

Overview of the Budget for 2004-2006, as Adopted

The adopted amendments to the 2004-06 budget (Chapter 4, 2004 Special Session I) include actions to enhance budget and fiscal stability; expand tax relief; and provide funding for basic budget commitments, primarily in the areas of transportation, health care, and education. General fund operating budget amendments totaling a net \$1.2 billion are included, along with \$163.9 million GF for capital projects.

Many of the adopted spending items are one-time in nature, such as capital outlay projects, specific transportation initiatives, and deposits to the Revenue Stabilization Fund. The use of the additional revenue for one-time items minimizes the creation of out-year obligations.

The budget includes about \$1.3 billion in net additional general fund resources, comprised largely of a revision to the general fund revenue forecast of \$1,213.6 million for the biennium, which is then reduced by \$200.1 million to eliminate the accelerated sales tax payment in June, 2006, for all merchants with sales under \$50.0 million; \$99.1 million to reflect the phase-out of the state sales tax on food effective July 1, 2005; the transfer of \$23.2 million (3 percent car rental tax) to transportation for rail services; and \$6.7 million to reflect conformity to recent federal tax law changes. Other miscellaneous tax policy changes add \$19.9 million in general fund revenues, producing a net change of \$911 million.

Other resource changes reflect the net budget surplus and agency reverted balances at the end of FY 2004. These result in an additional \$306.3 million carried forward into the 2004-06 biennium, which is increased to \$325.9 million from various balance adjustments projected for the current biennium. This balance is largely offset by commitments to the Revenue Stabilization Fund and the Water Quality Improvement Fund. Finally, general fund transfers are increased by \$111.0 million, including an upward revision in the Lottery forecast of \$68.3 million and ABC profits of \$10.0 million.

Revenues

The economic outlook for the remainder of this biennium is stronger than it was at this time last year. When the economics are applied to the strong fiscal year 2004 performance, the result is an upward revision of \$1,199.0 million in general fund tax revenues (increased to \$1,213.6 million from minor adjustment in rental income, prisoner revenue, and tax compliance). When added to the balances carried forward from fiscal year 2004, and combined with stronger than

projected Lottery and ABC profits, resources available for appropriation during the 2005 session total \$1.3 billion.

This net increase in resources results primarily from four factors: (1) stronger than anticipated revenue growth in fiscal year 2004, which resulted in revenue collections above the forecast; (2) a corresponding increase in the revenue base for the 2004-06 biennium; (3) continued strong economic growth in FY 2005; and (4) a sizeable increase in the Lottery forecast.

General Fund Resources Available for Appropriation (2004-06 biennium, \$ in millions)			
	<u>Chapter 4</u>	<u>HB 1500</u>	<u>Change</u>
Available Balances	\$272.9	\$598.8	\$325.9
Revenue Estimate	25,545.3	26,456.3	911.0
Transfers/Deposits:			
Lottery Proceeds Fund	797.0	865.3	68.3
Other Transfers	<u>670.9</u>	<u>713.6</u>	<u>42.7</u>
	1,467.9	1,578.9	111.0
Total GF Resources Available	\$27,286.1	\$28,634.0	\$1,347.9

Available Balances

The balance adjustment reflects funds that are available from fiscal year 2004 revenues collected above the forecast and unexpended agency balances that have been reverted. After setting aside funds for natural disaster awards, the Transportation Trust Fund portion of accelerated sales tax revenues, and non-general fund interest earnings returned to NGF accounts, a balance of \$325.9 million is available for required Rainy Day Fund and Water Quality Improvement Fund deposits and other budget needs.

Revenue Estimate

The adopted budget includes an upward revision of \$1,199.0 million in the general fund revenue forecast to recognize the higher revenue base from fiscal year 2004 activity and the expectation that Virginia’s economy will continue to

outpace the nation. Minor changes in rental income, prisoner revenue, and tax compliance add \$14.6 million, to produce a total projected increase in GF revenue of \$1,213.6 million.

The revised growth rate based on pure economics (omitting tax policy changes and funds moved to the Virginia Health Care Fund), is 8.2 percent in fiscal year 2005 and 3.7 percent in fiscal year 2006. (Revenue increased by 9.7 percent in fiscal year 2004.)

Tax policy changes included in the adopted budget reduce GF revenue by \$329.1 million. Offsetting these changes are several tax policy adjustments which increase revenues available by \$26.4 million (see table under Resources section), resulting in a net tax policy reduction of \$302.7 million and available net tax revenues of \$910.0 million.

Adopted tax policy changes include:

- ***Accelerated Sales Tax Phase-Out.*** Since 2002, retailers with annual sales of \$1.3 million or greater have been required to remit in June an amount equal to 90 percent of the sales tax remitted the prior June. This action was taken in order to balance the general fund budget. Prior to this change, retailers remitted actual June receipts in July. Effective July 1, 2005, action taken by the 2005 General Assembly would limit the acceleration to 20 percent of the amount remitted the prior June for those retailers with annual sales of \$50.0 million or greater. The accelerated sales tax requirement would be repealed entirely in FY 2007. *Revenue impact: (\$200.1 million).*
- ***Sales Tax on Food.*** The 2004 General Assembly approved a phased reduction in the state portion of the sales tax on food, beginning in July 2005. The reduction was to occur in three ½ percent increments, at a cost of roughly \$50 million per ½ percent reduction. Legislation passed by the 2005 General Assembly advances the entire 1 ½ percent reduction to July 2005. *Revenue impact: (\$99.1 million, in addition to the \$45.4 million in Chapter 4.)*
- ***Selective Deconformity.*** Since 2001, Virginia has selectively conformed to federal tax law by advancing the date of conformity one year at a time. Legislation passed by the 2005 General Assembly advances the date of conformity to December 31, 2004, thereby passing federal tax benefits to small businesses and individuals through increased business expensing allowances; teacher deductions up to \$250 for classroom expenses; and, simplified tax filing measures. *Revenue impact: (\$6.7 million).*

- **Car Rental Tax.** The 2002 General Assembly redirected to the general fund the 3 percent car rental tax used to support DMV operations. This action was taken in order to balance the general fund budget. Legislation passed by the 2005 General Assembly redirects the 3 percent rental tax to transportation as a dedicated fund source for rail improvement. *Revenue Impact: (\$23.2 million).*

Transfers/Deposits to General Fund

The primary transfer change in the adopted budget reflects the increase in expected Lottery profits available to public education of \$68.3 million over the biennium.

Budget Savings

General fund savings within the biennial budget adopted last session add to the resources which are available for use. In total, HB 1500 includes \$237.6 million in funding reductions, most of which come from reduced projected enrollment for public education and lower-than-projected reimbursements for Car Tax relief. Other savings include the receipt of additional Medicaid disproportionate share hospital funding for the Virginia Commonwealth University Health System. Reductions in the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) are the result of supplanting general fund monies for Community Services Boards with fee revenue from a Medicaid case management rate increase.

Major savings items in the budget as adopted include:

Major Savings in HB 1500, as adopted (Biennial GF, \$ in millions)	
Public Education	
Direct Aid	
Technical - Revised ADM Forecast	(\$61.3)
Technical - Updates based on participation, test scores, special enrollments	(18.2)
Defer middle school math teacher initiative, mentor teacher program	(2.0)
Higher Education	
Colleges and Universities	
VCCS lease payment savings	(\$0.8)
Human Resources	
Department of Medical Assistance	
Disproportionate share teaching hospital savings	(\$20.0)

Supplant GF with revenues from non-participating tobacco manufacturers' escrow payments	(6.5)
Department of Mental Health, Mental Retardation and Sub. Abuse Svcs.	
Supplant GF in CSBs with Medicaid Case Management fee Increase	(\$16.9)
Economic Development	
Department of Housing and Community Development	
Virginia Works	(\$13.1)
General Government	
Central Accounts	
Adjust car tax to reflect revised forecast for TY 2005 at 70 percent	(\$59.3)
Treasury Board	
Debt service savings	(\$33.1)
Judicial	
Capture savings from public defender offices	(\$3.0)
Compensation Board	
Local and regional jail per diems	(\$1.6)
Delayed opening of jail expansion projects	(\$1.7)
GRAND TOTAL	(\$237.6)

Spending Increases

The budget as adopted provides approximately \$1.5 billion in general fund spending adjustments. Of this total, five commitments account for approximately \$1.2 billion of the spending adjustments:

- 1) Depositing \$229.4 million to the Revenue Stabilization Fund representing both the constitutionally required deposit and the "super" deposit required by the Code of Virginia;
- 2) Providing \$212.2 million to meet the projected cost of Medicaid services for mandated clients;
- 3) Providing \$163.9 million for capital project cost overruns, maintenance and repair of state owned facilities, and equipment for previously approved projects;
- 4) Allocating \$347.6 million for a variety of new transportation initiatives;
- 5) Providing \$131.7 million for a salary increase for state employees, college faculty, teachers, and state-supported local employees, and

- \$31.2 million representing the employer's share of the state employee health insurance premium increase; and
- 6) Providing \$86.4 million for water quality improvement.

Major spending items in the budget as adopted include:

Major Spending Increases in HB 1500, as adopted (Biennial GF, \$ in millions)	
Public Education	
Direct Aid	
3.0% salary increase, Dec. 1, 2005	\$54.8
Distribute increased FY05 and FY06 Lottery proceeds	26.4
Fund data corrections in FY06	13.9
Distribute increased sales tax revenue	13.8
Replace Literary Funds for SOQ Retirement Costs with GF	10.0
Restore half of 2002 reduction to At-Risk Add-On funding	2.3
Increase funding for "Race for the GED"	1.2
Begin School Breakfast Reimbursement Incentive	1.2
Human Resources	
Dept. of Medical Assistance Services	
Medicaid utilization and inflation (excluding Virginia Health Care Fund)	\$175.1
Virginia Health Care Fund shortfall	37.1
Increase reimbursement rates for OB/GYN services	16.6
Federal revenue maximization for supplemental clinic payments and mental health case management	9.3
Increase Medicaid reimbursement for dental services	7.8
Low-income children (FAMIS Plus) caseload growth	7.1
Increase inpatient hospital reimbursement	3.6
Special education medical services for school districts	3.3
Increase Mental Retardation and Developmental Disabilities Service Rates	3.3
FAMIS caseload growth	2.1
Medicaid effect of Auxiliary Grant increase	1.7
Expand prenatal care and pregnancy-related services to pregnant women in FAMIS up to 150% of poverty	1.4
Dept. of Mental Health, Mental Retardation and Substance Abuse Services	
Community crisis services	\$5.7
Fund shortfall in community aftercare pharmacy	5.5
Part C early intervention services	4.5
Fund shortfall in facility medications	1.4
Adjust nurse salaries to improve retention	1.0
Systems of Care Demonstration Projects	1.0

Restore substance abuse funding	1.0
Dept. of Social Services	
Supplant TANF with GF for child day care subsidies for at-risk, low-income families	\$6.8
Improve child welfare services	3.6
Supplant TANF with GF for child day care licensing	2.6
Increase assisted living facility payments	2.3
Department of Health	
Va Health Care Foundation/Health Safety Net Initiative	\$1.0
Secretary of Health and Human Resources	
Child Advocacy Center Initiative	\$1.0
Transportation	
Va. Dept. of Transportation	
Project deficit funding	\$220.0
FRANs debt service	107.6
Transit capital project funding	20.0
General Government	
Employee Compensation	
Fund increased health benefit premiums for state employees	\$31.2
Fund Dec. 1, 2005 salary increase for state-supported local employees	18.3
Add'l funding for Nov. 25, 2005 salary increase for state employees	15.4
Car Tax Transition	
Provide supplement for reimbursement of delinquent car tax payments	\$24.0
Innovative Technology Authority (CIT)	
Additional baseline funding and VECTEC support	\$2.2
Compensation Board	
Commonwealth's Attorneys staffing	\$2.6
Finance	
Department of Accounts- Transfer Payments	
Rainy Day Fund	\$229.4
Planning and Budget	
School Efficiency Reviews	\$1.2
Taxation	
Tax Reform Costs	\$2.3
Higher Education/Other Education	
SCHEV	
Increase Tuition Assistance Grants (TAG)	\$3.4
Complete GEAR-UP state match	2.1
Continue tuition waivers for military dependents	2.0
Colleges & Universities	
Faculty Salaries	\$16.6
Provide base adequacy funding	11.0
Provide additional undergraduate and graduate student financial aid	7.9
Fund operations of Northern Va. CC-Medical Education Campus	2.3

Fund operation & maintenance of new facilities	2.7
ODU Virginia Modeling, Analysis and Simulation Center (central accounts)	1.5
UVA health insurance premiums	1.4
Pathways to Industry Certification scholarship program (central accounts)	1.1
Workforce training and industry enhancements	1.1
Affiliated Higher Education	
Institute for Advanced Learning and Research	\$1.6
Cooperative extension services	1.1
Expand postsecondary opportunities in Southside (central accounts)	1.0
Other Education	
Jamestown-Yorktown Foundation – Educational Programs and Marketing	\$2.0
Economic Development	
Department of Housing and Community Development	
Enterprise Zone Program	\$11.5
Safe drinking water in Southwest Virginia	5.0
Regional workforce consortia grants	1.5
Support for homeless Virginians	1.3
Artisan industry support and promotion	1.2
Industrial site redevelopment	1.0
Virginia Tourism Authority	
Tourism promotions, marketing and grants	\$2.0
Central Appropriations	
Rural and cultural economic development and tourism activities	\$5.1
Semiconductor education grant	2.0
Public Safety	
Criminal Justice Services	
Increase funding for the H.B. 599 program	\$4.2
Increase forensic science staff	1.8
Fund forensic scientists salary compression adjustments	1.0
Juvenile Justice	
Increase funding to support system utilization plan	\$1.2
State Police	
Increase funding for higher fuel and insurance premium costs	\$1.0
Funding for gang law enforcement and investigation activities	1.0
Judicial Department	
Circuit Courts	
Increase funding for Criminal Fund	\$2.6
Increase court-appointed attorney compensation	2.0
General District Courts	
Increase funding for Involuntary Mental Commitment Fund	1.2
Juvenile and Domestic Relations District Courts	
Increase funding for Criminal Fund	\$1.4
Judicial Department Reversion Clearing Account	
Restore judicial branch budget reductions	\$1.0

Natural Resources	
Department of Conservation and Recreation	
Water Quality Improvement Fund deposit allocation	\$22.7
Support for land conservation	10.0
Support for state parks operations and maintenance	4.5
Department of Environmental Quality	
Funding for wastewater treatment plant improvements	\$50.0
Water Quality Improvement Fund deposit allocation	9.7
Support for combined sewer overflow projects	4.0
Repayment of Litter Control and Recycling Fund treasury loan	1.3
Marine Resources Commission	
Oyster replenishment funding	\$1.0
Executive Offices	
Office of the Governor	
Fully budget operating expenses	\$1.8
Non-state Agencies	
Non-state agency appropriations	\$34.1
TOTAL Operating Costs	\$1,348.6
Capital Outlay	
Project cost overruns	\$59.9
Maintenance Reserve for state agency facilities and state parks	39.9
Equipment for previously approved projects	28.5
Miscellaneous construction, renovation, and planning projects	14.9
JMU Acquire Hospital Property	8.0
VMI Kilbourne Hall Supplement	7.4
NSU Maintenance Reserve	2.9
VSU Maintenance Reserve	2.4
TOTAL Capital Outlay	\$163.9
GRAND TOTAL	\$1,512.5

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

Public Education. The amendments, as adopted, to the 2004-06 budget for Public Education result in a net increase of \$42.4 million GF and \$40.0 million NGF for the FY 2004-2006 Direct Aid budget compared to Chapter 4. This total reflects new GF spending of \$124.7 million offset by \$82.3 million in GF reductions.

Adopted increases include: \$54.8 million GF for a 3 percent salary increase for teachers effective December 1, 2005; \$26.4 million to distribute projected increased FY 2005 and FY 2006 lottery proceeds; \$13.9 million to distribute increased sales tax revenue for public education; \$13.8 million for technical corrections in FY 2006, \$2.3 million to partially restore a 2002 reduction to the at-risk add-on funding; \$1.2 million to begin a state supported breakfast reimbursement program; \$1.2 million to increase GED instruction and testing; \$0.8 million to increase funding for vocational equipment; \$0.7 million to fund the Board-approved lower composite index for Alleghany County school division due to the consolidation with Clifton Forge; and \$0.8 million for additional vocational education equipment, and \$0.4 million for the Career and Technical Education Resource Center.

In addition, the adopted amendments provide \$10.0 million GF in FY 2006 to begin replenishing the Literary Fund, which is currently being used to support Standards of Quality teacher retirement costs. The “freed up” nongeneral funds will be used for school construction loans on the “First Priority” waiting list. In addition, the amendments reflect a \$20.0 million increase in Literary Fund revenue estimates. These funds are allocated for interest rate subsidies for school construction projects, along with \$5.0 million from Chapter 4.

Adopted decreases include \$79.5 million GF in Standards of Quality, Incentive-based and Categorical accounts reflecting the revised Average Daily Membership (ADM) forecast and other technical updates in participation levels, test scores, and special enrollments. Projected ADM declined by 7,859 for FY 2005 and by 10,738 for FY 2006. In addition, savings of \$2.0 million GF are captured in the middle school math teacher initiative and mentor teacher program.

Higher Education. The amendments, as adopted, to the 2004-06 biennial budget result in a net increase of \$57.6 million GF or about 2.0 percent when compared to the original appropriation. This reflects an increase of \$58.4 million GF offset by a \$0.8 million GF decrease to adjust lease payments at the community colleges, and a transfer of \$0.4 million between Longwood University and the Southern Virginia Higher Education Center in South Boston. When combined with the legislative actions in the 2004 Session, the biennial increase for higher education is about 12.7 percent. Of the \$58.4 million GF increase, over two-thirds (\$40.9 million) is recommended in three areas: faculty salaries, student financial aid, and funding for base adequacy.

In addition, the amended budget provides \$3.7 million in central accounts to improve K-12 education and expand postsecondary education opportunities in Southside Virginia; expand the Virginia Modeling, Analysis and Simulation

Center; fund workforce certification scholarships; and support the Grace Harris Leadership Institute.

Other Education. The adopted amendments to the 2004-06 biennial budget provide a net increase of \$3.9 million GF for state museums and other educational entities or 3.9 percent over the current biennial appropriation. Over one-half, or \$2.0 million GF, of the increased funding is provided for the Jamestown-Yorktown Foundation in preparation for the 2007 commemorative activities. The total increase is offset by a reduction of \$33,400 GF to transfer funding for the Council on Indian Affairs from the Jamestown-Yorktown Foundation to the Office of Natural Resources.

Health and Human Resources. The adopted amendments for Health and Human Resources (HHR) provide a net increase of \$276.8 million GF and \$358.8 million NGF compared to Chapter 4. About 84 percent of new GF spending in Health and Human Services is required to meet projected cost and enrollment increases in Medicaid (\$212.2 million GF); Medicaid SCHIP and FAMIS, the state health insurance programs for low-income children (\$9.3 million GF); and the Temporary Assistance to Needy Families (TANF) program (\$9.4 million GF).

Spending increases include \$32.6 million GF to meet federal and state requirements, and maintain services at current levels. These include \$16.6 million GF to fund a 34 percent increase in Medicaid rates for OB-GYN services that went into effect September 1, 2004; \$6.9 million GF to meet cost increases in medications for mentally disabled individuals in communities and state facilities; \$4.5 million GF to meet the increasing cost to provide federally-required early intervention services to children from birth to age three who are developmentally delayed; \$3.6 million GF to make federally-required improvements to Virginia's foster care and child welfare systems; and \$1.0 million to preserve access to community substance abuse services.

The adopted amendments add \$34.3 million GF for health care provider rate increases and service expansions. These include \$15.0 million GF for rate increases for Medicaid-funded dental services, inpatient hospital services, mental retardation and developmental disabilities waiver services, and hospital neonatal intensive care services; \$5.7 million GF to expand community crisis services for mentally disabled persons; \$4.5 million to provide a rate increase for auxiliary grant homes and additional oversight of assisted living facilities; \$2.4 million for Olmstead initiatives to expand community services for disabled individuals; \$2.3 million to increase access to safety net services provided by free clinics, community health care providers and medication assistance coordinators; \$1.4 million GF to expand FAMIS eligibility for pregnant women from 133 percent to 150 percent of the federal poverty level; \$1.0 million to provide statewide access to children's advocacy centers; \$988,865 to adjust nurse salaries to improve

retention in state mental health and mental retardation facilities; and \$941,381 to expand the provision of dental services in the Commonwealth.

Additional funding from anticipated revenues to the Virginia Health Care Fund (VHCF) from the assignment of escrow funds by small tobacco manufacturers who do not participate in the tobacco Master Settlement Agreement is also provided to increase Medicaid payment rates effective May 1, 2006. From anticipated revenues to the fund, \$1.6 million will be used to match federal Medicaid dollars to increase rates for critical services in order to maintain access to care. When fully annualized, the state share of the rate increases will approach \$10.0 million. These increases will target the following services: pediatric services; primary care services; personal care services; adult day health care services; obstetrical and gynecological services; pharmacy dispensing fees for brand name drugs; and emergency room physician services.

General fund spending reductions are concentrated in two areas: Medicaid (\$26.5 million) and mental health, mental retardation and substance abuse services (\$16.9 million GF). Medicaid savings result from the receipt of additional Medicaid disproportionate share hospital funding for the Virginia Commonwealth University Health System. In addition, a one-time reversion of \$6.5 million GF in the second year from the Medicaid program is contained in Central Accounts based on additional monies available for the program in the Virginia Health Care Fund from the assignment of escrow funds by nonparticipating tobacco manufacturers. Reductions in the Department of Mental Health, Mental Retardation and Substance Abuse Services (DMHMRSAS) are the result of supplanting general fund monies for Community Services Boards with fee revenue from a Medicaid case management rate increase.

Transportation. The adopted amendments for Transportation agencies result in a net increase of \$347.6 million GF and \$730.5 million NGF for the biennium. This represents a net increase of 15.3 percent for the biennium over levels adopted in Chapter 4.

The majority of the adopted amendments reflect the General Assembly's 2005 transportation initiative which totals \$848.1 million. The initiative includes \$347.6 million GF, as well as \$500.5 million of state and federal transportation funds. The general funds include the one-time appropriation of \$240.0 million from the general fund in the first year, as well as the dedication of \$107.6 million in the second year from the share of the insurance license tax revenues attributable to automobile insurance premiums. The state nongeneral fund revenues reflect the carry-forward of revenues in excess of the FY 2004 forecast, adjustments to the FY 2005 and FY 2006 transportation trust fund forecast, and the dedication of three percent of the existing vehicle rental tax to the newly

created rail enhancement fund. The federal funds represent adjusted apportionments received from the Federal Highway Administration.

The major components of the General Assembly's transportation initiative include: \$107.6 million from auto insurance premiums to be deposited into the Priority Transportation Fund; \$50.0 million for the newly created Transportation Partnership Opportunity Fund; \$75.0 for mass transit capital improvements; \$23.3 million for the new Rail Enhancement Fund; \$40.0 million to encourage local management of construction projects; \$256.4 million to pay off costs of projects already completed; \$97.0 million in federal funds to be transferred to maintenance; \$141.1 million for additional Six Year Improvement Program allocations; \$20.0 million for rest area and welcome center improvements in the I-64 and I-95 corridors, and \$2.4 million to be transferred to DMV for computer systems improvements.

Commerce and Trade. The General Assembly approved amendments for Commerce and Trade agencies resulting in a net increase of \$30.1 million GF and a Nongeneral Fund increase of \$1.6 million for the biennium. This represents a 12.9 percent general fund increase and a negligible change in total nongeneral funds.

A total of \$11.2 million GF is appropriated to the Department of Housing and Community Development for a series of initiatives, including \$1.3 million for homeless programs, \$5.0 million for safe drinking water in Southwest Virginia, \$4.4 million for several economic development initiatives targeted to rural Virginia, and \$511,454 to support regional planning districts. For the Virginia Tourism Authority, just over \$3.0 million is provided to boost tourism marketing and advertising and to support local and regional tourism organizations and Virginia's film industry. The Agriculture Department will receive \$1.2 million for research, product development, marketing and promotion, and restoration of past years' budget reductions to the Weights and Measures Program. The program's authorization to impose a fee is repealed.

Spending proposals at the Department of Business Assistance include an additional \$500,000 GF in the second year for the department's Workforce Services grants and \$148,700 GF to provide second year support for the Virginia-Israel Advisory Board. About \$1.4 million GF is provided in the second year to replace computer hardware and fund broadband access, increase support for reforestation efforts, and acquire firefighting equipment at the Department of Forestry.

In addition to the items funded within agencies of the Secretariat, a number of economic development expenditures are included in Central Appropriations and in the Education Secretariat. These include in the second

year \$2.0 million GF for Virginia Commonwealth University's School of Engineering for programs in support of the expansion by Infineon Technologies, Inc.; \$394,000 for the Philpott Manufacturing Extension Partnership for a new technical assistance program; \$379,000 for Dabney S. Lancaster Community College to implement a new advanced manufacturing program; and \$100,000 for Virginia Tech to support the Sloan Foundation Forestry Industries Center.

In the Reconvened Session, the General Assembly approved a gubernatorial amendment to provide \$5.1 million GF to support rural and cultural economic development and tourism activities. These are appropriations in addition to those discussed above. The amendment also included budget language allowing the Governor to transfer the \$5.1 million from Central Appropriations to anywhere else in the budget and in such amounts he deems necessary.

Natural Resources. The amendments adopted by the General Assembly for the Natural Resources Secretariat result in a net increase of \$107.2 million, or 52.4 percent, from the general fund, and \$995,899, or less than 1 percent, in additional nongeneral fund dollars when compared to the secretariat's existing appropriations. General fund amendments include an additional \$86.4 million for water quality improvement, including: the deposit of \$82.4 million into the Water Quality Improvement Fund (WQIF) and \$4.0 million into the Combined Sewer Overflow Fund (CSO). The WQIF's proceeds will be used to reduce nutrient pollution entering Virginia's waters, including nonpoint source pollution, such as fertilizer and chemical runoff, from agricultural fields, and the provision of capital assistance grants to publicly-owned wastewater treatment plants to reduce nitrogen and phosphorus discharges. The proceeds of the Combined Sewer Overflow Fund will be used to provide grants to the cities of Lynchburg and Richmond for meeting federal requirements to separate their storm water and sanitary sewer systems. Other general fund amendments include: \$4.5 million in additional support for the state parks system; \$1.3 million to repay a treasury loan provided for the continuation of litter control and recycling grants; \$1.0 million for oyster replenishment activities; and \$651,510 for water supply planning activities, nearly \$470,000 in additional support for historic resources programs, and nearly \$490,000 in additional support for the Museum of Natural History.

Central Appropriations. The budget, as adopted, for the Central Appropriations includes a net increase of \$46.5 million GF for the biennium.

Net general fund increases total \$134.6 million, and include \$57.4 million for state classified and state-supported local salary increases; \$24.0 million to assist localities with the transition costs associated with the capped personal property tax relief program; \$31.2 million GF to pay the employer share of state

employee health insurance premium increases for FY 2006; \$2.0 million GF to provide additional funding for Semiconductor Education Grants; and \$1.0 million GF for enhancement of post-secondary education opportunities in Southside Virginia.

General fund decreases in Central Appropriations total \$88.2 million in technical adjustments. Of this amount \$59.3 million GF reflects a revision in anticipated reimbursement to localities at the 70 percent level for tax year 2004 and 2005 for the Personal Property Tax Relief Program.

Employee Compensation and Benefits. A total of \$131.7 million GF is provided for salary increases in the second year for state classified employees, faculty, state-supported local employees and local teachers. This is an increase of \$105.1 million GF above the \$26.6 million GF compensation reserve set aside by the General Assembly at the 2004 session. Of this amount, a total of \$60.3 million is included for the Central Appropriations (\$57.3 million in Compensation Supplements and \$3.0 million in Economic Contingency) and \$71.4 million GF is included in the budget for the Department of Education and the colleges and universities for local teachers and higher education faculty, respectively.

- **Classified Employees.** Provides \$42.0 million GF (\$41.3 million in Compensation Supplements and \$0.7 million in Economic Contingency) for salary actions affecting state classified employees on November 25, 2005 for state classified employees. These funds are budgeted to the Central Appropriations.
 - 3.0 percent Salary Increase: Authorizes a 3.0 percent salary increase for all state classified employees on November 25, 2005.
 - 4.4 percent Salary Increase: Authorizes a 4.4 percent salary increase on November 25, 2005 for cabinet secretaries, agency heads, judges and justices.
 - Longevity Pay: Authorizes a salary increase of \$50 per year of service on November 25, 2005 for classified employees who have five or more years of continuous state service.
- **State-supported Local Employees.** Provides \$18.3 million GF (\$16.0 million in Compensation Supplements and \$2.3 million in Economic Contingency) for a 4.4 percent salary increase on December 1, 2005 for state state-supported local employees.

- **Faculty.** Provides \$16.6 million GF for an average 4.2 percent salary increase on December 1, 2005 for teaching and research faculty and 4.0 percent for administrative faculty. These funds are budgeted to the various institutions of higher education.
- **Local Public School Teachers and Staff.** Provides \$54.8 million GF for the State’s share of a 3.0 percent salary increase on December 1, 2005 for state-funded instructional and support positions. These funds are budgeted to the Department of Education.
- **Employer Health Insurance Premium Increases.** Provides \$31.2 million GF the second year to fund the employer’s share of the increase in health insurance premiums effective July 1, 2005. There are no proposed changes to the structure of benefits.

Public Safety. The amendments, as adopted, to the 2004-06 budget for Public Safety result in a net increase of \$19.7 million GF and \$96.8 million NGF compared to the 2004-06 adopted budget.

A series of amendments totaling \$7.5 million (including capital outlay) is included to strengthen the Division of Forensic Science, which will become a separate agency on July 1, 2005. The amendments provide: 34 new forensic scientists; funds to address salary compression and market competition; restoration of funds for the Institute for Forensic Science and Medicine; a new mitochondrial DNA testing program; expansion of the Eastern laboratory in Norfolk; and, land for a replacement laboratory in Northern Virginia.

A series of amendments totaling \$1.7 million GF is included for intermediate sanctions for technical probation violators, including return-to-custody centers, day reporting centers and home electronic monitoring. Additional funds are provided for the expanded utilization of Culpeper Juvenile Correctional Center, in tandem with the “mothballing,” or temporary closure of the Barrett Juvenile Correctional Center in Hanover County. An additional \$1.2 million GF is provided for National Guard tuition assistance, recruitment incentives, maintenance of armories, and the Commonwealth Challenge program at Camp Pendleton.

Capital Outlay. The approved capital outlay amendments include a net increase of \$705.3 million in project funding. Specific actions include an increase of \$164.0 million from the state general fund of which \$59.9 million would address cost overruns on previously approved projects, \$45.2 million is proposed for capital maintenance reserve projects including a supplement for state parks, and \$28.5 million is for equipment and furnishings for projects scheduled to open this biennium. An additional \$10.6 million in 9(c) bond authority for college

dormitories, \$277.2 million in 9(d) bond authority for auxiliary enterprise and other nongeneral fund revenue-supported projects at the colleges and universities, and \$256.0 million in nongeneral fund cash projects.

Approval of a public-private partnership for the 8th and 9th Street Office Buildings, in Richmond, results in a savings of \$2.5 million from previously authorized VPBA bonds.

Administration. The amendments adopted by the 2005 Session of the General Assembly for Administration include general fund increases totaling \$6.6 million and decreases totaling \$3.4 million, producing a net result of \$3.1 million in additional general fund support. The amendments also included an additional \$10.5 million in nongeneral fund spending for the secretariat. Much of the additional general fund spending was directed to programs administered by the Compensation Board, including: \$2.6 million to increase staffing in Commonwealth's Attorneys offices; \$826,267 to ensure a ratio of one law enforcement deputy to 1,500 in local population; nearly \$450,000 to provide funding for a master deputy career development program; \$243,756 to provide full-time Commonwealth's Attorneys in Dinwiddie, Greene, and King William counties; and slightly more than \$240,000 to develop a career development program for local sheriffs. Other spending items included \$1.0 million to increase staffing within the Department of Veterans Services for benefits assistance and cemetery services, and \$301,605 to increase the number of auditors and enforcement staff employed by the Department of Charitable Gaming.

Finance. Among the amendments adopted by the 2005 Session of the General Assembly, the single largest general fund increase is \$229.4 million for deposit to the Revenue Stabilization Fund. This deposit represents both the mandatory deposit required by the Constitution of Virginia and a "super-deposit" required when revenue growth exceeds certain statutory benchmarks. Other general fund spending items include: \$2.3 million to modify the Department of Taxation's computer systems to account for the additional revenues in HB 5018; \$1.2 million in additional funding for school efficiency reviews; \$285,785 for additional financial control positions within the Departments of Accounts and Treasury; \$157,500 for additional staff for the Department of Planning and Budget; and \$153,188 in additional funding for the Office of the Secretary of Finance. These general fund increases are offset by recommended reductions of \$33.3 million GF, largely due to amended bond issuance schedules and debt refinancings.

Technology. Amendments approved for Technology result in a net increase of \$2.7 million GF and \$2.4 million NGF when compared to the current appropriation.

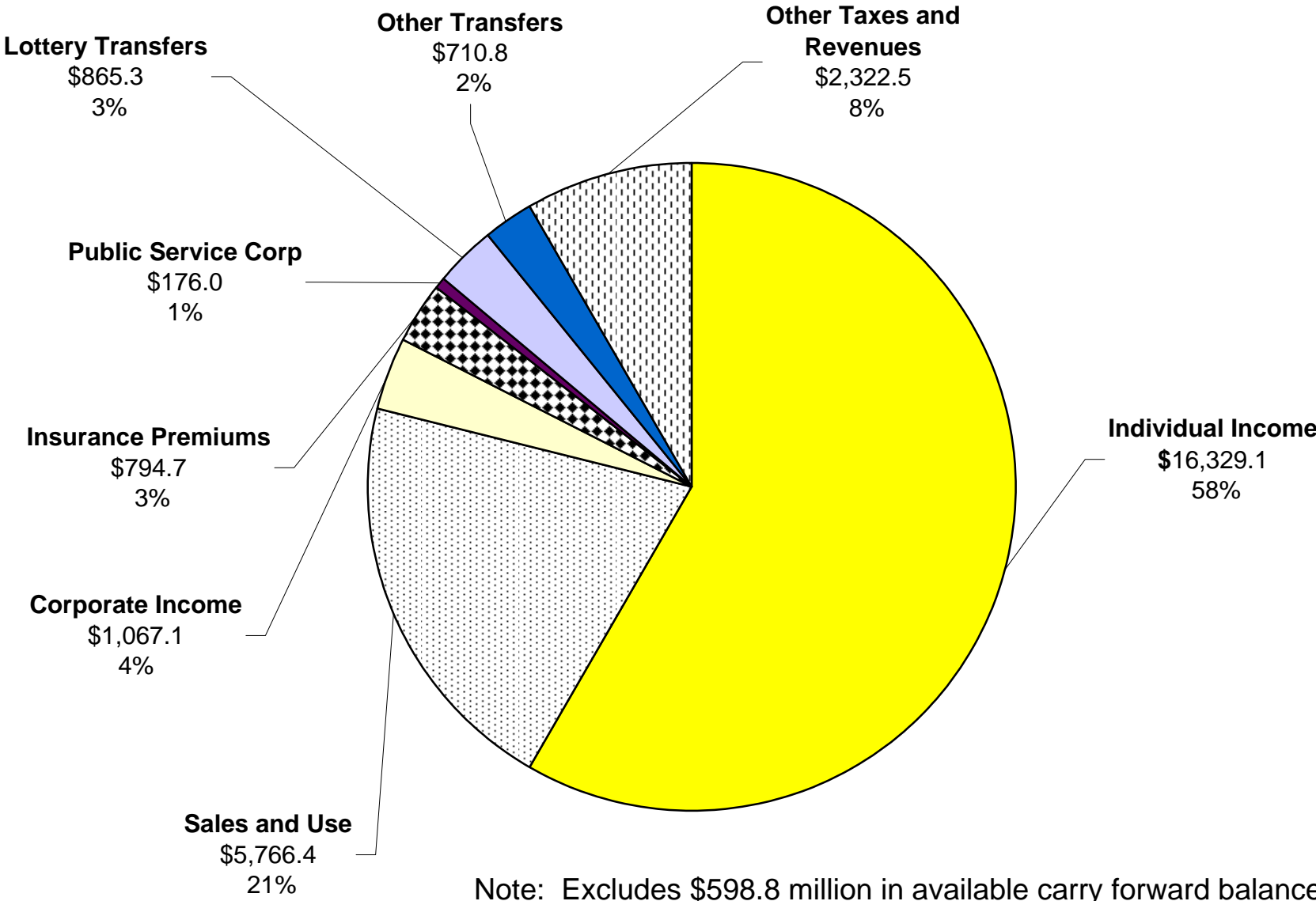
New general fund spending items include: \$1.9 million GF for support of current programs at the Innovative Technology Authority, \$500,000 GF to update Virginia's aerial photography data base, and \$250,000 for the Electronic Commerce Technology Center. New nongeneral fund spending items include: \$1.8 million NGF for increased workload at the Virginia Information Technologies Agency (VITA), \$1.1 million NGF to prepare for relocation of the state data center in Richmond, \$1.0 million NGF to update Virginia's aerial photography data base, and \$319,558 NGF for VITA's project management office.

Continued implementation of information technology activities and personnel is reflected in the transfer of 706 FTE positions to the Virginia Information Technologies Agency from various state agencies.

Judicial Department. The amendments adopted by the 2005 Session of the General Assembly for the Judicial Department include increases totaling \$12.9 million GF and decreases totaling \$3.0 million GF, producing a net increase of \$9.9 million GF, or 1.6 percent, above the previously approved biennial budget (Chapter 4, Special Session I, 2004 Acts of Assembly). These amendments include an additional \$2.0 million in the second year to increase the fees paid to court-appointed attorneys representing indigent criminal defendants as well as an additional \$1.0 million GF the second year to restore previous budget reductions in the Judicial Department. Two other amendments provide a total of \$630,000 GF, \$1.0 million NGF, and two positions in the second year to enable the Supreme Court of Virginia to assume control of the administration of drug courts. In addition, a series of amendments provides additional support of \$5.4 million in the first year for the services provided by the Criminal Fund, of which \$3.0 million GF represents savings captured from the Indigent Defense Commission due to slower than expected implementation of four new public defender offices.

2004-2006 General Fund Resources = \$28,045.9

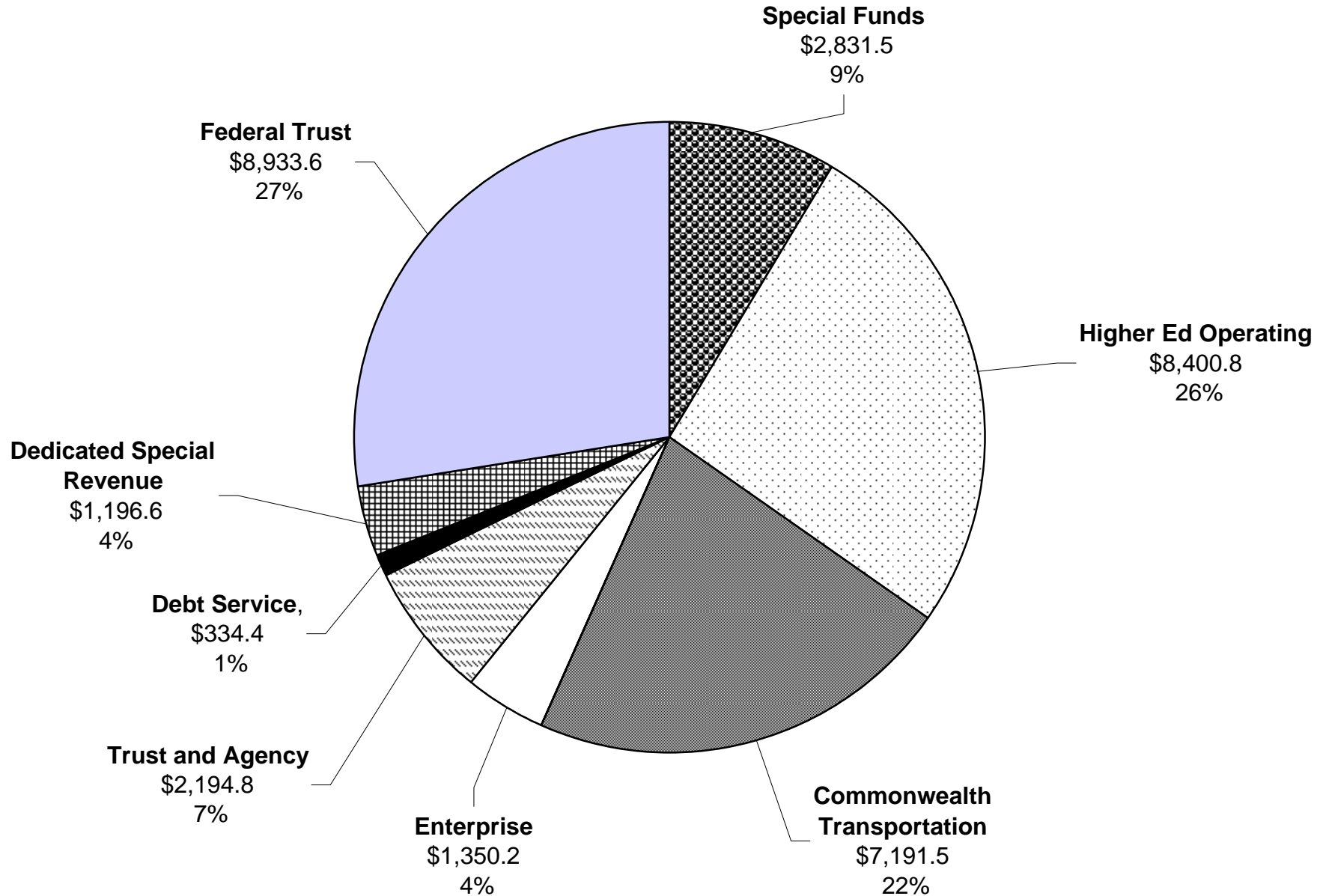
HB1500, as adopted
(\$ in millions)



Note: Excludes \$598.8 million in available carry forward balances.

2004-2006 Nongeneral Fund Operating Revenues = \$32,433.3

HB 1500, as adopted
(\$ in millions)



Note: This does not include 2004 carry forward balances, bond proceeds or other nongeneral fund capital projects.

2004-2006 GF Operating Budget

\$28,414.1 million

