

Overview of the Governor's Recommendations for the 2016-18 Budget

The proposed budget for 2016-18 provides a net increase of \$3,243.8 million GF in the operating budget above the current base budget, plus \$151.3 million in cash funding for capital outlay. Approximately \$3,412.8 million in additional resources over the base are available for appropriation. The introduced budget assumes an unappropriated balance of \$17.6 million.

Proposed General Fund Budget for 2016-18			
(\$ in millions)			
	<u>FY 2017</u>	<u>FY 2018</u>	<u>2016-18</u>
Resources Available for Appropriation	\$20,523.2	\$20,135.1	\$40,658.3
Ch. 665 Base Budget	\$18,622.7	\$18,622.7	\$37,245.5
Operating Spending	1,669.0	1,574.8	3,243.8
Capital Outlay Spending	<u>52.9</u>	<u>98.4</u>	<u>151.3</u>
Total Appropriations	\$20,344.7	\$20,296.9	\$40,640.7
Unappropriated Balance	\$178.5	(\$160.9)	\$17.6

Revenues

The proposed 2016-18 budget includes \$40.6 billion in general fund resources available for appropriation. The budget, as introduced, includes \$426.0 million as a projected unspent balance at the end of the 2014-16 biennium, resulting primarily from the revised revenue forecast for FY 2016.

The 2016-18 general fund revenue forecast assumes “economic” growth rates of 3 percent in FY 2017 and 3.7 percent in FY 2018, after taking into account a reduction of \$204.6 million based on proposed tax policy changes, resulting in projected collections of \$40,658.3 million over the biennium. The forecast assumes that growth will remain sluggish and Virginia will underperform the nation as the impact of federal budget actions dampens the Virginia economy due to the large military presence and heavy reliance on federal procurement spending.

General Fund Resources Available for Appropriation
(2016-18 biennium, \$ in millions)

Beginning Balance	\$ 426.0
Adjustments to the Balance	666.3
Official GF Revenue Estimate	38,411.8
Transfers	<u>1,154.3</u>
GF Resources Available for Appropriation	\$40,658.3

Proposed Spending Increases

Major general fund spending initiatives proposed in the 2016-18 biennial budget include:

- \$789.1 million GF to address the increased cost of Medicaid utilization and inflation;
- \$605.5 in FY 2017 for the mandatory deposit to the Revenue Stabilization Fund;
- \$429.8 million GF for the cost of updating the state’s share of rebenchmarking the Standards of Quality for public schools;
- \$159.4 million GF for a 2 percent salary increase in FY 2018 for teachers, state employees, faculty, and state-supported local employees;
- \$143.2 million GF for the state employee health insurance program; and
- \$139.1 million GF for additional instructional positions in local schools.

Proposed Budget Savings

Major proposed general fund savings include \$156.8 million from a proposed expansion of Medicaid, and \$72.5 million from several Medicaid cost reduction strategies.

Major Spending and Savings Proposed in HB/SB 30 as Introduced
(GF \$ in Millions)

FY 2016-18

Major Spending Proposed

Medicaid Utilization and Inflation	\$ 789.1
Appropriate Deposits to Revenue Stabilization Fund	605.5
K-12: Net Rebenchmarking Cost Updates	429.8
2% Salary Increase (State, State-Supported Locals, K-12)	159.4
Fund State Employee Health Insurance Program	143.2
K-12: Additional School Instructional Staff	139.1
Maintenance Reserve for Buildings, Systems, or Equipment	129.4
Debt Service for Currently Authorized Projects and Equipment	107.8
DOJ Settlement: Waivers, Redesign, Crisis Services, Rental Sub.	102.9
Fund Actuarial Rates for Retirement (State Employee & K-12) @ 100%	91.0
Deposit to Water Quality Improvement Fund and VNRCF	61.7
VBHRC/MEI: Fund for Bioscience Spinoff Companies	60.0
Higher Ed: Access and Completion Incentive	50.0
K-12: At-Risk Add-On	49.7
Higher Ed: Financial Aid	48.0
K-12: Cost of Competing Adjustment	40.6
Competitive Research Pool (plus \$100.0m in state-supported debt)	40.0
Open Culpeper Correctional Center for Women (255 Positions)	39.3
GO Virginia: Business-driven, Regional Diversification	38.9
Children's Services Act: Caseload and Expenditure Growth	36.2
K-12: Backfill Literary Fund Revenue	30.0
Debt Service on New Projects	25.9
Higher Ed: Community College Noncredit Workforce Dev.	24.6
Land Conservation Activities	20.0
Planning for 23 Capital Projects	20.0
International and Domestic Business Attraction Efforts	19.4
Foster Care/Adoption and Protective Services	18.5
Higher Ed: Capacity in Cyber Security Education	15.1
Aid to Localities with Police Departments (599)	13.4
VBHRC: Biosciences Industry Support	12.5
Sheriffs and Jails Salary Compression	12.4
Housing Trust Fund: Homelessness	12.0
Create New Retail Food Establishments in Areas Without	10.0

Major Savings Proposed

Net GF Savings from Jan. 1, 2017 Medicaid Expansion	(\$156.8)
Medicaid Cost Reduction Strategies	(72.5)

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

Judicial Department. The proposed FY 2016-18 budget includes \$1.8 million GF each year for the Criminal Fund and \$1.1 million GF each year for the Involuntary Mental Commitment Fund, to address increased costs.

Executive Offices. The introduced budget decreases funding by \$2.3 million NGF each year to remove one-time funding related to the Abbot Laboratories Settlement Fund used to support law enforcement and prosecution units, as previously agreed upon by the Attorney General and federal prosecutors.

Administration. The proposed budget results in a net increase of \$48.1 million GF for the biennium, compared to the base budget. The nongeneral fund appropriations to the Administration agencies are adjusted by over \$663.3 million, primarily driven by increasing costs of providing central services paid through internal service fund transfers. Proposed additional spending includes \$12.3 million GF for to provide a salary compression adjustment for sworn officers and staff in local sheriff's offices and regional jails, and \$3.5 million GF each year to fund career development programs for elected constitutional officers and their staff. Also proposed is \$445,129 GF the first year to the Department of Elections for anticipated costs related to the 2016 presidential election.

Agriculture and Forestry. Proposed increases for the Agriculture and Forestry secretariat total \$13.0 million GF for the biennium. Major increases include \$1.6 million GF for the Reforestation of Timberlands program, \$0.9 million GF for internal business application improvements at the Department of Agriculture and Community Services (VDACS), and an increase of \$1.0 million GF each year for the Governor's Agriculture and Forestry Industries Development Fund for local grants to expand agricultural processing and manufacturing facilities. Additionally, language is proposed that directs planning for the consolidation of food programs from various secretariats to VDACS. Other actions include \$2.9 million GF for debt service payments to allow the Department of Forestry to lease-purchase approximately \$25.9 million in new firefighting equipment.

Commerce and Trade. The proposed FY 2016-18 budget includes a net increase of \$31.1 million GF for economic development incentives. Major new general fund spending items include \$60.0 million for a new grant program intended to develop biotechnology spinoff companies; \$12.5 million in additional funding for the Virginia Biosciences Health Research Corporation; \$5.0 million for the Pulp, Paper, and Fertilizer Advanced Manufacturing Grant; and \$2.0 million to fund additional marketing and trade missions. New spending is partially offset by reductions for various performance grants based on the schedule of anticipated payments to occur during the 2016-18 biennium. The introduced budget also proposes \$18.3 million GF in additional operating funds for the Virginia Economic Development Partnership as

well as 2 positions and \$25.9 million GF for Go Virginia, a new initiative to foster job growth by encouraging regional collaboration among business, education and government.

In addition, the introduced budget increases general fund support for housing and community development, providing an additional \$12.0 million to the Housing Trust Fund. Proposed language prioritizes efforts to reduce the number of homeless youth and families. The budget also includes \$10.0 million GF to establish a financing program to encourage development of supermarkets in underserved communities, and \$5.7 million GF to establish the Virginia Telecommunications Initiative to enhance broadband infrastructure in the Commonwealth. In addition, the budget proposes \$2.0 million GF for the Department of Mines, Minerals and Energy to create a program for incentivizing the installation of solar panels, and transfers the Biofuels Production Fund from Economic Development Incentive Payments to the Department of Mines, Minerals and Energy.

Public Education. The proposed FY 2016-18 general fund budget for Direct Aid to Public Education totals \$12.0 billion, a net increase of \$272.2 million in FY 2017 and \$582.7 million in FY 2018 million when compared to FY 2016 in Chapter 665 of the 2015 Acts of Assembly. The proposed budget reflects biennial re-benchmarking of Direct Aid net costs of \$429.8 million GF. Rebenchmarking reflects updated salary and other cost data as of FY 2014; a projected additional 8,411 students (above the projections in Chapter 665) to 1,252,627 students by FY 2018; and updated Composite Index of Local Ability-to-Pay calculations (Tax Year 2013). The amendments also reflect projected increases in Sales Tax revenue and Lottery Proceeds for a revised grand total of \$2.8 billion and \$1.1 billion, respectively, over the biennium. In addition, \$30.0 million GF is budgeted to backfill Literary Fund revenues used for teacher retirement costs to better align on-going revenue with expenditures.

The proposed budget reflects several policy changes including: 1) \$139.1 million to fund additional school instructional positions, 2) \$83.2 million for the state's share of a 2 percent teacher salary increase in FY 2018, 3) \$55.1 million to advance the retirement and other post-employment benefits rates to 100 percent of the VRS Board's actuarial rates ahead of the required schedule, 4) \$49.7 million to enhance at-risk add-on funding as well as the State Board of Education's authority to withhold this funding if certain requirements are not met, 5) \$40.6 million to restore the Northern Virginia Cost of Competing Adjustment for support positions, and 6) \$5.6 million to implement a new formula for the Governor's Schools. In addition, \$3.6 million is provided in FY 2017 for the 13 school divisions that would have received less state funding than in FY 2016, after rebenchmarking and the proposed policy changes.

Other proposed initiatives in K-12 include: \$5.0 million for Career and Technical Education credentialing and equipment; \$3.9 million for early childhood workforce scholarships and coursework; \$3.0 million for early childhood PreK public-private partnerships; \$1.6 million for Virtual Virginia math outreach and the full-time high school pilot; \$1.1 million for computer science training for teachers; \$1.0 million to increase Breakfast After the Bell; \$1.0 million to

expand Positive Behavior Intervention and Support; and other individual actions totaling fewer than \$1.0 million each.

In the Department of Education, the proposed budget includes \$5.0 GF in one-time funding for the transition to computer adaptive testing, eight new positions, and several items related to technology, data, and assessments.

Higher Education. The introduced budget proposes about \$218.0 million GF of new funding for the biennium for colleges and universities and other higher education entities and centers. About \$50.6 million per year is recommended to support the goals of items recommended under the Virginia Higher Education Opportunity Act of 2011, with the intent of fueling economic growth in the Commonwealth and preparing Virginians for top job opportunities. This new funding is allocated in three areas: 1) base operations support of \$1.5 million GF each year for Old Dominion University, 2) access and completion initiatives (formerly called degree production incentives) at \$25.0 million GF each year, and 3) undergraduate financial aid of \$24.1 million GF each year. Additional funding is provided for initiatives related to cybersecurity (\$15.1 million over the biennium), workforce (\$26.2 million over the biennium), veterans, and technology.

In addition to the traditional higher education funding categories, the budget as introduced proposes \$140.0 million in GF cash and bonds under the Higher Education Research Initiative. The \$100.0 million in Virginia College Building Authority (VCBA) bonds would support the acquisition of research equipment and the renovation of laboratory space. Funding of \$40.0 million GF over the biennium is proposed for incentive packages to attract high-performing researchers with a history of commercialization success, and to create centers of excellence for collaboration and support of research in such areas as the biosciences and cyber security.

Finance. Significant general fund expenditure proposals for the 2016-18 biennium include a mandatory revenue stabilization fund deposit in FY 2017 of \$605.5 million, bringing the projected FY 2017 balance for the fund to \$845.3 million. The proposed budget also includes an additional \$51.2 million GF for FY 2017 and \$82.5 million GF in FY 2018 for increased debt service payments on new and previously approved capital projects.

Health and Human Resources. The introduced budget proposes a net increase of \$824.3 million GF and \$4.1 billion NGF for the 2016-18 biennium. Proposed spending of \$1.2 billion GF is offset by \$413.5 million GF in budget reductions. Similar to biennial budgets for HHR in previous years, 75 percent of proposed general fund increases are driven by mandatory health and long-term care spending on Medicaid. The unusually high increase in nongeneral funds is primarily due to a proposal to expand Medicaid coverage to individuals with incomes up to 138 percent of the federal poverty level, pursuant to the Patient Protection and Affordable Care Act

(ACA), beginning in FY 2017. This proposal accounts for about \$3.0 billion or 73 percent of the net increase in nongeneral funds over the biennium.

Mandatory general fund spending of \$936.9 million GF (78 percent of new GF spending in HHR) is primarily related to spending for acute and long-term care services provided through Medicaid and spending on U.S. Department of Justice (DOJ) Settlement Agreement related costs to serve individuals with intellectual and developmental disabilities (I/DD). In total, proposed spending on Medicaid requires the addition of \$674.4 million GF for the biennium to pay for health care services for low-income Virginians, as well as long-term care costs for the elderly and disabled. Overall growth rates in Medicaid are expected to fall during the biennium to below-average levels. Spending on items related to the DOJ Settlement Agreement totals \$102.9 million GF over the biennium. This spending includes funding for mandatory increases in the number of additional ID and DD Medicaid waiver slots, as well as costs to restructure the waiver programs to better serve individuals receiving services through the waivers.

New spending in HHR is offset by proposed general fund budget reductions of \$413.5 million GF. One-third of the reduction (\$136.6 million GF) is related to savings to the Medicaid and children's health insurance forecasts, primarily from withholding inflation adjustments to Virginia's hospitals, nursing homes, home health agencies and outpatient rehabilitation facilities; lower enrollment of children; and increased NGF revenue from the Virginia Health Care Fund. An additional \$125.9 million GF is from Medicaid savings related to the proposal to expand Medicaid pursuant to the federal ACA.

Natural Resources. The proposed budget for Natural Resources includes three large spending increases. The largest general fund increase is the appropriation of the statutorily required deposit to the Water Quality Improvement Fund of \$61.7 million in FY 2017. Of this deposit, \$8.2 million is set aside for the Reserve Fund, and the remaining amounts are retained by the Department of Conservation and Recreation for Agriculture Best Management Practices (BMPs) and to support the soil and water conservation districts. Funding of \$19.6 million is dedicated to reducing the backlog of approved stream exclusion projects. Other large appropriations within the Secretariat include \$16.0 million GF each year to the Virginia Land Conservation Fund, and \$2.0 million GF each year to the Battlefield Preservation Fund pursuant to the provisions of §58.1-512, *Code of Virginia*. The third major proposal authorizes \$59.0 million of VPBA bonds to support matching payments to localities for wastewater treatment plant improvements, fully meeting DEQ's needs for this purpose through FY 2018.

Public Safety and Homeland Security. The proposed FY 2016-18 budget includes \$39.3 million GF and 255 positions to reopen Culpeper Juvenile Correctional Center as a women's prison, along with \$4.0 million GF and 36 positions to address security staffing standards in the Department of Corrections. Also included is \$9.2 million GF for increased inmate medical costs, and estimated savings of \$34.6 million from inpatient hospitalization services for inmates in state correctional facilities (which would result from the proposed Medicaid expansion).

Language is recommended to permit the Department of Juvenile Justice to reallocate savings from closing additional facilities to a new transformation plan to place juvenile offenders in alternative programs at the local level. This language is related to a proposal to authorize bond financing for construction of two new state juvenile correctional facilities.

The proposed budget includes \$5.0 million GF for six pilot programs under the Department of Criminal Justice Services for expanded treatment or diversion for mentally ill offenders in jail (part of a larger initiative which also includes additional funding in the Department of Behavioral Health and Rehabilitative Services and the local Community Services Boards). The budget adds \$13.4 million GF for state aid to localities with police departments (HB 599 of 1979), consistent with the increase in projected general fund revenues. For State Police, the budget proposes \$4.3 million GF to upgrade and maintain information technology systems, along with up to \$5.0 million in Central Appropriations to cover unanticipated costs. The proposed budget does not incorporate a final decision with respect to the relationship between State Police and VITA.

Veterans and Defense Affairs. The budget, as introduced, includes a series of proposals in the Department of Veterans Services (DVS) to improve service delivery and strengthen agency administration, including several that address the 2015 JLARC report on this agency. Included among these actions is a proposed restructuring of the Virginia Veterans and Family Services (VVFS), formerly known as the Virginia Wounded Warrior Program. Currently, this program includes 45 full-time DVS representatives, but 35 are actually employed by local Community Services Boards, and they are physically located at 19 CSBs. The proposed budget includes \$1.4 million GF and 14 positions to make these representatives actual state DVS employees, rather than local employees of the CSBs. The agency anticipates these employees will remain physically located at the CSBs. The budget assumes a three-year phase-in of the restructuring. Also included in the proposed budget is \$1.2 million GF (plus \$250,000 GF in HB/SB 29) to implement recommendations of the Governor's Commission on Military Installations and Defense Activities.

Technology. The proposed budget for Technology includes an additional \$1.5 million GF over the biennium in funding for the Center for Innovative Technology to support the development of an Information Sharing and Analysis Organization for the sharing of cyber threat information between public and private sectors. Other actions include about \$5.3 million GF the first year, \$2.9 million GF the second year, and nongeneral funds to assist state agencies with VITA information technology charges. Also included are \$6.2 million GF over the biennium to assist agencies in hiring information technology auditors and security officers to comply with the Commonwealth's recently adopted information security standard; and \$9.0 million NGF and 17 positions, and authorization for a \$20.0 million line of credit for VITA to undertake the transition to new vendors of internal financial applications, software licensing, email messaging, and mainframe services.

Transportation. The proposed 2016-18 budget for transportation includes a biennial increase of \$707.3 million NGF as well as a series of policy adjustments, including a proposed increase of 315 FTE positions at the Department of Transportation. Additionally, \$50.0 million NGF is authorized to be transferred to the Department of Aviation for payments to the Metropolitan Washington Airports Authority to lower the cost per enplanement at Dulles International Airport. Included in Part II is a proposal to provide \$350.0 million in appropriation supported debt to the Virginia Port Authority for facility improvements to Norfolk International Terminal facilities. The only significant increase in GF appropriations within the Transportation secretariat is for an increase of \$2.0 million in each year to provide direct funding for the Port of Virginia Economic Development Zone Grant program.

Central Appropriations. Proposed amendments in the Central Accounts result in a net decrease of \$44.4 million GF in FY 2017 and a net increase of \$58.6 million GF in FY 2018 compared to the base appropriations in FY 2016. The primary reason for the net reduction in FY 2017 is the distribution to the line agencies of funding for salary actions and employee benefit programs provided in FY 2016. Significant expenditure proposals include funding in a revenue reserve of \$76.2 million GF in FY 2018 for a 2 percent salary increase for state employees and state supported local employees, and funding of \$45.6 million GF in FY 2017 and \$91.7 million GF in FY 2018 to for projected increases in the employer premium for the state employee health insurance program. In addition, the amendments include \$5.9 million GF in FY 2017 to cover the portion of the increase in the health insurance premiums that is charged to the employees. The proposed budget also includes approximately \$11.5 million GF in the first year and \$12.0 million GF the second year to fund the retirement contribution rates for the state employee plans at 100 percent of the VRS Board certified rates.

The budget proposes to allocate \$28.1 million GF the first year and \$23.1 million GF from savings assumed from Medicaid expansion to a variety of initiatives. In addition to the spending allocated under the central appropriations item, language is included which links a reduction in general fund revenues of \$31.1 million GF in FY 2017 and \$74.6 million GF in FY 2018 from proposed tax policy changes to savings from Medicaid expansion. Language is also included in Central Appropriations providing the Department of Medical Assistance Services with authority to impose an assessment on private acute care hospitals operating in Virginia not to exceed 3 percent of a hospital's annual net patient revenue.

Capital Outlay. The proposed capital outlay program for FY 2016-18 totals \$2.9 billion from all fund sources. Of this amount, \$151.3 million is general fund cash, and \$2.3 billion is from tax-supported bonds. The introduced budget also includes \$14.4 million in 9(c) revenue bonds and \$211.2 million in 9(d) revenue bonds. The balance of \$281.1 million is nongeneral fund cash from a variety of agency fund sources.

The majority of the general fund cash is allocated under Central Maintenance Reserve which provides \$129.4 million in GF cash over the biennium. An additional \$20.0 million GF is

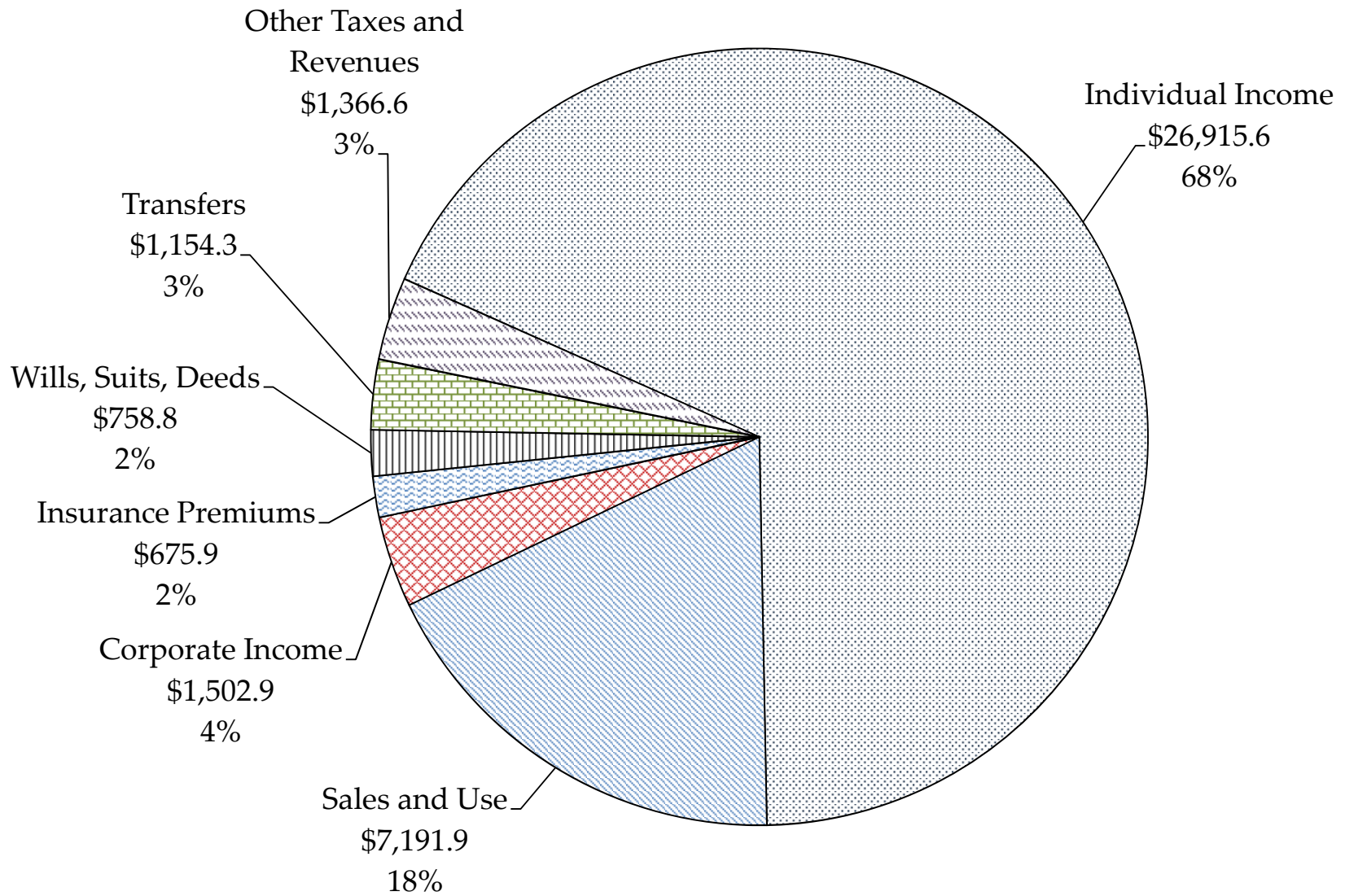
provided to supplement the previous planning pool and to allow additional projects to begin detailed planning during the 2016-18 biennium.

The tax-supported bonds include an allocation of \$60.0 million in the first year for Central Maintenance Reserve, \$13.0 million in equipment supplements for capital projects expected to be completed by December 2017, \$1.6 billion for the 2016 Capital Construction Pool, \$350.0 million for the Virginia Port Authority, \$37.0 million in previous pool supplements, \$59.0 million for the Stormwater Local Assistance Fund, and \$100.0 million for lab enhancements and equipment under the Higher Education Research Initiative.

FY 2016-18 General Fund Revenues = \$39.6 billion

HB/SB30, as Introduced

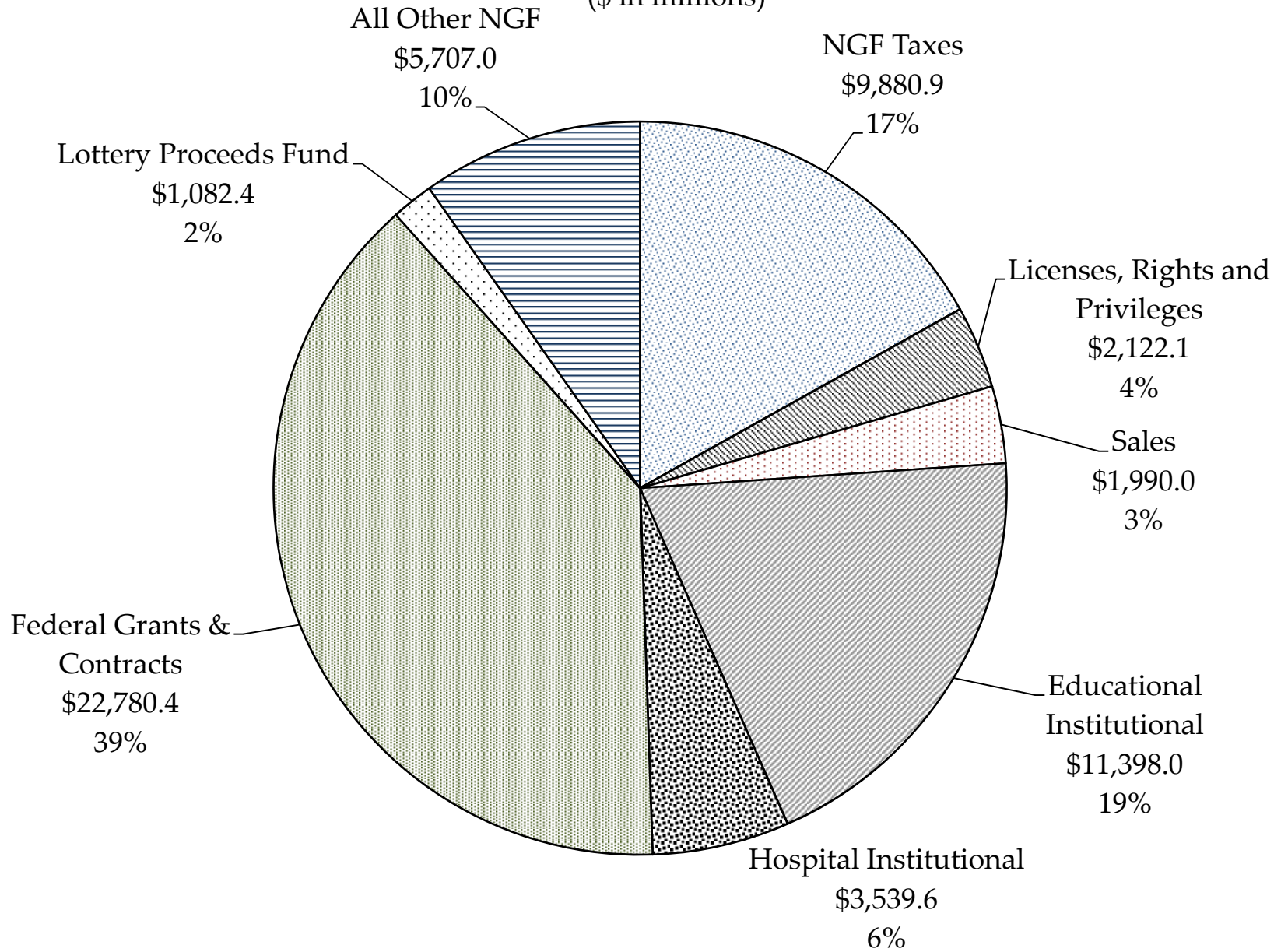
(\$ in millions)



FY 2016-18 Nongeneral Fund Revenues = \$58.5 billion

HB/SB30, as Introduced

(\$ in millions)



FY 2016-18 Total Revenues = \$98.1 billion

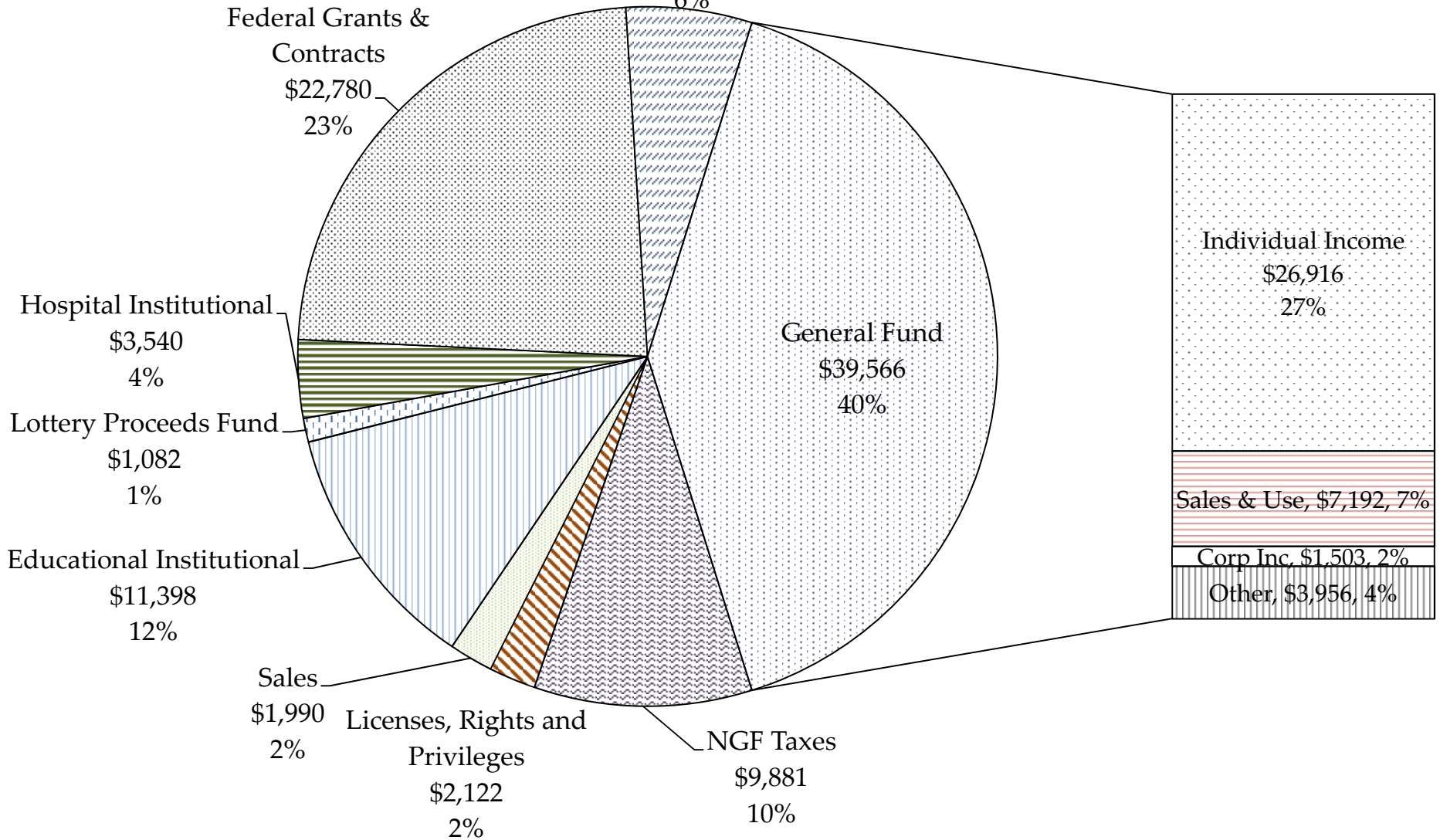
HB/SB30, as Introduced

(\$ in millions)

All Other NGF

\$5,707

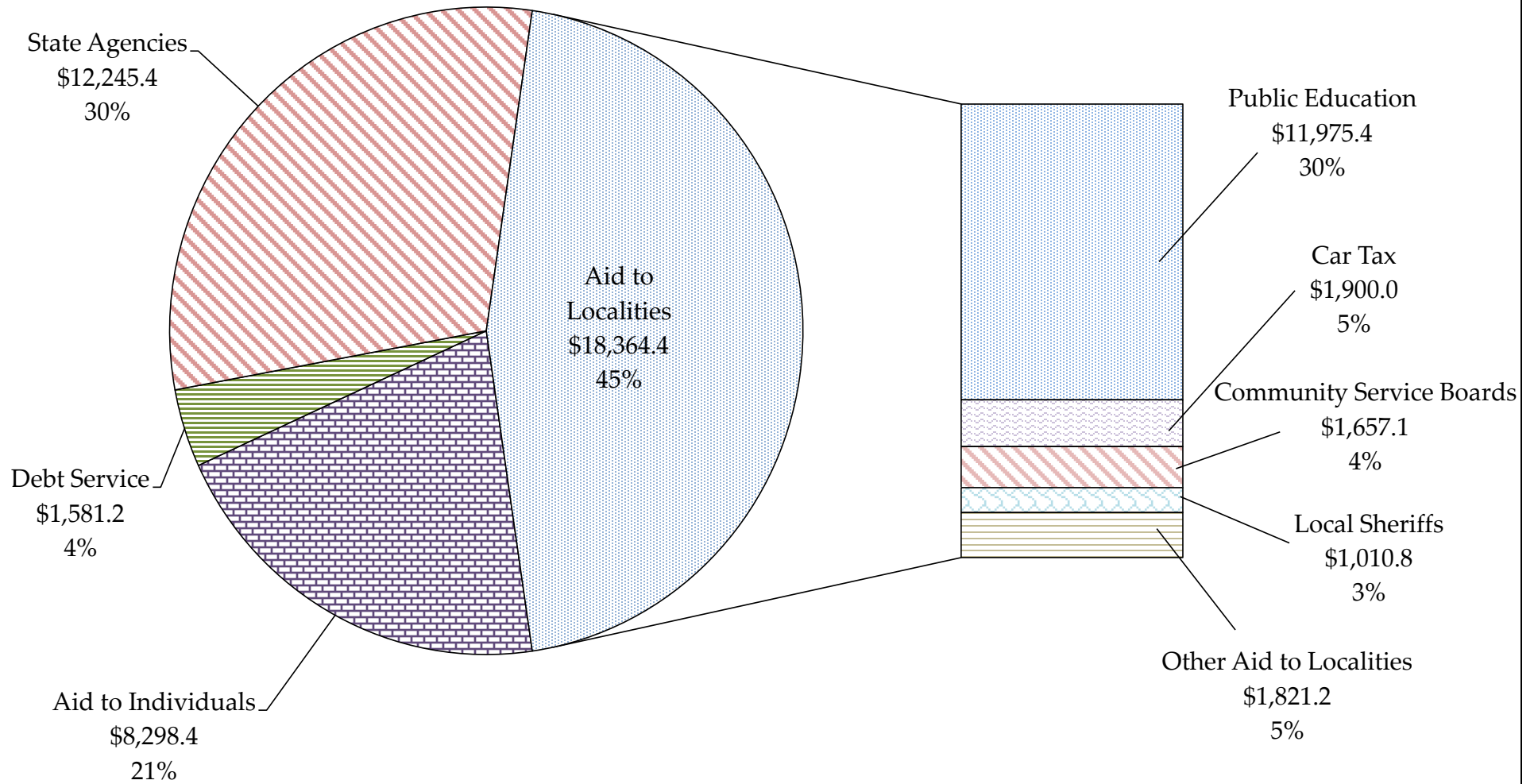
6%



FY 2016-18 GF Operating Budget = \$40,489.4

HB/SB 30, as introduced

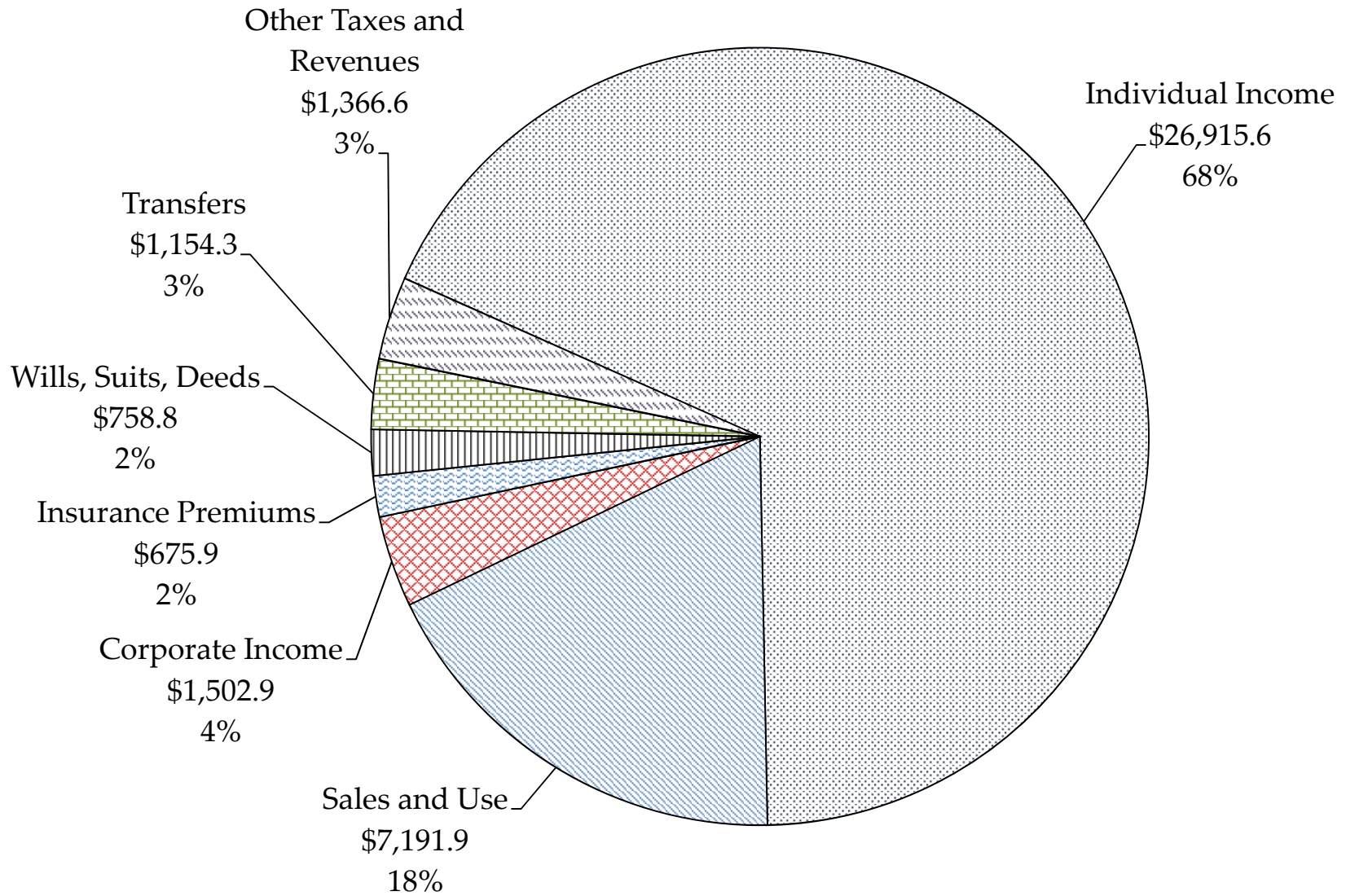
(\$ in millions)



FY 2016-18 General Fund Revenues = \$39.6 billion

HB/SB30, as Introduced

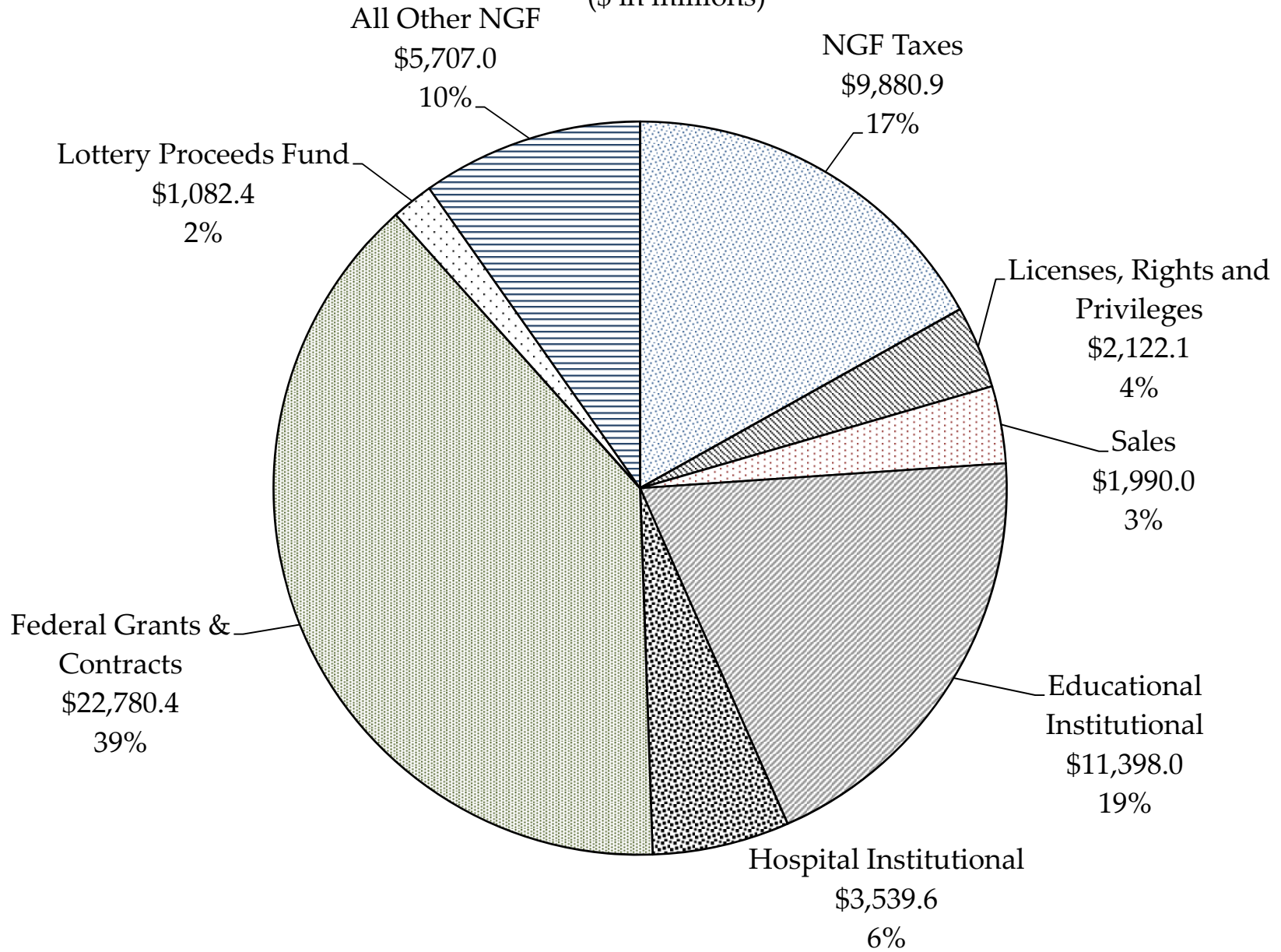
(\$ in millions)



FY 2016-18 Nongeneral Fund Revenues = \$58.5 billion

HB/SB30, as Introduced

(\$ in millions)



FY 2016-18 Total Revenues = \$98.1 billion

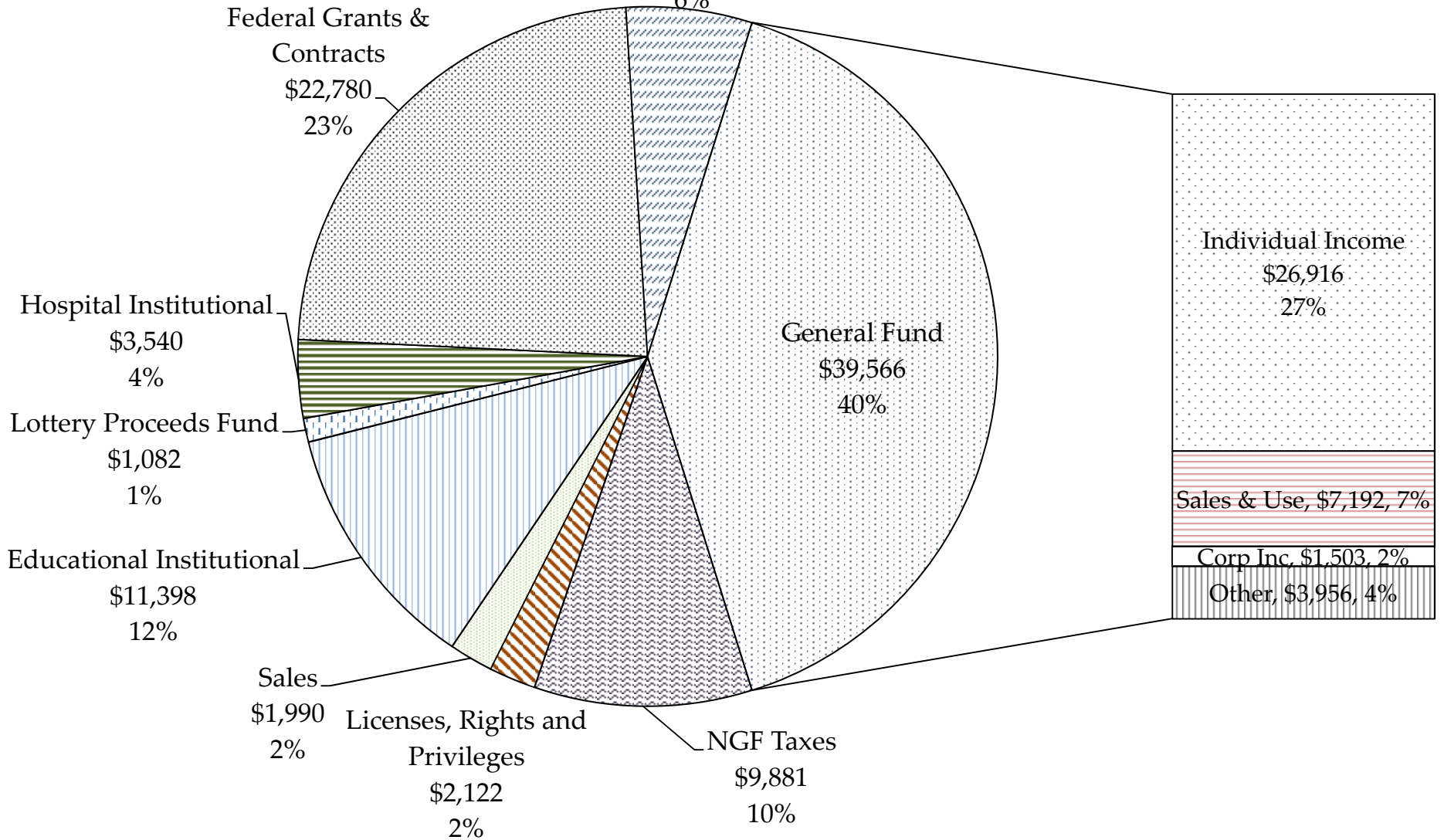
HB/SB30, as Introduced

(\$ in millions)

All Other NGF

\$5,707

6%



FY 2016-18 GF Operating Budget = \$40,489.4

HB/SB 30, as introduced

(\$ in millions)

