

# Overview of the Governor's Budget Recommendations for 2006-08

The Governor's budget recommendations for 2006-08 are predicated on (1) significant increases in the projected revenues above the amounts forecast last year, and (2) substantial uncommitted balances that result primarily from the revised revenue forecast for the current year. Together, these factors provide about \$34.4 billion in available general fund resources for the 2006-08 biennial budget.

The budget, as introduced, proposes net operating increases of about \$4,598.1 million above the current services budget, plus \$930.2 million for capital outlay funding. The unappropriated balance of \$44.6 million includes authorization to use \$18.0 million for specific economic development projects.

<b>Proposed General Fund Budget for 2006-08</b> (\$ in millions)	
Resources Available for Appropriation	\$ 34,419.2
Operating Appropriations	33,444.4
Capital Outlay Appropriations	<u>930.2</u>
Unappropriated Balance	\$ 44.6

The proposed budget includes about \$1.5 billion in one-time general fund spending, including the \$930.2 million for capital outlay, \$339.0 million for transportation initiatives, and \$232.5 million for water quality improvements.

## **Revenues**

The Governor's proposed 2006-08 budget includes \$31.6 billion in general fund revenues available for appropriation, based on growth rates of 6.0 percent for FY 2007 and 5.3 percent for FY 2008. The proposed budget also includes \$1,241.4 million as a projected balance forward at the end of the 2004-06 biennium. This balance resulted from the ripple effect of a \$544.6 million

revenue surplus in FY 2005 related primarily to three sources (non-withholding, corporate and deed recording taxes), and the expectation that these three sources will continue to experience healthy growth in FY 2006.

Finally, the general fund forecast contains almost \$1.6 billion in transfers. Of this amount, \$852.2 million represents the transfer of lottery profits estimated at \$426.1 million in each year of the biennium and \$468.5 million over the biennium representing the additional one-quarter cent for public education. Other customary transfers include ABC profits of \$47.4 million for the biennium, plus about \$65.0 million per year from ABC profits and \$9.9 million per year from wine tax profits directed to the Department of Mental Health, Mental Retardation and Substance Abuse Services for substance abuse programs.

<b>General Fund Resources Available for Appropriation</b> (2006-08 biennium, \$ in millions)	
Net Beginning Balance	\$ 1,241.4
Revenue Estimate	31,615.7
Lottery Proceeds	852.2
Other Transfers	<u>709.9</u>
<b>Total GF Resources</b>	<b>\$34,419.2</b>

**Proposed Spending Increases**

The budget, as introduced, proposes net new spending of \$5,528.3 million GF above the adjusted base budget for the next biennium. Major proposed spending items include:

- \$1,355.4 million GF for the cost of the state’s share of the Standards of Quality for public schools, including projected enrollment, prevailing salaries and nonpersonnel costs, adjusted benefit contribution rates, updates to related categorical and incentive programs, and updates to the composite index.
- \$483.5 million GF to address the increased cost of Medicaid utilization and inflation.

- \$348.6 million GF for a proposed salary increase effective late 2006 that would provide a three percent salary increase for teachers, state and state-supported local employees, and an average 3.65 percent salary increase to continue moving teaching and research faculty towards the 60th percentile of peer institutions nationally.
- \$930.2 million GF for new capital projects, cost overruns, equipment, and maintenance reserve funding.
- \$624.5 million GF for a transportation initiative.
- \$202.7 million GF for enrollment growth and base adequacy at Virginia's public colleges and universities. In addition, \$102.4 million GF in operating support is proposed for a higher education research initiative.
- \$225.0 million GF for wastewater treatment.
- \$113.8 million GF for debt service on previously authorized capital projects, for proposed new projects, and equipment for previously authorized projects.

**Spending Increases**  
**Proposed in HB 30/SB 30, as Introduced**  
(Biennial GF, \$ in millions)

**Public Education**

**Direct Aid**

Rebenchmarking technical updates:	
ADM, salaries, health care, transportation, textbooks	\$941.9
Sales tax revenue estimates	185.0
Benefit rates for SOQ positions: VRS @ 9.2% & Group Life @ 0.49%	165.9
Composite Index	41.3
Categorical programs	13.5
2005 Triennial Census (school-aged population)	7.8
3.0% salary increase for SOQ instructional and support FTEs, Dec. 1, 2006	167.6
Education for a Lifetime - Incentives for highly qualified teachers in hard-to-staff schools	6.1
Phase-in two school divisions in cost of competing adjustment (COCA)	4.8
Education for Lifetime - NCLB: Advanced Placement fees for students	4.3

**Department of Education**

NCLB: Education Information Management System	\$1.3
On-line student career planning system (Kuder)	1.0

**Human Resources**

**Department of Medical Assistance Services**

Medicaid utilization and inflation	\$483.5
Medicaid impact of Medicare Part D drug program	80.2
Increase hospital inpatient reimbursement	15.9
Low-income children (Medicaid SCHIP) caseload growth	8.1
Increase payments to nursing facilities	7.9
Increase reimbursement rates for physician services	6.9
Eliminate the urgent care waiting list for Mental Retardation waiver services for children under age six	5.4
Outsource payroll processing for consumer directed personal attendant services	3.9
FAMIS caseload growth	3.6
Increase the personal maintenance allowance for waiver services	2.1
Medicaid impact of increased breast and cervical cancer screenings	1.4

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

Mental retardation restructuring	\$55.6
Mental health restructuring	51.5
Address shortfall in facility medications	9.2
Part C early intervention services	8.2
Address shortfall in community medications	5.8

Replace food service units at mental health and mental retardation facilities	2.6
Enhance billing for Medicare Part D drug program	1.5
Develop a career ladder for direct care workers at MHMR facilities	1.0
<b>Department of Social Services</b>	
Mandatory adoption subsidy payments	\$28.9
Add GF to provide day care and address TANF shortfall	14.8
Create Early Childhood Foundation	8.6
Fund VITA costs for program eligibility determinations	6.9
Increase funding for Community Action Agencies	1.0
Increase funding for Healthy Families	1.0
<b>Comprehensive Services for at-risk youth and their families</b>	
Fund caseload and cost increases for CSA	\$48.4
<b>Department of Health</b>	
Fund drinking water construction projects	\$10.0
Expand use of electronic health records	7.1
Rate increase for death investigators	1.3
Expand Resource Mothers program	1.2
<b>Department for the Aging</b>	
Area Agencies on Aging hold harmless funding	\$2.5
<b>Transportation</b>	
<b>Department of Transportation</b>	
Governor's 2006 Transportation Initiative	\$284.0
Insurance premium tax revenues for transportation (27 percent)	228.9
<b>Department of Rail and Public Transportation</b>	
Insurance premium tax revenues for mass transit capital (6 percent)	\$56.6
One-time general fund deposit for mass transit projects	55.0
<b>Capital Outlay</b>	
New construction projects	\$295.4
Renovation projects	209.8
Project cost overruns	134.5
Maintenance Reserve for state agency facilities	134.0
Property acquisitions	52.0
Planning, project supplements and scope changes	46.7
Equipment for previously approved projects	41.9
NSU Maintenance Reserve	8.7
VSU Maintenance Reserve	7.3
<b>General Government</b>	
<b>Employee Compensation</b>	
Nov. 25, 2006 3.0% salary increase for state employees	\$96.8
Increased health benefit premiums for state employees	71.1
Increased VRS retirement contributions for state employees	43.2
Dec. 1, 2006 3.0% salary increase for state-supported local employees	40.2
Increased VRS group life insurance contributions for state employees	17.1

Classified employee pay practices	16.2
Increased VRS retiree health care credit contributions for state employees	6.9
Fund increased VRS sickness and disability program contributions for state employees	5.3
Special salary increases	2.1
<b>Compensation Board</b>	
Constitutional Officer's staffing standards	\$12.2
Annualize the FY 2006 salary increase for constitutional officers	5.4
Staffing for new jails	4.9
Law enforcement deputies at 1:1500	1.8
<b>Central Accounts</b>	
Misc. insurance and VITA rate increases	\$32.4
BRAC response	30.0
Enterprise Architecture PPEA	27.1
Council on Virginia's Future	3.5
Aerial photography and maintain the Emergency-911 address file	2.5
<b>Innovative Technology Authority (CIT)</b>	
Establish service to match large companies with technology companies	\$1.0
<b>Finance</b>	
<b>Department of Accounts-Transfer Payments</b>	
Provide additional funding for Line of Duty benefits	\$9.7
<b>Department of Taxation</b>	
New and enhanced compliance initiatives	\$1.4
<b>Treasury Board</b>	
Adjust funding for debt service payments (including STARS Phase II)	\$106.7
Provide debt service for new mental health projects	7.1
<b>Higher Education/Other Education</b>	
<b>SCHEV</b>	
Increase Tuition Assistance Grants (TAG)	\$13.3
Expand tuition waivers for military dependents	5.0
Virtual Library	1.5
Eminent Scholars	1.3
<b>Colleges &amp; Universities</b>	
Enrollment growth and base adequacy	\$202.7
New research initiative	102.4
Faculty salary increase	44.0
Additional undergraduate need-based student financial aid	21.7
Operation & maintenance of new facilities	9.7
VCCS New Middle College Initiative	9.6
NSU expand nursing, materials research and institutional support	4.2
VIMS Chesapeake Bay clean-up assessment	2.9
Replace and update computing systems, multiple institutions	2.6
Radford Nursing Simulation Labs	2.2
Select research and public service centers	1.5

VMI/VT Unique Military Activities	1.1
ODU Wind Tunnel Rolling Road Equipment	1.0
<b>Affiliated Higher Education</b>	
EVMS base operating support	\$8.4
Southside New College Initiative	4.5
Higher Education Centers operating support	1.2
<b>Other Education</b>	
Commission for the Arts - increase grants	\$4.1
Museum of Fine Arts - security/workload related to expansion	1.9
Library of Virginia - operating support/state aid to local libraries	1.9
Other museums (Science, Frontier Culture, Gunston) - operating support	1.6
Jamestown agency operations and security funds for Jamestown 2007	1.4
<b>Economic Development</b>	
<b>Department of Housing and Community Development</b>	
Expand rural access to broadband technology	\$4.2
Create regional research and development centers	2.5
Alleghany Highlands regional economic development efforts	1.0
<b>Department of Mines, Minerals and Energy</b>	
Increased workload for mineral extraction	\$2.0
<b>Virginia Economic Development Partnership</b>	
Provide additional advertising funding	\$1.0
<b>Virginia Tourism Authority</b>	
Increased funding for leveraged advertising	\$2.0
Additional marketing of Jamestown 2007	1.8
<b>Department of Forestry</b>	
Establish water quality team	\$1.3
Purchase firefighting equipment through lease program	1.2
<b>Central Appropriations</b>	
Semiconductor manufacturing performance grants	\$23.8
Governor's Opportunity Fund	21.0
Semiconductor education grants	5.0
Virginia Investment Partnership grants	1.6
<b>Public Safety</b>	
<b>Department of Correctional Education</b>	
Establish educational programs at new DOC facilities	\$4.8
Fund offender reentry programs	2.2
Replace obsolete teaching supplies, materials, and equipment	1.2
<b>Department of Corrections</b>	
Open and operate four new DOC facilities/major expansions	\$93.2
Fund increased inmate medical costs	15.8
Add probation/parole officers to address caseload growth	5.5
Fund increased private prison rates	3.8
Develop and implement the Corrections Information System	3.7
Replace expiring federal substance abuse treatment grants	2.8

Expand sex offender containment programs	2.2
Fund upgrades at Craigsville waste water treatment facility	1.3
<b>Department of Criminal Justice Services</b>	
Increase funding for the H.B. 599 program	\$33.8
Fund gang prevention activities	3.6
Continue the pre- and post-incarceration program	2.4
Increase local probation/pretrial services capacity	2.3
<b>Department of Fire Programs</b>	
Provide general funds for Fire Programs Fund match	\$12.0
<b>Department of Forensic Science</b>	
Increase staffing, equipment, and space utilization	\$4.0
Use overtime and contract laboratories to reduce drug case backlog	1.4
<b>Department of Juvenile Justice</b>	
Open housing units at Culpeper and Hanover JCCs	\$6.4
Fund offender reentry programs	3.1
Replace expiring federal job training grants	1.4
<b>Department of Military Affairs</b>	
National Guard Foundation & Military Family Fund	\$1.0
<b>Department of State Police</b>	
Increase State Police trooper patrol staffing	\$9.8
Replace obsolete law enforcement automated systems	5.8
Enhance sex offender registry web site	1.0
<b>Judicial Department</b>	
<b>Supreme Court</b>	
Replace nongeneral funds for Drug Courts	\$5.7
<b>Circuit Courts</b>	
Increase funding for Criminal Fund	\$18.6
Increase Court-Appointed Attorney payment rates	3.7
<b>General District Courts</b>	
Increase funding for Involuntary Mental Commitment Fund	\$0.8
<b>Indigent Defense Commission</b>	
Increase Public Defender staffing levels	\$2.3
<b>Natural Resources</b>	
<b>Department of Conservation and Recreation</b>	
Address State Park operations and staffing needs	\$3.2
Provide additional support to Soil and Water Conservation Districts	\$1.0
Provide for extension of Southside "Rails to Trails" project	\$1.0
<b>Department of Environmental Quality</b>	
Provide funding for wastewater treatment improvements	\$200.0
Fund wastewater treatment outside Chesapeake Bay region	25.0
Add funding for combined sewer overflow projects	7.5
Provide additional funding for TMDL Program	1.4
Increase oversight of landfills and solid waste regulations compliance	1.1
Add funding to ensure adequate groundwater supplies	0.9



<b>Virginia Museum of Natural History</b>	
Provide additional funding and staffing for new museum	\$0.9
<b>Executive Offices</b>	
<b>Office of the Governor</b>	
Provide state support for Office of Commonwealth Preparedness	\$1.0
Transfer Virginia Liaison Office Operations to Governor's Office	0.6
<b>Office of the Attorney General</b>	
Address increased demand for attorneys and legal secretaries	\$1.0
Transfer Tobacco Master Settlement Enforcement from Taxation	0.6
<b>State Grants to Nonstate Entities</b>	<b>\$19.8</b>
<b>Other Spending</b>	<b>\$19.0</b>
<b>TOTAL Major General Fund Spending</b>	<b>\$5,585.6</b>

**Proposed Budget Savings**

The introduced budget includes about \$57.3 million in proposed general fund budget savings. The proposed savings are detailed below.

<b>Savings Proposed in HB 30/SB 30, as Introduced</b>	
(Biennial GF, \$ in millions)	
<b>Public Education</b>	
<b>Direct Aid</b>	
Technical - Update incentive-based programs (such as non-participation savings in at-risk four-year-olds program)	(\$26.8)
Technical - Update Lottery proceeds based on impact of North Carolina	(12.2)
<b>Human Resources</b>	
<b>Department of Medical Assistance</b>	
Reduce state Medicaid expenditures at Central Virginia and Southeast Virginia Training Centers - Proposed MHMR Initiative	(\$9.2)
Implement a specialty drug program	(1.4)
Outsource compliance audits for various services	(1.0)
<b>Department of Mental Health, Mental Retardation &amp; Sub. Abuse Services</b>	
Reduce operating costs at Western and Eastern State Hospitals - Proposed MHMR Initiative	(\$5.5)

<b>Technology</b>	
<b>Virginia Information Technologies Agency</b>	
Capture technology operating efficiencies	(\$1.6)
<b>TOTAL General Fund Savings</b>	<b>(\$57.3)</b>

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

**Public Education.** The proposed budget for Direct Aid to Public Education results in a net increase of \$1,501.0 million GF for the biennium, an increase of 15.0 percent over the adjusted base budget. Increases for Direct Aid to Public Education include \$1,316.6 million GF to update the Standards of Quality (SOQ), Incentive, and Categorical accounts to reflect increased Average Daily Membership (ADM) enrollment of 17,436 more students by the second year; to increase prevailing salaries and non-personnel costs of education; to update the proposed fringe benefit rates for the VRS retiree health care credit and group life; to update sales tax and lottery revenue projections; and to update composite index calculations.

In addition, proposed amendments add \$167.6 million GF for the state’s share of a 3.0 percent salary increase for teachers and support positions, effective December 1, 2006; \$6.1 million GF for a three-year program to attract and retain highly qualified teachers in “hard-to-staff” schools; and \$4.9 million GF to phase-in the cost of competing adjustment for localities impacted by the Northern Virginia labor market; and \$4.3 million for Advanced Placement test fees.

For other education agencies, the amendments propose \$4.1 million GF for grants to arts organizations through the Virginia Commission for the Arts.

**Higher Education.** The proposed budget includes a biennial increase of \$451.3 million GF, or about 14.2 percent when compared to the adjusted base appropriation. Proposed increases for higher education include \$202.7 million GF to address enrollment growth and base adequacy; \$102.4 million GF for a new higher education research initiative; \$44.0 million GF to continue moving average faculty salaries to the 60<sup>th</sup> percentile of peer institutions nationally; and \$40.0 million GF in undergraduate student financial aid at public and private institutions, including \$13.3 million for the Tuition Assistance Grant.

**Health and Human Resources.** The proposed budget provides a net increase of \$886.0 million GF over the current services budget. Caseload and cost increases in Medicaid, Medicaid SCHIP and FAMIS (the state health insurance programs for low-income children), the adoption subsidy program, and the Temporary Assistance to Needy Families (TANF) program total about \$587.2 million GF. An additional \$80.1 million is required to implement the new federal Medicare Part D prescription drug benefit.

Other increases include \$112.4 million GF for proposals to restructure the mental health, mental retardation and substance abuse services system by bolstering community services; \$32.0 million for health care provider rate increases; \$24.3 million to expand health and social services for low-income families and aged and disabled individuals; \$21.3 million to preserve access to services such as early intervention care for at-risk infants and toddlers and social services to the aged; \$15.0 million to provide sufficient funding for prescription drugs for mentally ill and mentally retarded consumers served by state facilities and community service boards; \$15.0 million to maintain current agency operations by funding energy, insurance and other cost increases; and \$11.3 million to promote efficiencies in government, such as the adoption of Electronic Health Records.

Medicaid savings of \$11.7 million GF are anticipated from the discharge of residents at two mental retardation training centers as additional resources are allocated to expand community-based services, from more rigorous compliance audits for certain services, and the implementation of a Specialty Drug Program for chronic diseases. Savings of \$5.5 million GF at two mental hospitals are anticipated as patients are appropriately discharged into community programs and additional resources are provided to divert individuals with mental illness from state facility care.

**Public Safety.** The proposed budget includes \$98.0 million GF to open four new adult correctional facilities, including St. Brides Phase II, the Deerfield expansion, and the two new medium security facilities in Pittsylvania and Tazewell Counties. Another \$6.5 million is provided to open housing units at Culpeper and Hanover Juvenile Correctional Centers. For the Department of Corrections, an additional \$15.8 million GF is added to support medical care for inmates; \$5.5 million for 53 new probation officers to meet the increasing supervision caseload; \$2.3 million for five new sex offender containment programs in district probation offices; and \$3.7 million to upgrade the Corrections Information System.

The proposed budget also includes \$12.0 million GF to augment the Fire Programs Fund, to provide a \$2 general fund match for every \$3 allocated to

local fire departments from nongeneral funds. Currently, this program is funded entirely with nongeneral funds (from the special tax on property insurance premiums). A new initiative totaling \$6.1 million GF is recommended for expanded transitional services to assist offenders in the process of reintegration into their home communities upon release from prison.

An additional \$33.8 million is provided to increase state aid for localities with police departments (HB 599) consistent with the projected increase in general fund revenues. For the Department of State Police, \$9.8 million is recommended to fill state trooper vacancies, \$5.8 million to upgrade information systems, and \$0.9 million to enhance the sex offender registry. Another \$6.2 million is provided to strengthen the new Department of Forensic Services, and \$3.6 million is added for the Governor's anti-gang initiative.

**Transportation.** The Governor's proposed budget includes \$704.6 million GF and \$8,703.7 million NGF for Transportation. Included in the recommended general fund appropriation is a \$624.5 million initiative proposed by the Governor to expedite the funding of highway, mass transit and rail improvements. Two components of the proposal would be ongoing: \$228.9 million to VDOT to pay debt service costs for federal revenue anticipation notes (FRANs) and \$56.6 million to supplement the existing mass transit capital program. The remaining general fund expenditures are one-time commitments to match projects earmarked in the recently adopted federal highway authorization legislation; to supplement funding for seven specific highway, transit and rail projects; to initiate a teleworking incentive program; and, to fund construction of an intermodal facility in the Route 460 corridor and Route 58 improvements at the Hillsville Bypass.

The budget, as introduced, as introduced, also includes \$15.4 million NGF for computer system upgrades at the Department of Motor Vehicles (DMV), including DMV's primary Customer Services System. The cost of reengineering this system will exceed \$30.0 million, of which \$9.1 million NGF would be funded in the upcoming biennium. The remaining cost would be financed through the master equipment lease program through FY 2011.

**General Government.** Major general fund increases in the Offices of Administration, Finance, and Technology, and the Independent Agencies include: \$113.8 million for the Treasury Board for debt service payments, \$9.7 million for the Department of Accounts for benefits payable under the Line-of-Duty Act, and \$1.6 million for the Department of General Services for technology enhancements. The budget also proposes \$1.4 million for strengthened tax compliance efforts and \$1.0 million for a new Consulting Service Line at the Innovative Technology Authority. Proposed increases for the Compensation

Board include: \$12.1 million GF to provide additional staff for local constitutional officers; \$4.8 million for additional staff at new and expanded jail facilities; and \$1.8 million to maintain the 1:1,500 ratio of law enforcement deputies to population. The budget includes a \$1.6 million GF reduction resulting from anticipated savings due to the VITA implementation. The savings will be realized in FY 2007, rather than in FY 2006 as originally anticipated.

Nongeneral fund increases include: \$16.0 million to VITA for E-911 operations; \$6.0 million to VITA for creation of an Acquisition Services Special fund; \$5.4 million to the Virginia Retirement System for workload increases; and \$2.6 million for the Virginia Veterans Care Center in Salem. Nongeneral fund decreases include a proposed reduction of \$23.1 million to reflect more accurately the final payments due under the Department of Taxation partnership agreement.

**Judicial.** The proposed budget includes \$18.6 million GF for the Criminal Fund, plus \$3.7 million to raise attorney fees closer to the statutory caps for representation of indigent defendants in criminal cases. In addition, the proposed budget includes \$2.3 million for 16 new public defenders to reduce caseloads. An additional \$5.0 million GF is recommended to replace nongeneral funds which are no longer available to support existing drug courts.

**Central Appropriations.** Items in central accounts include \$21.0 million GF for the Governor's Opportunity Fund and \$37.2 million for semiconductor performance grant programs. Additional amounts proposed include \$3.5 million for the Council on Virginia's Future, \$27.1 million for a proposed PPEA to upgrade the state's financial accounting and operations systems, \$30.0 million for matching grants to address BRAC 2005 recommendations, and \$600,000 for the Governor's Motion Picture Opportunity Fund.

Finally, proposed budget language authorizes the Governor to use up to \$15.0 million of the unappropriated general fund balance to assist Henrico County in attracting a national tourism venue and to use up to \$1.5 million to fund indemnity payments to poultry and livestock growers and owners who sustain economic losses from disease outbreak or natural disaster.

**Employee Compensation and Benefits.** A total of \$153.3 million GF is proposed for salary increases for state classified employees and state-supported local employees. Central Appropriations contains \$113.0 million GF for a 3.0 percent salary increase for state classified employees on November 25, 2006, as well as funding for agency pay practices to address recruitment, retention, and other compensation issues. In addition, \$40.2 million GF is recommended for a 3.0 percent salary increase on December 1, 2006 for state state-supported local

employees. Funding totaling \$44.0 million GF for an average 3.65 percent increase for teaching and research faculty is included separately for each institution of higher education. In addition, funding of \$167.6 million GF is provided for a 3.0 percent salary increase for teachers and support positions in public education.

Funding of \$72.5 million GF is proposed to address the increase in employer contribution rates for VRS-administered programs. These programs include the retirement systems for state employees, state police, and judges; retiree health insurance credit; sickness and disability; and group life insurance.

Finally, \$71.2 million GF is included for the employer's share of the increase in health insurance premiums effective July 1, 2006. This amount also fully funds enhanced prevention and wellness coverage by eliminating certain out-of-pocket costs for routine medical provider visits and tests.

***Commerce and Trade.*** General funds of \$8.7 million are proposed for the Department of Housing and Community Development for a variety of spending initiatives, including \$4.2 million to expand rural access to broadband technology. An additional \$2.9 million GF is included for the Virginia Tourism Authority with \$1.75 million GF for advertising and marketing the Jamestown 2007 Commemoration. Proposed budget language under the Department of Mines, Minerals and Energy would authorize the Governor to use up to \$3.0 million from the unappropriated general fund balance to provide incentive grants for the manufacture of alternative fuels.

***Natural Resources.*** Water quality and related issues comprise almost all of the general fund increases in the area of natural resources. The budget proposes \$200.0 million to assist wastewater treatment plants in the Chesapeake Bay Watershed control the levels of nitrogen and phosphorus entering state waters, \$25.0 million for wastewater treatment plant upgrades in Virginia's Southern Rivers, and \$7.5 million to assist Richmond and Lynchburg in addressing combined sewer overflow issues.

Funding of \$39.6 million GF is proposed in HB/SB 29 for the implementation of nonpoint source pollution controls such as agricultural best management practices. The budget assumes this amount will be expended in the 2006-08 biennium along with an additional \$1.0 million proposed for the Soil and Water Conservation Districts. The budget also proposes \$3.2 million GF and 21 positions for the state parks system. These funds are targeted toward facilities opening in the 2006-08 biennium.

*Capital Outlay.* The budget proposes over \$2.1 billion in capital outlay funding, including \$930.3 million from the general fund. This amount includes: \$505.2 million for new construction and renovation projects, primarily at higher education institutions; \$150.0 million for maintenance reserve; \$134.5 million to address cost increases for previously approved capital projects; \$52.0 million for property acquisitions; \$41.9 million for equipment at buildings expected to be completed during the biennium; and \$46.7 million for other project supplements and project planning expenses.

The proposed budget also includes bond authority for revenue-generating projects totaling \$706.9 million. Nongeneral fund projects total \$416.0 million, mainly in higher education. Finally, the budget includes \$90.0 million in Virginia Port Authority bonds for improvements at Norfolk International Terminal.

The Governor also proposes (through separate legislation) \$491.9 million in tax-supported debt, including: \$290 million in Virginia Public Building Authority (VPBA) bonds for mental health and mental retardation facilities and \$201.9 million in VPBA debt for the completion (Phase 2) of the State Agencies Radio System (STARS). In addition, Part V of the budget bill proposes the use of \$50 million in Virginia College Building Authority (VCBA) debt for undesignated research projects at Virginia's public colleges and universities.

*Grants to Nonstate Agencies.* The budget, as introduced, provides \$19.2 million GF the first year and \$0.6 million GF the second year for grants to 52 non-state agencies.