

Overview of Proposed Amendments to the 2014-16 Budget

The proposed amendments to the 2014-16 budget (HB 1400/SB 800) include \$91.9 million in general fund resources above those assumed in Chapter 3 of the 2014 Acts of Assembly, Special Session I. These resources include a net balance adjustment of (\$157.5 million); an upward revision to the general fund revenue forecast of \$195.0 million, including proposed tax policy actions; and transfer additions of \$54.4 million. When combined with the \$2.9 million unappropriated balance contained in Chapter 3, these changes total \$94.8 million in additional resources.

The economic revenue growth in HB 1400/SB 800 remains essentially unchanged from the Interim Revenue Forecast contained in Chapter 3, with projected growth of 2.7 percent in FY 2015 and 2.9 percent in FY 2016. A series of technical adjustments increase projected revenues by \$80.7 million, including \$22.4 million from strategies identified in agency reduction plans. The introduced budget proposes several tax policy changes that would increase the revenue forecast by \$114.3 million, including increasing the number of retailers required to make an accelerated sales tax payment.

Net new spending totals \$87.2 million GF, including funding for medical costs in the Department of Corrections, economic development recruitment efforts, and jail per diems. The budget also includes details on budget reduction strategies required by Chapter 3. The proposed budget assumes an unappropriated balance of \$7.6 million GF.

Amendments to the Budget for 2014-16 Proposed in HB 1400/SB 800			
(GF, \$ in millions)			
	<u>FY 2015</u>	<u>FY 2016</u>	<u>2014-16</u>
Chapter 3, 2014 SSI - Resources	\$18,277.1	\$18,108.2	\$36,385.3
Proposed Adjustments	___ (61.1)	___ 153.0	___ 91.9
Available Resources	\$18,216.0	\$18,261.2	\$36,477.2
Chapter 3, 2014 SSI - Appropriations	\$18,261.6	\$18,120.6	\$36,382.2
Net New Operating Spending	(168.3)	255.5	87.2
Capital Outlay Spending	___ 0.2	___ 0.0	___ 0.2
Total Proposed Appropriations	\$18,093.5	\$18,376.1	\$36,469.6
Unappropriated Balance	\$122.5	(\$114.9)	\$7.6

Proposed Spending Increases

Major spending items include:

- \$31.4 million GF to support increases in offender medical costs in the Department of Corrections;
- \$20.7 million GF for the Governor’s Development Opportunity Fund to support employer recruitment and job growth;
- \$13.4 million GF in projected costs for the Criminal Fund;
- \$12.9 million GF to replace lost revenue associated with the reclassification of Piedmont Geriatric and Catawba hospitals in the Department of Behavioral Health and Developmental Services (DBHDS);
- \$11.3 million GF to support per diem payments to local and regional jails; and
- \$10.8 million GF to adjust funding to state agencies for information technology and telecommunications charges.

Proposed Budget Reduction Strategies

Chapter 3 contained a reversion clearing account (Item 471.40) that included both detailed reduction actions as well as two broader savings categories for which the Governor identified specific actions in his amendments. The unspecified actions total \$51.7 million in assumed FY 2015 year-end operating balances and \$272.0 million in FY 2016 budget reductions or other savings strategies. The savings items below address the required reversion amounts, and also help fund new spending proposals described above:

- \$216.0 million GF reduction in the Medicaid and FAMIS forecasts, net of funding for “A Healthy Virginia” initiative;
- \$25.0 million GF by offsetting teacher retirement costs and \$10.4 million GF in lower teacher retirement contributions related to an expected \$250.0 million unclaimed property transfer to the Literary Fund;
- \$26.3 million GF from state employee health insurance utilization and premium policy changes; and
- \$24.2 million GF in additional debt service savings.

Major Spending and Savings in HB 1400/SB 800, as Proposed
(GF \$ in millions)

	<u>FY 2014-16</u>
Major Proposed Spending	
DOC: Inmate Medical Costs	\$ 31.4
Governor's Development Opportunity Fund	20.7
Criminal Fund: Indigent Defense	13.4
DBHDS: Lost Revenue from Re-designation of Geriatric Hospitals	12.9
Compensation Board: Jail Per Diems	11.3
VITA: IT and Telecomm Charges to Agencies	10.8
DBHDS: State Intellectual Disabilities Facilities Delayed Discharges	5.7
CSA/DSS: Extend Foster Care Payments to 21/Enhanced Visitation	5.7
DMAS: Involuntary Mental Commitment Medical Services	4.6
DMAS: Cover Virginia Medicaid Central Processing Unit	4.3
DSS: Offset Decline in Child Support Revenue	4.2
Jefferson Labs: Compete for Electron Ion Collider	4.2
DSS: Additional Local Eligibility Workers	4.0
DBHDS: Offset Lost Medicare Payments for Health Records	3.8
Higher Education: Student Financial Aid	3.5
DSS: Increase Child Daycare Regulation	2.7
Higher Education: Base Operating Support	2.3
All Other Spending	<u>31.1</u>
Total:	\$ 176.6

Major Proposed Budget Reduction Strategies

DMAS: Medicaid & FAMIS Forecasts	\$ 216.0
Public Ed: Lottery and Literary Fund NGF Revenue	54.1
Public Ed: Lower than Projected Enrollment Growth	30.8
Employee Health Insurance Savings/Utilization and Higher Co-pays	26.3
Treasury Board: Debt Service Savings	24.2
Public Ed: Recalculation of Employer Retirement Contribution Rate	10.4
State Agency Reductions (beyond \$192.4 million in Ch. 3, Item 471.10)	17.4
Discretionary Carry-Forwards Reverted	15.4
Misc. Reversions (beyond \$539.8 million in Ch. 3, Item 471.40)	55.2

See Resources Section for Adjustments to GF Balances and Proposed Tax Policy Changes.

A summary of significant proposed amendments to the 2014-16 budget, by major area, follows:

Judicial Department. Proposed amendments transfer \$15.8 million GF from Central Appropriations to fill vacant judgeships, and provide \$13.4 million GF to cover projected costs of indigent defense paid by the Criminal Fund.

Administration. Proposed amendments result in a net increase of \$14.6 million GF for the biennium, compared to Chapter 3, most of which is for sheriffs and jails. Savings actions include several fee increases in the Department of General Services (DGS) to offset reductions taken in Item 471.10 as well as actions to revert more than \$6.0 million in NGF balances from DGS Internal Service Funds and more than \$10.0 million in balances in the Health Insurance Fund that are included in Part 3 of the appropriation act. Additionally, a working capital advance of up to \$20.0 million is proposed for DHRM in the administration of worker's compensation claims.

The proposed amendments for the Compensation Board include \$1.6 million GF the second year to raise the entry level salaries for Grade 7 Deputy Sheriffs, and a corresponding increase for deputies at Grade 8 to minimize compression. Proposed language ties these salaries to the maximum gross income level for a family of four established by the U.S. Department of Agriculture for the Supplemental Nutrition Assistance Program (SNAP), and requires future local contributions to meet this salary level as the SNAP maximum income level increases, so that this salary goal is maintained over time. The amendments also add \$11.3 million GF the first year to cover the projected cost of per diem payments for local and regional jails, but no additional funding is included for the second year. Language adopted by the 2014 General Assembly regarding the collection of delinquent fines and fees has been changed in the amendments as proposed, in order to permit local Treasurers to continue to collect these fines and fees on a contingency basis after January 1, 2016.

Agriculture and Forestry. The proposed budget for the secretariat includes a net decrease of \$302,000 GF in the second year. In addition, GF savings totaling \$3.8 million, or 4.2 percent of the Secretariat's biennial GF budget, are included in Item 471.10. Major savings actions include the establishment of a new \$10.00 per device fee for weights and measures devices; an increase in the non-restaurant food establishment inspection from a flat rate of \$40.00 to a variable rate of up to \$325.00; a \$250,000 reduction to the purchase of development rights program; and the elimination of general fund support for the coyote control program. Other smaller savings come from capturing beehive grant program balances, closing offices and capturing turnover and vacancy savings.

Commerce and Trade. Proposed GF appropriations reflect net increases of \$10.3 million the first year (6.2 percent) and \$14.2 million the second year (7.9 percent) after accounting for all savings. These adjustments include \$20.7 million in funding for the Governor's Development Opportunity Fund, in addition to the \$20.0 million appropriated in Chapter 3. Other increases

include a proposal to establish a new tourism growth incentive fund with \$500,000 in the second year, and two new initiatives at the Department of Housing and Community Development totaling \$1.0 million each for rapid rehousing and a community business launch program.

These increases are offset in part by reductions totaling \$1.1 million the second year within the agencies, as well as reversions in Item 471.10 totaling \$4.0 million the first year and \$4.8 million the second year, or about 2.5 percent of the secretariat's budget. Major savings actions in Central Accounts include biennial reductions of \$650,000 from the Enterprise Zone Grant Program; \$750,000 the first year from reduced water and wastewater grants in Southwest Virginia; and the phase-out of funding for a tourism entity in Portsmouth and for the "See Virginia First" cooperative advertising program.

Public Education. Proposed amendments for Direct Aid to Public Education primarily reflect additional NGF revenue from the Literary Fund and Lottery Proceeds and routine technical updates, including slower than projected enrollment growth, sales tax, and other participation data.

In addition to \$15.0 million from additional Literary Fund resources from the sale of old unclaimed property stocks anticipated in Chapter 3, the Department of Treasury estimates realization of another \$250.0 million that can be made available for use in the Literary Fund, along with its other ongoing revenue sources. The associated amendments propose a one-time payment of \$150.0 million in the second year to the Virginia Retirement System to help address the teachers' retirement unfunded liability. As a result of this action, the amendments propose capturing \$10.4 million GF savings by applying a lower teacher retirement employer contribution rate of 14.15 percent, down from 14.50 percent. Other proposed uses of the funds include \$50.0 million for VPSA school construction loans that will be re-paid to the Fund over the 20-year terms of the issued loans, \$25.0 million for an "interest rate subsidy" buy-down in lieu of loans, and \$25.0 million to offset general fund revenues for SOQ retirement costs.

In addition to reflecting \$28.1 million in additional Lottery Proceeds included in Chapter 3, the amendments reflect the latest Lottery Board forecast and replace \$29.1 million in general funds with the additional revenue. The amendments also reflect net savings of \$36.8 million GF due to updates, including slower projected student enrollment growth affecting SOQ costs, Incentive, Categorical, and Lottery-funded accounts as well as sales tax revenue projections and school-aged census updates.

Proposed policy changes include authorizing the use of any unused but appropriated funds for the Virginia Preschool Initiative for at-risk four-year-olds to school divisions that are using all of their state-funded slots and that also have waiting lists (instead of sweeping end-of-year balances that may exist even after assumed non-participation) beginning in the second year; and allocating \$537,297 GF to support innovative methods of serving breakfast meals to students.

In the Department of Education, proposed amendments add \$1.3 million GF for professional development and other technical support for under-performing schools, and \$932,000 GF to transition the grades seven and eight Standards of Learning (SOL) mathematics tests to a computer adaptive testing format and for certain “expedited retakes” of SOL tests in grades three through eight. Central Account reductions include \$500,000 GF by eliminating contract funding for the development of digital content and online resources for school divisions, and \$220,191 GF by eliminating contract funding for the new Virginia Center for Excellence in Teaching at George Mason University.

Higher Education. Proposed amendments provide an increase of \$10.1 million GF in the second year for higher education. Of the new funding, \$5.8 million is recommended in the second year for base adequacy/base operations (\$2.3 million) and financial aid (\$3.5 million). Within the financial aid allocation is \$1.0 million to be used by the Virginia Community College System (VCCS) for need-based aid for individuals seeking selected industry-based certifications. The Jefferson Lab would also receive proposed funding of \$4.2 million GF in the second year to help attract a federal electron ion collider project. Finally, an additional \$10.0 million allocation from the Higher Education Equipment Trust Fund (HEETF) is proposed in the second year.

The higher education general fund reductions of \$45.0 million each year required in Chapter 3 have been transferred from Central Appropriations to the individual institutions’ budgets. Other higher education-related agencies, such as the regional higher education centers, were previously subject to reductions of 5 percent the first year and 7 percent the second year. The Virginia Tech and Virginia State Extension divisions and the Virginia Institute of Marine Science were exempt from reductions in Chapter 3 and in the proposed budget.

Finance. Proposed amendments, including actions taken in Item 471.10, result in a net reduction of \$56.4 million GF for the biennium, compared to Chapter 3. Minimal general fund expenditures proposed in the second year are required to implement the U.S. Treasury Vendor Offset Program, resulting in an additional \$1.0 million in assumed GF revenues. Withdrawals from the Revenue Stabilization Fund of \$470.0 million GF in FY 2015 and \$235.0 million GF in FY 2016 are included at the levels appropriated in Chapter 3. Savings from debt service requirements at the Treasury Board total \$24.2 million GF. Proposed revenue strategies included in Item 471.10 assume \$1.4 million in additional GF resources the second year from increasing the transfer fee for the Land Preservation Tax Credit from 2 to 3 percent. Within the Department of Accounts, language is included authorizing an increase in the treasury loan for the development and implementation of the Cardinal financial management system of \$15.0 million, from \$60.0 million to \$75.0 million. The increase is intended to cover the initial costs for the development of a potential replacement payroll system.

Health and Human Resources. The introduced budget includes a net decrease of \$193.5 million GF and \$312.0 million NGF for the 2014-16 biennial budget. Additional spending of \$85.6

million GF is offset by \$279.1 million GF in declining expenditure forecasts and budget reductions.

Declining expenditure forecasts for the Medicaid and children's health insurance programs account for \$267.7 million GF or 96 percent of the budget reductions over the 2014-16 biennium. Medicaid spending alone is projected to decline by \$194.4 million over the biennium, compared to Chapter 3. The Medicaid forecast reductions would have been greater but for the inclusion of \$116.9 million GF for the Governor's new "A Healthy Virginia" initiative to expand Medicaid coverage to certain populations using emergency regulatory authority. The basis for this authority was an urgent need "to address the significant medical needs of Virginia's uninsured population".

In addition to Medicaid expansion to specific populations through "A Healthy Virginia", the introduced budget proposes to expand Medicaid to individuals with income up to 138 percent of the federal poverty level pursuant to the Patient Protection and Affordable Care Act by January 1, 2015 or as soon as feasible thereafter. Savings projected from the proposed expansion would be deposited into the Virginia Health Reform and Innovation Fund and used to defray long-term costs of expanding Medicaid or to meet the mandatory deposit requirements to the Revenue Stabilization Fund.

Mandatory spending in HHR accounts for \$59.2 million GF (about 69 percent) of the additional spending over the biennium and is primarily related to the loss of revenue in the Virginia Health Care Fund due to declining tobacco tax revenues (\$24.9 million), the loss of Medicaid revenue at Piedmont Geriatric and Catawba state mental health hospitals from reclassifying the facilities (\$12.9 million), delays in transitioning individuals from state training centers to the community (\$5.7 million), and increases in the number of involuntary mental commitments (\$4.6 million). Discretionary spending totals \$25.1 million GF over the biennium and reflects increased costs to expand foster care to youth up to age 21 (\$5.7 million GF), additional costs to convert the Medicaid call center to a central processing unit for Medicaid expansion (\$4.3 million GF), provide funding for additional local DSS eligibility workers (\$4.0 million), a proposed increase in child day care regulation (\$2.7 million), and costs to add slots and services as part of redesigning the Medicaid day support waiver program (\$1.2 million).

Natural Resources. Proposed amendments result in an increase of \$1.2 million GF, primarily from funding additional operational support costs at the Department of Conservation and Recreation to address managerial deficiencies identified by the Auditor of Public Accounts. This additional funding is offset by reductions totaling \$1.2 million GF the first year and \$2.7 million GF the second year included in Item 471.10. In addition to these reductions, more than \$5.0 million the first year and \$7.0 million the second year in the Natural Resources program balances are reverted in Part 3. Also included are proposals related to state park fees, saltwater fishing license fees, and the creation of a Class A Biosolids fee. Finally, new language proposes the release of \$8.2 million in Water Quality Improvement Fund Reserve balances to continue funding for soil and water conservation and agricultural best management practices.

Public Safety and Homeland Security. Proposed amendments include \$31.4 million GF for the increased cost of providing medical care for inmates and a series of amendments to reduce expenditures including closing Powhatan Correctional Center, White Post Diversion Center, and Cold Springs Work Center, as well as elimination of all equipment funding for institutions the first year. A transfer to the general fund estimated at \$20.0 million by the end of the second year is included to account for the sale of four closed facilities (Botetourt and Pulaski Correctional Centers and the White Post Detention and Diversion Centers). Reductions in the Department of Forensic Science total \$2.6 million GF and eliminate 7 positions. The central office of the Department of Juvenile Justice is reduced by \$2.4 million GF the second year and eliminates 37 positions. The reductions for the Department of State Police include transferring \$5.2 million in NGF balances to the general fund the first year, \$2.7 million GF the first year and \$0.7 million GF the second year from holding State Trooper positions vacant, and another \$4.5 million GF the second year from unspecified reductions.

The proposed amendments incorporate a plan to increase ABC revenues by \$5.4 million the first year and \$9.5 million the second year by increasing the warehouse case handling fee from \$1 to \$2 per case; increasing the markup on “miniature” bottles from 49 to 69 percent, consistent with other products; and by “rounding up” the price of products on the shelf. The transfer of net profits to the general fund is increased by \$2.5 million the first year and \$2.0 million the second year. The amendments also include funding for several information technology and marketing initiatives to improve agency operations and profitability. The total cost of these initiatives is estimated at \$38.4 million for projects to be initiated in the current 2014-16 biennium, and an additional \$21.8 million for projects that will begin in the 2016-18 biennium. These projects costs are proposed to be amortized over five years.

Veterans and Defense Affairs. Proposed amendments include \$1.8 million GF the second year and 8 positions to enhance the services provided by the field offices of the Department of Veterans Services, including two new field offices in Christiansburg and Fredericksburg. The amendments also include \$474,000 GF and \$100,000 NGF for the Virginia Values Veterans (V3) program and the Virginia Transition Assistance Program (VTAP) to support the transition of veterans to the civilian economy.

Technology. Proposed amendments include savings of \$18.4 million NGF to reflect decreasing utilization of desktop services provided through the Northrup Grumman Partnership, as well as savings from personnel actions. Reductions totaling \$9.4 million GF are accomplished within the savings strategies included in Item 471.10 and the balance reversions contained in Part 3. Contained within these actions are reductions of approximately \$3.0 million GF to the Innovation and Entrepreneurship Investment Authority in the first year for both the GAP Program and modelling and simulation activities.

Transportation. Proposed amendments reflect net reductions to the Commonwealth Transportation Fund revenue forecast of \$38.3 million the second year and align the agencies’

program level allocations with the VDOT and DRPT Six-Year Programs adopted by the Commonwealth Transportation Board in June, 2014.

Proposed amendments impacting the Virginia Port Authority include an increase in the nongeneral fund terminal revenue appropriation of \$13.5 million and 48 positions in the second year to reflect the implementation of the reorganization of the Virginia International Terminals and the transfer of these funds and positions to the VPA. These actions are intended to streamline operations and reduce overall costs. Also included is a request to authorize the VPA to extend and/or renegotiate the operating lease for a marine terminal in Portsmouth as a capital lease.

Central Appropriations. Proposed amendments include savings of \$1.5 million GF the first year and \$23.0 million GF the second year from actions related to the employer share of the State Employee Health Insurance Program resulting from several policy changes, actuarial reductions and the proposed reversion of appropriated Health Insurance Fund cash balances. The only significant new spending proposed in the Central Appropriations is \$10.9 million GF for VITA charges to agencies based on actual usage and rates.

Capital Outlay. Proposed amendments to the capital outlay program total about \$277.5 million (all funds). General fund supported amendments contain \$83.7 million from general fund supported bonds issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA). These bonds include \$28.0 million to provide election equipment to localities, \$50.7 million for equipment for previously approved projects nearing completion, and an additional \$5.0 million for maintenance reserve in FY 2016.

Proposed nongeneral fund capital amendments total \$193.7 million. Approximately \$123.0 million is funded through 9 (c) and 9 (d) NGF revenue bonds for nine higher education projects. Another \$70.7 million is funded with nongeneral fund cash to support another 16 projects at multiple state agencies and higher education institutions.