

Overview of the Budget for 2004-2006, as Adopted

The adopted budget for 2004-06 makes significant investments to support core state services while taking steps to preserve the Commonwealth’s “triple A” bond rating and to rebuild the Revenue Stabilization Fund (also known as the “Rainy Day” Fund). Specific actions to restore Virginia’s fiscal health include a supplemental deposit of \$87.0 million into the Rainy Day Fund in FY 2006. This supplemental deposit, combined with the elimination of the previously planned transfer of \$128.5 million and the constitutionally required deposit of \$87.0 million in FY 2004 will increase the Fund’s balance to more than \$430.0 million by the end of the biennium.

The adopted budget includes general fund operating appropriations of \$27.3 billion for the biennium, an increase of 10.4 percent above the adjusted base budget. The budget also includes an unappropriated general fund balance of \$15.2 million.

Revenues

The adopted 2004-06 budget includes \$27.3 billion in general fund resources available for appropriation, based on revenue growth rates of 7.4 percent for FY 2005 and 5.2 percent for FY 2006 (including tax policy changes).

General Fund Resources Available for Appropriation (2004-06 biennium, \$ in millions)	
* Beginning Balance	\$ 273.9
Adjustments to Balance	(1.0)
Revenue Estimate	25,545.3
Lottery Proceeds	797.0
Transfers	<u>670.9</u>
Total GF Resources	\$ 27,286.1

* Note: Beginning balance reflects the projected unspent balance in House Bill 29, as adopted, and does not

reflect the actual balance as of June 30, 2004.

The adopted budget includes \$273.9 million as a projected unspent balance at the end of the 2002-04 biennium. This balance results primarily from continued strengthening of the economy in FY 2004, Tax Amnesty collections of \$44.7 million above the estimate, and \$240.7 million in flexible grants that Virginia received under the Federal Jobs and Growth Tax Relief Act of 2003.

The underlying economic forecast, without tax policy changes, assumes general fund tax revenues will grow 5.3 percent in FY 2005 and 5.1 percent in FY 2006. The forecast assumes that major economic variables affecting the forecast -- jobs, personal income, and wage/salary growth -- will return to trend levels achieved prior to the technology-driven stock market bubble and will meet or slightly exceed projected national growth rates.

When adopted tax policy changes are included, the 2004-06 budget reflects general fund tax revenue growth of 7.4 percent in FY 2005 and 5.2 percent in FY 2006. In total, general fund tax revenues of \$25,545.3 million are assumed.

This amount does not include approximately \$609.4 million that is directed to a new Virginia Health Care Fund. The Fund is comprised of revenues from an increase in the cigarette and other tobacco products tax of \$308.9 million, as well as revenues of \$168.7 million from Medicaid recoveries, \$101.6 million representing the 40 percent state share of the Tobacco Master Settlement Agreement, and \$30.2 million in current cigarette tax revenues. The general fund total also does not include \$377.7 million over the biennium from a ¼ percent increase in the non-food sales tax dedicated to public education through the Public Education SOQ/ Local Real Estate Property Tax Relief Fund.

General fund revenues include tax policy changes which increase the general fund by roughly \$800.0 million over the 2004-06 biennium, plus special fund increases of roughly \$687.0 million. Details of all tax policy changes are provided in the Resources section of this document.

The general fund revenue estimate also includes the collection of \$52.6 million each year resulting from the end of the current Tax Public/Private Partnership contract with American Management Systems (AMS). Previously, enhanced compliance collections were applied toward the AMS contract cost.

Finally, the general fund forecast contains approximately \$1.5 billion in transfers. Of this amount, \$797.0 million represents the transfer of lottery profits estimated at \$395.0 million in FY 2005 and \$402.0 million in FY 2006, and \$377.7 million represents the ¼ percent sales tax that is transferred from the Public

Education SOQ Local Real Estate Relief Fund to support public education. Other customary transfers include ABC profits of \$24.9 million for the biennium, with an additional \$62.7 million per year of ABC profits and \$9.9 million per year of wine tax profits going to the Department of Mental Health, Mental Retardation and Substance Abuse Services for substance abuse programs.

The majority of nongeneral fund transfers required in the 2002-04 budget to help offset revenue shortfalls have been eliminated in the 2004-06 biennium. A targeted NGF reduction of \$30.2 million for the biennium, derived from a number of agencies, is included in transfer actions.

Adopted Spending Increases

Major spending items in the adopted budget include:

Spending Increases in HB 5001, as Adopted (Biennial GF, \$ in millions)	
Public Education	
Direct Aid	
Technical - Changes to SOQ funding	\$839.4
Technical - Update benefit contribution rates for SOQ related positions	168.0
Technical - Adjust sales tax revenues for public education	66.2
Technical - Update for a change in the composite index	53.5
Technical - Update costs of incentive-based programs	52.5
Technical - Update costs of categorical programs	30.4
SOQ funding revisions (Chapters 939 & 955, 2004 Acts of Assembly)	326.1
Net increase from 1/8 th cent sales tax	82.5
Finish phase-in of support positions, fix rollover of fringe costs	66.9
Increase funding for the At-Risk Four-Year-Old program	55.1
Revision to SOQ remediation program	39.8
Other net sales tax increases	26.9
Increase funding for English as a Second Language	19.7
Implement No Child Left Behind (NCLB) Act	10.1
Fund Northern Virginia cost of competing adjustment (COCA)	7.1
Fund Project Graduation	5.5
Dept. of Education	
Maintain current Standards of Learning (SOL) testing	\$6.3
Implement statewide student information system	4.4
Continue Standards of Learning (SOL) technology initiative	3.7
New positions to support implementation of NCLB	2.0
National Board Certification bonuses program	1.1

Human Resources

Department of Aging

Restore services to Area Agencies on Aging \$1.6

Dept. of Medical Assistance Services

Medicaid utilization and inflation (does not include \$609.4 million from the Virginia Health Care Fund) \$84.8

Add 700 MR waiver slots 31.7

Low-income children (FAMIS Plus) caseload growth 16.5

FAMIS caseload growth 14.8

Unrealized revenue maximization savings 13.8

Increase nursing facility reimbursement 9.7

Increase hospital inpatient reimbursement 9.1

Add 160 MR waiver slots for discharges from MR Training Centers 6.7

Increase MR waiver reimbursements 5.2

Add 105 DD waiver slots 3.6

Involuntary mental commitments (also see Judicial) 3.1

Increase personal care services reimbursement rates 3.0

Add 300 day support waiver slots 2.9

Defer inclusion of certain drug classes from preferred drug list 2.5

Provide a rate increase for NICU hospitals with high Medicaid volume 1.5

Caseload effect from raising Auxiliary Grant payment 1.0

Dept. of Mental Health, Mental Retardation & Substance Abuse Services

MH facility revenue shortfall \$29.6

MH discharge assistance funds 9.0

Additional MH Assertive Community Treatment teams 4.6

Community MH services for non-mandated children & adolescents 4.0

Increase purchase of inpatient treatment beds in community hospitals 2.0

Increase funding for Part C - Early Intervention services 1.5

Dept. of Social Services

Restore general funds for TANF maintenance of effort \$20.7

Mandatory adoption subsidy payments 14.1

Mandatory IV-E foster care payments 11.4

Expand child care services for low-income families 8.6

Increase auxiliary grant payments 2.2

EBT cost increase for food stamps 1.8

Community Action Agencies 1.1

Comprehensive Services Act (CSA)

Increased cost of mandatory services \$46.8

Center for Behavioral Rehabilitation

Staffing at Virginia Center for Behavioral Rehabilitation \$7.2

Department of Rehabilitative Services

Expand brain injury services statewide \$1.9

Higher Education/Other Education

SCHEV

Increase Tuition Assistance Grants (TAG) \$7.0

Expand the Virtual Library of Virginia (VIVA)	2.1
Fund tuition waivers for military dependents	2.0
Brown v. Board of Education Scholarships	1.1
Colleges & Universities	
Provide base adequacy funding	\$175.8
3% faculty salary increase in FY 2005	31.0
Provide additional student financial aid	12.3
Fund operations of Northern Va. CC-Medical Education Campus	9.4
Seed funding for research	8.3
Fund operation & maintenance of new facilities	5.6
Fund Institute for Advanced Learning and Research	4.5
Fund program enhancements at NSU and VSU	4.1
Add cooperative extension positions	2.5
UVA health insurance premiums	1.2
Jamestown-Yorktown Foundation	
Operation and maintenance of new facilities	\$2.2
General Government	
Rainy Day Fund	
Additional FY 2006 Revenue Stabilization Fund deposit	\$87.0
Employee Compensation	
Fund Nov. 25, 2004 3% salary increase for state employees	\$79.4
Fund Dec. 1, 2004 3% salary increase for state-supported local employees	19.5
Fund Nov. 25, 2004 3% salary increase for faculty (See Higher Education)	-
Fund Nov. 25, 2004 State Police \$1,491 base pay increase	5.6
Fund Oct. 1, 2004 State Police salary compression adjustment	7.7
Fund Dec. 1, 2004 4.82% salary increase for deputy sheriffs and regional jail officers.	21.5
Fund Nov. 25, 2004 2.1% competitive salary adjustment for judges	2.1
FY 2006 state employee and higher education faculty salary reserve	26.6
Fund increased health benefit premiums for state employees	66.0
Provide funding for state employee sickness and disability program contributions	17.3
Taxation	
Fund partnership project continuation costs	\$22.3
Debt Service	
Adjust funding for debt service	\$50.5
Provide debt service for STARS communications system	11.5
Provide debt service funding for new projects	10.1
Provide debt service funding for higher education equipment	9.1
General Services	
Fund increases in state agency rent plan	\$2.4
Board of Elections	
Rebase compensation for general registrars and local electoral board members salaries	\$2.0
Compensation Board	

Restore local and regional jail per diem reductions	\$26.4
Provide staff for new and expanding local and regional jails	10.3
Provide additional deputy positions to address jail overcrowding	3.8
Expand the jail contract bed program	3.3
Restore reductions to Commonwealth's Attorneys	1.6
Provide one law enforcement deputy per 1,500 in local population	1.5
Address gang-related crime in Northern Virginia	1.1
Department of Accounts	
Adjust appropriation for aid to localities program	\$6.0
Provide funding for Line of Duty Act payments	5.6
Department of Planning and Budget	
Performance planning and research	\$3.3
Staffing needs and support for Council on Virginia's Future	1.2
Judicial	
Circuit Courts	
Increase funds for criminal indigent defense (also see DMAS)	\$14.8
Establish new circuit court judgeships	1.4
General District Courts	
Fund additional district court staff	\$2.7
Indigent Defense Commission	
Add new positions to existing public defender offices	\$3.1
Establish new public defender offices	12.4
Public Safety	
Dept. of Corrections	
Replace out-of-state inmate revenue	\$35.0
Increase funding for inmate medical costs	15.7
Re-open Nottoway Work Center	6.1
Fund approved correctional officer positions	2.2
Community Corrections	
Replace grant funding for transitional treatment program	\$2.4
Expand transitional substance abuse treatment program	2.0
Replace federal grant funding for substance abuse services	1.9
Fund additional probation and parole officers	1.9
Criminal Justice Services	
Increase funding for the H.B. 599 program	\$27.2
Fund additional local community probation officers	2.5
Juvenile Justice	
Fund state share of Va. Beach detention center operating costs	\$4.0
Increase funding to support the increase in direct costs per ward	3.8
Provide additional funding for security positions for juvenile correctional centers	1.9
Provide funding for vacant probation officer positions	1.2
Department of Fire Programs	
Provide GF match for federally funded Staffing for Adequate Firefighters	\$1.3

and Emergency Response (SAFER) program

Economic Development

Economic Development Partnership

Provide funding to market distressed areas	\$1.0
Provide funding for the Virginia Commission on Military Bases	1.0

Housing and Community Development

Job Creation Performance Grants	\$1.0
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Virginia Tourism Authority

Promote Jamestown 2007, motor sports initiative, and ecotourism	\$2.1
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Other

Provide funding for semiconductor manufacturing performance grant programs	\$13.4
Increase Governor's Development Opportunity Fund	3.0
Fund Solar Photovoltaic Manufacturing Incentive Grant Program	1.9

Natural Resources

Environmental Quality

Provide funding for the Water Quality Improvement Fund deposit	\$20.8
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Conservation & Recreation

Provide funding for the Water Quality Improvement Fund	\$16.9
Provide funding for the Virginia Land Conservation Fund	5.0
Virginia Outdoors Foundation deed recordation fee	1.6
Funding restoration for state parks	1.0

Transportation

Va. Dept. of Transportation

Provide additional general fund moneys for FRAN debt service	\$9.0
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Capital Outlay

Maintenance Reserve for state agency facilities	\$40.0
VSU Maintenance Reserve	2.4
NSU Maintenance Reserve	2.9

Adopted Budget Savings

Major budget savings items include:

**Budget Savings in
HB 5001, as Adopted**
(Biennial GF, \$ in millions)

Public Education

Direct Aid

Deduct certain technology from SOQ costs	(\$109.8)
Limit "federal deduct" to SOQ funding to 29%	(90.1)
VRS Rate and Retiree Health Care Credit rate	(63.9)
Redirect SOL remediation to SOQ remediation	(34.7)
Use additional Literary Fund to support teacher retirement	(30.8)
Eliminate Student Achievement Grant account	(20.2)
Revise funding formula for K-3 class size	(12.0)

General Government

Legislative

Across-the-board reductions from balances	(\$1.1)
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Judicial

Criminal fund savings from new public defender offices	(\$13.1)
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Accounts

Level fund distribution of ABC profits	(\$7.3)
Level fund distribution of wine taxes	(0.9)

Central Accounts

Freeze Personal Property Tax Relief reimbursements effective TY 2006	(\$173.6)
Adjust funding for state employee retirement contributions	(27.3)
Continue the premium holiday on state employee group life	(26.8)
Eliminate Technology Research Fund	(12.8)
Reduce appropriation for technology reform	(5.8)
Retiree health care credit rates	(5.7)
Projected debt service savings	(2.0)

Taxation

Adjust funding for the federal debt set-off program	(\$1.2)
Eliminate Tax Amnesty program funding	(1.2)

VITA

Produce operations efficiency savings	(\$5.0)
Implement VITA savings strategy	(2.7)

Public Safety

Dept. of Corrections

Supplant general fund appropriations with Correctional Enterprise funds	(\$2.0)
Consolidate prison warehouse operations	(1.2)

State Police

Supplant funding for med-flight operations with EMS \$4-for-Life	(\$2.1)
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Human Resources	
Comprehensive Services Act	
Better utilize Medicaid-funded services	(\$3.5)
Department of Health	
Eliminate general fund support for emergency medical services	(\$6.4)
Supplant Office of Vital Records and Health Statistics operating support with Vital Statistics Automation Fee	(1.9)
Department of Medical Assistance	
Adjust indigent health care payments to teaching hospitals	(\$28.0)
Implement a state maximum allowable cost program for generic prescription drugs	(10.3)
Move AIDS Waiver patients into the Elderly and Disabled Waiver	(2.3)
Implement a limited disease state management program	(2.0)
Reduce administrative funding for a disease management contract	(1.4)
Impose or increase Medicaid co-payments	(1.0)

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

Public Education. Biennial increases for direct aid to public education include formula-driven and technical increases of \$1,210.1 million GF to update the Standards of Quality, Incentive, and Categorical accounts for increased enrollment, prevailing costs of education, sales tax revenues, and updated composite index calculations; \$326.1 million GF for Standards of Quality revisions pursuant to Chapter 939 and 955, 2004 Acts of Assembly; net \$82.5 million GF from half of the new ¼ cent sales tax revenue, plus net \$26.9 million from other sales tax revenues; \$66.9 million GF to finish the phase-in of administrative positions and fix the one-month rollover of fringe benefits costs; \$55.1 million GF to fund 100 percent of at-risk four-year-olds unserved by Head Start programs; \$39.8 million GF in additional lottery proceeds to support the State Board of Education’s recommendation to revise the SOQ Remediation methodology; \$19.7 million GF to enhance funding for English as a Second Language; \$10.1 million GF to help school divisions meet the requirements of the No Child Left Behind Act; \$7.1 million GF to fully fund the cost of competing adjustment for Planning District 8; and \$5.5 million GF for programs to help high school seniors pass SOL graduation requirements.

Of the estimated \$377.7 million from the ¼ cent of sales tax revenues from the Public Education SOQ/Local Real Estate Property Tax Relief Fund pursuant to House Bill 5018, one-half supports the SOQ funding revisions described above

and the remaining half is distributed based on school-age population, the net effect of which is noted above.

In addition to the transfer of an additional \$30.8 million from the Literary Fund to cover a portion of retirement costs, the following reductions offset cost increases: \$109.8 million GF from deducting non-personal technology costs from the SOQ; \$90.1 million GF from deducting 29.34 percent of certain federal revenue sources from SOQ costs; \$63.9 million GF related to the VRS retirement rate and the Retiree Health Care Credit rate; \$34.7 million GF from re-directing SOL prevention, intervention, and remediation to SOQ prevention, intervention, and remediation; \$20.2 million GF from eliminating the Student Achievement Grants account; and \$12.0 million GF by changing the K-3 Class Size Reduction calculation.

Higher Education. The 2004-06 biennial budget as adopted provides a net increase of \$267.2 million GF, or 10.1 percent, for higher education compared to the adjusted base budget. Almost two-thirds of the additional support is earmarked for “base adequacy,” in an effort to close the gap in base funding identified by the Joint Subcommittee Studying Higher Education Funding Policies. Other key priorities funded in the adopted budget include \$31.0 million GF for a three-percent increase in faculty salaries in FY 2005, and \$12.3 million GF to increase need-based student financial aid. In addition, included separately under the Treasury Board, the adopted budget appropriates \$9.1 million GF for debt service, which will allow institutions to acquire \$108.8 million in academic technology and equipment through the Higher Education Equipment Trust Fund.

Other Education. The 2004-06 budget, as adopted, provides a net increase of \$3.8 million GF for state museums and other educational entities. The adopted budget includes an increase of \$2.7 million GF over the biennium for the Jamestown-Yorktown Foundation and \$640,000 GF for grants provided by the Virginia Commission for the Arts. In addition, the budget supplants general fund support at the Library of Virginia with nongeneral funds.

Health and Human Resources. The 2004-06 budget for Health and Human Resources (HHR) provides a net increase of \$341.8 million GF and \$1.7 billion NGF for the biennium when compared to the adjusted appropriation for current operations.

Eighty percent of the GF appropriations (\$272.5 million) are required to meet caseload and cost increases, comply with federal and state mandates, and offset nongeneral fund revenue losses. An additional \$77.3 million GF is provided to address the U.S. Supreme Court’s Olmstead decision by increasing and strengthening community-based services for mentally disabled persons.

Medical inflation and increasing numbers of low-income families, elderly, and disabled in the Medicaid program require the addition of \$694.2 million in state funding during the 2004-06 biennium. Most of the additional funding needed for the program will come from the Virginia Health Care Fund - a newly created special revenue fund. The fund will be used solely for health care services and is comprised of revenues from the current cigarette tax, the 40 percent general fund share of the Tobacco Master Settlement Agreement, and all prior-year Medicaid recoveries. Additional revenues to the fund are expected from the enactment of House Bill 5018 that increases the state cigarette tax and imposes a tax on other tobacco products such as, cigars, pipe smoke, and smokeless tobacco. Taxes on these other tobacco products will accrue to the fund beginning March 1, 2005.

In total, \$609.4 million from the Virginia Health Care Fund will be used to offset projected Medicaid spending in the upcoming biennium. An additional \$84.8 million is provided from the general fund to fully fund the forecasted need for Medicaid in 2004-06 (see table below).

Medicaid Forecast and Virginia Health Care Fund (2004-06 Biennium)	
Medicaid Forecast	\$ 694.2 million
Virginia Health Care Fund	<u>(\$609.4 million)</u>
GF Appropriation	\$84.8 million

Other caseload and cost increases account for \$106.7 million GF of the added funding. The rising cost to serve at-risk youth, entitled to care under the Comprehensive Services Act (CSA), requires \$46.8 million GF. An additional \$31.3 million GF is proposed for growth in the number of low-income children eligible for FAMIS and FAMIS-Plus, the state's children's health insurance program. Growth in the number and cost of serving children entitled to foster care and subsidized adoptions requires \$25.5 million GF. Finally, an added \$3.1 million GF is proposed for increases in involuntary mental commitments.

Federal and state mandates and other requisite spending items account for \$81.0 million of the general fund increase. This includes \$29.6 million GF to

offset a reduction in revenue at state hospitals, \$20.7 million GF to satisfy federal funding requirements for the federal Temporary Assistance for Needy Families (TANF) block grant program, and \$13.8 million GF to backfill funding from unrealized Medicaid revenue maximization initiatives. Also provided is \$7.2 million GF for the civil commitment and treatment of violent sexual predators, and \$650,000 GF to monitor and treat sex offenders conditionally released by the courts into the community. Finally, the total includes \$506,250 GF to support workload increases in determining eligibility for Medicaid disability services in the Department of Rehabilitative Services, and \$1.8 million GF for contractual costs to administer the federally mandated Electronic Benefits Transfer System for food stamps.

Almost 75 percent of the budget savings from Health and Human Resources comes from Medicaid cost avoidance and cost containment initiatives (\$45.5 million GF). Significant general fund budget reductions include:

- \$28.0 million in savings from efforts to reduce teaching hospital reliance on general funds for indigent care;
- \$10.3 million from reducing pharmacy program costs by implementing a maximum allowable cost program to contain costs for generic drugs;
- \$3.5 million through better utilization of Medicaid, offsetting the need for general fund support;
- \$3.4 million by reducing administrative funding for a disease management program and implementing the program on a more limited basis to test its ability to enhance patient care and control costs;
- \$2.3 million by realizing savings by moving AIDS waiver program patients to the elderly and disabled waiver program and eliminating their case management services; and
- \$1.0 million by imposing or increasing co-payment requirements for Medicaid services when permitted by federal law.

Public Safety. The 2004-06 budget, as adopted, for the Office of Public Safety provides a net increase of \$114.5 million GF for the biennium when compared to the adjusted appropriation for current operations. The budget includes \$27.2 million GF to increase state aid to localities with police departments (pursuant to House Bill 599, 1979 Session), by 5.2 percent the first year and 5.4 percent the second year.

The budget also provides funding for the Statewide Agencies Radio System (STARS) project, including \$4.8 million GF for attorney and consultant fees and \$11.6 million GF for debt service. Chapter 522 (HB 106, 2004 Session) provides VPBA bond financing for the first \$159.3 million for the STARS project.

Also included is \$35.0 million GF to offset the NGF revenue loss resulting from the termination of the remaining contracts for housing out-of-state inmates in state correctional facilities to free up prison bed space for the Virginia's growing state-responsible population. Other actions include additional funds for inmate medical costs, reopening Nottoway Work Center, expanding substance abuse treatment slots and transitional services, and 26 new probation officers.

VPBA bond financing is authorized for prison construction, including expanded facilities at St. Brides and Deerfield Correctional Centers, and two new 1,024-bed medium security, celled, prototype facilities.

In addition to the amounts included in Central Appropriations, the State Police budget includes \$3.0 million GF for a pay increase of \$630 for all sworn positions effective July 1, 2004; \$4.0 million for the Department of Juvenile Justice to increase the number of filled juvenile correctional and probation officer positions; \$2.5 million for local community corrections programs; and, \$0.4 million to restore funding for training for Commonwealth's Attorneys.

Commerce and Trade. The approved biennial budget for these agencies provides \$1.7 billion in total appropriations of which \$234.3 million is from the general fund. There is an increase of \$3.8 million GF and \$213.0 million NGF over the adjusted base budget.

General fund spending for the biennium targets such economic development items as the Governor's Development Opportunity Fund (\$21.0 million), job creation performance grants in high-unemployment areas (\$1.0 million), tourism marketing (\$1.2 million), addressing possible closings of Virginia military bases (\$1.0 million), marketing economically distressed regions of the state (\$1.0 million), and technology-related performance grants (\$15.3 million).

Natural Resources. The approved budget for natural resources provides \$591.9 million in total appropriations, increasing general funds by \$51.4 million for the biennium. The largest general fund increase is \$15.0 million each year for the Water Quality Improvement Fund (WQIF). These funds will be split evenly between point and nonpoint source pollution control programs. In addition, \$2.5 million GF each year will be deposited into the Virginia Land Conservation Fund for open space preservation activities including parks, farms, battlefields and forests. Other biennial general fund items include: restoration of \$3.0 million for in-house technology initiatives at various agencies; restoration of \$1.1 million for state parks; \$1.6 million from deed recordation fees for Virginia Outdoors Foundation operations; providing \$800,000 for the wastewater pretreatment

permit program at the Department of Environmental Quality; and \$400,000 for Soil and Water Conservation Districts operations and dam maintenance.

Major nongeneral fund items include \$2.6 million each year from increased water and waste permits issued by the Department of Environmental Quality and \$600,000 annually for marine police and other Marine Resource Commission operations from higher saltwater fishing license fees.

To consolidate the Commonwealth's nonpoint water pollution programs under a single agency, the Chesapeake Bay Local Assistance Program is merged into the Department of Conservation and Recreation. The combined agency will continue to implement the Chesapeake Bay Preservation Act.

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 approved budget provides \$947.9 million GF in the first year to continue the car tax reimbursement at the 70 percent level in tax year 2005 and \$719.9 million GF in the second year to reimburse localities for car tax relief pursuant to Senate Bill 5005 of the 2004 Special Session I. In addition, \$21.0 million total GF is provided for the Governor's discretionary economic development "Deal Closing Fund" and \$13.4 million GF is included for the semiconductor performance grant programs.

Selected general fund reductions captured in Central Appropriations include: \$277.0 million for car tax reimbursements pursuant to Senate Bill 5005 of the 2004 Special Session I; \$27.3 million from VRS rate reductions; \$26.9 million to continue the VRS group life insurance premium holiday; and \$12.8 million from the Commonwealth Technology Research Fund.

Employee Compensation and Benefits. Employee compensation increases totaling \$159.4 million are included to provide salary increases in the first year of the biennium and provide a compensation reserve to be used for second year salary increases for state employees. Selected salary actions include:

- \$79.3 million GF for a three percent salary increase for state employees effective November 25, 2004;
- \$19.5 million GF for a three percent salary increase for state-supported local employees (except sheriffs deputies and regional jail officers) effective December 1, 2004;

- \$26.6 million GF for a reserve to fund a second year salary increase for state employees and faculty at state-supported higher education institutions;
- \$21.1 million GF for a 4.82 percent salary increase for sheriffs’ deputies and regional jail officers effective December 1, 2004; and
- \$13.3 million GF for a \$1,491 base salary adjustment (effective November 25, 2004) and to address salary compression (effective October 1, 2004) for sworn officers of the Virginia State Police.

Funding for other employee benefit programs includes \$66.1 million GF for the increased cost of state employee health insurance and \$17.3 million GF for the Virginia Sickness and Disability Program.

Technology. The adopted biennial appropriation for Technology agencies provides \$13.9 million GF and \$66.2 million NGF. This reflects a net reduction of 6.1 percent when compared to the adjusted appropriation for current operations, reflecting reduced appropriations for the Innovative Technology Authority and supplanting general funds with internal service fund charges for the Virginia Information Technology Agency (VITA). The appropriation for the Innovative Technology Authority reflects a reduction of \$1.9 million GF the first year and \$3.8 million GF the second year to implement the phase-out of general fund support for the Center for Innovative Technology by FY 2008.

Transportation. The adopted 2004-06 appropriation for Transportation totals \$7,026.8 million, including \$154.9 million GF and \$6,871.9 million NGF. Included in the recommended general fund appropriation for VDOT is \$37.4 million each year to continue general fund support for the debt service costs of the Federal Revenue Anticipation Notes (FRANs) issued to replace the \$317.0 million of transportation revenues transferred to the General Fund in FY 2003.

The adopted budget also adjusts the appropriations for all transportation agencies to reflect historic expenditure levels and revised revenue forecasts. Substantial changes in the VDOT and DRPT revenue forecasts reflected in the appropriations are the result of the elimination of future federal funding for the Woodrow Wilson Bridge and the addition of appropriations to DRPT to reflect anticipated apportionments for the Dulles Corridor Rapid Transit project.

Administration. The approved budget for the agencies assigned to the Administration secretariat includes a net increase of \$49.8 million for the biennium. New spending within the secretariat includes: \$26.4 million in support for local and regional jail per diem payments, \$10.3 million for additional staff at three new or expanding local and regional jails, \$3.8 million to address jail overcrowding, \$3.3 million to expand the contract bed program

between the Department of Corrections and local and regional jails, and \$1.5 million to maintain the one deputy per 1,500 local residents law enforcement ratio.

Finance. The approved budget for the agencies assigned to the Finance secretariat includes a net increase of \$199.1 million GF for the biennium. The largest new spending items approved for this secretariat include the appropriation of \$87.0 million GF in the second year for a supplemental Rainy Day Fund deposit and \$83.7 million GF in additional debt service for bond issuances. Other spending items include \$22.3 million GF to support the Department of Taxation's computer equipment leases and \$5.6 million GF to provide a permanent funding source for Line of Duty Act payments. Reductions include: \$8.2 million GF from level funding local ABC profit and wine tax distributions, \$5.0 million GF from refunding previously issued bonds, \$2.4 million GF from instituting an equipment fee for out-of-state students, \$1.2 million GF from adjustments in funding for the federal debt set-off program, and \$1.2 million GF in position reductions at the Department of Taxation.

Judicial. The budget, as adopted, includes a total of \$303.1 million GF the first year and \$308.9 million GF the second year for the Judicial Department. Additional funds are included for five new Circuit Court judgeships, two new Juvenile and Domestic Relations District Court judgeships, 49 new positions for the District Courts, 32 new positions for existing Public Defender offices, and four new Public Defender offices (Arlington County-Falls Church, and the Cities of Chesapeake, Hampton, and Newport News).

Capital Outlay. The approved budget provides over \$1.5 billion for capital construction. Of this amount, \$45.6 million is from the general fund, largely for the Maintenance Reserve program. Other capital projects totaling \$453.2 million are provided at a variety of state agencies, to be funded with tax-supported debt issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). The budget also includes bonding authority for revenue generating projects totaling \$537.5 million. Finally, the budget includes \$60.0 million in Virginia Port Authority bonds for the improvements at the Norfolk International Terminal.