

Overview of the Amended Budget for 2006-2008, as Adopted

The adopted amendments to the 2006-08 budget 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 adopted budget includes \$590.9 million in net additional general fund resources, comprised largely of a revision to the general fund revenue forecast of \$529.7 million for the biennium. Combined with the Chapter 10 unappropriated balance of \$113.1 million, available general fund resources total \$704.0 million.

General Fund Resources (\$ in millions)	
Available Balances	\$121.3
Additional Revenue:	
Revenue Estimate	\$529.7
Transfers	
Lottery Proceeds	(\$41.4)
Other Transfers	<u>(\$18.7)</u>
Additional GF Resources	\$590.9*
Ch. 3/10 Unappropriated Balance	<u>\$113.1</u>
Total Available Resources	\$704.0
<i>*Note: Excludes \$157.3 million in Rainy Day Fund accounting adjustments that are offset by appropriation adjustments.</i>	

This additional \$590.9 million results primarily from three resource adjustments:

- (1) Reversion of \$108.9 million in executive agency operating balances and \$6.2 million in legislative balances to the general fund at the end of FY 2006;

- (2) An adjustment of \$546.0 million to the biennial revenue forecast due to continued strength in nonwithholding and corporate collections, partially offset by a negative adjustment in recordation taxes (tax policy changes reduce the revenue adjustment to \$529.7 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 almost \$730.0 million are included, along with \$199.4 million GF for capital projects. These expenditures are offset by \$230.9 million in general fund savings, leaving an unappropriated balance of about \$5.9 million.

General Fund Resources (\$ in millions)	
Available Resources	\$704.0
Operating Expenses*	\$729.6
Capital Outlay	<u>199.4</u>
Total Spending	\$929.0
Total Budget Savings	<u>(230.9)</u>
Net Spending	\$698.1
 Unappropriated Balance	 \$5.9
<i>*Note: Excludes a \$157.3 million deposit to the Rainy Day Fund which is offset by revenue adjustments.</i>	

Budget Savings

General fund budget savings add to the resources available for use. In total, Chapter 847 includes \$230.9 million in funding reductions, most of which come from lower than projected enrollment growth for public education. Major spending reductions in the budget as adopted are detailed below.

**Major Spending Reductions
Included in Chapter 847, as Adopted**
(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	(15.7)
Update Costs: ESL & Remedial Summer School	(5.1)
Update Costs : Spec. Ed.-Homebound & VPSA Technology	(3.5)
At-Risk Add-On: Reduce Minimum & End Proration	(2.6)

Higher Education

Virginia Community College System

Technical Adjustment for O&M at VCCS	(\$2.1)
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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)
Adjust Funding for Alzheimer's Waiver	(3.2)
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 Serv.

Reduce Funds for SVP Facility due to Slower Growth	(\$1.4)
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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)

Public Safety

Department of Juvenile Justice

Excess pilot program and correctional center funding	(\$2.3)
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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)
Out -of-State Student Capital Fee	(2.0)
Judicial Department	
Circuit Courts	
Savings to the Criminal Fund	(\$3.1)
Transportation	
Department of Transportation	
Insurance Premium Tax - Share Attributable to Auto Policies	(\$16.4)
Capital Outlay	
Adjust Previously Approved Project	(\$11.5)
Other	(\$41.1)
Grand Total	(\$230.9)

Spending Increases

The budget includes about \$929.0 million in general fund spending, including:

- \$187.9 million for capital includes project cost overruns, equipment for previously approved projects, and limited funding for new projects;
- \$161.0 million for transportation projects; and
- \$163.0 million for various health and human resource programs.

Major spending items in the budget as adopted include:

**Major Spending Increases
Included in Chapter 847, as Adopted**
(Biennial GF \$ in millions)

Capital Outlay

Project Cost Overruns and Supplements	\$123.1
Equipment for Previously Approved Projects	38.5
Project Planning	20.1
Miscellaneous Renovations	9.3
Miscellaneous New Construction	6.2
Miscellaneous Property Acquisitions	2.2

Transportation

Department of Transportation

2007 Transportation Initiative	\$161.0
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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 for the Aging

Increase Funding for Home-delivered Meals	\$1.0
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Department of Health

Purchase of Influenza Antiviral Treatment (\$9.6 million from FY 2006 balances)	\$0.0
Restore GF for Programs Funded with Federal TANF Dollars	4.2
Funding for Human Papillomavirus Vaccinations	1.4

Department of Medical Assistance Services

Virginia Health Care Fund Shortfall	\$58.2
330 New Mental Retardation Waiver Slots for Community Residents	7.6
15% Northern Virginia Rate Differential for Waiver Services	5.3
Medicaid for Substance Use Disorder Treatment	5.2
Increase for Inpatient Hospital Psychiatric Services	3.3
2% Rate Increase for Physician Services	2.2

2% Rate Increase for Pediatric Services	1.5
Expand Prenatal Care for Pregnant Women (FAMIS Moms) 166% to 185% FPL	1.4
100 New Developmental Disabilities Waiver Slots	1.3
Department of Mental Health, Mental Retardation and Substance Abuse	
Expand Access to Substance Abuse Services	\$2.4
Department of Social Services	
Fund Costs to Comply with New Federal TANF Requirements	\$19.9
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
Provide Match for Arlington Assisted Living Residence Renovation	1.7
Increase Auxiliary Grant Payment to \$1,061 per month	1.0
Education	
Direct Aid to Public Education	
3% Salary Increase for SOQ Positions (plus \$22 million set aside by the 2006 General Assembly)	\$41.9
Retiree Health Care Credit @ \$4/Year	11.9
OPEB: Revised Fringe Benefit Rates for RHCC and Group Life	4.3
Update Sales Tax Estimates	4.2
Expand Early Reading Intervention Program	4.1
Pilots to Expand Preschool Availability	2.6
DC Combined Statistical Area Cost of Competing Adjustment	2.4
Higher Education	
SCHEV	
Tuition Assistance Grants	\$1.5
GF Reimburse for Military Survivor/Dependents Room and Board	1.0
Colleges and University	
Base Adequacy	\$14.8
Provide Additional Undergraduate Student Financial Aid	13.7
Distribute 3% Faculty Salary Increase	12.9
Supplement Research	5.0
Program Enhancements	3.9
Fund Operation & Maintenance of New Facilities	3.1
Nursing Faculty 10% Salary Increase	1.8

Finance**Department of Accounts**

Financial Reporting and Standards Positions \$1.4

Public Safety**Department of Corrections**

Correctional Officer Salary Increase \$7.4

Offender Management System Funding 3.5

Inmate Medical Costs 2.9

Planning for new prison in Charlotte County 1.2

Criminal Justice Services

Offender Re-Entry Program Funding (DCE, DOC, DCJS, and DJJ) \$3.6

Maintain existing Victim-Witness Programs with general funds 2.6

Additional HB 599 Program Funding, including hold-harmless 2.2

Department of Emergency Management

All Hazards Initiative \$5.5

Emergency Management Assistance Compact Reimbursement 1.5

Department of Forensic Science

Funding for Increased Operating Expenses \$1.4

Funding for Existing Forensic Examiners 1.1

Department of State Police

Enhance State Police Retirement Benefits \$2.3

Northern Virginia Salary Differential for Spotsylvania and Stafford Counties 1.2

Judicial Department**Supreme Court of Virginia**

Payments to Court Appointed Counsel \$8.2

Salaries for Judges and State Court Employees 3.8

Indigent Defense Commission

16 Staff Attorneys for PD Offices & 2 Positions for Standards Office \$1.5

Salaries for Public Defender Office Attorneys 1.5

Natural Resources**Department of Conservation and Recreation**

Land Conservation \$6.6

Water Quality Improvement Fund (WQIF) - Non-point Source 3.8

Additional State Park Operating Support 1.2

Department of Environmental Quality

WQIF - Point Source \$21.6

CSO Fund deposits	6.1
Administration	
Compensation Board	
Inmate Per Diem Payments	\$10.8
Staffing for Commonwealth's Attorneys offices	3.1
Commerce and Trade	
Department of Business Assistance	
Workforce Services Program	\$2.0
Department of Housing and Community Development	
Enterprise Zone Grants	\$4.0
Indoor Plumbing Program	2.5
Eastern Shore Broadband Project	1.6
Virginia Economic Development Partnership	
Funding to Attract Research Entity to Virginia	\$12.0
Additional Economic Contingency Funding	1.8
Southwest Virginia Technology Development Center	1.0
Central Appropriations	
Central Appropriation	
Additional 1% for Second Year Salary Increase	\$16.9
Higher Education: Payments for Interest Earned and Credit Card Rebates	12.7
State Employee Health Insurance	9.8
Higher Education: Tuition Incentive Fund	7.2
OPEB: Early Retiree Health Insurance	6.3
Higher Education: Additional 1% Faculty Salary Increase	4.3
OPEB: Disability, Group Life, and the Retiree Health Credit	3.7
Jamestown 2007 Commemoration	1.8
Two Year College Transfer Grant	1.8
Grants to Non-State Agencies	
FY 2008 Grants	\$26.7
Other Spending	\$57.8
Grand Total	\$929.0

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

Public Education. Adopted general fund amendments for Direct Aid to Public Education include: \$63.9 million for the state's share of a 3.0 percent salary increase in the second year (a companion amendment in Central Accounts eliminates the \$22.0 million salary reserve); \$11.9 million for the state's share of the enhancement in the Retiree Health Care Credit (RHCC) to \$4.00 per month, per year of service with no cap on the number of years; a net increase of \$4.3 million based on revised RHCC and Group Life (GL) contribution rates; a net increase of \$4.2 million due to adjustments to the forecast of sales tax for education; \$4.1 million to expand Early Intervention Reading; \$2.6 million to fund pilot projects to expand at-risk preschool availability; and \$2.4 million to phase-in cost of competing adjustment funding for school divisions in the Washington DC Combined Statistical Area.

Total GF savings include: \$56.2 million due to the projected slowing of Average Daily Membership (ADM) enrollment growth; a net \$24.0 million based on updates to various program enrollments and other cost factors; a net \$16.0 million due to lower lottery proceeds as a result of the projected impact of North Carolina's new lottery; and a net \$2.6 million from the At-Risk Add-On program.

Higher Education. Adopted general fund amendments for higher education provide for \$79.8 million in net new general fund support (including \$24.2 million in central accounts). When combined with the legislative actions in the 2006 Session, the increase for higher education is about 17 percent over the prior biennium. Of the total general fund increase, \$47.5 million or about sixty percent is recommended in three areas: base adequacy and enrollment, student financial aid, and faculty salary increases. Included in Central Appropriations is \$7.2 million GF to create a Higher Education Tuition Incentive Fund which provides additional funding to colleges and universities which limit tuition increases to no more than six percent.

Other Education. Adopted general fund amendments include \$926,000 for Jamestown 2007 for the World Leaders Forum on Democracy; \$474,000 for the Jamestown-Yorktown Foundation for programming, security, technology fees and special exhibition costs; \$335,000 for information technology infrastructure upgrades at the Virginia Museum of Fine Arts; \$190,000 for aid to public libraries for Internet protection software; and \$100,000 for the FindIt Virginia database system administered by the Library of Virginia.

In Central Appropriations, an additional \$1.8 million GF in the first year is provided for security and other costs associated with the Jamestown 2007 celebration. 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.

Health and Human Resources. Adopted general fund amendments for Health and Human Resources include \$103.1 million 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 from the Virginia Health Care Fund which is used to fund a portion of the state's share of Medicaid payments.

Of this increase, \$43.8 million GF is necessary to meet federal requirements and maintain services at current levels. This includes a total of \$25.0 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. Caseload and cost increases account for \$16.4 million GF of the total increases in Health and Human Resources, including: \$16.3 million for increased costs in the Comprehensive Services Act program for at-risk children and youth and \$111,530 to meet the growing caseload of children referred by courts for competency restoration services.

Other initiatives in Health and Human Resources total \$49.0 million GF including select increases in health care provider rates and service expansions. Highlights include: 330 additional community mental retardation waiver slots, an expansion of substance abuse treatment through Medicaid and community services boards, a 15 percent Northern Virginia differential community-based services, a two percent rate increase for physician services provided through the Medicaid and children's health insurance program, an increase in Medicaid-funded inpatient psychiatric hospital services, a ten percent payment increase for foster care and adoptive families, an expansion of the FAMIS Moms program from 166 percent to 185 percent of the federal poverty level, a matching grant for the renovation of a nonprofit assisted living facility, and funding for additional Human Papillomavirus vaccinations for girls entering the 6th grade.

General fund spending reductions are concentrated in the Department of Social Services (\$10.4 million) and in the Department of Medical Assistance Services (\$10.2 million GF). Reductions in the Department of Social Services represent surplus funding in the foster care and adoption subsidy programs. Reductions in the Department of Medical Assistance Services result from Medicaid savings in the following areas: slower than anticipated enrollment in the community-based Alzheimer's Waiver, lower than estimated use of community waiver slots by individuals currently residing in state mental retardation training centers, additional rebates from pharmaceuticals, and added oversight of program expenditures.

Transportation. The adopted amendments for Transportation agencies result in an appropriation of \$793.6 million GF and \$8.5 billion NGF for the biennium. Included in the general fund adjustments is a total of \$500.0 million of one-time general fund supplements for transportation in the first year inclusive of the \$339.0 million GF appropriated but not distributed to transportation by the General Assembly in 2006.

The distribution of these general fund dollars 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; \$60.0 million for Transit Capital Fund projects; \$50.0 million for

Virginia Port Fund projects; and \$20.0 million to supplement the appropriation for the local revenue sharing program.

The adopted amendments also include an appropriation of an additional \$13.0 million NGF and 140 positions to the Department of Motor Vehicles to support infrastructure improvements and personnel increases required to meet the requirements of the federal Real ID Act.

Commerce and Trade. New appropriations for the Commerce and Trade Secretariat include \$11.8 million in additional general funds and \$1.6 million in nongeneral funds. Over 70 percent of the new general fund spending, or \$8.4 million, is provided for the Department of Housing and Community Development for the Enterprise Zone Program, Indoor Plumbing Program, and the Eastern Shore broadband project. Almost 20 percent of the new spending or \$2.0 million provide support for the workforce training services program.

Natural Resources. Approved general fund spending includes \$21.6 million to address water quality problems caused by the discharges of wastewater treatment plants, \$6.6 million for land conservation, \$6.1 million for correcting the combined sewer overflow projects in the cities of Lynchburg and Richmond, \$3.8 million to address water quality problems caused by agricultural and land development activities, and \$1.2 million to support the state parks system. Of the amounts designated above for addressing water quality impairments, \$5.4 million represents the remaining amounts required for deposit to the Water Quality Improvement Fund due to the FY 2006 year-end revenue surplus and unreserved general fund balances.

Additionally, the General Assembly approved legislation (House Bill 1710 and Senate Bill 771) authorizing the Virginia Public Building Authority under certain conditions to issue tax-supported debt, not to exceed \$250.0 million, to improve the nutrient reduction capabilities of 89 publicly owned wastewater treatment plants. The legislation also reforms the department's review process of grant applications to emphasize cost cutting designs and local government participation in the Chesapeake Bay Watershed Nutrient Credit Exchange Program.

Central Appropriations. Adopted general fund increases include \$21.2 million to increase the FY 2008 salary adjustment for state classified employees, faculty, and state-supported local employees from 3.0 percent to 4.0 percent, and \$12.7 million to pay institutions of higher education interest earnings and rebates on charge card purchases. Other increases include \$12.0 million to attract a major research organization to the Harrisonburg area; \$9.8 million to pay the employer share of state employee health insurance premium increases for FY 2008; \$10.1 million GF 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 item represents the first installment of a five-year program to phase in the rates required by changes in the Governmental Accounting Standards Board's financial reporting requirements.

Included in Central Appropriations is \$7.2 million GF to create a Higher Education Tuition Incentive Fund which provides additional funding to colleges and universities which limit tuition increases to no more than six percent and an additional \$1.8 million GF to establish

a Two-Year College Transfer Grant program. Other initiatives include an additional \$1.8 million GF for the Governor's Economic Contingency Fund to provide additional security at the Jamestown 2007 celebration; \$1.0 million for the Southwest Virginia Technology Development Center; \$258,815 GF to pay the rates for geospatial and base mapping services provided to state agencies by the Virginia Information Technologies Agency; \$650,000 to include additional DCJS block grant employees in the FY 2008 salary increase; \$200,000 for the Office of the Attorney General to employ outside legal counsel and for enforcement of the 1998 Tobacco Master Settlement Agreement, and \$150,000 for increased employer contributions to the deferred compensation program as a result of House Bill 1830.

Public Safety. Adopted 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 \$5.5 million GF is included for agencies in the Office of Public Safety. The largest component of this initiative is a \$2.5 million grant program to upgrade and expand shelters for evacuation in the event of an emergency. A series of amendments totaling \$3.6 million is provided to strengthen programs to assist inmates leaving state facilities in making a successful transition to the community, in order to reduce recidivism. An additional \$2.6 million is provided to maintain existing victim-witness programs. And, a \$1.1 million hold-harmless add-on to the formula for State Aid to Localities with Police Departments (House Bill 599 of 1979) is included to ensure that no locality receives a lower allocation in FY 2008 than in FY 2007.

Capital Outlay. The approved capital outlay amendments include a net increase of \$807.8 million in project funding. Specific actions include an increase of \$187.9 million from the state general fund largely for cost overruns on previously approved projects and to provide equipment for buildings scheduled to be completed, \$140.0 million in tax-supported bonds, \$103.6 million in 9(c) bond authority, \$274.0 million in 9(d) bond authority for auxiliary enterprise and other nongeneral fund revenue-supported projects at the colleges and universities, and \$102.3 million in nongeneral fund cash projects.

The \$187.9 million GF appropriation includes \$123.1 million for project cost overruns and supplements; \$38.5 million for equipment for previously approved projects; \$20.1 million for planning new projects; \$6.6 million for renovation of existing capital facilities and for new construction projects, and \$2.2 million for property acquisitions.

Administration. Compensation Board amendments include \$10.8 million in FY 2007 to increase payments to local governments for local and regional jail per diem payments; \$3.2 million for additional staff at Commonwealth's Attorneys offices; \$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. Adopted 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, \$2.0 million in general fund savings from increasing nongeneral fund revenue by increasing the out-of-state student capital fee, \$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. Adopted amendments defer \$3.3 million GF in savings in FY 2007 that were assumed in Chapters 3 and 10 for the Virginia Information Technologies Agency (VITA) until FY 2008. 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. Adopted general fund amendments for the Judicial Department include \$8.2 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, consistent with House Bill 2361 and Senate Bill 1168. An additional \$3.8 million is included for 24 new positions and salary increases for public defender offices, along with a corresponding reduction of \$2.3 million in the second year in the Criminal Fund.

Independent Agencies. Adopted amendments reduce the State Corporation Commission's budget by \$11.8 million in 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; \$1.5 million to continue the investment pay plan designed to attract and retain investment staff, and \$0.4 million to reimburse JLARC for costs incurred as part of the study of state employee compensation.

Nonstate Agencies. Adopted amendments provide a total of \$26.7 million GF in the second year for grants to nonstate agencies. (No changes were made to first year grant amounts of \$36.7 million GF for 312 nonstate agencies provided in Chapters 3 and 10, Special Session I of 2006.)