for Va. Advanced Shipbuilding Program (VASCIC)	(5.0)
DMME-Reduce Solar Photovoltaic Grant Program	(2.7)
SCHEV-Reduce Eminent Scholars Match	(2.0)
COMARTS-Decrease Funding for Arts Grants	(1.0)

Reduce Aid to Localities

Comp. Bd.-Reduce Funding for Sheriffs	(\$26.9)
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MHMR-Reduce Funding for Community Service Boards	(26.6)
Comp. Bd.-Reduce Funding for Treasures, Commissioners of Revenue and Circuit Court Clerks	(15.1)
DOA-Reduce ABC Profits Transfer	(12.7)
DCJS-Reduce HB 599 Funding	(11.0)
LOV-Reduce Aid to Local Libraries	(5.7)
Comp. Bd. - Community Corrections Pilot	(1.0)
DCR-Reduce Grants to Soil & Water Conservation Districts	(1.0)
Comp. Bd. - Leave C'wealth Attorney's Reduc. at 7%	(0.9)

Other Budget Reductions

Cen. Accts.-Reduce Year 2 Compensation Reserve	(\$101.4)
CO-Reduce Funding for Maintenance Reserve	(25.2)
Various Agencies-Savings from Information Technology Consolidation	(18.0)
DSP-Across the Board Reductions	(12.1)
DMAS-Implement Preferred Drug List	(9.0)
Cen. Accts.-Workforce Transition Act Savings	(4.7)
Tourism-Eliminate Cooperating Advertising	(4.4)
DMAS-Reduce Payments for Outpatient Hospitals	(4.2)
DHCD-Regional Workforce Services	(4.0)
DHCD-Eliminate Workforce Services	(3.1)
DMAS-Modify Outpatient Rehab. Reimbursement	(3.0)
Aging-Reduce Area Agencies on Aging Funds	(2.8)
DMAS-Reduce Private Hospital Capital Payments	(2.6)
DBA-Industrial Training	(2.6)
DTP-Consolidate Agency in Info. Tech Plan	(2.4)
Col. & Univ.-Reduce Support for Research & Pub. Svc. Ctrs.	(2.3)
DOE-Eliminate or Delay Selected Testing Programs	(2.1)
DMAS-Reduce Pharmacy Dispensing Fee	(2.0)
Cen. Accts-Remove Funding for Student Financial Aid	(2.0)
Treas. Bd.-Nonresident Student Fee to Support Debt Svc.	(2.0)
DMME-Reduce Solar Photovoltaic Grants	(1.7)
DHCD-Industrial Site Funds	(1.7)
DMHMRSAS-Relocate Jail Forensic Services to Central State Hospital	(1.6)
DSS-Reduce Staff in Central and Regional Offices	(1.5)
DBA-Savings from Transfer of Small Business Dev. Ctrs.	(1.5)

DMAS-Eliminate Substance Abuse Expansion	(1.3)
DMAS-Prior Authorization of Inpatient Admissions	(1.3)
DMAS-Prior Authorization of Certain Outpatient Services	(1.3)
Cen. Accts.-Comm. Technology Research Fund Balance	(1.3)
DCR-Reduce Funding for Conservation Reserve Enhancement	(1.2)
DMAS-Improve Utilization of Over-the-counter Drugs	(1.0)
DMAS-Reduce Payments for Specialized Nursing Care	(1.0)
DMAS-Eliminate Transitional Medicaid for TANF Recipients	(1.0)
DMAS-Prior Authorization for Certain Prescriptions	(1.0)
DMAS-Accelerate Family Planning Waiver	(1.0)
DOE-Central Office Eliminate Various Agency Functions	(1.0)
DMAS-Increase Prescription Drug Copayments	(0.9)
DHCD-Homeless Programs	(0.9)
DCJS-Reduce Support for Research and Crime Prevention Ctrs.	(0.8)
DOC-Reduce Drug Costs per 340B Program	(0.8)
DMAS-Redirect GF in Indigent Health Care Trust Fund	(0.7)
Cen. Accts.-Consolidate Econ. Development Agencies	(0.5)
Technical Reductions	
Public Ed.-Adjust SOQ for Latest Sales Tax Estimate	(\$13.5)
Public Ed.-Savings from Non-Participation in Incentive-Based Accounts	(12.5)
Treasury Bd.-Reduce Debt Service Payments	(11.1)
Public Ed.-Adjust SOQ for Latest Inflation Factors	(3.1)
Public Ed.-Update Special Education Categorical Accounts	(0.9)
Other Reductions	(\$547.2)
Total	(\$1,058.1)

Spending Increases

The budget, as adopted, includes \$717.9 million in general fund spending increases. Of the total, about 70 percent is attributable to increases in six areas:

- funding the increasing cost of Medicaid (\$142.4 million);

- maintaining the car tax reimbursement at 70 percent (\$127.6 million);
- updating the cost of the state share of the Standards of Quality for public schools, along with related categorical and incentive programs, and distributing additional lottery proceeds (\$97.9 million);
- providing a 2.25 percent salary increase for all state employees, faculty, state-supported local employees and school teachers (\$66.0 million) in FY 2004;
- funding the increasing cost of serving special needs children under the Comprehensive Services Act (\$35.7 million); and
- providing the Department of Corrections additional support from the general fund to offset the loss of out-of-state inmate revenue (\$23.9 million).

**Major Spending Increases
In the Budget, As Adopted**
(GF \$ in millions)

Compensation

Cen. Accts.-Increase Health Benefit Premiums for State Employees	\$15.1
Cen. Accts.-2.25% Salary Increase for State Employees, Faculty, and State-Supported Local Employees	38.5
UVA-Increase Funds for UVa Health Care Plan	1.3

Car Tax

Maintain Car Tax Reimbursement at 70 Percent	\$127.6
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Public Education

Public Ed.-Provide Additional Lottery Proceeds to School Divisions	\$44.6
Public Ed.-Update Costs of the Standards of Quality Programs	31.7
Public Ed.-2.25% Teacher Salary Increase	27.5
Public Ed.-Update Costs of Public Education for Latest Census Information	11.3
DOE-Separate History SOL Tests	1.9

Human Resources

DMAS-Medicaid Funding for Utilization and Inflation	\$142.4
CSA-Fund Mandated Foster Care and Special Education Services	35.7
DMAS-Fund Indigent Health Care at Teaching Hospitals	18.4
DMAS-Add Funds for Unrealized Savings Strategies	11.7
DMAS-Provide Additional Funds for Transportation Brokering Services	8.8
DSS-Fund Mandated Foster Care Maintenance & Adoption Subsidies	6.9
DMAS-Involuntary Mental Commitments	3.8
DMAS-Additional Mental Retardation Waiver Slots	3.5
DMHMRSAS-Acute Care Services in Private Psychiatric Hospitals	3.6
DMAS-Complete Development of the New Medicaid Claims Processing System	2.6
DMAS/DSS-Auxiliary Grant Increase	1.4
DMHMRSAS-Community Medications	1.4
VDH-Fund Move to the Renovated Madison Building	0.9
DMAS-Rate Increase for Personal and Adult Day Health Care	0.6

Higher Education/Other Education

Col. & Univ.-Need-based Financial Aid	\$4.5
SCHEV-Restore Tuition Assistance Grant	2.5
Col. & Univ.-O&M for New Facilities	1.7
VSU & NSU-Adjust October Reductions for OCR Accord	1.7

Public Safety

DOC-Replace Out-of-State Inmate Revenue with GF	\$ 24.0
DOC-100 Correctional Officers	2.9
Courts-Criminal Indigent Defense Fund	4.0
DJJ-Operating Funds for Culpeper Juvenile Correctional Center	0.9

Debt Service

Treas. Bd.-Debt Service for Supplanted and New Capital Projects	\$ 7.9
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Commerce And Trade/Natural Resources

DEQ-Water Program Permit Fee Shortfall	\$1.6
Gen. Accts-Indemnification for Poultry Growers	1.5

General Government

Tax-New Tax Compliance Efforts	\$ 11.3
Comp. Bd.-Provide Funding for Local and Regional Jail Per Diem Payments	7.8
CGC-Support Charitable Gaming Commission from General Funds	2.1
Comp. Bd.-Insurance Premiums for Constitutional Officers	1.3
Tax-Federal Debt Set-off Program	1.0
Cen. Accts-Unbudgeted Cost Increases	4.0
Cen. Accts-Support for Virginia Horse Center	0.9
Cen. Accts- Sexual Violent Predator Programs	1.2
Cen. Accts-Increase in Property Insurance Premiums	0.6
Cen. Accts-Technical-Spread Central Account Reductions	26.8
Cen. Accts-Spread Wilder Commission Reductions	6.3
Other Spending	\$60.2
Total	\$717.9

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

Health and Human Resources. The adopted amendments result in a net increase of \$214.8 million (all funds) for the biennium when compared to Chapter 899. General fund spending of \$241.8 million is offset by targeted spending reductions of \$205.5 million, resulting in a net increase of \$36.4 million GF for the biennium.

More than three-quarters of the additional general fund spending in human resources relates to mandatory funding requirements. Medical inflation and enrollment growth among low-income families, the elderly, and the disabled require the addition of \$142.4 million GF for Medicaid. The rising cost to serve at-risk youth, entitled to care under the Comprehensive Services Act (CSA), necessitates adding \$35.7 million GF. An additional \$6.9 million GF will fund services to children who are entitled to foster care and subsidized adoptions.

In FY 2004, the adopted budget adds \$12.8 million GF and redirects \$60.2 GF million from the proposed Protecting Access to Healthcare program to restore funding for Medicaid providers. In total, almost \$36 million GF and \$36.9 million NGF is provided to managed care organization, hospitals, nursing homes,

pharmacies, and durable medical equipment providers to cover increases in the cost of caring for Medicaid patients.

Approximately 46 percent (\$92.3 million GF) of the general fund budget savings in human resources comes from reductions in mental health, mental retardation, and substance abuse services and social services. Adopted funding for the Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS) was reduced by \$52.0 million GF for the biennium with the majority of the reductions coming from community-based services. Funding for the Department of Social Services (DSS) is reduced by \$42.3 million GF for the biennium, primarily through the surplus of general funds with federal dollars.

Almost 36 percent of the budget savings from health and human resources comes from Medicaid cost containment initiatives (\$73.4 million GF). Significant budget reductions include \$24.6 million by reducing automatic inflationary increases for nursing facilities and Medicaid and FAMIS managed care organizations, \$14.6 million by reducing pharmacy program costs, and \$11.5 million by reducing reimbursement rates for outpatient hospital and rehabilitation services as well as capital payments, durable medical equipment, and specialized care rates for nursing home recipients.

Direct Aid for Public Education. The approved budget for Direct Aid to Public Education results in a net increase of \$25.5 million GF and \$168.6 million NGF for the biennium when compared to Chapter 899. This total reflects new general fund spending of \$115.5 million offset by \$90.0 million in general fund reductions. Additional Literary Fund revenue in the amount of \$54.9 million supplants general funds for a portion of teacher retirement and Social Security payments. Increased appropriation authority is included for anticipated federal funding of \$113.3 million NGF, and an additional \$0.5 million from the Literary Fund is included as a technical adjustment for technology equipment debt service.

Adopted increases include technical adjustments of \$44.6 million GF to return the local share of increased lottery proceeds; \$31.7 million GF to update the Standards of Quality, and some incentive and categorical accounts for updated enrollment and participation projections; and a net \$7.2 million GF from the effects of changing the distribution of sales tax consistent with the results of the 2002 Triennial Census. Also included is \$27.5 million GF as the state share of a 2.25 percent teacher salary increase effective January 1, 2004.

In addition to the transfer of \$54.9 million from the Literary Fund, a number of funding reductions are adopted. Savings of \$6.8 million come from the elimination of the Technology Assistants and School Health Incentive programs. Savings of \$1.1 million GF are from the elimination of general funds for migrant education, the Western Virginia Public Education Consortium and from general fund reductions to other similar small special programs such as Project Discovery and the Southside and Southwest education consortia. The remaining reductions are technical updates, including: a net \$13.5 million GF to reflect lower sales tax revenues from those assumed in Chapter 899; \$6.4 million GF for updated participation in other incentive and categorical accounts; and \$3.1 million GF due to updated inflation factors.

Also included is a new Student Achievement Block Grant, funded by redirecting the funding for the Dropout Prevention Program to the new block grant. School divisions can choose to use the grant for any of the following existing programs: K-3 Reduced Class Size, Early Reading Intervention, At-Risk Four-Year-Olds, SOL Remediation, and Dropout Prevention.

The approved budget includes a net decrease of \$6.2 million GF for the Department of Education. Reductions of \$8.8 million include \$2.0 million GF in the state's assessment program, including a delay in the full implementation of web-based SOL testing and the elimination of the Stanford 9. A total of 32.0 GF FTEs were eliminated, including 6.0 from the closure of the two remaining Best Practice Centers, while 25.0 new federal funded FTEs were added, for a net loss of 7.0 FTEs within the department. General fund increases in the Department total \$2.6 million, from a net increase of \$1.9 million to fund the administration of separate history SOL tests and \$769,483 to replace federal funding currently being used to support the PASS initiative.

General Government. For the Judicial Department, the budget contains a net increase of \$1.6 million GF for the biennium. This total reflects new spending of \$4.7 million, offset by \$3.1 million in reductions. The general fund increase includes \$4.0 million GF for the Criminal Fund; \$0.1 million GF the second year for a judicial performance evaluation pilot project; and \$0.6 million to partially offset reductions contained in the budget, as introduced.

Several significant language amendments are included under the courts, including:

- the imposition of an additional fee of \$100 for persons convicted of driving under the influence (DUI), effective May 1, 2003. This fee is applicable in both Circuit and District Courts. The estimated \$2.5 million per year in revenues from this fee will be deposited into the general fund to cover state costs of DUI testing and the breathalyzer training and certification program in the Department of Criminal Justice Services.
- an increase in the fee for the Intensified Drug Enforcement Jurisdictions Fund (IDEA Fund) fee from \$2 to \$4, effective May 1, 2003, which will raise an estimated \$3.0 million the second year.

For Executive Offices, the adopted budget includes a net decrease of \$6.4 million GF for the biennium. This total reflects reductions of \$8.5 million GF, offset by increases of \$2.1 million GF. The adopted reductions include: \$0.8 million GF for the Office of the Governor; \$0.2 million GF for the Office of the Lt. Governor; \$6.4 million GF for the Office of the Attorney General (partially offset for an actual reduction of \$5.4 million); \$0.4 million GF for the Secretary of the Commonwealth; and savings of \$0.2 million from elimination of funding for the Virginia Liaison Office.

Increases include \$1.0 million GF to partially restore reductions for the Office of the Attorney General that had been included in the October reduction plans, and \$0.3 million GF to expand the Attorney General's Medicaid fraud control unit. The remaining increase of \$0.4 million GF is technical in nature.

Amendments to the budget, as adopted, for the Legislative Department result in a total reduction of \$11.0 million. This includes across-the-board savings of \$10.6 million, and several smaller, technical budget reductions totaling \$0.4 million.

The budget as adopted for Administration agencies results in a net reduction of \$48.6 million GF. Reductions are spread across the agencies with the largest savings generated by the Compensation Board and the Department of General Services. In the Compensation Board, additional reductions to the constitutional officers were adopted, with reductions totaling 5 percent for sheriffs, 7 percent in the first year and 5 percent in the second year for Commonwealth's Attorneys, and 11 percent reductions for the treasurers, commissioners of revenue and circuit court clerks. In combination with administrative efficiencies, these reductions would generate total biennial savings of \$40.7 million in the Compensation Board. Savings

at the Department of General Services total \$7.5 million and include increased reliance on fees for services.

The adopted budget eliminates two agencies by consolidating the Commission on Local Government with the Department of Housing and Community Development and transferring the responsibilities of the Virginia Public Broadcasting Board to the Secretary of Administration.

For the Finance agencies, the adopted budget results in a net reduction of \$8.2 million for the biennium when compared to Chapter 899. The total reflects new spending of \$24.0 million, offset by \$32.3 million in reductions for the biennium. The major appropriation increases relate to proposed revenue-generating initiatives at the Department of Taxation, including \$11.3 million for enhanced compliance efforts, and \$1.0 million to initiate a federal debt setoff program. To implement the enhanced compliance efforts, 91 additional positions also are provided to the Department of Taxation. In other spending actions, \$7.6 million is provided to the Treasury Board to support debt service costs of bonds to be issued to supplant general fund expenditures for a number of capital projects.

Of the adopted reductions, \$9.1 million result from debt service savings is achieved by refunding outstanding bonds and issuing debt at lower than anticipated rates. The remaining savings are obtained from targeted reductions—largely those announced in October—including \$1.0 million from the Department of Planning and Budget, \$1.3 million from the Department of Accounts, \$2.1 million from the Department of Taxation, and \$1.0 million from the Department of Treasury.

Public Safety. The adopted budget results in an overall decrease of \$80.3 million GF (2.9 percent) for the biennium for the Office of Public Safety. This net change is the result of increases totaling \$31.3 million, offset by reductions totaling \$111.6 million.

The total reductions of \$111.6 million GF include targeted cuts in every public safety agency. The largest decreases are applied in the Departments of Corrections (where there is a broad range of cuts totaling \$46.1 million); Juvenile Justice (\$19.2 million); Correctional Education (\$3.9 million); State Police (\$14.4 million); and Criminal Justice Services (\$11.4 million). In addition, in Department of Criminal Justice Services the funding for HB 599 (state aid to localities with police departments) is reduced \$5.5 million each year to reflect the adjustment in general fund revenue estimate the first year and level funding the second year.

The largest increase is \$23.9 million GF for the Department of Corrections to offset the loss of out-of-state prisoner revenue. In addition, the budget provides \$850,000 GF the second year for the Department of Juvenile Justice to continue to operate Culpeper Juvenile Correctional Center as a facility for females.

The adopted budget for the Department of Alcoholic Beverage Control (ABC) increases the average retail price of alcoholic beverages sold in state-operated stores by 5 percent thus generating \$21.2 in additional revenue which is transferred to the general fund. Language is included to override the statutory requirement that two-thirds of the increased profits be distributed to localities. There is also a \$1.6 million NGF reduction in enforcement and regulatory operations the second year, which is transferred to the general fund. Finally, there is language directing the Secretary of Public Safety to develop a plan to merge ABC enforcement into the Department of State Police, with proposed legislation for consideration by the 2004 General Assembly.

Higher and Other Education. The higher education budget as adopted, includes \$10.2 million GF in new spending items or restorations, and \$289.6 million GF in reductions to higher education institutions and agencies. The net biennial change from the original appropriation is \$279.4 million GF, a decrease of 9.6 percent. Over half of the \$10.2 million in increased general fund support, or about \$5.2 million GF, is provided to offset a portion of proposed reductions in Tuition Assistance Grants, Cooperative Extension services, unique military activities at Virginia Tech and Mary Baldwin College, and the Virginia Women's Institute for Leadership. New spending items are limited primarily to technical adjustments and new costs associated with the operation and maintenance of higher education facilities.

Only \$2.7 million, or less than one percent of the reductions contained in the adopted budget, were not contained in the Governor's October reductions or in the introduced budget. The bulk of those reductions, \$2.3 million, continue to shift state support to nongeneral fund sources for research and public service centers at higher education institution.

In addition to spending adjustments, the higher education budget also contains several key policy changes, including a modification of the tuition policy for the 2003-04 academic year. The tuition policy caps increases for in-state, undergraduate student tuition to increase by more than five percent over current

rates after annualizing the 2003 mid-year increases. Budget language also allows the Governor to lift the tuition cap should revised revenue forecasts require additional general fund reductions to higher education. Other policy changes include the implementation of a capital fee for out-of-state students, modification of the current policy for mandatory non-educational and general fees, and expansion of the Commonwealth's higher education decentralization initiatives.

Not reflected in the higher education budget is an additional \$7.9 million GF provided for a 2.25 percent salary increase for full- and part-time faculty in FY 2004 and \$4.5 million GF provided to supplement student financial aid in FY 2004. Both of these items are included in central accounts.

Transportation. The adopted budget results in a net reduction of \$421.9 million NGF for the biennium when compared to Chapter 899. This total reflects new spending of \$209.9 million, offset by \$631.8 million in appropriation reductions.

The adopted budget restores a wide array of services at the Department of Motor Vehicles eliminated in the Governor's October reduction plans. In total, \$1.6 million in FY 2003 and \$15.8 million in FY 2004 is restored to allow for the reopening of the 12 customer service centers, the reinstatement of Wednesday operations, the restoration of headquarters support personnel, and the reopening of two weigh stations; all activities eliminated last fall as part of the Governor's reduction plan. As part of this restoration, an additional 302 full-time equivalent positions also were provided. Funding for the restoration is provided by reducing proposed transfers to the general fund and increasing the cost of DMV driver license/identification cards.

Most of the reductions for Transportation agencies are technical and do not result in programmatic reductions. Over 50 percent (\$320.4 million) reflect the reconciliation between the current Appropriation Act and revisions to transportation revenue estimates since last December. These adjustments do not impact the programs of these agencies because the Commonwealth Transportation Board acknowledged the revenue shortfall in the Six-Year Transportation Program adopted in June, 2002.

In addition to technical revenue adjustments, there are targeted savings of \$91.2 million NGF, with the largest reductions applied to VDOT, totaling \$63.6 million over the biennium through a number of administrative efficiencies, largely in the area of information systems.

Commerce and Trade. The approved budget for Commerce and Trade agencies results in a net reduction of \$39.0 million GF and \$2.7 million NGF for the biennium as compared to the 2002 Appropriation Act. About 62.0 FTE positions are eliminated. Most of the reductions are tied to the Governor's October Reduction Plan -- \$23.1 million GF and \$4.6 million NGF, including the following:

- Department of Business Assistance - \$2.6 million reduction in workforce services and \$1.0 million for small business development centers;
- Virginia Tourism Authority - \$2.4 million reduction in the cooperative advertising program;
- Department of Housing and Community Development - \$1.7 million reduction in the industrial site development program; and
- Virginia Economic Development Partnership - \$1.3 million for staffing.

The General Assembly approved amendments to partially or entirely restore funding reductions proposed by the Governor in several areas, including the meat and poultry inspection program in the Department of Agriculture and Consumer Services (\$1.0 million); homeless programs administered by the Department of Housing and Community Development (\$500,000); and marketing initiatives in the Virginia Tourism Authority (\$500,000).

Natural Resources. The 2002-04 budget for natural resources results in a net decrease of \$22.1 million GF for the biennium when compared to the Chapter 899 appropriation. This total represents new funding of \$5.7 million, offset by \$27.8 million in reductions.

The Department of Conservation and Recreation's budget is reduced by \$10.2 million GF for the biennium. This equals a 15 percent biennial reduction from Chapter 899 levels. After partial restoration by the General Assembly, state parks experience \$2.9 million of this reduction. A \$1.8 million GF decrease for the Conservation Reserve Enhancement Program (CREP) reduces funds available to compensate farmers and other land owners for implementing best management practices. The adopted budget provides \$1.2 million NGF for CREP with funds previously provided for the Water Quality Improvement Act. The General Assembly also restored \$1.4 million GF for local Soil and Water Conservation Districts eliminated in the introduced budget.

The General Assembly provided \$1.2 million GF to offset a \$2.4 million reduction for the Marine Resources Commission, leaving a net biennial reduction of \$1.2 million GF. General Fund transfers to the Department of Game and Inland Fisheries' Game Protection Fund are also reduced by \$2.0 million each year.

While the introduced budget proposed to reduce the number of agencies in the natural resources secretariat by three, the General Assembly rejected these initiatives. The budget returns all positions and funds to the Virginia Museum of Natural History that were transferred to the Science Museum of Virginia. The Chesapeake Bay Local Assistance Department and the Chippokes Plantation Farm Foundation, targeted for merger into the Department of Conservation and Recreation, receive partial restoration of targeted cuts and maintain their independent agency status.

Technology. Approved actions in Technology result in a net reduction of \$3.4 million GF for the 2002-04 biennium when compared to the original appropriation. New spending of \$2.4 million GF is primarily attributable to the establishment of the new Virginia Information Technologies Agency. As part of the establishment of the Virginia Information Technologies Agency, three existing information technology agencies - the Department of Information Technology, Department of Technology Planning, and Virginia Information Providers Network Authority - will be consolidated into the new agency.

Central Appropriations. General fund increases in Central Appropriations include \$127.6 million to continue funding personal property tax relief at the 70 percent level. The General Assembly also approved \$38.5 million GF for a December, 2003, 2.25 percent salary increase for state employees, higher education faculty, and state supported local employees; \$15.1 million GF to pay the employer share of FY 2004 premium increases in the state employee's health insurance program; and \$4.5 million GF for increased student financial aid. Approved nongeneral fund increases include \$3.8 million for a technical adjustment to the appropriation of the Tobacco Indemnification and Community Revitalization Fund and the Virginia Tobacco Settlement Fund to account for a projected increase in payments.

Capital Outlay. The capital outlay amendments for the FY 2003-04 biennium provide a net increase of \$548.4 million in project funding. Specific actions include \$225.8 million in state-supported debt, through the Virginia College Building

Authority and the Virginia Public Building Authority, most of which is to address projects whose general funds were supplanted in the introduced budget.

The adopted budget provides \$161.7 million in 9(c) bond and 9(d) bond authority for auxiliary enterprise and other nongeneral fund revenue-supported projects at the colleges and universities. The budget also includes \$186.1 million in nongeneral fund projects. Finally, the adopted budget includes the \$24.9 million GF reduction to the maintenance reserve program proposed by the Governor.

In order to balance the budget, the Governor proposed the reversion of balances from previously authorized general and nongeneral fund capital projects totaling \$92.4 million. General funds of \$84.4 million were reverted from capital projects authorized in prior biennia and nongeneral fund balances totaling \$7.9 million (Transportation Trust Funds and special funds) were reverted from projects authorized both in prior biennia and in the current biennium. In addition, \$5.7 million GF was transferred through actions in Part III of the budget.

Nonstate Agencies. The adopted budget includes \$5.3 million GF in FY 2003 for historic landmarks and nonstate agencies, a reduction of \$961,655 GF from Chapter 899, 2002 Acts of Assembly. This represents a 15 percent reduction for nonstate agencies receiving a FY 2003 appropriation in Item 532. No funding is provided in FY 2004.