

Overview of Proposed Amendments to the 2012-14 Budget

The proposed amendments to the 2012-14 budget (HB 1500/SB 800) include \$219.6 million in general fund resources above those assumed in Chapter 3 of the 2012 Acts of Assembly, Special Session I. These resources include the addition of \$102.1 million in balances; a \$98.7 million upward revision to the general fund revenue forecast, including proposed tax policy actions; and additional transfers of \$18.8 million. When combined with the \$6.3 million unappropriated balance contained in Chapter 3, \$225.9 million in additional resources are available for appropriation.

Upward adjustments to the general fund revenue forecast total \$185.9 million, resulting from the ripple effect of collections above estimate in FY 2012, but are offset by a slight softening in the biennial economic growth rate assumed in Chapter 3. The budget, as introduced, assumes “economic” growth of 3.6 percent and 4.2 percent respectively for FY 2013 and FY 2014, rather than the 3.7 percent and 4.5 percent rates approved last session.

The introduced budget also proposes several tax policy changes that would reduce the revenue forecast by a total of \$87.1 million. Changes include increasing the existing sales tax dedicated to transportation from 0.5 percent to 0.55 percent at a cost of \$48.1 million in FY 2014 and further reducing the number of retailers required to make an accelerated sales tax payment which will result in a loss of \$20.8 million in FY 2014.

New spending net of technical transfers total \$207.4 million GF. Proposed spending of about \$670.0 million GF, including deposits to the Revenue Stabilization Fund, Medicaid, public education, and employee health insurance, is offset by almost \$463.0 million GF in savings, largely due to Medicaid pharmacy rebates. The proposed budget would leave an unappropriated balance of \$10.9 million GF.

Several proposed budget actions address “structural balance”, such as eliminating the \$45.0 million aid to localities reversion in FY 2014 and closing second-year “holes” in the budget, as well as the continued phase-out of the accelerated sales tax. The budget also fully funds the Constitutionally-required deposits to the Revenue Stabilization Fund, and sets aside \$50.0 million for anticipated Fund deposits required next biennium.

**Amendments to the Budget for 2012-14
Proposed in HB 1500/SB 800, as Proposed**
(GF \$ in millions)

	<u>FY 2013</u>	<u>FY 2014</u>	<u>2012-14</u>
Chapter 3, 2012 SSI* - Revenues	\$17,389.3	\$17,460.0	\$34,849.3
Proposed Adjustments	<u>213.6</u>	<u>6.0</u>	<u>219.6</u>
Available Revenues	\$17,602.9	\$17,466.0	\$35,068.9
Chapter 3, 2012 SSI* - Appropriations	\$17,340.7	\$17,502.3	\$34,842.9
Net New Operating Spending	(164.6)	376.0	211.4
Capital Outlay Spending	<u>0.0</u>	<u>3.7</u>	<u>3.7</u>
Total Proposed Appropriations	\$17,176.1	\$17,882.0	\$35,058.1
Unappropriated Balance	\$426.9	(\$416.0)	\$10.9
 <i>*2012 Acts of Assembly, Special Session I</i>			

Proposed Spending Increases

Major spending initiatives include:

- \$114.6 million GF for Medicaid utilization and inflation;
- \$78.3 million GF for a Constitutionally required deposit to the Revenue Stabilization Fund in FY 2014, and \$50.0 million GF set aside for an anticipated mandatory deposit in the 2014-16 biennium;
- \$69.7 million GF to cover the general fund share of increased premiums for the state employee health insurance program;
- \$58.7 million GF for the state share of a 2 percent salary increase for K-12 instructional positions recognized by the SOQ funding model, effective July 1, 2013;
- \$45.0 million GF to eliminate the requirement for localities to implement savings in FY 2014 for state aid to local programs; and
- \$30.9 million GF in additional funding for higher education.

Proposed Budget Savings

Major savings include:

- \$202.5 million GF in Medicaid reductions, offset by additional Health Care Fund resources, including pharmacy rebates;
- \$41.6 million GF in savings from lower caseloads in the Comprehensive Services Act (CSA) program;
- \$30.0 million GF from lower debt service payments; and
- \$12.2 million GF from removing FY 2014 funding for Cost of Competing support positions.

Major Spending and Savings in HB 1500/SB 800, as Proposed (GF \$ in millions)	
	<u>FY 2012-14</u>
Major Spending Proposed	
DMAS: Medicaid Utilization and Inflation	\$ 114.6
Additional Mandatory FY 2014 Rainy Day Fund Deposit	78.3
Funding for State Employee Health Insurance	69.7
K-12: Incentive Funding for 2% Teacher Salary Increase	58.7
Advance Deposit for FY 2015 Rainy Day Fund Requirement	50.0
Eliminate Local Aid Reversion Account (Central Accounts)	45.0
DMAS: Children's Health Insurance Utilization and Inflation	20.7
DMAS: FAMIS Utilization and Inflation	20.2
Higher Education: Funding for "Top Jobs" Initiative	19.5
Water Quality Improvement Fund	16.9
Dept. of Corrections: Inmate Medical Costs	15.5
K-12: Strategic Compensation for Teachers	15.0
Dept. of Corrections: Open River North Correctional Center	14.3
K-12: Reforecast of Sales Tax to K12 and School-Aged Population	9.7
K-12: Consolidation of Bedford County & City School Divisions	6.2
K-12: Funding for Staff of Blind or Visually Impaired Students	4.9
All Other Spending	<u>110.8</u>
Total Spending:	\$ 670.0
Major Savings Proposed	
DMAS: Adjust Funding for Health Care Fund	\$ (202.5)
K-12: Update Lottery for Participation/Prior Year Balance	(51.4)
CSA: Savings Based on Caseload and Spending Forecast Changes	(41.6)
Treasury Board: Capture Debt Service Savings	(30.0)

Major Spending and Savings in HB 1500/SB 800, as Proposed
(GF \$ in millions)

	<u>FY 2012-14</u>
DMAS: Maintain Disproportionate Share at FY 2013 Level	(21.7)
K-12: Update SOQ, Incentive & Categorical Costs - Technical	(21.3)
K-12: Eliminate FY 2014 Cost of Competing for Support Positions	(12.2)
DSS: Supplant GF with TANF Funds	(10.0)
CSA: Reduce Waste, Fraud and Abuse	(9.9)
K-12: Additional Literary Fund Revenue for Teacher Retirement	(9.0)
Department of Juvenile Justice: Facility Closure/Repurposing	(7.1)
Reduce Central Approp. Funding for Phone Systems/IT Costs	(5.4)
Establish Retail Maintenance Network for Maintenance Drugs	(4.9)
All Other Savings	<u>(35.7)</u>
Total Savings:	\$ (462.6)
Net Spending Adjustments	\$ 207.4

A summary of significant spending increases and savings actions adopted in each major area follows:

Judicial Department. Proposed amendments for the FY 2012-14 budget allocate a portion of the projected savings from frozen judgeships to fill 15 judicial vacancies, including five circuit court judgeships, eight general district court judgeships, and two juvenile and domestic relations district court judgeships.

Executive Offices. Proposed amendments include \$2.1 million NGF each year and 14.0 positions to expand the Medicaid Fraud Control Unit in the Office of the Attorney General. The proposed amendments also include transfers from other agencies and enhancements for the Office of the State Inspector General, created by the 2011 General Assembly. Transfers of \$2.2 million GF and \$1.9 million NGF and 37.0 positions are included from the Departments of Accounts, Behavioral Health and Developmental Services, Corrections, Juvenile Justice, and Transportation. The amendments also include funds for 6.0 positions and support costs for the new office.

Administration. Proposed amendments to the Compensation Board include \$6.3 million GF in the first year for projected jail per diem payments and \$2.1 million GF the second year for a salary increase for Assistant Commonwealth's Attorneys.

Agriculture and Forestry. Increases in the Department of Agriculture and Consumer Services are proposed for a new position to oversee the Governor's Agriculture and Forestry Industries Development Fund, \$250,000 GF for the Weights and Measures inspection program and small increases for food safety and coyote control. The largest decrease is a \$400,000 GF

reduction in the Purchase of Development Rights program. Other small decreases come from delaying the beehive grant program, supplanting general funds with nongeneral fund sources and reducing discretionary expenditures.

Commerce and Trade. General fund adjustments result in a net increase of \$1.2 million GF for the biennium which includes \$2.0 million in GF savings from technical amendments to the Virginia Investment Partnership Grants due to several projects not meeting performance goals to qualify for funding. The introduced budget recognizes savings of \$1.5 million GF for the Fort Monroe Authority in the first year, offset by an increase of \$5.1 million GF to provide operating support in the second year. Two new initiatives include \$481,500 GF for a Defense Industry Trade Initiative and \$500,000 GF for a Job Recruitment Website using social media.

Public Education. The proposed amendments for FY 2013 for Direct Aid to Public Education reflect a net decrease of \$61.3 million GF and a net increase of \$81.0 million NGF, reflecting updates for slower enrollment growth and program participation, the increased Sales Tax forecast, an update of projected federal funds, and additional Lottery Proceeds and Literary Fund revenue used to cover other GF costs.

For FY 2014, the amendments reflect a net increase of \$64.3 million GF and a \$36.8 million NGF increase due to the “truing up” of expected federal funds. Proposed GF increases include \$58.7 million for the state’s share of a 2 percent salary increase for funded SOQ instructional personnel only, contingent upon passage of the Teaching Excellence Act (renamed the Educator Fairness Act) as proposed by the Governor; \$15.0 million for a Strategic Compensation Grants Initiative; \$6.2 million due to the consolidation of the Bedford County and City school divisions; \$4.9 million to provide funding for staff to assist blind or visually impaired students; and \$1.4 million for a targeted reading specialists initiative.

In addition to the updates for slower enrollment growth and program participation, proposed GF decreases in FY 2014 include \$12.2 million by eliminating the Cost of Competing Adjustment for support positions that was partially funded in the second year; \$708,000 from eliminating the Virginia Teaching Scholarship Loan Program (redirected to the new Math and Science Retention and Recruitment Initiative Pilot); and \$425,331 due to an adjustment in the Early Intervention Reading Initiative methodology.

Higher Education. Proposed amendments total \$30.9 million GF of new funding over the biennium, including \$3.7 million GF for a workforce development capital project. The majority of the new funding, \$19.5 million in FY 2014, is recommended to support the goals of the Virginia Higher Education Opportunity Act of 2011. The new funding is allocated to five areas: base adequacy/base operations (\$3.9 million), enrollment (\$4.9 million), degree incentives (\$7.9 million), financial aid (\$1.9 million), and research (\$972,883).

In addition to the new funding, the mandatory internal reallocation policy for public colleges and universities would be increased from \$23.1 million to \$60.2 million GF in FY 2014. The reallocated funding would also go towards the goals of the Virginia Higher Education Opportunity Act of 2011, or those goals stated in the adopted budget language for each institution. The reallocation is equal to 1.5 percent of the institution’s instructional budget in FY

2013, and 5 percent of that base in FY 2014 (up from 2 percent in the budget as adopted). Language in the budget still requires annual reports by the institutions in their six-year plan submissions on the reallocation amounts and specific purposes for which they were used.

Finance. Proposed amendments include an additional \$78.3 million GF for the FY 2014 required deposit to the Revenue Stabilization Fund and \$50.0 million to make an advance payment for the 2014-16 biennium. The additional GF expenditures are partially offset by a \$30.0 million reduction in assumed debt service payments by the Treasury Board.

Health and Human Resources. Proposed spending totals \$208.4 million GF, offset by \$318.8 million GF in budget savings proposals for a net decrease of \$110.4 million GF for the biennium. Nearly three-quarters, or \$155.7 million, in new general fund spending is proposed to address mandatory spending on Medicaid and children's health insurance programs. Proposed funding for Medicaid is due to increases in spending on personal care provided under home- and community-based waiver programs and community mental health services for adults, additional costs associated with the rebasing of hospital payment rates, and delayed payments from FY 2012 for teaching hospitals, state mental health hospitals, and state training centers. These expenses were compounded by reductions in anticipated savings from the expansion of managed care for behavioral health services that are pending due to legal challenges.

New spending in HHR is more than offset by proposed general fund reductions of \$318.8 million. Nearly 80 percent of the reductions can be attributed to forecast-related changes for mandated HHR programs. For example, pharmacy rebates from managed care organizations are estimated to reduce general fund costs for Medicaid by more than \$200.0 million. In addition, the number of children, youth and families served through the Comprehensive Services Act (CSA) program continues to decline, resulting in projected CSA savings of \$41.6 million GF. Finally, spending on foster care and adoption subsidies as well as social services programs is expected to decline during the biennium.

Natural Resources. Proposed amendments include \$16.9 million GF from the statutory Water Quality Improvement Fund deposit, which is recommended for nonpoint source projects. The introduced budget also authorizes \$200.0 million in Virginia Public Building Authority bonds for water quality projects, including \$101.0 million to cover the state's share of grant agreements through FY 2016 for the upgrade of wastewater treatment plants; \$59.0 million for the Combined Sewer Overflow projects in the Cities of Lynchburg and Richmond; \$35.0 million for matching grants to local governments for storm water management projects; and \$5.0 million for the Hopewell Regional Wastewater Treatment Authority for nutrient reduction technology.

Public Safety. Proposed amendments include \$14.3 million GF for the Department of Corrections to open the new River North Correctional Center in Grayson County as of January 2014, \$15.5 million GF for inmate medical costs, and a savings of \$2.7 million GF in inmate medical costs based on enrolling inmates in Medicaid to the extent permitted under current eligibility standards. In the Department of Juvenile Justice, the proposed budget includes a savings of \$7.1 million GF through a series of actions to close the Reception and Diagnostic

Center at Bon Air in Chesterfield County and “re-purpose” Hanover Juvenile Correctional Center. For the Department of State Police, the proposed budget includes \$1.2 million GF to operate the new driver training facility at Fort Pickett.

Veterans Affairs and Homeland Security. Proposed amendments include \$6.2 million GF and \$1.3 million NGF to continue the state share of addressing encroachment at the U.S. Navy Master Jet Base at Oceana in Virginia Beach. The source of the nongeneral funds is the state share of the proceeds from the sale of properties previously acquired under the program.

Technology. The only new general fund initiative is the creation of an Information Security Officer position to serve the IT security needs of small agencies. The other amendments for Technology involve a NGF transfer of \$21.2 million in appropriations for E-911 payments to localities from VITA to the Department of Accounts, the recognition of increased revenues from the surcharges on state IT contracts, and language increasing the sum sufficient amounts for VITA and Northrop Grumman services. These sum sufficient amounts, representing the amounts state agencies must pay for IT services, increase by \$26.8 million in FY 2013 and \$24.6 million in FY 2014.

Transportation. The proposed amendments for transportation include one major policy action - a proposal to dedicate an additional 0.05% of the existing general sales and use tax to transportation. The budget amendments reflect the appropriation of the additional 0.05% in FY 2014, estimated at \$48.1 million. Language in Part 3 of the budget authorizes this deposit, however the Administration has indicated it will submit stand-alone legislation to implement this change beyond the current biennium. The remaining actions in transportation are technical in nature and reflect adjustments to the Commonwealth Transportation Fund revenue forecast as well as the planned issuance schedule for federal GARVEE and Commonwealth Project Revenue (CPR) bonds.

Central Appropriations. Proposed amendments include \$45.0 million GF in the second year to eliminate the local aid reversion in FY 2014 and \$69.7 million GF to fund the employer share of the FY 2014 premium increases for the state employee health insurance program.

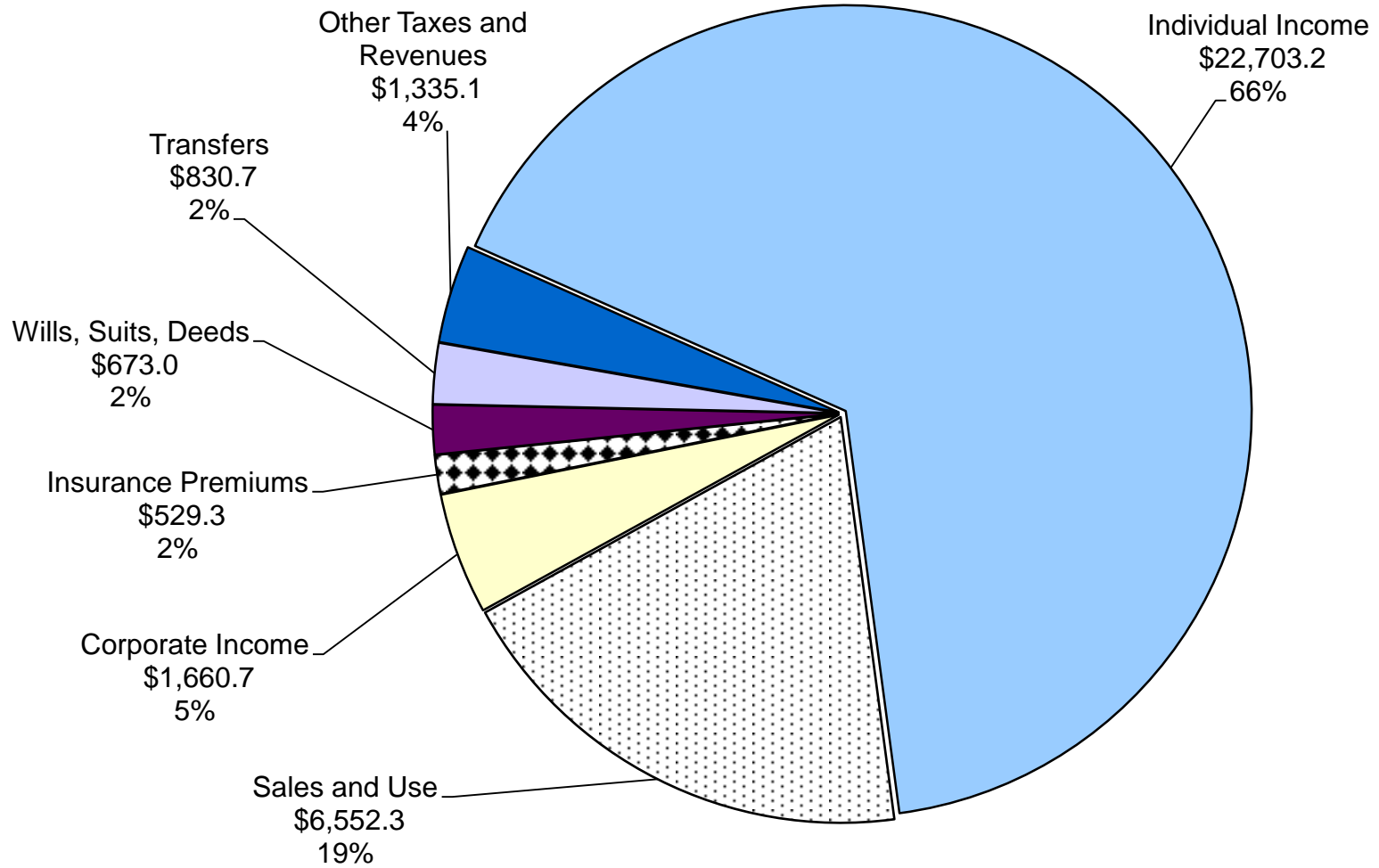
Capital Outlay. Proposed amendments to the capital outlay program total \$353.3 million (all funds). General fund supported amendments include \$3.7 million GF in cash and \$308.7 million from general fund supported bonds issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). These bonds include \$263.8 million GF in VCBA/VPBA bonds to move forward with projects that were approved for detailed planning in the 2012 Session, \$35.2 million for Energy Conservation Bonds, and \$9.6 million for high priority maintenance reserve projects.

Proposed nongeneral fund capital amendments total \$37.8 million. About \$17.9 million is funded through 9(c) and 9(d) NGF revenue bonds for two higher education projects. Another \$23.1 million is funded with nongeneral fund cash, which includes \$20.0 million for VDOT offices and \$3.0 million for Game Department high-hazard dams.

FY 2012-14 General Fund Revenues = \$34.3 Billion

HB 1500/SB 800, as Proposed

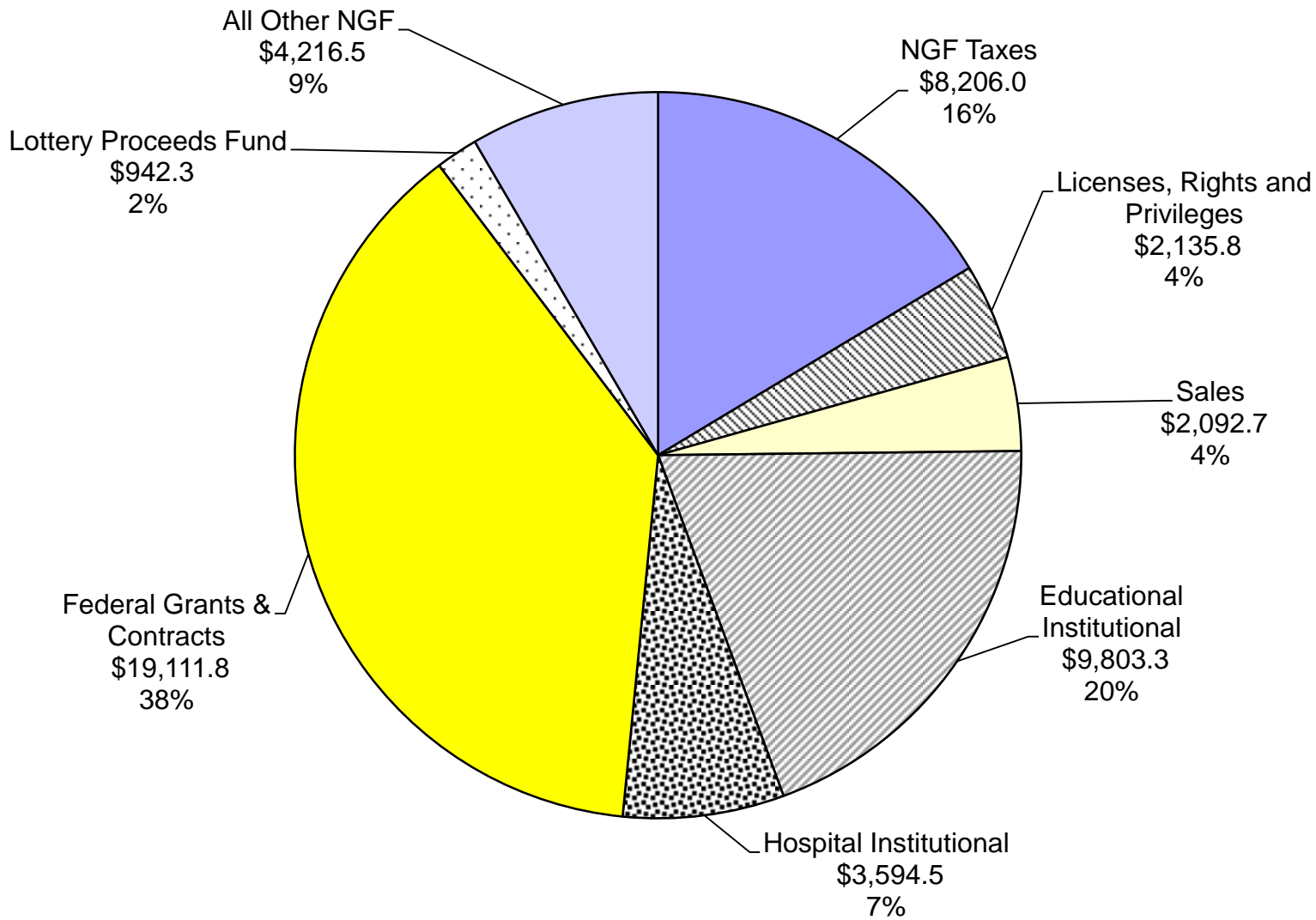
(\$ in millions)



FY 2012-14 Nongeneral Fund Revenues = \$50.1 Billion

HB 1500/SB 800, as Proposed

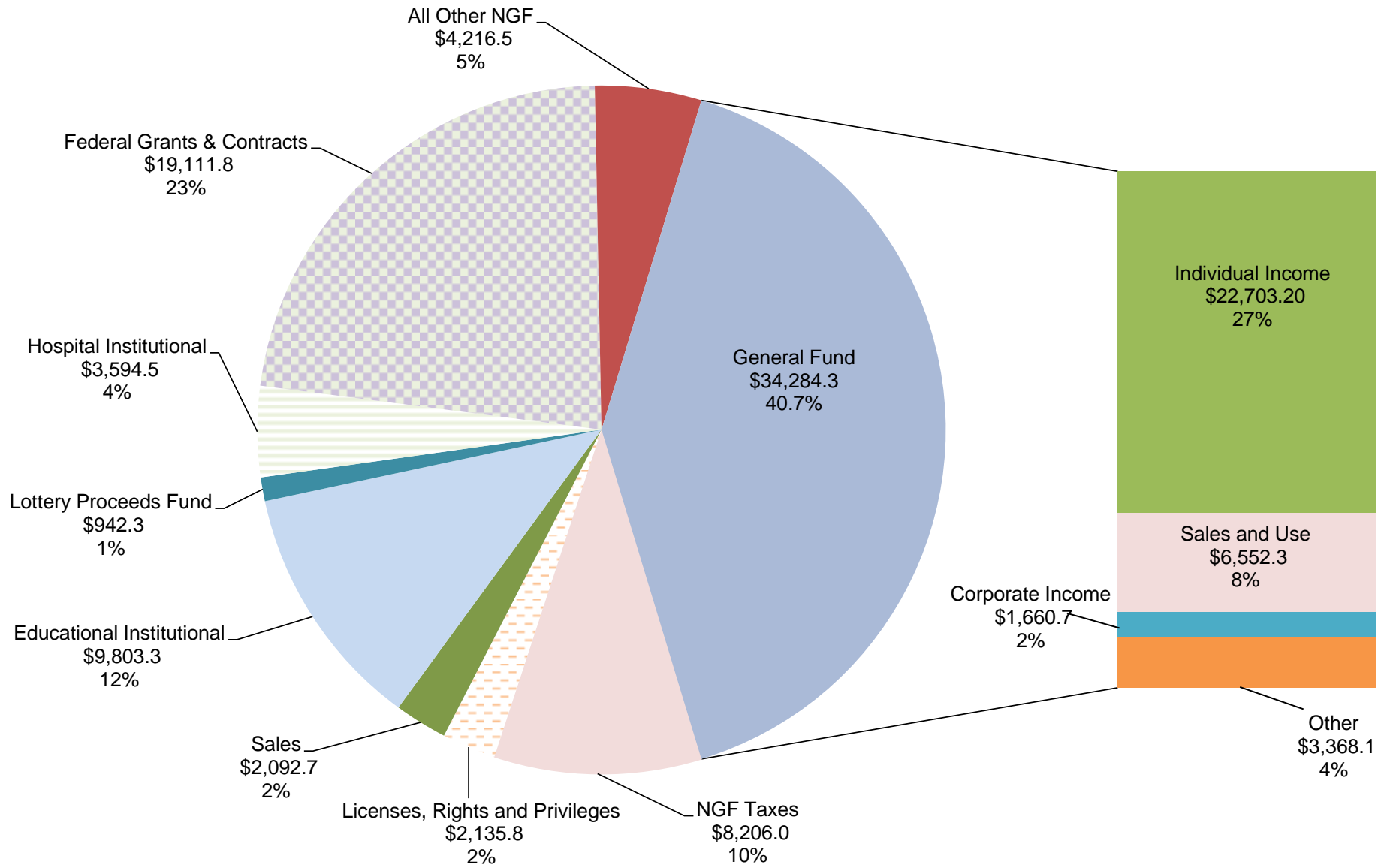
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FY 2012-14 Total Revenues = \$84.4 Billion

HB 1500/SB 800, as Proposed

(\$ in millions)



2012-2014 GF Operating Budget = \$35.0 Billion

HB 1500/SB 800, as Proposed

(\$ in millions)

