Finance

The Governor's proposed 2004-06 budget for Finance results in a net increase of $225.2 million GF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of $226.3 million, offset by reductions of $1.1 million.

New general fund spending includes $87.0 million for deposit into the Revenue Stabilization Fund, $82.6 million in additional debt service for bonds issued by the Commonwealth, $22.3 million to continue computer equipment leases needed by the Department of Taxation, $5.3 million to implement tax reform, $6.0 million in additional transfers to local governments, $5.7 million in funding for school system efficiency reviews, and $5.6 million in funding for Line of Duty Act payments.

One of the more notable actions taken in the Finance secretariat, however, is the transfer of $111.4 million from the Department of Accounts to a new sub-agency called "Department of Accounts Transfer Payments." Among the items that will be included in this new sub-agency are aid-to-locality payments, Virginia Education Loan Authority Reserve Fund payments, Line of Duty Act payments, and deposits to the Revenue Stabilization Fund. This change has been proposed to delineate the Department of Accounts' operating and non-operating activities.

- **Department of Accounts**

  – ***Provide Funding for School System Efficiency Reviews.*** Provides $2.5 million GF and 13.0 positions the first year and $3.3 million GF and five positions the second year to conduct 15 school system efficiency reviews in FY 2005 and 20 such reviews in FY 2006. Included in the funding is $100,000 each year for the hiring of consultants to assist the new unit.

  – ***Reduce Schedule for Updating the Financial Information Downloading System (FINDS).*** Reduces the agency's appropriations by $25,000 GF each year by reducing the schedule for FINDS updates from daily to weekly. The FINDS system is used by many agencies to keep track of their budget and expenditures.

  – ***Eliminate Printed Reports.*** Reduces the agency's appropriations by $40,000 GF in both years through the elimination of printed reports. Agencies may continue to access these reports through the

Internet, but will be required to print the reports on their own local printers.

– ***Create New Sub-Agency for Transfer Payments.*** Decreases the agency's appropriations by $55.7 million GF and $2.0 million NGF each year and transfers those amounts to a new sub-agency titled "Department of Accounts Transfer Payments." The programs to be transferred by this action include: Financial Assistance to Localities, the Virginia Education Loan Authority Reserve Fund, and Line of Duty payments. The proposal will better delineate those activities over which the department has direct control and those activities it simply administers. This proposal is analogous to the establishment of the Treasury Board as a sub-agency within the Department of the Treasury.

- **Department of Accounts Transfer Payments**

– ***Create New Sub-Agency for Transfer Payments.*** Increases this new agency's appropriations by $55.7 million GF and $2.0 million NGF each year. This proposal creates a new sub-agency within the Department of Accounts for transfer payments, including: aid-to-locality payments, Virginia Education Loan Authority Reserve Fund payments, Line of Duty payments, and deposits to the Revenue Stabilization Fund. The proposal will better delineate those activities over which the Department of Accounts has direct control and those activities it simply administers.

– ***Provide for Rainy Day Fund deposit.*** Provides $87.0 million GF in the second year to satisfy the mandatory deposit into the Revenue Stabilization Fund required by Article X, Section 8 of the Constitution of Virginia.

– ***Provide Permanent Funding for Line of Duty Act Payments.*** Provides $2.5 million GF in the first year and $3.1 million GF in the second year to support the payment of death benefits and health insurance benefits to deceased or disabled public safety officers and their families.

– ***Adjust Aid to Localities Program Appropriation.*** Provides $2.4 million GF the first year and $3.6 million GF the second year for distribution of alcoholic beverage control profits, wine taxes, rolling stock taxes, recordation taxes, and Tennessee Valley Authority payments to localities. These additional amounts are based upon revised forecasts submitted by the Department of Alcoholic Beverage Control and the Department of Taxation.

- **Department of Planning and Budget**

  – ***Economic Contingency Transfer.*** Provides $300,000 GF each year from the Economic Contingency Fund to offset costs associated with the department's support for the Council on Virginia's Future. This proposal has been included as an adjustment to the department's base budget.

  – ***Fund Staffing Needs.*** Provides $295,916 GF the first year and $322,824 GF the second year to support hiring for four vacant staff positions. The staff are needed to address increases in the agency's workload associated with initiatives such as the Six-Year Capital Outlay Plan, the Council on Virginia's Future, and the Taxpayer's Budget Bill of Rights.

- **Department of Taxation**

  – ***Fund Partnership Continuation Costs.*** Provides $11.4 million GF the first year and $10.9 million GF the second year to assume the on-going costs of acquiring, maintaining, and refreshing the hardware, software, and annual maintenance contracts initially supported by the proceeds of a public-private partnership between the agency and American Management Systems, Inc.

  Previously, the leases for the department's hardware, software, and annual maintenance costs were supported by a Technology Partnership Fund. This fund was comprised of the additional revenue collected by the agency as the result of the enhancements to its operations produced by the partnership with American Management Systems, Inc. However, this partnership is scheduled to terminate on July 1, 2004. It is expected that an additional $52.6 million in revenue will flow into the general fund beginning in FY 2005.

  – ***Reduce Technology Partnership Fund Appropriation.*** Reduces the agency's appropriations by $25.3 million NGF the first year and $26.3 million the second year to account for the estimated final payments due in FY 2005 and FY 2006 to American Management Systems, Inc. The source of the payments is balances in the Technology Partnership Fund. With the exception of these estimated final payments, the Technology Partnership Fund will terminate on July 1, 2004.

– ***Implement Tax Reform.*** Provides $3.4 million GF and 22.00 positions in the first year and $1.8 million GF in the second year to support the implementation costs of the Governor's tax reform initiative. These general fund dollars will be used to pay for changes to the agency's computer system, undefined nonpersonal services, and personal services costs associated with the additional positions.

– ***Establish Nongeneral Fund Voluntary Contribution Appropriation.*** Recommends the appropriation of $50,000 NGF each year to support the agency's administration of the voluntary contributions program. The voluntary contributions program provides the opportunity to taxpayers to include amounts on their tax returns for various purposes. The Code of Virginia currently permits the department to retain five percent of the contributions made by taxpayers up to $50,000 each tax year for the administration of this program.

– ***Reduce Warehouse Space.*** Reduces the agency's appropriations by $100,000 GF each year to account for a reduction in the total square footage of storage space rented due to the department's increasing ability to store documents electronically.

– ***Adjust Federal Debt Setoff Program Funding.*** Provides for a reduction of $614,887 GF in each year to capture savings from increased efficiencies in the federal debt setoff program.

– ***Postage Increase.*** Includes $251,326 GF each year to offset increases in the costs of postage. Of the total sums provided each year, $53,926 is transferred from the Department of the Treasury. This proposal has been included as an adjustment to the department's base budget.

- **Department of the Treasury**

– ***Provide Funding for the Administration of the Security for Public Deposits Act.*** Provides $97,500 NGF and one position for the administration of the Security for Public Deposits Act (SPDA). SPDA requires financial institutions holding public deposits to secure those deposits by pledging collateral worth fifty percent of the deposits. In many states, however, financial institutions are required to pledge 100 percent of public deposits' value as collateral. Given the smaller pledge required by the department, financial institutions have agreed to pay a fee to support the agency's administration of this program, which centralizes and standardizes the regulations with which financial institutions must comply to secure public deposits statewide. The fee will reportedly be one-half of one basis point, capped at $125,000, with a minimum charge of $25.

- ***Study the Development of a State-Owner Controlled Insurance Program for State Construction Projects.*** Provides $100,000 NGF the first year to study the development of a self-insurance program for state construction projects. Based upon insurance industry research, a self-insurance program could reduce the total costs of a construction project by one to three percent by eliminating the need for individual contractors to procure their own insurance. The self-insurance program could also eliminate the need for litigation between the various insurance companies representing different contractors working on a project when losses occur.

- ***Enhance Unclaimed Property System.*** Provides $100,000 NGF each year to upgrade the unclaimed property system. Upgrading the system will permit the department to, for the first time, begin liquidating about $12.4 million in mutual fund accounts. Due to problems associated with the agency's current database information system, the agency is not able to accurately account for detailed mutual fund transactions at the owner level. Futhermore, the current database information system requires a high degree of manual intervention to extract the names of unclaimed property holders for publication in newspapers. Given a new system, the agency reports it will be able to make the mutual funds' entire value of $12.4 million available to the Literary Fund.

- ***Increase Staff for Unclaimed Property.*** Provides $76,542 NGF and two positions in the first year and $78,956 NGF the second year to reduce a backlog in the processing of unclaimed property inquiries and resulting claims. Currently, the department's staff require eight weeks to process an inquiry about unclaimed property from initial contact to successful payment. Prior to FY 2003, the timeframe for making successful payment from initial contact was 30 days. The source of the nongeneral fund dollars supporting this proposal is proceeds from unclaimed property.

– ***Reduce Printing of State Employee Earnings Notices.*** Reduces the agency's appropriations by $45,000 GF in the second year to account for a reduction in the number of printed earnings notices. Because state employees will continue to be able to access earnings notice information through the Department of Accounts' web-based Payline system, the proposal reports state employees will be "encouraged" to make better use of that system. Nevertheless, those employees that choose to do so will still be permitted to obtain the printed notices.

– ***Reduce Printing of Payroll Checks by Increasing Participation in Direct Deposit.*** Reduces the agency's appropriations by $17,500 GF the second year to account for a reduction in the number of payroll checks issued to state employees due to participation in the direct deposit program.

– ***Increase Use of Electronic Funds Transfer for Payments.*** Reduces the agency's appropriations by $64,404 GF in the second year to account for a reduction in the number of checks printed and mailed to vendors for goods and services purchased by the Commonwealth. The department will continue to work with the Department of Accounts to encourage state agencies to use electronic funds transfers for payments instead of printed checks.

– ***Eliminate Funding for Systems Design and Development.*** Reduces the agency's appropriations by $1.2 million NGF each year to account for the completion of a new risk management system. The system has been developed and is in operation.

– ***Realign Positions to Reflect Funding Sources.*** Provides for a reduction of four general fund positions and a corresponding increase of four nongeneral fund positions to better reflect the source of funding for those positions.

– ***Postage Increase.*** Includes $102,600 GF each year to offset increases in the costs of postage. This proposal has been included as an adjustment to the department's base budget.

– ***Postage Transfer.*** Reduces the agency's appropriations by $53,926 GF each year to reflect the transfer of these amounts to the Department of Taxation. This amendment has been included as an adjustment to the department's base budget.

- **Treasury Board**

- *Revised Debt Service Schedule.* Proposes an increase of $15.9 million GF the first year and $34.6 million GF the second year based on changes in debt service requirements for previously issued or authorized obligations.

- *Debt Service Increase.* Proposes $2.2 million GF the first year and $18.5 million GF the second year for debt service payments on bonds of the Virginia College Building Authority and the Virginia Public Building Authority to be issued for new projects included in the introduced budget. An interest rate of 5.10 percent was assumed on these 20-year bonds. Of the amounts proposed, $1.5 million the first year and $10.1 million the second year is assumed to finance the State Agency Radio Systems (STARS). These amounts are contingent upon passage of the Governor's tax proposal. No additional debt service requirements are assumed for the $273.3 million of capital projects proposed by the Governor in separate legislation.

- *Higher Education Equipment Trust Fund Debt Service.* Proposes $11.4 million GF the second year for short-term lease costs to purchase $52.2 million of equipment each year under the Higher Education Equipment Trust Fund program. Approximately $50,000 of the lease costs are contingent upon approval of the Governor's tax proposal. The contingent allowance would be used to acquire $500,000 of equipment each year for the Institute for Advanced Learning and Research in Danville.

- *Debt Service Decrease.* Proposes a $3.3 million NGF decrease each year due to the retirement of two Virginia Public Building Authority bonds.