

Overview of Proposed Amendments to the Budget for 2006-2008

The proposed amendments to the 2006-08 budget (Chapters 3 and 10, 2006 Special Session I) include actions that utilize a large portion of additional revenues for one-time purposes (transportation and capital outlay); expand tax relief; and provide funding for basic budget commitments, primarily in the areas of health care and education.

The budget includes \$572.3 million in net additional general fund resources, comprised largely of a revision to the general fund revenue forecast of \$521.7 million for the biennium. Combined with the Chapter 10 unappropriated balance of \$113.1 million, available general fund resources total \$685.4 million.

General Fund Resources	\$ in millions
Available Balance 6/30/06	\$110.7
Additional Revenue:	
Revenue Estimate	\$521.7
Transfers	
Lottery Proceeds	(\$41.4)
Other Transfers	(\$18.7)
Additional GF Resources	\$572.3*
Ch. 3/10 Unappropriated Balance	\$113.1
Total Available Resources	\$685.4
<i>*Note: Excludes \$157.3 million in Rainy Day Fund accounting adjustments that are offset by appropriation adjustments.</i>	

This additional \$572.3 million results primarily from three resource adjustments:

- (1) Reversion of \$105.7 million in agency operating balances to the general fund at the end of FY 2006;
- (2) An adjustment of \$534.0 million to the biennial revenue forecast due to continued strength in nonwithholding and corporate collections, partially offset by a negative adjustment in recordation taxes (proposed tax policy changes reduce the revenue adjustment to \$521.7 million); and

- (3) A reduction of \$41.4 million in Lottery profits from expected sales declines along the North Carolina border.

General fund operating budget amendments totaling \$633.7 million are proposed, along with \$226.5 million GF for capital projects. These expenditures are offset by \$182.5 million in general fund savings. An unappropriated balance of \$7.7 million is included in the budget. (Congressional action subsequent to the introduction of the budget on December 15, 2007 would reduce the unappropriated balance to \$5.0 million, if the Governor's proposal to advance the date of conformity with federal tax law is adopted.)

General Fund Resources	\$ in millions
Available Resources	\$685.4
Operating Expenses*	\$633.7
Capital Outlay	<u>226.5</u>
Total Proposed Spending	\$860.2
Total Budget Savings	<u>(\$182.5)</u>
Unappropriated Balance	\$7.7**
<p><i>*Note: Excludes a \$157.3 million deposit to the Rainy Day Fund which is offset by revenue adjustments.</i></p> <p><i>**Reduced to \$5.0 million by Congressional action subsequent to the introduction of the budget on December 15, 2007.</i></p>	

Proposed Budget Savings

Proposed general fund savings add to the resources which are available for use. In total, HB 1650/SB 750 recommends about \$182.5 million in funding reductions, most of which come from lower projected enrollment growth for public education. Major savings items in the budget as introduced are detailed below.

Major Spending Reductions Proposed in HB 1650 / SB 750, as Introduced (Biennial GF \$ in millions)	
Education	
Direct Aid to Public Education	
Update Average Daily Membership	(\$56.2)
Update Net Lottery Proceeds	(16.0)

Update Costs of Incentive Programs	(14.2)
Update Costs: ESL & Remedial Summer School	(5.1)
Update Costs : Spec. Ed.-Homebound & VPSA Technology	(3.5)
Higher Education	
Virginia Community College System	
Reduce Funds for O&M at VCCS	(\$2.1)
Health and Human Resources	
Department of Medical Assistance Services	
Mental Retardation Waivers for Training Center Residents	(\$5.3)
FAMIS Utilization and Inflation	(5.0)
Medicaid Utilization and Inflation	(4.3)
S-CHIP Utilization and Inflation	(1.1)
Reduce Funding for Involuntary Mental Commitments	(1.0)
Modify Implementation of the Specialty Drug Program	(1.0)
Mental Health, Mental Retardation & Substance Abuse Svcs.	
SVP Facility due to Slower Growth in Commitments	(\$1.4)
Department of Social Services	
Capture Surplus Foster Care Funding	(\$6.4)
Capture Surplus Adoption Subsidy Funding	(4.0)
Transfer GF Funds to CSA for Foster Care Costs	(3.8)
Administration	
State Compensation Board	
Delayed Opening: Fairfax Adult Detention Center Expansion	(\$3.3)
Finance	
Department of Accounts Transfer Payments	
Aid to Localities	(\$1.3)
Department of the Treasury	
Bank Service Fees and Compensating Balances	(\$1.0)
Treasury Board	
Debt Service	(\$11.2)
Judicial Department	
Circuit Courts	
Savings to the Criminal Fund	(\$3.3)
Transportation	
Department of Transportation	
Insurance Premium Tax - Share Attributable to Auto Policies	(\$16.4)
Other	(\$15.6)
Grand Total	(\$182.5)

Proposed Spending Increases

The budget proposes about \$860.2 million in general fund spending, including:

- \$226.5 million for capital project cost overruns, equipment for previously approved projects, and limited funding for new projects;
- \$161.0 million for transportation projects; and
- \$153.0 million for various human resource programs.

Major spending items in the budget as introduced include:

Major Spending Increases Proposed in HB 1650 / SB 750 as Introduced (Biennial GF \$ in millions)	
Capital Outlay	
Project Cost Overruns and Supplements	\$132.8
Equipment for Previously Approved Projects	47.7
Project Planning	23.6
Miscellaneous Renovations	16.0
Miscellaneous New Construction	6.4
Transportation	
Department of Transportation	
2007 Transportation Initiative	\$161.0
Health and Human Resources	
Comprehensive Services Act	
Mandatory Caseload and Cost Increases	\$11.5
Provide GF for Therapeutic Foster Care Services	4.7
Restore GF for CSA Trust Fund	1.0
Department of Health	
Purchase of Influenza Antiviral Treatment (plus \$9.6 million set aside from FY 2006 balances)	\$0.0
Restore GF for Programs Funded w/Federal TANF Dollars	4.2
Funding for Human Papillomavirus Vaccinations	1.4
Department of Medical Assistance Services	
Virginia Health Care Fund Shortfall	\$58.2
Mental Retardation Waivers for Community Residents	5.3

Increase Pediatric Services Rates	5.2
Increase for Inpatient Hospital Psychiatric Services	3.3
Expand Prenatal Care for Pregnant Women (FAMIS Moms)	2.6
Department of Social Services	
Fund Costs to Comply with New Federal TANF Requirements	\$20.9
Offset Loss of Federal Funds for Child Welfare Services	12.6
Offset Loss of Federal Funds for Child Support Enforcement Operations	4.9
Increase Payments to Foster Care and Adoptive Families	3.0
Pilot Quality Ratings System for Preschool Day Care Programs	2.9
Provide Match for Arlington Assisted Living Residence Renovation	1.7

Education

Direct Aid to Public Education

3% Salary Increase for SOQ Positions (plus \$22.0 million set aside by the 2006 General Assembly)	\$41.9
Six Pilots to Expand Preschool Availability	4.6
OPEB: Revised Fringe Benefit Rates for Retiree HealthCare Credit & Group Life	4.3
Expand Early Reading Intervention Program	4.1
Expand SOL Algebra Readiness Program	3.9
Update Sales Tax Estimates	2.7

Higher Education

SCHEV

GF Reimburse for Military Survivor/Depend. Room and Board	\$1.0
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Colleges and University

Base Adequacy	\$15.3
Provide Additional Undergraduate Student Financial Aid	13.7
Fund Operation & Maintenance of New Facilities	3.3
Supplement Research	2.5
Nursing Faculty 10% Salary Increase	1.7
Program Enhancements	1.1

Affiliated Higher Education

Southside Higher Education Centers Operating Support	\$1.5
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Finance

Department of Accounts

Financial Reporting and Standards Positions	\$1.4
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Public Safety

Department of Corrections

Correctional Officer Salary Increase	\$7.4
Offender Management System Funding	3.5
Inmate Medical Costs	2.9

Department of Criminal Justice Services

Re-entry Services	\$1.8
HB 599 Program Funding	1.1
Court Appointed Special Advocate Program	1.0

Department of Emergency Management

All Hazards Readiness Initiative	\$6.1
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Emergency Management Assistance Compact Reimbursement	1.5
Department of Forensic Science	
Increased Operating Expenses	\$1.4
Funding for Existing Forensic Examiners	1.1
Department of State Police	
Enhance State Police Retirement Benefits	\$2.3
Judicial Department	
Supreme Court of Virginia	
Payments to Court Appointed Counsel	\$9.0
Indigent Defense Commission	
16 Staff Attorneys for PD Offices & 2 FTEs for Standards Office	\$1.5
Salaries for Public Defender Office Attorneys	1.2
Natural Resources	
Department of Conservation and Recreation	
Virginia Land Conservation Fund	\$20.0
Water Quality Improvement Fund (WQIF) - Non-point Source	7.5
Department of Environmental Quality	
CSO Fund Deposits	\$9.1
WQIF - Point Source	1.6
Administration	
Compensation Board	
LEOS Incentive Fund	\$11.5
Inmate Per Diem Payments	7.7
Commerce and Trade	
Department of Business Assistance	
Workforce Services Program	\$4.0
Department of Housing and Community Development	
Enterprise Zone Grants	\$4.0
Indoor Plumbing Program	2.5
Virginia Housing Partnership Revolving Fund	2.0
Eastern Shore Broadband Project	1.6
Virginia Economic Development Partnership	
Herbert Bateman Shipbuilding Center Grant	\$1.0
Funding to Attract Research Entity to Virginia	12.0
Additional Funding for Governor's Opportunity Fund	5.0
Southwest Virginia Technology Development Center	1.0
Central Appropriations	
Central Appropriation	
Higher Education: Payments for Interest Earned and Credit Card Rebates	\$12.7
State Employee Health Insurance	9.8
OPEB: Early Retiree Health Insurance	6.3
OPEB: Disability, Group Life, and the Retiree Health Credit	3.7
Additional Economic Contingency Funding	2.5

Technology	
Virginia Information Technologies Agency	
Restore GF for Savings Assumed in FY 2007	\$3.3
Other Spending	<u>\$55.8</u>
Grand Total	\$860.2

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

Public Education. Proposed amendments for Direct Aid to Public Education include: \$63.9 million for a 3.0 percent salary increase in the second year (a companion amendment in Central Accounts eliminates the \$22.0 million reserve for a second year salary increase); \$4.6 million to fund pilot projects to expand preschool availability using both public and private providers; a net increase of \$4.3 million based on revised Retiree Health Care Credit (RHCC) and Group Life (GL) contribution rates; \$4.1 million to expand Early Reading Intervention; \$3.9 million to expand Algebra Readiness; and a net increase of \$2.7 million in the second year based on the revised forecast of sales tax for education.

Total GF savings include: \$56.2 million due to the projected slowing of Average Daily Membership (ADM) enrollment growth; a net \$22.2 million based on updates to various program enrollments and other cost factors; and a net \$16.0 million due to lower lottery proceeds as a result of the projected impact of North Carolina's new lottery.

Higher Education. Proposed amendments for higher education provide for \$38.8 million in net new general fund support. When combined with the legislative actions in the 2006 Session, the increase for higher education is about 16 percent over the prior biennium. Of the total proposed general fund increase, \$32.3 million or over three-fourths is recommended in three areas: base adequacy, student financial aid and operating support for new facilities.

Other Education. Proposed amendments include \$335,000 for information technology infrastructure upgrades at the Virginia Museum of Fine Arts, and \$100,000 for the FindIt Virginia database system administered by the Library of Virginia.

In addition, language in the Department of Motor Vehicles budget specifies that effective January 1, 2008, a portion of the amount collected from the one dollar annual motor vehicle registration fee will be paid to the Virginia 400th Anniversary Fund for use by the Jamestown-Yorktown Foundation. An additional \$1.8 million GF in the first year in central accounts is provided for security and other costs associated with the Jamestown 2007 celebration.

Health and Human Resources. Almost 70 percent or \$104.1 million of the proposed increase in general fund appropriations is required to comply with federal and state mandates, meet caseload and cost increases, and maintain services at current levels. More than half of this increase is due to a \$58.2 million decline in projected revenue for the Medicaid program which comes from the Virginia Health Care Fund.

Spending necessary to meet federal requirements and maintain services at current levels requires \$44.8 million GF, including \$26.0 million to meet the new federal requirements for the Temporary Assistance to Needy Families (TANF) program and \$17.7 million to offset the loss of federal funds for child welfare services, child support enforcement activities, and aging programs due to changes in federal reimbursement policy and reductions in federal funding. In addition, caseload and cost increases in the Comprehensive Services Act program account for \$16.3 million in increased costs.

Proposed initiatives total \$33.1 million GF and are targeted at selected health care provider rate increases and service expansions including: 170 additional community mental retardation waiver slots, an eight percent rate increase for Medicaid pediatric services, an increase in reimbursement for Medicaid-funded inpatient psychiatric hospital services, a 10 percent increase in family foster care payments, a new pilot for a voluntary quality ratings system for preschool day care programs, expansion of FAMIS eligibility for pregnant women from 166 percent to 200 percent of the federal poverty level, and funding to expand the availability of the Human Papillomavirus vaccine for girls entering the 6th grade.

General fund spending reductions are concentrated primarily in two areas: Medicaid (\$16.7 million GF) and the Department of Social Services (\$10.4 million). Medicaid savings result from lower estimates of utilization and inflation in the Medicaid and children's health insurance programs, and a lower than estimated use of community waiver slots by individuals currently residing in state mental retardation training centers. Reductions in the Department of Social Services represent surplus funding in the foster care and adoption subsidy programs.

Transportation. Proposed amendments include \$161.0 million of additional one-time general fund supplements for transportation in the first year. When added to the \$339.0 million GF appropriated but not distributed to transportation by the General Assembly in 2006, the Governor's proposed budget allocates \$500 million GF for transportation projects.

The major components of the transportation proposal include: \$305.0 million to be deposited into the Transportation Partnership Opportunity Fund to leverage other funding available for public-private and design-build projects specified in language; \$65.0 million for specified Rail Enhancement Fund projects; \$45.0 million for Transit Capital Fund projects; \$50.0 million for Virginia Port Fund projects; and \$20.0 million to fund technology solutions solicited by the private sector to reduce congestion in Northern Virginia and Hampton Roads.

Also included in the amendments is an appropriation of an additional \$13.0 million NGF and 140 positions to the Department of Motor Vehicles to support the requirements of the federal Real ID Act.

Commerce and Trade. Proposed amendments for the Commerce and Trade Secretariat include \$15.3 million in additional general funds and \$226,256 in nongeneral funds. Almost 70 percent of the new general fund spending, or \$10.7 million, is proposed for the Department of Housing and Community Development for the Enterprise Zone Program, Indoor Plumbing

Program, Virginia Housing Partnership Revolving Fund, and the Eastern Shore broadband project. Some 26 percent of the new spending or \$4.0 million increases support for the workforce training services program.

Natural Resources. Proposed general fund spending includes: \$20.0 million over the biennium for a land conservation initiative which includes \$5.0 million for farmland preservation and \$13.7 million for the Virginia Land Conservation Foundation; \$9.1 million over the biennium for combined sewer overflow projects in the cities of Lynchburg and Richmond; \$7.5 million in the first year to address water quality impairments created by agricultural and land development activities; and \$1.6 million in the first year to address water quality problems caused by wastewater treatment plants. This final sum represents the remaining amount required for deposit into the Water Quality Improvement Fund because of the fiscal year 2006 budget surplus.

Additionally, the Governor has proposed the issuance of \$250 million in tax-supported debt through separate legislation to improve the nutrient reduction capabilities of 89 publicly owned wastewater treatment plants. This legislation would provide for the issuance of Virginia Public Building Authority bonds, beginning no earlier than July 1, 2008, for use in providing local governments with Water Quality Improvement Grants for the installation of nutrient removal technology.

Central Appropriations. Proposed general fund increases include \$12.7 million to pay institutions of higher education interest earned on nongeneral fund balances and rebates on charge card purchases, as provided under higher education restructuring; \$12.0 million to attract a major research organization to the Harrisonburg area; and \$9.8 million to pay the employer share of state employee health insurance premium increases for FY 2008. Funding of \$10.1 million is proposed for the employer share of benefit rate increases required to cover the costs of actuarially established rates for health insurance for early retirees, and disability coverage, group life insurance and the health care credit for other retirees. This represents the first installment of a five-year program to phase in the rates required by changes in the Governmental Accounting Board's financial reporting requirements.

An additional \$5.0 million GF is proposed for the Governor's Development Opportunity Fund; \$2.5 million GF for the Governor's Economic Contingency Fund; \$1.8 million to provide additional security at the Jamestown 2007 celebration; \$1.0 million for the Southwest Virginia Technology Development Center; \$650,000 to include additional DCJS block grant employees in the FY 2008 salary increase; and \$200,000 to employ outside legal counsel for the Tobacco Master Settlement Agreement.

Public Safety. Proposed general fund amendments include \$8.2 million GF in the second year to increase compensation for adult and juvenile correctional officers, including an increase of \$1,200 for officers and \$600 for supervisors, effective November 25, 2007, and certain other actions for officers in Northern Virginia and those on special assignment, as well as to address salary compression. An "All Hazards Readiness Initiative" totaling over \$7.1 million GF is recommended for agencies in the Office of Public Safety. The largest component of this

initiative is a proposed \$3.5 million grant program to upgrade and expand shelters for evacuation in the event of an emergency. A series of amendments totaling \$4.3 million is recommended to strengthen programs to assist inmates leaving state facilities in making a successful transition to the community, in order to reduce recidivism. An adjustment to the formula for State Aid to Localities with Police Departments (HB 599 of 1979) is recommended to direct 40 percent of the increased funding for FY 2008 to the 20 localities with the highest crime rates.

Capital Outlay. The Governor's proposed capital outlay amendments total \$226.5 million GF. Funding includes \$132.8 million to address cost overruns for previously approved capital projects, \$47.7 million for equipment at buildings expected to be completed during the biennium, \$22.4 million is for new construction and renovation projects, and \$23.6 million for project planning. The budget also includes bonding authority for revenue-generating projects totaling \$212.1 million. Nongeneral fund projects, primarily in higher education, total \$69.6 million.

The introduced budget also proposes the use of about \$100.0 million in VPBA debt for the construction of a new correctional facility at Mt. Rogers.

Administration. Proposed Compensation Board amendments include \$7.7 million in FY 2007 to increase payments to local governments for local and regional jail per diem payments; \$11.5 million to reimburse jurisdictions that include their sheriffs, deputies and regional jail correctional officers in the Law Enforcement Officers Retirement System (LEOS); \$0.7 million to provide funding to staff new jail space, \$0.7 million to support 24 additional deputies needed to meet the one deputy per 1,500 population ratio, and \$0.3 million to increase salaries for assistant attorneys in the Career Prosecutor Program. The budget for the Compensation Board assumes \$3.3 million in savings due to a delay in the expansion of the Fairfax Adult Detention Center.

Finance. Proposed general fund amendments include \$152.7 million in additional payments to the Rainy Day Fund, although the budget assumes a corresponding revenue amount, plus interest to be transferred back to the General Fund. Other funding items include \$1.4 million for 14 additional positions in the Department of Accounts, \$0.3 million for salary increases for accounting professionals, and \$0.1 million for a data disaster recovery site. The budget for the Department of Taxation includes \$0.8 million for a data disaster recovery site and an item authorizing the conversion of 20 part-time positions to full-time staff. Savings items within the Secretariat include \$1.2 million in reductions in the Department of Accounts Transfer Payments due to revised revenue estimates, \$1.0 million in one-time savings for the Department of Accounts from a reduction in banking fees and compensating balances, and a net savings of \$11.2 million from revised finance costs for three bond projects.

Technology. Proposed amendments restore \$3.3 million GF in FY 2007 for savings that were assumed in Chapters 3 and 10 for the Virginia Information Technologies Agency (VITA). The budget reduces the maximum employment level by 653 positions in FY 2007 and an additional 25 positions in FY 2008 to reflect the implementation of the Northrop Grumman contract. Language is also included which authorizes the Director of the Department of

Planning and Budget to transfer funds between executive branch agencies as needed to cover charges from VITA.

Judicial Department. Proposed general fund amendments for the Judicial Department include \$9.0 million in the second year to increase fees for court-appointed counsel for indigent defendants in criminal cases, along with language authorizing the Executive Secretary of the Supreme Court, upon approval of the presiding judge, to increase the fees above the statutory caps in unusual cases. An additional \$3.5 million is included for 24 new positions and salary increases for public defender offices, along with a corresponding reduction of \$3.3 million in the second year in the Criminal Fund.

Independent Agencies. Proposed amendments reduce the State Corporation Commission's budget by \$11.8 million nongeneral fund to reflect the transfer of the telecommunications relay fee to the Department for the Deaf and Hard of Hearing. The budget increases the nongeneral fund appropriation for the Virginia Retirement System (VRS) by \$4.7 million for modernizing the information technology system at the VRS; \$1.3 million for merit based salary increases; and \$1.5 million to continue the investment pay plan designed to attract and retain investment staff. Also, language is included authorizing VRS to increase the multiplier for the State Police Officer's Retirement System from 1.70 percent to 1.85 percent.

Nonstate Agencies. Proposed amendments provide \$7.5 million GF in the second year for grants to 37 nonstate agencies. (No changes are recommended to first year grants of \$36.7 million GF for 312 nonstate agencies provided in Chapter 3, Special Session I of 2006.)